

FINAL EXAMINATION
Syllabus 2016

Paper 19: COST AND MANAGEMENT AUDIT (CMAD)

Time Allowed: 3 Hours

Full Marks: 100

There are Sections A, B, C and D to be answered subject to instructions given against each.

Section A				20 X 1 = 20 Marks
You are required to answer all the questions. Each question carries 1 mark.				
Instructions: Each question is followed by 4 Answer choices and only one is correct. You are required to select the choice which according to you represents the correct answer.				
1.				
	a.	Cost Accounting Standard 8 is a Cost Accounting Standard on _____ .		
		(i)	Employee Cost	
		(ii)	Utilities Cost	A
		(iii)	Pollution Control Cost	
		(iv)	Selling and Distribution Cost	
	b.	Constitution of Audit Committee by the Board of Directors is mandatory for _____ .		
		(i)	All companies	
		(ii)	All listed companies only	
		(iii)	All listed companies and those prescribed under the Companies (Meetings of Board and its Powers) Rules only	A
		(iv)	All public companies having turnover of Rs. 100 crore or more only	
	c.	The useful life of an intangible asset, like amount paid on technical knowhow, shall not exceed _____ from the date it is available for use.		
		(i)	5 years	
		(ii)	8 years	
		(iii)	10 years	A
		(iv)	12 years	
	d.	According to the Companies (Cost Records and Audit) Rules, 2014, which one of the following is not a regulated industry?		
		(i)	Fertilizers	
		(ii)	Cement	A
		(iii)	Sugar	
		(iv)	Petroleum products	
	e.	Comptroller & Auditor General (C&AG) has right to direct the manner in which the company's accounts shall be audited by the auditor and to give such auditor instructions in regard to any matter relating to the performance of his functions as per section _____ .		
		(i)	138 of the Companies Act, 2013	
		(ii)	143 of the Companies Act, 2013	A
		(iii)	173 of the Companies Act, 2013	
		(iv)	134 of the Companies Act, 2013	

f.	Which one of the following KPIs is used to measure productivity & efficiency of a machinery?	
(i)	Percentage of Idle time to total available time	
(ii)	Machine downtime ratio	A
(iii)	Production per man hour	
(iv)	Contribution per unit of material used	
g.	Kaizen Costing and Lean Manufacturing (Management Accounting Tool) are used as _____.	
(i)	Cost Reduction Tool	A
(ii)	Cost Computation Tool	
(iii)	Performance Measure Tool	
(iv)	Control Tool	
h.	Quantity of output from any process, which will be needed to get one unit of final output is called as _____.	
(i)	Utilities	
(ii)	Return on Net Worth	
(iii)	Capital Employed	
(iv)	Waste Multiplier	A
i.	Target costing is used for the purpose of _____.	
(i)	Cost Computation	
(ii)	Cost Reduction	
(iii)	Pricing and decision making	A
(iv)	Cost Control	
j.	Cost of self-generation utilities for own consumption shall comprises of _____.	
(i)	Administrative overheads	
(ii)	Distribution cost	
(iii)	Factory overheads	A
(iv)	None of the above	
k.	Which section of the Companies Act, 2013 deals with Internal Audit?	
(i)	Section 138	A
(ii)	Section 148	
(iii)	Section 139	
(iv)	Section 192	
l.	Royalty paid on sales Rs. 30,000; Royalty paid on units produced Rs. 20,000, Hire Charges of equipment used for production Rs. 2,000, Design charges Rs. 15,000, Software development charges related to production Rs. 22,000. The Direct Expenses amount is:	
(i)	Rs. 88,000	
(ii)	Rs. 89,000	A
(iii)	Rs. 98,000	
(iv)	Rs. 99,000	
m.	Operational Audit can lead to better management with the focus on _____.	
(i)	Transaction-based analysis for Fraud Prevention	
(ii)	Compliance of Rules	
(iii)	Risk Identification, Process Improvement	A
(iv)	Budget Monitoring	

