Paper - 19 : Cost and Management Audit

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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. **Choose the correct option among four alternative answer. (1 mark for correct choice, 1 mark for justification.)** **[10*2=20 marks]**

(i) The following is not a professional misconduct as per The First Schedule Part I of The Cost and Works Accountants Act, 1959

(A) solicits clients or professional work, either directly or indirectly, by circular, advertisement, personal communication or interview or by any other means:

(B) secures, either through the services of a person who is not an employee of such cost accountant or who is not his partner or by means which are not open to a cost accountant, any professional business:

(C) accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute:

(D) fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;

(ii) The Annexure to the Cost Audit Report should be signed by:

(A) The CFO and the Managing Director
(B) One Director and Secretary
(C) The Secretary and the CFO
(D) The Officer –in –charge of Cost Accounts and the Secretary.

(iii) Cost Auditor shall within 180 days from closure of Financial Year forward his duly signed report to:

(A) Board of Directors
(B)Government
(C) Shareholders
(D)Audit Committee.

(iv) The category of Companies specified in Rule 3 shall appoint Cost Auditor within :

(A)90 days of commencement of Financial Year
(B)60 days of commencement of Financial Year
(C)180 days of commencement of Financial Year
(D)30 days of commencement of Financial Year

(v) Capacity determination is dealt in :

(A) CAS 3
(B)CAS 2
(C) CAS 4
(D) CAS 1

(vi) CAS 10 deals with:

(A) Direct Expenses
(B)Indirect Expenses
(C)Administrative overheads
(D)Selling and Distribution overheads.

(vii)XBRL is a language based on :
(A)XBL family of languages.
(B)XRL family of languages.
(C)XML family of languages
(D) XGL family of languages.

(viii)Profit reconciliation for the company as a whole is dealt in :
(A)Part D para 2 of the Annexure to Cost Audit Report.
(B) Part C para 1 of the Annexure to Cost Audit Report.
(C) Form of the Cost Audit Report.
(D) Part A para 1 of the Annexure to Cost Audit Report.

(ix) The forex component of imported material is converted at the rate on:
(A)Date of transaction
(B) Date of payment
(C)Date of advance
(D)Any of the above.

(x) Outward Transportation cost shall form part of:
(A)Cost of direct material
(B)Administrative overhead
(C) Cost of sale
(D)Cost of indirect material

Answer:

1. (i)- (D) fails to obtain sufficient information which is necessary for expression of an opinion or its exceptions are sufficiently material to negate the expression of an opinion;
This is professional misconduct as per the Second Schedule Part I of The Cost and Works Accountants Act, 1959.

(ii)- (B) One Director and Secretary
This is pursuant to Rule 6(3B) of the Companies (Cost Records and Audit) Rules, 2014.

(iii)- (A) Board of Directors
This is pursuant to Rule 6(5) of the Companies (Cost Records and Audit) Rules, 2014.

(iv)- (C) 180 days of commencement of Financial Year
This is pursuant to Rule 6(1) of the Companies (Cost Records and Audit) Rules, 2014.

(v)- (B) CAS 2
This standard deals with the principles and methods of classification and determination of capacity of an entity for ascertainment of the cost of product or service, and the presentation and disclosure in cost statements.

(vi)- (A) Direct Expenses
This standard deals with the principles and methods of classification, measurement and assignment of Direct Expenses, for determination of the cost of product or service, and the presentation and disclosure in cost statements.

(vii)- (C) XML family of languages
XBRL belongs to Extensible Markup Language family. It has been defined specifically to meet requirements of business and financial information

(viii)- (A) Part D para 2 of the Annexure to Cost Audit Report.
This is pursuant to Rule 6(4) of the Companies (Cost Records and Audit) Rules, 2014.

(ix)- (A) Date of transaction
This is as per CAS 6 and GACAP.

(x)- (C) Cost of sale
This is as per CAS 5 on Cost Accounting Standard on determination of average cost of transportation.

Section – B [80 marks]

2. (a) (i) What types of Health Services are covered under the Companies (Cost Records and Audit) Rules 2014?

