

**PAPER-19 - Cost Audit & Management Audit**

**Time allowed-3hrs**

**Full Marks: 100**

The figures in the margin on the right side indicate full marks.

The paper is divided in three sections.

From Section A answer any four questions (4x15=60 marks)

From Section B answer any two questions (2x10=20 marks)

From Section C answer any two questions (2x10=20 marks)

Working Notes should form part of the answer.

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

**Section A**

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

**1.**

- a) The maximum period prescribed for presenting Compliance Report and/or 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? **[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.)
M	8,000	30	1	0.7
N	6,000	40	2	0.4
P	5,000	50	1.5	1.5

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- 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? **[6+6=12]**

2.

- a) How would you treat the following as per CAS-15 related to selling and distribution overheads?

- i) Leased Assets;
- ii) Cost of Administrative Services procured from outside;
- iii) Cost of Software

**[2×3=6]**

- b) The Trial Balance of IGP Ltd as on 31.3.2013 are as follows;

Particulars	Amount (₹)Dr.	Amount(₹)Cr.
Materials consumed	25,00,000	
Salaries	15,00,000	
Employee Training Cost	2,00,000	
Special Subsidy received from Government towards Employee salary		2,75,000
Perquisites to Employees	4,50,000	
Contribution to Gratuity Fund	4,00,000	
Recoverable amount from Employee out of perquisites extended		35,000
Lease rent for accommodation provided to employees	3,00,000	
Festival Bonus	50,000	
Unamortised amount of Employee cost related to a discontinued operation	90,000	

Calculate the employee cost according to CAS 7.

**[5]**

- c) Raj & Co. furnish the following expenditure incurred by them and want you to find the assessable value for the purpose of paying excise duty on captive consumption. Determine the cost of production in terms of Rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 and as per CAS-4 (Cost Accounting Standard)

- (i) Direct material cost per unit inclusive of excise duty at 12% - ₹ 1,320
- (ii) Direct wages - ₹ 250

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- (iii) Other direct expenses - ₹ 100
- (iv) Indirect materials - ₹ 75
- (v) Factory Overheads - ₹ 200
- (vi) Administrative overhead (25% relating to production capacity) ₹ 100
- (vii) Selling and distribution expenses - ₹ 150
- (viii) Quality Control - ₹ 25
- (ix) Sale of scrap realized - ₹ 20
- (x) Actual profit margin - 15%. [4]

### 3.

- a) i) Enumerate the duties to be performed by a Cost Auditor. [5]  
ii) What do you understand by the term "Pollution Control" as per CAS-14? [2]
  
- b) ENRON INDUSTRIES LTD. a manufacturing unit, provides the following extracts from its records for the year ended March 31, 2012:  
The company's specifications  
Capacity for a machine per hour 1,600 units  
No. of shifts (each shift of 8 hours) 3 shifts  
Paid holidays in a year (365 days):
  - (i) Sundays 52 days
  - (ii) Other holidays 10 daysAnnual maintenance is done during the 10 other holidays  
Preventive weekly maintenance is carried on during Sundays.  
Normal idle capacity due to lunch time, Shift changes etc= 1 hour per shift.  
Production based on sales expectancy in past 5 years are: (unit in lakh) = 81.28, 93.86, 70.20, 83.73 and 81.70 respectively.  
Actual production during the year: 84.50 lakh units.  
You are required to calculate
  - 1. Installed capacity;
  - 2. Practical capacity;
  - 3. Actual capacity utilization;
  - 4. Normal capacity;
  - 5. Idle capacity;
  - 6. Abnormal idle capacity---- keeping in view of the relevant Cost Accounting Standard (CAS-2). [8]

- 4. a) State the disclosures required to be made as per CAS – 8 [Cost of Utilities]. [7]
  
- b) Opening stock of raw materials (10,000 units) ₹ 1,80,000; Purchase of Raw Materials (35,000 units) ₹ 7,00,000; Closing Stock of Raw Materials 7,000 units; Freight Inward ₹ 85,000; Self-

manufactured packing material for purchased raw materials only ₹ 60,000 (including share of administrative overheads related to marketing sales ₹ 8,000); Demurrage charges levied by transporter for delay in collection ₹ 11,000; Normal Loss due to shrinkage 1% of materials ; Abnormal Loss due to absorption of moisture before receipt of materials 100 units. **[8]**

5.

- a) Specify the factors to be considered while estimating the useful life of a depreciable asset, as laid down in CAS-16. **[3]**
- b) What disclosures are required to be made in cost statement as per CAS 19 as regard to joint costs? **[5]**
- c) "Research, and Development Costs shall include all the costs that are directly traceable to research and/or development activities."

On what basis these cost can be assigned to Research and development activities as per CAS 18? Also state the constituent element of such costs. **[2+5=7]**

**Section B**

**Answer any two Questions [2x10=20]**

6.

