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 answer. (1 mark for correct choice, 1 mark for justification wherever applicable & necessary) [10×2=20]

A. CAS 11 deals in:
(a) Administrative Overheads.
(b) Factory Overheads.
(c) Selling and Distribution Overheads.
(d) Financial Costs.

B. Under Part D of the Annexure to the Cost Audit Report, information regarding Value Addition (for company as a whole) to be furnished for:
(a) Previous year only.
(b) Current year and previous 2 years.
(c) Current year and previous year.
(d) Previous three years.

C. A Cost Auditor should 'qualify ' the Cost Audit Report where:
(a) He is unable to form an opinion due to non availability of appropriate records/data.
(b) He finds that items in the cost statements are mistated.
(c) None of the above.
(d) Both of the above.

D. XBRL is a language based on :
(a) XBL family of languages.
(b) XRL family of languages.
(c) XML family of languages
(d) XGL family of languages.

E. Part C of the annexure to Cost Audit Report provides Quantitative information related to:
(a) Manufacturing Sector
(b) Service Sector
(c) None of the above
(d) Both of the above

F. The main emphasis of Management Audit is:
(a) problem solving
(b) problem identification
(c) problem definition
(d) problem avoidance

G. Cost Auditing Standard 103 deals with:
(a) Planning an Audit of Cost Statements

(b) Cost Audit Documentation
(c) Overall Objectives of the Independent Cost Auditor and Conduct of an Audit in Accordance with Cost Auditing Standards
(d) Knowledge of Business , Its processes and the Business Environment

H. Value addition is:
(a) difference between gross sales and the cost of bought out materials and services.
(b) difference between net sales and the cost of bought out materials and services.
(c) (c)Gross profit.
(d) (d)Net profit.

I. Efficiency Audit ensures__________ return on Capital Employed.
(a) optimum
(b) maximum
(c) minimum
(d) average

J. Item appearing only in Cost Records:
(a) Profit on sale of Assets
(b) Interest received
(c) Loss on sale of Assets
(d) Notional interest on capital

Answer:

A: — (a) Administrative Overheads. This standard deals with the principles and methods of classification, measurement and assignment of administrative overheads, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.

B: — (c) Current year and previous year. Companies (Cost Records and Audit), Rules 2014 prescribes this format of information for Value Addition.

C: — (b) He finds that items in the cost statements are mistated. Where he is unable to form an opinion due to non availability of appropriate records/data, he should make a disclaimer.

D: — (c) XML family of languages. XBRL belongs to Extensible Markup Language family. It has been defined specifically to meet requirements of business and financial information.

E: — (b) Service Sector. This is as per format prescribed by Companies(Cost Records and Audit) Rules, 2014.

F: — (b) problem identification. Management Audit pinpoints the areas requiring attention of management, it evaluates the existence of well defined objectives , it seeks to review appraise and evaluate the corporate plans and policies based on certain standards of objectivity.

G: — (c) Overall Objectives of the Independent Cost Auditor and Conduct of an Audit in Accordance with Cost Auditing Standards. This standard on auditing deals with the overall objectives of the independent cost auditor, the nature and scope of a cost audit the independent auditor's overall responsibilities when conducting an audit of cost statements in accordance with cost auditing standards.

H: — (b) difference between net sales and the cost of bought out materials and services. Value added is equivalent to revenue less intermediate consumption.

I: — (a) optimum. The main purpose of Efficiency Audit is to ensure —

i) that every rupee invested in capital or in other fields give optimum returns, and
ii) the balancing investment between different functions and aspects designed to give optimum results.

J: — (d) Notional interest on capital. This does not involve actual outlay of funds . So not included in Financial Accounts but included in cost records to determine product cost. The other three items are not related to actual production, so doesnot form part of Cost Records.

