FINAL EXAMINATION

December 2015

P19(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.

This paper contains three questions, representing three separate sections.

All three questions are compulsory, subject to the specific instructions provided against each question.

All workings wherever necessary, must form part of your answer.

Assumptions, if any, should be clearly stated.

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

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

SECTION A (60 Marks)

1. **Answer *any five* questions. (carrying 12 marks each):**

(a) (i) The following details are extracted from the Cost Accounting Records of DIVYAN LTD.

	(Amount in ₹)
Purchase price of Materials (inclusive of Trade Discount ₹ 4,000)	5,00,000
Import duty paid	45,000
fee on Board	10,000
Insurance paid for import by sea	15,000
Rebates allowed	5,000
Freight Inward	20,000
Cash discount	4,000
CENVAT refundable	7,000
Subsidy received from the Government for imporation of Materials	18,000
Abnormal loss of Material	14,000

Required:

Compute the Landed Cost of Materials (Value of Receipt of Materials) 5

(ii) SUNFLAG SUGAR MILLS LTD. located at Maharashtra has a boiler used for its own by-product, Baggasse as fuel for generating steam. The high pressure steam generated is first used for generation of power and the exhaust steam is used in the process of sugar manufacture.

Please Turn Over

The following details are extracted from the Financial Accounts and Cost Accounting records of the Company for the year ended 31st March, 2015.

	Boiler	Steam Turbine
High pressure steam Generated	34780 M.T.	
Power generated		2540000 KWH
Cost	₹	₹
Water	10,48,170	—
Fuel (Baggasse)	9,21,43,460	
Stores and Chemicals	2,57,070	65,695
Salaries and Wages	29,58,250	7,32,900
Repair and Maintenance	65,64,200	2,57,700
Depreciation	17,24,700	6,49,600
Other Expenses	39,93,600	1,20,700

Note: To Calculate Cost of Power generated, credit for exhaust steam to be taken as 80% of Cost of steam.

You are required to prepare two separate cost sheets for steam and power as per the companies (Cost Records and Audit) Rules 2014 for the year ended 31st March, 2015. 3+4=7

(b) (i) **What are the duties** of the companies in relation to provisions of section 148 of the Companies Act 2013 and Rules framed thereunder? 4

(ii) PRANTIKA LTD., a manufacturing company provides the following extracts from its records for the year ended March 31, 2015.

The Company's specifications—Capacity for the machines per hour	1800 units
No of shifts (each shift of 8 hours) per day	3 shifts
Paid holidays in a year (365 days):	
(i) Sunday	52 days
(ii) Other holidays	13 days
Annual maintenance is done within these 13 holidays.	—
Preventive Weekly Maintenance for the Machines is carried on during Sundays. Normal idle capacity due to Lunch time, shift changes etc. per shift.	1 hour
Production based on sales expectancy in past 5 years (units in Lakh):	90·80 104·90 78·46 93·56 91·30
Actual Production for the year ended March 31, 2015 (units in Lakh):	**97·80**

You are required to calculate:

(1) Installed Capacity

(2) Practical Capacity

(3) Actual Capacity

(4) Normal Capacity

(5) Idle Capacity

(6) Abnormal Idle Capacity—Keeping in view of the relevant Cost Accounting Standard (CAS-2). 1+2+1+2+1+1=8

(c) (i) MENZ (IND) LTD., a manufacturing Company is engaged in manufacturing of multiple products. Some of the products are covered under the Companies (Cost Records and Audit) Rules, 2014 and some are not. Part-A, Para 4 of the Annexure to the Cost Audit Report (product/Service Details for the company as a whole) requires Net Operational Revenue to be reported for each CETA Heading for both the current year and the previous year.

Can the Net Operational Revenue of all the Products that are not covered under the Rules be reported in this Para as a single line item? 5

(ii) The Companies Act, 2013 has introduced provision regarding rotation of Auditors. **Is the provision** of rotation of Auditors applicable to Cost Auditors also? 5

(iii) Revised FORM CRA-2 has been made available by the Ministry of Corporate Affairs conforming to the Companies (Cost Records and Audit) Rules, 2014 on 31st December, 2014.

What are the required attachments to **FORM CRA-2**? 2

(d) The following are condensed comparative financial statement of CAROLINA LTD., a single product manufacturing company for three years ended 31st March, 2015, 2014 and 2013.