	n.	The main objective of Management Audit is to _____.	
	(i)	suggest improvement in methods of operations	A
	(ii)	framing basic policies for the organization	
	(iii)	setting up an organizational framework	
	(iv)	None of these	
	o.	The process of determining the elements which correspond to the lines and the columns in a financial statement and the elements which must be created by extension is called as _____.	
	(i)	Mapping	A
	(ii)	Name	
	(iii)	Concept	
	(iv)	Scaling	
	p.	Every unlisted public company having turnover _____ during the preceding financial year shall require to appoint Internal Auditor u/s 138 of companies Act 2013.	
	(i)	Rs. 50 crore or more	
	(ii)	Rs. 100 crore or more	
	(iii)	Rs. 150 crore or more	
	(iv)	Rs. 200 crore or more	A
	q.	Which one of the following is the first step to conduct a Hospital Audit?	
	(i)	Check the letter of appointment	A
	(ii)	Study Trust Deed	
	(iii)	Examine Records	
	(iv)	Physical Verification	
	r.	According to the Companies (Cost Records and Audit) Rules, 2014 Profit Reconciliation of the company as a whole is dealt in _____ of the Annexure to Cost Audit Report.	
	(i)	Part D	A
	(ii)	Part C	
	(iii)	Part B	
	(iv)	Part A	
	s.	Which of the following is an important point in Corporate Planning?	
	(i)	Time and Work Study	
	(ii)	Imposing Control System	
	(iii)	Forecasting and goal setting	
	(iv)	SWOT Analysis	A
	t.	Which is not an Activity Ratio and/or Liquidity Ratio?	
	(i)	Current Ratio	
	(ii)	Expense Ratio	A
	(iii)	Debtors Turnover Ratio	
	(iv)	Stock Turnover Ratio	
Section B			10 X 2
You are required to answer all the questions. Each question carries 2 marks.			= 20
Instructions: Each question is followed by a space where you are required to type your answer.			Marks
2.			

a.	What is the objective of Cost Auditing Standard 101?	
	Type your answer here To make planning an audit of Cost Statement The objective of Cost Auditing Standard 101 is to guide the members to make planning an audit of Cost Statement.	
b..	In which CRA Form, is the Cost Audit Report of a company filed with the Central Government?	
	Type your answer here CRA-4 Pursuant to Section 148 (6) of the Companies Act, 2013, and Rule 6 (6) of the Companies (Cost Records and Audit) Rules, 2014, the Cost Audit Report is to be filed in Form CRA-4 with the Central Government.	
c.	Under which Article states about the audit of accounts of Municipalities?	
	Type your answer here Article 243Z of the Constitution Article 243Z of the Constitution states about the audit of accounts of Municipalities. The Legislature of a State may, by law, make provisions with respect to the maintenance of accounts by the Municipalities and the auditing of such accounts.	
d.	Net Sales Rs. 15,260 lakhs, Increase in stock Rs. 42 lakhs, Cost of raw materials Rs. 6,250 lakhs, Power Rs. 2,220 lakhs and other overheads Rs. 215 lakhs. How much is the Value Addition?	
	Type your answer here Rs. 6,617 lakhs. ROUGH WORK Value Addition = Net Sales Add Increase in stock less Cost of Raw materials less Power less Other Overheads = 15,260 + 42 – 6,250 – 2,220 - 215 = Rs. 6,617 lakhs	
e.	What should be the first step in audit of Educational Institutions?	
	Type your answer here To examine the Trust Deed or Regulations The Trust Deed or Regulation is the basic document on which the composition of the educational institution is framed.	
f.	In which class of audit, data or information depicting social performance of a business is audited in contrast to its normal economic performance as audited in financial audit?	
	Type your answer here Social Audit Social Audit is generally defined to be the audit of data or information depicting social performance of a business in contrast to its normal economic performance as measured in financial audit. A lot of research and experimentation have been conducted to devise techniques or models, which can measure the contribution of an enterprise to the Society.	
g.	In which account abnormal Loss due to flood or earthquake is being charged?	
	Type your answer here: Costing Profit and Loss Account Rule 5(1) prescribes that any abnormal cost/loss should not be part of Material, Administrative or Selling and Distribution overheads or any other item of cost.	
h.	The Balance Sheet of X Ltd as on 31st March, 2022 showed the following information: Capital - Rs.1500 lacs, Reserves - Rs.696 lacs, Loans - Rs.600 lacs, Sundry Creditors Rs.774 lacs, Total assets - Rs.3,570 lacs. For the year 2021-22, PBT - Rs.900 lacs, Provision for tax is Rs. 360 lacs and proposed dividend is Rs.300 lacs. Return on Net worth is _____.	
	Type your answer here 29.41 % ROUGH WORK Networth = Capital + Reserves - Revaluation reserve (if any) - accumulated losses (if any) - deferred expenditure (if any) - misc. expenditure not written off (if any) Net worth = Rs.1,500 +	

