

Paper - 19 : Cost and Management Audit

MTP_Final_Syllabus-2016_June 2020_Set -1

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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) The cost records are to be maintained as specified in _____.
- (a) CRA3
 - (b) CRA1
 - (c) CRA 4
 - (d) CRA 2
- (ii) There are _____ to the Act clarifies or indicates that the schedules provide an illustrative list of acts and omissions constituting "professional or other misconduct"
- (a) two schedules
 - (b) three schedules
 - (c) four schedules
 - (d) five schedules
- (iii) CAS 11 deals with _____.
- (a) Administrative Overhead
 - (b) Factory Overhead
 - (c) Selling & Distribution Overhead
 - (d) Financial Cost
- (iv) A manufacturing unit showed, during the Financial Year 2019-20, the following financial data (in Rs. lakh): Net Sales 2,400, Export Incentives 150, Other income 175, Adj. of Finished Stock (+) 125, Materials 725, Salaries 530, Overheads 145, and Tax 126.30. The Value Added as per Rules is (in Rs. lakh) _____.
- (a) 1275
 - (b) 1420
 - (c) 1950
 - (d) 2675
- (v) Remuneration of the Non-Executive Directors is treated as _____
- (a) Employee Costs
 - (b) Administrative Overheads
 - (c) Salaries and Wages
 - (d) Management Expenses
- (vi) Which of the following ratios appears as Profitability Ratio in Part D of Annexure to the Cost Audit Report?
- (a) Net Profit to Net Sale
 - (b) Value added to Net Sales
 - (c) Profit before Tax to Value Added.
 - (d) Net Profit to Share Capital.
- (vii) Propriety Audit in the context of Government Audit seeks to ensure that _____.
- (a) public money are not spent for the benefit of a particular person

MTP_Final_Syllabus-2016_June 2020_Set -1

- (b) public officer should exercise same vigilance as in respect of expenditure of his/her own money
- (c) no authority should pass an order which will be directly or indirectly to its own advantage
- (d) All of the above

- (viii) Machinery used in defence, space and atomic energy sector and fulfilling turnover criteria is under
- (a) regulated sector.
 - (b) unregulated sector.
 - (c) exempted by different statute.
 - (d) not applicable category.

- (ix) The procedures followed by the cost auditor to reduce the audit risk to an acceptable level will not detect a misstatement that exists and that could be material is _____.
- (a) Inherent risk.
 - (b) Detection risk.
 - (c) Control risk.
 - (d) None of the above.

- (x) Consumer Service Audit is part of _____
- (a) Business Activity Audit
 - (b) Social Audit
 - (c) Service Audit
 - (d) None of Above

Section - B [80 marks]

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

(ii) Whether separate Form CRA-2 is required to be filed by a company having two or more different types of products covered under cost audit?

3 + 3

(b) (i) Which information are likely to be provided in Filing Form CRA-4?

6

(ii) The Companies (Cost Records and Audit) Rules, 2014 have not prescribed any specific formats for the cost statements. In what manner and format would the cost statements be kept under these Rules?

4

3. (a) "While conducting an audit, the cost auditor shall comply with each of the Cost Auditing Standards relevant to the audit." – Discuss.

6

(b) The Cost Accountant of M/s. Suchana Fertilizers Ltd. has arrived at a profit of Rs. 85,25,200 based on Cost Accounting records for the year ended March 31, 2020. 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	Rs. 1,53,35,600
as per Cost Accounts	Rs. 1,56,10,780
(ii) Profit on Sale of Fixed Assets	Rs. 74,800
(iii) Loss on Sale of Investments	Rs. 18,400
(iv) Voluntary Retirement Compensation included in Salary & Wages in F/A	Rs. 17,50,000
(v) Donation Paid	Rs. 36,000

MTP_Final_Syllabus-2016_June 2020_Set -1

(vi) Major Repairs & Maintenance written off in F/A Rs. 14,48,000

(Amount reckoned in Cost Accounts of Rs. 7,05,950 for this job)

(vii) Insurance Claim relating to previous year received during the year Rs. 15,65,000

(viii) Profit from Retail trading activity Rs. 8,33,500

(ix) Interest Income from Inter-Corporate Deposits Rs. 8,40,000

You are required to prepare a Reconciliation Statement and arrive at the Profit as per Financial Accounts.

10

4. (a) Define Management Audit. Discuss about the uses of Management Audit.

2 + 6

(b) (i) What is meant by Corporate Service Audit?

(ii) Describe the areas of Corporate Services Audit, the scrutiny thereof and the evaluation criteria used in such audit.

2 + 6

5. (a) Define Audit Committee. Discuss about the role of Audit Committee.

8

(b)(i) Write a short note on the role of Internal Auditor of a company to review Custodianship and Safeguarding of Assets.

4

(ii) What are the important matters to be considered for conducting Audit of Co-operative Societies?

