Paper 8- Cost Accounting

Paper-8: - Cost Accounting

Full Marks: 100 **Time allowed:3 hours**

Section-A

Section A contains Question Number 1.All parts of this question are compulsory.

1. Answer the following questions

(a) Choose the most Appropriate alternative for the following **(You may writer only the Roman numeral and the alphabet chosen for your answer);** **1 X 10 =10**

(i) Cost units of Automobile Industry
(a) Cubic meter
(b) Bed night
(c) Number of Call
(d) **Number of vehicle**

(ii) Which of the following is considered as accounting record?
(a) Bin Card
(b) Bill material
(c) **Store Ledger**
(d) None of these

(iii) Charging to a cost center those overheads that result solely for the existence of that cost center is known as
(a) **Allocation**
(b) Apportionment
(c) Absorption
(d) Allotment

(iv) CAS- 13 stands for
(a) Joint Cost
(b) Interest and financing charges
(c) Employee Cost
(d) **Cost of service cost centre**

(v) Which of the following is not an element of works overhead?
(a) **Sales manger's salary**
(b) Plant manager's salary
(c) Factory repairman's wages
(d) Product inspector's salary

(vi) Cost Price is not fixed in case of
(a) **Cost plus contracts**
(b) Escalation clause
(c) De escalation clause
(d) All of the above

(vii) Standard quantity of material for one unit of output is 15 kgs @ 8 per kg.Actual output during a given period is 800 units. The standards quantity of raw material.
(a) 1,200 kgs
(b) 1,600 kgs
(c) **12,000 kgs**
(d) None of these

(viii) Which of the following is a long-term budget?
(a) Master Budget
(b) Flexi budget
(c) Cash budget
(d) **Capital budget**

(ix) Time keeping refers to
(a) Time spent by workers on their job
(b) **Time spent by workers in factory**
(c) Time spent by workers without work
(d) Time spent by workers on their job

(x) What will be the accounting entry for absorption of factory overhead?
(a) **Dr. Works in progress control A/c**
Cr.Factory overhead control A/c
(b) Dr. Factory overhead
Cr.Factory Overhead Control A/c
(c) Dr. Factory Overhead Control A/c
Cr.Factory overhead A/c
(d) No entry is required

(b) Match the statement in column I with the most appropriate statement in Column II **1X5=5**

	Column I	3	Column II
(i)	Captive power plant expense	(A)	Costing Profit and Loss A/C
(ii)	Abnormal loss is transferred to	(B)	Decision Package
(iii)	Zero based budgeting	(C)	CAS 6
(iv)	Employee Cost	(D)	Treated as direct expenses
(v)	Material Cost	(E)	CAS 7

Answer:

(i) D	(ii)A	(iii)B	(iv)E	(v)C

(c) State whether the following statements are 'True' or 'False'

(i) Differential Cost is the change in the cost due to change in activity from one level to another level
(ii) Slow moving material have a high turnover ratio.
(iii) Finance Cost shall form part of Direct Expense.
(iv) CAS 2 Stands for classification of cost.
(v) A flexible budget is one,which changes from year to year.

Answer:

(i) T	(ii)F	(iii)F	(iv)F	(v)F

(d) Fill in the blanks

(i) _____ cost are historical costs which are incurred in the past.
(ii) Direct Expenses _____ includes imputed cost(shall/shall not)
(iii) In Aborption Costing _____ cost is added to inventory.
(iv) If the actual loss in a process is less than the normal loss,the difference is known as_____.
(v) _____ + Profit =Sales.

Answer:

(i) Sunk	(ii)Shall Not	(iii)Fixed	(iv)abnormal gain	(v)Cost of sales

Section –B

Answer any five questions from question numbers 2 to 8.
Each question carries 15 marks

2(a) From the following particulars with respect to a particular item of materials of a manufacturing company. calculate the best quantity to order:

Ordering quantities (tone)	Price per ton(₹)
Less than 500	12.00
500 but less than 1,600	11.80
1,600 but less than 4,000	11.60
4,000 but less than 8,000	11.40
8,000 and above	11.20

The annual demand for the material is 8,000 tones. Stock holding cost are 20 % of material cost p.a The Delivery cost per order ₹ 12.00

[8]

(b) The following particulars relate to a processing machine treating a typical material. You are required to calculate the machine hour rate.

