

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

1. Choose the most appropriate answer to the following questions giving justification:
[10x2=20]

- (i) The form in which the cost records shall be maintained: .
a) CRA -1;
b) CRA -2;
c) CRA -3;
d) CRA -4;
- (ii) Item appearing only in Cost Records is
a) Profit on Sale of Assets;
b) Interest Received;
c) Loss on Sale of Assets;
d) Notional Interest on Capital;
- (iii) The form in which appointment of cost auditor by the company to Central Government is intimated
a) CRA -1
b) CRA -2
c) CRA -3
d) CRA -4
- (iv) The applicability of maintenance cost records under CCRA – Rules, 2014 for regulated industries having overall turnover of
a) ₹ 25.00 crores
b) ₹ 35.00 crores
c) ₹ 50.00 crores
d) ₹ 100.00 crores
- (v) The Cost Auditing Standard which deals with Cost Audit Documentation:
a) 101
b) 102
c) 103
d) 104
- (vi) A person shall be punishable for first time conviction for falsely claiming to be a member with fine which may extend to Rupees .
a) ₹1,000

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- b) ₹ 2,000
c) ₹3,000
d) ₹ 5,000
- (vii) Royalty paid on sales ₹30,000; Royalty paid on units produced ₹20,000, Hire Charges of equipment used for production ₹2,000, Design charges ₹15,000, Software development charges related to production ₹22,000. The Direct Expenses amount is:
a) ₹88,000
b) ₹89,000
c) ₹99,000
d) ₹98,000
- (viii) The Balance Sheet of X Ltd. As on 31st March 2017 showed the following information: Capital - ₹1500 lakhs, Reserves - ₹696 lakhs, Loans - ₹600 lakhs, Sundry Creditors ₹774 lakhs, Total assets - ₹3570 lakhs. For the year 22 -23, PBT - ₹900 lakhs, provision for tax is ₹360 lakhs and proposed dividend is ₹ 300 lakhs. Return on Net worth is:
a) 30.41 %
b) 29.41 %
c) 28.41 %
d) 27.41%
- (ix) 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.
- (x) Consumer Service Audit is part of
a) Business Activity Audit
b) Social Audit
c) Service Audit
d) None of Above

Answer:

(i) - (a) CRA-1

The form CRA-1 prescribes the form in which cost records shall be maintained. The form categorizes the requirement of maintaining proper details as per 30 headings. The headings are 1. Material Cost, 2. Employee Cost, 3. Utilities etc.

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(ii) - (d) Notional interest on capital.

This does not involve actual outlay of funds but is included in cost records as an opportunity cost to determine product cost. The other three items are not related to actual production and this do not form part of cost records.

(iii) - (b) CRA -2

Every company referred to in sub -rule (1) shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with the Central Government within a period of thirty days of the Board meeting in which such appointment is made or within a period of one hundred and eighty days of the commencement of the financial year, whichever is earlier, through electronic mode, in form CRA-2, along with the fee as specified in Companies (Registration Offices and Fees) Rules, 2014.

(iv) - (b) ₹ 35.00 crore

The applicability of maintenance cost records under CCRA –Rules, 2014 for regulated industries having overall turnover of ₹ 35.00 crores or more.

(v) - (b) 102

Cost Auditing Standard – 102 deals with Cost Audit Documentation. The purpose of this Standard is to provide guidance to the members in preparation of Audit Documentation in the context of the audit of cost statements, records and other related documents

(vi) - (a) ₹ 1,000

Being a member of the Institute, but not having a certificate of practice, represents that he is in practice or practices as a cost accountant, shall be punishable on first conviction with fine which may extend to one thousand rupees.

(vii) - (b) ₹89,000 Direct expenses

= Royalty paid on sales+ Royalty on unites produced +Hire charges on equipment +Design Charges+ Software development charges

= ₹(30000+20000+2000+15000+22000) = ₹89,000

(viii) - (b) 29.41%

Net worth =Capital +Reserves -Revaluation reserve (if any) -accumulated losses (if any)-deferred expenditure (if any)- misc. expenditure not written off (if any)

Net worth =₹1500+₹696-₹360=₹1836, Total Earning = ₹900-₹360=₹540 Return on Net worth = ₹540/₹1836=29.41%

(ix) - (b) 725.27 kg.

