

MTP_Final_Syllabus 2012_Jun2014_Set 2

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) What is the relevance of Cost Audit in India. [9]
- (b) TNT Ltd. has received an enquiry for supply of 2,00,000 numbers of Special Type of Machine Parts. Capacity exists for manufacture of the machine parts, but a fixed investment of ₹80,000 and working capital to the extent of 25% of Sales Value will be required to undertake the job.
- The costs estimated as follows:
- Raw Materials - 20,000Kgs @ ₹2.50 per kg
- Labour Hours- 9,000 of which 1,200 would be overtime hours payable at double the labour rate.
- Labour Rate- ₹ 2 per hour.
- Factory Overhead - ₹ 2 per direct labour hours.
- Selling and Distribution Expenses - ₹ 23,000
- Material recovered at the end of the operation will be ₹6,000 (estimated).
- The Company expects a Net Return of 25% on Capital Employed.
- You are Management Accountant of the Company. The Managing Director requests you to prepare a Cost and Price Statement indicating the price which should be quoted to the Customer. [6]
2. (a) State the objectives of the Cost Audit and Assurance Standards Board. [5]
- (b) List the items to be included and to be excluded while measuring the employee cost as per CAS – 7. [5]
- (c) How are Cost Accounting Standards different from Cost Accounting Records Rules? [5]
3. (a) Comment on the following:
- (i) A company has not maintained cost accounting records though having the obligation under Section 209(1)(d) notification. The management is of the opinion that necessary steps could be taken after the cost audit order is received from Government. Are the Directors of the Company absolved of the obligation to maintain cost accounting records?
- (ii) A company receives the Cost Audit report for a period after filing of the Income Tax Return. Is the company required to submit a copy of the report to the ITO? If yes, what is the period by which the Report must be so filed?

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- (iii) During plant stoppages, the operational labour is being utilized by the company for cleaning, oiling, and such other routine jobs of the same plant. Their wages for the period also are treated as direct wages in cost of production.
- (iv) Sugar mills use bagasse as fuel in the boilers. One sugar mill has not valued bagasse as according to the management it has incurred no cost in acquiring it. What is the requirement under 209(1)(d) regulations relating to sugar? [8]

(b) Following information is available for a textile manufacturing company under cost audit. The following are the process wise wastages on inputs in the year 2013-14.

Process	% age of Wastages on Input
Blow Room	9.18
Carding	7.17
Drawing	1.10
Roving (Simplex)	0.30
Ring Frame (Spinning)	7.21
Reeling and Winding	1.50

From the above, calculate the process wise waste multiplier factor. [7]

4. (a) What are the principles of measuring 'overheads' as per CAS 3? [6]

(b) Opening stock of raw materials (10,000 units) ₹1,80,000; Purchase of Raw Materials (35,000 units) ₹7,00,000; Closing Stock of Raw Materials 7,000 units; Freight Inward ₹1,00,000; Self-manufactured packing material for purchased raw materials only ₹60,000 (including share of administrative overheads related to marketing sales ₹8,000); Demurrage charges levied by transporter for delay in collection ₹11,000; Normal Loss due to shrinkage 1% of materials ; Abnormal Loss due to absorption of moisture before receipt of materials 100 units. [9]

5. (a) ASHLEEN SUGAR MILLS LTD., a sugar manufacturing company, located at Utter Pradesh has a boiler which is used for its own by-product, bagasses as fuel. The steam generated is first used for generation of power and the exhaust steam is used in the process of sugar manufacture. The following details are extracted from the financial accounts and cost accounting records of ASHLEEN SUGAR MILLS LTD for the year ended March 31,2013:

Sugar produced	28,70,000 Quintals
Steam generated and consumed	14,65,000 Tonnes
Fuel (Bagases) consumed for production of steam	6,85,000 Tonnes
Cost of generation of steam including cost of water (other than fuel cost)	₹ 6,45,30,000
Steam used for generation of power	6,20,000 Tonnes
Power purchased from Electricity Board @ ₹ 5.40 per KWH	52,70,000 KWH
Power generated from Steam Turbine	4,85,25,000 KWH
Variable conversion cost of generation of power(excluding cost of steam)	₹ 4,22,18,000

- Notes: (1) The Sale Value of bagasse if sold in the open market is ₹ 1,820 per Tonne.
 (2) The exhaust steam (after generation of power) transferred to sugar manufacturing process is 82% of the cost of production of steam.

Required:

- (i) Prepare two separate Cost Sheet for steam and power.

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(ii) Compute the average Cost of Power.

[(5+4)+3=12]

(b) Define:

(i) 'Installed Capacity'

(ii) 'Idle Capacity'

[2+1=3]

Section B

Answer any two Questions [2x10=20]

6. (a) Discuss the role of Audit Committee.

[8]

(b) What are the rules regarding the meeting of Audit Committee?

[2]

7. (a) Explain whether the following activities amount to professional misconduct on the part of a Cost Accountant:

[2x2=4]

(i) CMA Mitra, a Cost Accountant in practice published a book and gave her personal as an author. These details also mentioned her professional experiences and her association as partner with MKR and Associates, a firm of Cost Accountants.

(ii) M/s. K. Bhatt & Associates, a firm of Cost Accountants in practice, develops a website "bhatt.com". The colour chosen for website was very bright yellow where the names of the partners of the firm along with their various professional attainments and the major clients were to be displayed on the website.

(b) 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?'

[6]

8. 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]

Section C

Answer any two Questions [2x10=20]

9. 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
Debtors	3,190	2,536
Stock	5,934	5,014

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Other Current Assets	3,334	3,008
Less: Current Liabilities	(8,074)	(7,788)
	12,694	9,910

The Income Statement of the M 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 M Ltd.

[1+1+1+2+2+3=10]

10. (a) Manufacture's specification capacity for a machine per hour = 1500 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 =1hour.

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]

(b) A chemical manufacturing unit uses ingredient A as the basic material. The cost of the material is ₹ 40 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
B	135%	52
C	115%	60

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

[4]

11. Jain 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 ₹1,75,000 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 ₹50,000 per month.

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

[3+3+4=10]