

Paper-17 - Cost Audit & Operational Audit

Time allowed-3hrs

Full Marks: 100

Working Notes should form part of the answer.

“Wherever necessary, suitable assumptions should be made and indicated in answer by the candidates.”

SECTION I (50 Marks)

(Cost Audit)

Answer Question No. 1 (carrying 14 marks) which is compulsory and answer any two (carrying 18 marks each) from the rest in this Section.

(1) (a) Choose the most correct answer among four alternative statements: [8×1=8]

(i) For calculation of Capital Employed, average is considered for —

- (a) Current year and previous year
- (b) Current year and previous 2 years.
- (c) Current year only.
- (d) Previous 5 years.

(ii) Para 9 of the Annexure to the Cost Audit Report Rules deals with —

- (a) Capital employed
- (b) Installed capacity and actual production
- (c) Wages and salaries
- (d) Financial Position and Ratio Analysis.

(iii) CAS 9 deals with —

- (a) Packing Material Cost
- (b) Indirect Material Cost
- (c) Direct Material Cost
- (d) None of the above.

(iv) Copy of Cost Audit Report need not be submitted to —

- (a) Company Law Board
- (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.

(v) As per Rule 7 of the Companies (Cost Accounting Records) Rules, 2011, the Annexure to the Compliance Report is to be duly approved by the

- a. Secretary
- b. Cost Accountant
- c. Board of Directors
- d. None of the above

(vi) As per ----- Outward Transportation Cost shall form part of cost of sales. (Fill in the gap from the below)

- a. CAS-5

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- b. CAS-6
- c. CAS-9
- d. CAS-10

(vii) Form A XBRL is used for filing

- a. Cost Audit Report of a Company
- b. Annual Report of a Company
- c. Compliance Report of a Company
- d. Annual Accounts of a Company

(viii) The main purpose of 'efficiency Audit' is to ensure that

- a. Every rupee invested gives optimum returns
- b. Planned expenditure gives optimum returns
- c. Various policies of management are implemented
- d. Activities of business are beneficial to Society at large

(b) State whether following statements are "True" or "False". Reasons or justification is needed for the answer. [6×1=6]

(i) Every company required to maintain Cost Records under Section 209(1)(d) of the Companies Act is required to get such records audited under Section 233(B) of the Companies Act.

(ii) The Cost Auditor is not a member of the Audit Committee of the Company.

(iii) Under Para 11 of the Annexure to Cost Audit Report, the Cost Auditor gives Reconciliation of only 2 years.

(iv) Cost Auditor has a statutory right to visit the Branch of the company.

(v) CAS 6 deals with the principles and methods of classification, measurement and assignment of material cost, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.

(vi) As per CAS 10, Credits/ recoveries relating to the Direct Expenses, material and quantifiable, shall not be considered to arrive at the net Direct Expenses.

2(a) What are the benefits of cost information as per the expert committee of India? **(6 Marks)**

(b) List out the records to be maintained by companies to which Cost Accounting Record Rules, 2011 is applicable? **(9 Marks)**

(c) How many Compliance Report a cost accountant in full-time practice can authenticate? **(3 Marks)**

(3)(a) As a cost auditor of a company, how would you deal with the following expenses -

(i) Separation costs related to voluntary retirement, retrenchment, termination etc. should be amortized over the period benefitting from such costs;

(ii) Subsidy, Grant, Incentive or any such payment received or receivable with respect to any Employee cost. **(6 Marks)**

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(b) Bengal Electronics Ltd. is engaged in the manufacture of colour television sets having its factories at Kolkata and Gujarat. At Kolkata the company manufactures picture tubes which are stock transferred to Gujarat factory where it is consumed to produce television sets. Determine the Excise duty liability of captively consumed picture tubes from the following information: - Direct material cost (per unit) ₹ 800; Direct Labour ₹ 100; Indirect Labour ₹ 50; Direct Expenses ₹ 100; Indirect Expenses ₹ 50; Administrative Overheads ₹ 50; Selling and Distribution Overheads ₹ 100. Additional Information: - (1) Profit Margin as per the Annual Report of the company for 2012-13 was 12% before Income Tax. (2) Material Cost includes Excise Duty paid ₹ 73 (3) Excise Duty Rate applicable is 12%, plus education cess of 2% and SHEC @ 1%.

