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.) [10x2=20 marks]

(i) **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-3

(b) CRA – 1

(c) XBRL

(d) CRA – 2

(ii) **Cost Accounting Standard 8 is a Cost Accounting Standard on __________ .**

(a) Employee Cost

(b) Utilities Cost

(c) Pollution Control Cost

(d) Selling and Distribution Cost

(iii) **Operational Audit can lead to better management with the focus on____________.**

(a) Transaction-based analysis for Fraud Prevention

(b) Compliance of Rules

(c) Risk Identification, Process Improvement

(d) Budget Monitoring

(iv) **The useful life of an intangible asset, like amount paid on technical knowhow, shall not exceed ________ from the date it is available for use.**

(a) 5 years

(b) 8 years

(c) 10 years

(d) 12 years

(v) **Quality costing is used for the purpose of ___________ .**

a) Cost Reduction

b) Pricing and decision making

c) Total performance management

d) Cost Control.

(vi) **The Management Auditor should evaluate MIS of an organization after __________ .**

(a) studying content, quality and source of information

(b) studying flow of information

(c) studying correlation of information in decision areas

(d) studying all the above

(vii) **There is no requirement of Audit Working Papers while conducting audit and they only result in loss of time.**

(a) The Statement is Correct

(b) The Statement is Incorrect

(c) The Statement is Incomplete

(d) None

(viii) **Non-Governmental Organizations can be incorporated as a company**

a. Section 25 of the Companies Act, 1956.

b. Section 8 of the Companies Act, 2013.

c. Section 28 of the Companies Act, 2013.

d. None of the above

(ix) **As per Part D, Para 3 of the Companies (Cost Records and Audit) Rules, 2014, Value Addition and Distribution of Earnings are to be computed based on**

(a) Audited Financial Data

(b) Cost Record Data

(c) Unaudited Financial Data

(d) Both (a) and (b)

(x) **____________ Analysis is evaluation of every resources declared in the industry.**

(a) Capacity

(b) Energy

(c) Productivity

(d) Efficiency

Answer:

1. (i) (a) CRA – 3

Reason: Pursuant to rule 6(4)of the Companies (Cost Records and Audit) Rules, 2014 every cost auditor, who conducts an audit of the cost records of a company, shall submit the cost audit report along with his or its reservations or qualifications or observations or suggestions, if any, in form CRA-3.

(ii) (b) Utilities Cost

Reason: CAS 8 deals with the Cost Accounting Standard on cost of utilities. The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the cost of utilities with reasonable accuracy.

(iii) (c) Risk identification, process improvement

Reason: The objective is to assist the organization in performing functions more effectively and economically with focus on efficiency and effectiveness of operations, giving an early warning system for detection of potentially destructive problems.

(iv) (c) 10 years

Reason: CAS 16 on depreciation and amortization states that useful life of an intangible asset shall not exceed 10 years from the date it is available for use.

(v) (a) Cost Reduction

Reason: Quality costing is a management accounting tool which is used for the purpose of cost reduction of the organization.

(vi) (d) Studying all the above.

Reason: The Management Auditor should evaluate MIS of an organization after studying content, quality and source of information, studying Flow of information, studying correlation of information in decision areas.

(vii) (b) The Statement is Incorrect.

Reason: Audit working papers are the record of the planning and execution of the audit engagement. Auditors retain a set of working papers for each audit engagement for each year.

(viii) (b) Section 8 of the Companies Act, 2013.

Reason: Non-Governmental Organisations are generally incorporated as societies under the Societies Registration, Act, 1860 or as a trust under the India Trust Act, 1882, or under any other law corresponding to these Acts enforced in any part of India. NGO's can also be incorporated as a company under section 8 of the Companies Act, 2013.

(ix) (a) Audited Financial Data

Reason: As per part D, para 3 of the Companies (Cost Records and Audit) Rules, 2014, Value Addition and Distribution of Earnings are to be computed based on Audited Financial Accounts.

