

PAPER – 19: COST AND MANAGEMENT AUDIT

PTP_Final_Syllabus 2012_Dec2015_Set 2

The following table lists the learning objectives and the verbs that appear in the syllabus learning aims and examination questions:

	Learning objectives	Verbs used	Definition
LEVEL C	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
	APPLICATION How you are expected to apply your knowledge	Illustrate	Use an example to describe or explain something
		Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
	ANALYSIS How you are expected to analyse the detail of what you have learned	Solve	Find an answer to
		Tabulate	Arrange in a table
		Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
	SYNTHESIS How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning	Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence
		Discuss	Examine in detail by argument
	EVALUATION How you are expected to use your learning to evaluate, make decisions or recommendations	Interpret	Translate into intelligible or familiar terms
Decide		To solve or conclude	
Advise		Counsel, inform or notify	
		Evaluate	Appraise or assess the value of
		Recommend	Propose a course of action

Paper 19 - COST AND MANAGEMENT AUDIT

Time allowed-3hrs
100

Full Marks:

Working Notes should form part of the answer.

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

1. Answer the four Questions [15×4=60]

(a) (i) State the objective of CAS-4. [2]

(ii) X Ltd. which absorbs overheads at a pre-determined rate, provides the following information: overheads actually incurred ₹4,50,000; overhead absorbed ₹1,00,000. It was found that 60% of the unabsorbed overheads were due to defective planning. How would unabsorbed overheads due to defective planning be treated in cost accounts? [3]

(iii) Distinguish between cost allocation and cost absorption. [2]

(iv) In a manufacturing concern 20 workmen work in a group. The concern follows a group incentive bonus system whereby each workman belonging to the group is paid a bonus on the excess output over the hourly production standard of 250 pieces, in addition to his normal wages at hourly rate. The excess of production over the standard is expressed as a percentage and 2/3 of this percentage is considered to be the share of the workman and is applied on the notional hourly rate of ₹6.00 (considered only for purpose of computation of bonus). The output data for a week are stated below:

Days	Man hours worked	Output (in pieces)
Monday	160	48,000
Tuesday	172	53,000
Wednesday	164	40,000
Thursday	168	52,000
Friday	160	46,000
Saturday	160	42,000
	984	2,81,000

You are required to:

- (I) Work out the amount of bonus for the week and the average rate at which each workman is to be paid the same.
- (II) Compute the total wages including bonus payable to Ram Jadav who worked for 48 hours at an hourly rate of ₹ 2.50 and to Francis Williams who worked for 52 hours at an hourly rate of ₹ 3.00. [5]

(v) State the disclosures requirements in the cost statements as per CAS-3. [3]

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(b)(i) The Companies (Cost Records & Audit) Rules, 2014 provides exemption from cost audit to a company which is covered under rule 3, and whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue. How to determine the percentage to total revenue in the following cases:

- (I) In a company who is manufacturing Pharmaceutical products, the revenue from export of pharmaceutical products earned in foreign exchange divided by total revenue including other income etc. is 58%.
- (II) The revenue in foreign exchange earned from export of pharmaceutical products plus revenue in foreign exchange earned from rendering of research & development service divided by total revenue including other income etc. is 82%. **[5]**

(ii) A cost auditor is required to certify under Para 1 (vii) of the Cost Audit Report – “Detailed unit-wise and product/service-wise cost statements and schedules thereto in respect of the product/service under reference of the company duly audited and certified by me/us are/are not kept in the company”. Whether product Cost Sheet prepared SKU wise/ type-wise/ size-wise/ specification-wise by the company is required to be certified by the cost auditor and kept in the company? **[6]**

(iii) Revised Form CRA-2 has been made available by the Ministry of Corporate Affairs conforming to the Companies (Cost Records and Audit) Rules, 2014 on 31st December, 2014. What are the required attachments to Form CRA-2? **[2]**

(iv) How would you treat Separation cost due to voluntary retirement, retrenchment, termination etc. as per CAS 7 related to Employee Cost? **[2]**

(c)(i) What are the eligibility criteria for appointment as a cost auditor? **[7]**

(ii) The Companies Act, 2013 has introduced provision regarding rotation of auditors. Is the provision of rotation of auditors applicable to cost auditors also? **[6]**

(iii) Whether figures are to be provided for Rupees per Unit or Amount in Rupees in the Product and Service Profitability Statement [CRA-3, Part D, Para 1]? **[2]**

(d)(i) State the nature and purpose of Cost Auditing Standard on Cost Audit Documentation – 102. **[5]**

(ii) A manufacturing unit produces two products 'A' and 'B'. The following information is furnished:

Particulars	Product A	Product B
Units produced (Qty)	20,000	15,000
Units Sold (Qty)	15,000	12,000
Machine Hours utilised	10,000	5,000
Design charges	15,000	18,000

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Software development charges	24,000	36,000
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Royalty paid on sales ₹ 81,000 [@ ₹3 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 'A' only ₹ 5,000, Compute the Direct Expenses. **[5]**

(iii) Prepared Cost Sheet with the help of CAS 22 Manufacturing Cost for an engineering company which produces standard components in batches of 1000 pieces each. A batch passes through three processes viz. Foundry, Machining & Assembly.

