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 Questions No. 2 to 8.

Section - A [20 marks]

Answer the following questions:

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

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

a. The secretary and the Finance Officer
b. The Secretary and the CFO of the company
c. One Director and one secretary
d. The CFO and the Managing Director

(ii) Financial Position and Ratio Analysis as required are to be stated in:

a. Para 4 , Part D of the Annexure to Cost Audit Report.
b. Para 3, Part D of the Annexure to Cost Audit Report.
c. Para 2, Part D of the Annexure to Cost Audit Report.
d. Para 1, Part D of the Annexure to Cost Audit Report.

(iii) Which of the following is not a professional misconduct as per the First Schedule of the CWA Act, 1959 in relation to Cost Accountants in practice:

a. 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
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. solicits clients or professional work, either directly or indirectly, by circular, advertisement, personal communication or interview or by any other means.
d. does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;

(iv) In case of machinery involving technical help in installation, such expenses for installation are part of:

a. Selling and Distribution Overheads
b. Cost of production
c. Any of the above.
d. None of the above.

(v) CAS 16 deals with :

a. Pollution control cost
b. Packing material cost
c. Depreciation and Amortisation
d. Interest and Financing charges

(vi) Cost Auditing Standard 101 deals with:
a. Planning an audit of cost statements;
b. Cost audit documentation;
c. Overall objectives of the independent cost auditor
d. Knowledge of business, its processes and the business

(vii) A cotton textile mill had cumulative waste percentage of 8% in Blow Room, 6% in Carding, 4% in Drawing, 4% in Simplex and 9% in Ring Frame. For an input of 1000 kg. of cotton in Blow Room, the output at Ring Frame is ________ .
a. 735.27 kg.
b. 725.27 kg.
c. 745.27 kg.
d. 755.27 kg.

(viii) Gross Sales ₹16,500 lacs, Excise Duty ₹1,240 lacs, Increase in stock ₹42lacs, Cost of raw materials ₹6,250 lacs, Power ₹2,220 lacs, other overheads ₹ 215 lacs, Value Added is:
a. ₹15,260 lacs
b. ₹66,17 lacs
c. ₹6,533 lacs
d. ₹15,302 lacs.

(ix) Management Audit report is submitted to:
a. Cost Audit Branch
b. Audit Committee
c. Central Government
d. Management of concern.

(x) The consumer service audit critically examines:
a. Outstanding payment of consumers.
b. Price consumers are ready to pay for particular product/service
c. And appraise management of business enterprise of responsibility towards consumers.
d. Demand of a product by consumers.

Section - B [80 marks]

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

(ii) ABC Ltd. is engaged in manufacturing products on its own as well as purchase the same products from other companies. The outsourced products are treated as

trading activity in the financial accounts. Same products are also manufactured by supply of materials to converters. What would be treatment of such products for the purposes of maintenance of Cost Accounting Records and Cost Audit? [4+4=8]

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

(i) ABC and Company, Cost Accountants, a firm maintains branch offices in India – each under the separate charge of a member of the Institute of Cost Accountants of India/The Institute of Chartered Accountants of India.

(ii) CMA P, a practicing Cost Accountant engages in personal discussions / correspondences with prospective clients relating to achievement and capabilities. [4+4=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.

2.(a)(ii)

Products manufactured by the company as well as conversion activity through third parties will be covered under the companies (cost Records and audit) Rules 2014 and the company would be required to maintain cost accounting records and get cost audit conducted subject to threshold limits. The finished products bought from outside parties (treated as Trading Activity in Financial Accounts) would be reflected as "Cost of Finished Goods Purchased" in Abridged Cost Statement.

2.(b)(i)

According to First Schedule, Part 1 Clause 4 of the CWA Act , 1959, a Cost Accountant in Practice shall be deemed to be guilty of professional misconduct , if he/she enters into partnership, in or outside India, with any person other than a Cost Accountant in practice or such other person who is a member of any other professional body having such qualifications as may be prescribed, including a resident who but for his residence abroad would be entitled to be registered as a member under clause (iv) of sub-section (1) of section 4 or whose qualifications are recognised by the Central Government or the Council for the purpose of permitting such partnerships; In the given case if charge of branch office is given to a member of the Institute of Cost Accountants of India it is not a professional misconduct but if given to member of any other Institute it is professional misconduct.