		Rs.696 - Rs.360 = Rs.1,836, Total Earning = Rs.900 - Rs.360 = Rs.540, Return on Net Worth = (Rs.540 / Rs.1,836) x 100 = 29.41%										
	i.	Who is the developer of Management Audit?										
		Type your answer here T. G. Rose T. G. Rose T. G. Rose developed the concept of Management Audit as a logical system of evaluating the quality of Management										
	j.	To whom the Management Audit Report is submitted?										
		Type your answer here Management of Concern Management Audit undertakes examination of the effectiveness of management in controlling the total activities of the organization in the accomplishment of the organization objectives.										
Section C You are required to answer any 4 out of 6 questions in this section Instructions: Each question is followed by a space where you are required to type your answer.			4 X 12 = 48 Marks									
3.	a.	In a factory, running single shift, two products A and B, are manufactured. <table border="1"><thead><tr><th>Particulars</th><th>A</th><th>B</th></tr></thead><tbody><tr><td>Man hours/unit</td><td>3</td><td>7</td></tr><tr><td>Production/month (units)</td><td>1,500</td><td>1,000</td></tr></tbody></table> Month means 26 working days and 8 hours a day. The company employs 60 workers and the budgeted man-hours are 1,32,000 for the year.	Particulars	A	B	Man hours/unit	3	7	Production/month (units)	1,500	1,000	
Particulars	A	B										
Man hours/unit	3	7										
Production/month (units)	1,500	1,000										
	(i)	What is the Capacity Ratio?	3									
		Type your answer here Capacity Ratio =113.45%										
	(ii)	What is the Activity Ratio?	3									
		Type your answer here Activity Ratio = 104.54%										
	(iii)	What is the Efficiency ratio?	2									
		Type your answer here Efficiency Ratio = 92.15%										
		ROUGH WORK Budgeted man-hours for the year = 1,32,000 Budgeted man-hours for the month = 1,32,000/12 = 11,000 (maximum possible) Actual man-hours worked = 26 x 8 x 60= 12,480 Standard man-hours produced = 11,500 For Product P: 1500 x 3 = 4,500 For Product Q: 1000 x 7 = 7,000 (i) Capacity Ratio = Actual man-hours worked/ Budgeted man-hours = 12,480 /11,000 = 113.45% (ii) Activity Ratio = Actual production in Standard man-hours/ Budgeted man-hours = 11,500 / 11,000 = 104.54% (iii) Efficiency Ratio = Actual Production in Standard man-hours/Actual man-hours = 11,500 / 12,480 = 92.15%										
	b.	A member of the Institute, whether in practice or not, is liable for disciplinary action if he/she is found guilty of professional and other misconduct. Explain the term ‘other misconduct.’	4									
		Type your answer here As per Part IV first schedule to the Institute of Cost and Work Accountant’s Act 1959 a member of the Institute, whether in practice or not, shall be deemed to be guilty of other misconduct if- 1. He /She is held guilty by any civil or criminal court for an offence which is punishable with										

