

# P19\_Practice Test Paper\_Syl12\_Dec13\_Set 3

## COST AND MANAGEMENT AUDIT

Full Marks: 100

### Section A

#### Answer any four Questions [4x15=60]

1. (a) There was a strike from 13.09.2009 to 16.11.2009 in a company of which you were the Cost Auditor for the year ending 31.03.2010. Although the company began working from 17.11.2009, production could effectively begin only from 5.12.2009. The expenses incurred during the year ended 31.03,2010 were:

	(₹ in lakhs)
Salaries & Wages (direct)	450
Salaries & Wages (indirect)	300
Power (variable)	180
Depreciation	270
Other Fixed Expenses	360

Detailed examination of the records reveals that of the above, the following relate to the period 13.09.2009 to 16.11.2009:

	(₹ in lakhs)
Salaries & Wages (indirect)	105
Depreciation	90
Other Fixed Expenses	135

Calculate the amount which in your opinion should be treated as abnormal for exclusion from the product costs. **[5]**

- (b) Your company has received an order from the Government of India directing your company to have the Cost Accounting Records audited. List the actions to be taken by the company step by step from appointment of Cost Auditor till the submission of The Cost Audit Report specifying the time schedule. **[5]**

- (c) The following figures relate to usage of power for a product:

	2012-13	2011-12	2010-11
Total power consumed in KWH	24,02,474	24,94,872	21,75,677
Rate / KWH (₹)	2.29	2.12	1.90
Total production in million (Kgs)	337.730	333.084	300.865

Compute necessary productivity measures and compare the efficiency of power usage during the three years. **[5]**

2. (a) How will you treat the following items in the Cost Accounting Records?
- CENVAT availed as credit on purchased raw materials.
  - Voluntary Retirement Compensation paid to workers included under 'wages'.
  - Profit on sale of fertilizers to cane growers by a sugar company.
  - Commission paid to the Managing Director as a percentage of profit.
  - Interest received on security deposit with the Electricity Board. **[10]**

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(b) The profit as per Financial A/cs of DGL Cement Ltd. for the year 2012-13 was ₹ 1,34,27,516. The profit as per Cost Accounting records showed a different figure. You are required to prepare a reconciliation statement and arrive at a profit as per Cost Accounts. The following details were collected from Financial Accounting and Cost Accounting records.

	₹	₹	
	Financial A/cs	Cost A/cs	
Opening WIP	29,52,315	23,45,720	
Opening Finished Goods	2,48,37,410	2,72,16,930	
Closing WIP	41,72,635	36,35,345	
Closing Finished Goods	3,67,51,410	4,15,24,148	
Interest income from inter corporate deposits	6,14,250	-	
Donations given	4,75,250	-	
Loss on sale of Fixed Assets	1,04,148	-	
Value of cement taken for own consumption	3,75,920	3,45,200	
Cost of power drawn from own wind mill:			
At EB Tariff		48,58,415	
At Cost	34,10,420		<b>[5]</b>

3. (a) Para 9 of the Companies (Cost Audit Report) Rules 2011 requires disclosure of "Cost of Production" and "Cost of Sales" at a company level. How the same would be available when all the products/ activities are not covered under cost audit? **[5]**

(b) The following data have been collected by you, as a Cost Auditor of a Company:

Particulars	10-11	11-12	12-13
Installed Capacity (lac MT)	2.5	2.5	2.5
Production (lac MT)	2.4	2.3	1.25
Cost/MT of the product (₹)	1000	1077	1660

The poor capacity utilization in 2012-13 was due to abnormal power cut. The escalation in costs were 5% in 11-12 and 2% over 11-12 in 2012-13.

- (i) Calculate the abnormal cost due to power cut.  
(ii) How would you treat these abnormal cost? **[5]**

(c) As a Cost Auditor of a manufacturing company, furnish your suggestions and observations based on following information: (You may make necessary assumptions):

Particulars	2013	2012	
Profit (₹ In lacs)	250	340	
Capacity Utilisation	90%	95%	
Consumption of Electricity/Tonne of output (KWH)	4.07	3.98	
Capital Employed (₹ In lacs)	1200	1100	
Salaries and Wages (₹ In lacs)	117	98	
Production (MT)	180000	190000	<b>[5]</b>

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4. (a) A manufacturing unit has two machines, viz.  $M_1$  and  $M_2$ . Machine  $M_1$  be used for the production of either Product A or production B or both. Machine  $M_2$  can be used for the production of either product X or product Y or both. In order to met the long term contractual obligations with one of its customers, the unit should produce a minimum quantity of 1,200 units each of A and B and 1,600 units each of X and Y.