2.(b)(ii)

According to First Schedule, Part 1 Clause 6 of the CWA Act, 1959, a Cost Accountant in Practice shall be deemed to be guilty of professional misconduct if he/she solicits clients or professional work, either directly or indirectly, by circular, advertisement, personal communication or interview or by any other means. In the given case personal discussions with clients cannot be construed as advertisement and thus does not amount to professional misconduct.

3. (a) (i) How to treat Inward Transportation Cost as per the Cost Accounting Standard 5?

(ii) How Transportation Cost is to be determined in case the manufacturer is having its own transport fleet? [5+3=8]

(b) The profit as per financial accounts of M/s Kalingpong Himalaya Private Company for the year 2022-2023 was ₹1,54,28,642. The profit as per Cost Accounting Records for the same period was less. You are required to prepare a reconciliation statement and arrive at the profit as per Cost Records. The following details are collected from the financial schedules and cost accounting records:

Particulars	Financial Accounts ₹	Cost Accounts ₹
Valuation of Stock		
Opening: WIP	**25,62,315**	**22,65,710**
Finished Goods	**2,65,47,520**	**2,92,18,950**
Closing: WIP	**42,75,640**	**37,36,346**
Finished Goods	**3,72,59,430**	**4,35,25,149**
Interest income from inter-corporate deposits	**6,15,340**	—
Donations given	**4,85,560**	—
Loss on Sale of Fixed Assets	**1,22,546**	—
Value of cement taken for own consumption	**3,82,960**	**3,65,426**
Cost of Power drawn from own Wind Mill		
—At EB tariff	—	**49,56,325**
—At cost	**36,20,370**	—
Non-operating income	**45,36,770**	—
Voluntary retirement compensation	**16,76,540**	—
Insurance claim relating to previous year received during the year	**14,35,620**	—

[8]

Answer:

3.(a)(i)

Treatment of Cost:

1. Inward transportation costs shall form the part of the cost of procurement of materials which are to be identified for proper allocation/ apportionment to the materials / products.
2. Outward transportation cost shall form the part of the cost of sale and shall be allocated / apportioned to the materials and goods on a suitable basis. Explanation: Outward transportation cost of a product from factory to depot or any location of sale shall be included in the cost of sale of the goods available for sale.
3. The following basis may be used, in order of priority, for apportionment of outward transportation cost depending upon the nature of products, unit of measurement followed and type of transport used:

(i) Weight,
(ii) Volume of goods,
(iii) Tonne-Km,
(iv) Unit / Equivalent unit,
(v) Value of goods,
(vi) Percentage of usage of space Once a basis of apportionment is adopted, the same should be followed consistently.

4. For determining the transportation cost per unit, distance shall be factored in to arrive at weighted average cost. CAS – 5.
5. Abnormal and non-recurring cost shall not be a part of transportation cost. Explanation Penalty, detention charges, demurrage and cost related to abnormal break down will not be included in transportation cost.

3.(a)(ii)

In case of a manufacturer having his own transport fleet, proper records shall be maintained to determine the actual operating cost of vehicles showing details of various elements of cost, such as salaries and wages of driver, cleaners and others, cost of fuel, lubricant grease, amortized cost of tyres and battery, repairs and maintenance, depreciation of the vehicles, distance covered and trips made, goods hauled and transported to the depot

3.(b)

Working:

Computation in difference in Valuation of Stock

Particulars	Financial Accounts ₹	Cost Accounts ₹
Opening (WIP & FG) Closing (WIP & FG)	2,91,09,835 4,15,35,070	3,14,84,660 4,72,61,495
	1,24,25,235	1,57,76,835

Reconciliation of Financial Profit and Costing Profit

	₹	₹
Profit as per Financial Accounts		1,54,28,642
Add: Difference in Stock Valuation	33,51,600	
Loss on Sale of Fixed Assets	1,22,546	
Donation not considered in Cost Records	4,85,560	
Voluntary retirement compensation not included in cost	16,76,540	
Less: Non-operating income	45,36,770	
Less: Interest income from intercorporate deposit	6,15,340	56,36,246
		2,10,64,888
Difference in value of cement taken for own consumption	17,534	
Difference in valuation of windmill power (₹49,56,325 – ₹36,20,370)	13,35,955	
Insurance claim relating to previous year	14,35,620	79,41,219
Profit as per Cost Accounts		1,31,23,669

4. (a) You are the Management Auditor of a large manufacturing company suffering from working capital crisis. Which areas you will cover to overcome the crisis?

