

# PTP\_Final\_Syllabus 2012\_Jun2014\_Set 2

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## Paper-19 - COST & 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) MCA General Circular No. 67/2011 dated 30th November 2011 mentions that the Cost Audit Orders No. 52/26/CAB-2010 dated 2nd May, 2011 and 30th June, 2011 will not be applicable to 100% Export Oriented Unit. The Unit is clearing its goods in the domestic market after taking necessary approval from the Excise Authorities. In this case, whether cost audit is applicable, since the unit is clearing goods for domestic market. Since Cost Audit to 100% EOU is not applicable in terms of said General Circular, is there any exemption from maintenance of Cost Accounting Records? [3]
- b) Who can authenticate the Compliance Report as per the Companies (Cost Accounting Records) Rules 2011. [3]
- c) 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? [3]
- d) “Paints and Varnishes” under Chapter 32 of Central Excise Tariff are covered under Cost Audit vide order no. F.No.52/26/CAB-2010 dated 30th June, 2011. Paints, Coatings and Printing Ink etc. sold under various trade names are produced by using Varnish as primary raw material to which different Pigments are added in different qualities. These products also belong to Chapter 32 of Central Excise Tariff. Whether such products would be considered as “Allied Products” of Varnish and be covered under cost audit? [3]
- e) A newly constructed cement factory became operational from the end of June 2011. The projected turnover for the next 2 years is ₹500 crores per annum. State whether in coming years, the company will have to get cost audit done. If yes, then under which cost audit order number. [3]

2.

- a) Does a company mandatorily require indicating previous year(s) figures in the relevant columns of the Para(s) to Annexure to the Cost Audit Report even if the Cost Accounting Records Rules were not applicable to the company in the previous years? [5]

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- b) How can the cost audit report and compliance report is converted into the XBRL format? [5]
- c) In a manufacturing shop Product X requires 2.5 man hours and Product Y requires 6 man hour. In a month of 25 working days of 8 hours a day 2,000 units of X and 1,000 units of Y were produced. The Company employs 50 workers in the shop and the budgeted man-hours are 1, 08,000 for the year. You are required to work out the capacity ratio, activity ratio and efficiency ratio. [5]

3.

- a) What are the benefits of Process Mapping? [5]
- b) 'A' an employee of XYZ Co. gets the following emoluments and benefits.

(a) Salary	₹250 per month	(c) Employers Contribution to Provident Fund E.S.I.	8% Salary and D.A.
(b) Dearness Allowance on 1st ₹100 of Salary	₹400	(d) Bonus	4% Salary and D.A
on next ₹100 of salary	₹100	(e) Other Allowances	20% Salary and D.A
on balance every ₹10	₹5 or part thereof		₹ 2,725 per annum

A works for 2,400 hours per annum, out of which 400 hours are non-productive but treated as normal idle time. A works for 18 effective hours in Job No. 15, where the cost of direct materials equals 'A's earnings and the overhead applied is 100%, of Prime Cost. The sale value of the job is quoted to earn a profit of 10% on such value.

You are requested to find out:

- i) Effective hourly cost of A and  
ii) The expected sale value of Job No. 15. [6]

(c) A timber merchant purchased 1000 c.ft. of timber logs as on 1<sup>st</sup> April, 2012 @ ₹ 100 per c.ft. and stored them in his timber yard for seasoning. In the timber yard the following items of expenses were incurred during the period.

- i) Rent @ ₹ 1,250 per month  
ii) Salary of 4 guards @ ₹ 250 per month  
iii) Incidental expense for maintenance ₹ 750 per month  
iv) Annual share of administration overheads ₹ 10,000

50% of the floor areas of the godown and other connected operations were incurred for stocking the seasoned timber. Loss in volume of the logs due to seasoning should be taken at 10%. Calculate the selling price of timber at season, assuming a profit margin of 15% on cost [4]

4.

