

**Paper 19 - COST AND MANAGEMENT AUDIT**

**Time allowed-3hrs**

**Full Marks: 100**

**Working Notes should form part of the answer.**

**—Wherever necessary, suitable assumptions should be made and indicated in answer by the candidates.**

**1. Answer the four Questions [15×4=60]**

**(a) (i)** What are the steps to be taken by the cost auditor to ensure proper maintenance of cost records? **[12]**

**(ii)** What are the key features of Cost Audit? **[3]**

**(b) (i)** Discuss the basis of apportionment for primary distribution of overhead. **[9]**

**(ii)** As a cost accountant of a manufacturing company, how would you deal with over and under absorption of overhead? **[6]**

**(c)(i)** List out the records to be maintained by companies to which Cost Accounting Record Rules, 2011 is applicable? **[9]**

**(ii)** What are the benefits of cost information as per the expert committee of India? **[6]**

**(d) (i)** As a cost auditor of a company, how would you deal with the following issues –

A. Valuation of Stock of work-in-progress and finished goods;

B. Treatment of Joint Products and By-Products.

C. Treatment of Scrap and Waste **[3×3 = 9]**

**(ii)** What are the disqualifications of a Cost Auditor? **[6]**

**(e) (i)** State the meaning of Captive Consumption. What types of goods covered under CAS-4? **[9]**

**(ii)** As a Cost Auditor of a company how would you deal with treat the head office expenses of a company? **[6]**

**(2) Answer any two questions [10×2=20]**

**(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. **[10]**

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**(b)(i) Analytical procedure is a pre-requisite procedure for an audit. Comments [5]**

**(ii) What are the areas need to be examined by the management auditor of the company to evaluate the adequacy of Budgetary Control System? [5]**

**(c)(i) Explain the objects of Management Audit? [5]**

**(ii) Explain the need for capacity determination of an organisation in India. [5]**

### **(3) Answer any two questions [10×2=20]**

**(a) The Balance Sheets of Sun Ltd for the last 3 years read as follows:**

	₹ in lakhs		
	As on 31 March 2012	As on 31 March 2013	As on 31 March 2014
<b>Sources of Fund:</b>			
Share Capital [Share of ₹10 each]	2,200	2,200	3,200
Securities Premium	1,900	2,000	700
Reserves [After 10% Dividend]	1,900	2,100	1,900
Long-term Loan	1,750	1,550	2,600
<b>Total Funds</b>	<b>7,750</b>	<b>7,850</b>	<b>8,400</b>
<b>Represented by:</b>			
Fixed Assets	2,800	3,200	3,500
Less: Depreciation	800	1,050	1,300
	2,000	2,150	2,200
Capital WIP [work-in-progress]	1,000	1,100	1,200
Investment	600	700	650
<b>A.</b>	<b>3,600</b>	<b>3,950</b>	<b>4,050</b>
<b>Net Current Assets:</b>			
<b>Current Assets:</b>			
Debtors	1,800	1,950	2,150
Stock	1,900	2,050	2,700
Cash & Bank	800	800	800
Others	550	750	1,800
	5,050	5,550	7,450
Less: Current Liabilities	900	1,650	3,100
<b>B.</b>	<b>4,150</b>	<b>3,900</b>	<b>4,350</b>
<b>Total Assets [A+B]</b>	<b>7,750</b>	<b>7,850</b>	<b>8,400</b>
<b>Sales [excluding Excise Duty and Sales Tax @ 20%]</b>	<b>4,050</b>	<b>4,200</b>	<b>5,400</b>

I. Calculate & analyse for the year 2012-13 and 2013-14:

- i. Fixed Asset Turnover Ratio
- ii. Stock Turnover Ratio
- iii. Debtors' Turnover Ratio in terms of number of days'
- iv. Debt-Equity Ratio
- v. Current assets to current liability

II. Briefly comment on the performance of the company.

**(10 Marks)**

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**(b)** Niraj Textiles Ltd. has been having low profits. A special task force appointed for reviewing performance and prospects has the following to report:

The company has 1,200 looms working 2 shifts per day. There are 25 sections of 48 looms each. Each section has 24 weavers and a jobber. Thus there are 1,250 direct labourers, other than indirect labourers and service hands. The working time is between 7 a.m. and 12 mid-night, comprising 2 shifts of 8 hours each, with half hour interval between shifts. The production is 18 lakh metres per month and the realization is ₹3 per metre. The average wage of the direct labourer is ₹800 per month and the fixed costs amount to ₹2,00,000 per month. The product cost is ₹2.25 per metre in addition to direct wages.

The following suggestions are to be considered:

- (i) Labour productivity can be improved by changing the layout of the machines.
- (ii) Given the space available, with the proposed change in layout, only 1,008 looms can be re-installed, with 48 looms in each section.
- (iii) Technically, a section of 48 looms can be run with 12 weavers, a helper and a jobber. It will be necessary to increase the age of direct labour, for such sections, by ₹110 per head per month. There will be some drop in production per loom. The company is not for retrenchment of labour.
- (iv) The company can run a third shift between 12 mid-night and 7 a.m., with a half hour interval. However, for the six and half hours' work, eight hours' wage will have to be paid.
- (v) Only 18 lakh metres can be sold at the present price of ₹3 per metre. There is an export offer for ₹4.5 lakh metres at ₹2.70 per metre.
- (vi) As an initial step, the company can switch to 3 shift working, with 12 sections having 25 direct labourers each and 9 sections having 14 direct labourers each. Progressive conversion to 14 hands per section, for all sections, can be planned, as direct labourers retire or voluntarily leave the job. The production with three shift working will be 22.5 lakh metres. Additions to fixed costs will amount to ₹60,000 per month.

Examine the implications of the proposals for the company's profits and give your advice.

**(10 Marks)**

**(c)(i)** Manufacture's specification capacity for a machine per hour = 1550 units

No. of shifts (each shift of 8 hours each) = 3 shifts

Paid holidays in a year (365 days):

Sundays            52 days

Other holidays    8

Annual maintenance is done during the 8 other holidays.

Preventive weekly maintenance is carried on during Sundays.

Normal idle capacity due to lunch time, shift change etc =1 hour.

Production during last five years = 76.20, 88, 65.82, 78.5, 76.6 lakhs units

Actual production during the year = 76.40 lakhs units.

Calculate Installed capacity, Available capacity, Actual capacity, Idle capacity and Abnormal idle capacity as per CAS 2 from the data given.

**(6 Marks)**

**(ii)** A chemical manufacturing unit uses ingredient 'Q' as the basic material. The cost of the material is ₹ 20 per kg and the Input-Output ratio is 120%. Due to a sudden shortage in the market the material becomes non-available and the unit is considering the use of one of the following substitutes available:

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Materials	Input - Output Ratio	₹/ per Kg
B1	135%	26
B2	115%	30

You are required to recommend which of the above substitutes is to be used.

**(4 Marks)**