

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) Exemptions from application of the Rules are provided to Companies whose revenue from exports, in foreign exchange, exceeds _____ of total revenue and companies operating from Special Economic Zones.
(a) 45%
(b) 50%
(c) 75%
(d) 80%
- (ii) Cost Auditing Standard 103 deals with _____.
(a) planning an Audit of Cost Statements
(b) Cost Audit Documentation
(c) knowledge of process and business
(d) overall objectives of the Independent Cost Auditor
- (iii) Field Balance Sheet Approach to audit can be applied in audit of _____.
(a) Non-Governmental Organisations (NGOs)
(b) Self Help Group
(c) Local Bodies
(d) Commercial Accounts
- (iv) Cost Auditor's observation and suggestions are given in _____.
(a) CRA-3
(b) CRA -2
(c) CRA-1
(d) Annexure
- (v) CAS 7 deals with _____.
(a) Direct Material Cost
(b) Indirect Material Cost
(c) Packing Material Cost
(d) Employee Cost.
- (vi) _____ is the evaluation of every resources declared in the industry.
(a) Performance Analysis
(b) Productivity Analysis
(c) Profitability Analysis
(d) Financial Analysis
- (vii) _____ of the Annexure to the Cost Audit Report prescribes the method of calculation of Value Addition.
(a) Part A
(b) Part B
(c) Part C
(d) Part D

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- (viii) The main emphasis of Management Audit is _____
- problem solving
 - problem identification
 - problem definition
 - problem avoidance
- (ix) CAS 5 deals with _____
- equalized cost of transportation
 - captive consumption
 - capacity determination
 - cost classification.
- (x) _____ is sometimes defined as an extension of Financial Audit.
- Internal Audit
 - Management Audit
 - Operational Audit
 - Propriety Audit

Section - B [80 marks]

2. (a) What is Captive Consumption? What are the different cost components are considered to determine the Cost of Production for Captive Consumption?
- (b) A steel company which produces Iron Casting Pipes and rod iron is covered under the Cost Audit according to the Companies (Cost Records and Audit) Rules 2014. From the expenditure data relating to 2017-18, determine the employees cost according to CAS -7.

Sl. No.	Particulars	₹ In lakh
(i)	Salary, wages and other allowances	750
(ii)	Bonus	100
(iii)	Contribution to Provident Fund	90
(iv)	Wages to contractors employees	100
(v)	Employees welfare	40
(vi)	Abnormal cost due to strike	80
(vii)	VRS payment for closure of Rod Iron section of the plant	62
(viii)	Arrear Salary (2016-17)	210
(ix)	Compensation paid against the past periods against Court order	67

[10 + 6]

3. (a) (i) 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 :

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

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- (ix) Share of Administrative charges ₹ 20 lakh
- (x) Realization from Sale of ash disposed is ₹ 1.5 lakh

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

3. (a) (ii) Tirupati Ltd., a manufacturing unit, produces two products A and B. The following information is extracted from the Books of the Company for the year ended March 31, 2018:

Particulars	Product A	Product B
Units Produced (Qty.)	2,10,000	1,68,000
Units sold (Qty.)	1,68,000	1,36,500
Machine hours utilized	1,26,000	84,000
Design charges (₹)	1,57,500	1,89,000
Software development charges (₹)	2,62,500	3,78,000

Royalty paid on sales ₹ 6,09,000 [@ ₹ 2 per unit sold for both the products].

- (i) Royalty paid on units produced ₹ 3,78,000 [@ Re. 1 per unit produced for both the products].
- (ii) Hire charges of equipment used in the manufacturing process of product PB only ₹ 53,000.

Note: No adjustments are to be made related to units held i.e. Closing Stock.
You are required to compute the Direct Expenses—keeping in view of Cost Accounting Standard (CAS)-10. [6 + 4]

- (b) How can the cost audit report and compliance report is converted into the XBRL format? 6

4. (a)

Selected statistics of Vijay & Company Limited for two years, are given below:

Particulars	(Amount in lakh)	
	31.03.2018	31.03.2017
Gross Profit	36%	33.33%
Stock turnover	20 times	25 times
Average Stock	₹ 38,400	₹ 36,000
Average Debtors	₹ 87,500	₹ 1,68,750
Income Tax rate	50%	50%
Net Income after tax as % of Sales	6%	7%
Maximum Credit period allowed to customers	60 Days	60 Days

You are required to:

- (i) Prepare a statement of profits in comparative form for all the two years.
- (ii) Evaluate the position of the company regarding profitability and liquidity on the basis of information supplied to you.
- (iii) What additional information will you require to evaluate fully the position of the company on the liquidity fund? 10

- (b) You are the Management Auditor of a large manufacturing company suffering from working capital crisis. Which areas you will cover to overcome the crisis? 6

5. (a) What is Audit Programme? What are the advantages and disadvantages of Audit Programme?

- (b) Discuss about the salient features of Internal Audit and Operational Audit. [10 + 6]

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6. (a) How should a Cost and Management Auditor evaluate MIS of an organization?

(b) What are the fields covered by CSR Audit? [10 + 6]

7. (a) TNT Ltd. has received an enquiry for supply of 2,00,000 numbers of Special Type of Machine Parts. Capacity exists for manufacture of the machine parts, but a fixed investment of ₹ 80,000/- and working capital to the extent of 25% of Sales Value will be required to undertake the job.

The costs estimated as follows:

Raw Materials - 20,000 Kgs @ ₹ 2.50 per kg

Labour Hours- 9,000 of which 1,200 would be overtime hours payable at double the labour rate.

Labour Rate- ₹ 2 per hour.

Factory Overhead – ₹ 2 per direct labour hours.

Selling and Distribution Expenses – ₹ 23,000

Material recovered at the end of the operation will be ₹ 6,000 (estimated).

The Company expects a Net Return of 25% on Capital Employed.

You are Management Accountant of the Company. The Managing Director requests you to prepare a Cost and Price Statement indicating the price which should be quoted to the Customer.

(b) The financial profit and loss account for the year 2017-18 of a company shows a net profit of ₹ 29,60,000. During the course of Cost Audit, it was noticed that:

(i) The company was engaged in trading activity by purchasing goods at ₹ 6,00,000 and selling it for ₹ 7,50,000 after incurring repacking cost of ₹ 25,000,

(ii) Some discarded assets sold off with no scrap value for ₹ 90,000,

(iii) Some renovation of machinery was carried out at a cost of ₹ 6,00,000, having a productive life of five years, but entire amount was charged to financial accounts

(iv) Interest was received amounting to ₹ 1,40,000 from outside investments

(v) Voluntary Retirement payment of ₹ 3,50,000 was not included in the Cost Accounts,

(vi) Insurance claim of previous year was received to the extent of ₹ 2,50,000 but was not considered in the Cost Accounts.

(vii) Opening stock or raw materials and finished goods was overvalued by ₹ 2,40,000 and closing stock of finished goods was overvalued by ₹ 1,10,000 in the financial accounts, and

(viii) Donation of ₹ 80,000 towards CSR commitment was not considered in the Cost Accounts.

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

8. Answer any four. 4x4=16

(a) What are the duties of the companies in relation to provisions of section 148 of the Companies Act 2013 and Rules framed thereunder?

(b) Write a short note on Marketing Audit and its areas.

(c) Discuss about the mandatory review area of the Audit Committee.

(d) How do you define 'Packing Material' as per the Generally Accepted Cost Accounting Principle? What is the treatment of such cost?

(e) What is the role of C&AG in the Audit of Government Company?