

FINAL EXAMINATION

December 2023

P-19(CMAD)

Syllabus 2016

COST AND MANAGEMENT AUDIT

Time Allowed: 3 Hours

Full Marks: 100

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

*Both Sections are compulsory. Each section contains instructions regarding the number of questions to be answered within the section.*

*All working notes must form part of the answer.*

*Wherever necessary, candidates may make appropriate assumptions and clearly state them in answer.*

**Section-A (20 Marks)**

**(All parts of the questions to be answered)**

**1. Choose the most appropriate answer from among the four alternatives given (1 mark is for the correct choice and 1 mark is for the justification/workings):**  $2 \times 10 = 20$

- (i) Alphabeta Ltd has a machine of productive capacity of 2,500 unit per hour. It runs 3 shift of 8 hours each, half an hour recess in between, weekly off on Sunday and 12 nos of statutory holidays per year. Maintenance and change of shift are done during running time. The Normal capacity of the unit per year as per Cost Accounting Standard 2 is in lakh units.
- (A) 219.0000  
(B) 205.3125  
(C) 169.3125  
(D) 180.6000
- (ii) The Internal Audit function on Operational Audit area has the focus on\_\_\_\_\_.
- (A) Transaction-based analysis for Fraud Prevention  
(B) Compliance of Rules  
(C) Risk Identification, Process Improvement  
(D) Budget Monitoring
- (iii) Identify one of the following costs appearing only in Cost Accounting Records:
- (A) Dividend Equalization Fund, Sinking Fund etc.  
(B) Interest on Mortgage, Loans  
(C) Notional Interest on Capital  
(D) Loss due to scrapping of Plant, Machinery.

- (iv) Disclosure to transactions with Related Parties under Para D-5 of Annexure to the Cost Audit Report be made
- (A) for each related party for the year as a whole.
  - (B) for each product/service for the year as a whole.
  - (C) combination of (A) and (B) above.
  - (D) combination of (A) and (B) transaction-wise.
- (v) In which of the following Cost Accounting Standard, the 'Treatment of Revenue in Cost Statements', is dealt?
- (A) Cost Accounting Standard 24
  - (B) Cost Accounting Standard 16
  - (C) Cost Accounting Standard 8
  - (D) Cost Accounting Standard 21
- (vi) The Cost Centre which primarily provides auxiliary service across the entity is a
- (A) Production Cost Centre
  - (B) Selling and Distribution Cost Centre
  - (C) Support Service Cost Centre
  - (D) Labour Cost Centre
- (vii) Which Audit, gives a comprehensive picture of the status of effectiveness of corporate development and highlights developmental needs?
- (A) Corporate Social Responsibility Audit
  - (B) Corporate Developmental Audit
  - (C) Propriety Audit
  - (D) Efficiency Audit
- (viii) Which is a Dictionary of all cost elements required in the Cost Audit Report in context with XBRL?
- (A) Costing Taxonomy
  - (B) Instance Document
  - (C) Schema
  - (D) Table

- (ix) A manufacturing unit showed, during the Financial Year 2022-23, the following financial data (in ₹ lakh); Net Sales of 1,250, Export Incentives 85, Other Income 106, Adj. of Finished Stock (+) 95, Materials 634, Salaries 425, Overheads 101.8 and Tax 52.6. The Value Added as per Rules is (in ₹ lakh) \_\_\_\_\_.
- (A) 946  
(B) 796  
(C) 755  
(D) 688
- (x) 'Sugar and Industrial Alcohol' belong to \_\_\_\_\_ sector for Application of Cost Records.
- (A) regulated.  
(B) non-Regulated.  
(C) both depending on circumstances.  
(D) None of the above.

**Section-B (80 Marks)**

Answer *any five* questions from question numbers 2 to 8.

Each question carries 16 marks.

