

PAPER – 19: COST AND MANAGEMENT AUDIT

MTP_Final_Syllabus 2012_Dec2015_Set 1

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

| | Learning objectives | Verbs used | Definition |
|----------------|--|---------------------------|---|
| LEVEL C | KNOWLEDGE What you are expected to know | List | Make a list of |
| | | State | Express, fully or clearly, the details/facts |
| | | Define | Give the exact meaning of |
| | COMPREHENSION What you are expected to understand | Describe | Communicate the key features of |
| | | Distinguish | Highlight the differences between |
| | | Explain | Make clear or intelligible/ state the meaning or purpose of |
| | | Identify | Recognize, establish or select after consideration |
| | APPLICATION How you are expected to apply your knowledge | Illustrate | Use an example to describe or explain something |
| | | Apply | Put to practical use |
| | | Calculate | Ascertain or reckon mathematically |
| | | Demonstrate | Prove with certainty or exhibit by practical means |
| | | Prepare | Make or get ready for use |
| | | Reconcile | Make or prove consistent/ compatible |
| | ANALYSIS How you are expected to analyse the detail of what you have learned | Solve | Find an answer to |
| | | Tabulate | Arrange in a table |
| | | Analyse | Examine in detail the structure of |
| | | Categorise | Place into a defined class or division |
| | | Compare and contrast | Show the similarities and/or differences between |
| | | Construct | Build up or compile |
| | SYNTHESIS How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning | Prioritise | Place in order of priority or sequence for action |
| | | Produce | Create or bring into existence |
| | | Discuss | Examine in detail by argument |
| | EVALUATION How you are expected to use your learning to evaluate, make decisions or recommendations | Interpret | Translate into intelligible or familiar terms |
| Decide | | To solve or conclude | |
| Advise | | Counsel, inform or notify | |
| | | Evaluate | Appraise or assess the value of |
| | | Recommend | Propose a course of action |

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 any four Questions [15×4=60]

(a)(i) What are the principles of measuring 'overheads' as per CAS 3? **[5]**

(ii) As a cost auditor of the company, what are the areas required to be check with regards to IT environment and controls? **[5]**

(iii) A company is engaged in construction of residential housing, offices, industrial units, Roads, Bridges, Marine facilities etc. having sites in India and abroad. The company also has Joint venture projects in India and abroad. Whether Companies (Cost Records and Audit) Rules 2014 would be applicable to the company? **[5]**

(b)(i) What are the factors need to be considered by the auditor of the company while formulating the audit strategy? **[7]**

(ii) A company has units in SEZ and in non-SEZ areas. The Companies (Cost Records and Audit) Rules, 2014 has exempted companies operating in special economic zones from cost audit. What would be applicability of the Companies (Cost Records and Audit) Rules, 2014 on such a company in respect of maintenance of cost accounting records and cost audit? **[5]**

(iii) State the factors on which content and form of audit documentation will depend? **[3]**

(c)(i) The particulars relating to the import of Sealing Ring made by B. Gupta & Co. during December, 2014 are given below:

- Sealing Ring - 2,000 pieces invoiced £ 2.00 C.I.F. Mumbai Port.
- Customs duty was paid @ 100% on invoice Value (which has converted to Indian currency by adopting an exchange rate of ₹ 90.20 per £)
- Clearing charges - ₹5,000 for the entire consignment, and'
- Freight charges - ₹3,400 for transporting the consignment from Mumbai Port to factory premises.

It was found on inspection that 100 pieces of the above material were broken and, therefore, rejected.

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There is no scrap value for the rejected part. No refund for the broken material would be admissible as per the terms of contract. The management decided to treat 60 pieces as normal loss and the rest 40 pieces as abnormal loss. The entire quantity of 900 pieces was issued to production.

Calculate

- I. Total cost of material, and
- II. Unit cost of material issued to production.