Section-B

(Answer any 5 questions from this section)[80 marks]

2. (a) AMRIT LTD. a Sugar and Industrial Alcohol manufacturing company incorporated in May 2015 is having turnover ₹75 crores from all its activities during F.Y.2015-16. Discuss about the applicability of Cost Audit to the company ? [8]

2. (b) How the Cost Auditor is under obligation to report fraud identified during course of audit? [8]

Answer:

2. (a) Rule 4 of the Companies (Cost Records and Audit) Rules,2014 states that cost audit would be applicable for products under:

i. Table A of Rule(3) if the overall turnover of the company is at least ₹50 crore during immediately preceding financial year and
ii. Table B of Rule(3) if the overall turnover of the company is ₹100 crore during immediately preceding Financial year.

Sugar and industrial alcohol (CETA 1701,1703,2207) fall in the Regulated Sector (Table -A) of Rule(3) and is required to maintain Cost Records and get the same audited by the Cost Auditor. Rule 3 states that a company engaged in the production of the goods or providing of services as prescribed having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall include cost records for such products or services in their books of account.

Since the threshold limit for applicability of maintenance of cost accounting records is met in year-0, the cost records are required to be maintained from Year-1. Once the maintenance of cost records becomes applicable, it would be maintained on a continuous basis in the subsequent year also. In the same line, cost audit will be applicable from Year-1 and for every year thereafter. The company has to maintain cost records for the year commencing from 01.04.2016.

2. (b) Sub-rule (7) of Rule 6 of the Companies (Cost Records and Audit) Rules 2014 states that "the provisions of sub-section (12) of section 143 of the Act and the relevant rules made thereunder shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Act and these rules". For the purpose of sub-section (12) of section 143, in case the auditor has sufficient reason to believe that an offence involving fraud, is being or has been committed against the company by officers or employees of the company, he shall report the matter to the Central Government immediately but not later than sixty days of his knowledge and after following the procedure indicated herein below:

i. Auditor shall forward his report to the Board or the Audit Committee, as the case may be, immediately after it comes to his knowledge of the fraud, seeking their reply or observations within forty-five days;
ii. On receipt of such reply or observations the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days of receipt of such reply or observations;
iii. In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he failed to receive any reply or observations within the stipulated time.

Accordingly, as per sub-section (12) of section 143 of the Companies Act 2013, it is obligatory on the part of cost auditor to report offence of fraud which is being or has been committed in the company by its officers or employees, to the Central Government as per the prescribed procedure under the Rules.

3.(a) As a part of management strategy SEASENA LTD. manufacturing soaps, purchased a popular soap brand "SUNFLOWER" from a smaller company. What will be treatment of such costs and the disclosure to be made in the Cost Statements as per relevant Cost Accounting Standard? [8]

3.(b) The financial profit and loss account for the year 2016-17 of a company shows a net profit of ₹52,56,000. During the course of cost audit, it was noticed that:

(i) The ₹10,00,000 after incurring and expenditure of ₹50,000.
(ii) Some old assets sold off at the end-end fetching a profit of ₹160,000
(iii) A major overhaul of machinery was carried out at a cost of ₹8,00,000. And the next such overhaul will be done only after four years.
(iv) Interest was received amounting to ₹3,00,000 from outside investments.
(v) Work-in-progress valuation for financial accounts does not as a practice take into account factory overhead. Factory overhead was ₹3,70,000 in opening WIP and ₹6,30,000 in closing WIP.

Work out the profit as per Cost Accounts and briefly explain the adjustment, if any, carried out. [8]

Answer:

3.(a) The expenses paid or incurred for purchase of a brand is lump-sum in nature and purchased for the increase in revenue income over a long period of time. As per Cost Accounting

Standard 10, expenses which are in the nature of 'one - time' payment, shall be amortized on the basis of the estimated output or benefit to be derived from such direct expenses. The expenses for which the benefit is ensued in the future period shall be equated with the estimated production/service volumes for the effective period and based on volume achieved during the Cost Accounting period. Accordingly, the charge for amortization shall be determined. In the given situation, the company is likely to be benefitted from the brand image of the product and the costs so amortized be treated as Selling Expenses over the estimated life of the brand image.

