

FINAL EXAMINATION

December 2014

P-19(CMAD)
Syllabus 2012

Cost and Management Audit

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.
The paper is divided in three sections.*

Section A – Answer any four questions (15×4=60 marks)

Section B – Answer any two questions (10×2=20 marks)

Section C – Answer any two questions (10×2=20 marks)

SECTION A (60 marks)

Answer any four questions.

15×4=60

1. (a) Premiere Manufacturer Ltd. received an enquiry for 2,50,000 numbers of special type of machine parts. Capacity of the company exists for manufacturing the parts, but a fixed investment of ₹ 95,000 and working capital of to the extent of 35% of Sales value will be required to undertake the job. The cost estimates are as follows:
Raw materials 40,000 kg at ₹ 3.00 per kg.
Labour hours 12,000 of which 800 would be overtime payable at double the normal rate.
Labour rate ₹ 3.00 per hour
Factory overhead ₹ 2.50 per direct labour hour.
Selling and distribution overhead expenses ₹ 45,400
Material recovered at the end of operation will be ₹ 12,000 (estimated)
The company expects a net return of 15% on capital employed.
As a Management accountant of the Company, you are requested to prepare Cost and Price statement, indicating the price to be quoted by the Company to the Customer. 8
 - (b) The Financial Profit and Loss of M/S VGM Manufacturing company Ltd. for the year is ₹ 28,75,000. During the course of cost audit, it is noticed the followings:
 - (i) Some Old assets sold off which fetched a profit of ₹ 1,25,000
 - (ii) Interest was received amounting to ₹ 45,000 from outside the business investment.
 - (iii) Work-in-progress valuation for financial accounts does not as a practice take into account factory overhead. Factory overhead is ₹ 2,15,000 in opening W-I-P and ₹ 2,45,000 in closing W-I-P.
 - (iv) The Company was engaged in Trading activity by purchasing goods of ₹ 11,15,845 and selling at ₹ 13,12,850 after incurring ₹ 35,000 as expenditure.
 - (v) A major overhaul of machinery was carried out at a cost of ₹ 5,50,000 and next such overhaul will be done only after five years.
 - (vi) Opening stock of Raw material and finished good was over valued for ₹ 2,00,000 and closing stock was over valued ₹ 1,85,000 in financial records.7
- Work out the profit as per Cost Accounts.

Please Turn Over

2. (a) Following data is available Nelson Ltd. relating to cost of production of a product subject to Cost Audit. Prepare export Profitability statement to be included in the annexure to the cost of production of 23000 units.

		₹
Sales (Local)	15,000 units	40,50,000
Sales (Export)	8,000 units	20,00,000
Material consumed	120 tonnes at ₹ 240 per tonne	28,800
Imported components	₹ 175 per unit	40,25,000
Direct labour		75,000
Factory overhead		48,000
Administrative overhead		42,000
Freight & Packing (Local sales)		4,65,000
Packing for export		3,60,000
Handling at port		1,20,000
Opening Work in progress		3,20,000
Closing Work in progress		2,80,000

Additional information:

Export incentive of 12% on FOB is receivable.

Draw back on duty paid on raw materials and components available on export is ₹ 25,000. 8

- (b) For what purposes the Cost Auditor refers to financial records while conducting the Cost Audit of the Company. 7
3. (a) How would you determine the cost of material consumed in production for captive consumption as per CAS 4? 5
- (b) What do you understand by the term 'collection of overhead' as per CAS 3? 5
- (c) How would you assign administrative overheads as per CAS 11? 5
4. (a) The following data were extracted from the departmental data of Cost centre where A and B were employed and performing the job X, Y and Z.

Particulars	A	B
1. Basic wages	₹ 150	₹ 210
2. Dearness allowances	80%	80%
3. Contribution to Provident fund on Basic wages	10%	10%
4. Contribution to E.S.I. on Basic wages	4%	4%
5. Overtime	18 hours	Nil

The normal working hours per month is 200 hours. Overtime is paid at double the rate of normal wages and dearness allowance. Employers contribution to Provident fund and E.S.I. are at equal the

rate of employees contribution. The two workers are employed on jobs X, Y and Z in the following proportion:

Jobs	X	Z
Worker A	30%	40%
Worker B	20%	50%

Overtime was done by A for job Y.

From the above:

- (1) Calculate the earnings of A and B for a month to show labour rate per hour.
- (2) Allocate the labour cost to each job X, Y and Z. 3+4=7
- (b) How will you treat the following items in the Cost Accounting records? 2×4=8
 - (i) Scrap and waste.
 - (ii) Packing cost for captive consumption.
 - (iii) Quality control cost.
 - (iv) Abnormal and non recurring cost.
5. (a) What information are likely to be provided in Filing Form 23D? 4
- (b) (i) Under what condition a Cost Accounting Firm can be appointed as Cost Auditor? 4
- (ii) Can a Cost Accountant continuing as internal auditor/Concurrent auditor for a year can be appointed for Cost auditing for the same year? 2
- (c) In a manufacturing shop, product P requires 2 man hours and Product Q requires 6 man hours. In a month of 26 working days of 8 hours a day 2000 unit of P and 1000 unit of Q were produced. The Company employs 60 workers in the shop and the budgeted man-hours are 1,08,000 for the year. You are required to workout capacity ratio, activity ratio and efficiency ratio. 5

SECTION B (20 marks)

Answer any two questions.

