

FINAL EXAMINATION

December 2022

06032

F-19(CMAD)

Syllabus 2016

Cost and Management Audit

Time Allowed: 3 Hours

Full Marks: 100

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

Both Sections are compulsory. Each Section contains instructions regarding the number of questions to be answered within the Section.

All working notes must form part of the answer.

Wherever necessary, candidates may make appropriate assumptions and clearly state them in answer.

Section-A (20 Marks)

Section-A contains Question Number 1.

All parts of this question are compulsory.

1. Choose the correct option from amongst the four alternatives given (1 mark is for the correct choice and 1 mark is for the justification/workings): 2×10=20

(i) Table A Regulated sector for the purpose of maintenance of cost records under cover of CCRA Rules include Telecommunication, Electricity, Petroleum products, Drugs & Pharma, and

- (A) Fertilisers and Railways
- (B) Fertilisers and Sugar & Ind Alcohol
- (C) Arms ammunitions and Sugar & Ind alcohol
- (D) Aeronautical services and Port services

(ii) Compute the Stock Turnover Ratio from the following particulars of A Ltd., for the financial year ended on 31st March 2022.

	₹ in lakhs
Net Sales	3,200
Stock as on 31.03.2022	780
Stock as on 31.03.2021	620

- (A) 4.57 times
- (B) 4.10 times
- (C) 5.16 times
- (D) 4.92 times

- (iii) A cost accountant in practice, if solicits clients or professional work by circular, advertisement or personal communication is deemed to be guilty of misconduct under the Cost and Works Accountants Act, 1959 under
- (A) Part I of the First Schedule
 - (B) Part II of the First Schedule
 - (C) Part I of the Second Schedule
 - (D) Part II of the Second Schedule
- (iv) In relation to CAS on Cost of Utilities (CAS-8), the term 'Committed Cost' signifies
- (A) the fixed overhead pertaining to utilities.
 - (B) the cost of maintaining stand-by utilities.
 - (C) the notional cost not involving cash outlay.
 - (D) predetermined cost based on technical specification.
- (v) The principle that the Cost Auditor shall plan and perform an audit with an attitude of professional scepticism is contained in
- (A) Cost Auditing Standard -101
 - (B) Cost Auditing Standard -102
 - (C) Cost Auditing Standard -103
 - (D) Cost Auditing Standard -104
- (vi) The Consumer Service Audit critically examines
- (A) the price that consumers are ready to pay.
 - (B) outstanding payment of consumers.
 - (C) appraise the management of business enterprise of their responsibility towards consumers.
 - (D) demand pattern of consumers towards the product.
- (vii) Operational Audit can lead to better management with the focus on _____.
- (A) Transaction-based analysis for Fraud Prevention
 - (B) Compliance of Rules
 - (C) Risk Identification, Process Improvement
 - (D) Budget Monitoring
- (viii) A Shoe Manufacturing Company has a Plant Capacity of Producing 700 shoes per shift of 8 hours. During the year of 300 working days, 3 shifts of 8 hours with half-hour recess per shift, it produces 35.91 lakhs shoes. The Normal Capacity Utilization percentage is —.
- (A) 82%
 - (B) 76%
 - (C) 74%
 - (D) 78%

- (ix) Which of the following areas should be covered under CSR Audit?
- (A) Safety of investment, satisfactory return and capital growth.
 - (B) Compliance with various legislations, payment of taxes etc.
 - (C) Human rights, Corporate governance, Community involvement relations with clients, Prevention of corruption.
 - (D) Undertaking energy efficiency measures for cost reduction
- (x) Which of the following Key Performance Indicators is used to measure productivity and efficiency of a machine?
- (A) Ratio of Idle time to total available time.
 - (B) Machine downtime ratio.
 - (C) Cost per of break-down Hour.
 - (D) Contribution per unit of material used.

Section-B (80 Marks)

Answer *any five* questions from Question Numbers 2 to 8.

Each question carries 16 marks.