(ii) Is there any obligation on the part of cost auditor to report offence of fraud being or has been committed in the Company by its officers or employees?

(b) Explain whether the following amounts to professional misconduct by a CMA:

(i) Mr. X, a CMA was invited by the Chamber of Commerce to present a paper in a symposium on the issues facing Indian Jute Industry. During the course of his presentation he shared some of the vital information of his client's business under the impression that it will help the Nation to compete with other countries at international level.

(ii) A firm of Cost Accountants was appointed by a company to evaluate the costs of the various products manufactured by it for its information system. One of the partners of the firm was a Non-Executive Director of the company. [8+8]

Answer:

2. (a) (i) The Companies (Cost Records and Audit) Rules 2014 covers "Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories". Any company engaged in providing Health services through functioning as or running hospitals, diagnostic centres, clinical centres, test laboratories, physiotherapy centres and post-operative/treatment centres are covered within the ambit of the Companies (Cost Records and Audit) Rules 2014. Further, companies running hospitals exclusively for its own employees are excluded from the ambit of these Rules, provided however, if such hospitals are providing health services to outsiders also in addition to its own employees on chargeable basis, then such hospitals are covered within the ambit of these Rules. It is clarified that companies engaged in running of Beauty parlours/beauty treatment are not covered under these Rules.

(ii) Sub-rule (7) of Rule 6 of the Companies (Cost Records and Audit) Rules 2014 states that "the provisions of subsection (12) of section 143 of the Act and the relevant rules made thereunder shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Act and these rules". As per sub-section (12) of section 143 of the Companies Act 2013, extract of which is given above, it is obligatory on the part of cost auditor to report offence of fraud which is being or has been committed in the company by its officers or employees, to the Central Government as per the prescribed procedure under the Rules. As per the proviso to above sub-section, it has been stated that in case of a fraud involving lesser than the specified amount, the auditor shall report the matter to the audit committee constituted under section 177 or to the Board in other cases within such time and in such manner as may be prescribed.

(b) (i) Clause (1) of Part I of the Second Schedule to the Cost and Works Accountants Act, 1959 deals with the professional misconduct relating to the disclosure of information by a CMA in practice relating to the business of his clients to any person other than his client without the consent of his client or otherwise than as required by any law for the time being in force would amount to breach of confidence. The Code of Ethics further clarifies that such a duty continues even after completion of the assignment. The CMA may, however, disclose the information in case it is required as a part of performance of his professional duties. In the given case, Mr. X has disclosed vital information of his client's business without the consent of the client under the impression that it will help the nation to compete with other countries at International level. Thus it is a professional misconduct covered by clause (1) of Part I of Second Schedule to the Cost and Works Accountants Act, 1959.

(ii) Clause 4 of Part I of the Second Schedule to Cost and Works Accountants Act, 1959 states that expressing an opinion on cost and pricing of any business or any enterprise in which the auditor, his firm or a partner in his firm has a substantial interest would constitute misconduct, unless he discloses the interest also in his report. As per facts of the case, the firm has been retained to evaluate the cost of products manufactured by it for its information system. So this amounts to professional misconduct.

3. (a) 'Research and Development Costs shall include all the costs that are directly traceable to research and/or development activities'.

On what basis these costs can be assigned to Research and Development activities as per CAS-18?

(b) The Cost Accountant of SOVANA SUGAR MILLS LTD. has arrived at a profit of ₹73,24,150 based on Cost Accounting records for the year ended March 31, 2018. As Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts:

(i)	**Decrease in value of Closing WIP and Finished goods inventory as per Financial Accounts**	**128,21,995**
	as per Cost Accounts	**131,04,220**
(ii)	**Profit on Sale of Fixed Assets**	**61,500**
(iii)	**Loss on Sale of Investments**	**11,200**
(iv)	**Voluntary Retirement Compensation included in Salary & Wages in F/A**	**16,75,000**
(v)	**Donation Paid**	**25,000**
(vi)	**Major Repairs & Maintenance written off in F/A (Amount reckoned in Cost Accounts of ₹ 6,08,420 for this job)**	**13,26,000**
(vii)	**Insurance Claim relating to previous year received during the year**	**14,29,000**
(viii)	**Profit from Retail trading activity**	**7,12,300**
(ix)	**Interest Income from Inter-Corporate Deposits**	**6,15,000**