2. (a) ABC was appointed as Cost Auditor of PQR Ltd for FY 2023-24. After three months of appointment, for some reasons, the Cost Auditor becomes disqualified to be appointed as Cost Auditor. State the steps to be taken by the Company as a consequence of such event. 8
- (b) PQR Ltd., changed its stock valuation policy from Average Cost Method to First in First Out Method in the Financial Year 2022-23. As a result of which the profit of the Company was reduced by ₹ 10 lakhs. The change in the accounting policy and the fact of the loss were not disclosed by the company or by the Cost Auditor in the Audit Report. State whether the Cost Auditor is deemed to be guilty of professional misconduct. 8
3. (a) Answer the following with reference to Transportation Cost as per Cost Accounting Standard 5:
- (i) What items of cost shall be included and not be included in Transportation Cost?  
(ii) For apportionment of outward transportation cost, what basis should be adopted?

- (b) The profit as per Financial A/c of ABC Cement Ltd. for the year 2022-23 was ₹ 1,34,27,516. The profit as per Cost Accounting records showed a different figure. You are required to prepare a reconciliation statement and arrive at profit as per Cost Accounts. The following details were collected from Financial Accounting and Cost Accounting records.

Particulars	Financial A/c (₹)	Cost A/c (₹)
Opening WIP	29,52,315	23,45,720
Opening Finished Goods	2,48,37,410	2,72,16,930
	2,77,89,725	2,95,62,650
Closing WIP	41,72,635	36,35,345
Closing Finished Goods	3,67,51,410	4,15,24,148
Interest Income from Inter Corporate Deposits	6,14,250	-
Donations given	4,75,250	
Loss on Sale of Fixed Assets	1,04,148	-
Value of cement taken for own consumption	3,75,920	3,45,200
Cost of Power drawn from own windmill:		
At EB Tariff		48,58,415
At Cost	34,10,420	

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4. (a) What are the benefits of Management Audit? 8
- (b) WXY Ltd., a car manufacturing company has its product segmentation of Medium Commercial vehicle, Medium Passenger Vehicle and Deluxe Passenger Vehicle. There is reported loss in Medium Passenger Vehicle for the last two years. Make a checklist for evaluation of performance to identify the weak areas and find remedies. 8
5. (a) As per Clause 3(iv) of CARO, 2015, the Auditor has to comment whether there is adequacy of Internal control. How the Auditor obtains an understanding of internal control system? 8
- (b) Briefly discuss the Internal Audit program of Non-Government Organizations. 8

6. (a) The following is the abridged Balance Sheet of B Ltd., a single product manufacturing Company:

Particulars	as at 31.03.2023 (Amount in ₹ lakhs)	as at 31.03.2022 (Amount in ₹ lakhs)
<b>LIABILITIES:</b>		
Share Capital	700	700
Reserves and Surplus:		
Debenture Redemption Reserve	50	60
Capital Subsidy from State Government	70	70
Revaluation Reserve	250	290
General Reserve	310	260
Profit and Loss A/c	106	74
Secured Loans	570	600
Unsecured Loans	240	248
Total	2,296	2,302
<b>ASSETS:</b>		
Gross Block	1,550	1,460
Less: Accumulated Depreciation	(730)	(680)
Net Block	820	780
Capital Work-in-Progress	96	84
Investments	30	30
Current Assets, Loans and Advances:		
Inventories	843	892
Sundry Debtors	374	400
Advances for Equipment	58	44
Other Loans and Advances	298	284
Cash and Bank Balances	46	36
Current Liabilities and Provisions:		
Sundry Creditors for Capital Expenses	(34)	(42)
Sundry Creditors for others	(370)	(394)
Provision for Taxes	(138)	(142)
Miscellaneous Expenditure	273	330
Total	2,296	2,302



Additional Information available:

- (i) Term Loans repayable in 12 months included under 'Secured Loans' are ₹ 202 lakhs (Previous Year ₹ 158 lakhs).
- (ii) Profit before Tax for the year ended on March 31, 2023 is ₹ 170 lakhs (Previous Year ₹ 164 lakhs).