(x) (c) Productivity

Reason: The Productivity audit is basically an analysis of the productivity of the resources deployed by any organization. It is generally done to generate information about the status of productivity in the organization for the purpose of determining the scale of efficiency and effectiveness of resource utilization.

Section - B [80 marks]

2. (a) (i) What is the difference between Cost Accounting policy and Cost Accounting system?

(ii) While accepting the offer of appointment as Cost Auditor of a company, what certificate should be submitted by the Cost Auditor to the company? Is the Cost Auditor required to give any certificate with respect to his/her/its independence and 'arm's length relationship' with the appointing company?

2 + 6

(b) (i) Write a short note on Code of Ethics in the field of Cost and Management Accounting.

(ii) Discuss about the punishment of fraud (Section 447 of the Companies Act, 2013).

5 + 3

Answer:

2. (a) (i) Cost Accounting Policy of a company state the policy adopted by the company for treatment of individual cost components in cost determination.

The Cost Accounting system of a company, on the other hand, provides a flow of the cost accounting data/ information across the activity flow culminating in arriving at the cost of final product/service.

(ii) The Cost Auditor appointed shall submit a certificate that –

(a) The individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act (the Cost and Works Accountants Act, 1959) and the rules or regulations made thereunder ;

(b) The individual or the firm, as the case may be satisfies the criteria provided in Section 141 of the Companies Act, 2013 so far as may be applicable ;

(c) The proposed appointment is within the limits laid down by or under the authority of the Act ; and

(d) The list of proceedings against The Cost Auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.

Yes, the Cost Auditor of a company is required to give a certificate to the Audit Committee in respect of his/her/its independence and arm's length relationship with the company. Moreover, according to the Second Schedule, Part I, Clause 4 of the Cost and Works Accountants Act, 1959, it amounts to professional misconduct when a Cost Auditor expenses his/her/its opinion on cost and pricing statement of any business or enterprise in which he/she, his/her firm or a partner of his/her firm has substantial interest.

(b) (i) As professionals in the field of Cost and Management Accounting, the members of the Institute are bound by a code of professional ethics. This code stipulates and binds them to the highest level of care, duty and responsibility to their employers and clients, the public and their fellow professionals.

The objectives of the accountancy profession are to work to the highest standards of professionalism, to attain the highest levels of performance and generally to meet the public interest requirement. These objectives require four basic needs to be met:

(i) Credibility in information and information systems;

(ii) Professionalism identified by employers, clients and other interested parties;

(iii) Quality of service carried out to the highest standards of performance; and

(iv) Confidence that there is a framework of professional ethics to govern the provision of services.

(ii) Without prejudice to any liability including repayment of any debt under this Act or any other law for the time being in force, any person who is found to be guilty of fraud, shall be punishable with imprisonment for a term which shall not be less than six months but which may extend to ten years and shall also be liable to fine which shall not be less than the amount involved in the fraud, but which may extend to three times the amount involved in the fraud:

Provided that where the fraud in question involves public interest, the term of imprisonment shall not be less than three years.

3. (a) What is meant by Cost Statement ? Discuss about the responsibilities of a Cost Auditor for preparing and presenting of a Cost Statement. 6

(b) Following data is available Horizon Ltd. relating to cost of production of a product subject to Cost Audit. Prepare export Profitability statement to be included in the annexure to the cost of production of 30000 units.

Particulars	₹
Sales (Local) 18,000 units	54,00,000
Sales (Export) 12,000 units	33,60,000
Material consumed 150 tonnes at ₹ 250 per tonne	37,500
Imported components ₹ 200 per unit	60,00,000
Direct labour	1,25,000
Factory overhead	85,000
Administrative overhead	80,000
Freight & Packing (Local sales)	5,50,000
Packing for export	4,20,000
Handling at port	1,50,000
Opening Work in progress	4,10,000
Closing Work in progress	3,20,000

Additional information:

Export incentive of 12% on FOB is receivable.