You are required to prepare a Reconciliation Statement and arrive at the Profit as per Financial Accounts. [7+9]

Answer:

3. (a) Research, and Development Costs shall include all the costs that are directly traceable to research and/or development activities or that can be assigned to research and development activities strictly on the basis of (i) cause and effect or (ii) benefits received. Such costs shall include the following elements:

1. The cost of materials and services consumed in Research, and Development activities.

2. Cost of bought out materials and hired services as per invoice or agreed price including duties and taxes directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.
3. The salaries, wages and other related costs of personnel engaged in Research, and Development activities;
4. The depreciation of equipment and facilities, and other tangible assets, and amortisation of intangible assets to the extent that they are used for Research, and Development activities;
5. Overhead costs, other than general administrative costs, related to Research, and Development activities.
6. Costs incurred for carrying out Research, and Development activities by other entities and charged to the entity; and
7. Expenditure incurred in securing copyrights or licences
8. Expenditure incurred for developing computer software
9. Costs incurred for the design of tools, jigs, moulds and dies
10. Other costs that can be directly attributed to Research, and Development activities and can be identified with specific projects.

(b)

SOVANA LTD

RECONCILIATION OF COST AND FINANCIAL ACCOUNTS AS ON 31/3/2018

Particulars	Amount (₹)	Amount (₹)
Profit as per cost accounting records		73,24,150
(1) Add: Incomes not considered in Cost Accounts:		
(i) Profit and sale of Fixed Assets	61,500	
(ii) Insurance claim received relating to previous year	14,29,000	
(iii) Profit from retail trade activity	7,12,300	
(iv) Interest income from Inter-Cooperative deposits	6,15,000	28,17,800
(2) Less: Expenses not Considered in Cost Accounts		
(i) Loss and sale of investments	11,200	
(ii) Voluntary Retirement Compensation included in Salary & Wages	16,75,000	
(iii) Donation Paid	25,000	
(iv) Part of repairs and maintenance cost excluded in Cost Accounts (1326000-608420)	7,17,580	(24,28,780)
(3) Add: Difference in valuation of stock		
Decrease in inventory as per Cost Accounts Decrease in inventory as per Financial A/c Valuation in Financial Accounts in higher	1,31,04,220	
PROFIT AS PER FINANCIAL ACCOUNTS	(1,28,21,995)	
		2,82,225
		79,95,395

4. (a) 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.

(b) State briefly the adequacy of Budgetary Control System
(i) in area of planning,
(ii) in the area of Co-ordination; and
(iii) in the area of Control **[10+6]**

Answer:

4. (a) A questionnaire for review of 'Marketing Policies' of the company:

(i) Consumer needs assessment -
- Is the policy rationable in terms of marching customers' needs with the firm's offering and capabilities?
- What is the likely consumer reaction?
- What are the evaluation studies undertaken to assess consumer reaction, particularly, in respect of product features, price, distribution outlets, new product concept, new product introduction?

(ii) Market segmentation -
- What is target market conceived?
- Is market segmentation based on empirical data, such as-usage, demographic, benefits sought, consume characteristics etc.?

(iii) Competition and product position -
- How many are competitive producers?
- What is company's share in the total market?
- How many competitors have left the market over the last few years?
- What is the general competitive environment?
- What particular product characteristics does the firm possess that contribute to the market place?
- What is the relative market position of the products at different stages of their life cycle?

(iv) Marketing mix -
- How is the optimum mix of pricing, distribution and promotional policy for each of the products of firms determined?
- What are the company's approaches to issue like product Design, products Positioning, Price-range, advertising and promotion media etc.?

(v) Marketing programme
- Is the marketing program of the company designed to emphasise lower price, mass distribution channels and mass advertising to reach numerous market segments?