(b) Certain requirements of audit based on principles of propriety are stipulated in Cost Audit report. Explain the meaning of propriety audit and how this aspect is covered by Cost Audit. [8+8=16]

Answer:

4.(a)

Adequate working capital is required for smooth operation of the company. To ensure smooth flow of working capital the following action plan may be chalked out by the Management auditor.

(i) Estimation of working capital: - The manager should prepare projected working capital statement based on the functional budgets such as sales, production, expenses, capital expenditure and the master Budget consisting of project profit and loss and balance sheet.

(ii) Cash flow statement/Cash budget: - Month-wise cash flow statement showing inflow and outflow of cash head wise should be prepared to analyse major inflows and out flows affecting the entity. Any wasteful outflow can be traced and eliminated. Bank reconciliation statement to be prepared periodically so that outstanding can be traces and acted upon.

(iii) Inventory/Stock management: - Raw material and Inventories should be properly classified to determine the level of stock material required. The method of valuation to be determined. To determine the time factor for receipt and consumption of material. This is required to assess the production schedule and to avoid wasteful expenditure on account of excess storage capacity and cost of storage of inventory. In no circumstances the production schedule to hamper. For this, the Economic Order Quantity procedure to be adopted for spending minimum cost of capital for maintaining the inventory. The system of inventory management needs to avoid wastes and scrap generated during storage and handling. Just in time philosophy may be adopted to reduce processing time, stock etc which will release the working capital.

(iv) Credit Management: - The Company should lay down proper policy for evaluating customers, determine the credit period and offering discount for an early payment. An age wise analysis of debtors should also be prepared so as to avoid credit to defaulters and bad debt. Careful analysis of customers according to pattern of sales so as to exercise control over debit balances. The Company should through its purchase department endeavour to avail maximum credit period from creditors. These actions should increase the working capital.

(v) Funds flow Analysis: - The company should prepare a funds flow analysis, distinguishing between long term short term sources and application of funds. Long term funds should be utilised for long term purposes and short term funds should be utilised for short term purposes. Working capital should not be utilised for capital assets.

(vi) Investment management: - The idle funds of the company should be utilised for in short term securities to earn from idle short term funds.

(vii) WIP analysis-: Minimum WIP should be monitored and for the purpose it is necessary to ensure no bottlenecks develop at any stage during production process.

4.(b)

The term 'propriety' has been defined by Kholer as " that which meets the tests of public interest , commonly accepted customs and standards of conduct and particularly as applied to professional performance, requirements of Government regulations, and professional codes." Thus propriety audit is verification of transactions in best interest of public, commonly accepted customs and standards of conduct. Thus propriety audit seeks to ensure that expenditure is not only appropriate to the circumstances, the objectives for which it was incurred are also achieved. The principal standards adopted are as follows:

i) The expenditure should not be the prima facie more than what is required for the purpose and the person authorizing the expenditure should exercise the same degree of vigilance as he would when be dealing with his own money.

ii) No person having power to authorize expenditure should exercise the power to his own advantage directly or indirectly.

iii) The funds should not be utilized for benefit of a particular person or group.

iv) Apart from agreed remuneration /computerization, these should not be left open to any other avenue to indirectly benefit the executives or other employees, and allowances should not be a source of profit for them.

In this context, Cost Audit may be termed as propriety audit as it also seeks to ensure that actual expenditure incurred at each stage of production is appropriate and optimum returns are achieved. The cost auditor has to report on matters which appear to him to be clearly wrong in principle, cases where company's fund have been used in negligent manner etc. These are the areas where the propriety aspect is involved and therefore the aspect is covered by cost audit.