Output at Ring Frame = $1000 \times (100 - 92)\% \times (100 - 94)\% \times (100 - 96)\% \times (100 - 96)\% \times (100 - 91)\%$ = 725.27 kgs.

(x) - (b)Social Audit.

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Consumer Service Audit is an audit of public responsibility of business enterprise in relation to its customers and is a part of social audit. The audit is based on the philosophy that the role of business should be conducive to raising the quality of life through its contribution in terms of better product- quality and services.

SECTION B (5 questions to be answered out of 7 questions)

- 2. (a) (i) What categories of company can appoint cost auditor? What is the threshold limit to appoint Cost auditor?**
- (ii) To determine the Repairs and maintenance cost what kind of expenses/cost to be included? [6+4=10]**
- (b) Explain whether the following amounts to professional misconduct by a Cost Accountant:**
- (1) 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.**
- (2) 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. [6]**

Answer:

(a) (i)

- (1) Every company specified items in Regulatory sector(A) of rule 3, shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is ₹ 50 crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is ₹ 25 crore or more.
- (2) Every company specified items in Regulatory (B) of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately product or products or service or services for which cost records are required to be maintained under rule 3 is ₹ 35 crore or more.
- (3) The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3; and (i) whose revenue from exports, in foreign exchange, exceeds 75% of its total revenue; or (ii) which is operating from a special economic zone; (iii) which is engaged in generation of electricity for captive consumption through Captive Generating Plant. For this purpose, the term "Captive Generating Plant" shall have the

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same meaning as assigned.

(a)(ii) CAS 12 deals with repairs and maintenance. The principle measurement of this standards is as follows:

1. Repairs and maintenance cost shall be the aggregate of direct and indirect cost relating to repairs and maintenance activity. Direct cost includes the cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other identifiable resources consumed in such activity. Indirect cost includes the cost of and other costs allocable to such activities.
2. Cost of repairs and maintenance activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.
3. Cost of repairs and maintenance jobs carried out by contractor at its premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto also include the cost of other resources provided to the contractors.
4. Cost of repairs and maintenance jobs carried out by outside contractors shall include charges made by the contractor and cost of own materials, consumable stores, spares, manpower, equipment usage.
5. Each type of repairs and maintenance shall be treated as a distinct activity, if material and identifiable. For example, routine or preventive maintenance, planned (predictive or corrective) maintenance and breakdown maintenance should be identified separately. Cost of repairs and maintenance activity shall be measured for each major asset category separately. Cost of spares replaced which do not enhance the future economic benefits from the existing asset beyond its previously assessed standard of performance shall be included under repairs and maintenance cost.
6. High value spare, when replaced by a new spare and is reconditioned, shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items are classified as inventory and recognised in cost as and when they are consumed.

(b)

- (1) 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

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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.

- (2) 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) A manufacturing firm has up its own power plant to cater its need in manufacturing process.

It's one-month data is given below:

Number of units produced = 100 lakh units of which 5% is used by generating unit.

Material and utility used:

- (1) Coal 300 MT @ ₹ 30,000 per MT
- (2) Oil 5 MT @ ₹ 1,60,000 MT
- (3) Cost of Water extraction and treatment: 6 lakhs litres @ ₹ 3 per litre
- (4) Steam boiler cost ₹ 55 lakhs with residual value of ₹ 5 lakhs after life of 10 years.
- (5) Cost of Generating Plant is ₹ 90 lakhs with no residual value. Depreciation is charged on straight line method @ 10%
- (6) Generating Plant: 100 skilled workers @ ₹ 30,000 & 150 helpers @ ₹ 20,000 pm.
- (7) Boiler plant: 60 semi-skilled workers @ ₹ 25,000 & 100 helpers @ ₹ 20,000 pm.
- (8) Repair & Maintenance of generating plant & Boiler is ₹ 5.0 lakhs
- (9) Share of Administrative charges ₹ 20 lakh
- (10) Realization from Sale of ash disposed is ₹ 1.5 lakh

Prepare a cost sheet for Electricity Generating Unit and calculate cost per unit.