4

6. (a) Bhagirathi Sugar Mill Ltd. has a boiler that uses the unit's own by-product, cane waste (Bagasse), as fuel which has a market price of Rs. 950 per ton. The steam generated is first used for the generation of power and the exhaust steam is used in the process of sugar manufacture. The exhaust steam (after generation of power) transferred to the sugar manufacturing process is 84% of the cost of production of steam. The mill buys restricted amount of power from the grid. The following details are extracted from the Financial Accounts and Cost Accounting Records of the Sugar Mill:

Sugar produced	29,20,000 quintals
Steam generated and consumed	17,82,000 ton
Fuel (Bagasse) consumed for production of steam	8,36,000 ton
Conversion Cost of generation of steam	Rs. 11,15,68,000
Steam used for generation of power	7,48,400 ton
Power purchased from the Electricity Board @ Rs. 7.50/kWh	68,50,000 kWh
Power generated from the Steam Turbine	5,92,44,000 kWh
Conversion Cost of generation of power (excluding cost of steam)	Rs. 5,08,75,000

Find out (i) Gross Cost of Steam per ton of Steam, (ii) Average Cost of Power per kWh and (iii) Average Cost of Power per ton of Sugar.

8

(b) M/s. Manoj Ltd. makes a single product, which sells for Rs. 36 per unit and there is a great demand for the product.

The variable cost of the product is Rs. 22 as per details below:

	Rs.
Direct Material	10
Direct Labour (Rs. 3/hour)	6
Variable Overhead	<u>6</u>
	<u>22</u>

MTP_Final_Syllabus-2016_June 2020_Set -1

The labour force is currently working at 100% capacity and no extra time can be made available. A customer has approached the company with a request for a manufacture of a special order at Rs. 10,000.

The cost of order would be Rs. 4,000 for Direct Materials and 600 labour hours will be required and variable overhead/hr. will be Rs. 3.

Should the company accept this order?

8

7. (a) Prashant Auto Parts Ltd. has received an enquiry for supply of 3,00,000 numbers of special type of auto components. The Company can execute the assignment provided a capital investment of Rs. 5,00,000 and working capital to the extent of 3 months' cost of sales are made available. The costs estimated are as follows:

Raw Materials - @ Rs. 4.50 per unit

Direct Labour Hours - 10,000

Labour Rate – Rs. 5.50 per hour

Factory Overheads – Rs. 5 per direct labour hour

Selling and Distribution expenses – Rs. 50,000

Borrowed funds will be available @12% on additional capital outlay. The company expects a net Return of 25% on Sales. The Managing Director wants a Cost and Price statement, indicating the price which should be quoted to the customer.

8

- (b) There was a strike from 17.08.2019 to 28.10.2019 in a company of which you are Cost Auditor for the year ending 31.03.2020. Although the Company began working from 29.10.2019 production could effectively begin only from 30.11.2019. The expenses incurred during the year ending 31.03.2020 were:

	Rs. In lakh
Salaries & Wages (Direct)	4,000
Salaries & Wages (Indirect)	3,000
Power (Variable 90%)	1,600
Depreciation	2,000
Other Fixed Expenses	2,800
Repairs and Maintenance (Variable Rs. 1,200 lakhs)	1,600
Total	<u>15,000</u>

Detailed examination of the records that of the above the following relate to the period 17.08.2019 to 29.11.2019.

	Rs. In lakh
Salaries & Wages (Indirect)	900
Depreciation (Non-productive)	700
Other Fixed Expenses	1,000
Repairs and Maintenance (Indirect)	<u>200</u>
Total	<u>2,800</u>

Calculate the amount which in your opinion, should be treated as abnormal for execution from the product Costs.

8

8. Answer any four.

4x4=16

- (a) What do you mean by Internal Check? Is it different from Internal Audit? Explain.

- (b) What are the steps of Management Audit?

MTP_Final_Syllabus-2016_June 2020_Set -1

(c) Describe the needs for capacity determining.

(d) ABC Co. has planned for an investment of Rs. 800.00 lakh with 50% Loan from Banks at 10% interest.

Direct Cost for the year = Rs. 480.0 lakhs and 50% of which is Material cost. Other expenses are at Rs. 80.0 lakh.

The goods will be sold at 150% of direct cost. Tax rate is assumed at 50%.

Determine (i) Net profit margin (ii) Return on Assets (iii) Assets turnover (iv) Inventory Turnover.

(e) A company bought a new technology for its auto component unit for two products P and Q. The condition was to pay a lump of Rs. 20,00,000 (equally distributable for both products having a service life of 5 years) and Royalty of Rs. 5 per unit produced. The vendor's technicians were to be paid travelling expenses for maintenance. The company incurs cost for software services and interest for borrowing of Rs.1,60,000.

The following information is extracted from the Books of the Company for the year ended March 31, 2020:

Particulars	Product P	Product Q
Unit produced (Qty.)	50000	40000
Royalty paid on production (Rs.)	5/unit	5/unit
Travelling charges (Rs.)	20,000	20,000
Design charges (Rs.)	18,000	15,000
Software services charges (Rs.)	50,000	40,000
Hire charges for special equipment (Rs.)	12,000	—
Interest on Bank borrowing (Rs.)	80,000	80,000

You are required to compute the Direct Expenses — keeping in view of CAS - 10.