(vi) Resource Allocation
- Does the marketing program take into account the interdependencies among the various options and a resource allocation procedure to direct the company's commitment of resources among products, markets segments and the related marketing strategies to accomplish the objectives?
- If so, how is the resource allocation procedure has been established for different marketing decisions?

(b) (i) In the area of planning:

(1) Where it covers all interrelated functions like production, sales, purchasing and finance.

(2) Whether it determines the linkage between budget centres and responsibility centres.

(3) Whether it establishes definite goals and limits for these function well in advance. The system must answer the questions such as "what they are expected to operate?" What will be the financial requirement for the functional areas? What would be the potential problems in the key areas?

(4) Whether there are imbalances in the fixation of performance levels of functional budgets in relation to sales budgets.

(5) Whether budget monitoring cell exists for operating the system in right perspective.

(ii) In the area of coordination:

(1) Whether the Budget monitoring committee holds the meetings regularly with a view to ensure performance evaluation.

(2) Whether it helps to prevent waste that results in duplicate or gross purpose activities.

(3) Whether it reveals time lines in the process of preparation and approval of all functional Budgets and Master Budgets.

(iii) In the area of control:

(1) Whether system exists for measuring, comparing and qualifying the results of all functional areas;

(2) Whether the Budget incorporates a degree of flexibility with a provision of its periodical review;

(3) Whether the various reports are issued in time and appropriate corrective action is taken on their variances.

5. (a) Draft an internal control questionnaire for 'Account Receivables'.

(b) What is the objective of purchase management? What are the main points to be taken into account while preparing a set of questionnaire to evaluate purchase management function? [9+7]

Answer:

5. (a) The duties of accounts receivable record keeping should be segregated from the custodial and authorization functions. Further, adequate receivable sub-ledgers should be maintained and reconciled to applicable general ledger accounts. Finally receivables should be aged and reviewed, whereby established procedures should be followed for the collection of past due accounts and subsequent write-off of uncollectible receivables.

The internal control questionnaire for 'Accounts Receivables'may be drafted as follows:

Questions	Yes	No	N/A	Remarks
1. Are credit and collection and write off policies and procedures current and in writing?				
2. Are these policies and procedures clearly stated and systematically communicated?				
3. Do these policies and procedures support internal control?				
4. Are the responsibilities for maintaining detailed accounts receivable records segregated from collections, disbursement, and general ledger posting functions?				
5. Are disputed liabilities handled by person(s) other than those receiving payment and record keeping functions?				
6. Do controls in the system exist that provide assurances that individual receivable records are posted only from authorized source documents?				
7. Are controls maintained that provide assurances that customer database and, where appropriate, usage records are accurately maintained to ensure that amounts due are billed?				
8. Are billings controlled and properly accounted for?				
9. Is there adequate control over the mailing of statements				

to prevent interception prior to mailing?				
10. Are statements of account balance mailed on a timely basis, where appropriate (for example, in proprietary funds)?				
11. Are aggregate collections on accounts receivable reconciled against postings to individual receivable accounts?				
12. Are all valid receivables promptly recorded?				
13. Is the total of departmental accounts receivable outstanding reconciled to Advance periodically?				
14. Are letters of credit reviewed for accuracy?				
15. Are aged accounts receivable balances periodically reviewed by supervisory personnel?				
16. Do adequate procedures exist for follow-up and collection of delinquent accounts?				
17. Are there controls to insure that individuals with delinquent accounts are precluded from receiving additional credit?				
18. Are delinquent accounts reviewed and considered for charge-off on a timely basis?				
19. Are write-offs or other reductions of receivables, including non-cash credits, credit memos, and allowances, formally approved by senior officials not involved in the collection and recording function?				
20. Do procedures exist that ensure that interest and penalties are properly charged on delinquent accounts?				
21. Are credit balances periodically reviewed?				
22. Does internal control appear adequate for the accounts receivable system overall?				