The Cost of the machine	20,000
Estimated life	10 years
Scrap Value	2,000
Working time (50 weeks of 44 hrs each)	2,200 hrs
Machine maintenance per annum	200 hrs
Setting up time estimated @ 5 % of total productive time	
Electricity is 15 units per hour @ 20 paise per unit.	
Chemicals required weekly	40
Maintenance cost per year	2,400

Two attendants control the operations of the machine together with 6 other machine, their combined weekly wages are 280.departmental overhead allocated to this machine annum 4,000

[7]

Answer:2(a)

Statement showing computation of total inventory cost at different order sizes

(Annual demand 8,000tones)

Particulars		Ordering Quantities				
		400	500	1,600	4,000	8,000
(i)	Purchasing cost(₹)	96,000 (8,000 X 12)	94,400 (8,000 X 11.80)	92,800 (8,000 X 11.60)	91,200 (8,000 X 11.40)	89,600 (8,000 X 11.20)
(ii)	No. of order	20	16	5	2	1
(iii)	Ordering Cost (12) (₹)	240	192	30	24	12
(iv)	Average size of order	200	250	800	2,000	4,000
(v)	Inventory carrying cost per unit(₹)	2.4 (12 X 20%)	2.36 (11.80 X 20%)	2.32 (11.60 X 20 %)	2.28 (11.40 X 20 %)	2.24 (11.20 X 20 %)
(vi)	Inventory Carring cost (iv X v) (₹)	480	590	1,856	4,560	8,960
(vii)	Total Inventory Cost (i+iii+vi) (₹)	96,720	95,192	94,686	95,784	98,572

(b) Computation of Machine Hour Rate

Annual Working hours: 50weeks X 44 hrs	2,200
Less; Maintenance time	200
Productive hour	2000
Less:5 % setting up time	100

Effective hours 1,900

Particulars	Amount(₹)	Rate per hour(₹)
Standing Charges		
Chemical Solution	(50 X 40)=2,000	
Attendants wages	(280 X 50 X1/7)=2,000	
Departmental overheads	4,000	
Total(A)	8,000	3.64
Machine Expenses		
Depreciation	[(20,000-2,000)/10]/ 1900	0.95
Maintenance	(2,400 /1,900)	1.26
Power	(16X 0.2)	3.20
Machine Hour Rate		9.05

3(a) What are Direct Expenses as defined in CAS-10 (limited Revision 2017)? Also discuss the general principles of its measurent as per CAS-10 (Any five) **[6]**

(b) The following is the Trading and Profit and Loss Account of M/s.Time and trading limited for the yeas ended 31.12.2018 **[9]**

Dr. Trading and Profit & Loss Account Cr

Particulars	Amount(₹)	Particulars	Amount(₹)
To,Materials consumed	10,62,000	By,Sales (30,00 units)	22,50,000
To.Direct Wages A/c	5,56,500	By,Finished Stock A/c (1,000units)	60,000
To,Works overhead A/c	3,19,500	By,Work -in -progress:	
To,Admn overhead A/c	1,43,250	material	25,500
To, Selling and Distribution overheads A/c	1,70,250	Wages	12,000
To net profit	1,03,500	Works OH	7,500
	23,55,000		23,55,000

Manufacturing a standard unit, the company's cost records show that:
(i) Works overheads have been charged to work-in-progress at 20% on prime cost.
(ii) Administration overheads have been recovered at `4.5 per finished unit.
(iii) Selling and distribution overheads have been recovered at `6 per unit sold.
(iv) The unabsorbed or over absorbed overheads have not been adjusted into costing profit and loss account.

Prepare:
(a) A Costing Profit and Loss Account indicating Net Profit.
(b) A Statement Reconciling the Profit as disclosed by Cost Accounts and that shown in Financial Accounts.

Answer:3(a) Direct Expenses : As per CAS -10 (Limited Revision 2017),Direct Expenses are the "Expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material cost and direct employee cost."

General Principles of Measurement:(Any five points)

(i)Identification of direct expense shall be based on traceability in an economically feasible manner.

(ii)Direct expenses incurred for bought out resources shall be determined at invoice price including all taxes and duties and any other expenditure directly attributable thereto net of trade discounts, taxes and duties refundable or to be credited.