(9 Marks)

(c) What are the requisite qualifications required for appointment as a cost Auditor of the company?

(3 Marks)

(4) (a) State the duties & liabilities of a Cost Auditor of the Company?

(8 Marks)

(b) CW Ltd. has its own power plant, which has two users, Cutting Department and Welding Department. When the plans were prepared for the power plant, top management decided that its practical capacity should be 1,50,000 machine hours. Annual budgeted practical capacity fixed costs are ₹9,00,000 and budgeted variable costs are ₹4 per machine-hour. The following data are available:

	Cutting Department	Welding Department	Total
Actual Usage in 2002-03 (Machine hours)	60,000	40,000	1,00,000
Practical capacity for each department (Machine hours)	90,000	60,000	1,50,000

Required:

- Allocate the power plant's cost to the cutting and the welding department using a single rate method in which the budgeted rate is calculated using practical capacity and costs are allocated based on actual usage.
- Allocate the power plant's-cost to the cutting and welding departments, using the dual – rate method in which fixed costs are allocated based on practical capacity and variable costs are allocated based on actual usage.
- Allocate the power plant's cost to the cutting and welding departments using the dual-rate method in which the fixed-cost rate is calculated using practical capacity, but fixed costs are allocated to the cutting and welding department based on actual usage. Variable costs are allocated based on actual usage.
- Comment on your results in requirements (i), (ii) and (iii).

(10 Marks)

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SECTION II (50 Marks) (Operational Audit)

Answer Question No. 5 (carrying 14 marks) which is compulsory and answer any two (carrying 18 marks each) from the rest in this Section.

5. (a) Fill in the blanks in the following sentences by using appropriate word(s)/ phrase(s) : **[8×1=8]**

- (1) FSN analysis is technique used in -----control. (investment/inventory)
- (2) ----- audit is also termed as micro level management audit. (operational/organizational).
- (3) The Companies Amendment Act,2000 had introduced a new Section 292A regarding constitution of -----committees.(managing/audit)
- (4) The quorum for Audit Committee meeting shall be two members or -----members of Audit Committee which ever is greater. (1/3rd, 2/3rd)
- (5) -----cannot be delegated. (Authority, Responsibility)
- (6) VAT law specifically ----- all importers, export and interstate transactions which are covered by CST Act. (excludes/includes)
- (7) Excisable goods must come out of -----process. (production/sales)
- (8) SALVAGE is considered as----- by insurer against what is owed under the policy for an insured loss. (credit/debit).

(b) State whether the following statements are TRUE or FALSE with justification for your answer. No credit will be given for merely answering TRUE or FALSE — without giving any justification/reasoning: **[6×1=6]**

- (i) Audit of Human Resource Development is outside the scope of Management Audit.
- (ii) Management Audit imposes barriers in executive decision making.
- (iii) Management Audit Report is presented to the management.
- (iv) The efforts which are directed towards humanizing and harmonizing the jobs and their content are collectively known as "Job Enlargement".
- (v) Consumerism is a movement protecting the interest of the consumers.
- (vi) Principles of Management Audit remain valid irrespective of the nature of an enterprise.

6. (a) What are the limitations in implementation of an effective internal control system of a company? **(12 Marks)**

(b) Explain the main area of operation of an internal audit of a company? **(6 Marks)**

7. (a) What are the documentations required for an internal audit as per Standard on Internal Audit-3? **(6 Marks)**

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(b) Explain the objects of Management Audit? **(6 Marks)**

(c) Explain the need for capacity determination of an organisation in India. **(6 Marks)**

8. (a) You have been appointed to carry out Management-cum-Operational Audit of a Public Limited Company. State whether the use of Quantitative ratios is more effective than the use of Financial Ratios to gain real insight into the Financial Statements. **(10 Marks)**

(b) Bring out the need for Operational audit. **(8 Marks)**