- a) Your client, Mitra LTD. is contemplating to take over a manufacturing concern and desires that in the course of due diligence review, you should look specifically for any hidden liabilities and overvalued assets. —State (in brief) the major areas you would examine for the above. [6]
- b) Purchase of Materials \$ 50,000 [ Forward contract rate \$ = 54.40 but \$ = 54,60 on the date of importation] ; Import Duty paid ₹5,65,000; Freight inward ₹1,62,000 ; Insurance paid for import by road ₹48,000; Cash discount ₹33,000; CENVAT Credit refundable ₹37,000; Payment made to the foreign vendor after a month, on that date the rate of exchange was \$ = 55,20. Compute the landed cost of material. [5]
- c) A steel tube manufacturing company is having turnover of ₹ 80 crores from all its activities. The company has filed its prospectus with SEBI for a public issue of equity shares

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and it hopes to complete the public offering by September, 2011 end. State whether cost audit would become applicable to the company even when its turnover is less than ₹ 100 crore? If yes, then from which financial year will cost audit will become applicable? [4]

5.

- a) CMC Public Health Centre runs an Intensive Medical Care Unit. For this purpose, it has hired a building at a rent of ₹ 5,000 per month with the understanding that it would bear the repairs and maintenance charges also.

The unit consists of 25 beds and 5 more beds can be comfortably accommodated when the occasion demands. The permanent staff attached to the unit is as follows:

- i) 2 Supervisors, each at a salary of ₹ 500 per month.
- ii) 2 Nurses, each at a salary of ₹ 300 per month.
- iii) 2 Ward boys, each at a salary of ₹ 150 per month.

Though the unit was open for the patients all the 365 days in a year, scrutiny of accounts in 2012 revealed that only for 120 days in the year, the unit had the full capacity of 25 patients per day and for another 80 days, it had on an average 20 beds only occupied per days. But, there were occasions when the beds were full, extra beds were hired at a charge of ₹ 5 per bed per day and this did not come to more than 5 beds extra above the normal capacity on any one day. The total hire charges for the extra beds incurred for the whole year amount to ₹ 2,000.

The unit engaged expert doctors from outside to attend on the patients and the fees were paid on the basis of the number of patients attended and time spent by them and on an average worked out to ₹ 10,000 per month in 2012.

The other expenses for the year were as under:	₹
Repairs and maintenance	3,600
Food supplied to patients	44,000
Janitor and other services for them	12,500
Laundry charges for their bed linen	28,000
Medicines supplied	35,000
Cost of oxygen, X-ray etc., other than directly borne for treatment of patients	54,000
General Administration charges allocated to the unit	49,550

Required

- i) If the unit recovered an overall amount ₹100 per day on an average from each patient, what is the profit per patient day made by the unit in 2012.
- ii) The unit wants to work on a budget for 2012-13, but the number of patients requiring intensive medical care is a very uncertain factor. Assuming that same revenue and expenses prevail in 2013, in the first instance, workout the number of patient days required by the unit to break even. [7]
- b) What is the role of Audit Committee, where applicable, in dealing with the Cost Audit Report? Can the Annexure to a Cost Audit Report be approved by the Audit Committee and /or the Board of Directors by circular resolution? [4]
- c) Are there any sectors exempted under Companies (Cost Accounting Record) Rules, 2011? [2]
- d) What is the period for which a cost auditor holds office as cost auditor of a company? [2]

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### Section B

Answer any two Questions [2x10=20]

- 6.
- a) What do you understand by 'Corporate Image' and 'Branding'? Are they inter-related?
  - b) What are the possible approaches to evaluate Corporate Image? [4+2+4]
- 7.
- a) A management consultant has undertaken an assignment to conduct a Management Audit of the production function of a medium-scale engineering unit. You are requested to prepare a checklist of the points on which he needs to undertake the study. [5]
  - b) Discuss about the restrictions, ceiling limits and legal procedures related to appointment of a cost auditor. [5]
- 8.
- a) Explain whether the following activities amount to professional misconduct on the part of a Cost Accountant: [2x3=6]
    - i) CMA Amit, a Cost Accountant in practice, published a book and gave his personal details as an author. These details also mentioned his professional experiences and his association as partner with SKR and Associates, a firm of Cost Accountants.
    - ii) M/s. J.K. Bharua & Associates, a firm of Cost Accountants in practice, develops a website "bharua.com". The colour chosen for website was very bright yellow where the names of the partners of the firm along with their various professional attainments and the major clients were to be displayed on the website.
    - iii) CMA D.R.RADHAKRISHNAN a Cost Accountant in practice takes up the appointment as Managing Director of ANKRIT LTD., a public limited company.
  - b) State the functions of the Audit Committee. [4]

