

**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 wherever applicable & necessary) [10×2=20]**

- A.** Costing Taxonomy is best defined as a:
- (a) Dictionary
  - (b) Made easy
  - (c) Tax Ready Reckoner
  - (d) Referencer.
- B.** The forex component of imported material is converted at the rate on -----
- (a) date of payment
  - (b) date of delivery
  - (c) date of transaction
  - (d) date of use.
- C.** CAS 5 deals with-----
- (a) equalized cost of transportation
  - (b) captive consumption
  - (c) capacity determination
  - (d) cost classification.
- D.** Para 6, Part D of the Annexure to the Cost Audit Report provides information on:
- (a) Financial Position and Ratio Analysis(for the company as a whole)
  - (b) Value Addition and Distribution of Earnings for Product Group
  - (c) Product and profitability statement(for audited products/services)
  - (d) Reconciliation of Indirect Taxes(for company as a whole).
- E.** There are no fixed items of evidence to be checked by Management Auditor
- (a) The statement is true
  - (b) The statement is false
  - (c) The statement is partly true
  - (d) The statement is partly false.
- F.** Penalty paid to PF authorities is ----- in Employee Cost.
- (a) included
  - (b) excluded
  - (c) will depend on individual case
  - (d) partly included.
- G.** Copy of Cost Audit Report neednot be submitted to
- (a) Central Government

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- (b) Board of Directors of the Company
- (c) Members at Annual General Meeting of the Company
- (d) Income Tax Officer along with the Income tax Return.

H. Number of Sectors/industry product/service under Regulated category are:

- (a) Three
- (b) Two
- (c) Six
- (d) Five

I. PART B of the Annexure to Cost Audit Report provides information on :

- (a) Service sector
- (b) Manufacturing sector
- (c) Agricultural Sector
- (d) Foreign Trade.

J. 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

### Section-B

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

2. (a) The Cost Audit report contains significant information which would help to assess and improve operational efficiency of a concern: Discuss the statement with reference to the matters to be reported by a Cost Auditor in his report. **[8]**

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

(i) 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.

(ii) 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. **[4+4=8]**

3. (a) The following details of the process-wise wastages on inputs are taken from the Cost Accounting Records of MANAVI COTTON MILLS LTD. a yarn manufacturing company, for the year ended March 31, 2015:

Process	% of Wastage on Input
Mixing and Blow Room	9.20
Carding	6.95
Drawing	1.25
Roving (Simplex)	1.15

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Ring frame (Spinning)	7.00
Winding	1.75

Required:

Calculate the process-wise "WASTE MULTIPLIER" factors for the year ended March 31, 2015. **[8]**

3. (b) Following are data available from a company which has both domestic and export sales. The company is subject to cost audit. Prepare a statement of export profitability.

Production	10,000 units	
Sales Domestic	9,000 units at	₹22/unit
Sales Export	1,000 units at	₹17/ unit
Raw materials consumed		₹90,000
Imported component used only for exported quality		₹3,000
Direct Labour		₹10,000
Factory overhead		₹15,000
Administration overhead		₹5,000
Export Packing		₹3,000
Freight and Packing for Domestic Sales		₹4,500
Handling at Port		₹500
Opening WIP		₹10,000
Closing WIP		₹5,000

For export an imported component is to be used at a cost of ₹3 per unit. The indigenously produced component that is used for domestic sales and included in raw material consumption is ₹4 per unit. Duty drawback on the 1000 units export is ₹1,500. **[8]**

4. (a) Evaluation of the personnel function of an organization by management auditor is by no means an easy task. In your view what areas are to be covered and points to be kept in mind while assessing the personnel function of an organization ? **[8]**

(b) While performing an Information System Audit, the Management Auditor should make sure that various objectives are met. Briefly describe them. **[8]**

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

(b) You have been appointed as an internal auditor for M/s KBC Ltd which is a large manufacturing concern. You are asked to verify whether there are adequate records for

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identification and value of Plant and Machinery, tools and dies and whether any of these items have become obsolescent and not in use. Draft a suitable audit programme for the above. **[8]**

- 6. (a)** Manufacture's specification capacity for a machine per hour = 500 units  
 No. of shifts (each shift of 8 hours each) = 3 shifts  
 Paid holidays in a year (365 days) :  
     Sundays = 52 days  
     Other holidays = 13  
 Annual maintenance is done during the 13 other holidays.  
 Preventive weekly maintenance is carried on during Sundays.  
 Normal idle capacity due to lunch time, shift change etc = 1 hour per shift  
 Production during last five years = 30.1, 26.9, 29.7, 24.4 and 30.2 lac units.  
 Actual production during the year = 30.1 units.  
 Calculate Installed capacity, Normal capacity, Normal Idle capacity and Abnormal idle capacity as per CAS 2 from the data given. **[2+2+1+1=6]**