(b) The primary objective of purchase management is to procure raw materials, packing material etc of the requisite quantity of required quality at reasonable cost at the right time. A management accountant may make a model questionnaire for evaluation of purchase management:-

(a) What is the organization for purchase function?
(b) Whether the purchase policy is realistic?
(c) Whether the purchase requirements are related to production schedules and dependent upon the level of invention?
(d) How are suppliers selected and eliminated?
(e) Whether regular and dependable suppliers are ensured?
(f) Is there any system of purchase authorization?
(g) Whether latest market information automatically collected regarding new spares, etc.
(h) Whether proper information is kept about price trends?
(i) Whether regular comparison is made between average price paid and the corresponding average market price?
(j) What are built-in-controls against misutilisation of purchasing powers?
(k) How effective is the system of follow-up?
(1) What is the system of executing emergency purchase?
(m) What is the procedure followed for impact of raw materials?
(n) Is there any proper coordination between purchase, stores and production?

6. (a) MEGLOW TECHNO LTD. is a manufacturer of Ball and Roller bearings. In the Company four operations are carried on simultaneously in the manufacture of components.

The input/output data and Direct Wages Cost relating to the year 2014-15 for one component are as follows:

Operations	Gross Input (Tonnes)	Scrap (Tonnes)	Direct Wages (₹)
PM	48000	8000	12,40,000
QN	50000	10000	12,50,000
RA	72000	12000	23,60,000
SB	55000	5000	32,70,000

Material is introduced at start of Operation PM at a cost of ₹ 6,000 per tonne. Scrap can be sold at ₹ 500 per tonne. Overheads are absorbed at 150% on Direct Wages.

You are appointed as a cost consultant of Meglow Techno Ltd. The company has not maintained cost records so far and seeks your advice in the matter.

Show your computation of the total cost per tonne of finished component so that the company can adopt the same in future.

(b) PARTHAN CO. LTD. a single product manufacturing company has following four operations undergone by a product under Cost Audit.
The Process wise Input, Output, Direct Employee Costs and Direct Material Costs for the year ended March 31, 2018 are given below:

Process	Input Unit	Output Unit	Direct employee cost of the process (₹)	Direct Material cost of the process (₹)
MP-I	312000	280800	8,42,400	11,23,200
MP-2	330000	297500	11,90,000	13,38,750
MP-3	414000	397500	19,87,500	16,89,375
MP-4	390000	361000	28,88,000	23,82600

You are required to calculate:
(i) Direct Employee Cost per unit of the product,
(ii) Direct Material Cost per unit of the product, under reference as required in (PART-B, PARA-2) of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014. **[8+8]**

Answer:

6. (a)

MEGLOW TECHNO LTD.

It is a fact that the company is not maintaining proper records. Cost per tonne of finished component is required to be worked out within the existing constraint of stage wise conversion cost and raw material identification to operation -PM

Stage-wise conversion cost, therefore to be converted to final cost using the multiplier or weightage factor. For converting direct wages to conversion cost from the given data, following steps should be followed:

Let us assume, Direct wages	=₹100
Overheads (150% of Direct wages	=₹150
Total conversion cost	=₹250

Conversant cost is 2.50 times of Direct Wages:

Operation	Input tonnes in thousand	Output tonnes in thousand	Multiplier factor (2/3)	Conversion cost (₹ in lakh) D.W. x 2.5	Conversion cost per Tonne (5/3) (₹)	Cumulative conversion cost per tonne (₹)
1	2	3	4	5	6	7
PM	48	40	1.20	31.00	77.50	77.50
QN	50	40	1.25	31.25	78.12	175.00
RA	72	60	1.20	59.00	98.33	308.33
SB	55	50	1.10	81.75	163.50	502.66

Calculations:

(a) Cumulative conversion costs are:

Operation QN = (₹ 77.50x 1.25) + 78.12 = ₹ 175.00
Operation RA= (₹ 175.00x1.20) +98.33 = ₹ 308.133

Operation SB = (₹ 308.33 × 1.10) + 163.50 = ₹ 502.66

₹ 502.66 per tonne is the final stage conversion cost.