Draw back on duty paid on raw materials and components available on export are ₹ 50,000. 10

Answer:

3. (a) The term "Cost Statements" refers to a structured representation of the cost information, which ordinarily includes accompanying notes, derived from cost accounting records and intended to communicate an entity's use of economic resources and the output obtained in accordance with a Cost reporting framework. The term can refer to for example, a cost statement, reconciliation with financial accounts and related explanatory notes.

The cost auditor is responsible for forming and expressing an opinion on the Cost Statements. The requirements of the Cost reporting framework determine the form and content of the Cost Statements and what constitutes a complete set of Cost Statements. For certain Cost reporting frameworks, a single cost statement as such and the related explanatory notes constitute a complete set of Cost Statements.

The cost auditor shall determine whether the Cost Reporting Framework followed by management in preparing cost statements is in line with the Companies Act and the Rules prescribed thereunder. The Cost auditor is not responsible for preparing and presenting the cost statements in accordance with the applicable Cost reporting framework including inter-alia:

(1) Designing, implementing and maintaining internal control relevant to the preparation and presentation of Cost Statements that are free from material misstatement, whether due to fraud or error;

(2) Selecting and applying appropriate Cost accounting policies; and

(3) Making cost estimates that are reasonable in the circumstances.

(b) Statement showing Cost of Production and cost/unit of production

Particulars	Total Cost (₹)	Cost per unit (₹)
Production = 30,000 units		
Direct Materials (150 tons @ ₹ 250 per ton)	37,500	1.25
Imported Materials (@ ₹ 200 per unit)	60,00,000	200.00
Direct labour	1,25,000	4.17
Prime Cost	**61,62,500**	**205.42**
Factory Overhead	85,000	2.83
Opening WIP	4,10,000	13.67
	66,57,500	221.92
Less: Closing WIP	3,20,000	10.67
Works Cost	**63,37,500**	**211.25**
Administrative Overhead	80,000	2.67
Cost of Production	**64,17,500**	**213.92**

Statement of Cost and profit on Export Sales

Particulars	Total Cost (₹)	Per unit Cost (₹)
Production = 12,000 units		
Cost of production	25,67,040	213.92
Export Packing	4,20,000	35.00
Handling at port	1,50,000	12.50
Cost of Sales…………………………………………………(A)	**31,37,040**	**261.42**

Particulars	Total Cost (₹)	Per unit Cost (₹)
Export Sales realization	33,60,000	280.00
Export incentive @ 12% on FOB	4,03,200	33.60
Duty drawback on raw materials & components	50,000	4.17
Total Realization ……………………………………………(B)	**38,13,200**	**317.77**
Profit on export…………………………………………….(B – A)	6,76,160	56.35

4. (a) What is meant by Management Audit Programme (MAP) ? Which factors should be considered for framing an efficient Management Audit Programme?

2 + 6

(b) What is Personnel Management? Discuss about the functional areas of Personnel Management along with the scope of Human Resources Management.

2 + 6

Answer:

4. (a) Management audit programme is an essential prerequisite to conducting the audit. It is a plan of action drawn in advance of taking up the audit, and to help the auditor to cover the entire area of his function thoroughly.

He should lay down for himself a proper procedure to be followed to complete the work in time, giving thorough coverage to all aspects.

In order to frame an efficient management audit programme the following factors should be considered:

(i) Review of the organisational objectives and plans

(ii) Study of the policies and practices of the management

(iii) A critical review of the organizational structure

(iv) Study of the systems and procedures

(v) Evaluation of operations

(vi) Study of the efficiency of the use of physical resources available

(vii) Exercise of proper management control

(viii) Maintain suitable monitoring system through management information system (MIS)

(ix) Check on adherence to the statutory obligation and

(x) Above all, review the efficiency of manpower handling, which ultimately results in the organisation's success.