5. (a) KPC Pvt. Ltd took a consortium loan in 2022-23 amounting to ₹80 crores of which State Bank of India is the leading Bank for setting up a new plant in Haldia. During the year 2021-22 its outstanding loan was ₹70 crores of which repayment was made in the year 2022-23 to the extent of ₹20 crores. Should KPC Pvt. Ltd conduct internal audit as per Companies Act 2013?

(b) (i) Which companies are required to constitute Audit Committees? What is its responsibility regarding internal audit?

(ii) What are the qualities of a good internal auditor? [8+5+3=16]

Answer:

5. (a)

Section 138 of the companies act 2013 deals with provisions of internal audit. Section 138 of the Companies Act 2013 read with Rule 13 - Companies(Accounts) Rules, 2014 states that the following class of companies shall be required to appoint an internal auditor or a firm of internal auditors, every private company having- (i) turnover of two hundred crore rupees or more during the preceding financial year; or (ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year: Provided that an existing company covered under any of the above criteria shall comply with the requirements of section 138 and this rule within six months of commencement of such section. Outstanding loan of KPC Pvt Ltd is ₹130 crores as on 31st March 2017. So the Company is required to appoint internal auditor as per Companies Act 2013 read with Rule 13- Companies(Accounts) Rules, 2014.

5.(b) (i)

The following classes of companies and every listed company are required to have an audit committee of the board, in accordance with Section 177 of the Act and Rule 6 of the Companies (Meetings of the Board and Powers) Rules, 2014:

1. All public companies having a minimum paid-up capital of ten crore rupees.
2. All public companies with turnover of at least one hundred crore rupees.

3. All public companies with aggregate outstanding loans, borrowings, debentures, or deposits exceeding fifty crore rupees.

The paid-up share capital, turnover, outstanding loans, borrowings, debentures, or deposits as appropriate as they existed on the date of the most recent audited financial statements shall be taken into consideration for the purpose of this rule.

Sub-section (5) of section 177 of the Companies Act, 2013 provides that the Audit Committee may call for the comments of the auditors about internal control systems, the scope of audit, including the observations of the auditors and review of financial statement before their submission to the Board and may also discuss any related issues with the internal and statutory auditors and the management of the company. The Audit Committee shall have powers to investigate any activity within its terms of reference, to seek information from any employee, to obtain outside legal or other professional advice, to secure attendance of outsiders with relevant expertise, if it considers necessary.

The roles of the Audit Committee are:

(i) evaluation of internal financial controls and risk management systems;

(ii) reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;

(iii) reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;

(iv) discussion with internal auditors of any significant findings and follow up there on;

(v) reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;

(vi) discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.

The Audit Committee shall mandatorily review the Internal audit reports relating to internal control weaknesses; and the appointment, removal and terms of remuneration of the Chief internal auditor shall be subject to review by the Audit Committee.

The evaluation of internal controls including internal accounting controls gives an opportunity to the auditor to a clearer insight into the operational systems and an overall view of the organizational workings to spot weaknesses in the systems and procedures both in respect of financial and operational areas of the business. The audit process effectively evaluates the auditee's existing internal controls through the use of questionnaires and flow charts. The internal control questionnaire is a list of systematically and logically prepared questions designed to find out and evaluate the effectiveness of internal control systems regarding various aspects and accounting transactions of an organization. The questionnaires are to be comprehensive in nature to ensure that all aspects and accounting transactions are covered which are be replied by the officials of the department or division concerned. The criteria for replies against each question are "yes", "no", "not applicable", "explanatory notes" and comments". Normally the affirmative answers suggest satisfactory internal controls while negative answers suggest weaknesses of internal controls.

Answer:

5.(b)(ii) According to 'Technical Guide on Internal Auditing' by The Institute of Cost Accountants of India, Internal Auditor should have following three traits:

- ✓ Technical Expertise

- ✓ Right Attitude
- ✓ Communication and other soft skills.

An Internal Audit team has to have representation from diverse professional fields in order to understand the organization better, audit its function better and making internal audit recommendation better. Carrying 'right attitude' is most sought after skill of Internal auditor. Communication skills of Internal Auditor should be so strong to fit him in different roles while providing suggestion and consultancy to the Audit Committee, top Management and Auditees. Other soft skills include optimistic mindset, emotion regulation and presentation skills.