(b) Raw material cost is:
= Cost of material quantity introduced at operation

= Material quantity x Rate per Tonne

= Product of multiplier factors x rate per tonne

= (1,20 x 1.25 x 1.20 x 1.10 x ₹ 6000

= 1.98 x ₹ 6000 = ₹ 11880
Thus input = 1.98 tonnes   Output = 1.00 Tonne   Scrap = 0.98 Tonne

(c) Value of Scrap = 0.98 tonne x ₹ 500 = ₹ 490

Thus input = 1.98 tonnes   Output = 1.00 Tonne   Scrap = 0.98 Tonne

Computation of Total cost per Tonne of finished component

Material cost	₹11,880
Less: scrap value	(-) 490
	₹11390
Add: Conversion cost (table above)	₹502.66
Total cost	₹11,892.00

(b) Total employee cost per unit and total material cost per unit of the product under Audit mist be an aggregation of process-wise employee cost and material costs after taking into account the good units occurring in each process.

Process	Input(unit)	Output (unit)	Factor
Mp-1	312000	280800	312000÷280800=1.1111
MP-2	330000	297500	330000÷297500=1.1092
MP-3	414000	397500	414000÷397500=1.0415
MP-4	390000	361000	390000÷361000=1.0803

A) Processwise Employee costs per unit of output (Product) are:	B) Processwise material cost per unit of output (product) are:
MP-1= 842400÷280800= ₹3	1123200÷280800= ₹4.00
MP-2= 1190000÷297500= ₹4	1338750÷297500= ₹4.50
MP-3= 1987500÷397500= ₹5	1689375÷397500= ₹4.25
MP-4= 2888000÷361000= ₹8	2382600÷361000= ₹6.60

(i) Aggregating all above (A) employee cost to the finished product form process MP-4 will be:

Process MP-1	= ₹3.00	
Process MP-2	= ₹3×1.1092+4	= ₹7.3276
Process MP-3	= ₹7.3276×1.0415+5	= ₹12.6317
Process MP-4	= ₹12.6317×1.0803+8	= ₹21.6460

Direct employees cost per unit of finished product (output) in ₹21.65

(ii) Aggregating all above (B), material costs to the finished product from process MP-4 will be:

Process MP-1	= ₹4.0000	
Process MP-2	= ₹4.00×1.1092+4.50	= ₹8.9368
Process MP-3	= ₹8.9368×1.0415+4.25	= ₹13.5577
Process MP-4	= ₹13.5577×1.0803+6.60	= ₹21.2464

Hence, Direct material cost per unit of finished product (output) is ₹21.25

7. PHIMPEX LTD. in the business of Real Estate and Consumer Goods shows the following financial position for the year ending March 31, 2018:

(Amount in ₹ crore)

	Year ended 31st March	
	2018	**2017**
Liabilities		
Share Capital	**33**	**33**
Securities Premium Account	**931**	**928**
General Reserve	**57**	**44**
Capital Redemption Reserve	**42**	**40**
Profit & Loss Account	**595**	**390**
Long Term Borrowings	**1013**	**670**
Deferred Tax Liability	**25**	**39**
Short Term Borrowing	**782**	**676**
Trade Payable	**715**	**747**
Miscl. Provisions	**77**	**73**
Total:	**4270**	**3640**
Assets:		
Fixed Assets (Tangible)	**647**	**614**
Capital WIP	**667**	**383**
Non-Current Investments	**2378**	**2048**
Long Term Loans	**53**	**66**
Inventories	**167**	**232**
Trade Receivables	**104**	**94**
Cash and Bank Balance	**107**	**69**
Other Current Assets	**25**	**30**
Advance for Equipment	**122**	**104**
Total:	**4270**	**3640**

Profit before tax for the year 2015-16 was ₹326 crores (Previous year ₹397 Crores)

You are required to compute the following figures/ratios as stipulated in PART-D, PART-4 to Annexure of Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended 31st March, 2016:

(i) Capital Employed
(ii) Net Worth
(iii) Debt Equity Ratio
(iv) PBT to Capital Employed
(v) PBT to NET Worth
(vi) Current Assets to Current Liabilities **(5+3+2+2+2+2)=16**

Answer:

7.