As per cas-10, the cost statements on direct expenses shall normally disclose the following:

1. The basis of distribution of Direct Expenses to the cost objects/cost units.
2. Quantity and rates of items of Direct Expenses, as applicable.
3. Where Direct Expenses are accounted at standard cost, the price and usage variances.
4. Direct expenses paid/payable to related parties.
5. Direct Expenses incurred in foreign exchange.
6. Any subsidy/Grant/incentive/credit/recoveries and any such payment be reduced from Direct Expenses.

Disclosure shall be made only where expenses are material, significant and quantifiable and be made in the body of the Cost Statement or as a foot note or as a separate schedule.

3.(b) Reconciliation Statement

Particulars	₹	₹
Profit as per Financial Profit & Loss Account		5256000
Less: Trading profit not included in cost accounts	150000	
Less:Profit on sale of old assets	160000	
Less:Interest received on outside investment	300000	610000
Add: . Proportionate Charge i.e., three-fourth for overhaul of machinery not provided in cost accounts	600000	
Add: Difference in the valuation of work-in-progress	260000	860000
Profit as per Cost Accounts		**5506000**

4. (a) XYZ Ltd. engaged in manufacturing of engineering goods is consistently recording higher sales turnover, but declining net profits since the last 5 years. As an management consultant appointed to find out the reasons for the same, what are the points you would verify? [8]

4. (b) What do you understand by 'energy audit'? Briefly state the functions of energy auditor. [8]

Answer:

4. (a) As per the facts that there has been consistently high turnover but declining net profits is an anomalous situation. It may be attributed to one or more following reasons requiring further investigation:

(i) *Unfavourable Salesmix*: Where the company sells different engineering products with different product margins, the product with the maximum PV ratio/margin should have a higher share in the total sales. If due to revision of sales mix, more quantities of unprofitable products are sold, profits will be reduced inspite of an increase in sales.

(ii) *Negative Impact of Financial Leverage*: Where the company does not have sufficient own funds (equity) but has a higher debt-equity ratio, the interest commitments will be higher. As the volume of its operation increases, higher debt and interest charges would result in lower profits.

(iii) *Other Items Included in Sales*: The figure of sales as per Profit and Loss Account may include incidental revenues, e.g., freight, excise duty, sales-tax, etc. where the amount of excise duty goes up considerably the total sales may show an increase which is not represented by a real increase in sales quantity/value.

(iv) *High Administrative and Selling Expenses*: Administrative and selling costs are generally period costs which are fixed in nature. Their increase is generally not proportional to sale increase. However, a reduction in profit could also be due to increase in administrative overheads and sales overheads at a rate higher than the rate of increase in sales.

(v) *Cost-Price Relationship*: If the increases in cost of raw materials and labour has not been compensated by a corresponding increase in the sales price this would also result in higher sales and declining profits. Inspite of same sales quantity, for the increasing cost of raw materials and other services, per unit values of the product has been increased which is however unmatched by the increase in cost.

(vi) *Competitive Price*: Where sales have been made at cut-throat prices in order to eliminate competition from the market, the profits would be in the declining trend in the short-run.

(vii) *Additions to Fixed Assets*: Where there are heavy additions to fixed assets and consequent depreciation charges in the initial years of additions, there may be reduction in profits in spite of increased sales.

4. (b) Energy Audit is the key to a systematic approach for decision-making in the area of energy management. It attempts to balance the total energy inputs with its use, and serves to identify all the energy streams in a facility. It quantifies energy usage according to its discrete functions. Industrial energy audit is an effective tool in defining and pursuing comprehensive energy management programme.
As per the Energy Conservation Act, 2001, Energy Audit is defined as "the verification, monitoring and analysis of use of energy including submission of technical report containing recommendations for improving energy efficiency with cost benefit analysis and an action plan to reduce energy consumption".