(iii)Direct expenses paid/incurred in lump-sum or which are in the nature of onetime payment shall beamortized on the basis of estimated output or benefit to be derived from such expenses.

(iv)Finance cost incurred in connection with selfgenerated or procured resources shall not form part of thedirect expenses.

(v)Any subsidy/grant/incentive or any amount received or receivable with respect to any direct expensesshall be reduced for ascertainment of the cost of the cost object.

(vi)Penalties/damages paid to statutory authorities or other third parties shall not form part of the directexpenses.

(vii)Any change inthe cost accounting principles applied for measurement of the direct expenses should bemade only if it is required by law or for compliance with the requirements of a CAS or a change wouldresult in a more appropriatepreparation or presentation of cost statement of the organization.

(viii)Credit/recoveries relating to direct expenses if material and quantifiable shall be deducted to arrive at thenet direct expenses.

(ix)Any abnormal portion of direct expenses which is material and quantifiable shall not form part of thedirect expenses

3(b) Dr. Costing Profit & Loss Account Cr

Particulars	Amount(₹)	Particulars	Amount(₹)
To,Materials consumed	10,62,000	By,Sales	22,50,000
To.Direct Wages A/c	5,56,500		
Prime Cost	16,18,500		
To,Works overhead A/c (20 %)	3,23,700		
	19,42,200		
(-) Closing WIP	45,000		
	18,97,200		
To,Admn overhead A/c(31,000 X 4.5)	1,39,500		
Cost of Production	20,36,700		
(-) Closing Stock (20,36,700 X 1,000/31,000)	65,700		
Cost of goods sold	19,71,000		
To,Selling and Distribution overheads A/c (30,000 X 6)	1,80,000		
Cost of Sales	21,51,000		

	99,000		
	22,50,000		23,55,000

Statement of reconciliation

Particulars	Amount(₹)	Amount(₹)
Profit as per Financial Accounts		1,03,500
Add: Under recovery of Admn. overheads (1,43,250-1,39,500)	3,750	
Over valuation of closing stock in stock in Cost A/c's (65,700-60,000)	5,700	9,450
		1,12,950
Less: Over recovery of Works overheads(3,23,700- 3,19,500)	4,200	
Over recovery of Selling & Distribution overheads (1,80,000-1,70,250)	9,750	13,950
Profit as per Cost Accounts		99,000

4(a) A company is manufacturing building bricks and fire bricks.Both the products require two processes. Brick forming and Heat treatment. The requirements for the two bricks are:

	Building Bricks	Fire Bricks
Forming per 100 bricks	3 hrs.	2 hrs.
Hear treatment per 100 bricks	2 hrs.	5 hrs.
Total costs of two departments in one month were:		
Production during the month	42,400	
Building	97,600	
Production during the month was		
Building Bricks	1,30,000	
Fire Bricks	70,000	

Prepare statement of manufacturing costs for the two varieties of bricks

[8]

(b) A product passes through three processes – A,B and C.10,000 units at cost of ₹ 2.20 were issued to Process A. The other direct expenses were as follows;

	Process –A (₹)	Process- B(₹)	Process-C(₹)
Sundry materials	3,000	3,000	3,000
Direct labour	9,000	16,000	13,000
Direct expenses	2,000	2,000	3,004

The wastage of process 'A' was 5 % and in process 'B' 4 %

The wastage of process 'A' was sold at ₹0 .50 per unit and that of 'B' at ₹ 1.00 per unit and that of C at ₹ 2.00.

The overhead charges were 160% of direct labour.The final product was sold at ₹ 20 per unit fetching a profit of 20 % on sales.Find out the percentage of wastage in Process 'C'

[7]

Answer:

4(a) Statement Showing Number of Hours

Particulars	Building Bricks	Fire Bricks	Total
Forming (1,30,000 /100)X 3 (70,000 /100) X 2	3,900	1,400	5,300
Heat Treatment (1,30,000 /100)X 2 (70,000 /100) X 5	2,600	3,500	6,100
Total	6,500	4,900	11,400

Cost of forming per hour =42,400/5,300 = 8
Cost of Heat treatment per hour = 97,600/6,100 = 16

Particulars	Building Bricks (₹)	Fire Bricks(₹)	Total(₹)
Forming (3,900 X 8) (1,400 X 8)	31,200	11,200	42,400
Heat Treatment (2,600 X 16) (3,500 X 16)	41,600	56,000	97,600
Total	72,800	67,200	1,40,000