(b) Auto Parts Manufacturing Company Ltd. showed a profit for the year 2022-23 as ₹35,46,700. During the course of Cost Audit, the followings transactions were noticed:

- (1) an old machine with net value of ₹ 6,54,000 was sold off for ₹ 9,30,000,
- (2) dividend income was received amounting to ₹ 84,500 from investments,
- (3) a sum of ₹ 58,000 was spent towards CSR commitment,
- (4) the company was engaged in trading activity where purchase of goods was ₹13,50,000 and sales was ₹ 13,42,300, after incurring ₹ 40,800 as expenditure,
- (5) some renovation work was carried out at a cost of ₹ 7,75,000 and its useful life was only for five years, and
- (6) the closing inventory of raw material was undervalued ₹ 29,600 and that of finished goods was overvalued ₹ 65,400 in the financial records.

Work out the Profit as per the Cost Accounts.

[9+7=16]

Answer:

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4. (a) Management Audit and Operational Audit are complementary and supplementary to one another". Discuss in brief.

(b) What is proprietary audit? While conducting proprietary audit what should be the observation of an auditor? [6+10=16]

Answer:

(a)

Management Audit is concerned with quality of managing whereas Operational Audit centres on the quality of operation. Operational Audit is an audit for the management and Management Audit is an audit of the management also.

The basic difference between the two audits is not in method, but in the level of appraisal. In management audit, the auditor is to make his tests to the level of top management, its formulation of objectives, plans and policies and its decision making. It is not that he just verifies the operations of control and procedures and fulfilment of plans in conformity with the prescribed policies.

The auditor is to reach the root i.e., the functions of top management which lay down objectives and policies, provide means and procedures of implementation and control and which actually engage in direction and control on a continuous basis. In addition to what would normally be covered in an operational audit, management audit would also encompass the relevance and effectiveness of the aims, duties and decisions of management at various levels, plans, policies and decisions of the top management. Every aspect of the functions of Board of Directors should be in conformity with the objects set out in the constituting document. Similarly, the managing director, if any, should act not only in accordance with the mandate he has received but he should ensure that the decisions he takes are in conformity with the objects of the company and the policies formulated by the Board. The effectiveness of management under the control of managing director and the various members of the Board including those in charge of finance, production, sales etc., should be subject to review of the management auditor.

Therefore, it can be said that the two audits are complementary and supplementary to one another.

(b)

Propriety audit stands for verification of transactions in the best interest of the public, commonly accepted customs and standards of conduct. 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." The tests boil down to consideration of financial prudence and economy, instead of too much dependence on documents, vouchers etc. It shifts the emphasis to find the wisdom and appropriateness of expenditure, rather than verifying whether it has been duly authorized or evidenced by proper vouchers etc. In other words, the propriety audit seeks to ensure that the planned expenditure would yield the optimum returns and there is no other better alternative

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available. It seeks to ensure that the expenditure is not only appropriate to of public sector undertakings as undertaken by the Comptroller and Auditor-General of India is the best example of propriety audit.

The auditors, while conducting the propriety audit, should in any case ensure observance of the following Canons of Financial Propriety:

- (1) The expenditure should not, prima facie, be more than the occasion demands. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person
 - (2) No authority should exercise its power of sanctioning expenditure to pass an order which will be directly or indirectly to his own advantage.
 - (3) Public money should not be utilised for the benefit of a particular person or section of the community unless:
 - (i) The amount of expenditure involved is insignificant or
 - (ii) A claim from the amount could be enforced in a court of law or
 - (iii) The expenditure is in pursuance of a recognized policy or custom.
- (d)** The amount of allowances (e.g. travelling allowances) granted to meet the expenditure of a particular type, should be so regulated that these are not on the whole sources of profit to the recipients. The Cost Audit Reports can be termed as propriety audit as these reports seeks to ensure that actual expenditure at each stage is appropriate and optimum returns have been achieved. The cost auditor always aims at ensuring that the actual expenditure should not be prima facie more than what the occasion demands. The cost auditor has to report on matters which appear to him to be clearly wrong in principle, cases where the company's funds have been used in a negligent or inefficient manner, arm's length pricing of related party transactions, etc. These are the areas where the propriety aspect is involved and therefore cost audit may be in the nature of "propriety audit".

5. (a) As per Companies Act, 2013 which companies are required to conduct Internal Audit?

(b) What are the role of CMA's in internal audit.

[7+9=16]

Answer:

(a)

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, namely:

- (1) every listed company
- (2) 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 crore 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

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- (iv) which has accepted deposits of ₹25 crore or more at any point of time during the last financial year; and.
- (3) 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.

Explanation — For the purposes of this rule—

- (i) the internal auditor may or may not be an employee of the company;
 - (ii) the term “Chartered Accountant” shall mean a Chartered Accountant whether engaged in practice or not. The Audit Committee of the company or the Board shall, in consultation with the Internal Auditor, formulate the scope, functioning, periodicity and methodology for conducting the internal audit.
- (b)** Presently, the role of Internal Audit has become more critical. Customer expectations have increased and compliance demands are growing both in terms of quantity and complexity. The Enterprise Risk Management is emerging as the key element in Corporate Management. The role of effective Cost Management involves in waste reduction and enhancing productivity and process improvement. The Internal Audit must be synchronized to the expectations of the Board. It must develop an Internal audit strategy that is linked with the organization's strategic plan with a focus on optimizing risks, costs, and value. It must develop dynamic internal audit plans. The communication must be done frequently with key stakeholders on their needs, expectations, satisfaction with the internal audit. It should leverage technology to optimize audit operations and should support and facilitate business process improvement and re-engineering and provide active support in furthering good Corporate Governance. CMAs have a colossal role to play as they have a unique blend of core competencies in accounting, management and strategy. CMAs can apply their forward looking insights across the organization to manage risks, reduce costs and create new opportunities, preserve and enhance value.

CMAs possess the expertise to evaluate the operational efficiency, productivity and profitability, wastages, losses inefficiency. They can apply their knowhow in judging efficiency of management of resources, capacity utilization, channelling resources into productive channels, standards of efficiency of performance, production processes and performance of respective units. Efficiency of business processes, Enterprise Performance Management, Business risks. Efficiency of Supply Chains, Efficiency of Utilities / Energy Consumption, Sustainability of Business are critical drivers to keep the business focused on priority areas. The perspective of CMAs has changed in the present era of mergers & acquisitions, new product development and also to climate change and sustainability.

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The financial perspective, customer perspective, operational perspective and people perspective all can be aligned to meet the goal of the business.

6. (a) As a cost auditor you are required to record your observations and conclusions in para 16 of the Annexure of the cost audit report. From the following information in respect of the concern manufacturing cement offer comments on the performance and suggestions for improvements:

Utilisation and performance of Grinding Mill of a cement factory (rated capacity 80Mt/Hr)

	2022		2021	
1. break down	2164	44%	1009	24%
2. planned Maintenance	246	5%	420	10%
3. power restriction	1236	25%	1472	35%
4. short fall (there are no order)	787	16%	673	16%
5. Want of wagons	492	10%	631	15%
	4919	100%	4205	100%
Total stoppage hours	4919	56%	4205	48%
Total running hours	3865	44%	4555	52%
Total available hours	8784	100%	8760	100%
Production during the year (M.T.)	247360		327960	
Hourly rate of production (M. T.)	64		72	
Capacity utilisation	61.84%		81.99%	
(Annual installed capacity ----- 400000 M.T.)				

