

**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 answers. (1 mark for correct choice, 1 mark for justification.) [10×2=20 marks]
- (i) Cost Audit was initially introduced in India in the year \_\_\_\_\_ .
- (a) 1949
  - (b) 1959
  - (c) 1965
  - (d) 1975
- (ii) The Cost Auditor appointed has to render the cost audit report to the board of directors of the Company, as per the specified time limit, in Form \_\_\_\_\_.
- (a) CRA – 1
  - (b) CRA – 2
  - (c) CRA – 3
  - (d) CRA – 4
- (iii) Cost Auditing Standard 104 deals with \_\_\_\_\_.
- (a) knowledge of business , its Process and the Business Environment
  - (b) planning an Audit of Cost Statements
  - (c) Cost Audit Documentation
  - (d) overall objectives of the Independent Cost Auditor

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- (iv) The Cost Accounting Standard 2 deals with \_\_\_\_\_.
- (a) Direct expenses
  - (b) Packing material cost
  - (c) Capacity determination
  - (d) Classification of cost.
- (v) Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal to be filled by the Board of Directors within \_\_\_\_\_ days of occurrence of such vacancy.
- (a) 30 days
  - (b) 60 days
  - (c) 90 days
  - (d) 180 days
- (vi) Once the instance document is successfully validated from the tool, the next step is to \_\_\_\_\_.
- (a) download XBRL validation tool
  - (b) pre-scrutinize the validated instance document
  - (c) convert to PDF and verify the contents of the instance document
  - (d) attach instance document to the Form CRA-4
- (vii) The Bureau of Energy Efficiency formed Under \_\_\_\_\_ .
- (a) The Companies Act, 2013
  - (b) The Energy Conservation Act, 2001
  - (c) The Income Tax Act, 1961
  - (d) None of the above
- (viii) Which one of the following KPI is used to measure productivity & efficiency of a machine?
- (a) % of Idle time to total available time
  - (b) Machine downtime ratio
  - (c) Cost per of Break-Down Hour
  - (d) Contribution per unit of material used.

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- (ix) Royalty paid on units produced ₹ 40,000, Hire Charges of equipment used for production ₹ 4,000, Design charges ₹ 20,000, Software development charges related to production ₹26,000. The Direct Expenses is:
- (a) ₹ 40,000
  - (b) ₹ 44,000
  - (c) ₹ 64,000
  - (d) ₹ 90,000
- (x) The Cost Accounting Standard 21 deals with \_\_\_\_\_.
- (a) Pollution Control cost
  - (b) Research and Development cost
  - (c) Manufacturing cost
  - (d) Quality Control.

### Section – B

[80 marks]

2. (a) (i) Which Companies are required to maintain Cost Records?  
(ii) Discuss about the applicability of Cost Audit?
- (b) What is Cost audit Documentation? Indicate the matters to be included in the Cost Audit Documentation with respect to smaller entities. [(2+6)+(2+6)]
3. (a) From the following figures extracted from the financial and cost accounting records, you are required to compute:
- (i) Value Added.
  - (ii) Ratio of Operating Profit to Sales.
  - (iii) Ratio of Operating Profit to Value Added.

Particulars	₹ in lakhs
Net Sales	25,000
Increase in Stock of finished goods	500
Expenses:	

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Raw Materials consumed	4,000
Packing materials consumed	1,800
Stores and spares consumed	600
Power and fuel	5,000
Repairs and maintenance	250
Insurance	150
Direct salaries and wages	500
Depreciation	900
Interest paid	1,500
Factory overhead:	
Salaries and wages	250
Others	300
Selling and distribution expenses:	
Salaries and wages	150
Others	1,800
Administration overheads:	
Salaries and wages	150
Others	100

(b) Write a short note on Risk of Material misstatement.

10+6

4. (a) (i) Discuss about the requirements of Cost Auditing Standard – 103.

(ii) How would you treat the Idle Time Cost as per the CAS 7 related to Employee Cost?

(b) The Financial Profit and Loss of M/s. PIRON Manufacturing Company Ltd. for the year is ₹32,50,000. During the course of cost audit, it is noticed the followings:

(i) Some Old assets sold off which fetched a profit of ₹ 1,50,000

(ii) Interest was received amounting to ₹ 60,000 from outside the business investment.

(iii) Work-in-progress valuation for financial accounts does not as a practice take into account factory overhead. Factory overhead is ₹ 2,50,000 in opening W.I.P and ₹2,80,000 in closing W.I.P.

(iii) The Company was engaged in Trading activity by purchasing goods of ₹ 12,30,000 and selling at ₹ 14,50,000 after incurring ₹ 60,000 as expenditure.

(iv) A major overhaul of machinery was carried out at a cost of ₹ 6,00,000 and next such overhaul will be done only after five years.

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- (v) Opening stock of Raw material and finished good was overvalued for ₹ 2,50,000 and closing stock was overvalued ₹ 2,00,000 in financial records.

Work out the profit as per Cost Accounts.

[(8+2) +6]

5. (a) The management of a very big Public Sector Company suspects on the existence of "ghost workers". You, as an Internal Auditor of the company are required to formulate a system of Internal Control for payment of wages and salaries.
- (b) Opening stock of raw materials (5,000 units) ₹ 1,80,000; Purchase of Raw Materials (17,500 units) ₹ 7,00,000; Closing Stock of Raw Materials 3,500 units; Freight Inward ₹ 85,000; 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. Calculate the value of Closing Stock (as per Average Cost Method).  
[8 + 8]
6. (a) Which points are to be considered while conducting audit of Hospital.
- (b) Define Local Bodies. What is the basic objective of Local Body and discuss about the audit programme of the same. [10+6]
7. (a) Supreme Ltd., a manufacturing unit, provides the following extracts from its records for the year ended March 31, 2019:

The Company's specifications capacity for a machine per hour	1,600 units
No. of shifts (each shift of 8 hours) per day	3 shifts
Paid Holidays in a year (365 days):	
(i) Sunday	52 days
(ii) Other holidays	12 days
Annual maintenance is done within these holidays	-
Preventive weekly maintenance for the machine is carried on during Sundays	
Normal idle capacity due to lunchtime, shift changes etc. per shift	1 hour
Production based on sales expectancy in past 5 years (units in Lakh):	82.50
	89.80
	76.40
	84.30
	83.60
Actual Production for the year (units in lakh)	86.50

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You are required to calculate:

- (i) Installed Capacity
- (ii) Practical Capacity
- (iii) Actual Capacity (%)
- (iv) Normal Capacity
- (v) Idle Capacity (%)
- (vi) Abnormal Idle Capacity

Keeping in view of the relevant Cost Accounting Standard (CAS-2).

(b) Write a short note on Corporate Development Audit. (10+6)

8. Answer any four. 4×4=16

- (a) Mention at least 4 Professional misconduct in relation to members in practice in terms of second schedule.
- (b) "Management Audit team should be multidimensional." — Discuss.
- (c) Distinguish between Continuous Audit and Final Audit.
- (d) Briefly discuss about the contribution of Internal Audit.
- (e) Write a short note on creation of XBRL Instance document?