

**PAPER – 19: COST AND MANAGEMENT AUDIT**

## MTP\_Final\_Syllabus 2012\_Dec2015\_Set 2

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

	<b>Learning objectives</b>	<b>Verbs used</b>	<b>Definition</b>
<b>LEVEL C</b>	<b>KNOWLEDGE</b>  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
	<b>COMPREHENSION</b>  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
		Illustrate	Use an example to describe or explain something
	<b>APPLICATION</b>  How you are expected to apply your knowledge	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
		Solve	Find an answer to
	<b>ANALYSIS</b>  How you are expected to analyse the detail of what you have learned	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
		Prioritise	Place in order of priority or sequence for action
	<b>SYNTHESIS</b>  How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning	Produce	Create or bring into existence
		Discuss	Examine in detail by argument
		Interpret	Translate into intelligible or familiar terms
Decide		To solve or conclude	
<b>EVALUATION</b>  How you are expected to use your learning to evaluate, make decisions or recommendations	Advise	Counsel, inform or notify	
	Evaluate	Appraise or asses 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 the four Questions [15×4=60]**

**(a)(i)** FTR Ltd. has two divisions. Division – I is involved in manufacturing of Railway and tramway locomotives & Division – II is involved in providing after sale service to their customer. His Aggregate annual turnover from manufacturing division is ₹ 80 crores and annual receipts from service division is ₹ 35 crores. State whether Companies (Cost Records and Audit) Rules, 2014 is applicable to the company? **[5]**

**(ii)** ABC Ltd is a manufacturer of Steel since 1<sup>st</sup> December, 2012. The aggregate turnover of the product during the immediately preceding financial year is ₹ 34 crore. During the current financial year 2014-15 his turnover is ₹ 120 crore. You as a Cost Accountant, suggest whether any Cost Records is required to be maintained by ABC Ltd for the financial year 2014-15? **[5]**

**(iii)** Explain the procedure for appointment of a Cost Auditor of the Company? **[5]**

**(b)(i)** X Ltd. which absorbs overheads at a pre-determined rate, provides the following information: overheads actually incurred ₹4,50,000; overhead absorbed ₹3,00,000. It was found that 60% of the unabsorbed overheads were due to defective planning. How would unabsorbed overheads due to defective planning be treated in cost accounts? **[3]**

**(ii)** Distinguish between cost allocation and cost absorption. **[2]**

**(iii)** In a manufacturing concern 20 workmen work in a group. The concern follows a group incentive bonus system whereby each workman belonging to the group is paid a bonus on the excess output over the hourly production standard of 250 pieces, in addition to his normal wages at hourly rate. The excess of production over the standard is expressed as a percentage and 2/3 of this percentage is considered to be the share of the workman and is applied on the notional hourly rate of ₹6.00 (considered only for purpose of computation of bonus). The output data for a week are stated below:

Days	Man hours worked	Output (in pieces)
Monday	160	48,000
Tuesday	172	53,000
Wednesday	164	43,000
Thursday	168	52,000
Friday	160	46,000
Saturday	160	42,000
	984	2,84,000

## MTP\_Final\_Syllabus 2012\_Dec2015\_Set 2

---

You are required to:

- (I) Work out the amount of bonus for the week and the average rate at which each workman is to be paid the same.
- (II) Compute the total wages including bonus payable to Ram Jadav who worked for 48 hours at an hourly rate of ₹ 2.50 and to Francis Williams who worked for 52 hours at an hourly rate of ₹ 3.00. [5]

**(iv)** State the nature and purpose of Cost Auditing Standard on Cost Audit Documentation – 102. [5]

**(c)(i)** The Companies Act, 2013 has introduced provision regarding rotation of auditors. Is the provision of rotation of auditors applicable to cost auditors also? [6]

**(ii)** A manufacturing unit produces two products 'A' and 'B'. The following information is furnished:

Particulars	Product A	Product B
Units produced ( Qty)	25,000	20,000
Units Sold (Qty)	20,000	17,000
Machine Hours utilised	10,000	5,000
Design charges	15,000	18,000
Software development charges	24,000	36,000

Royalty paid on sales ₹1,11,000 [@ ₹3 per unit sold, for both the products]; Royalty paid on units produced ₹45,000 [@₹1 per unit purchased, for both the products], Hire charges of equipment used in manufacturing process of Product 'A' only ₹5,000, Compute the Direct Expenses. [5]

**(iii)** What are the duty liabilities of a Cost Auditor of an Company relating to reporting of frauds identified during audit? [4]

**(d)(i)** The maximum period prescribed for presenting Cost Audit Report is 180 days from date of close of the financial year. If Financial Accounts of a company is not ready before the stipulated time period, how cost audit report will be completed reconciled with the financial books of the company? [5]

**(ii)** Purchase of Materials ₹ 2,40,000 (inclusive of Trade Discount ₹ 3,000); Fee on Board ₹10,000; Import Duty paid ₹ 15,000; Freight inward ₹ 20,000; Insurance paid for import by sea ₹12,000; Rebates allowed ₹ 4,000; Cash discount ₹ 3,000; CENVAT Credit refundable ₹ 7,000; Subsidy received from the Government for importation of these materials ₹ 18,000. Compute the landed cost of material (i.e. value of receipt of material). [5]

**(iii)** Explain the statement with the help of Cost Auditing Standard – 101 "Cost Auditor includes audit partner". [3]

**(iv)** How would you determine the cost of utilities generated for inter company transfers as per CAS 8? [2]

**(e)(i)** How will you treat the following items in the Cost Accounting Records?

- (I) CENVAT availed as credit on purchased raw materials.
- (II) Voluntary Retirement Compensation paid to workers included under 'wages'.