		imprisonment for a term not exceeding 6 months and 2. In the opinion of the Council he/she brings disrepute to the profession or the Institute as a result of the action whether or not related to his /her professional work.																															
4.	a.	<p>The Financial Accounts of Auto Parts Manufacturing Company Ltd. showed a profit for the year 2021-22 as Rs. 35,46,700. During the course of Cost Audit, the following transactions were noticed:</p> <p>(i) an old machine with net value of Rs. 6,54,000 was sold off for Rs. 9,30,000 (ii) dividend income was received amounting to Rs. 84,500 from investments (iii) a sum of Rs. 58,000 was spent towards CSR commitment (iv) the company was engaged in trading activity where purchase of goods was Rs. 13,50,000 and sales was Rs. 13,42,300, after incurring Rs. 40,800 as expenditure (v) some renovation work was carried out at a cost of Rs. 7,75,000 and its useful life was only for five years, and (vi) the closing inventory of raw material was undervalued Rs. 29,600 and that of finished goods was overvalued Rs. 65,400 in the financial records</p> <p>Compute the Profit or Loss as per Cost Accounts.</p>	6																														
		<p>Type your answer here Profit as per Cost Accounts = Rs. 38,76,900</p> <p>ROUGH WORK</p> <p>Computation of the Profit or Loss as per Cost Accounts of M/s. Auto Parts Manufacturing Company Ltd.</p> <table><tr><th>Particulars</th><th>Rs.</th><th>Rs.</th></tr><tr><td>Profit as per the Financial Accounts</td><td></td><td>35,46,700</td></tr><tr><td>Add Trading Loss</td><td>48,500</td><td></td></tr><tr><td>Add 4/5th of Renovation Expenses Amortized</td><td>6,20,000</td><td></td></tr><tr><td>Add CSR Contribution</td><td>58,000</td><td></td></tr><tr><td></td><td></td><td>7,26,500</td></tr><tr><td>Less Profit on Sale of Assets</td><td>2,76,000</td><td></td></tr><tr><td>Income from Investments</td><td>84,500</td><td></td></tr><tr><td>Effect of Undervaluation/Overvaluation of closing Inventory</td><td>35,800</td><td>(-) 3,96,300</td></tr><tr><td>Profit as per the Cost Accounts</td><td></td><td>38,76,900</td></tr></table>	Particulars	Rs.	Rs.	Profit as per the Financial Accounts		35,46,700	Add Trading Loss	48,500		Add 4/5th of Renovation Expenses Amortized	6,20,000		Add CSR Contribution	58,000				7,26,500	Less Profit on Sale of Assets	2,76,000		Income from Investments	84,500		Effect of Undervaluation/Overvaluation of closing Inventory	35,800	(-) 3,96,300	Profit as per the Cost Accounts		38,76,900	
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	b.	<p>State the ethical requirements of a Cost Auditor for ensuring the conduct of the audit of Cost Statements as per the Cost Auditing Standard 103.</p>	6																														
		<p>The Application Guidance of Cost Auditing Standard 103 lays down that the Cost Auditor should comply with relevant ethical requirements as per the code of ethics issued by the Institute of Cost Accountants of India. This code establishes fundamental principles of professional ethics relevant to the Cost Auditor while conducting an audit and provides a conceptual framework for applying these principles. The fundamental principles which the Cost Auditor is required to comply with are given below.</p> <p>(a) Independence (b) Integrity (c) Objectivity (d) Professional Competence (e) Due Care (f) Confidentiality (g) Professional Conduct.</p>																															

