

**Paper – 19 - Cost and Management Audit**

**Paper – 19 - Cost and Management Audit**

Full Marks : 100

Time allowed: 3 hours

Answer Question No. 1 which is compulsory and carries 20 marks and any five from Question No. 2 to 8.

**Section-A**  
**[20 marks]**

1. Answer the following questions:

(a) Fill in the blanks:

[5×1=5]

- (i) CAS 14 deals with-----
- (ii) Part B of the Annexure to Cost Audit Report provides information for----- sector.
- (iii) As per CAS 2 Actual Capacity utilization shall be presented as a percentage of -----  
----capacity.
- (iv) Propriety audit stands of verification of transactions in the best interest of the -----.
- (v) Section 138 of the Companies Act 2013 deals with provisions of -----.

(b) State whether the following statements are true or false:

[5×1=5]

- (i) Operational Audit is merely extension of Internal Auditing in operational areas.
- (ii) Interest cost should be included in inventory valuation for purposes of bank audit.
- (iii) Productivity Analysis is the evaluation of every resources declared in the industry.
- (iv) "Related party transaction" means transfer of resources or obligations among persons having blood relations.
- (v) Donation given to Charitable Institutions should not form part of Cost Accounts.

(c) Answer any five of the following in one or two sentences:

[5×2=10]

- (i) What is the objective of Cost Auditing Standard 104?
- (ii) In the abridged cost statement, what are Industry specific operating expenses?
- (iii) How do you define 'Depot' under Generally Accepted Cost Accounting Principles?
- (iv) As per CAS 20 how is Royalty and Technical Knowhow fee assigned?
- (v) What is the objective of Consumer Services Audit?
- (vi) How would you treat finance cost directly attributable to packing material as per CAS 9 related to Packing Material Cost?

**Section-B**  
**[ 80 marks]**

**Answer any 5 questions from Question number 2 to 8. Each question carries 16 marks.**

2.(a) (i) What is the meaning of "Turnover" in relation to the Companies (Cost Records and Audit) Rules, 2014?

(ii) SHANHITA LTD., a manufacturing company, producing Industrial chemicals had the following income during the year 2016-17.

Income:	(Amount in ₹ Lakhs)
Sales: Manufactured products	43,750
Traded products	2,830
Income from job Works	780

## MTP\_Final\_Syllabus 2012\_Jun2017\_Set 2

Sale of Defectives	130
Export Incentives	85
Cash Discount Received	35
Note: Sales inclusive of Excise Duty	2,840

Required:

Find out the Turnover of the company as per the Companies (Cost Records and Audit) Rules, 2014. **[2+4=6]**

- (b) The following figures are extracted from the Cost Accounting Records of SINJINI LTD. a single product manufacturing company:

Year ended 31st March	2017	2016
	(Amount in ₹ lac)	
Gross Sales including Excise duty:	5,200	4,160
Excise Duty	400	320
Other Income	300	200
Increase in Value of Stock of Finished Goods	20	10
Raw materials Consumed	1,760	1,440
Direct wages, Salaries, Bonus, Gratuity etc.	440	352
Power & Fuel	240	192
Stores and Spares	160	140
Cess and local Taxes	120	100
Other manufacturing Overheads	430	370
Administrative Overheads:		
Audit fees	36	30
Salaries & Commission to Directors	48	40
Other Overheads	260	220
Selling and Distribution Overheads:		
Salaries & Wages	36	30
Packing and Forwarding	20	16
Other Overheads	250	200
Total Depreciation	120	120

## MTP\_Final\_Syllabus 2012\_Jun2017\_Set 2

Interest Charges:		
On Working Capital Loans from Bank	60	25
On Fixed Loans from IDBI	90	70
On Debentures	30	30
Provision for Taxes	316	200
Proposed Dividends	420	230

You are required to calculate the following parameters as stipulated PART-D, PARA-3 of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2015 and March 31, 2014:

(i) Value Addition

(ii) Earnings available for Distribution

(iii) Distribution of Earnings to the different claimants.

**[4+1+5=10]**

**3.(a)** GLORY LTD., a manufacturing company provides the following extracts from its Cost Accounting Records for the year ended March 31, 2017:

The total capacity for 5 Machines per hour as per the company's specification.	2500 units
No. of shifts (each shift of 8 hours) per day	3
Paid holidays in a year (365 days):	
(i) Weekly holidays	52
(ii) Other holidays	10
Annual maintenance is done within these holidays (i.e. 10)	
Preventive maintenance for the machines is carried on during weekly off day.	
Normal idle capacity due to lunchtime, shift changes etc. per shift	0.5 hour
Production based on sales expectancy in past 3 years (units in lakh):	154.50
	159.54
	166.66
Actual production for the year ended March 31, 2015:	158.80

## MTP\_Final\_Syllabus 2012\_Jun2017\_Set 2

---

You are required to calculate:

- (1) Installed Capacity
- (2) Actual Capacity Utilization
- (3) Normal Capacity
- (4) Idle Capacity
- (5) Abnormal Idle Capacity—  
—Keeping in view of the relevant Cost Accounting Standard (CAS-2).

**[8]**

- (b)** The Cost Accountant of TRINCUS TEXTILES MILLS LTD. has arrived at a Profit of ₹ 20,10,500 based on Cost Accounting Records for the year ended March 31, 2017. Profit as per Financial Accounts is ₹22,14,100.