Also state briefly how the value of 100 pieces rejected in inspection will be treated in costs. **[4]**

(ii) How would you assign administrative overheads as per CAS 11? **[3]**

(iii) "Risk of material misstatement at the assertion level consists of two components" – explain. **[8]**

(d)(i) A consignment consisted of two chemicals A and B. The invoices gave the following data:

| | | |
|--|---|---------------|
| Chemical A – 8,000 lb. @ ₹ 5.00 per lb | ₹ | 40,000 |
| Chemical B – 6,400 lb. @ ₹ 6.50 per lb | ₹ | 41,600 |
| Sales Tax @4% | ₹ | 3,264 |
| Railway Freight | ₹ | 1,536 |
| Total Cost | ₹ | <u>86,400</u> |

A shortage of 400 lb in A and 256 lb. in B was noticed due to breakage. What stock rate you would adopt for pricing issues assuming a provision of 5% towards further deterioration. **[6]**

(ii) An advertising agency has received an enquiry for which you are supposed to submit the quotation. Bill of material prepared by the production department for the job states the following requirement of material:

Paper 10 reams @ ₹ 2,500 per ream

Ink and other printing material ₹ 10,000

Binding material & other consumables ₹ 6,000

Some photography is required for the job. The agency does not have a photographer as an employee. It decides to hire one by paying ₹10,000 to him. Estimated job card prepared by production department specifies that service of following employees will be required for this job:

Artist (₹ 12,000 per month) 80 hours

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Copywriter (₹ 10,000 per month) 75 hours

Client servicing (₹ 9,000 per month) 30 hours

The primary packing material will be required to the tune of ₹ 4,000. Production Overheads 40% of direct cost, while the S & D Overheads are likely to be 25% on Production Cost. The agency expects a profit of 20% on the quoted price. The agency works 25 days in a month and 6 hours a day. **[6]**

(iii) How would you treat repairs and maintenance costs not traceable to a cost object as per CAS 12? **[3]**

(e)(i) The following figures were extracted from the Trial Balance of a company as on 31st December 2014.

| Particulars | Debit (₹) | Credit (₹) |
|--|-----------|------------|
| <u>Inventories</u> | | |
| Raw Material | 2,40,000 | |
| WIP | 3,00,000 | |
| FG | 1,80,000 | |
| Office Appliances | 17,400 | |
| Plant and Machinery | 4,60,500 | |
| Buildings | 2,00,000 | |
| Sales | | 7,68,000 |
| Sales Returns | 14,000 | |
| Material purchased | 3,20,000 | |
| Freight on materials | 16,000 | |
| Purchase returns | | 4,800 |
| Direct labour | 1,60,000 | |
| Indirect labour | 18,000 | |
| Factory supervision | 10,000 | |
| Factory repairs & upkeep | 14,000 | |
| Heat, light & power | 65,000 | |
| Rates & taxes | 6,300 | |
| Misc factory expenses | 18,700 | |
| Sales commission | 33,600 | |
| Sales travelling | 11,000 | |
| Sales Promotion | 22,500 | |
| Distribution department salaries & wages | 18,000 | |
| Office salaries | 8,600 | |
| Interest on borrowed funds | 2,000 | |

Further details are given as follows:

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Closing inventories are Material ₹ 2,80,000, WIP ₹ 2,92,000 & FG ₹2,15,000.

Accrued expenses are Direct Labour ₹ 8,000, Indirect Labour ₹ 1,200 & interest ₹ 2,000.

Depreciation should be provided as 5% on Office Appliances, 10% on Machinery and 4% on Buildings.

Heat, light and power are to be distributed in the ratio of 8:1:1 among factory, office and distribution respectively.

Rates & taxes apply as 2/3rd to the factory and 1/3rd to office.

Depreciation on building to be distributed in the ratio of 8:1:1 among factory, office and distribution respectively

Prepare a Cost Sheet statement as per CAS 22 showing all important components. **[6]**

(ii) What is the procedure for appointment of cost auditor under the Companies Act, 2013? **[4]**

(iii) Revised Form CRA-2 has been made available by the Ministry of Corporate Affairs conforming to the Companies (Cost Records and Audit) Rules, 2014 on 31st December, 2014.

What are the required attachments to Form CRA-2? **[2]**

(iv) How would you treat Separation cost due to voluntary retirement, retrenchment, termination etc. as per CAS 7 related to Employee Cost? **[3]**

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

(a) JPS & Co., a cost audit firm, appointed as an internal auditor of the company ABC LTD. for the audit of revenue for the financial year 2014-15. How would you verify the same if you, as a cost accountant, are responsible for conduct the audit of the same? **[10]**

(b) Give brief notes on -

(i) Operational Audit of Research and Development Activities.