An audit programme is laying down the path in its required details before conducting such audit.

A management auditor shall shrewdly assess weak and risk areas in the organisation and deal with such areas in more detail. He has to lay down a programme by making a list of such weak and risk areas and follow them up in his audit.

4. (b) Personnel Management is that part of the management function which is primarily concerned with the human relationships within an organization. Its objective is essentially the maintenance of those relationships, which enable all those engaged in the undertaking to make their maximum personal contribution to the effective working of that undertaking. Therefore personnel management is concerned with managing people at work. It is essentially one of development of efficient, loyal and hard working employees. Personnel management is concerned with helping the employees to develop their potentialities and capacities to the maximum possible extent.

The functional areas of Personnel Management along with the scope of human resources management are indicated below:

(i) Organization review and analysis: Continuous review and analysis of organization's operation may be necessary in order to determine and develop appropriate work structure, roles and responsibilities, inter and intra-department relationship, and levels of authority.

(ii) Manpower, planning, recruitment and selection: Forecasting and planning is essential to needs an organization for a sufficient number of qualified personnel for manning its operations.

(iii) Manpower training and development: Appropriate methods and techniques of training and development may be adopted. Proper facilities and opportunities are to be provided for personnel to enable them to acquire necessary skills and knowledge to perform the jobs for which they are employed.

(iv) Performance appraisal: There should be proper measuring, rating and evaluation of performance of personnel, guiding employee development and promoting motivation, communication and equity.

(v) Employee remuneration: This function includes developing and administering appropriate system of remuneration including job evaluation, wage and salary structure, incentive payments, fringe benefits and non-financial rewards.

(vi) Employee services: There should be satisfactory services relating to the safety, health and welfare of all employees, including social security plans and community development programmes.

(vii) Administration and records: This includes designing, implementing and controlling of adequate records and administrative procedures to provide useful and pertinent information for planning purposes and for the documentation for all personnel in service.

(viii) Industrial relations: It includes establishing appropriate procedures for the resolution for personnel and institutional differences by means of appropriate measures and machinery, e.g. standing orders, grievance procedures, conciliation, collective bargaining, and joint consultation.

(ix) Auditing and research in manpower management: These are the responsibilities of personnel management, which call for the attention of a management auditor.

5. (a) What is Audit Programme? Discuss about the advantages and disadvantages of an Audit Programme. 10

(b) Mention the provisions relating to Internal Audit under the Companies Act, 2013. 6

Answer:

5. (a) An audit programme is a detailed plan of the auditing work to be performed, specifying the procedures to be followed in verification of each item and the financial statements and the estimated time required. To be more comprehensive, an audit programme is written plan containing exact details with regard to the conduct of a particular audit. It is a description or memorandum of the work to be done during an audit. Audit programme serves as a guide in arranging and distributing the audit work as well as checking against the possibility of the omissions.

Advantages of audit programme

The main advantages of an audit programme are as follows:

(i) It serves as a ready check list of audit procedures to be performed.

(ii) The audit work can be properly allocated to the audit assistants or the article clerks.

(iii) The auditor may easily know the extent of work done at any point of time. Thus, the progress of work done can be under the supervision and control of the auditor.

(iv) Audit programme would not only be useful for the audit assistants in carrying the audit work but for the principal too as he would be in a position to account for the individual responsibilities.

(v) A uniformity of the work can be attained as the same programme would be followed from time to time.

(vi) It is a useful basis for planning the programme for the following year.

(vii) It may be used as evidence by the auditor in the event when any charge is brought against him. He can prove that there has no negligence on his part and he exercised reasonable care and skill while performing the task.

Disadvantages of audit programme

The main disadvantages of an audit programme are as follows:

(i) The auditor's task becomes mechanical and the auditors may lose interest and initiative.

(ii) Drawing up of an audit programme may be unnecessary for a small concern.