(b) RAJA CEMENT LTD. has a captive power generation plant for its cement factory. The following information is available with regard to the power generation for the year ended March 31, 2017:

Coal consumption	2400 tonne @ ₹ 600 per tonne
Oil	3000 liters @ ₹ 50.50 per litre
Water	24000 gallons at ₹ 60 per gallon
Stores and Other Consumables	₹ 55,000

Salaries of power generating plant: 2 supervisors each at ₹10,600 p.m., 5 skilled workers each at ₹6,100 p.m., 3 helpers each at ₹ 4,200 p.m. Salaries to boiler house attendant, 8 workers, each at ₹ 4,200 p.m. Cost of power generating plant — ₹ 15,00,000 having life of plant 15 years with ₹ 60,000 residual value. Cost of Boiler plant — ₹6,00,000 having life of plant 10 years with no residual value. Miscellaneous income received by sale of ash— ₹ 50,000. Repair and maintenance — Power generating plant ₹ 1,50,000, Boiler house ₹ 1,26,000. Share of Administrative Overhead— ₹ 1,35,000. Power generated during the year: 3024250 KWH.

Note: No power generated is used by the power generated plant itself.

You are required to prepare the Cost Sheet to calculate cost per kWh of electricity generated as per the Companies (Cost Records and Audit) Rules 2014. [7+9=16]

Answer:

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(a)

The cost Auditor's comments on the performance and suggestions for improvement and indicated below:

(1) rated capacity achieved per hour:

rated capacity of the Grinding mill = 80 M.T./hour

rated capacity achieved in 2021 = hourly rate of production p.h./rated capacity per hour
= 72 m.t./80 m.t = 90 %

rated capacity achieved in 2022 = 64 M.T./80 .t = 80 %

- A. it is noticed that capacity achieved during 2022 has come down by 10 % as compared to 2021 figure.
- B. there is a drastic reduction in capacity utilisation in 2022 (20. 15%).this is very alarming situation. the total running hours in 2022 is 3865 as compared to 4555 hours in 2021.
- C. It appears that there is a major break down in 2022 as break down hours are by 20 % as compared to 2021. the planned maintenance hors have gone down substantially which has resulted in higher break down hour.
- D. slight shortfall due to lack of orders has also resulted in lower capacity utilisation.

Conclusion: The management of the cement factory is advised to augment planned maintenance hours in order to avoid breakdown of the Grinding Mill Power Generator sets should be installed so that hours lost due to power failure/restriction can be completely obviated. the marketing network should be strengthened so as to improve order position. The sum up total stoppage hours should be curtailed in order to achieve higher capacity utilisation.

(b)

Raja Cement Ltd.

Statement Showing Cost of Power Generated by Power Generated Plant for the Year Ended

Power generated			3024250 kwh
Particulars		Total Amount (₹)	Cost Per Kwh (₹)
Coal consumption (2,400 × 600)	14,40,000	13,90,000	0.46
Less: Sale of Ash	50,000		
Oil 3000 liters at ₹ 50.50 per liter.		1,51,500	0.05
Water 24000 gallons at ₹60/- per gallon		14,40,000	0.48
Stores and other consumables		55,000	0.02
Salaries of generating plant		7,71,600	0.26
Supervisor (2 × 10,600 × 12)	2,54,400		
Skilled Worker (5 × 6100 × 12)	3,66,000		
Helpers (3 × 4200 × 12)	1,51,200		

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Salaries To Boiler House Attendant (8× 4200 ×12)		4,03,200	0.13
Repairs and maintenance Generating plant Boiler house	1,50,000 1,26,000	2,76,000	0.09
Depreciation Generating Plant (15,00,000-60,000)/15 Yrs. Boiler House (6,00,000/10 Yrs.)	96,000 60,000	1,56,000	0.05
Share of administrative overhead		1,35,000	0.04
Total cost of power generated		47,78,300	1.58