5.	a.	RP Ltd. appoints you as Management Auditor to check internal system in the area of data processing. List out the areas covered by such study.	6
		<p>Type your answer here</p> <p>The study on data processing need emphasize economy, secrecy and prompt reporting. The questions which be put before the Management relating to present vis a vis an efficient system are summarized below:</p> <ol style="list-style-type: none"> What are the level of data processing and e-governance in the organization? Has the right balance between such methods being achieved over all? Are the job done by people within or is outsourced? Are computer systems used where appropriate, compatible with the software installed? Is the computer installation appropriate in size, workload and staffing? What control is exercised on input to an output from the computer installation, and if by a control system is this sufficiently independent? What are the hierarchies who have access to the computer installations? How is the amendment/upgradation of such program controlled? Does the systems testing cover operating systems, files management, operation messages, data management, job control routines and fault detection? Are cloud computing and other sharing of platform are arranged? If so, is the cost justified by the extent of the utilization of the main computer on other dataprocessing? Is there full documentation of all programs and systems with adequate back up? Is the system security protected by efficient and renowned agencies? 	
	b.	Which points should consider by a Management Auditor for performing CSR Audit?	6
		<p>Type your answer here</p> <p>A Management Auditor should consider the following points for performing CSR Audit:</p> <ol style="list-style-type: none"> Human Rights: Fundamental Human Rights, Freedom of association and Collective bargaining, non-discrimination, Forced labor, Child labor Business behavior: Relations with clients, suppliers and sub-contractors, Prevention of corruption and anticompetitive practices Human Resources: Labor relations, working conditions including steps taken for preventing accidents and health hazards, health and safety measures including compensation in case of any accidents, career development and training, Remuneration system that motivates the employees. Corporate Governance: Board of Directors, Audit and internal controls, Treatment of shareholders, Executive remuneration. Environment: Incorporation of environmental considerations into the manufacturing and distribution of products, and into their use and disposal, effect on pollution, pollution control measures undertaken, Community Involvement: Impacts on local communities, contribution to social and economic development, General interest causes, creation of socials infrastructure like roads, schools, hospitals. 	
6	a.	Describe the role of Comptroller & Auditor General (C&AG) in the Audit of a Government company.	3
		<p>Type your answer here</p> <p>The auditor of a government company is appointed by the Comptroller & Auditor General (C&AG).</p> <p>The C&AG have powers under section 143 of the Companies Act, 2013 as follows:</p> <ol style="list-style-type: none"> to direct the manner in which the company's accounts shall be audited by the auditor and to give such auditor instructions in regard to any matter relating to the performance of his 	

		functions as such; (ii) to conduct a supplementary or test audit of the company's accounts by such person or persons as he may authorize in this behalf; and for the purposes of such audit, to require information or additional information to be furnished to person or persons so authorized, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General may, by general or special order; direct. In addition, the C&AG has a right to comment upon or supplement the audit report in such manner as he thinks fit.																
	b.	A unit actually operated 291 days in a year and was stopped for abnormal circumstances – (i) 6 days due to power disruption for cyclone and flood, and (ii) 4 days due to heavy breakdown of core machinery. The rest of the days were weekly off or holidays. Half wages as lay-off compensation were paid for the stoppage period. During the year, total expenses incurred were (a) Salaries and wages (including lay-off compensation of Rs. 65 lakhs) Rs. 3,360 lakhs, and (b) Other fixed costs Rs. 1,050 lakhs.																
	(i)	Compute the no. of working days during the year.	2															
		Type your answer here 301 days																
	(ii)	What is the amount attributable to abnormal loss as per Cost Accounting Standard on Material Cost (CAS- 6)?	4															
		Type your answer here Abnormal Costs of Rs. 99.88 lakhs																
		ROUGH WORK <table border="1"><thead><tr><th>Particulars</th><th>Total</th><th>Abnormal</th></tr></thead><tbody><tr><td>Working Days (days)</td><td>291 + 6 + 4 = 301</td><td>6+4 = 10</td></tr><tr><td>Salaries and Wages (Rs. in lakhs)</td><td>3,360</td><td>65</td></tr><tr><td>Other Fixed Cost (Rs. in lakhs)</td><td>1,050</td><td>= 1050 × (10/301) = 34.88</td></tr><tr><td>Total</td><td>4,410</td><td>99.88</td></tr></tbody></table> <p>Out of Total Fixed Costs of Rs. 4,410 lakhs, Abnormal Costs of Rs. 99.88 lakhs will not form part of Cost of Production.</p>	Particulars	Total	Abnormal	Working Days (days)	291 + 6 + 4 = 301	6+4 = 10	Salaries and Wages (Rs. in lakhs)	3,360	65	Other Fixed Cost (Rs. in lakhs)	1,050	= 1050 × (10/301) = 34.88	Total	4,410	99.88	
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Total	4,410	99.88																
	c.	Suggest some checklists the Cost Auditor should draw for Profitability Analysis in a manufacturing organization.	3															
		Type your answer here In the analysis of the profitability in a financial year, the Cost Auditor needs to analyze the effects of change in the selling price and change in the different elements of cost. In the case of service industry, the Cost Auditor needs be careful as the output units in such sector are not standard and needs bifurcation of each element of cost and revenue. The usual checklists an Auditor should draw up for the analysis are stated below. <ul style="list-style-type: none">● Sale and Production Records – Analysis of past year 's data to identify variations● Reconciliation of Sales● Pricing and Discount Structure Policy – analyze the variations to see how far the changes have favoured the profitability and marketability of products● Product Cost Statements – Cost data analysis will facilitate discovering variable and fixed cost elements and their impact on total profitability● Operational Budget – A study of the budget estimates with that of the actual will throw light on the deficiencies and will lead to taking corrective measures																
7.	a.	What are the salient features of Financial Administration of Local Bodies?	6															