As a Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts:

	₹
<b>(1)</b> Profit on Sale of Fixed Assets	2,05,000
<b>(2)</b> Loss on Sale of Investments	33,600
<b>(3)</b> Voluntary Retirement Compensation included in Salary & Wages in F/A	50,25,000
<b>(4)</b> Donation Paid	75,000
<b>(5)</b> Insurance Claim relating to previous year received during the year	5,08,700
<b>(6)</b> Profit from Retail trading activity	32,02,430
<b>(7)</b> Interest Income from Inter-Corporate Deposits	6,15,000
<b>(8)</b> Decrease in value of Closing WIP and Finished goods inventory	
as per Financial Accounts	3,82,06,430
as per Cost Accounts	3,90,12,500

You are required to prepare a Reconciliation Statement between the two Accounts for the year ended March 31, 2017.

**[8]**

- 4.(a)** Evaluation of the personnel function of an organization by management auditor is by no means an easy task. In your view what areas are to be covered and points to be kept in mind while assessing the personnel function of an organization ?

**[8]**

- (b)** While performing an Information System Audit, the Management Auditor should make sure that various objectives are met. Briefly describe them.

**[8]**

- 5.(a)** How the Cost Auditor is under obligation to report fraud identified during course of audit?

**[8]**

- (b)** You have been appointed as an internal auditor for M/s KBC Ltd which is a large manufacturing concern. You are asked to verify whether there are adequate records for identification and value of Plant and Machinery, tools and dies and whether any of these items have become obsolescent and not in use. Draft a suitable audit programme for the above.

**[8]**

## MTP\_Final\_Syllabus 2012\_Jun2017\_Set 2

- 6.(a) ASHIRBAD CEMENT LTD. has a captive power generation plant for its cement factory. The following information is available with regard to the power generation for the year ended March 31, 2017:

Coal consumption	2400 tonnes @ ₹600 per tonne
Oil	3000 liters @ ₹50.50 per litre
Water	24000 gallons at ₹60 per gallon
Stores and other consumables	₹ 55,000

Salaries of power generating plant:

2 supervisors each at ₹10,600 p.m., 5 skilled workers each at ₹6,100 p.m., 3 helpers each at ₹4,200 p.m.

Salaries to boiler house attendant, 8 workers, each at ₹4,200 p.m.

Cost of power generating plant— ₹15,00,000 having life of plant 15 years with ₹ 60,000 residual value.

Cost of Boiler plant— ₹6,00,000 having life of plant 10 years with no residual value.

Miscellaneous income received by sale of ash— ₹ 50,000.

Repair and maintenance— Power generating plant ₹ 1,50,000, Boiler house ₹ 1,26,000.

Share of Administrative Overhead— ₹ 1,35,000.

Power generated during the year: 3024250 KWH.

Note: No power generated is used by the power generated plant itself.

You are required to prepare the Cost Sheet to calculate cost per kWh of electricity generated as per the Companies (Cost Records and Audit) Rules 2014 for the year ended March 31, 2017. **[10]**

- (b) What is the procedure for appointment of Cost Auditor under the Companies Act, 2013? **[6]**

- 7.(a) The following data have been collected by you, as a Cost Auditor of a Company:

Particulars	14-15	15-16	16-17
Installed Capacity(lac MT)	2.5	2.5	2.5
Production(lac MT)	2.4	2.3	1.25
Cost/MT of the product(₹.)	1000	1077	1660

The poor capacity utilization in 2016-17 was due to abnormal power cut. The escalation in costs were 5% in 14-15 and 2% over 15-16 in 2016-17.

i) Calculate the abnormal cost due to power cut.

ii) How would you treat these abnormal cost? **[6+2=8]**

- 7.(b) As a Management Auditor of a large organization, you have been asked to carry out the review of "MARKETING POLICIES: as a part of Corporate Development.

Prepare a questionnaire for carrying out such a review. **[8]**

8. (a) You as a management auditor have been asked to conduct a review of the function of the personnel department of XYZ Ltd. State the various points which will be covered in the review. **[10]**

## MTP\_Final\_Syllabus 2012\_Jun2017\_Set 2

---

(b) The particulars of a Supervisory employee of MAHAVINA LTD., a manufacturing company show the annual expenses as follows:

- i. Basic pay including Industrial D.A. ₹7,00,000
- ii. Lease rent paid for accommodation provided to the employee ₹2,40,000
- iii. Amount recovered from employee ₹60,000
- iv. Employer's contribution to P.F. ₹56,000
- v. Employee's contribution to P.F. ₹56,000
- vi. Reimbursement of medical expenses ₹67,000
- vii. Hospitalization expenses including Group Medical Insurance borne by the employer ₹19,000
- viii. Annual Bonus ₹30,000
- ix. Festival Advance ₹30,000
- x. The Employer manages P.F. through a Trust, and the shortfall in the return of the Trust Account compared to the notified rate is around 0.75% p.a. reimburse to the Trust.
- xi. The future benefit (Gratuity) to the employee is insured with L.I.C., the premium of which costs 4% p.a. approx.

Required:

Calculate the Employee Cost for the year ended March 31, 2016- keeping in view of Cost Accounting Standard (CAS)-7. **[6]**