

Paper-17 - COST AUDIT & OPERATIONAL AUDIT

Time allowed-3hrs

Full Marks: 100

**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.

Working Notes should form part of the answer.

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

1.

- a) Choose the most correct answer among four alternative statements : [5]**
- i)** Cost Auditor should inform to the Central Government in Form 23D of his appointment within :
 - A. 90 days from receiving formal letter from the company.
 - B. 30 days of the Board meeting in which such appointment is made or within a period of 180 days of the commencement of the financial year, whichever is earlier.
 - C. 90 days from the date of commencing of the current financial year.
 - D. 45 days from the date of commencing of the current financial year.

 - ii)** Every Cost Auditor shall forward his report :
 - A. To the Central Government.
 - B. To the Board of Directors of the Company.
 - C. To the Shareholder of the Company.
 - D. To the Creditors of the Company.

 - iii)** The structuring of Cost Audit includes
 - A. Audit Programmes
 - B. Audit working papers
 - C. Checking including test checking
 - D. All of the above

 - iv)** The role of Cost Auditor in respect of non-moving stock is to review
 - A. The causes explained by the company for non-movement of the items.
 - B. How the company deals with the non-moving stock.
 - C. The policy of the company regarding determination on non-moving items.
 - D. All of the above.

 - v)** The significance of Form CRA -1 is –
 - A. Maintenance of Cost Records of the Company.
 - B. Form of intimation of appointment of Cost Auditor by the Company to Central Government.
 - C. Form of Cost Audit Report.
 - D. Form of filing Cost Audit Report with the Central Government.

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- b) State with reasons whether the following statements are “True” or “False”. [5]**
- i) The shareholder of the company has no statutory right to demand a copy of cost Audit Report.
 - ii) Companies (Cost Records and Audit) Rules, 2014 is applicable to a company which is generating electricity for captive use.
 - iii) Detection of errors and fraud is one of the social objectives of Cost Audit.
 - iv) Two companies simply having a common Director shall not be deemed as 'Related Party'.
 - v) The Cost Auditor of a company is appointed by the Board of Directors subject to the intimation to the Central Government.

- c) Fill in the blanks in the following sentences. [4×1=4]**
- i) Cost Audit was initially introduced in the year -----.
 - ii) Each Cost Accounting Record Rule is given a ----- number and date of publication in the Gazette.
 - iii) Rate per unit for each product with CETA heading separately under Annexure-2 of Part B of the Cost Audit Report is to be furnished for current year and -----.
 - iv) CERA (Central Excise Revenue Audit) is conducted by the organization of -----.

2.

- a) Describe the classification of costs according to the nature of expense and also according to the functions or activities as per CAS-1. [3+5]**
- b) You are the Cost Auditor of MP Jute Mills Ltd. for the year ended March 31, 2015. The company had a strike from 15.9.2014. Although the company resumed working from 18.11.2014, normal production was achieved only from 12.12.2014. The expenses incurred during the year ended March 31, 2015 were:**

	(Amount in ₹ lakh)
Salaries and wages (Direct)	450
Salaries and wages (Indirect)	220
Power (Variable)	160
Depreciation	140
Other fixed expenses	260

Detailed examination of the records revealed that of the above, the following relate to the period 15.9.2014 to 17.11.2014:

	(Amount in ₹ lakh)
Salaries & wages (Indirect)	80
Depreciation (Non- productive)	60
Other fixed expenses	110

As a Cost Auditor you are requested to calculate abnormal cost which will be excluded from the product cost. [10]

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3.

a) Define Cost Object according to CAS-7. Also state the disclosure requirements for employee costs as per CAS-7. **[1+7]**

b) Define Cost of Production for Captive Consumption under CAS-4. **[4]**

c) Manufacture's specification capacity for a machine per hour = 750 units. No. of shifts (each shift of 8 hours each) = 3 shifts

Paid holidays in a year (365 days):

Sundays 52 days

Other holidays 8

Annual maintenance is done during the 8 other holidays. Preventive weekly maintenance is carried on during Sundays.