		<p>Type your answer here</p> <p>The salient features of Financial Administration of Local Bodies are given below:</p> <p>(i) Budgetary Procedure: The objective of local bodies budgetary procedure are financial accountability, control of expenditure, and to ensure that funds are raised and moneys are spent by the executive departments in accordance with the rules and regulations and within the limits of sanction and authorization by the legislature or Council. Different aspects covered in budgeting are determining the level of taxation, fees, rates, and laying down the ceiling on expenditure, under revenue and capital heads.</p> <p>(ii) Expenditure Control: At the State and Central level, there is a clear demarcation between the legislature and executive. In the local body, legislative powers are vested in the Council whereas executive powers are delegated to the officers, e.g., Commissioners. All matters of regular revenue and expenditures are generally delegated to the executive wing. For special situations like, reduction in property taxes, refund of security deposits, etc., sanction from the legislative wing is necessary.</p> <p>(iii) Accounting System: Municipal Accounting System has been conventionally prepared under the cash system. In the recent past however, it is being changed to the accrual system of accounting. The accounting system is characterized by</p> <p>(a) subsidiary and statistical registers for taxes, assets, cheques etc.,</p> <p>(b) separate vouchers for each type of transaction,</p> <p>(c) compulsory monthly bank reconciliation,</p> <p>(d) submission of summary reports on periodical basis to different authorities at regional and state level.</p>	
	b.	Discuss the responsibility of Management with regard to Internal Control.	6
		<p>Type your answer here</p> <p>The responsibility of Management with regard to internal Control can be summarized as under-</p> <p>1. Creation of system:</p> <p>Management is responsible for maintaining an adequate accounting system incorporating various internal Controls to the extent appropriate to the size and nature of the Business. The Management is vested with the responsibility of carrying on the business, safeguarding its assets and recording the transactions in the books of account and other records.</p> <p>2. Review of system:</p> <p>The system installed, should be reviewed by the Management to ascertain, whether</p> <p>(i) The prescribed Management policies are being properly interpreted by the employees and are faithfully implemented,</p> <p>(ii) The prescribed procedures need a revision due to changed circumstances or whether they have become obsolete or cumbersome, and</p> <p>(iii) Effective corrective measures are taken promptly when the system appears to breakdown</p> <p>3. Internal Audit:</p> <p>It is desirable that the Management also installs an internal audit System as an independent function to check, amongst other things, the actual operation of the Internal Control System and report any deviations or non-compliances.</p>	
8.	You are required write Short Notes on any 4 out of 5		4 X 3 = 12 Marks
	a.	Utilities of Cost Accounting Standards	3
		<p>Type your answer here</p> <p>The Cost Accounting Standards:</p> <p>(i) provide a structured approach to measurement of costs in manufacturing process or service</p>	