In that context, energy management involves the basis approaches reducing avoidable losses, improving the effectiveness of energy use, and increasing energy use efficiency. The function of an energy auditor could be compared with that of a financial auditor. The energy auditor is normally expected to give recommendations on efficiency improvements leading to monetary benefits and also advise on energy management issues. Generally, energy auditor for the industry is an external party. The following are some of the key functions of the energy auditor:

(i) Quantification of energy costs and quantities
(ii) To correlate trends of production or activity to energy cost.
(iii) To devise energy database formats to depict to correct picture – By product, department or consumer.

While performing the aforesaid key functions, the energy auditor is required to carry out the following activities:
(i) To analyse the historical energy consumption and cost data.
(ii) To conduct preliminary energy audit with the objectives to identify:
   (a) major energy consuming equipment and process;
   (b) obvious inefficiencies and energy wastes; and
   (c) priority areas for further detailed investigation.
(iii) To conduct detailed technical and economic analysis of energy efficiency measures involving large efficiency measures involving large capital investment or long payback periods.

5.(a) As per Companies Act 2013 which companies are required to conduct Internal Audit? Who can be internal auditor as per the Act? [7]

5.(b) SAFA organised a three-day International Conference of Accountants in Bangalore. You are asked to conduct internal audit the accounts of the conference. Draft the audit programme for audit of receipt of participation fees from delegates to the conference. [9]

Answer:

5.(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:-
(a) every listed company;
(b) every unlisted public company having-
   (i) paid up share wealth of fifty crore rupees or more during the preceding financial year; or
   (ii) turnover of two hundred crore rupees or more during the preceding financial year; or
   (iii) 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; or
   (iv) outstanding deposits of twenty five crore rupees or more at any point of time during the preceding 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.

Section 138 of the companies act 2013 deals with provisions of internal audit. As per section 138, (1) 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.

5. (b) Audit of Receipts of Participation Fees

The organization of three-day International Conference of Accountants in Bangalore by SAFA is a one-time event. Normally, in view of mega-size of the event, a special cell is made in the organization to handle the entire event. Since few people would be handling the event, the internal controls may not be that strong and, thus, more emphasis is required to be given on substantive procedure. Audit of receipt of participation fees should be under the following areas:

(I) Internal Control System
- (i) Examine the organization structure of special cell created for the International Conference, if any, and division of responsibilities amongst persons and control/custody over receipt books.
- (ii) Verify the internal control system for restricting the participation of unregistered delegates.

(II) Rate of Participation Fees
- (i) Verify with reference to resolution passed by the Organizing Committee/SAFA.
- (ii) Also verify the rate from the literature/registration form circulated for promotion of conference.

(III) Receipts of Participation Fees
- (i) Verify counter foil of the receipts issued for individual registration.
- (ii) Ensure that receipts are issued for all the registration received in cash.
- (iii) Trace the receipts in Bank Statement or Cash Book – as the case may be.
- (iv) Verify Bank Reconciliation Statement and list out dishonoured cheques.
- (v) Verify subsequent recovery in respect of dishonoured cheques.

(IV) Overall Checking
- (i) Verify the total receipts of participation fees shown in the financial statements with reference to total number of receipts issued to participants.
- (ii) Cross check the total number of delegates with reference to the following:
  - (a) Kits distributed to participants.
  - (b) Bill of caterer for providing meals during conference.
  - (c) Capacity of the Hall.
  - (d) Participation Certificate if any issued.

(V) Foreign Delegates: In case of foreign delegates – if registration fees are higher – ensure that they are registered at higher fees.

(VI) Special Issues :
- (i) Take out list of absentees and in case of nil absentees, probe the issue further.
- (ii) If certain participants are exempted from payment of fees – obtain the list along with proper authorization in this regard.