2. (a) (i) While accepting the offer of appointment as Cost Auditor of a company, what certificate should be submitted by the Cost Auditor to the company?
- (ii) To determine the Cost of Production for Captive Consumption, what are the different cost components considered? 4+4=8
- (b) Explain whether the following activities amount to Professional Misconduct on the part of a Cost Accountant:
- (i) Mr. Arun, a CMA, is working as Manager-Cost Accounts of PQR Ltd. He accepts 10% of profits from his friend, Mr. Raju, a lawyer and a legal consultant for PQR Ltd. He is doing the job on a retainer ship basis.
 - (ii) Mr. S, a CMA in Practice, certifies a cost and pricing statement of manufacturing pipes for the supply relating to a contract. The statement is prepared by Mr. T, who is not a CMA or an employee of Mr. S. 4+4=8
3. (a) As per Cost Accounting Standard on Determination of Average (Equalized) cost of Transportation (CAS-5), what are the records to be maintained for ascertaining the Transportation Cost? 8
- (b) Prayag Industries Co. Ltd. showed a profit for the FY 2021-22 as ₹ 89,23,450. Further during Cost Audit, the following transactions were noticed:
- (i) dividend income amounting to ₹ 1,03,520 received from various investments,
 - (ii) an old machine with net value of ₹ 11,30,500 was scrapped and sold off for ₹ 15,25,000,

- (iii) a sum of ₹ 2,53,600 was spent towards CSR head,
 (iv) the investments in shares of other companies incurred a loss amounting to ₹ 2,25,000,
 (v) a deferred revenue expenditure of ₹ 25,20,000 was incurred, its useful life was only for five years, and
 (vi) the closing inventory of raw materials was undervalued ₹ 85,500 and that of finished goods was overvalued ₹ 96,300 in the financial records. Find out the Profit as per the Cost Accounts. 8

4. (a) Discuss:

(i) The areas of 'Corporate Services' and

(ii) The evaluation criteria used in 'Corporate Services Audit'. 4+4=8

(b) What is the Corporate Social Responsibility (CSR) Committee and its role as per the Companies Act, 2013? Describe the coverage of a CSR Audit Programme. 8

5. (a) What are the objectives and limitations of Internal Control? 8

(b) What are the salient features of financial administration of Local Bodies? 8

6. (a) The following details are extracted from the accounts of Chandra Chemicals Ltd., which manufactures only one product in a single location:

(₹ in lakhs)

Particulars	31.03.2022	31.03.2021	31.03.2020
Gross Fixed Assets	13,240	12,420	11,435
Accumulated Depreciation	3,890	3,640	3,580
Value of trademarks included under fixed Assets (net of depreciation)	230	350	450
Capital Work in Process	810	680	945
Investments in Shares and Debentures	2,120	2,106	2,040
Inventories	1,865	1,730	1,530
Sundry Debtors	1,012	941	867
Advances for purchase of capital equipment	68	180	138
Other Loans and Advances	190	172	155
Other Current Assets	92	84	75
Sundry Creditors	624	540	518
Term loans due for repayment within 12 months	95	110	87
Provision for Expenses	78	105	82
Net Sales	11,862	9,580	8,973
Interest	1,482	1,941	1,145
Depreciation	170	151	148
Profit before taxes	726	450	585

Compute the following ratios as per Cost Audit Report for the year 2021-22 and 2020-21:

(i) Profit as a percentage of Capital Employed

(ii) Profit as a percentage of Sales

4+4=8

(b) The following are the process-wise wastages on inputs in a Spinning Mill in the year 2021-22:

PROCESS (Sl. /Name)	Percentage of Wastages on input
1. Blow Room	9.14
2. Carding	7.13
3. Drawing	1.06
4. Roving (Simplex)	0.20
5. Ring Frame (Spinning)	7.11
6. Reeling and Winding	1.40

From the above, calculate the process-wise waste multiplier factor.

8

7. (a) Southern Auto Components Ltd. has received an enquiry for the supply of 2,50,000 numbers of a special type of auto components. The Company can execute the assignment provided a capital investment of ₹ 3,00,000 and working capital to the extent of 3 months' cost of sales are made available. The costs estimated are as follows:

Raw Materials — @ ₹ 3.25 per unit

Direct Labour Hours — 8,000

Labour Rate — ₹ 4.50 per hour

Factory Overheads — ₹ 4 per direct labour hour

Selling and Distribution expenses — ₹ 30,000

Borrowed funds will be available at @ 11.5% on additional capital outlay. The company expects a Net Return of 25% on Sales. The Managing Director wants a Cost and Price statement, indicating the price which should be quoted to the customer. 8

(b) You are the Cost Auditor of ABC TEXTILE MILLS LTD., for the year ended on March 31, 2022.

