

Paper 19 - COST AUDIT & MANAGEMENT AUDIT

Full Marks: 100

Section A

Answer any four Questions [4x15=60]

1. (a) From the following figures extracted from the financial and cost accounting records, you are required to compute:

- (i) Value Added.
- (ii) Ratio of Operating Profit to Sales.
- (iii) Ratio of Operating Profit to Value Added.

Particulars	₹ in lacs
Net Sales excluding Excise Duty	42,000
Increase in Stock of finished goods	500
Expenses:	
Raw Materials consumed	8,600
Packing materials consumed	2,560
Stores and spares consumed	1,120
Power and fuel	9,200
Insurance	240
Direct salaries and wages	960
Depreciation	1,770
Interest paid	2,796
Factory overhead:	
Salaries and wages	480
Others	500
Selling and distribution expenses:	
Salaries and wages	240
Additional sales tax	914
Administration overheads:	
Salaries and wages	240

[10]

(b) What are the matters that are relevant in formulating audit strategy and drawing up the audit plan? **[5]**

2. (a) Explain the objectives of Cost Audit. **[8]**

(b) What are the features of Cost audit? **[7]**

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3. (a) Explain the procedure for appointment of a Cost Auditor. [10]

(b) Cost Auditor is responsible for forming and expressing an opinion on the Cost Statement. Comments. [5]

4. (a) Give the following data, compute the relevant variances –

Particulars	Skilled	Semi-skilled	Un-skilled
Number in Standard gang (for 40 hour week)	16	6	3
Standard rate per hour (₹)	3	2	1
Actual number in the gang (for 42 hour week)	14	9	2
Actual rate of pay (₹)	4	3	2

In the week, the gang as a whole produced 900 Standard Hours, during the week, 4 hours per worker was considered idle time due to machine breakdown. [10]

(b) Discuss briefly the role of the Cost Accountant In a manufacturing Firm. [5]

5. (a) A Company uses a purchased component in an assembly. It follows a policy of Economic Order Quantity for procurement of the component. The Purchase Price of the component is ₹800 each and the cost of carrying one unit is 15% per annum. The cost of placing an order is ₹150. The Company has estimated the total cost of carrying and order placement at ₹36,000. The Supplier has offered a discount of 3% on the Purchase Price if the entire requirement of the component is covered in two purchase orders in a year.

- i. Find the Economic Order Quantity.
- ii. Calculate the Total Cost of Component Procurement and Storage, if the Discount Offer is accepted. Compare this cost with the Total Cost of the EOQ.
- iii. What further discount if any, should be negotiated for minimising the cost? Assume that the inventory carrying cost does not vary according to discount policy. [8]

(b) DDR Manufacturers, a small scale enterprise, produces a single product and has adopted a policy to recover the production overheads of the factory by adopting a single blanket rate based on machine hours. The budgeted Production Overheads of the Factory are ₹10,08,000 and budgeted Machine Hours are ₹96,000.

For a period of first six months of the financial year, following information were extracted from the books:

- Actual Production Overheads ₹6,79,000
- Amount included in the Production Overheads:
 - (a) Paid as per Court's order ₹45,000

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(b) Expenses of previous year booked in current year	₹10,000
(c) Paid to workers for strike period under an award	₹42,000
(d) Obsolete Stores written off	₹18,000

Production and sales data of the concern for the first six months are as under:

Production:	Finished Goods	22,000 units
	Work-in-Progress (50% complete in every respect)	16,000 units
Sales:	Finished Goods	18,000 units

The actual machine hours worked during the period were 48,000 hours. It is revealed from the analysis of information that $\frac{1}{4}$ of the under-absorption was due to defective production policies and the balance was attributable to increase in costs.

You are required to:

- i. Determine the amount of under-absorption of Production Overheads for the period,
- ii. Show the accounting treatment of under-absorption of Production Overheads, and
- iii. Apportion the Unabsorbed Overheads over the items. **[7]**

Section B

Answer any two Questions [2x10=20]

6. (a) What are the objectives of Management Audit? [5]

(b) What are the pre-condition for initiating Management Audit? [5]

7. Distinguish the followings – [2x5=10]

(a) Operational Audit and Internal Audit

(b) Operational Audit and Management Audit

8. (a) Explain the Scope of Internal Control. [5]

(b) Explain the silent features of special reports for Banks, Shareholders, Employees & Small Business. [5]

Section C

Answer any two Questions [2x10=20]

9. (a) What are the Characteristics of a good Performance Appraisal Report? [10]

(b) Explain the Impact of IFRS on the Cost Structure, Cash Flows and Profitability. [10]

(c) The Balance Sheet of Ruma Ltd. stood as follows as on: (₹ in Lakhs)

Liabilities	31 March 2013	31 March 2012	Assets	31 March 2013	31 March 2012
Capital	1,500	1,500	Fixed Assets	2,400	1,800
Reserves	696	600	Less: Depreciation	840	600
Loans	600	720		1,560	1,200
Creditors & Others			Investment	240	180
Current Liabilities	774	150	Stock	720	600
			Debtors	420	300
			Cash & Bank	120	120
			Other Current assets	150	150
			Miscellaneous Expenditure	360	420
	3,570	2,970		3,570	2,970

You are given the following information for the year 2012-13:

	₹ in Lakhs
Sales	3,600
Profit before Interest & Tax	900
Interest	144
Provision for Tax	360
Proposed Dividend	300

Required:

- i. Calculate for the year 2012-13:
 - A. Return on Capital Employed.
 - B. Stock Turnover Ratio.
 - C. Return on Net Worth.
 - D. Current Ratio.
 - E. Proprietary Ratio
- ii. Give a brief comment on the financial position of Ruma Ltd. [10]