

Paper 19 - COST AUDIT & MANAGEMENT AUDIT

Full Marks: 100

Section A

Answer any four questions [4x15=60]

1. (a) The financial profit and loss account for the year 2012-13 of a company shows a net profit of ₹26,28,000. During the course of cost audit, it was noticed that:

- (i) The company was engaged in trading activity by purchasing goods at ₹4,00,000 and selling it for ₹5,00,000 after incurring an expenditure of ₹25,000.
- (ii) Some old assets sold off at the end-end fetching a profit of ₹80,000
- (iii) A major overhaul of machinery was carried out at a cost of ₹4,00,000. And the next such overhaul will be done only after four years.
- (iv) Interest was received amounting to ₹1,50,000 from outside investments.
- (v) Work-in-progress valuation for financial accounts does not as a practice take into account factory overhead. Factory overhead was ₹1,85,000 in opening WIP and ₹3,15,000 in closing WIP.

Work out the profit as per Cost Accounts and briefly explain the adjustment, if any, carried out.

[7]

(b) The Companies (Cost Accounting Records) Rules 2011 have not prescribed any specific formats for the cost statements. In what manner and format would the cost statements be kept under these Rules? **[4]**

(c) What does turnover mean under these Rules? Is gross turnover inclusive of excise duty? **[4]**

2. (a) Explain the ceiling on number of Cost Audits. **[8]**

(b) What are the duties of Cost Auditors? **[7]**

3. (a) A Factory manufactures only one product in one quality and size. Its owner states that he has a sound system of financial accounting which can provide him with unit cost information and as such he does not need a cost accounting system. State your arguments to convince him the need to introduce a cost accounting system. **[8]**

(b) List the essential features of a good Cost Accounting system. **[7]**

4. (a) The Total Overhead Expenses of a factory are ₹4,46,380. Taking into account the normal working of the factory, Overhead was recovered in production at ₹1.25 per hour. The actual hours worked were 2,93,104. How would you proceed to close the books of accounts, assuming

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that besides 7,800 units produced to which 7,000 were sold, there were 200 equivalent units in WIP?

On investigation, it was found that 50% of the Unabsorbed Overhead was on account of increase in the cost of indirect Materials and Indirect Labour and the remaining 50% was due to factory inefficiency. Also give the profit implication of the method suggested. **[10]**

(b) In a factory bonus system, bonus hours are credited to the employee in the proportion of time taken which time saved bears to time allowed. Jobs are carried forward from one week to another. No overtime is worked and payment is made in full for all units worked on, including those subsequently rejected. From the following information, calculate for each employee – (a) the bonus hours and amount of bonus earned, (b) the total wage costs, and (c) the wages cost of each good unit produced.

Particulars	Rahul	Rajan	Rakesh
Basic Wage Rate per hour	₹25	₹40	₹30
Units produced for production	2,500	2,200	3,600
Time allowed per 100 units	2 hrs 36 mins	3 hrs	1 hr 30 mins
Time taken	52 hrs	75 hrs	48 hrs
Rejects in units	100	40	400

[5]

5. (a) The budgeted production of a company is 20,000 units per month. The Standard Cost Sheet is as under –

Direct Materials	1.5 kg. at ₹ 6 per kg.
Direct Labour	6 hours at ₹ 5 per hour
Variable Overheads	6 hours at ₹ 4 per hour
Fixed Overheads	₹ 3 per unit
Selling Price	₹ 72 per unit

The following are the actual details for the month –

- Actual Production and Sales = 18,750 units. There is no change in the selling price.
- Direct Materials consumed = 29,860 kg. at ₹5.25 per kg.
- Direct Labour Hours worked = 1,18,125 hours at ₹ 6 per hour.
- Actual Overheads were ₹ 5,65,000 out of which a sum of ₹ 40,000 was Fixed.

Calculate:

- (a) Direct Materials Usage and Price Variances.
- (b) Direct Labour Efficiency and Rate Variances.
- (c) Variable Overheads Efficiency and Expense Variances.
- (d) Fixed Overheads Volume and Expense Variances.
- (e) Sale Volume Variance in Sale Value and Gross Margin.

[10]

(b) A company manufactures two products X and Y. Product X requires 8 hours to produce while Product Y requires 12 hours. In April, of 22 effective working days of 8 hours a day, 1,200 units of X and 800 units of Y were produced. The Company employs 100 workers in the Production Department to produce X and Y. the Budgeted Hours are 1,86,000 for the year. Calculate Capacity, Activity and Efficiency Ratio and establish their inter-relationship. **[5]**

Section B

Answer any two Questions [2x10]

6. (a) As a management consultant, you have an assignment to conduct a Management Audit of the production function of a medium-scale engineering unit. Prepare a check list of the points on which you should undertake the study. [6]

(b) Explain the needs for Capacity determination. [4]

7. Prepare a checklist/questionnaire for management audit of the purchase function of a manufacturing company which has factories at different locations manufacturing the same range of products. [10]

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

(b) What are the differences between Internal Audit and Operational Audit. [5]

Section c

Answer any two questions [2x10=20]

9. (a) State the application of Management accounting Tools. [10]

(b) M Ltd has the following Balance Sheets as on 31 March 2013 and 31 March 2012:

Particulars	₹ in lakhs	
	31 March 2013	31 March 2012
Sources of Funds:		
Shareholder's Fund	4,954	3,144
Loan Funds	7,340	6,366
	12,294	9,510
Applications of Funds:		
Fixed Assets	7,132	6,000
Cash & Bank	1,178	1,140

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Debtors	3,190	2,536
Stock	5,934	5,014
Other Current Assets	3,334	3,008
Less: Current Liabilities	(8,074)	(7,788)
	12,694	9,910

The Income Statement of the JKL Ltd for the year that ended is as follows:

	₹ in lakhs	
	31 March 2013	31 March 2012
Sales	44,530	27,964
Less: CGS	41,920	25,288
GP	2,610	2,676
Less: Selling, General & Administrative Expenses	2,070	1,304
Earnings before Interest and Tax (EBIT)	540	1,372
Less: Interest Expense	226	210
Profit before tax	314	1,162
Less: Tax	46	384
Profit after Tax	268	778

Required:

(i) Calculate for the year 2012-13:

- a. Inventory Turnover Ratio
- b. Return on Net worth
- c. ROI
- d. ROE
- e. Profitability ratio

(ii) Give a brief comment on the financial position of Petro Ltd.

[10]

(c) What are the other area that could be covered in the Performance Appraisal Report?

[10]