The material used for a batch number 101 were: Foundry 1300 tonnes @ ₹ 50 per tonne of which 50 tonnes were send back to stores.

Other details

Process	Direct Labour	Overheads
Foundry	200 Hrs @ ₹ 10	₹ 15 per Labour Hour
Machining	100 Hrs @ ₹ 5	₹ 20 per Labour Hour
Assembly	100 Hrs @ ₹ 15	₹ 10 per Labour Hour

A comparison of actual costs with estimated cost discloses that material and overheads have exceeded the estimates by 20% whereas the estimated labour cost is 10% more than the actual. **[5]**

(e)(i) What are the matters that are relevant in formulating audit strategy and drawing up the audit plan? **[4]**

(ii) What are the factors need to be considered by Cost Auditor while formulating the Overall audit strategy? **[3]**

(iii) How would you treat the forex component of imported packing material as per CAS 9? **[2]**

(iv) How would you treat overtime premium as per CAS 7 related to Employee Cost? **[2]**

(v) How would you assign administrative overheads as per CAS 11? **[2]**

(vi) How would you determine the cost of utilities generated for inter company transfers as per CAS 8? **[2]**

(2) Answer any two questions [10×2=20]

(a)(i) What is the role of Management with regard to Internal Control? **[5]**

(ii) Outline the internal control aspects in relation to fixed assets. **[5]**

(b)(i) What are the internal control aspects relating to Investments? **[5]**

(ii) Explain the objectives of Operational Audit. **[5]**

(c) Give brief notes on -

(i) Operational Audit of Research and Development Activities.

(ii) Operational Audit of Marketing Function. **[2×5=10]**

(3) Answer any two questions [10×2=20]

(a) (i) State the application of Management accounting Tools. **[7]**

(ii) A chemical manufacturing unit uses ingredient A as the basic material. The cost of the material is ₹ 20 per kg and the Input-Output ratio is 120%. Due to a sudden shortage in the market the material becomes non-available and the unit is considering the use of one of the following substitutes available:

Materials	Input - Output Ratio	₹/ per Kg
B1	135%	26
B2	115%	30

You are required to recommend which of the above substitutes is to be used. **[3]**

(b) A firm can produce three different products from the same raw material using the same production facilities. The requisite labour is available in plenty at ₹8 per hour for all products. The supply of raw material, which is imported at ₹8 per kg., is limited to 10,400 kgs. for the budget period. The variable overheads are ₹5.60 per hour. The fixed overheads are ₹50,000. The selling commission is 10% on sales.

(i) From the following information, you are required to suggest the most suitable sales mix, which will maximize the firm's profit. Also determine the profit that will be earned at that level:

Product	Market demand (units)	Selling price per unit (₹)	Labour hours required per unit	Raw material required per unit (kgs.)
X	8,000	30	1	0.7
Y	6,000	40	2	0.4
Z	5,000	50	1.5	1.5

(ii) Assume, in above situation, if additional 4,500 kgs. of raw material is made available for production, should the firm go in for further production, if it will result in additional fixed overheads of ₹20,000 and 25 per cent increase in the rates per hour for labour and variable overheads. **[10]**

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(c)(i) From the following information as extracted from the books of P Ltd, ascertain the amount of Capital Employed in the business:

	₹
Equity Share Capital	5,00,000
Preference Share Capital	3,00,000
Securities Premium	40,000
General Reserve	1,30,000
Profit & Loss A/c (Cr.)	90,000
Capital Reserve	30,000
10% Debentures	2,00,000
12% Bank Loan	1,00,000
Sundry Creditors	55,000
Bills Payable	25,000
Preliminary Expenses	30,000
Discount on Issue of Shares	20,000

[5]

(ii) A company manufactures two products X and Y. Product X requires 8 hours to produce while product Y requires 12 hours. In April, of 22 effective working days of 8 hours a day, 1,200 units of X and 800 units of Y were produced. The Company employs 100 Workers in production department to produce X and Y. The budgeted hours are 1,86,000 for the year. Calculate capacity, Activity and Efficiency Ratio and establish their inter-relationship. **[5]**