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) State the meaning of Captive Consumption. What types of goods covered under CAS-4?

[5]

(ii) As a Cost Auditor of a company how would you dealt with treat the -

(I) Head office expenses of a company;

(II) Treatment of Joint Products and By-Products. **[5+5= 10]**

(b)(i) VRC Ltd. has its own power plant, which has two users, Cutting Department and Welding Department. When the plans were prepared for the power plant, top management decided that its practical capacity should be 1,50,000 machine hours. Annual budgeted practical capacity fixed costs are ₹9,00,000 and budgeted variable costs are ₹4 per machine-hour. The following data are available:

	Cutting Department	Welding Department	Total
Actual Usage in 2013-14 (Machine hours)	60,000	40,000	1,00,000
Practical capacity for each department (Machine hours)	90,000	60,000	1,50,000

Required:

(i) Allocate the power plant's cost to the cutting and the welding department using a single rate method in which the budgeted rate is calculated using practical capacity and costs are allocated based on actual usage.

(ii) Allocate the power plant's-cost to the cutting and welding departments, using the dual – rate method in which fixed costs are allocated based on practical capacity and variable costs are allocated based on actual usage.

(iii) Allocate the power plant's cost to the cutting and welding departments using the dual-rate method in which the fixed-cost rate is calculated using practical capacity, but fixed costs are allocated to the cutting and welding department based on actual usage. Variable costs are allocated based on actual usage.

(iv) Comment on your results in requirements (i), (ii) and (iii). **[10]**

(ii) Basic pay ₹5,00,000; Lease rent paid for accommodation provided to an employee ₹2,00,000, amount recovered from employee ₹40,000, Employer's Contribution to P.F. ₹75,000, Employee's Contribution to P.F. ₹75,000; Reimbursement of Medical expenses ₹67,000, Hospitalisation expenses of employee's family member borne by the employer ₹19,000, Festival Bonus ₹30,000, Festival Advance ₹30,000. Compute the Employee cost. **[5]**

(c) How would you deal the following items in the cost accounts of a manufacturing concern?

(i) Research and Development Cost;
(ii) Packing Expenses;
(iii) Fringe Benefits;
(iv) Expenses on Removal and Re-erection of Machinery;
(v) Training Costs. **[3×5=15]**

(d)(i) Explain the procedures for issue of Cost Accounting Standard (CAS). **[10]**
(ii) Whether finance costs incurred in connection with the acquisition of materials shall form part of material cost? **[5]**

(e)(i) State the needs & elements of planning in a Cost Audit? **[5]**

(ii) Discuss the essential features of a cost accounting system. **[5]**

(iii) What are the objectives and functions of the Cost Audit and Assurance Standards? **[5]**

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

(a)(i) What are the scopes of internal control of a company. **[4]**

(ii) What are the factors need to be considered while designing an internal control system? **[6]**

(b)(i) Explain the main area of operation of an internal audit of a company? **[5]**

(ii) What are the documentations required for an internal audit as per Standard on Internal Audit-3? **[5]**

(c) Prepare the checklist of Purchasing Function. **[10]**

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

(a) Harsh Ltd has the following extract Balance Sheets as on 31 March 2015 and 31 March 2014:

Particulars	₹ in lakhs	
	31 March 2015	31 March 2014
EQUITY AND LIABILITIES:		
Shareholder's Fund	2,677	1,772
Loan Funds	3,470	2,983
	6,147	4,755
ASSETS:		
Fixed Assets	3,566	3,000
Cash & Bank	389	370
Debtors	1,895	1,568
Stock	2,667	2,207
Other Current Assets	1,667	1,504
Less: Current Liabilities	(4,037)	(3,894)
	6,147	4,755

The Income Statement of the Harsh Ltd for the year that ended is as follows:

	₹ in lakhs	
	31 March 2015	31 March 2014
Sales	24,265	14,982
Less: CGS	22,960	13,644
GP	1,305	1,338
Less: Selling, General & Administrative Expenses	1,035	652
Earnings before Interest and Tax (EBIT)	270	686
Less: Interest Expense	113	105
Profit before tax	157	581
Less: Tax	23	192
Profit after Tax	134	389

Required:
(i) Calculate for the year 2014-15:

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 Harsh Ltd. **[10]**

(b) Given below are the abridged balance sheets and profit & loss accounts of SP Spinning Mills Ltd. :

	1998-99	1997-98	1996-97
		(₹ In lakhs)	
Balance Sheet :			
Share capital	245	245	245
Reserves and Surplus	726	1,077	1,313
Long term borrowings	287	180	160
Working capital loans	1,639	451	672
Sundry creditors	1,616	1,255	1,015
Other Provisions	389	315	305
Total	4,902	3,523	3,710
Net block	1,009	541	612
Investments	19	19	19
Current assets :			
Inventory	1,160	1,521	1,641
Book Debts	11	114	172
Loans and advances	2,641	1,286	1,231
	62	42	35
Total	4,902	3,523	3,710
Profit & Loss Account:			
Sales	5,091	3,938	4,215
Other income	446	365	342
Total	5,537	4,303	4,557
Raw materials, stores and spares consumed	3,728	2,775	2,964
Factory wages	162	215	206
Salaries	377	322	295
Power and fuel	826	673	710
Repairs and maintenance:			
Buildings	7	18	15
Plant and Machinery	38	54	48
Vehicles	43	33	24
Depreciation:			

Buildings	11	14	16
Plant and machinery	57	43	48
Vehicles	66	26	30
Interest	277	130	152
Other overheads (excluding salaries and depreciation:)			
Factory overheads	138	94	82
Administrative overheads	71	59	41
Selling and distributing overheads	87	83	80
Loss for the year	(-) 351	(-) 236	(-) 154
Total	5,537	303	4,557
Sales for the year (Kgs.)	43,50,890	34,36,921	37,25,405

The bankers to the company appointed you as a Consultant for identifying the factors which have contributed to the continuing losses. Prepare a short note highlighting the factors which have prima facie led the company to sickness. **[10]**

(c) 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 ₹50,000. 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]**