(iii) Though audit programme helps in fixing responsibilities but inefficient staff may defend themselves by stating that the matter was not contained in the audit programme.

(iv) Rigid programmes cannot be laid down for each type of business.

Though an audit programme may suffer from the above disadvantages but these can be removed by taking some initiatives such as consulting the audit assistants, modifying the programme on the basis of experience gained during audit, etc.

5. (b) Section 138 of the Companies Act, 2013, deals with the provisions relating to Internal Audit:

(i) Such class or classes of companies as may be prescribed shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the company.

(ii) The Central Government may, by rules, prescribed the manner and the intervals in which the internal audit shall be conducted and reported to the Board.

Rule 13 of the Companies (Accounts) Rules, 2014 provide that following class of companies shall be required to appoint an internal auditor or a firm of internal auditor:

(a) every listed company

(b) every unlisted public company having;

(i) paid up share capital of ₹ 50 crores or more during the preceding financial year; or

(ii) turnover of ₹ 200 or more during the preceding financial year; or

(iii) outstanding loans or borrowings from banks or public financial institutions exceeding ₹ 100 crore or more at any point of time during the preceding financial year; or

(iv) which has accepted deposits of ₹ 25 crore or more at any point of time during the last financial year; and.

(c) 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.

6. (a) The following is the abridged comparative Balance Sheets of M/s. Subham Ltd., a manufacturing company for two years as on March 31, 2020 and 2019:

(Amount in ₹ Lakh)

	2020	2019
Equity & Liabilities		
Shareholders' Fund:		
Equity Share Capital	4,000	2,200
Reserves and Surplus	4,200	3,400
Non-Current Liabilities:		
Term Loans	3,600	1,800
Debentures	1,800	1,800
Other Long-term Loans	1,500	1,800
Current Liabilities:		
Current Liabilities	3,200	1,500
Short-term Provisions	950	750
Total	19,250	13,250
Assets		
Non-Current Assets:		
Fixed Assets:		
Tangible Assets	4,500	4,300
Intangible Assets	—	—
Capital Work-in-Progress	2,400	—
Non - Current Investments:		
Investment in subsidiaries	1,000	600
Current Assets:		
Inventories	4,300	2,500
Trade Receivables	5,200	3,600
Cash and Cash equivalents	900	650
Short-term Loans and Advances	950	1,600
Total	19,250	13,250

Additional Information:

(₹ in Lakh)

Year ended March 31	2020	2019
Profit before Tax (PBT)	1,600	1,450

You are required to compute the following as stipulated in PART-D, PARA-4 to the Annexure of Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2020:

(i) Capital Employed

(ii) Net Worth

(iii) PBT to Capital Employed

(iv) PBT to Net Worth

(v) Debt-Equity Ratio

(vi) Current Assets to Current Liabilities

(b) A Company introduced a new product EZY with advanced technology in a product market where there is huge competition with many competitors having individual market share 5% to 10%. Survey on the present market estimates that demand will increase of 80,000 units per year. The company is presently targeting 50% of the additional market demand as competitors will need at least two years to match its product.

The Product EZY passes through three departments. Direct cost per unit of product at present rate: Material cost ₹ 65 and Labour Cost ₹ 45. Overheads are absorbed on the basis of normal capacity. The following relevant information is given:

Production Dept	Unit of Measurement	Normal monthly capacity	Monthly Allocated Fixed Overheads (₹)	Full Overhead cost Rate (₹)	Hours consumed by product
X	Machine Hour	12,500 machine hrs	50,000	10.50	2
Y	Labour Hr.	15,000 labour hrs.	60,000	9.00	1.5
Z	Labour Hr.	25,000 labour hrs.	75,000	6.00	3

Company has set a target of Selling and Distribution cost of ₹ 3,00,000 irrespective of sales volume. The company normally sets a price by adding a mark-up on cost between 30% to 40%.