The Company had a strike from 15.08.2021 to 18.11.2021. Although the company resumed working from 19.11.2021, normal production was achieved only from 08.12.2021. The expenses incurred during the year ended on March 31, 2022 were:

Particulars	Amount in ₹ lakhs
Salaries and Wages (Direct)	1,600
Salaries and Wages (Indirect)	1,000
Power (Variable — 80%)	500

Particulars	Amount in ₹ lakhs
Depreciation	980
Other Fixed expenses	1,120
Repairs & Maintenance (Variable – 70%)	580

Detailed examination of the records reveals that of the above, the following relate to the period 19.08.2021 to 18.11.2021:

	Amount in ₹ lakhs
Salaries and Wages (Direct)	NIL
Salaries and Wages (Indirect)	420
Power (Variable — 80%)	260
Depreciation	600
	1,280

You are required to calculate the amount, which in your opinion should be treated as abnormal for exclusion from the product costs. 8

8. Answer *any four* out of the following five questions: 4×4=16

- How Capacity is determined as per Cost Accounting Standard?
- How Operational Audit compares and contrasts with Internal Audit? Examine.
- Explain Corporate Development Audit.
- From the following figures extracted from the Financial and Cost Accounting records, of ABC Ltd., you are required to compute Value Added and Profit Before Tax.

Particulars	₹ in lakhs
Net Sales excluding Excise Duty	60,200
Increase in Stock of Finished Goods	800
Expenses:	
Raw Materials Consumed	6,100
Packing Materials Consumed	2,780
Stores and Spares Consumed	1,244
Power and Fuel	10,400
Repairs and Maintenance	400
Insurance	258
Direct Salaries and Wages	1,050
Depreciation	2,024
Interest Paid	3,200
Factory Overheads:	
Salaries and Wages	580
Others	500
Selling and Distribution Expenses:	
Salaries and Wages	268

Particulars	₹ in lakhs
Additional GST	1,047
Others	4,050
Administrative Expenses:	
Salaries and Wages	248
Others	168

- (e) Calculate the Installed Capacity, Available Capacity, Normal Capacity and Actual Capacity, from the following data and as per CAS-2.

Manufacturer's specification Capacity per hour = 500 Units

Number of shifts (each shift 8 hours) = 3 shifts

Holidays in a year (365 days) :

Sundays – 52 days

Other Holidays – 14 days

Annual maintenance is done within 14 days

Preventive weekly maintenance for the machine is on Sunday.

Normal Idle Capacity for batch change over lunch, personal need etc., — 1hour per shift.

Production bases on Sales expectancy in past 5 years:

38.15, 32.48, 35.45, 28.30 and 36.14 lakh units.

Actual production for the year = 34.13 lakh units.

SUGGESTED ANSWERS TO QUESTIONS

SECTION - A

1. 2X10 = 20 Marks
- (i) - (B)
 - (ii) - (A)
 - (iii) - (A)
 - (iv) - (B)
 - (v) - (C)
 - (vi) - (C)
 - (vii) - (C)
 - (viii) - (B)
 - (ix) - (C)
 - (x) - (B)

SECTION- B

[Answer any FIVE from Question No. 2 to 8]

2. (a): 4+4 = 8 Marks

- (i) The Cost Auditor appointed shall submit a certificate that –
 - (a) The individual or the firm, as the case may be, is eligible for appointment and is not disqualified for appointment under the Act (the Cost and Works Accountants Act, 1959) and the rules or regulations made there under;
 - (b) The individual or the firm, as the case may be, satisfies the criteria provided in Section 141 of the Companies Act, 2013 so far as may be applicable;
 - (c) The proposed appointment is within the limits laid down by or under the authority of the Act; and
 - (d) The list of proceedings against The Cost Auditor or audit firm or any partner of the audit firm pending with respect to professional matters of conduct, as disclosed in the certificate, is true and correct.

The Cost Auditor is also required to give a certificate to the Audit Committee in respect of his independence and arm's length relationship with the company.

- (ii) Institute of Cost Accountants of India (ICAI) has issued Cost Accounting Standard CAS-4 titled 'Cost of Production for Captive Consumption'. The standard has clarified that in case of captive consumption, cost calculation should be as per CAS-4 standard only. Cost of production of a product consists of materials consumed, Direct Wages and Salaries, direct expenses, works overheads, quality control costs, research development costs, packing costs, administrative overheads relating to production. To arrive at cost of production of goods dispatched for captive consumption, adjustment for stock of Work-in-progress, finished goods, recoveries for sales of scrap, wastages etc. shall be made.