6. **PHIMPEX LTD. in the business of Real Estate and Consumer Goods shows the following financial position for the year ending March31, 2016:**

(Amount in ₹ crore)

	Year ended 31st March	
	2016	2015
Liabilities		
Share Capital	33	33
Securities Premium Account	931	928
General Reserve	57	44
Capital Redemption Reserve	42	40
Profit & Loss Account	595	390
Long Term Borrowings	1013	670
Deferred Tax Liability	25	39
Short Term Borrowing	782	676
Trade Payable	715	747
Miscl. Provisions	77	73
Total:	4270	3640
Assets:		
Fixed Assets (Tangible)	647	614
Capital WIP	667	383
Non-Current Investments	2378	2048
Long Term Loans	53	66
Inventories	167	232
Trade Receivables	104	94
Cash and Bank Balance	107	69
Other Current Assets	25	30
Advance for Equipment	122	104
Total:	4270	3640

Profit before tax for the year 2015-16 was ₹326 crores (Previous year ₹397 Crores)

You are required to compute the following figures/ratios as stipulated in PART-D, PART-4 to Annexure of cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended 31st March, 2016:

i. **Capital Employed**
ii. **Net Worth**
iii. **Debt Equity Ratio**
iv. **PBT to Capital Employed**
v. **PBT to NET Worth**
vi. **Current Assets to Current Liabilities**

[5+3+2+2+2+2=16]

Answer: 6

PHIMPEX LTD.

(Amount in ₹ crore)

Year ended March 31			2015	2016	2016
(i) Capital Employed:					
Fixed assets (Tangible)			614	647	
Non-current investments			2048	2378	
Particulars	Previous Year2015	Current Year2016	2662	3025	
Current Assets: (A)					
Inventories	232	167			
Trade Receivables	94	104			
Cash and Bank Balance	69	107			
Other Current Assets	30	25			
(A)	425	403			
Current Liabilities:					
Short term borrowings	676	782			
Trade payables	747	715			
Misc. Provision	73	77			
(B)	1496	1574			
Working Capital (A-B)			(1071)	(1171)	
CAPITAL EMPLOYED			1591	1854	
Average capital employed for the year ended March 31,2016			(1591+1854)÷2		1722.5
(ii) Net Worth: (For the year ended Mar31,16					
Share capital				33	
Securities premium a/c				931	
General reserve				57	
Capital redemption reserve				42	
Profit and loss account				595	1658
(iii) Debt (For the year ended March 31,2016)					
Long Term Borrowings				1013	
Deferred Tax Liabilities				25	1038
Debt Equity Ratio: (1038/1658) = 62.60%			(1038÷1658)		62.6:100
= 62.6:100 or 0.63:1			=62.60%	Or	0.63:1
Profit before tax (PBT) for the year ended March 31, 2016					326
(iv) PBT to Capital Employed:			(326÷1722.5)×100		18.93%
(v) PBT to Net Worth			(326÷1658)×100		19.66%
(vi) Current Assets to Current Liabilities: for 2016					0.256
(CA/CL) = (403/1574)				Or	0.26:1

7.(a) The particulars of a Supervisory employee of MAHAVINA LTD., a manufacturing company show the annual expenses as follows:

i. **Basic pay including Industrial D.A. ₹7,00,000**
ii. **Lease rent paid for accommodation provided to the employee ₹2,40,000**
iii. **Amount recovered from employee ₹60,000**
iv. **Employer's contribution to P.F. ₹56,000**
v. **Employee's contribution to P.F. ₹56,000**
vi. **Reimbursement of medical expenses ₹67,000**
vii. **Hospitalization expenses including Group Medical Insurance borne by the employer ₹19,000**
viii. **Annual Bonus ₹30,000**
ix. **Festival Advance ₹30,000**
x. **The Employer manages P.F. through a Trust, and the shortfall in the return of the Trust Account compared to the notified rate is around 0.75% p.a. reimburse to the Trust.**
xi. **The future benefit (Gratuity) to the employee is insured with L.I.C., the premium of which costs 4% p.a. approx.**