- 6. (b)** ASHIRBAD 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 tonnes @ ₹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 for the year ended March 31, 2017. **[10]**

- 7. (a)** BIDHISHREE LTD. manufactures and sells a single product. During the year 2014-15, it earned a sales revenue of ₹ 5,040 lakhs based on a 20% profit on selling price. The product requires 30 pieces of material P and 15 pieces of material Q for manufacture as well as an operation time of 700 hours in the Machine Shop and 250 hours in the Assembly Section. Overheads are absorbed

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at a blanket rate of 33-1/3% on Direct Labour. The factory worked 5 days of 8 hours a week in a normal 52 weeks a year. The statutory holidays, leave and absenteeism and idle time amounted to 96 hours, 80 hours and 64 hours respectively, in the year.

The other details available from the Cost Accounting records of the company are as under:

Purchase Price	Material P	₹ 2,400 per piece
	Material Q	₹ 1,600 per piece
Comprehensive Labour Rate	Machine Shop	₹ 160 per hour
	Assembly	₹ 128 per hour
Number of Employees	Machine Shop	600
	Assembly	180

	Finished Product Stock	Materials P	Materials Q
Opening Stock	200 units	5,400 Pcs.	3,300 Pcs.
Closing Stock	250 units	3,000 Pcs.	6,600 Pcs.

As a Cost auditor of the company, you are required to:

- (i) Verify the number of units of the product manufactured (1,450 as per ledger) and sold (1,400 as per ledger).
- (ii) Verify the purchases made of Materials P (₹ 986.40 lakh) and Q (₹ 400.80 lakh) during the year as per purchases ledger.
- (iii) Compute the capacity utilisation of Machine Shop and Assembly Section. **[4+4+2=10]**

7. (b) There was a strike from 17.08.2016 to 28.10.2016 in a company of which you were the cost auditor for the year ending 31.03.2017. Although the company began working from 29.10.2016, production could effectively begin only from 30.11.2016. The expenses incurred during the year ended 31.03.2016 were:

Particulars	₹ in lacs
Salaries & Wages (direct)	3000
Salaries & Wages (indirect)	2000
Power (variable-90%)	1200
Depreciation	1800
Other fixed expenses	2400
Repair and Maintenance (variable ₹1100 lacs)	1400
Total	11800

The following related to the period 17.08.2016 to 29.11.2016

Particulars	₹ in lacs
Salaries & Wages (indirect)	700
Depreciation (non-productive)	600
Other fixed expenses	900
Repair and Maintenance (Indirect)	100
Total	2300

Calculate the amount which in your opinion should be treated as abnormal for exclusion from the product cost. **[6]**

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### 8. Answer any four questions:

**[4×4=16]**

**(a)** How do you define the following under Generally Accepted Cost Accounting Principles?

- (i) Value of self manufactured materials.
- (ii) Cost of cane supplied from own farm to sugar mill.

**[2+2=4]**

**(b)** As a Cost Auditor how would you deal with the following?

- (i) ABC Ltd. manufacturers of cables and conductors, has charged only a portion of administrative overheads to cost of production and balance to cost of sales of its products.
- (ii) KBC Ltd. does not have a system of internal audit but states that it has introduced adequate internal controls.

**[2+2=4]**

**(c)** State four objectives of Operational Audit.

**[4]**

**(d)** Gross pay ₹ 10,30,000 (including cost of idle time hours paid to employee ₹ 25,000); Accommodation provided to employee free of cost [this accommodation is owned by employer, depreciation of accommodation ₹ 1,00,000, maintenance charges of the accommodation ₹ 90,000, municipal tax paid for this accommodation ₹ 3,000], Employer's Contribution to P.F. ₹ 1,00,000 (including a penalty of ₹ 2,000 for violation of PF rules), Employee's Contribution to P.F. ₹ 75,000. Compute the Employee cost as per CAS 7.

**[4]**

**(e)** A manufacturing unit produces two products X and Y. The following information is furnished:

Particulars	Product X	Product Y
Units produced ( Qty)	20000	15000
Units Sold (Qty)	15000	12000
Machine Hours utilised	10000	5000
Design charges(₹)	15000	18000
Software development charges(₹)	24000	36000

Royalty paid on sales ₹ 54,000 [@ ₹2 per unit sold, for both the products]; Royalty paid on units produced ₹ 35,000 [@ ₹ 1 per unit purchased, for both the products], Hire charges of equipment used in manufacturing process of Product X only ₹ 5,000, Compute the Direct Expenses as per CAS 10.

**[4]**