		<p>industry;</p> <p>(ii) integrate, harmonize, and standardize cost accounting principles and practices;</p> <p>(iii) provide guidance to users to achieve uniformity and consistency in classification, measurement, assignment, and allocation of costs to products and services;</p> <p>(iv) arrive at the basis of computing the cost of product, activity, or service where required by legal or regulatory bodies;</p> <p>(v) enable practicing members to make use of Cost Accounting Standards in the attestation of General Purpose Cost statements; and</p> <p>(vi) assist in clear and uniform understanding of all the related issues by various user organizations, Government Bodies, regulators, research agencies, and academic institutions.</p>	
	b.	Disadvantages of audit programme	3
		<p>Type your answer here</p> <p>The main disadvantages of an audit programme are as follows:</p> <p>(i) The auditor's task becomes mechanical and the auditors may lose interest and initiative.</p> <p>(ii) Drawing up of an audit programme may be unnecessary for a small concern.</p> <p>(iii) Though audit programme helps in fixing responsibilities but inefficient staff may defend themselves by stating that the matter was not contained in the audit programme.</p> <p>(iv) Rigid programmes cannot be laid down for each type of business.</p> <p>Though an audit programme may suffer from the above disadvantages but these can be removed by taking some initiatives such as consulting the audit assistants, modifying the programme on the basis of experience gained during audit, etc.</p>	
	c.	Objectives of Internal Control	3
		<p>Type your answer here</p> <p>The main objectives of internal control are to ensure that—</p> <p>(a) transactions are executed in accordance with managements general or specific authorization;</p> <p>(b) all transactions are promptly recorded in the correct amount in the appropriate accounts and in the accounting period in which executed so as to permit preparation of financial information within a framework of recognized accounting policies and practices and relevant statutory requirements, if any, and to maintain accountability for assets;</p> <p>(c) assets are safeguarded from unauthorized access, use or disposition; and</p> <p>(d) the recorded assets are compared with the existing assets at reasonable intervals and appropriate action is taken with regard to any differences.</p>	
	d.	Uses of Management Audit	3
		<p>Type your answer here</p> <p>Uses of Management Audit</p> <ol style="list-style-type: none"> Management Audit is useful in synthesizing accounting, economic or other data required by the management in constructing the basic policy framework. It assists in establishing, reviewing and improving the planning system. It makes substantial contribution to the system of goal-setting in the organization. It ensures that management is getting adequate information for correct decisions. It ensures that management properly uses the information that it is getting. It aids in the design and maintenance of adequate authority structure. It helps in improvement in the information system to expedite flow of information among responsibility centers. It substantially contributes for improvement of the entire communication system. It helps management in pinpointing key functions or operations in the profit-making process. It helps management in establishing better criteria for measuring results. 	