2. (b):**4+4 = 8 Marks**

- (i) Provisions of Clause 2 of Part II of The First Schedule of The Cost and Works Accountants Act, 1959, stipulate Professional Misconduct among Cost Accountants in Service. As per the provisions of Part II of the First Schedule of the Act, a Cost Accountant in Service shall be deemed to be guilty of Professional Misconduct, if he/she "accepts or agrees to accept any part of fees, profits or gains from a lawyer, a cost accountant or a broker engaged by such a company, firm or person or agent or customer of such company, firm or person by way of commission or gratification".

In the given case, Mr. Arun, who is working as a Manager-Cost Accounts of PQR Ltd., accepts 10% of profits from Mr. Raju, who is a legal consultant of the same company. This amounts to Professional Misconduct.

- (ii) As provisions of Clause 2 of Part I of The Second Schedule of The Cost and Works Accountants Act, 1959, stipulates, the Professional Misconduct of Cost Accountants in Practice. As per the provisions of Part, I of the Second Schedule of the Act, a Cost Accountant in practice shall be deemed to be guilty of professional misconduct, if he/she "certifies or submits in his/her name, or the name of his/her firm, a report of an examination of cost accounting and related statements unless the examination of such statements has been made by him/her or by a partner or an employee in his/her firm or by another Cost Accountant in Practice".

In the given case, Mr. S. certifies the cost and pricing statement of a company, which manufactures pipes. The statement is to be submitted for a Contract and is not prepared by him. It is prepared by Mr. T. who is neither a CMA nor an employee of Mr. S. Hence, this amounts to Professional Misconduct.

3. (a):**8 Marks**

Maintenance of records for ascertaining Transportation Cost:

- (i) Proper records shall be maintained for recording the actual cost of transportation showing each element of cost such as freight, cartage, transit insurance and others after adjustment for recovery of transportation cost. Abnormal costs relating to transportation, if any, are to be identified and recorded for exclusion of computation of average transportation cost.
- (ii) In case of a manufacturer having his own transport fleet, proper records shall be maintained to determine the actual operating cost of vehicles showing details of various elements of cost, such as salaries and wages of driver, cleaners and others, cost of fuel, lubricant grease, amortized cost of tyres and battery, repairs and maintenance, depreciation of the vehicles, distance covered and trips made, goods hauled and transported to the dept.
- (iii) In case of hired transport charges incurred for despatch of goods, complete details shall be recorded as to date of despatch, type of transport used, description of the goods, destination of buyer, name of consignee, challan number, quantity of goods in terms of weight or volume, distance involved, amount paid etc.
- (iv) Records shall be maintained separately for Inward and outward transportation cost specifying the details particulars of goods despatched, name of supplier/recipient, amount of freight etc.
- (v) Separate records shall be maintained for identification of transportation cost towards inward movement of material (procurement) and transportation cost of outward movement of goods removed/sold for both home consumption and export.
- (vi) Records for transportation cost from factory to depot and thereafter shall be maintained separately.
- (vii) Records for transportation cost for carrying any material/product to job-workers place and back should be maintained separately so as to include the same in the transaction value of the product.

- (viii) Records for transportation cost for goods involved exclusively for trading activities shall be maintained separately and the same will not be included for claiming any deduction for calculating assessable value excisable goods cleared for home consumption.
- (ix) Records of transportation cost directly allocable to a particular category of products should be maintained separately.
- (x) For common transportation cost, both, for own fleet or hired ones, proper records for basis of apportionment should be maintained.
- (xi) Records for transportation cost for exempted goods, excisable goods cleared for export shall be maintained separately.
- (xii) Separate records of cost for mode of transportation other than road like ship, air etc., are to be maintained, which will be included in total cost of transportation.

3. (b):

8 Marks

Profit as per Cost Accounts = ₹ 93,97,230

4. (a):

4+4 = 8 Marks

- (i) The areas of Corporate Services are the support infrastructure of a company. The activities in such areas are stated below:
 - ✓ Combine or consolidate certain enterprise-wide needed support services provided based on specialized knowledge, best practices, and technology.
 - ✓ Serve Internal (and sometimes external) customers and business partners.
 - ✓ Co-ordinate the diverse organizational units and help them to focus on organizational goals.
 - ✓ Exploit resources and develop core competencies that enable an organization to keep its edge over its industry competitors.
 - ✓ Combining operations with another competitor in the same industry to increase competitive strengths and lower competition among the industry rivals.