PHIMPEX LTD.

(Amount in ₹ crore)

Year ended March 31			2017	2018	2018
(i) Capital Employed:					
Fixed assets (Tangible)			614	647	
Non-current investments			2048	2378	
Particulars	Previous Year 2017	Current Year 2018	2662	3025	
Current Assets: (A)					
Inventories	232	167			
Trade Receivables	94	104			
Cash and Bank Balance	69	107			
Other Current Assets	30	25			
(A)	425	403			
Current Liabilities:					
Short term borrowings	676	782			
Trade payables	747	715			
Misc. Provision	73	77	(1071)	(1171)	
(B)	1496	1574	1591	1854	
Working Capital (A-B)					
CAPITAL EMPLOYED					
Average capital employed for the year ended March 31,2016			(1591+1854)÷2		1722.5
(ii) Net Worth: (For the year ended Mar 31,18					
Share capital				33	
Securities premium a/c				931	
General reserve				57	
Capital redemption reserve				42	
Profit and loss account				595	1658
(iii) Debt (For the year ended March 31,2018)					
Long Term Borrowings				1013	
Deferred Tax Liabilities				25	1038
Debt Equity Ratio: (1038/1658) = 62.60%			(1038÷1658)		62.6:100
= 62.6:100 or 0.63:1			=62.60%	Or	0.63:1
Profit before tax (PBT) for the year ended March 31, 2018					326
(iv) PBT to Capital Employed:			(326÷1722.5)×100		18.93%
(v) PBT to Net Worth			(326÷1658)×100		19.66%
(vi) Current Assets to Current Liabilities: for 2018 (CA/CL) = (403/1574)				Or	0.256 0.26:1

8. **Answer any 4 questions** **[4×4=16 marks]**

(a) **Answer the following questions with respect to CAS 23, Cost Accounting Standard on Overburden Removal Cost.**

(i) **What do you understand by Standard Stripping ratio?**

(ii) **How do you treat overburden removal cost attributable to a development phase of a mine area?**

(b) Write short not on concurrent audit.

(c) Explain the basic differences between: "Management Audit" and "Operational Audit".

(d) TROMA LTD., a manufacturing unit, produces two products PB and PS. The following information is extracted from the Books of the Company for the year ended March 31, 2018:

Particulars	Product PB	Product PS
Units Produced (Qty.)	2,10,000	1,68,000
Units sold (Qty.)	1,68,000	1,36,500
Machine hours utilized	1,26,000	84,000
Design charges (₹)	1,57,500	1,89,000
Software development charges (₹)	2,62,500	3,78,000

(i) Royalty paid on sales ₹6,09,000 [@ ₹ 2 per unit sold for both the products].
(ii) Royalty paid on units produced ₹3,78,000 [@ ₹1 per unit produced for both the products].
(iii) Hire charges of equipment used in the manufacturing process of product PB only ₹53,000.

Note: No adjustments are to be made related to units held i.e. Closing Stock.

You are required to compute the DIRECT EXPENSES—keeping in view of Cost Accounting Standard (CAS)-10.

(e) During the Energy Audit of Reliable Engineering Ltd., the following figures relating to usage of power were placed before the Auditor:

	2017-18	2016-17	2015-16
Total Power consumed (kWh)	2642720	2744360	2393250
Rate per kWh (₹)	6.29	5.42	4.90
Total Production (in million kg.)	422.16	416.36	376.08

Compute the necessary productivity measures and (i) Price Variance and (ii) Volume Variance of power usage during these years.

Answer:

8. (a) (i) Standard stripping ratio: this is the ratio between the total quantity of overburden to be removed (in cubic meters) and the total mineral to be extracted (in tonnes) during the Projected life of the project.

The term Standard stripping ratio and Average stripping ratio denote the same meaning and are used interchangeably.

(ii) The overburden removal cost attributable to a development phase of a mine area shall be capitalised as non-current asset when it is probable that future economic benefits to the area will flow to the entity and such cost can be identified and measured separately.