(ii) Operational Audit of Marketing Function. **[2×5=10]**

(c) As an operational auditor of the company, how would you evaluate the performance of a company? **[10]**

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

(a) The following is the abridged Balance Sheet of Well Batteries Ltd:

| | ₹ in lacs | |
|---------------------------------------|--------------|--------------|
| | 31.3.2015 | 31.3.2014 |
| Liabilities: | | |
| Share Capital | 650 | 650 |
| Debenture Redemption Reserve | 25 | 30 |
| Capital subsidy from State Government | 30 | 30 |
| Revaluation Reserve | 125 | 140 |
| General Reserve | 160 | 120 |
| Balance in Profit and Loss A/c | 48 | 32 |
| Secured Loans | 275 | 295 |
| Unsecured Loans | 123 | 117 |
| | <u>1,436</u> | <u>1,414</u> |
| Assets: | | |
| Gross Block | 725 | 680 |
| Accumulated Depreciation | (315) | (290) |
| Capital WIP | 43 | 37 |
| Investments | 365 | 365 |
| Current Assets: | | |
| Inventories | 417 | 441 |
| Sundry Debtors | 182 | 195 |
| Advances for Capital Equipment | 24 | 17 |
| Other Loans & Advances | 144 | 137 |
| Cash and Bank Balances | 21 | 19 |
| Current Liabilities: | | |
| Sundry Creditors | | |
| For Capital Expenses | (17) | (21) |
| For others | (185) | (197) |
| Provision for Taxes | (64) | (71) |
| Misc. Expenses | 96 | 102 |
| Total | <u>1,436</u> | <u>1,414</u> |

Notes:

- (i) Fixed Assets include Goodwill and Patents ₹122 lacs (Previous year ₹137 lacs)
- (ii) Term loans due for repayment within 12 months are ₹96 lacs (Previous year ₹ 84 lacs)

Calculate & analyse the following for the company as a whole:

- (i) Capital Employed for the year ended 31.3.15
- (ii) Net worth as on 31.3.14 and 31.3.15
- (iii) Debt/ Equity Ratio as on 31.3.2015

[10]

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(b) (i) The management of Star Ltd. is worried about their increasing labour turnover in the factory and before analyzing the causes and taking remedial steps, they want to have an idea of the profit foregone as a result of labour turnover in the last year.

Last year sales amounted to ₹83,03,300 and the P/V Ratio was 20%. The total number of actual hours worked by the direct labour force was 4.45 lakhs. As a result of the delays by the personnel department in filling vacancies due to labour turnover, 1,00,000 potentially productive hours were lost. The actual direct labour hours included 30,000 hours attributable to training new recruits, out of which half of the hours were unproductive.

An analysis of costs incurred consequent on labour turnover revealed the following:

| | |
|--------------------------------|---------|
| Settlement cost due to leaving | ₹73,820 |
| Recruitment Costs | ₹46,740 |
| Selection Costs | ₹42,750 |
| Training Costs | ₹50,490 |

Assuming that the potential lost as a consequence of labour turnover could have been sold at prevailing prices. Find out the profit foregone last year on account of labour turnover. **[6]**

(ii) From the following figures decide whether it is worthwhile to investigate the variance:

| | ₹ |
|--|--------|
| 1. Cost of investigation of variance | 8,400 |
| 2. Cost of correction of out-of-control process | 20,000 |
| 3. Cost of allowing the process to remain out of control | 95,000 |
| 4. Probability of being in control | 0.90 |

[4]

(c)(i) A chemical manufacturing unit uses ingredient 'A' as the basic material. The cost of the material is ₹ 25 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:

| 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.

[5]

(ii) X Ltd presented the following particulars on 31.3.2015.

You are asked to compute the Inventory Turnover Ratio of each material:

| | Material X | Material Y |
|-------------------------|------------|------------|
| | ₹ | ₹ |
| Stock (as on 1.4.2014) | 18,000 | 24,000 |
| Purchases | 60,000 | 1,00,000 |
| Stock (as on 31.3.2015) | 24,000 | 32,000 |

[5]