You are required to suggest the price so as to take care of competition in the right perspective. 8

Answer:

6. (a)

M/s. Subham Ltd. (Amount in ₹ Lakh)

Year ended March 31	2020	2019	2020	
(i) CAPITAL EMPLOYED:				
Total Assets	19,250	13,250		
Less: Investment in Subsidiaries	1,000	600		
Less: Current Liabilities	4,150	2,250		
Less: Capital work in progress	2,400	-		
	11,700	10,400		
Average capital employed for the year ended March 31 (11,700+10400)/2			**11,050**	
(ii) NET WORTH:				
Share Capital			4,000	
Reserves and surplus			4,200	
			8,200	
(iii) PBT to Capital Employed	1600/11050		14.48%	
(iv) PBT to Net Worth	1600/8200		1951%	
(v) Debt- Equity Ratio	6900/8200		0.84:1	
(vi) Current Assets to Current Liabilities	11350/4150		2.74	2.74:1

Working Notes:

	(₹ In lakh)
(i) **Debt:**	
Term loans	3,600
Debentures	1,800
Other long Term Loan	1,500
	6,900

	(₹ In lakh)
(ii) **Current Liabilities:**	
Current Liabilities	3,200
Short Term Provisions	950
	4,150

	(₹ In lakh)
(iii) Current Assets:	
Inventories	4,300
Trade Receivables	5,200
Cash and cash equivalents	900
Short term loans & advance	950
	11,350

(b)

Department	Normal monthly capacity	Allocated monthly Fixed Overhead (₹)	Fixed Overhead per Hour (₹)	Full overhead cost per hour (₹)	Variable cost per hour (₹)	Fixed overhead per unit (₹)	Variable overhead per unit (₹)
X	12,500	50,000	4.00	10.50	6.50	8.00	13.00
Y	15,000	60,000	4.00	9.00	5.00	6.00	7.50
Z	25,000	75,000	3.00	6.00	3.00	9.00	9.00

50% of the additional demand = 80,000 x 0.50 = 40,000 unit.

Cost of the product:

Direct Material	₹ 65.00
Direct Labour	₹ 45.00
Variable Factory Overheads	₹ 29.50
Fixed Factory Overhead	₹ 23.00
Selling& Distribution Overheads (₹ 300,000 ÷40,000)	₹ 7.50
Total cost	**₹ 170.00**

Selling Price will be in the range of ₹ (170 x 1.3) and ₹ (170 x 1.4) i.e. between ₹ 221 and ₹ 238.

Suggestion:

The company can go for lower price as it covers full cost and ensure good profit. Lower price will give better penetration in the market and keep competitors away for longer term to match technology and price.

7. **(a)** The following figures are extracted from the Cost Accounting Records of Active Ltd. a single product manufacturing company:

Year ended 31st March	2020	2019
	(Amount in ₹ lakh)	
Net Sales	5,400	4,200
Other Income	400	300
Increase in Value of Stock of Finished Goods	30	20
Raw materials Consumed	1,840	1,520
Direct wages, Salaries, Bonus, Gratuity etc.	520	410
Power & Fuel	280	220
Stores and Spares	190	160
Cess and local Taxes	140	120
Other manufacturing Overheads	520	440
Administrative Overheads:		
Audit fees	48	40
Salaries & Commission to Directors	54	45
Other Overheads	320	250
Selling and Distribution Overheads:		
Salaries & Wages	48	40
Packing and Forwarding	25	20
Other Overheads	300	250
Total Depreciation	140	140
Interest Charges:		
On Working Capital Loans from Bank	90	50
On Fixed Loans from IDBI	120	90
On Debentures	50	40
Provision for Taxes	380	280
Proposed Dividends	500	300

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, 2020 and March 31, 2019:

(i) Value Addition

(ii) Earnings available for Distribution

(iii) Distribution of Earnings to the different claimants. **10**

(b) A unit actually operated 290 days in a year and was stopped for abnormal circumstances-

(i) 6 days due to power disruption for cyclone and

(ii) 4 days due to heavy breakdown of core machinery.