(b) Concurrent audit is a systematic examination of financial transactions on a regular basis to ensure accuracy, authenticity and compliance with procedures and guidelines. It is an examination, which is contemporaneous with the occurrence of transactions or is carried out as near thereto as possible. The main focus of this audit is to ensure that transactions adhere to the system and laid down procedures. It serves the purpose of effective internal control as it reduces the time gap between occurrence of a transaction and its overview or checking. The concurrent audit is similar in nature to internal audit as both are generally initiated by the management itself. However, there is basic difference between the two i.e. concurrent audit is regular audit of financial transactions whereas internal audit is a periodic audit.

Sound internal controls are essential to the prudent operation of banks and to promote stability in the financial system as a whole. Concurrent Audit ensures that adequate internal controls within banking organizations are supplemented by an effective internal audit function, which independently evaluates the control systems within the organization. Concurrent Audit of Bank Branches involves checking of all aspects of banking and other operations on an ongoing daily basis to ensure that the Branch is adhering to the Bank's laid down systems and procedures. The Concurrent Auditors are responsible to examine and comment on all the areas specified by the Bank/RBI from time to time in regard to concurrent audit of branches. A copy of guidelines on the manner of conduct of audit is also provided at the time of allotment of concurrent audit and from time to time thereafter. Therefore, it ensures that all errors and frauds, if any are generally detected immediately after their occurrence to control the damage, if any.

(c) Operational Audit concentrates on seeking out aspects of operations in which waste, inefficiency and excessive costs and would be subject to reduction by the introduction of improvement of operating controls. It is the audit of the performance at mainly operating level i.e., supervisory level. It is also termed as micro level Management Audit.

Operational Audit is an organized search for ways of improving efficiency and effectiveness. The objective is to assist the organization in performing functions more effectively economically with focus on the efficiency and effectiveness of operations. It is also stated to be an early warning system for the detection of potentially destructive problems.

Management Audit extends to the entire management decision making areas and has a broader time- frame to analyze past, present and future. Hence it becomes a qualitative audit and not audit of only value and quantity. Management Audit brings out errors or policy, decisions and action with recommendations to avoid them. Management Audit extends beyond Operations Audit.

Management Audit is the total examination of all transactions of an organization and includes checks on the effectiveness of managers and their compliances with company on professional standards. It undertaken examination of the effectiveness of management in controlling the total activities of the organization in the accomplishment of the organization objectives. It does not concentrate on financial matters alone as in case of financial audit. It looks into the efficiency and effectiveness of performance in an organization.

(d)

TROMA LTD.

Computation of Direct Expenses (As per CAS – 10)

(Amount in ₹)

Particulars	Product PB	Product PS
Royalty paid on sale	336000	273000
Add: Royalty paid on units produced	210000	168000
Add: Hire charges of equipment used in the manufacturing process of product-PB only	53000	--------
Add: Design charges	157500	189000
Add: Software development charges related to production	262500	378000
Direct expenses (total)	**1019000**	**1008000**

(e) The power usage of Reliable Engineering Ltd. is given below along with the productivity measures and Price Variance and Volume Variance.

	2017-18	**2016-17**	**2015-16**
1. Power consumed (KWh)	26,42,720	27,44,360	23,93,250
2. Production (in million kg.)	422.16	416.36	376.08
3. Rate per KWh (₹)	6.29	5.42	4.90
4. Power Cost (₹) [1 x 3]	16,622,709	14,874,431	11,726,925
5. Power Cost/'000 kg. (₹)	39.375	35.725	31.182
6. Price Variance (₹)	22,99,166	14,27,067	
7. Volume Variance (₹)	2,28,375	14,39,003	

Workings:

	2017-18	**2016-17**
Price Variance : 26,42,720 x (6.29 – 5.42)	22,99,166	
: 27,44,360 x (5.42 – 4.90)		14,27,067
Volume Variance : 39.375 x (422.16 – 416.36)	2,28,375	
: 35.725 x (416.36 – 376.08)		14,39,003