6. (a) The following is the Balance Sheet of Jamuna Sing Ltd. of Chandigarh as on 31st March, 2023 and 31st March 2022:

Particulars	31.03.23 ₹	31.03.22 ₹
Non-Current Assets		
Fixed Assets - Tangible Assets	**4,45,000**	
Non-Current Investments	**30,000**	
Long Term Loans and Advances	**85,000**	
Current Assets		
Stock in trade	**1,50,000**	
Sundry Debtors	**1,50,000**	
Bills Receivable	**20,000**	
Advance Payment to contractors	**3,000**	
Cash and Bank	**15,000**	
	8,98,000	
Equity and Liabilities		
Shareholders' Fund	**3,80,000**	**3,80,000**
Reserves and Surplus	**2,75,000**	**2,20,000**
Non-Current Liabilities Long term Borrowings	**50,000**	**50,000**
Deferred Tax	**20,000**	**20,000**
Current Liabilities	**1,90,000**	**1,80,000**
Sundry Creditors	**60,000**	**48,000**
Bills Payable		
	9,75,000	**8,98,000**

You are required to prepare a schedule showing the followings:

(i) **Change in Working Capital**

(ii) **Liquidity and proprietary ratios for the two years.**

(b) A company has following four operations undergone by a product under cost audit. The input, output and labour costs process-wise are given below:

Process	Input M.T.	Output M.T.	Direct Labour cost of the process (₹)
A	72,000	64,800	1,94,400
B	75,000	66,000	2,64,000
C	1,08,000	99,360	4,96,800
D	90,000	83,250	6,66,000

Calculate "Direct labour cost per unit of the product under reference". [10+6=16]

Answer:

6.(a)

Schedule of changes in Working Capital:

Particulars	31.03.22 ₹	31.03.23 ₹	Increase ₹	Decrease ₹
Current Assets Stock in trade Sundry Debtors Bills Receivable Advance Payment to contractors Cash and Bank	 1,50,000 1,50,000 20,000 3,000 15,000	 2,30,000 1,60,000 35,000 10,000 25,000	 80,000 10,000 15,000 7,000 10,000	
	3,38,000	4,60,000		
Current Liabilities Sundry Creditors Bills Payable	 1,80,000 48,000	 1,90,000 60,000		 10,000 12,000
	2,28,000	2,50,000		
Net working capital Increase	1,10,000 1,00,000	2,10,000	1,22,000	22,000 1,00,000
	2,10,000	2,10,000	1,22,000	1,22,000

(ii) Liquidity Ratios:

(a)	Current Ratio	31.03.2013 = 338000/228000 31.03.2012 = 460000/250000	= 1.48 = 1.84
(b)	Acid Test Ratio	31.03.2013 = 188000/228000 31.03.2012 = 230000/250000	= 0.82 = 0.92
(c)	Proprietary Ratio	31.03.2013 = 655000/975000 31.03.2012 = 600000/898000	= 0.67 = 0.67

6.(b)

The total labour cost per tonne of the product under audit must be an aggregation of process-wise labour costs after taking into account the good units occurring in each process.

Process	Input	Output	Factor
A	72000	64800	72000/64800=1.1111
B	75000	66000	75000/66000=1.1364
C	108000	99360	108000/99360=1.0870
D	90000	83250	90000/83250=1.0811

Process wise labour costs per M.T of output are:

A 194400/64800 = ₹3

B 264000/66000 = ₹4

C 496800/99360 = ₹5

D 666000/83250 = ₹8

Charging all the above to the finished product from process D,

Process A	= ₹3	
Process B	= (₹3×1.1364) +₹4	= ₹7.4092
Process C	= (₹7.4092×1.0870) +₹5	= ₹13.0538
Process D	= (₹13.0538×1.0811) +₹.8	= ₹22.1125
Direct Labour cost per M.T. of Finished Product		= ₹22.11

7. (a) The following figure are extracted from the statement prepared by the Cost Accountant and the Trial Balance of ABC Ltd., which is a single product company calculate Value Added:

	(₹ in lacs) 31.03.2023
Gross sales inclusive of GST	**2,040**
GST	**300**
Raw Materials consumed	**1,140**
Direct Wages	**35**
Power and Fuel	**30**
Stores and Spares	**6**
Depreciation Charged to production cost centers	**16**
Factory Overheads:	
Salaries and wages	**5**
Depreciation	**2**
Rates and Taxes	**1**
Other Overheads	**6**
Administrative Overheads:	
Salaries and Wages	**10**
Rates and Taxes	**2**
Other Overheads	**162**
Other overheads	**7**
Selling and Distribution overheads:	
Salaries and Wages	**6**
Packing and Forwarding	**1**
Depreciation	**124**
Other overheads Interest	**85**
Bonus and Gratuity	**12**
Gross Current Assets	**840**
Other overheads Interest	**324**

b) There was a strike from 13.09.2022 to 16.11.2022 in a company of which you were the Cost Auditor for the year ending 31.03.2023. Although the company began working from 17.11.2022, production could effectively begin only from 5.12.2022. The expenses incurred during the year ended 31.03.2023 were:

Particulars	(₹ in lakhs)
Salaries & Wages (direct)	450
Salaries & Wages (indirect)	300
Power (variable)	180
Depreciation	270
Other Fixed Expenses	360

Detailed examination of the records reveals that of the above, the following relate to the period 13.09.2022 to 16.11.2022:

Particulars	(₹ in lakhs)
Salaries & Wages (indirect)	105

Depreciation	**90**
Other Fixed Expenses	**135**

Calculate the amount which in your opinion should be treated as abnormal for exclusion from the product costs. **[9+7=16]**

Answer:

7.(a)

Value Addition statement of ABC Ltd.

Particulars	**₹ In Lakhs**
Net Sales **(X)**	**1,740.00**
Less: (i) Cost of Bought out Materials & Services (Raw Materials, Direct wages and Stores & Spares = 1140+35+6)	1,181.00
(ii) Power & Fuel	30.00
(iii) Packing & Forwarding	18.00
(iv) Overheads (excluding Salaries & Wages, Rates & Taxes and depreciation= 51+62+85)	198.00
(Y) = (i) + (ii) +(iii)+(iv)	**1,427.00**
Value Addition : (X) –(Y) =	**313.00**

7.(b)

Calculation of Fixed expenses incurred during the period 17.11.2022 to 04.12.2022

		₹in lakhs
Total expenses 2022 –23	(450+300+180+270+360)	1,560
Less: Variable expenses (Electricity)		180
Fixed expenses (2022 -23)		1,380
Less: Fixed expenses during the strike period (105+90+135)		330
Fixed expenses during non-strike period		1,050

Since the strike period was for 65 days, the non-strike period is 300 days.

Hence, Fixed expenses attributed to 18 days, i.e., 17.11.2022 to 4.12.2022 is 6% of ₹1,050 lakhs = `63 lakh.

Therefore, Expenses incurred during 13.9.22 to 16.11.22	₹330 lacs
For expenses incurred during 17.11.2022 to 04.12.2022	₹63 lacs
Total	₹393 lacs

Hence, ₹393 lakh is to be treated as abnormal cost and should be excluded from the product cost.

8. Answer any 4 questions: [4x4=16]

(a) Discuss the concept of 'Common Cost' as per GACAP.

(b) Distinguish between internal audit and operational audit.

(c) The essential qualities required of a Management Auditor.

(d) From the following particulars make out a monthly cost sheet of Coke Oven Company Limited for the Financial Year ended 31.03.2023.

Coal used	**7,000 Tonnes @ ₹28 per tonne**
Coke Produced and Sold (main product)	**4,900 Tonnes, Selling Price being ₹ 56 per tonne**
Tar produced	**280 Tonnes @ ₹ 60 per tonne**
Sulphuric, etc.	**70 Tonnes @ ₹ 210 per tonne**
Benzole etc. produced	**67 Tonnes @ ₹ 95 per tonne**
Raw Material used	**₹ 54,600**
Wages paid	**₹ 20,500**
Repairs and Renewals	**₹ 12,000**
Salary and General Charges	**₹ 7,500**

(e) The capacity usage ratio and the capacity utilization ratio in respect of machine for a particular month is 80% and 90% respectively. The available working hours in a month is 200 hours. The break-up of idle time is as follows: Waiting time for job - 5 hours; breakdown - 4 hours; waiting time for tools - 3 hours. Calculate the cost and present the same in a tabular form when the hourly fixed cost of running the machine is `8.00.