### Section C

Answer any two Questions [2x10=20]

9. NENA Ltd. Has received an enquiry for the supply of 2,00,000 numbers of Special Type of Machine Parts. Capacity exists for the manufacture of the machine parts, but a fixed investment of ₹ 80,000 and Working Capital to the extent of 25% of Sales Value will be required if the job is undertaken.  
The Costs are estimated as follows:  
Raw Materials – 20,000 kgs @ ₹ 2.50 per kg.  
Labour Hours – 9,000 of which 1,000 would be overtime hours payable at double the labour rate.  
Labour Rate – ₹ 2/- per hour.  
Factory Overhead – ₹ 2/- per direct labour hour  
Selling and Distribution Expenses – ₹ 23,000.  
Material Recovered at the end of the operation will be ₹ 6,000 (estimated).  
The company expects a Net Return of 25% on Capital Employed.
- You are the Management Account of the Company. The Managing Director requests you to prepare a Cost and Price Statement indicating the price which should be quoted to the Customer. [10]

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10. Given below are the abridged Balance Sheets and Profit & Loss Accounts of AB Spinning Mills Ltd.:

	2012-2013 (₹in lakhs)	2011-2012 (₹in lakhs)	2010-2011 (₹in lakhs)
<b>Balance Sheet:</b>			
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
<b>Current assets:</b>			
Inventory	1,160	1,521	1,641
Book Debts	11	114	172
Loans and advances	2,641	1,286	1,231
Cash and bank balances	62	42	35
Total	4,902	3,523	3,710
<b>Profit &amp; Loss Account:</b>			
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
<b>Repairs and maintenance:</b>			
Buildings	7	18	75
Plant and Machinery	38	54	48
Vehicles	43	33	24
<b>Depreciation:</b>			
Buildings	11	14	16
Plant and machinery	57	43	48
Vehicles	66	16	30
Interest	277	130	152
<b>Other overheads(excluding salaries and depreciation)</b>			
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]

11. Das Textiles Ltd. has been having low profits. A special task force appointed for reviewing performance and prospects has the following to report:  
The company has 1,200 looms working 2 shifts per day. There are 25 sections of 48 looms each. Each section has 24 weavers and a jobber. Thus there are 1,250 direct labourers, other than indirect labourers and service hands. The working time is between 7 a.m. and 12 mid-night, comprising 2 shifts of 8 hours each, with half hour interval between shifts. The production is 18 lakh metres per month and the realization is ₹3 per metre. The average wage of the direct labourer is ₹800 per month and the fixed costs amount to ₹1,75,000 per month. The product cost is ₹2.25 per metre in addition to direct wages.

The following suggestions are to be considered:

- (i) Labour productivity can be improved by changing the layout of the machines.
- (ii) Given the space available, with the proposed change in layout, only 1,008 looms can be re-installed, with 48 looms in each section.
- (iii) Technically, a section of 48 looms can be run with 12 weavers, a helper and a jobber. It will be necessary to increase the wage of direct labour, for such sections, by ₹110 per head per month. There will be some drop in production per loom. The company is not for retrenchment of labour.
- (iv) The company can run a third shift between 12 mid-night and 7 a.m., with a half hour interval. However, for the six and half hours' work, eight hours' wage will have to be paid.
- (v) Only 18 lakh metres can be sold at the present price of ₹ 3 per metre. There is an export offer for ₹4.5 lakh metres at ₹ 2.70 per metre.
- (vi) As an initial step, the company can switch to 3 shift working, with 12 sections having 25 direct labourers each and 9 sections having 14 direct labourers each. Progressive conversion to 14 hands per section, for all sections, can be planned, as direct labourers retire or voluntarily leave the job. The production with three shift working will be 22.5 lakh metres. Additions to fixed costs will amount to ₹50,000 per month.

Examine the implications of the proposals for the company's profits and give your advice. [10]