

# Paper 19 - Cost and Management Audit

## Case Study – 1

M/s. XYZ Ltd. sends material for processed or part manufactured by a third party according to specifications provided by the buyer. The accountant of the company at the time of determined the value of the material cost add the same processing/ manufacturing charges payable to the third party as part of the material cost. Justify?

## Case Study - 2

A company has 2 wind mills. Turnover from the two wind mills is `2.2 crores. The company's total turnover is more than `100 crores. None of the products of the company is covered under cost audit at present. Whether, the company will need to get cost audit done of electricity generation activities under Cost Audit Order 52/26/CAB-2010 dated 02.05.2011.

## Case Study - 3

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'?

## Case Study – 4

A company with multiple product range is having cost audit for some of its products. What would be the applicability of cost audit on other products now covered under Companies (Cost Accounting Records) Rules 2011?

## Case Study - 5

You are the Internal Auditor of JJ Manufacturing Ltd. The Managing Director has asked you to enquire into the cause of abnormal wastage of Raw Materials during the month of April. The wastage percentages for the last few months are: Jan – 1.2%, Feb – 1.1%. Mar- 1.3% and Apr 3.6%. How will you will you proceed to proceed to carry out the assignment?

## Case Study - 6

A company has not maintained cost accounting records though having the obligation under 209(1)(d) notification. The management is of the opinion that necessary steps could be taken after the cost audit order is received from Government. Are the Directors of the Company absolved of the obligation to maintain cost accounting records?

## Case Study – 7

Under utilization of capacity may result from imbalance in production facilities in some areas. Explain the possible reasons of imbalance, with examples. Should a cost auditor make any observations in this regard in the Cost Audit Report?

#### **Case Study – 8**

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. A 100% Export Oriented 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?

#### **Case Study – 9**

A Company is manufacturing Cast Iron Casting and SG Iron Castings in foundry unit which are cleared under Chapter 73 of Central Excise Tariff Act 1985. The products are treated as Iron articles and not steel articles. The predominant input for the manufacture of the same is MS Scrap, Pig Iron. Whether covered for Cost Audit under order dated 30/06/2011?

#### **Case Study – 10**

A company manufactures different types of Ball Valves, Controlled Valves and Actuator and their turnover is more than threshold limit as defined in Cost Audit Order No. 52/26/CAB-2010 dated 24th January 2012. These products are covered under excise chapter heading 84. In the opinion of company cost audit on "Valves" are not covered since the said Cost Audit Order mentions "Engineering Machinery" and Valve is not a machinery. Is the said interpretation correct?