The rest of the days were weekly off or holidays. Half wages as lay-off compensation were paid for the stoppage period. During the year, total expenses incurred were

(A) Salaries and wages (including lay-off compensation of ₹ 95 lakh) ₹ 4,200 lakh, and

(B) Other fixed costs ₹ 1,260 lakh.

Find Abnormal Costs (in ₹ lakh). **6**

Answer:

7. (a) **M/s. Active Ltd.**

Calculation of Value Addition

(Amount in ₹ lakh)

Year ended 31st March	**2020**	**2019**
Value Addition:		
Net Sales	5,400	4,200
Add: Export Incentives	-	-
Add/Less: Adjustment in Finished stocks	30	20
	5,430	4,220
Less: Cost of bought out input:		
(i) Cost of Raw materials consumed	1,840	1,520
(ii) Consumption of stores and spares	190	160
(iii) Power & Fuel	280	220
(iv) Other overheads	1,303	1050
(520+48+320+25+300+90) = 1,303		
(440+40+250+20+250+50) = 1,050		
Total cost bought out input	3,613	2,950
(i) VALUE ADDED	**1,817**	**1,270**
Add: Other Income	400	300
(ii) Earnings Available for distribution	**2,217**	**1,570**
(iii) Distribution of earnings to:		
(a) Employees as salaries and wages, bonus, gratuity etc.	568	450
Directors- Salaries and Commission	54	45
(b) Shareholders as dividend	500	300
(c) Company as retained funds (including depreciation)	405	245
(i.e. Net Profit + Depreciation)		
(5400+400+30)- (1840+190+280+1303+568+54+500+520+170+140) + 140 = 405		
(4200+300+20)- (1520+160+220+1050+450+45+300+400+130+140) +140 = 245		
(d) Government as taxes		
Local Taxes:	140	120
Income Taxes	380 520	280 400
(e) Providers of Capital/Fund as Interest on Debentures		
Interest on debentures	50	40
Interest on Fixed loans from IDBI	120 170	90 130
Total distribution of earnings	**2,217**	**1,570**

7. **(b)** As per Cost Accounting Standard on Material Cost (CAS- 6), any abnormal cost shall be excluded from material cost. So cost of abnormal events such as strike, lock out and other factors are not included in cost.

The abnormal cost is estimated as below:

	Total Fixed Costs	Abnormal Costs
Working days	290+6+4 = 300	6+4 = 10
Salaries and Wages (₹ in lakh)	4,200	95
Other Fixed cost (₹ in lakh)	1,260	1,260 × (10/300) = 42
Total (₹ in lakh)	5,460	137

Out of total fixed costs of ₹ 5,460 lakhs, abnormal costs of ₹ 137 lakhs will not form part of cost of production.

8. **(a) Write a short note on Manpower Analysis.**

(b) A company is facing problem in satisfying customers' orders leading to backlog of supply position. How to identify the problem by means of Operational Audit?

(c) Classify the main categories of Internal Control.

(d) Find the Employee Cost of a company for the year 2019-20 as per the CAS 7 from the following figures:

Particulars	(₹ lakh)
Salaries, wages, allowances and bonus	1,250
Wage award arrears for the previous year	115
Contribution to provident and other funds	210
Employee welfare	60
Abnormal Idle Labour cost due to strike	100
Wages of contractual labour	150
VRS payment for the year	75

(e) The following figures relate to Silver Mountain Ltd. for two years :

	31.3.2020	31.3.2019
Gross Profit%	25	20
Average Stock (₹)	50,000	70,000
Average Debtors (₹)	1,50,000	1,80,000
Stock Turnover (times)	20	25
Income Tax Rate (%)	30	30
Post-tax Income as % of Sales	10	12

Prepare Statement of Profits for two years.