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

Year ended 31st March Particulars	2022 (₹ in lakh)	2021 (₹ in lakh)
Net Sales	4,800	3,840
Other Income	300	200
Increase in Value of Stock of Finished Goods	20	10
Raw materials Consumed	1,760	1,440
Direct wages, Salaries, Bonus, Gratuity etc.	440	352
Power & Fuel	240	192
Stores and Spares	160	140
Cess and local Taxes	120	100
Other manufacturing Overheads	430	370
Administrative Overheads:		
Audit fees	36	30
Salaries & Commission to Directors	48	40
Other Overheads	260	220
Selling and Distribution Overheads:		
Salaries & Wages	36	30
Packing and Forwarding	20	16
Other Overheads	250	200
Total Depreciation	120	120
Interest Charges:		
On Working Capital Loans from Bank	60	25
On Fixed Loans from IDBI	90	70
On Debentures	30	30
Provision for Taxes	316	200
Proposed Dividends	420	230

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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, 2022 and 2021:

- (i) Value Addition
- (ii) Earnings available for Distribution
- (iii) Distribution of Earnings to the different claimants.

(b) There was a strike from 13.09.22 to 16.11.22 in a garment company of which you were the cost auditor for the year ending 31.03.23 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 31.03.23:

	₹
Salaries and Wages (direct)	3,500
Salaries and Wages (indirect)	2,500
Power(variable)	1,200
Depreciation	1,800
Other Fixed Expenses	2,400

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

Salaries and wages (indirect)	₹ 710 lakhs
Depreciation	₹ 690 lakhs
Other Fixed expenses	₹ 800 lakhs

Calculate the amount which, in your opinion, should be treated as abnormal for exclusion from the product costs. [10+6=16]

Answer:

(a)

Year ended March 31,	2022 (₹)	2021 (₹)
Net Sales	4,800	3,840
Add: Export Incentives	-	-
Add/Less: Adjustment in Finished stocks	20	10
Total	4,820	3,850
Less (i) Cost of Raw materials consumed	1,760	1,440
(ii) Consumption of stores and Spares	160	140
(iii) Power & Fuel	240	192
(iv) Other overhead	1,056	861
(430+36+260+20+250+60) = 1,056		
(370+30+220+16+200+25) = 861		
Total Cost bought out input	3,216	2,633

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(i) Value Added	1,604	1,217
Add: Other Income	300	200
(ii) Distribution of Earnings to	<u>1,904</u>	<u>1,417</u>
(a) Employees as salaries and wages, bonus, gratuity etc.	476	382
Directors – Salaries and commission	48	40
(b) Shareholders Dividend	420	230
(c) Company as retained funds (including depreciation)	404	365
(d) Govt. as taxes:		
Local Taxes	120	100
Income Taxes	316	200
(e) Providers of capital/Fund as interest on Debentures:		
Interest on Debentures	30	30
Interest on Fixed loans from IDBI	90	70
Total distribution of earnings	1,904	1,417

Statement showing calculation of fixed expenses from 17.11.22 to 4.12.22

Particulars	₹ in lakhs
Total expenses 2022-2023	11,400
Less: variable expenses (electricity)	1,200
Total fixed expenses 2022-2023	10,200
Less : Fixed expenses during strike period	2,200
Fixed expenses during Non-strike period	8,000

The strike was for 65 days therefore the non-strike period will be of 301 days. Hence, fixed expenses attributed to 18 days i.e. 17.11. 2022 to 4.12.2022 is $(18/301 \times 100)$ 6 % of ₹ 8,000 lakhs is ₹ 480 lakhs.

Statement showing calculation of total abnormal costs.

Particulars	₹ in lakhs
Therefore ,fixed expenses incurred from 13.09.22 to 16.11.2022	2,200
Fixed expenses incurred from 17.11.2022 to 4.12.2022	480
Total abnormal costs associated with strike	2,680

8. Any four to be answered out of 5 questions:

[4x4=16]

- (a) How Value Chain activity can have an impact in performance analysis?
 (b) Write a short note on Audit Working Papers.

Answer to MTP_Final_Syllabus 2016_Jun2023_Set1

(c) List the Steps of Management Audit.

