

FINAL EXAMINATION

June 2019

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.

All 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.

Section-A (20 Marks)

Section-A contains question number 1.

All parts of this question are compulsory.

1. Choose the correct option from amongst the four alternatives given (1 mark is for the correct choice and 1 mark is for the justification/workings): 2×10=20

(i) ORS Ltd. is a multi-product company having annual turnover of ₹ 103 crore, Table A items under CARO being ₹ 26 crore, Table B items ₹ 8 crore and the rest are not covered in either of the Tables. Cost Audit will be _____.

- (A) not applicable to the company
- (B) applicable for Table A products only
- (C) applicable for all products
- (D) applicable for Table A and Table B products only

(ii) The wages of employees of contractor engaged in the organization for the past period is _____ Employee Cost.

- (A) included in
- (B) excluded from
- (C) included to the extent of statutory contribution of employer
- (D) partly included

- (iii) The Cost Accounting Standard 24 is a Cost Accounting Standard on _____.
- (A) Overburden Removal Cost
 - (B) Royalty and Technical Know-how Fee
 - (C) Treatment of Revenue in Cost Statements
 - (D) Selling and Distributions Overhead Cost
- (iv) The figures below are available for Reliable Ltd. Budgeted production – 800 units, Standard hours per unit 25, Actual production 576 units and actual working—12000 hours. What is the Efficiency Ratio?
- (A) 110%
 - (B) 120%
 - (C) 100%
 - (D) 125%
- (v) Machinery used in defense, space and atomic energy sector and fulfilling turnover criteria is under
- (A) regulated sector.
 - (B) unregulated sector.
 - (C) exempted by different statute.
 - (D) not applicable category.
- (vi) Cost Auditing Standard 102 deals with _____.
- (A) knowledge in performing of audit of cost statements, records etc.
 - (B) ensuring conduct of audit of cost statements
 - (C) planning on audit of cost statements, records etc.
 - (D) documentation of audit of cost statements, records etc.

(vii) The abridged cost statement (CRA 3) need not be separate for _____.

- (A) each product with separate (CTA) CETA heading
- (B) each product having separate industry specific expenses
- (C) each product having different unit of measure
- (D) self/captive consumption of each product

(viii) The Management Auditor should evaluate MIS of an organization after _____.

- (A) studying content, quality and source of information
- (B) studying flow of information
- (C) studying correlation of information in decision areas
- (D) studying all the above

(ix) Operational Audit can lead to better management with the focus on

- (A) transaction based analysis for fraud prevention.
- (B) compliance of Rules.
- (C) risk identification, process improvement.
- (D) budget monitoring.

(x) The first step in audit of Educational Institutions —

- (A) Read through the minutes of the meetings of the Managing Committee or Governing Body
- (B) Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital Fund
- (C) Verify the annual statement of accounts
- (D) To examine the Trust Deed or Regulations

Section-B (80 Marks)

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

Each question carries 16 marks.

2. (a) (i) During the course of audit as Cost Auditor, you have come across (I) some material deficiency and (II) significant variation in material consumption over the previous year. State the provisions of the Companies (Cost Records and Audit) Rules, 2014 in this regard.
- (ii) What is the applicability of Real Estate Development under the Companies (Cost Records and Audit) Rules, 2014? 4+4=8
- (b) (i) ABC Ltd. changed its Stock Valuation Policy from FIFO method to Average Cost method in the FY 2018-19, as a result of which the profit of the Company was inflated by ₹ 25 lakhs. The change in policy and the fact of additional gain were not disclosed by the Company nor the Cost Auditor in the Audit Report. **State whether** the Cost Auditor is deemed to be guilty of professional misconduct.
- (ii) In the course of performance of his duties, some fraud against the Auditee Company gets disclosed to the Cost Auditor.
What is the punishment to Cost Auditor for failing to report to the Authority within prescribed time? 4+4=8
3. (a) (i) 'The Cost Auditor should have adequate knowledge of client's business, its process and the business environment' — Making a reference to relevant Cost Audit Standard, **discuss the areas** which the new Auditor is required to understand.
- (ii) LMN Textiles Ltd. purchased a ring frame at ₹ 5 crore and high value spares at ₹ 1 crore, the whole amount being capitalized.
How should high value spares be treated as per CAS 12 when actual replacement takes place (I) with or (II) without reconditioning? 4+4=8

- (b) The Cost Accountant of BEELON TEXTILES MILLS LTD. has arrived at a profit of ₹ 22,14,000 based on Financial Accounts for the year ended March 31, 2019.