You are required to compute the following figures/ratios as stipulated in Cost Audit Report under Companies (Cost Records and Audit) Rules, 2014, for the year ended on March 31, 2023:

- (i) Average Capital Employed  
(ii) Net Worth  
(iii) Profit Before Tax to Capital Employed  
(iv) Profit Before Tax to Net Worth

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(b) The following are the process-wise input and output in a Spinning Mill –

Blow room :	Cotton processed Laps produced	4674560 kgs. 4259970 kgs.
Carding :	Laps processed Silvers produced	4276360 kgs. 3978420 kgs.
Draw frames :	Silvers processed Silvers drawn	3950240 kgs. 3903810 kgs.
Roving (Simplex) :	Drawn silvers processed Transferred to Ring frame	3876120 kgs. 3833510 kgs.
Ring frame :	Silvers used Finished Yarn produced	3913640 kgs. 3643740 kgs.
Reeling and Winding :	Yarn wound Saleable Yarn produced	3637420 kgs. 3582890 kgs.

Calculate the process wise Waste Multiplier factors for the year ended on March 31, 2023.

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7. (a) MNC Ltd. has received an enquiry of 1,200 numbers of EFT Drone Frame to be supplied over a period of 1 year to State Government Agriculture Dept. The State Government has arranged a soft loan @ 6% p.a. for capital equipment and working capital need of the unit. Capacity exists for manufacture of the products, and the estimated unit manufacturing cost for lot of 100 units are given below. Estimate the price to be quoted

by the company if the profit expectations are 15% of sales value and the interest cost is 5% of before interest cost per unit.

	Particulars per unit	Lot 100
1.	Raw Material 6kg@ ₹ 5,000/kg	6kg
2.	Stores, spares, power	5,500
3.	Labor Hrs	2,000 hr
4.	Labor Rate	₹ 9/hr
5.	Factory Overhead	₹ 5/labor hour
6.	Selling & Forwarding expenses	₹ 5,000
7.	Interest as% on total cost	5%
8.	Net Return on sales price	15%

Prepare a Cost and Price Statement.

8

- (b) A factory located in a northern state experienced a devastating cloud-burst which paralyzed all activities from 16.09.2022 to 14.11. 2022 in company of which you were the Cost Auditor for the year FY 22-23. Although the company began working from 15.11.2022, production could effectively begin only from 7.12.2022. The expenses incurred during the year ended 31.3.2023 of 305 days of working were:

Particulars	Expenses for the year as a whole	Expenses for the closure period
	₹ lakh	₹ lakh
Salaries & Wages Direct	1,035	
Salaries & Wages Indirect	690	245
Power (variable)	415	
Depreciation	620	205
Other Fixed Expenses	825	310
	3,585	755

Calculate the amount which should be treated as abnormal for exclusion from the product costs, ignoring loss of capital nature.

8

8. Answer any four out of the following five questions:

4×4=16

- (a) Scope and objective of the Cost Accounting Standard -102.  
 (b) As the Internal Auditor, draw a specimen Internal Audit program for given assignment.

- (c) What are the Functions of Management Audit?
- (d) In a single shift of 8 hr (with 30 min recess) running factory for 26 days in a month, the capacity utilization ratio and capacity usage ratio are 90% and 84% respectively. The break up for idle time is like waiting for i) material and tools-4 hrs, ii) for job-5 hrs, iii) breakdown - 3 hrs. Calculate the cost of idle time, where the hourly fixed cost is ₹ 22.50 (average per machine).
- (e) As a Cost Auditor of a manufacturing company, furnish any four relevant suggestions and observations regarding performance of the Company based on the following information: (You may make necessary assumptions):

Particulars	2023	2022
Profit (₹ in Lakhs)	250	340
Capacity Utilization	90%	95%
Consumption of Electricity / Tone of Output (KWH)	4.07	3.98
Capital Employed (₹ in Lakhs)	1,200	1,100
Salaries and Wages (₹ in Lakhs)	117	98
Production (MT)	1,80,000	1,90,000