

**PAPER – 19: COST AND MANAGEMENT AUDIT**

## PTP\_Final\_Syllabus 2012\_June2016\_Set 1

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

	<b>Learning objectives</b>	<b>Verbs used</b>	<b>Definition</b>
<b>LEVEL C</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
	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 asses the value of
		Recommend	Propose a course of action

**Paper 19 - COST AND MANAGEMENT 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.**

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

**(a)(i)** Who can be appointed as a "Cost Auditor" of a Company? **[3]**

**(a)(ii)** What are the other services that a Cost Auditor of the company can provide to the company in which he is appointed as Cost Auditor? **[5]**

**(a)(iii)** Whether cost auditor of the company has to directly submit his Cost Audit Report to the Central Government? **[3]**

**(a)(iv)** The maximum period prescribed for presenting Cost Audit Report is 180 days from date of close of the financial year. If Financial Accounts of a company is not ready before the stipulated time period, how cost audit report will be completed reconciled with the financial books of the company? **[4]**

**(b)(i)** A company is engaged in construction of residential housing, offices, industrial units, Roads, Bridges, Marine facilities etc. having sites in India and abroad. The company also has Joint venture projects in India and abroad. Whether Companies (Cost Records and Audit) Rules 2014 would be applicable to the company? **[5]**

**(b)(ii)** A company has units in SEZ and in non-SEZ areas. The Companies (Cost Records and Audit) Rules 2014 has exempted companies operating in special economic zones from cost audit. What would be applicability of the Companies (Cost Records and Audit) Rules 2014 on such a company in respect of maintenance of cost accounting records and cost audit? **[5]**

**(b)(iii)** What is installed capacity and how is this different from total available capacity? How the installed capacity is to be calculated in a multi-product company using the same machine/ facilities? Should installed capacity be the capacity at the beginning of the year or at the end of the year under audit? **[5]**

**(c)(i)** How would you treat Self manufactured packing material as per CAS 9 related to Packing Material Cost? **[3]**

**(c)(ii)** How would you compute cost of utilities generated for the purpose of inter unit transfers as per CAS 8? **[3]**

**(c)(iii)** How would you treat repairs and maintenance costs not traceable to a cost object as per CAS 12? **[3]**

**(c)(iv)** How would you treat Separation cost due to voluntary retirement, retrenchment, termination etc. as per CAS 7 related to Employee Cost? **[3]**

**(c)(v)** What is 'equalised transportation cost' under CAS 5? **[3]**

**(d)(i)** What are the types of Cost Accounting Process? **[5]**

**(d)(ii)** Explain the following as per Cost Auditing Standard 103 –

- (I) Inherent Risk;
- (II) Control risk &
- (III) Detection risk.

**[3 x 3= 9]**

**(d)(iii) How would you compute cost of utilities generated for the purpose of inter unit transfers as per CAS 8? [1]**

- (e)(i) What is XBRL? [3]**
- (e)(ii) Who developed XBRL? [3]**
- (e)(iii) What are the advantages of XBRL? [3]**
- (e)(iv) Who can benefit from using XBRL? [3]**
- (e)(v) What is the future of XBRL? [3]**

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

- (a)(i) What are the objectives of Management Audit? [5]**
- (a)(ii) What are the internal control aspects relating to Investments? [5]**

- (b) Distinguish the following – [10]**
- (i) Financial Audit and Management Audit**
  - (ii) Cost Audit and Management Audit**
  - (iii) Management Audit and Internal Audit**

**(c) SP & Co., a cost audit firm, appointed as an internal auditor of the company XYZ LTD. for the audit of revenue for the financial year 2014-15. How would you verify the same if you, as a cost accountant, are responsible for conduct the audit of the same? [10]**

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

**(a) The operating performance of three divisions of a company for the year that ended on 31 March 2006 is given as follows:**

	Division I	Division II	Division III
	₹	₹	₹
Sales	2,00,000	2,50,000	3,00,000
Operating Profit	25,000	25,000	27,000
Investment	2,50,000	2,00,000	2,00,000

- (i) Identify the most profitable division on the basis of: (a) Operating Profit Margin; and (b) ROI.**
- (ii) Explain with reasons which of the above two measures provides a better indication of the overall operating performance of all the divisions. [10]**

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**(b)** From the following information of S Ltd. prepare its trading, profit & Loss A/c and balance Sheet:

Sales	₹ 7,30,000	Quick Ratio	1.3
Working Capital	₹ 1,20,000	Current Ratio	2.5
Bank Overdraft	₹ 15,000	Proprietary Ratio	0.6
Share Capital	₹ 2,50,000	Fixed Assets/Proprietary Fund	
		GP Ratio	10%

Net Profit is 10% of Proprietary fund. There are no long-term liabilities and fictitious assets. Closing stock is 10% more than the opening stock. **[10]**

**(c)** Given below are the abridged balance sheets and profit & loss accounts of SP Spinning Mills Ltd. :

	1998-99	1997-98	1996-97
	(₹ In lakhs)		
Balance Sheet :			
Share capital	245	245	245
Reserves and Surplus	726	1,077	1,313
Long term borrowings	287	180	160
Working capital loans	1,639	451	672
Sundry creditors	1,616	1,255	1,015
Other Provisions	389	315	305
Total	4,902	3,523	3,710
Net block	1,009	541	612
Investments	19	19	19
Current assets :			
Inventory	1,160	1,521	1,641
Book Debts	11	114	172
Loans and advances	2,641	1,286	1,231
	62	42	35
Total	4,902	3,523	3,710
Profit & Loss Account:			
Sales	5,091	3,938	4,215
Other income	446	365	342
Total	5,537	4,303	4,557
Raw materials, stores and spares consumed	3,728	2,775	2,964
Factory wages	162	215	206
Salaries	377	322	295
Power and fuel	826	673	710

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Repairs and maintenance:			
Buildings	7	18	15
Plant and Machinery	38	54	48
Vehicles	43	33	24
Depreciation:			
Buildings	11	14	16
Plant and machinery	57	43	48
Vehicles	66	26	30
Interest	277	130	152
Other overheads (excluding salaries and depreciation:)			
Factory overheads	138	94	82
Administrative overheads	71	59	41
Selling and distributing overheads	87	83	80
Loss for the year	(-) 351	(-) 236	(-) 154
Total	5,537	303	4,557
Sales for the year (Kgs.)	4350890	3436921	3725405

The bankers to the company appointed you as a Consultant for identifying the factors which have contributed to the continuing losses. Prepare a short note highlighting the factors which have prima facie led the company to sickness. **[10]**