4(b)

Dr Process A Account Cr

Particulars	units	Amount()	Particulars	units	Amount()
To Material Introduced A/c	10,000	22,000	By Normal Loss		
To, Additional Material A/c		3,000	(10,000 X5 %).0.50	500	250
To, Direct Labour A/c		9,000	By Transfer to Process B A/C	9,500	49,900
To, Direct Expenses A/c		2,000	@		
To, Overhead A/c		14,400			
	10,000	50,400		10,000	50,150

Dr Process B Account Cr

Particulars	units	Amount	Particulars	units	Amount
To Material Introduced A/c	9,500	49,900	By Normal Loss		

To, Additional Material A/c		3,000	(9,500X4 %)x 1.00	380	380
To, Direct Labour A/c		16,000	By Transfer to Process B A/C	9,120	96,120
To, Direct Expenses A/c		2,000	@		
To, Overhead A/c		25,600			
	10,000	96,500		10,000	96,120

Dr Process C Account Cr

Particulars	units	Amount	Particulars	units	Amount
To Material Introduced A/c	9,120	96,120	By Normal Loss		
To, Additional Material A/c		3,000	(Ref Working note)	714	1,428
To, Direct Labour A/c		13,000	By Transfer to Process B A/C	8,406	1,34,496
To, Direct Expenses A/c		3,004	@ 16 per unit		
To, Overhead A/c		20,800			
	9,120	1,35,924		9,120	1,35,931

Working Notes:

Sale Price per unit 20

(-) Profit @20% 4

Cost per unit 16

(b)Let the No. of units of loss in Process 'C' be 'x'

Scrap value = X x 2= 2X

1,35,924 – 2x= 16(9,120 – x)units

1,35,924= 1,45,920 -14x

14x=9,996

x= 714 units

Percentage of Normal wastage = 714/9120 X100=7.82%

5(a) Union Transport Company supplies the following details in respect of a truck of 5 tonne capacity

Cost of truck	90.000
Estimated life	10 years
Diesel,oil,grease	₹ 30 per trip each way
Repairs and maintenance	₹1,000 p.m
Driver's wages	₹1,000 p.m
Cleaner's wages	₹ 500 p.m
Insurance	₹9,600 per year
Tax	₹4,800 per year
General supervision charges	₹ 9,600 per year

The truck carries goods to and from the city covering a distance of 50 kms.each way.
on outward trip freight is available to the extent of full capacity and on return 20% of capacity.
Assuming that the truck runs on an average 25 days a month, work out:
(a) Operating cost tonne-km
(b) Rate for tonne per trip that the company should charge if a profit of 50 % on freight is to be earned.

[8]

(b) A contractor commenced the work on a particular contract on 1st April, 2018 he usually closes his books of accounts for the year on 31st December of each year. The following information is revealed from his costing records on 31st December, 2018.

	Amount (₹)
Materials sent to site	43,000
Jr. Engineer	12,620
Labour	1,00,220

A machine costing ₹ 30,000 remained in use on site for 1/5th of year. Its working life was estimated at 5 years and scrap value at ₹ 2,000
A supervisor is paid ₹ 2,000 per month and had devoted one half of his time on the contract.
All other expenses were ₹ 14,000 the materials on site were ₹ 2,500.
The contract price was ₹ 4,00,000. On 31st December, 2018 2/3rd of the contract was completed however, the architect gave certificate only for ₹ 2,00,000. On which 80% was paid. Prepare Contract Account.

[7]

Answer: 5(a)

Particulars	Amount(₹)
Repairs & Maintenance	1,000
Driver wages	1,000
Cleaners wages	500
Insurance	800
Tax	400
Supervision Charge	800
Depreciation [(1,80,000 /10)X(1/12)]	1,500
Diesel,oil,grease (30 X2 X25)	1,500
	7,500
(+) 50 % profit on freight (100 % on cost)	7,500
	15,000

Tonne Kms =25 [(50 X5) +(20/100 X50X5)]
=7,500

	₹
Cost per tonne km = 7,500/7,500	= 1.00
(+) Profit @50% on freight	= 1.00
	2.00

5(b)

