

MTP_Final_Syllabus 2012_Jun2014_Set 1

Paper-19 - COST AUDIT & MANAGEMENT AUDIT

Time allowed-3hrs

Full Marks: 100

The figures in the margin on the right side indicate full marks.

The paper is divided in three sections.

From Section A answer any four questions (4x15=60 marks)

From Section B answer any two questions (2x10=20 marks)

From Section C answer any two questions (2x10=20 marks)

Working Notes should form part of the Answer.

“Wherever necessary, suitable assumptions should be made and indicated in answer by the candidates”

Section A

Answer any four Questions [4x15=60]

1. (a) Write short note on - True and Fair Cost of Production. [5]
- (b) State the provision for maintaining cost records in case of company having its branch both within and outside India. [6]
- (c) (i) What do you understand by the term “Pollution Control” as per CAS-14?
(ii) How would you assign administrative overheads as per CAS-11? [2+2=4]
2. (a) (i) State the applicability of Companies (Cost Accounting Record) Rules,2011;
(ii) Define - Product ; Manufacturing Activity ; Turnover, as per the Companies (Cost Accounting Record) Rules,2011. [3+(1+2+1)]
- (b) How do you define a Service Cost Centre according to CAS-13? [3]
- (c) X Ltd. claims “Turnover” for the purpose of Cost Records to be ₹20,00,00,000 for the financial year 2013-14. The company claims that since the turnover has not exceeded ₹20 crores during the financial year, they are excluded from the ambit of maintaining cost accounting records. The company is listed not listed in any stock exchange and has a net worth of ₹4 crores. On examination of financial records, the following relevant information was identified:

Particulars	Amount (₹)
Income from Operating Activities - Sale of Goods (exclusive of taxes)	5,00,00,000
- Rendering of Services	15,00,00,000 (inclusive of service tax)
Income from Job Work	2,17,93,000
Income from Loan License operations	1,43,45,000
Subsidies received from the Government	41,50,000
Export Incentives received from Government	31,20,000
Profit on sale of Non-current Assets	12,50,000
Discount received in Cash from Vendor (15 days after full payment was made)	3,20,000

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Calculate "Turnover" as per Companies (Cost Accounting Record) Rules,2011.

[5]

3. (a) (i) State the areas covered under Cost Accounting Policy in the light of Companies (Cost Audit Report) Rules,2011.

(ii) Discuss the provisions relating to " Ceiling on Number of Cost Audits" as per Companies Act,1956. **[5+6]**

(b) In the case of sugar industry, the installed capacity is always expressed as cane crushing capacity per day. How would you measure the installed capacity of sugar? **[4]**

4. (a) Z Ltd. furnished the following information related to the net margin (profit/loss) as per cost records, which is different from such as per financial records.

Particulars	Prod A	Prod B	Prod C	Prod D	S1	S2	S3
Product/Service Group	0401	0401	0405	0405	XA	XB	XB
Turnover (excluding Excise Duty and/or other statutory levies (₹ crores))	10.50	11.25	14.75	18.60	3.69	7.91	12.45
Cost of Sales (₹ crores)	8.39	9.98	11.37	21.75	2.08	4.27	8.67
Margin (₹crores)	2.11	1.27	3.38	(3.15)	1.61	3.64	3.78

Other information:

(i) Discount allowed by vendor was subsequently received in cash for products A,B,C & D to the extent of ₹0.15 crores; ₹0.07 crores; ₹0.02 crores and ₹0.07 crores respectively, not considered in cost accounts.

(ii) Premium on forward contract for Product A ₹0.03 crores not considered in cost accounts;

(iii) Liquidated damages paid to vendor for Product A - ₹0.15 crores not considered in cost accounts;

(iv) Dividends received on investment outside the business ₹0.30 crores considered in financial records only;

(v) Profits on sale of non-current assets ₹ 0.15 crores considered in financial accounts only;

(vi) Unabsorbed Administrative Overheads due to under-utilization of capacities ₹0.27 crores not considered in cost accounts;

(vii) Margin from Trading Activities ₹4.05 crores both as per financial and cost records;

(viii) Value of Stock

Value of Stock as per	As per Cost Records	As per Financial Records
Opening Balance	3.98 crores	4.15 crores

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Closing Balance	2.67 crores	2.12 crores
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Prepare Margin (Profit/Loss) Reconciliation Statement considering cost accounts and financial accounts. **[12]**

(b) A company has produced all the cost accounting records within the stipulated time for your audit. It however is unable to produce audited financial accounts, as financial audit is not complete. **[3]**

5. **(a)** Write a note on Cost Audit and Assurance Standards Board . **[4]**

(b) How would you treat the following as per CAS-9 related to Packing Material Cost?

(i) Primary and Secondary packing material cost.