		It helps management to avoid wasteful, unnecessary and extravagant use of resources.																																																																										
	e.	Process to file the reports in XBRL Format	3																																																																									
		Type your answer here The following steps have to be followed in sequence: <ul style="list-style-type: none">• Mapping the individual cost elements of the company to the elements of the costing taxonomy.• Populating the relevant data in the software/filing tool.• Creating instance document.• Validating the Instance Document with the Validation Tool of MCA.• Use available tool to convert the Instance document to a human readable format and check correctness of data.• Attaching the Instance Document to the e-Form and filing on MCA Portal.																																																																										
Section D You are required to answer all the questions in this section Instructions: Each question is followed by a space where you are required to type your answer.			1 X 12 = 12 Marks																																																																									
9.		<p>Z Ltd. has the following Balance Sheets as on 31 March 2022 and 31 March 2021:</p> <table><tr><th rowspan="2">Particulars</th><th colspan="2">Rs. in lakhs</th></tr><tr><th>31 March 2022</th><th>31 March 2021</th></tr><tr><td>Sources of Funds:</td><td></td><td></td></tr><tr><td>Shareholder’s Fund</td><td>4,954</td><td>3,144</td></tr><tr><td>Loan Funds</td><td>7,740</td><td>6,766</td></tr><tr><td>TOTAL</td><td>12,694</td><td>9,910</td></tr><tr><td>Applications of Funds:</td><td></td><td></td></tr><tr><td>Fixed Assets</td><td>7,132</td><td>6,000</td></tr><tr><td>Cash & Bank</td><td>1,178</td><td>1,140</td></tr><tr><td>Debtors</td><td>3,190</td><td>2,536</td></tr><tr><td>Stock</td><td>5,934</td><td>5,014</td></tr><tr><td>Other Current Assets</td><td>3,334</td><td>3,008</td></tr><tr><td>Less: Current Liabilities</td><td>(8,074)</td><td>(7,788)</td></tr><tr><td>TOTAL</td><td>12,694</td><td>9,910</td></tr></table> <p>The Income Statement of the Z Ltd for the year that ended is as follows:</p> <table><tr><th rowspan="2"></th><th colspan="2">Rs. in lakhs</th></tr><tr><th>31 March 2022</th><th>31 March 2021</th></tr><tr><td>Sales</td><td>44,530</td><td>27,964</td></tr><tr><td>Less: CGS</td><td>41,920</td><td>25,288</td></tr><tr><td>Gross Profit</td><td>2,610</td><td>2,676</td></tr><tr><td>Less: Selling, General & Administrative Expenses</td><td>2,070</td><td>1,304</td></tr><tr><td>Earnings before Interest and Tax (EBIT)</td><td>540</td><td>1,372</td></tr><tr><td>Less: Interest Expense</td><td>226</td><td>210</td></tr><tr><td>Profit before tax</td><td>314</td><td>1,162</td></tr><tr><td>Less: Tax</td><td>46</td><td>384</td></tr><tr><td>Profit after Tax</td><td>268</td><td>778</td></tr></table>	Particulars	Rs. in lakhs		31 March 2022	31 March 2021	Sources of Funds:			Shareholder’s Fund	4,954	3,144	Loan Funds	7,740	6,766	TOTAL	12,694	9,910	Applications of Funds:			Fixed Assets	7,132	6,000	Cash & Bank	1,178	1,140	Debtors	3,190	2,536	Stock	5,934	5,014	Other Current Assets	3,334	3,008	Less: Current Liabilities	(8,074)	(7,788)	TOTAL	12,694	9,910		Rs. in lakhs		31 March 2022	31 March 2021	Sales	44,530	27,964	Less: CGS	41,920	25,288	Gross Profit	2,610	2,676	Less: Selling, General & Administrative Expenses	2,070	1,304	Earnings before Interest and Tax (EBIT)	540	1,372	Less: Interest Expense	226	210	Profit before tax	314	1,162	Less: Tax	46	384	Profit after Tax	268	778	
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	a.	Compute Return on Investment for the year 2021-22.	3																																																																									
		Type your answer here 4.37% ROUGH WORK																																																																										

		<p>ROI (for the year 2020-21) = (Net Profit before Interest but after tax/ Average Capital Employed) X 100 = (494/11,302) X 100 = 4.37%</p> <p>Net Profit before interest but after tax = 268 + 226 = 494</p> <p>Average Capital Employed = Average of Opening and closing of Net Current Assets + Average of Opening and closing of Net Current Assets = (12,694+ 9,910)/2 = 11,302</p>	
	b.	What is the Operating Ratio for the year 2021-22?	3
		<p>Type your answer here: 1.21%</p> <p>ROUGH WORK</p> <p>Operating Profit Ratio = (Operating Profit/ Sales) X 100 = [(314 + 226) / 44,530] X 100 = 1.21%</p>	
	c.	Compute Return on Equity for the year 2021-22.	3
		Type your answer here: 6.62%	
		<p>ROUGH WORK</p> <p>ROE (for the year 2021-22) = (Net Profit available to Equity Shareholders/ Average Equity Shareholders' Fund) X 100 = {268/ [(4,954 + 3,144) / 2]} X 100 = 6.62%</p>	
	d.	Give a brief comment on the financial position of Z Ltd.	3
		<p>Type your answer here</p> <p>Profitability of operation of the company remarkably decline from Rs. 1,372 (Rs. in Lakhs) to Rs. 540 (Rs.in Lakhs), due to a huge increase in the operating expenses during the year 2021-22. NP of the company also reduces due to an increase in the interest expenses. During the year 2021-22, both Fixed operating expenses as well as fixed financial expense have increased, as a consequence of which the NP of the company radically reduced. During 2021-22, both operating and Financial Leverages have become adverse, as a result of which the company has been crucially suffering from a liquidity crisis during the year 2021-22.</p>	

END