Particulars	Amount(₹)	Particulars		Amout(₹)
To,Material A/c	43,200	By,W.I.P		
To,Jr. Enginner A/c	12,620	work certified	2,00,000	
To,Labour A/c	1,00,220	Work uncertified	44,365	2,44,365
To,Dep. On Plant A/c	1,120			
[(30,000 -2,000)/5]X1/5		By,Material at Site		2,500
To,Supervisor (2,000 X 9 X1/2)	9,000			
To,Other expenses A/c	14,000			
To, P& L A/c	35,683			
To,Reserve c/d	31,222			
	2,46,865			2,46,865

Working notes:
Work uncertified
For 2/3rd -1,77,460
For 1/6th - ?

- $[(1,77,460 \div 2/3) \times 1/6] = 44,365$

6(a) SV Ltd a multi product company furnishes you the following data relating to the year 2018:

	First Half of the year (₹)	Second Half of the year(₹)
Sales	90,000	1,00,000
Total cost	80,000	86,000

Assuming that there is no change in price and variable cost and that the fixed expenses are incurred equally in the two half year perid.Calculate For the period

(i) P/V Ratio
(ii) Fixed Expenses
(iii) Break even Sales
(iv) Percentage of Margin of Safety

[8]

(b) A company has a capacity of producing 1 Lakh unit's of a certain product in a month. The sales department reports that the following schedule of sales prices is possible.

Volume of Production (%)	Selling Price per unit (₹)
60	1.80
70	1.60
80	1.50
90	1.34
100	1.22

The variable cost of manufacture between these levels is 30 paise per unit and fixed cost 80,000.

Prepare a statement showing incremental revenue at each stage. At which volume of production will be the profit be maximum?

[7]

Answer:6(a)

(i) P/V ratio = (Change in Profit / Change in Sales)X 100
= (14,000-10,000)/(1,00,000- 90,000) X 100 =40 %

(ii)Fixed Expenses
for the first half = (Sales X P/V ratio) –Profit
=(90,000 X 40%)-10,000 = ₹ 26,000

Fixed Expenses foir the year= 26,000 X2= ₹ 52,000

(iii) Break even sales = 52,000/40% = ₹ 1,30,000

(iv) Margin of Safety =(Sales – BEP)= 1,90,000- 1,30,000 =₹ 60,000
Marginb of safety ratio = (60,000/1,90,000) X 100= 31.58%

6(b) Statement showing computation of incremental revenue

Capacity (%) (A)	Units (B)	Sales(C)	V.Cost @15paise (D)=(B X0.30)	Fixed cost (E)	Total Cost (F)=(D+E)	Revenue (G) =(C-F)	Incremental Revenue (H)
60	60,000	1,08,000	18,000	80,000	98,000	10,000	
70	70,000	1,12,000	21,000	80,000	1,01,000	11,000	1,000
80	80,000	1,20,000	24,000	80,000	1,04,000	16,000	6,000
90	90,000	1,20,600	27,000	80,000	1,07,000	13,600	3,600
100	1,00,000	1,22,000	30,000	80,000	1,10,000	12,000	2,000

From the above computation, it was found that the incremental revenue is more up to 80% capacity. The profit is maximum at that capacity.

7(a) The Sandard set for material consumption was 100 kg @ ₹4.50 per kg.

In a cost period:

Opening stock was 100 kg @ ₹ 4.50 per kg.

Purchases made @ ₹ 4.30 per kg.

Consumption 110 kg

Calculate :i)Usage ii)Price variance

1) When variance is calculated at point of purchase

2)When variance is calculated at point of issue on FIFO basis

3)When variance is calculated at point of issue on LIFO basis **[8]**

(b)A chemical company gives you the following standard and actual data of its Chemical No.1456.You are required to calculate the material variance

Standard Data	
450 kg of material A @40 per kg	18,000
360 kg of Material B @ 20 per kg	7,200
810 kg Total	25,200
90 kg Normal loss	
720 kg	25,200
Actual Data	
450 kg of material A @38 per kg	17,100
360 kg of Material B @ 20 per kg	7,920
810 kg Total	25,020
50 kg normal loss	
760 Kg	25,020

[7]

