

**FINAL EXAMINATION**

**JUNE 2014.**

**F-P17(COA)**

**Syllabus 2008**

**Cost Audit & Operational Audit**

**Time Allowed: 3 Hours**

**Full Marks: 100**

*The figures in the margin on the right side indicate full marks.*

*Please: (1) Answer all bits of a question at one place.*

*(2) Open a new page for answer to a new question.*

*(3) Attempt the required number of questions only.*

*Working notes should form part of the answer.*

*'Whenever necessary, suitable assumptions should be made and indicated in answer by the candidates'.*

**SECTION A (50 Marks)**

**(Cost Audit)**

*Answer Question No. 1 (carrying 14 marks) which is compulsory and Answer any two (carrying 18 marks each) from the rest in this Section.*

1. (a) In each of the cases/statements given below, one out of four alternatives is correct. Indicate the correct answer (only indicate A or B or C or D as you think correct.) 1×8
- (i) XBRL (Extensible Business Reporting Language) is a language based on
- A. XML family of languages
  - B. XRL family of languages
  - C. XBL family of languages
  - D. None of the above
- (ii) PARA 6 of the Annexure to Cost Audit report under the Companies (Cost Audit Report) Rules 2011 deals with
- A. Product group details
  - B. Quantitative information of each product group separately
  - C. Operating ratio analysis for each product group separately
  - D. Abridged Cost Statement for each product group separately
- (iii) Financial Position and Ratio Analysis under PARA 9 of the Annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011 is to be furnished for
- A. Current year only
  - B. Current year and previous 2 years
  - C. Current year and previous year
  - D. Current year and previous 3 years

**Please Turn Over**

- (iv) As per CAS-8 cost of utilities shall not include
  - A. Employee cost
  - B. Administrative overheads
  - C. Imputed costs
  - D. Selling overheads
- (v) Cost Accounting Standard on Cost of Service Cost Centres is dealt in
  - A. CAS 9
  - B. CAS 10
  - C. CAS 11
  - D. CAS 13
- (vi) Maximum amount of Penalty payable by a Cost Auditor for non-compliance with Provisions of the Companies (Cost Audit Report) Rules 2011 is
  - A. ₹ 1000
  - B. ₹ 5000
  - C. ₹ 10000
  - D. ₹ 15000
- (vii) Warranty Costs and after sales Service Costs are part of selling overheads as per \_\_\_\_\_.  
(Fill in the gap from the below)
  - A. CAS 12
  - B. CAS 14
  - C. CAS 15
  - D. CAS 17
- (viii) Electricity is a part of power and under the head of utilities but it is also a Raw materials in
  - A. Cement Plant
  - B. Caustic Soda Plant
  - C. Steel Plant
  - D. None of (A), (B), (C)
- (b) State whether the following statements based on the quoted terms are TRUE or FALSE with justifications for your answer. No credit will be given for any answer without justifications: 1×6
  - (i) Interest and financial charges are considered to be a part of Cost of production.
  - (ii) Form A XBRL (Extensible Business Reporting Language) is used for filing COST AUDIT Report of a Company.
  - (iii) Financial position and Ratio Analysis are being dealt with PARA-3 of Annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011.
  - (iv) As per CAS-6 the Forex Component of imported material is converted at the rate on date of payment.
  - (v) Cost Accounting Standard on Direct Expenses is dealt in CAS-11.
  - (vi) Cost Audit is to be conducted only when the shareholders of the Company direct such an audit at the Annual General Meeting.

2. (a) The following figures are extracted from the Accounts of SINJINI LTD., a single product Manufacturing Company:

**BALANCE SHEET AS AT MARCH 31**

|  | 2014                | 2013        | 2012        |
|--|---------------------|-------------|-------------|
|  | (Amount in ₹ lakhs) |             |             |
| <b>LIABILITIES:</b>                          |                     |             |             |
| Share Capital                                | 1500                | 1000        | 1000        |
| Reserves and Surplus                         | 2180                | 1625        | 1220        |
| <i>Secured Loans:</i>                        |                     |             |             |
| Term Loans                                   | 1540                | 825         | 750         |
| Debentures                                   | 800                 | 800         | 800         |
| <i>Unsecured Loans:</i>                      | 600                 | 750         | 700         |
| <i>Current Liabilities &amp; Provisions:</i> |                     |             |             |
| Current Liabilities                          | 1330                | 626         | 860         |
| Provisions                                   | 400                 | 300         | 250         |
| <b>TOTAL</b>                                 | <b>8350</b>         | <b>5926</b> | <b>5580</b> |
| <b>ASSETS:</b>                               |                     |             |             |
| <i>Fixed Assets:</i>                         |                     |             |             |
| Gross Block                                  | 4255                | 3824        | 3520        |
| <i>Less: Depreciation</i>                    | <u>2222</u>         | <u>1920</u> | <u>1720</u> |
|  | 2033                | 1904        | 1800        |
| Capital Work-in-Progress                     | 852                 | —           | —           |
| Net Block                                    | <b>2885</b>         | <b>1904</b> | <b>1800</b> |
| Investments in Subsidiaries                  | 400                 | 200         | 200         |
| <i>Current Assets, Loans &amp; Advances:</i> |                     |             |             |
| Inventories                                  | 2015                | 1245        | 1160        |
| Sundry Debtors                               | 2405                | 1650        | 1520        |
| Cash and Bank Balances                       | 305                 | 202         | 380         |
| Loans & Advances                             | 340                 | 725         | 520         |
| <b>TOTAL</b>                                 | <b>8350</b>         | <b>5926</b> | <b>5580</b> |

**Please Turn Over**

**Profit and Loss Account for the year ended March 31**

|                                  | 2014                | 2013         |
|----------------------------------|---------------------|--------------|
|                                  | (Amount in ₹ lakhs) |              |
| <b>INCOME:</b>                   |                     |              |
| Sales (including Excise duty)    | 14520               | 12255        |
| <b>EXPENDITURE:</b>              |                     |              |
| Material Consumed                | 5670                | 4504         |
| Excise duty on despatches        | 3345                | 3426         |
| Employee Costs                   | 825                 | 690          |
| Other Manufacturing expenses     | 550                 | 480          |
| Selling and distribution expnses | 1551                | 1401         |
| Administration expenses          | 250                 | 230          |
| Interest on:                     |                     |              |
| Term Loans                       | 346                 | 201          |
| Debentures                       | 120                 | 120          |
| Others                           | 80                  | 100          |
| Depreciation                     | 302                 | 200          |
| Difference in stock              | <u>826</u>          | <u>268</u>   |
|                                  | <b>13865</b>        | <b>11620</b> |
| Profit Before Taxation (PBT)     | 655                 | 635          |
| Provisions for Taxation          | 100                 | 230          |
| Profit After Taxation (PAT)      | 555                 | 405          |
| Transferred to Balance Sheet     |                     |              |

You are required to compute the following figures/ratios as stipulated in PARA-9 of the Annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011 for the year ended March 31, 2013 and 2014.

- (i) Capital Employed
- (ii) Net Worth
- (iii) Net Sales
- (iv) PBT to Capital Employed
- (v) PBT to Net Worth
- (vi) PBT to Net Sales
- (vii) Current Assets to Current liabilities
- (viii) Debt-Equity Ratio

$$3+2+2+2+2+(1 \times 5)=16$$

- (b) Specify the factors to be considered while estimating the useful life of a depreciable asset as laid down in CAS-16. 2

3. (a) How would you compute the cost of UTILITIES As per CAS-8 in the following circumstances?  
 (i) Utilities generated for the purpose of Inter Unit transfer.  
 (ii) Utilities generated for the purpose of Inter Company transfer.  
 (iii) Utilities generated for the Sale to outside parties. 2×3=6
- (b) The extracts of Trial Balance pertaining to AMRIT LTD., a manufacturing company as on March 31, 2014 are given below:

(Amount in ₹ Thousand)

| Particulars   | Amount | Particulars  | Amount |
|---|--------|--|--------|
| Material Consumed   | 3000   | Special Subsidy received from Government towards Employee Salary | 340    |
| Salaries  | 1800   |  |        |
| Employee Training Cost  | 250    |  |        |
| Perquisites to Employees  | 540    |  |        |
| Contribution to Gratuity Fund   | 480    | Recoverable Amount from Employee out of perquisites extended     | 50     |
| Lease rent to accommodation provided to employees                       | 360    |  |        |
| Festival Bonus  | 60     |  |        |
| Unamortized amount to Employee Cost related to a discontinued operation | 110    |  |        |

**Required:**

Compute the Employee Cost for the year ended March 31, 2014 - keeping in view of the relevant Cost Accounting Standard (CAS-7). 6

- (c) What information is required to be furnished by the Cost Auditor in the Annexure to the "Cost Audit Report" and "Observations and Suggestion" in regard to exports, if any of the product under Audit? 6
4. (a) SHRIZONI LTD., a single product manufacturing company, has following four operations undergone by a product under Cost Audit.