Normal idle capacity due to lunch time, shift change etc = 1 hour.

Production based on sales expectancy during last five years = 38.10, 44, 32.91, 39.25, and 38.30 lacs units.

Actual production during the year = 38.20 lacs units.

Calculate Installed capacity, Available capacity, Normal capacity, Actual capacity utilisation, Idle capacity and Abnormal idle capacity as per CAS 2 from the data given.

[6]

4.

a) Following data is available for a company relating to the cost of production of a product subjected to Cost Audit. Prepare the Export Profitability Statement to be included in the Annexure to the Cost of Production of 20,000 units.

	₹
Sales (local) 18,000 units	4,05,000
Sales (export) 2,000 units	40,000
Material consumed 40 tonnes @ ₹ 5 kg.	2,00,000
Imported Component @ ₹ 3/unit	60,000
Direct Labour	20,000
Factory Overhead	30,000
Administrative Overhead	10,000
Freight & Packing (local sales)	9,000
Packing for export	4,000
Handling at port	1,000
Opening Work-in-progress	20,000
Closing Work-in-progress	10,000

Additional Information:

(i) Export incentive of 10% on F.O.B is receivables.

(ii) Draw Back on duty paid on raw materials and components available on export is ₹ 5000. **[10]**

b) As a cost auditor what will you verify on the area of 'overheads and indirect expenditure'? **[4]**

c) What as a Cost Auditor, will you verify in the area of work-in-progress? **[4]**

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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) State whether the following statements are 'TRUE' or 'FALSE' with justification for your answer. [5]

- i) The Consumer Service Audit critically examines the outstanding payment of consumers.
- ii) The Companies Act, 2013 had introduced section 277 regarding Constitution of Audit Committees.
- iii) 'Position Analysis' is one of the techniques used by the Management Auditor for evaluation of corporate image.
- iv) Operational Audit is termed as Micro Level Management Audit.
- v) The Statutory Auditor (which term includes Cost Auditor) can only be an invitee for their comments and not a member of the Audit Committee.

b) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s) : [5]

- i)is needed to create corporate culture of transparency.
- ii) Management Audit requiresapproach.
- iii) in banks traditionally implies transaction audit.
- iv) Activity based costing is the extended application ofto activity centres.
- v) Theis the highest body of the structure of the WTO.

c) What do the following abbreviations stand for? [4]

- i) OECD
- ii) IAASB
- iii) TPRB
- iv) TRIPS

6.

a) Explain whether the following activities amount to professional misconduct on the part of a Cost Accountant: [2x3=6]

- i) CMA Pankaj, a Cost Accountant in practice published a book and gave his personal as an author. These details also mentioned his professional experiences and his association as partner with SKR and Co., a firm of Cost Accountants.
- ii) M/s. A.P. Shah & Associates, a firm of Cost Accountants in practice, develops a website "shah.com". The colour chosen for website was very bright yellow where the names of the partners of the firm along with their various professional attainments and the major clients were to be displayed on the website.
- iii) CMA Nikhil a Cost Accountant in practice takes up the appointment as Managing Director of Nagar LTD., a public limited company.

b) State the functions of the Audit Committee. [6]

c) What do you understand by 'Corporate Image' and 'Branding'? What are the possible approaches to evaluate Corporate Image? [3+3=6]

- 7.
- a) Differentiate between Management Audit and Operational Audit. **[4]**
 - b) 'Much good work gets lost because the auditor's report fails to evoke the interest of the Reader'. Discuss the above statement in the context of the report of the operational auditor. **[7]**
 - c) Explain the scope of concurrent audit of a bank with reference to Reserve Bank of India guidelines. **[7]**
8. **Write short notes on any three out of the following:** **[6×3=18]**
- a) Cut-off procedures
 - b) key functions of an Energy Auditor
 - c) Customer Costing in Service Sector
 - d) QRB