## MTP\_Final\_Syllabus 2012\_Dec2015\_Set 2

---

- (III) Profit on sale of fertilizers to cane growers by a sugar company.  
(IV) Commission paid to the Managing Director as a percentage of profit.  
(V) Interest received on security deposit with the Electricity Board.

**[10]**

**(ii)** There was a strike from 13.09.2014 to 16.11.2014 in a company of which you were the Cost Auditor for the year ending 31.03.2015. Although the company began working from 17.11.2014, production could effectively begin only from 5.12.2014. The expenses incurred during the year ended 31.03.2015 were:

	(₹ in lakhs)
Salaries & Wages (direct)	450
Salaries & Wages (indirect)	300
Power (variable)	180
Depreciation	270
Other Fixed Expenses	360

Detailed examination of the records reveals that of the above, the following relate to the period 13.09.2014 to 16.11.2014:

	(₹ in lakhs)
Salaries & Wages (indirect)	105
Depreciation	90
Other Fixed Expenses	135

Calculate the amount which in your opinion should be treated as abnormal for exclusion from the product costs. **[5]**

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

**(a)(i)** What are the objectives and responsibility as an internal auditor of a company for "Consideration of law and regulation in an Internal Audit? **[5]**

**(ii)** How the work of an expert should be evaluated by auditor before accepting the same as Audit evidence? **[5]**

**(b)(i)** What are the qualities and functions of a Management Auditor? A Management Audit team should be multidimensional. Discuss and elucidate. **[5]**

**(ii)** A nationalized bank which has extended cash credit to a manufacturing company on the security of the inventory holding, is periodically receiving stock statements from the company indicating the value of stocks held. The company is sick and the Bank wants to reassure itself that its loans are fully covered by stocks. You have been appointed by the Bank to certify the value of the inventory. How would you proceed to conduct the 'inventory audit?' **[5]**

**(c)(i)** What is productivity audit? Describe the steps involved and the measures used in this audit. **[5]**

(ii) You are the Management Auditor of a large manufacturing company suffering from working capital crunch. What are the related areas which you would probe into to overcome the company's problem. [5]

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

(a) A firm can produce three different products from the same raw material using the same production facilities. The requisite labour is available in plenty at ₹8 per hour for all products. The supply of raw material, which is imported at ₹8 per kg., is limited to 10,400 kgs. for the budget period. The variable overheads are ₹5.60 per hour. The fixed overheads are ₹40,000. The selling commission is 10% on sales.

(i) From the following information, you are required to suggest the most suitable sales mix, which will maximize the firm's profit. Also determine the profit that will be earned at that level:

Product	Market demand (units)	Selling price per unit (₹)	Labour hours required per unit	Raw material required per unit (kgs.)
X	8,000	30	1	0.7
Y	6,000	40	2	0.4
Z	5,000	50	1.5	1.5

(ii) Assume, in above situation, if additional 4,500 kgs. of raw material is made available for production, should the firm go in for further production, if it will result in additional fixed overheads of ₹20,000 and 25 per cent increase in the rates per hour for labour and variable overheads. [10]

(b)(i) From the following information as extracted from the books of P Ltd, ascertain the amount of Capital Employed in the business:

	₹
Equity Share Capital	5,00,000
Preference Share Capital	3,00,000
Securities Premium	40,000
General Reserve	1,30,000
Profit & Loss A/c (Cr.)	90,000
Capital Reserve	30,000
10% Debentures	2,00,000
12% Bank Loan	1,00,000
Sundry Creditors	55,000
Bills Payable	25,000
Preliminary Expenses	50,000
Discount on Issue of Shares	20,000

[5]

(ii) Manufacture's specification capacity for a machine per hour = 1800 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 days

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 =1hour.

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

## MTP\_Final\_Syllabus 2012\_Dec2015\_Set 2

---

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. [5]

(c) The Balance Sheet of Akash Ltd. stood as follows as on:

(₹ in Lakhs)

Liabilities	31 March 2015	31 March 2014	Assets	31 March 2015	31 March 2014
Capital	500	500	Fixed Assets	800	600
Reserves	232	200	Less: Depreciation	280	200
Loans	200	240		520	400
Creditors & Others			Investment	80	60
Current Liabilities	258	50	Stock	240	200
			Debtors	140	100
			Cash & Bank	40	40
			Other Current assets	50	50
			Miscellaneous Expenditure	120	140
	1,190	990		1,190	990

You are given the following information for the year 2014-15:

	₹ in Lakhs
Sales	1,200
Profit before Interest & Tax	300
Interest	48
Provision for Tax	120
Proposed Dividend	100

Required:

- i. Calculate for the year 2014-15:
  - 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 Akash Ltd.

[10]