10×2=20

6. (a) What is the role of Audit committee as per SEBI guideline? 5
- (b) As a Cost auditor, draft an "audit programme" after being appointed for Cenvat credit Audit. 5
7. (a) What do you understand by "Consumer service audit"? Mention the areas covered by such audit. 5
- (b) XYZ Ltd., a manufacturing Company does not accept the recommendation for improvements made by Operational Auditor. Suggest the alternative way to tackle the management stand. 5
8. (a) What is productivity audit? Describe the areas covered, and ratios generally used to measure productivity efficiency of the resources deployed. 5
- (b) You are the Management auditor of a large manufacturing Company suffering from working capital crisis. Which areas you will cover to overcome the crisis? 5

Please Turn Over

SECTION C (20 marks)

Answer any two questions.

10×2=20

9. A Special task force is engaged for reviewing the low profit for M/S Ramnagar Textile Mills Ltd. After the review the Task force gave the following report:

The Company has 1248 looms working two shifts per day. There are 26 sections of 48 looms each. Each section has 24 weavers and a jobber. Thus there are 1300 direct labourers other than indirect labourers. The production is 20 lakh metres per month and realised ₹ 10 per metre. The average wage is ₹ 1,200 per month and fixed cost amounts to ₹ 2,25,000 per month. The product cost is ₹ 6 per metre in addition to Direct wages. The working time is between 7 a.m. to 12 mid-night comprising two shifts with half an hour interval.

The following suggestions are to be considered:

- Labour productivity can be improved by changing lay out of the machines.
- Given the availability of space with the proposed change, only 1008 looms can be reinstalled, with 48 looms in each section.
- Technically a section of 48 looms can be run with 13 weavers, a helper and a jobber. In such situation the salary per head will increase by ₹ 200 per month. There will be some drop in production per loom. The company is not in favour of retrenchment of labour.
- The Company can run a third shift between 12 mid-night to 7.00 a.m. with half an hour interval. However full salary is to be paid for six and half hour work.
- Only 20 lakh metres are sold at present at ₹ 10 per metre. Balance production are to be sold in export market at ₹ 8 per metre.
- An initial stage, the Company can switch to 3 shift working with 12 sections having 25 direct labour each and 9 sections having 15 direct labour each. The production in 3 shifts will be 25 lakh metres. Additional fixed cost will be ₹ 1 lakhs per month.

With the implications of the proposal for the company calculate profitability and advice to Company. (You may make suitable assumptions)

10. Given below are abridged Balance Sheet and Profit and Loss Account of M/S Festive Cloth Mills Ltd.

(₹ In Lakhs)

Balance Sheet	2003-04	2002-03	2001-02
Share capital	345	345	345
Reserves and surplus	302	795	1140
Long term borrowing	687	380	160
Working capital Loan	1563	823	582
Sundry creditors	1258	900	775
Other Provisions	587	325	305
TOTAL	4742	3568	3307
Net Fixed assets	1168	756	625
Investment	15	15	15
<i>Current assets</i>			
Inventory	1025	1013	947
Book debt	210	185	175
Loans and advances	2263	1558	1515
Cash and Bank balances	61	41	30
TOTAL	4742	3568	3307

	(₹ In Lakhs)		
Profit and Loss Account	2003-04	2002-03	2001-02
Sales	5038	4315	4465
Other Income	428	325	347
TOTAL	5466	4640	4812
Raw material and stores spares	3675	3045	3262
Factory wages	275	232	206
Salaries	428	375	256
Power and fuel	812	628	710
<i>Repair and maintainance</i>			
Building	7	12	15
Plant and machinery	39	53	47
Vehicles	42	35	20
<i>Depreciation</i>			
Building	11	15	17
Plant and machinery	54	45	42
Vehicles	65	28	31
Interest	245	180	154
<i>Other overhead excluding salaries and Depreciation</i>			
Factory overhead	145	104	82
Administrative overhead	73	60	40
Selling and distribution overhead	88	83	80
Loss for the year	(493)	(255)	(150)
TOTAL	5466	4640	4812
Sales for the year (kgs)	4950896	3836855	3725245

Banker to the company appointed you as a consultant to identify the factors which have contributed to the continuing losses. Prepare a short note highlighting the factors which have *prima facie* led the company to sickness.

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1. Selected statistics of Sagar & Company Limited for two years, are given below:

	31.03.2014	31.03.2013
Gross profit	36%	33 $\frac{1}{3}$ %
Stock turnover	20 times	25 times
Average Stock	₹ 38,400	₹ 36,000
Average Debtors	₹ 87,500	₹ 1,68,750
Income Tax rate	50%	50%
Net Income after tax as % of Sales	6%	7%
Maximum Credit period allowed to customers	60 Days	60 Days

You are required to:

- Prepare a statement of profits in comparative form for all the two years.
- Evaluate the position of the company regarding profitability and liquidity on the basis of information supplied to you.
- What additional information will you require to evaluate fully the position of the company on the liquidity fund?

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