(ii) Self manufactured packing material.

(iii) The forex component of imported packing material. **[2×3=6]**

(c) Describe the information to be collected before starting Cost Audit for the first time in a Company ? **[5]**

Section B

Answer any two Questions [2x10=20]

6. **(a)** Outline the Internal Control aspects in relation to Fixed Assets. **[6]**

(b) Distinguish between Financial Audit and Operational Audit. **[4]**

7. What are the Characteristics of a good Performance Appraisal Report? **[10]**

8. "To-day's customer is the more demanding than the customer of yesterday"- In view of this how would you evaluate, as a Management Auditor, the performance of " Customer Services Department". **[10]**

Section C

Answer any two Questions [2x10=20]

9. A company undertakes manufacture of Steel Pipes and Steel Tubes. Its sales and profit data for the financial year ended 31st March, 2014 are :

Total Net Sales ₹2,70,40,000

Gross Profit ₹59,20,000

Net Profit ₹17,70,000

The Balance Sheet as at 31st March, 2014 (not in Revised Schedule VI)

Liabilities	₹ (crores)	Assets	₹ (crores)
Capital	1,14,00	Cash in hand	1,20
Reserves and Surplus	17,70	Cash at Bank (SBI)	10,20

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Secured Loans (IFCI)	1,77,30	Bills Receivables	1,90
Unsecured Loans	52,00	Sundry Debtors	90,00
Sundry Creditors	37,40	Finished Goods—	
		Pipes & Tubes	31,20
Outstanding Liabilities :		Work-in-Progress	15,50
Rent for March' 14	1,00	Raw Materials - H.R. Skelp	8,20
Salaries for March' 14	60	- C.R. Sheets	4,20
Power Charges	10	Deposits (long term)	27,00
Telephone Charges	10	Income Tax paid in advance	1,00
Bonus	1,90	Furniture	30
		Buildings	77,60
		Plant & Machinery	1,33,80
	4,02,10		4,02,10

(i) You are required to calculate —

- a. Current Ratio,
 - b. Acid-test Ratio,
 - c. Debt-equity Ratio,
 - d. Turnover-fixed Assets Ration,
 - e. Net working Capital-Turnover Ratio,
 - f. Return on Capital Employed Ratio,
 - g. Net Profit Turnover Ratio,
 - h. Value of Production to Net Worth Ratio, and
- Offer your comments against each.

(ii) Can you draw any conclusions from the study of the ratios ?

[10]

10. (a) In a factory, the production department has worked at 50% of its normal capacity on account of shortages of skilled labour and raw materials during the year. The cost records contain the following information among other :

Particulars	Amount (₹)	Amount (₹)
Direct Labour Cost		5,00,000
Works Overhead - Fixed	2,00,000	
Works Overhead- Variable	2,50,000	4,50,000

The company charges the works overhead to work -in-process as a percentage of direct labour cost. Accordingly, its Accounts Officer claims that 90% should be charged ; whereas you (as a cost auditor) claim that it should be much than this.

- A. Establish your claim with reasons, and
- B. Give your opinion, if any.

[4]

(b) Following are the sales and cost data of a manufacturing firm for two years :

Particulars	2012-13 (₹crores)	2013-14 (₹crores)
Mfg. Cost of goods sold	14.5	16.0

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Selling expenses	0.9	1.2
Administration expenses	1.2	1.5
Financial Charges	0.4	0.3
Excise Duty	2.0	2.0
Sales (including excise)	20.0	22.0

Required : (i) Prepare a Profit Variation Statement and (ii) Account for the cause-wise changes in profit. **[6]**

11. M/s. Zenith Steel Tube co. Ltd. manufactured three products, A, B and C during the year 2011-12. From the cost records of the company, the following information is extracted :

- (a) The total of material and labour costs per unit of each product was ₹20 only.
 (b) The company (for product costing) used an overhead rate of application of ₹2.00 per machine hour, based on the actual works over head of ₹ 6,00,000 and actual machine hours of 3,00,000 as follows :

	4 Hi Mill	Annealing	ERW Mill
Actual Works Overhead (₹)	2,40,000	1,00,000	2,60,000
Actual Machine Hours	1,00,000	1,00,000	1,00,000

(c) Each of these products used the following number of machine hours at the process centres:

	A	B	C
4 Hi Mill	2	1	3
Annealing	2	2	1
ERW Mill	1	2	1
	5	5	5

(d) There was no work-in-progress at the end of the year. There were 2,000, 4,000 Finished Units, respectively, of product A, B and C on hand.

(e) The company fixed the selling prices by adding 40 percent to cover profit and selling and administrative expenses.

As a Cost Auditor of the company, you are required to give your observations and conclusions and illustrate the same with necessary workings. **[10]**