The production and cost data for the year 2013 are:

Machine hours available:  $M_1 = 7,800$  hours

$M_2 = 7,300$  hours

	Product A	Product B	Product X	Product Y
<b>Per unit of output:</b>				
(a) Machine hours required	2	3	3	1
(b) Selling price (₹)	350	465	540	235
(c) Direct material cost (₹)	120	135	150	100
<b>Per machine hour</b>				
	<b>M1</b>		<b>M2</b>	
(a) Direct labour (₹)	65		80	
(b) Variable overhead (₹)	15		22	

Fixed overhead per annum ₹5 lakhs.

An additional expenditure involving a fixed overhead of ₹40,000 per annum will convert the  $M_1$  and  $M_2$  into a versatile centre so that any of the four products can be manufactured on these two machines.

As a management consultant advise whether conversion of machines should be undertaken or not. [8]

- (b) What do you understand by "Anti-dumping duty"? Briefly explain the provisions in the Cost Accounting Records Rules and Cost Audit (Report) Rules covering this aspect. [7]

5. (a) What information is required to be furnished by the Cost Auditor in the "Annexure to the Cost Audit Report", and "Observation and Suggestion", in regard to exports, if any, of the product under audit? [5]

(b) The financial profit and loss account for the year 2012-13 of a company shows a net profit of ₹26,28,00. During the course of cost audit, it was noticed that:

- The company was engaged in trading activity by purchasing goods at ₹4,00,000 and selling it for ₹5,00,000 after incurring and expenditure of ₹ 25,000.
- Some old assets sold off at the end-end fetching a profit of ₹80,000
- A major overhaul of machinery was carried out at a cost of ₹4,00,000. And the next such overhaul will be done only after four years.
- Interest was received amounting to ₹1,50,000 from outside investments.
- Work-in-progress valuation for financial accounts does not as a practice take into account factory overhead. Factory overhead was ₹1,85,000 in opening WIP and ₹ 3,15,000 in closing WIP.

Work out the profit as per Cost Accounts and briefly explain the adjustment, if any, carried out. [7]

- (c) How are Abnormal loss of recurring nature treated as per costing principles? [3]

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## Section B

### Answer any two questions [2x10=20]

6. (a) What are the qualities and functions of a Management Auditor? A Management Audit team should be multidimensional. Discuss and elucidate. [5]
- (b) A nationalized bank which has extended cash credit to a manufacturing company on the security of the inventory holding, is periodically receiving stock statements from the company indicating the value of stocks held. The company is sick and the Bank wants to reassure itself that its loans are fully covered by stocks. You have been appointed by the Bank to certify the value of the inventory. How would you proceed to conduct the 'inventory audit?' [5]
7. (a) What is the basic difference between Internal audit and Management audit? [5]
- (b) In spite of increase turnover continuously for three years, a company has started incurring cash losses, and has become sick. Is it possible to identify and pinpoint the factors which have led to this situation from Cost Audit Report? Explain quoting the relevant paragraphs in the Annexure to the Report. [5]
8. (a). What are the objectives and responsibility as an Internal auditor of a company for "Consideration of law and regulation in an Internal Audit?"
- (b) How the work of an expert should be evaluated by auditor before accepting the same as Audit evidence?