Required:

Calculate the Employee Cost for the year ended March 31, 2016- keeping in view of Cost Accounting Standard (CAS)-7. [8]

7. (b) PARTHAN CO. LTD. a single product manufacturing company, has following four operations undergone by a product under Cost Audit.
The Processwise Input, Output, Direct Employee Costs and Direct Material Costs for the year ended March 31,2016 are given below:

Process	Input Unit	Output Unit	Direct employee cost of the process (₹)	Direct Material cost of the process (₹)
MP-I	312000	280800	8,42,400	11,23,200
MP-2	330000	297500	11,90,000	13,38,750
MP-3	414000	397500	19,87,500	16,89,375
MP-4	390000	361000	28,88,000	23,82600

You are required to calculate:

i. **Direct Employee Cost per unit of the product,**
ii. **Direct Material Cost per unit of the product,**
-- under reference as required in (PART-B, PARA-2) of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules,2014. [2+2+2+2=8]

Answer:

7. (a) Computation of employee cost:

(As per principles laid down in CAS-7)

	Particulars	Amount in ₹
i)	Basic pay (including industrial DA)	7,00,000
	Add: Leased Accommodation (2,40,000-60,000)	1,80,000
	Medical Expenses (67,000+19,000)	86,000
	Annual Bonus	30,000
	Contribution to P.F	56,000
	Premium for Gratuity (@ 4% on 700000)	28,000
	Total: Employee Cost	1080000

Note:

i. Festival advance is a recoverable amount-not to be included in employee cost.

ii. Employee's computation to PF is not a cost to employer- not to be included in employee cost.

iii. Shortfall in PF the return of Trust A/c is an unusual cost- not to be included in employee cost.

7. (b) Total employee cost per unit and total material cost per unit of the product under Audit mist be an aggregation of processwise employee cost and material costs after taking into account the good units occurring in each process.

Process	Input(unit)	Output (unit)	Factor
Mp-1	312000	280800	312000÷280800=1.1111
MP-2	330000	297500	330000÷297500=1.1092
MP-3	414000	397500	414000÷397500=1.0415
MP-4	390000	361000	390000÷361000=1.0803

A) Processwise Employee costs per unit of output (Product) are:	B) Processwise material cost per unit of output (product) are:
MP-1= 842400÷280800= ₹3	1123200÷280800= ₹4.00
MP-2= 1190000÷297500= ₹4	1338750÷297500= ₹4.50
MP-3= 1987500÷397500= ₹5	1689375÷397500= ₹4.25
MP-4= 2888000÷361000= ₹8	2382600÷361000= ₹6.60

(i) Aggregating all above (A) employee cost to the finished product form process MP-4 will be:

Process MP-1	= ₹3.00	
Process MP-2	= ₹3×1.1092+4	= ₹7.3276
Process MP-3	= ₹7.3276×1.0415+5	= ₹12.6317
Process MP-4	= ₹12.6317×1.0803+8	= ₹21.6460

Direct employees cost per unit of finished product (output) in ₹21.65

(ii) Aggregating all above (B), material costs to the finished product from process MP-4 will be:

Process MP-1	= ₹4.0000	
Process MP-2	= ₹4.00×1.1092+4.50	= ₹8.9368
Process MP-3	= ₹8.9368×1.0415+4.25	= ₹13.5577
Process MP-4	= ₹13.5577×1.0803+6.60	= ₹21.2464

Hence, Direct material cost per unit of finished product (output) is ₹21.25

8. Answer any four questions: [4×4=16]

(a) (i) How is cost computed if service is provided by contractors as per CAS 13?
(ii) How would you treat future remediation or disposal costs under CAS 14 relating to Pollution Control Costs? [2+2=4]

(b) State the objectives of audit of Local Bodies? What are the items to be included in internal audit programme of local bodies ? [4]

