

Paper 19 - COST AND MANAGEMENT AUDIT

PTP_Final_Syllabus 2012_Jun2015_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 B	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	
	Prioritise	Place in order of priority or sequence for action	
	Produce	Create or bring into existence	

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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.

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

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

(ii) What constitutes the Cost Records under Rule 2(e)? **(6 Marks)**

(iii) What is the meaning of "Turnover" in relation to the Companies (Cost Records and Audit) Rules, 2014? **(3 Marks)**

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

- (1) Separation costs related to voluntary retirement, retrenchment, termination etc. should be amortized over the period benefitting from such costs;
- (2) Subsidy, Grant, Incentive or any such payment received or receivable with respect to any Employee cost. **(6 Marks)**

(ii) Hemant 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 2014-15 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)(i) Whether Financial Position and Ratio Analysis [Part D, Para 4] is to be computed based on Cost record data or audited financial data? **(3 Marks)**

(ii) The manufacturing process of a company generates Metal Scrap during production of its main products which may or may not be covered under cost audit. Such scrap is sold in the market after the same is cleared under CETA Codes that are covered in the Rules. Will the company be covered under cost audit for generation of scrap? **(4 Marks)**

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(iii) Whether companies registered under Section 8 of the Companies Act, 2013 and One Person Company (OPC) introduced in Companies Act, 2013 covered under the Rules? **(4 Marks)**

(iv) What are the duties of the Companies in relation to provisions of Section 148 of the Companies Act, 2013 and the Rules framed thereunder? **(4 Marks)**

(d)(i) The risk of material misstatement at the assertion level consists of two components. Comments **(8 Marks)**

(ii) Who can be appointed as a cost auditor and what is the procedure for appointment of cost auditor under the Companies Act, 2013? **(3+4=7 Marks)**

(e)(i) WED 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 2013-14 (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)**

(ii) Whether maintenance of cost accounting records and cost audit thereof, subject to threshold limits prescribed, is applicable to products which are for 100% captive consumption?

(5 Marks)

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

(a) What are the limitations in implementation of an effective internal control system of a company? (10 Marks)

(b) (i) Explain the main area of operation of an internal audit of a company? (5 Marks)

(ii) What are the documentations required for an internal audit as per Standard on Internal Audit-3? (5 Marks)

(c)(i) Explain the objects of Management Audit? (5 Marks)

(ii) Explain the need for capacity determination of an organisation in India. (5 Marks)

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

(a) Explain the Characteristics of a good performance appraisal report? (10 Marks)

(b) The extracted Balance Sheet of a single product company subject to cost audit and the information extracted from Profit and Loss Account are given below :

Extract Balance Sheet as at 31st March, 2015

	₹	₹
Sources of Funds :		
1. Shareholder's funds		
Capital	97,00,000	
Receipt of Unpaid Calls	5,000	
Capital Reserve	25,00,000	
General Reserve	50,60,000	
Development Rebate reserve	15,000	
Investment Allowance Reserve	<u>25,50,000</u>	
		1,98,30,000
2. Loan funds		
Secured loans — Cash credit	1,40,00,000	
Term Loan	5,00,000	
Unsecured loans — Public deposits	40,00,000	
Interest accrued	<u>2,00,000</u>	
		<u>1,87,00,000</u>
Total		<u>3,85,30,000</u>
Application of Funds :		
1. Fixed Assets		
Gross block	1,70,00,000	
Less : Depreciation	90,00,000	
Net block	80,00,000	
Capital Work-in-Progress	<u>75,000</u>	
		80,75,000
2. Investments		
Other than trade — at cost	5,000	
National Savings Certificates (Post Office 6 yrs') for Central excise Bonds	<u>25,000</u>	
		30,000
3. (a) Current Assets, Loans and Advances		
Inventories	2,52,20,000	

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Sundry Debtors	81,40,000
Cash & Bank Balances	30,00,000
Loans & Advances	<u>15,65,000</u>
	<u>3,79,25,000</u>

Less :

(b) Current Liabilities and provisions	
Acceptances (under IDBI bills discounting scheme guaranteed by the Bank)	5,00,000
Sundry Creditors	40,00,000
Provisions (for taxation, contingencies & dividend)	<u>30,00,000</u>
	<u>75,00,000</u>

Net Current Assets (a — b) 3,04,25,000

Total : 3,85,30,000

Information (extracted from profit and Loss Account) for the year ending 31/3/2015.

	₹		₹
	in lacs		in lacs
Sales	975	Mfg. Cost of Goods Sold	725
Other income	4	H.O. Establishment expenses	95
Excise Duty	81	Interest paid/payable	30
Provision for taxation	10	Development rebate Reserve	0.15
Investment allowance reserve	0.5	(written back)	
		Profit before Appropriation	37.35

As a Cost auditor, you are required to work out the figures of:

- (A) Capital Employed,
- (B) Net Worth,
- (C) Profit before Interest and Taxation, and
- (D) The relevant Ratios, necessary for the Cost Audit Report.

(10 Marks)

(c)(i) Manufacture's specification capacity for a machine per hour = 1550 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 =1hour.

Production during last five years = 76.20, 88, 65.82, 78.5, 76.6 lakhs units

Actual production during the year = 76.40 lakhs units.

Calculate Installed capacity, Available capacity, Actual capacity, Idle capacity and Abnormal idle capacity as per CAS 2 from the data given. **(6 Marks)**

(ii) A chemical manufacturing unit uses ingredient 'Q' 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:

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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.

(4 Marks)