## Section C

### Answer any two questions [2x10=20]

(9) (a) The Balance Sheets of Sand Ltd for the last 3 years read as follows:

	₹ in lakhs		
	As on 31.3.10	As on 31.3.11	As on 31.3.12
<b>Sources of Fund:</b>			
Share Capital [Share of ₹10 each]	2,000	2,000	3,000
Securities Premium	1,700	1,800	500
Reserves [After 10% Dividend]	1,800	2,000	1,800
Long-term Loan	1,250	1,050	2,100
<b>Total Funds</b>	<b>6,750</b>	<b>6,850</b>	<b>7,400</b>
<b>Represented by:</b>			
Fixed Assets	2,300	2,700	3,000
Less: Depreciation	800	1,050	1,300
	1,500	1,650	1,700
Capital WIP [work-in-progress]	800	900	1,000
Investment	300	400	350
<b>A.</b>	<b>2,600</b>	<b>2,950</b>	<b>3,050</b>
<b>Net Current Assets:</b>			
<b>Current Assets:</b>			
Debtors	1,800	1,950	2,150
Stock	1,900	2,050	2,700
Cash & Bank	800	800	800
Others	550	750	1,800
	5,050	5,550	7,450

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Less: Current Liabilities	900	1,650	3,100
<b>B.</b>	<b>4,150</b>	<b>3,900</b>	<b>4,350</b>
<b>Total Assets [A+B]</b>	<b>6,750</b>	<b>6,850</b>	<b>7,400</b>
Sales [excluding Excise Duty and Sales Tax @ 20%]	4,050	4,200	5,400

- I. Calculate & analyse for the year 2010-11 and 2011-12:
- i. Fixed Asset Turnover Ratio
  - ii. Stock Turnover Ratio
  - iii. Debtors' Turnover Ratio in terms of number of days'
  - iv. Debt-Equity Ratio
  - v. Current assets to current liability
- II. Briefly comment on the performance of the company.

(b) Following are the summarized accounts of Key Ltd and Pee Ltd for the 2 years 2007 and 2008:

Particulars	₹ in Lakhs			
	Key Ltd		Pee Ltd	
	2007	2008	2007	2008
Sales	5,412	4,575	1,752	1,447
Manufacturing & Other Expenses	5,104	4,356	1,496	1,182
Depreciation	56	51	60	35
Profit before Tax	252	168	196	230
	5,412	4,575	1,752	1,447
Miscellaneous Expenditure	165	169	-	-
Fixed Assets	836	941	351	275
Stock	1,124	1,219	177	226
Debtors	728	824	582	402
Bank	93	33	464	246
	2,946	3,186	1,574	1,149
Creditors	947	926	233	175
Taxation [Less Advance Tax]	56	68	87	58
Short-term Borrowings	424	800	464	216
Long-term Borrowings	254	210	10	-
Capital & Reserves	1,265	1,182	780	700
	2,946	3,186	1,574	1,149

You are required to:

- i. Indicate and calculate five Ratios which in your opinion are relevant in determining the stability of the two companies.
- ii. Compare the Ratios so determined for the two companies. Indicate what conclusions can be drawn therefrom?

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(c) Petro Ltd has the following Balance Sheets as on 31st March 2012 and 31st March 2011:

Particulars	₹ in lakhs	
	31.3.2012	31.3.2011
<b>Sources of Funds:</b>		
Shareholder's Fund	2,477	1,572
Loan Funds	3,670	3,183
	<b>6,147</b>	<b>4,755</b>
<b>Applications of Funds:</b>		
Fixed Assets	3,566	3,000
Cash & Bank	589	570
Debtors	1,595	1,268
Stock	2,967	2,507
Other Current Assets	1,667	1,504
Less: Current Liabilities	(4,037)	(3,894)
	<b>6,347</b>	<b>4,955</b>

The Income Statement of the JKL Ltd for the year that ended is as follows:

	₹ in lakhs	
	31.3.2012	31.3.2011
Sales	22,265	13,982
Less: CGS	20,960	12,644
<b>GP</b>	<b>1,305</b>	<b>1,338</b>
Less: Selling, General & Administrative Expenses	1,035	652
<i>Earnings before Interest and Tax (EBIT)</i>	270	686
Less: Interest Expense	113	105
<i>Profit before tax</i>	57	481
Less: Tax	23	192
<b>Profit after Tax</b>	<b>34</b>	<b>289</b>

**Required:**

(i) Calculate for the year 2011-12:

- a. Inventory Turnover Ratio
- b. Return on Net worth
- c. ROI
- d. ROE
- e. Profitability ratio

(ii) Give a brief comment on the financial position of Petro Ltd.