(d) The following are the process wise wastages on inputs in a Spinning Mill in the year 2022-23.

Particulars	% age of Wastages on Input
Blow room	9.18
Drawing	1.10
Roving (Simplex)	0.30
Ring Frame(spinning)	7.21
Reeling and winding	1.50

From the above, calculate the process wise waste multiplier factor.

(e) Purchase of Materials \$ 50,000 [Forward contract rate \$ = ₹54.40 but \$ = ₹54.60 on the date of importation]; Import Duty paid ₹ 5,65,000; Freight inward ₹1,62,000; Insurance paid or import by road ₹ 48,000; Cash discount ₹ 33,000; Payment made to the foreign vendor after a month, on that date the rate of exchange was \$ = 55.20. Compute the landed cost of material.

Answer:

(a) Many company attempts to gain competitive advantage by appropriately linking its own activities with those of the suppliers, channels or customers. Vertical-integration, quality controls on inputs from suppliers, collaborative arrangements etc. are some of the ways in which company's own activities are beneficially linked to other organizations. This provides an avenue for reporting under performance analysis report. What has been the cost of such coordinating strategies and how much of competitive advantage of the company has improved or strengthened at present level? If such linkages with other companies are established as a matter policy, every appraisal for the Cost Auditor.

(b) Audit working papers are the documents which record all audit evidence obtained during audit. Such documents are used to support the audit work done in order to provide assurance that the audit was performed in accordance with the relevant Cost Audit and Assurance Standards.

Auditors retain a set of working papers for each audit engagement for each year. The audit working papers for the current year are referred to as the current working papers. Working papers that are relevant to more than one audit engagement are often kept separately in a file referred to as permanent working papers. The audit working papers (current and permanent) for a client audit engagement are sufficiently detailed to enable another appropriately experienced and competent auditor that is not familiar with the client to obtain an overall understanding of the engagement. Working papers (or documentation) serve three purposes:

- (1) aid in planning and performance of the audit;
- (2) aid in supervision and review of the audit work; and
- (3) these papers serve as an evidence of the audit work performed by the auditor to support his opinion.

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(c) Steps of management audit: The steps of management audit are: -

1. Select an area of operation of management
2. Establish what should be the objective, standard or target of the operation.
3. Determine whether the actual results meet the standards, norms or targets. If not, why not?
 - (i) Is the target too difficult?
 - (ii) Is failure to achieve the target costing the organisation?
4. Establish what is done to ensure the achievement of the norms, target and standards.

What steps are taken for –

 - (i) planning
 - (ii) operations, execution and implementation e.g. use of up-to-date technology.
 - (iii) Measurement of performance and controls?
5. Carry out a detailed investigation, collect evidence as well as document for audit findings
6. Report the findings of the audit and make recommendations.

(d)

Process	% age of wastages on input	Net output for 100 units of input	Waste multiplier
Total			1.2221
Blow room	9.18	$100 - 9.18 = 90.82$	1.1098
Drawing	1.10	$90.82 - 90.82 \times 1.10\% = 90.82 - 0.10 = 89.82$	1.0976
Roving (simplex)	0.30	$89.82 - 89.82 \times 0.30\% = 89.82 - 0.270 = 89.55$	1.0943
Ring Frame (Spinning)	7.21	$89.55 - 89.55 \times 7.21\% = 89.55 - 6.46 = 83.09$	1.0155
Reeling and Winding	1.50	$83.09 - 83.09 \times 1.50\% = 83.09 - 1.25 = 81.84$	1.0000

Waste Multiplier calculation = $(1/81.84) \times 100 = 0.01222 \times 100 = 1.222$

(e) Computation of Landed Cost of Material

Particulars	Amount (₹)
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Answer to MTP_Final_Syllabus 2016_Jun2023_Set1

Purchase price of Material [50,000 x 54.60]	27,30,000
Add: Import Duties of purchasing the material	5,65,000
Add: Any taxes paid during the purchase of material	1,62,000
Add: Freight Inward during the procurement of material	48,000
Value of Receipt of Material	35,05,000