The Processwise Input, Output, Direct Employee Costs and Direct Material Costs for the year ended March 31, 2014 are given below:

| Process | Input Unit | Output Unit | Direct Employee Cost of the process (₹) | Direct Material Cost of the process (₹) |
|---------|------------|-------------|---|---|
| AM      | 62400      | 56160       | 168480                                  | 224640                                  |
| BN      | 66000      | 59500       | 238000                                  | 267750                                  |
| CP      | 82800      | 79500       | 397500                                  | 337875                                  |
| DQ      | 78000      | 72200       | 577600                                  | 476520                                  |

**Please Turn Over**

You are required to **calculate**:

- (i) Direct Employee Cost per unit of the product.
- (ii) Direct Material Cost per unit of the product,—under reference as required in PARA-5 of the Annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011.  
(2+2+2+2)=8
- (b) PARA-9 of the Annexure to Cost Audit Report under the Companies (Cost Audit Report) Rules 2011 requires disclosure of “Cost of Production” and “Cost of Sales” at a Company level. How the same would be available when all the products/activities are not cover under Cost Audit? 3
- (c) How would you treat demurrage charges as per CAS-15? 2
- (d) The following details of the process-wise Wastages on Inputs are taken from the Cost Accounting Records of MAHAVIN COTTON MILLS LTD. a yarn manufacturing company, for the year ended march 31, 2014:

| PROCESS               | % of Wastage on Input |
|-----------------------|-----------------------|
| Mixing and Blow Room  | 8.82                  |
| Carding               | 6.91                  |
| Drawing               | 1.24                  |
| Roving (Simplex)      | 1.15                  |
| Ring frame (Spinning) | 7.04                  |
| Winding               | 1.75                  |

*Required:*

Calculate the Process-wise “WASTE MULTIPLIER” factors for the year ended March 31, 2014.

5

**SECTION B (50 Marks)**

**(Operational Audit)**

*Answer Question No. 5 (carrying 14 marks) which is compulsory and Answer any two (carrying 18 marks each) from the rest in this Section.*

5. (a) State whether the following statements based on the quoted terms are “TRUE” or “FALSE” with justifications for your answer. No credit will be given for any answer without justifications. 1×5=5
- (i) Operational Audit is a micro level Management Audit.
  - (ii) The Secretariat of the WTO will be headed by a Secretary.
  - (iii) Interest Cost should be included in inventory valuation for purposes of Bank Audit.
  - (iv) “Position Analysis” is one of the Techniques used by the Management Auditor for valuation of Corporate image.
  - (v) GATT and its agreement are permanent.

(b) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s):

1×6=6

- (i) Professionally managed organization uses \_\_\_\_\_ in deciding and determining increments, promotions and other rewards for their employees.
- (ii) Energy Audit means the monitoring of energy efficiency of different \_\_\_\_\_ and \_\_\_\_\_ in a plant.
- (iii) “\_\_\_\_\_ is to know best that has been said and thought in the world” – Mathew Arnold.
- (iv) “Management Audit” can be a \_\_\_\_\_ for managerial control and reduction of cost.
- (v) Corporate image of a company is built up not only by its product quality, but also, by its attitude towards various \_\_\_\_\_.
- (vi) \_\_\_\_\_ is the evaluation of every resources declared in Industry.

(c) Define the following terms (in not more than two sentences):

1×3=3

- (i) Sun Set clause
- (ii) Green Room Meetings
- (iii) Corporate Branding

6. (a) What are the basic differences between “Management Audit” and “Operational Audit”? 5

(b) The term “Image” in relation to a Company refers to how it is perceived by the public at large keeping this in mind, how would a Management Auditor approach to evaluate the Corporate Image of a Company? Discuss the techniques available to the Management Auditor to evaluate the Corporate Image. 4+4=8

(c) State the Role of the Audit Committee. 5

7. (a) You are the Management Auditor of SITERAZE LTD., a large manufacturing company suffering from WORKING CAPITAL Crunch. What are the related Areas which you would probe into to overcome the Company's problem? 10

(b) What do you understand by “Energy Audit”? Briefly state the key functions of Energy Auditor. 3+5=8

8. Write short notes on *any three* out of the following: 6×3=18

- (a) Disclosure and transparency of Corporate Governance
  - (b) Functions of the WTO (World Trade Organisation)
  - (c) Corporate Services Audit
  - (d) Quality Review Board
- \_\_\_\_\_