(Amount in ₹ Lakh)

Equity & Liabilities	2015	2014	2013
Shareholders' Fund:			
Equity Share Capital	3,000	2,000	2,000
Reserves and Surplus	4,360	3,250	2,440
Non-Current Liabilities:			
Term Loans	3,080	1,650	1,500
Debentures	1,600	1,600	1,600
Other Longterm Loans	1,200	1,500	1,400
Current Liabilities:			
Current Liabilities	2,660	1,252	1,720
Short term Provisions	800	600	500
Total	16,700	11,852	11,160

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Assets			
Non-Current Assets:			
Fixed Assets:			
Tangible Assets	4066	3808	3600
Intangible Assets	—	—	—
Capital Work in Progress	1704	—	—
Non-Current Investments:			
Investment in subsidiaries	800	400	400
Current Assets:			
Inventories	4030	2490	2320
Trade Receivables	4810	3300	3040
Cash and Cash equivalents	610	404	760
Short term Loans and Advances	680	1450	1040
Total	16,700	11,852	11,160

Profit and Loss Account for the year ended March 31.	2015	2014
	(Amount in ₹ Lakh)	
Income:		
Revenue (including excise duty) from Operations	29,040	24,510
Expenditure:		
Material consumed	11,340	9,008
Excise duty on despatches	6,690	6,852
Employee Costs	1,650	1,380
Other Manufacturing expenses	1,100	960
Selling and distribution expenses	3,102	2,802
Administration expenses	500	460
Interest on:		
Term Loans	692	402
Debentures	240	240
Others long term loans	160	200
Depreciation	604	400
Difference in Stock	1,652	536
	27,730	23,240
Profit before Taxation (PBT)	1,310	1,270
Provisions for Taxation	200	460
Profit After Taxation (PAT) (Transferred to Balance Sheet)	1,110	810

You are required to compute the following values of (i), (ii), (iii) and ratios as stipulated in PART-D, PARA-4 to the Annexure of Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2014 and 2015 respectively.

(i) Capital Employed
(ii) Net Worth
(iii) Net Revenue from Operations
(iv) PBT to Capital Employed
(v) PBT to Net Worth
(vi) PBT to Net Revenue from Operations
(vii) Debt-Equity Ratio 3+2+2+1+(1×4)=12

(e) (i) **What are the matters** that are relevant in formulating Audit Strategy and drawing up the Audit Plan? 5

(ii) **Whether a Cost Auditor** can be appointed as Internal Auditor of the Company? **Whether there** is any restriction on the Cost Auditor to accept assignments from a company where he is the Cost Auditor? 3

(iii) **What disclosures** are required to be made in Cost Statement as per CAS-19 as regard to JOINT COSTS? 4

(f) (i) A textile composite mills in the course of modernization issued voluntary retirement notice for 50 workers and the package cost ₹ 144·80 lakhs. This would amount to savings in wages of ₹ 260 lakhs over a period of 5 years. The package included closing down the Weaving Department.

How would you treat separation cost due to voluntary retirement as per CAS-7 related to Employee Cost? 2

(ii) A company acquired a Diesel Generating Set (500 KVA) to cater the shortfall of power supply from the grid. The DG Set was on lease and the annual payout was ₹ 1,25,000 to the leasing company.

How the cost will be treated in the cost accounts?

Will the company required to maintain records for captive power generation? 3

(iii) "The Cost Audit report contains significant information which would help to assess and improve operational efficiency of a concern:

Discuss the statement with reference to the matters to be reported by a Cost Auditor in his report. 7

SECTION B (20 Marks)

2. **Answer *any two* questions (carrying 10 marks each):**

(a) (i) **What are the** main areas of operation for Internal Audit of a company? 5

(ii) "Operational Auditing is an extension of Internal Audit in operational Areas but with different approach."

Examine this statement in the light of the objectives of Operational Audit. 5

Please Turn Over

(b) (i) **What are** the objectives of Management Audit? 5

(ii) **What do you understand** by "Corporate Image"? **What are** the possible approaches to evaluate Corporate Image? 1+4=5

(c) As a Management Auditor of a large organization, you have been asked to carry out the review of "MARKETING POLICIES" as a part of Corporate Development.

Prepare a questionnaire for carrying out such a review. 10

SECTION C (20 Marks)

3. **Answer *any two* questions (carrying 10 marks each):**

(a) The following are the financial statements of KODIAC LTD. for the year ended March 31, 2015.