Answer: (8)

(a) The concept of 'Common Cost' as per GACAP:

A common cost is the cost of operating a common facility, activity or service or that is shared by two or more cost objects. The common cost is generally lower than the stand-alone individual cost to each cost object was the facility not shared. Common costs are therefore allocated to each cost object based on the individual costs of the cost object.

(b) Distinguish between internal audit and operational audit:

The following table highlights the salient features of the traditional form of internal audit a nd operation al audit:

Internal audit	Operational Audit
1. Compliance objective	Risk identification, process improvement objective
2. Financial accounts focus	Business focus
3. Audit focus	Efficiency & improvement focus
4. Transaction-based	Process-based
5. Policies and procedures focus	Risk management focus
6. Cost Centre wise budget monitoring	Accountability for performance improvement results
7. Methodology: Focus on policies, transactions and compliance	Methodology: Focus on goals, strategies and risk management processes

(c) The essential qualities required of a Management Auditor:

A management auditory is expected to offer special skill and expertise to his clients. He, therefore, has a special responsibility to exercise special care in the performance of his duties to ensure positive response to his opinion to motivate action thereon.

A management auditor should be competent in the exercise of his audit function and formulation of his opinion based on such audit. He should be a man of independent thinking, who can maintain an unbiased view, without duties, having had education, training and experience all round. The management auditor should be supported by a good organisation i.e. a team of people who can competently execute his audit.

Qualifications of Management and Administrative Auditors:

Prime qualification of a management auditor is to process broad business experience in allied profession such as accountancy, statistics, engineering, marketing or administration. It is not possible that one person can possess all the specialized qualifications. But a special qualification in one field could have a respective view of the whole system. If a team of auditors is appointed it will be preferable to have people from different streams, because a cross fertilisation of ideas from different business fields can be a stimulating factor. Management audit should aim at highlighting any team of administration or managerial efficiency or otherwise affecting the performance of the organisation.

The essential qualities of a management auditor are:

(i) Ability to grasp the business problems
(ii) General understanding of the nature, purposes and objects of the organisation e.g. nationalized or government controlled organisation etc.
(iii) Ability to determine or assist the progress of the organisation
(iv) Knowledge of the principles of delegation of authority and control and the preparation of different budgets viz. cash budget, production budget, master budget, etc
(v) Power of grasping and understanding different internal control devices viz., flow chart, flow of work, analysis of work scheduling, use of computer, etc.
(vi) Sufficient knowledge about engineering statistical techniques, cost and management accounting, general financial accounting, production planning and control etc.
(vii) General understanding of different laws viz. company laws, tax laws, FEMA, MRTP, and other economic legislations.
(viii) Sufficient knowledge and experience in preparing various reports for submission to different levels of management including the top management
(ix) Tactfulness, perseverance, pleasing and dynamic personality.

(d) Monthly Cost Sheet of Coke Oven Company Limited for the Financial Year ended 31st March 2023

Particulars		Total cost(₹)	Cost per ton(₹)
Coal used (7,000 tonnes x ₹28)		196000	
Raw Material used		54600	
Wages		20500	
Repairs and renewals		12000	
Salaries and general charges		7500	
		290600	
Less: Value of by-product:			
Tar produced (280 tonnes x ₹ 60)	16,800		
Sulphur etc. (70 tonnes x ₹ 210)	14,700		
Benzole etc. (67 tonnes x ₹ 95)	6,365	37865	

Cost of Coke Produced (4900 tonnes)	252735	51.58
Profit(balancing figure)	21665	4.42
Sales Revenue(4900 tonnes×₹56)	274400	56.00

(e)

		Hours
Available working hours in a month		200
Capacity usage @ 80%		160
Idle time unavoidable Capacity utilization ratio = 90%		40
Actual hours worked	= 160 hrs. x (90/100)	=144 hrs.
Idle time	= 160 hrs. – 144 hrs.	= 16 hrs.
Breakup of Idle Time	Hrs.	
Waiting for job	5	
Breakdown	4	
Waiting for tools	3	
Miscellaneous causes	4	
Total idle time	16	