

FINAL EXAMINATION

June 2017

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.

SECTION-A has one question which is compulsory. Attempt this question.

SECTION-B has seven questions. Attempt any five of them.

Working Notes should form part of the respective answers.

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

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

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

Section-A (20 Marks)

Answer the following:

1. (a) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s). 1×5=5
 - (i) Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 deals with the _____.
 - (ii) Abnormal Loss due to flood or earthquake is charged to _____.
 - (iii) Financial Position and Ratio Analysis has to be computed based on _____ data.
 - (iv) Responsibility Centre is _____ group of control centres.
 - (v) XBRL is a language based on _____ family of languages.
- (b) State whether the following statements given below are TRUE or FALSE. 1×5=5
 - (i) CAS 11 deals with Packing Material Cost.
 - (ii) Interest and Finance charges are part of cost of production.
 - (iii) All expenses that can be identified or linked with the cost object are termed as Direct Expenses.
 - (iv) Part B of the Annexure to Cost Audit Report deals with the Manufacturing Sector.
 - (v) A favourable budget variance is always an indication of efficient performance.
- (c) Answer *any five* of the following in one or two sentences. 2×5=10
 - (i) What are 'Industry-specific Operating Expenses'?
 - (ii) How to treat overtime premium as per CAS 7 related to Employee Cost?
 - (iii) State the broad objectives of 'Operational Audit'.

Please Turn Over

- (iv) State the factors on which audit documentation will depend.
- (v) What is the Central Excise Tariff Act Heading as per the Companies (Cost Records and Audit) Rules, 2014?
- (vi) State the meaning of the term 'Key Performance Indicators'.

Section-B (80 Marks)

Answer any five questions (carrying 16 marks each) from question no. 2 to question no. 8.

2. (a) The following data relate to the cotton cost of PQR Cotton Mills for January - March, 2017:

		(Amount in ₹ '000)
(bales are of 180 kg. average)		
Opening Stock of Cotton	5000 Bales	44,366
Purchase of Cotton	17500 Bales	1,56,000
Closing Stock of Cotton	3500 Bales	
Freight Inwards		595
Demurrage charges to transporter		11
Normal Loss due to moisture loss	1% of material	

Find the value of the materials consumed and Closing Stock. 8

- (b) Discuss the concept of 'Evidence' in relation to Management Audit. 8

3. (a) The management of VDW Ltd. is worried about increasing labour turnover in the factory and, before analysing the causes and taking the remedial steps, the management wants to have an idea of the profit foregone as a result of the labour turnover in the last year.

Last year sales amount to ₹ 98,23,600 and the P/V Ratio was 20%. The total number of actual hours worked by the direct labour force was 5.23 lac. As a result of the delays by the Personnel Department in filling vacancies due to labour turnover, 100000 productive hours were lost. The actual labour hours included 30000 hours attributable to training new recruits, out of which half of the hours was unproductive. An analysis of cost incurred consequent on labour turnover revealed the following:

Settlement Costs due to leaving - ₹ 45,680

Recruitment Costs - ₹ 30,620

Selection Costs - ₹ 15,750

Training Costs - ₹ 37,250

Assuming that the potential loss as a consequence of labour turnover could have been sold at the prevailing prices, find out the profit foregone in the last year on account of labour turnover. 8

(b) The following data have been collected by you as a Cost Auditor of a company:

Particulars	2014-15	2015-16	2016-17
Installed Capacity (lac MT)	2.5	2.5	2.5
Production (lac MT)	2.4	2.3	1.25
Cost per MT of the product (₹) 1,000		1,077	1,660

The poor capacity utilization in 2016-17 was due to abnormal power cut. Escalation in costs were 5% in 2015-16 over 2014-15 and 2% more in 2016-17 over 2014-15.

(i) Calculate the Abnormal Cost due to power cut.

(ii) How would you treat this Abnormal Cost?

8

4. (a) (i) A paper manufacturing company having turnover of ₹ 90 crore in the year 2016-17 was incorporated in 2015-16 and commenced its production from March, 2016. From which financial year, the Cost Audit will be applicable?

(ii) Whether maintenance of Cost Accounting Records and Cost Audit thereof, subject to threshold limits prescribed, is applicable to products which are for 100% captive consumption? 4+4=8

(b) Mr. R. Kulkarni was appointed as Cost Auditor of MNC Ltd. for the Financial Year 2016-17. State

(i) How long the Cost Auditor can continue to hold office for the financial year?

(ii) In what format the Cost Auditor shall submit his/her Report?

(iii) What was the formality to be observed by the Board of Directors if the cost Auditor did resign on 31.01.2017? 3+2+3=8

5. (a) Grand Manufacture Ltd. received an enquiry for 250000 numbers of special type of machine parts. Capacity of the company exists for manufacturing the said parts but a fixed investment of ₹ 95,000/- and working capital (to the extent of 35% of sales value) will be required to undertake the job.

The cost estimates are as follows:

Raw Materials 40000 kg at ₹ 3.00 per kg.

Labour hours 12000 of which 800 would be overtime payable at double the normal rate

Normal Labour rate—₹ 3.00 per hour

Factory Overheads – ₹ 2.50 per direct labour hour

Selling and Distribution Overheads – ₹ 45,400/-

Materials expected to be recovered at the end of the operation— ₹ 12,000/- (estimated)

The company expects a net return of 15% on Capital Employed.

As a Management Accountant of the company, you are required to prepare a Cost and Price Statement, indicating the price to be quoted by the company to the customer and the Working Capital required to undertake the job. 8

- (b) Briefly state the disclosure and transparency requirements for Corporate Governance. 5
- (c) Is a Cost Auditor required to give any certificate with respect to his/her independence and 'arm's length relationship' with the appointing company? 3
6. (a) What is Energy Audit and what are the functions of an Energy Auditor? 2+4=6
- (b) What is 'Marketing Audit'? Enumerate its different application areas. 2+3=5
- (c) A company desires to implement a Management Audit programme in the company. You are a Cost and Management Auditor. The company assigns you the job for smooth implementation of the Management Audit programme. What are the criteria to be considered before implementation of the management Audit programme in the company? 5
7. (a) What is it essential to implement proper Internal Control system in any organisation? 6
- (b) What action amounts to professional misconduct in relation to the members of the ICAI in service? 4
- (c) What are key functions of Inventory Auditors? 6
8. (a) What is ERP environment? How is the audit under ERP different from other audits? 6
- (b) When is 'Safeguard Duty' imposed? 5
- (c) What is 'Due Diligence' Audit? Why is it undertaken? 5
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