- a) You are appointed statutory auditor of X Ltd. X Ltd. has an internal audit system and reports for the same are given to you. Mention the factors you will consider to ensure that the said system of internal audit of X Ltd. is commensurate with the size of the company and nature of its business.
- b) Distinguish between Cost Audit and Management Audit.

**[5+5=10]**

7.

- a) XYZ, a manufacturing unit does not accept the recommendations for improvements made by the Operational Auditor. Suggest an alternative way to tackle the hostile management.
- b) Explain whether the following activities amount to professional misconduct :
  - i) A Cost Accountant takes voluntary retirement from his employer and starts practice. He continues his association with his previous employers as an advisor, on a monthly retainer.
  - ii) A practicing lawyer specializing in antidumping cases comes to an informal understanding with an independent practicing Cost Accountant to assist him in preparing accounting statements to support his cases, and agrees to share his fees on a percentage basis.
  - iii) A Cost Accountant gives a certificate of cost for a product manufactured by an SSI unit owned entirely by his son.

**[5+ (1+2+2) =10]**

8.

- a) A company manufacturing consumer electronic goods has a fairly Research and Development set up. So far the company has been earmarking 2% of its turnover to R&D budget. Such an approach has so far paid ample dividends to the company. The company has been able to establish a reputation of introducing innovative products, which has excellent customer acceptability.

The company, however, is now worried that new players, some of whom are of international repute, entering Indian market, whether their R&D efforts are really giving them value for their money. Since your firm is well known consultancy firm, they have approached you to conduct a management audit of their R&D activities.

List out five major questions, which your audit will address.

- b) "Sometimes, the reports have to be prepared and submitted for special persons or purposes." Explain it.

**[5+5=10]**

**Section C**

**Answer any two Questions [2x10=20]**

9. Based on the following information in respect of GRINDING MILLS LTD. a concern manufacturing cement, you as a Cost Auditor, are required to offer your comments on
- The performance of the company
  - Your suggestions for improvements

	Rated Capacity 80 MT/Hr	
	2011-2012	2010-2011
(1) Breakdown (Hrs)	2175	1105
(2) Planned maintenance (Hrs.)	252	435
(3) Power restrictions (Hrs)	1236	1475
(4) Shortfall (there are no order)(Hrs)	792	665
(5) Want of wagons (Hrs)	480	646
(6) Total Stoppage (Hrs)	4935	4326
(7) Total running (Hrs)	3972	4635
(8) Total available (Hrs)	8907	8961
(9) Production during the year (MT)	2,57,380	3,36,950
(10) Hourly Rate Production (MT)	64.80	72.70
(11) Capacity utilization	64.35%	84.24%
(12) Annual Installed Capacity : 400000 MT		

**[10]**

10.

- a) Gurgo Ltd presented the following particulars on 31.3.2012.  
You are asked to compute the Inventory Turnover Ratio of each material:

	Material X ₹	Material Y ₹
Stock (as on 1.4.2011)	12,000	16,000
Purchases	60,000	1,00,000
Stock (as on 31.3.2012)	18,000	24,000

**[5]**

- b) State the application of Management Accounting Tools.

**[5]**

11. Kemp & Co. Ltd. operates a small machine shop that manufactures one standard product available from many other similar businesses as well as products to customer order. The accountant has prepared the annual statement shown here:

	Customs sales ₹	Standard sales ₹	Total sales ₹
Sales	<u>50,000</u>	<u>25,000</u>	<u>75,000</u>
Material	10,000	8,000	18,000
Labour	20,000	9,000	29,000
Depreciation	6,300	3,600	9,900
Power	700	400	1,100
Rent	6,000	1,000	7,000
Heat and light	600	100	700
Others	400	900	1,300
Total expenses	44,000	23,000	67,000
Net income	6,000	2,000	8,000

The depreciation charges are for machines used in the respective product lines. The power charge is apportioned on the estimate of power consumed. The rent is for the building space, which has been leased for ten years at ₹ 7,000 year. The rent as well as heat and light are apportioned to the product lines based on the amount of floor space occupied. All other costs are current expenses identified with the product line causing them.

A valued custom parts customer has asked Kemp & Co. Ltd. if its shop would manufacture 5,000 special units. Kemp & Co Ltd. is already working at capacity and would have to give up some other business in order to take this business. The company cannot refuse on custom orders already agreed to, but it could reduce the output of its standard product by about one-half for one year while producing the specially requested custom parts. The customer is willing to pay ₹ 7 for each part. The material cost will be about ₹ 2 per unit, and the labour will be ₹ 3.60 per unit. Kemp & Co Ltd. will have to dish out ₹ 2,000 for a special device, which will be discarded when the job is done.

Calculate and present the following costs —

- a) The incremental cost of the order,
- b) The full cost of the order,
- c) The opportunity cost of taking the order.

**[4+3+3=10]**