(c) Discuss the concept of 'evidence' in relation to Management Audit. [4]

(d) A chemical manufacturing unit uses ingredient 'Q' as the basic material. The cost of the material is ₹ 20 per kg and the Input-Output ratio is 120%. Due to a sudden shortage in the market the material becomes non-available and the unit is considering the use of one of the following substitutes available:

Materials	**Input - Output Ratio**	**₹/ per Kg**
B1	**135%**	**26**
B2	**115%**	**30**

You are required to recommend which of the above substitutes is to be used. [4]

(e) Purchase of Materials ₹6,00,000 (inclusive of Trade Discount ₹6,000); Fee on Board ₹24,000; Import Duty paid ₹30,000; Freight inward ₹ 40,000; Insurance paid for import by sea ₹20,000; Rebates allowed ₹8,000; Cash discount ₹6,000; CENVAT Credit refundable ₹14,000; Subsidy received from the Government for importation of these materials ₹40,000. Compute the landed cost of material (i.e. value of receipt of material). [4]

Answer:

8. (a)(i) Cost of services rendered by contractors within the facilities of the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other resources provided to the contractors for such services.

Cost of services rendered by contractors at their premises shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discount), taxes and duties refundable or to be credited. This cost shall also include the cost of resources provided to the contractors.

(ii) Future remediation or disposal costs which are expected to be incurred with reasonable certainty as part of Onerous Contract or Constructive obligation , legally enforceable shall be estimated and accounted based on quantum of pollution generated in each period and the associated cost of remediation or disposal in future.

8. (b) The objective of audit of Local Bodies are:
- To report the content and presentation of financial statements are true and fair
- Detection and prevention of error fraud, misuse of funds
- To ascertain that full value received for money spent
- Legal and administrative requirements fulfilled

The audit programme for local bodies include the following:
- All sanctions are accorded by competent authority
- Expenditure incurred are according to provisions and as per regulations framed by competent authority
- Different schemes, programmes, and projects are running economically and the purpose such programme is achieved.

8. (c) In management audit , there are no fixed items of evidence that has to be checked by the management auditor on routine basis. A management auditor has to rely more on his experience to identify the areas of review , particularly the areas of weakness to overcome , strengths to be exploited, and risks to be properly covered.

The auditor's evidence comes through his discussions with concerned persons in the organizations, survey and review of various reports like internal audit reports , inspection reports , physical verification, monthly performance review statements , minutes and notes and above all personal observations.

Evidence may be gathered through sampling techniques and on basis of results drawn, going into details where required . It should be understood that a management auditor does not depend on voucher as an evidence ,but shall fall back on various records including vouchers as evidence for his audit if sample demand so. The evidence should be such that an auditor can draw valid conclusions duly verifying the same with people concerned. There are no area of restrictions for obtaining evidence for a management auditor.

8. (d) Cost of Raw Material = $\frac{\text{Input}}{\text{Output}}$ x Rate per Unit

Cost of Material of: (Per Kg)

$$Q = \frac{120}{100} \times 20 = ₹24.00$$

$$B1 = \frac{135}{100} \times 26 = ₹35.10$$

$$B2 = \frac{115}{100} \times 30 = ₹34.50$$

Material B2 is cheaper to be used in the final product. It is cheaper than B1 by ₹0.60 (₹35.10 - ₹34.50).

8. (e) Computation of Material Cost Sheet

	Particulars	Amount (₹)
	Purchase price of Material	6,00,000

Add:	Fee on Board	24,000
Add:	Import Duties of purchasing the material	30,000
Add:	Freight Inward during the procurement of material	40,000
Add:	Insurance paid	20,000
	Total	**7,14,000**
Less:	Trade Discount	6,000
Less:	Rebates	8,000
Less:	CENVAT Credit refundable	14,000
Less:	Subsidy received from the Government for importation of materials	40,000
	Value of Receipt of Material	**6,46,000**