The Profit as per Cost Accounting records showed a different figure.

As a Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts:

(i) Profit on sale of Fixed Assets	₹ 2,00,000
(ii) Profit on sale of Investments	₹ 35,600
(iii) Voluntary Retirement Compensation included in Salary & Wages in F/A	₹ 60,31,200
(iv) Donation paid	₹ 80,000
(v) Insurance claim relating to previous year received during the year	₹ 5,08,000
(vi) Profit from retail trading activity	₹ 32,05,400
(vii) Interest income from Inter-Corporate Deposits	₹ 6,10,000
(viii) Goodwill written off in F/A	₹ 4,00,000
(ix) Increase in value of Closing WIP and Finished goods inventory	
as per Financial Accounts	₹ 360,55,000
as per Cost Accounts	₹ 390,15,000

You are required to **prepare** a Reconciliation Statement between Cost and Financial Accounts and **arrive at Profit** as per Cost Accounts for the year ended March 31, 2019. 8

4. (a) 'The need for Productivity/Efficiency Audit has arisen in order to examine effectiveness of resource utilization'.— Explain Efficiency Audit.

Mention how Efficiency Audit can be carried out.

2+6=8

- (b) MNP Ltd. appoints you as Management Auditor to check internal system in the area of data processing. **List out** the areas covered by such study. 8

5. (a) (i) The Audit Committee of STR Ltd. has outlined you to cover as Internal Auditor in the area of asset safeguarding of the Company. **How** you would proceed?
- (ii) State whether a private company is liable to appoint Internal Auditor. Will the answer differ if the share capital of the company was more than ₹ 1 crore?

6+2=8

- (b) Briefly discuss the Internal Audit program of Non-Government Organization. 8

Please Turn Over

6. (a) The following is the abridged comparative Balance Sheets of PRAVISH LTD, a consumer products manufacturing company for two years as on March 31, 2019 and 2018:

	(Amount in ₹ Lakh)	
	2019	2018
Equity & Liabilities		
Shareholders' Fund:		
Equity Share Capital	3,500	2,000
Reserves and Surplus	3,800	3,000
Non-Current Liabilities:		
Term Loans	3,000	1,500
Debentures	1,500	1,500
Other Long-term Loans	1,200	1,500
Current Liabilities:		
Current Liabilities	2,600	1,200
Short-term Provisions	860	652
Total	16,460	11,352
Assets		
Non-Current Assets:		
Fixed Assets:		
Tangible Assets	4,000	3,800
Intangible Assets	—	—
Capital Work-in-Progress	1,700	—
Non-Current Investments:		
Investment in subsidiaries	800	400
Current Assets:		
Inventories	3,930	2,090
Trade Receivables	4,810	3,258
Cash and Cash equivalents	600	404
Short-term Loans and Advances	620	1,400
Total	16,460	11,352

Additional Information:

(₹ in Lakh)

Year ended March 31	2019	2018
Profit before Tax (PBT)	1,300	1,150

You are **required to compute** the following 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, 2019:

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

8

- (b) The bio-gas produced from wash of alcohol in KLM Industrial Alcohol Ltd. is used as a supplement with fuel oil in generating steam. The steam is used in steam turbine for production of power and the exhaust of steam turbine is recycled for manufacture of alcohol. In process, the fall in enthalpy (heat content) value of the steam is 10%. The following details are extracted from the Cost Accounting records of the Company for the year ended March 31, 2019:

	Boiler (₹)	Turbine (₹)
Cost of Water	6,80,000	
Fuel Oil	6,00,00,000	
Bio-gas plant expenses	1,68,00,000	
Stores and Chemicals	1,80,000	
Salaries and Wages	20,00,000	4,80,000
Repairs and Maintenance	44,00,000	1,80,000
Depreciation	12,00,000	4,40,000
Other expenses	26,00,000	80,000
High pressure steam Generated (MT)	24,000	
Power Generated (KWH)		18,00,000

Required:

Prepare two Cost Sheets for steam and power as per CAS-8 on cost of utilities for the year ended March 31, 2019.