Answer: 7(a)

i) Computation of Material Usage Variance

Material Usage Variance =SQSP-AQSP

= SP(SQ-AQ) = 4.50(100-110)= ₹ 45(A)

ii)Computation of Price variance

1) When variance is calculated at point of purchase

Price variance = AQSP – AQAP

= (110 X4.50)-(110X4.30) = ₹ 22 (F)

2) When variance is calculated at point of issue on FIFO basis

Price variance = AQSP – AQAP

= (110 X4.50)-[(100X4.50)+(10 X 4.30)] =₹ 2 (F)

3) When variance is calculated at point of issue on FIFO basis

Price variance = AQSP – AQAP

= (110 X4.50)-(110 X4.3)= ₹22(F)

7(b)

SQ =(SQ for that material/SQ for all material) X AQ for that material

For A =(450/720)X760 = 475kg

For B = (360/720) X760=380 kg

Computation of required values

Material	SQSP(1)	RSQP(2)	AQSP(3)	AQAP(4)
A	475 X 40=19,000	18,000	450 X 40 =18,000	
B	380 X 20= 7,600	7,200	360 X 20 =7,200	
	26,600	25,200	25,200	25,020

Where (1) SQSP=Standard Cost of Standard Material =₹ 26,600

(2)RSQP = Revised standard Cost Material= ₹ 25,200

(3)AQSP=Standard Cost of Actual Material =₹ 25,200

(4)AQAP=Actual Cost of material=₹ 25,020

Computation of Required Variances:

a. Material Yield Variance = (1)-(2) =₹ 1,400(F)

b.Material Mix Variance =(2)-(3) = Nil

c.Material Price Variance = (1)-(3) =₹1,400(F)

d.Material Price Variance= (3)-(4)= ₹180 (F)

e.Material Cost Variance = (1)- (4) =₹1,580(F)

8.Answer any three out of the following four question: **5 X 3 = 15**

(a) "Cost Accounting and Management Accounting are inter-dependent."
Do you agree, discuss.

(b) Advantages of Cost Control

(c)What is Economic order Quantity (EOQ) ? State the assumptions underlying EOQ.

(d) What is Responsibility Accounting? Also state the Principles of Responsibility Accounting

Answer:

8(a) Cost Accounting: In cost accounting, primary emphasis is on cost and it deals with its collection, analysis, relevance, interpretation and presentation for various problems of management.

Management Accounting: It utilizes the principles and practices of financial accounting and cost accounting in addition to other management techniques for efficient operations of a concern. It widely uses different techniques from various branches of knowledge like Statistics, Mathematics, Economics, Law and Psychology to assist the management in its task of maximizing profits or minimizing losses. The main thrust in management accounting is towards determining policy and formulating plans to achieve desired objectives of management.

8(b) The advantages of cost control are mainly as follows

(i) Achieving the expected return on capital employed by maximising or optimizing profit

(ii) Increase in productivity of the available resources

(iii) Reasonable price of the customers

(iv) Continued employment and job opportunity for the workers

(v) Economic use of limited resources of production

(vi) Increased credit worthiness

(vii) Prosperity and economic stability of the industry

8(C) Economic Order Quantity (EOQ):EOQ is the size of the order for which both ordering and carrying costs are minimum. Assumptions underlying EOQ:

(i)Ordering cost per order and carrying cost per unit per annum are known and they are fixed.

(ii)Anticipated usage of material in units in known.

(iii) Cost per unit of the material is constant and is known as well.

(iv)The quantity of material ordered is received immediately i.e. lead time is zero

8(d) Responsibility Accounting: It is a system of accounting that recognizes various responsibility centers throughout the organization and reflects the plans and actions of each of these centers by assigning particular revenues and costs of the one having the pertinent responsibility.

It is a system in which the person holding the supervisory posts as president, function head, foreman, etc. are given a report showing the performance of the company or department or section as the case may be. The report will show the data relating to operational results of the area and the items of which he is responsible for control. Responsibility accounting follows the basic principles of any system of cost control and standard costing. It differs only in the sense that it lays emphasis on human beings and fixes responsibilities for individuals. It is based on the belief that control can be exercised by human beings, so responsibilities should be fixed for individuals.

Principles of Responsibility Accounting:

(i)A target is fixed for each department or responsibility centre.

(ii)Actual performance is compared with the target.

(iii)The variances from plan are analyzed so as to fix the responsibility.

(iv) Corrective action is taken by higher management and is communicated