Balance Sheet as on March 31,2015

(Amount in ₹ Lakh)

Equity & Liabilities		*Assets*	
Shareholders' Fund:		***Non-Current Assets:***	
Equity share capital	560	Fixed Assets (Net)	2100
Preference share capital	280	Goodwill	280
Reserves & Surplus:	560	***Current Assets:***	
Non-Current Liabilities:		Cash at Bank	140
Long term debt	1680	Trade Receivables	700
Current Liabilities:		Inventiories	980
Trade Payables	840		
Outstanding Expenses	80		
Provision for tax	200		
	4200		4200

Profit and Loss Account for the year ended March 31, 2015

(Amount in ₹ Lakh)

Sales:		
Cash		560
Credit		2240
		2800
Less: Expenses:		
Cost of goods sold	1680	
Administrative, Selling and general Expenses	280	
Depreciation	196	
Interest on Long-term debt	84	2240

Profit before Taxes		560
Taxes		280
		280
Less: Preference dividend		34
Net Profit for Equity shareholders		246
Add: Reserves at April 1, 2014		364
		610
Less: Dividend paid to Equity Shareholders		50
Reserves at March 31, 2015		560

The Ratios of Kodiac Ltd. for the years ended March 31 and their Industry Average ratios are given below:

	2012-13	2013-14	2014-15	Industry Avg. 2014-15
Current Ratio	2·54	2·10		2·30
Acid-test Ratio	1·10	0·96		1·20
Debtors Turnover	6·00	4·80		7·00
Stock Turnover	3·80	3·05		3·85
Long-term Debt to total Capital	37%	42%		34%
Gross Profit margin	38%	41%		40%
Net Profit margin	18%	16%		15%
Return on Equity	24%	29%		19%
Return on Total Assets	7%	6·8%		8%
Tangible assets turnover	0·80	0·70		1·00
Interest coverage	10	9		10

Required:

(1) Complete the financial Ratios Calculation for the year 2014-15.

(2) Analyse the financial performance of the company and

(3) Offer your suggestions to the management for improvements in performance. 4+4+2=10

(b) The following details are extracted from the records of SRIJAN CEMENT LTD. for the year that ended as follows:

Year ended March 31	2015	2014
Installed Capacity per Annum (in Tonnes)	200000	200000
Capacity Utilization	87%	95%
Consumption of coal per tonne of output	39%	35%
Consumption of Electricity/Tonne of output (KWH)	4·07	3·98
Capital Employed (₹ in Lakh)	1,200	1,100
Profit (₹ in Lakhs)	290	400
Salaries & wages (₹ in Lakh)	117	98
Production (Tonnes)	174000	190000

Based on the foregoing information you as a Cost Auditor of the Company **are required** to offer your observations and suggestions for improvement in performance. 8+2=10

(you may make necessary assumptions)

(c) TEXTILE MILLS LTD. has been having low profit. The Company appointed a special task force to review performance and prospect of improving the profitability of the Company. The task force submitted the following report to the company.

(1) The company has 1440 looms working in two shifts per day. There are 30 sections of 24 looms each working in two shifts. Each such section has 25 weaver and a jobber. Thus there are 1560 direct labourers other than indirect labourers.

(2) The working time is between 7 a.m. and 12 mid night comprising 2 shifts of 8 hrs. each with a half hour interval between shifts.

(3) The production cloth is 21·60 lakh metres per month and the realisation is ₹ 4·30 per metre.

(4) The average wage of direct labourers is ₹ 1200 per month and the fixed cost amounting to ₹ 2,90,000 per month. The product cost is ₹ 2·75 per metre in addition to direct wages.

The following suggestions/advised are to be considered for improvement:

(a) Labour productivity can be improved by changing lay out of the machines.

(b) Given the space available with proposed change in layout only 1008 looms can be re-installed with 48 looms in each section.

(c) Technically a section of 48 looms can run with 13 weavers, a helper and a jobber. It will be necessary to increase the wages of direct labourers for such sections by ₹ 140 per head per month. The company is not going to retrench the labour at present.

(d) The company can run a third shift between 12 mid night to 7 a.m. in the morning with a half hour interval. However eight hours wages are to be paid for six and half hour for the night shift.

(e) As an initial step the company can switch to three shift workings with 11 sections having 26 direct labourers each shift and 10 sections having 15 direct labourers each shift. Excess hands can be planned for retirement or may leave the job voluntarily. The production for three shift workings will be 26·10 lakh metres. Additional fixed cost will be ₹ 50,000 per month for third shift.

(f) Only 21·60 lakh metres can be sold at present price of ₹ 4·30 per metre and additional cloth of 4·50 lakh metres can be exported at ₹ 3·80 per metre, as there is an export offer.

Examine the implications of the proposals for company's profit and give your advice to the company. 8+2=10