8

Please Turn Over

7. (a) The following parameters are extracted from the Cost Accounting records of MAHAWISH LTD., a multiproduct manufacturing Company:

(Amount in ₹ Million)

Year ended 31st March	2019	2018
Net sales	3,600	2,880
Other Income	225	150
Increase in value of stock of Finished Goods	15	7
Raw materials consumed	1,320	1,080
Direct Wages, Salaries, Bonus, Gratuity etc.	330	264
Power and Fuel	180	144
Stores and Spares	120	105
Local Taxes	90	75
Other manufacturing Overheads	322	278
<i>Administrative Overheads:</i>		
Audit fees	27	22
Salaries and Commission to Directors	36	30
Other Overheads	195	165
<i>Selling and Distribution Overheads:</i>		
Salaries and Wages	27	23
Packing and Forwarding	15	12
Other Overheads	188	150
Total Depreciation	90	90
<i>Interest Charges:</i>		
On Working Capital Loans from Bank	45	37
On Fixed Loans from SBI	68	53
On Debentures	22	22
Provision for Taxes	237	150
Proposed Dividends	315	172

You are required to calculate the following as stipulated PART-D, PARA-3 of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2019 and March 31, 2018:

- (i) Value Addition
- (ii) Earnings available for Distribution
- (iii) Distribution of Earnings to the different claimants. 10

- (b) During the period 16.08.2018 to 29.08.2018 (two weekly off in between), the manufacturing unit of CDE Ltd. had to be closed down due to a widespread agitation on job reservation by a community of the State. The workmen demanded full wages but it was negotiated to (i) they will work on weekly off on three chosen weeks without overtime and (ii) the rest will be with no wages for direct workers and adjusted against eligible leave for staff and indirect employees. The normal working of the unit is on all days except 52 weekly off and 11 statutory Holidays.

The details of the expenses incurred for the year ended March 31, 2019 are as follows:

(Amount in ₹ Lakh)

Indirect/Fixed Cost	Whole Year
Indirect Wages and Salaries	675
Power, Boiler, Security partly used during closure	10
Depreciation	355
Other Fixed Expenses	538
Total:	1,578

Required:

Calculate the abnormal cost for exclusion from the Product cost.

8. Answer any four out of the following five questions: 4×4=16

- (a) Explain 'Professional Judgement' and 'Professional Skepticism' as per Cost Audit Standard 103.
- (b) Draw an Internal Audit program on Wage Audit.
- (c) What are the Functions of Management Audit?
- (d) A company bought a new technology for its auto component unit for two products A and B. The condition was to pay a lump of ₹ 10,00,000 (equally distributable for both products having a service life of 5 years) and Royalty of ₹ 3 per unit produced. The vendor's technicians were to be paid travelling expenses for maintenance. The company incurs cost for software services and interest for borrowing of ₹ 1,20,000.

The following information is extracted from the Books of the Company for the year ended March 31, 2019:

Particulars	Product A	Product B
Unit produced (Qty.)	30000	25000
Royalty paid on production (₹)	3/unit	3/unit
Travelling charges (₹)	10,000	10,000
Software services charges (₹)	24,000	20,000
Hire charges for special equipment (₹)	8,000	—
Interest on Bank borrowing (₹)	60,000	60,000

You are required to compute the Direct Expenses — keeping in view of CAS – 10.

- (e) NAVITA LTD., a Manufacturing company provides the following extracts of raw materials from its records for the year ended March 31, 2019:

	₹
Opening stock of raw materials (6000 units)	2,16,000
Purchase of raw materials (21000 units)	8,40,000
Closing stock of raw materials (4000 units)	—
Freight Inwards	1,02,000
Self-manufactured Packing material for purchased raw materials	70,000
Demurrage charges levied by transporter for delay collection	14,000
Normal loss due to shrinkage 2% of materials	—
Abnormal loss due to absorption of moisture before receipt of materials — (150 units)	—

You are **required to calculate** the value of Closing Stock of raw materials using Average Cost Method.