Answer:

8. (a) Manpower Analysis : The depth of analysis of manpower could depend upon the proportion of manpower cost to the total cost of product or service. The performance criteria for this area will mainly be related to the costs and efficiency or productivity.

The costs may be categorized into the cost of recruitment, cost of maintaining the manpower and the cost of separations. Recruitments costs may include position advertisements, commission paid to recruitment agencies, participation in job fairs or campus recruitment etc. The maintenance costs may be the training & development costs, facilities provided over & above the monetary benefits etc. The separation costs would mostly be implicit costs. These costs as a percentage of the total salaries and wages would provide an insight into the quality of manpower management. These costs could be further broken up as per the hierarchies of people. The time taken to recruit important positions may affect the performance adversely.

The factor returns from the manpower is in terms of growth in production and productivity, enhancement of skills and knowledge of the organization. The auditor should analyse the figures of manpower productivity, idle time, overtime worked, absenteeism etc. These factors could be compared with the respective outputs such as increased production, increased sales etc. The criteria such as sales per person achieved, production per man hour etc. will add value to the Report on Performance Analysis.

(b) The Operational Auditor may use the technique of Work Load Measurement to assess the situation. He/she may draw up a questionnaire to assess the situation so as to include the following queries:

- Is there a backlog of work and if so whether the same is due to increased volume or inadequacy of men, material or machines?
- Is the increase in work volume is temporary or may continue?
- Will the situation likely to ease with additional inputs like personnel, machines etc?
- Is the workload of each employee is justified or needs adjustment through improved supervision or training?
- Will investment in advanced technology will commensurate with benefits derived from it?
- What control measures exist to assess the work efficiency and what are the remedial measures?

The operational auditor will proceed to finalise the report and submit to the Management after collecting and analysing the information received.

(c) The internal controls can be broadly classified into following four main categories:

(i) **Administrative control** – Administrative controls include all types of managerial controls related to the decision making process. An example of administrative controls is the maintenance of records giving details of customers contacted by the salesmen.

(ii) **Operational control** – This is exercised through "management accounting" techniques viz. budgetary control, standard costing etc.

(iii) **Financial and Accounting control** – This control refers primarily the management plans, objectives and procedures that are concerned with the safeguarding of assets, prevention and detection of fraud and error, accuracy and completeness of accounting records, and timely preparation of reliable financial information.

(iv) **Compliance control -** These controls aim at ensuring compliance with applicable laws and regulations. These Controls also help to ensure compliance with laws regarding the system and intellectual property.

(d) The employee cost for the company for the year 2019-20 is as follows:

Particulars	(₹in lakh)
Salaries, wages, allowances and bonus	1,250
Wages of contractual labour	150
Contribution to provident and other funds	210
Employee welfare	60
VRS payment for the year	75
Total	**1,745**

Note :

1. As per CAS 7, arrear not related to the current year should not be included in the Employee Cost.
2. Abnormal idle time cost is charged to Costing Profit & Loss Account
3. It is assumed that the VRS payment does not relate to closure of any section or activity of the unit.

(e) Statement of Profits of Silver Mountain Ltd.

Particulars	31.3.2020	31.3.2019
a) Gross Profit %	25	20
b) Average Stock (₹)	50,000	70,000
c) Average Debtors (₹)	1,50,000	1,80,000
d) Stock Turnover (times)	20	25
e) Income Tax Rate (%)	30	30
f) Post-tax Income as % of Sales	10	12
g) Cost of Goods Sold (bxd)(₹)	10,00,000	17,50,000
h) Sales [g × 100 /(100-a)] (₹)	13,33,333	21,87,580
i) Net Income after Tax [hxf] (₹)	1,33,333	2,62,510
j) Profit before Tax [i × 100/(100-e)] (₹)	1,90,476	3,75,014