The business world is now becoming increasingly information-intensive and complex and, therefore, companies have begun to incorporate web-based services into the workplace. These include public relations, customer assistance or call centers, training, engineering, human resources, procurement, etc., to create new business value and help the company function more effectively by improving the internal processes, managing customer relationships, and extending the organization. The benefits of these services extend to core business areas in form of:

- a) Reduced costs.
 - b) Less inventory.
 - c) Less working capital requirements.
 - d) Improved procurements and higher profits, and
 - e) Higher efficiency and productivity of the employees as new technologies can introduce an array of new possibilities with powerful computers and integration of databases with web technologies.
- (ii) The evaluation system of the 'Corporate Services Audit' should consider the level of contribution a business entity makes to society and its business environment towards raising the quality of life through better product quality and services rather than profit maximization. The 'corporate services audit', thus, attempts to distinguish between the ends (i.e., profits) and means (i.e., services) of business and provides a new dimension to the concept of audit approach. It is

the fulfillment of the social responsibilities of a business unit. Auditor's responsibility lies in evaluating the company's response to social needs.

The focus should be on:

Target Stakeholder	Corporate Service Focus
Consumer	Quality goods at the proper price.
Employee	Pay, Training, Safety, Welfare.
Shareholders	Safety of Investment, Good return.
Community	Public Relations, Social Cost, Social Benefit.
Fellow Business	Business Ethics, Fair Trade.
State	Compliance of Law, Fair Trade, and No Evasion of Tax.

4. (b):

8 Marks

As per Section 135(1) of the Companies Act, 2013, every company having a net worth of rupees five hundred crores or more, or turnover of rupees one thousand crores or more, or a net profit of rupees five crores or more during any financial year shall constitute a Corporate Social Responsibility (CSR) Committee of the Board consisting of three or more directors, out of which, at least, one director shall be an independent director.

In terms of Section 135(5) of the Act read with Companies (Corporate Social Responsibility Policy) Rules, 2014, the company, in pursuance of the recommendations of the CSR Committee of the Board and as per the declared CSR Policy of the company, spends, in every financial year, at least, two percent of the average net profits of the company made during the three immediately preceding financial years subject to the condition that such policy will cover the subjects enumerated in the Schedule VII of the Act.

In Schedule VII, the following items and entries are illustrative:

- (i) eradicating hunger, poverty, and malnutrition, safe drinking water,
- (ii) promoting education, and vocation skills among children, women, elderly persons
- (iii) promoting gender equality, empowering women, setting up homes, hostels for women and orphans, old age homes, daycare centers, etc.
- (iv) environmental and ecological balance, protection of flora and fauna
- (v) protection of national heritage, art, culture, etc.
- (vi) measures for the benefit of armed forces veterans, war windows, etc.

Though there is no mandatory requirement for CSR Audit, a CSR Audit program will form part of the Management Audit and may cover all or any of the following:

- ✓ Effectiveness of the operating framework for CSR implementation,
- ✓ Effectiveness of the implementation of specific, large CSR projects,
- ✓ Adequacy of internal control and review mechanisms,
- ✓ Reliability of measures of performance, and
- ✓ Management of risks associated with external factors like regulatory compliance, management of adverse or potentially adverse NGO attention, etc.

CSR Audit and review will in a nutshell look for the following:

- ✓ Ensuring compliance with the Act,
- ✓ Evaluating internal control and governance framework,
- ✓ Assessing the CSR project life cycle, and
- ✓ Conduct a financial review of the project to confirm the utilization of budgets for achieving desired outcomes.

5. (a):

8 Marks

(i) **Objectives of Internal Control:**

The main objectives of internal control are to ensure that-

- (a) Transactions are executed in accordance with managements general or specific authorization
- (b) All transactions are promptly recorded in the correct amount in the appropriate accounts and in the accounting period in which executed so as to permit preparation of financial information within a framework of recognized accounting policies and practices and relevant statutory requirements, if any, and to maintain accountability for assets
- (c) Assets are safeguarded from unauthorised access, use of disposition; and
- (d) The recorded assets are compared with the existing assets at reasonable intervals and appropriate action is taken with regard to any differences.

(ii) **Limitations of Internal Control:**

Internal control can provide only reasonable, but not absolute, assurance that the objectives stated are achieved. This is because there are some inherent limitations of internal control, such as

- (a) Cost: It is the management's consideration that a control be cost-effective
- (b) No control for unusual transaction: It is the fact that most controls do not tend to be directed at transactions of unusual nature
- (c) Human Error: the potential for human error. These include the realities that human judgement in decision making can be faulty and that breakdowns in internal control can occur because of human error. For example, there may be an error in the design of, or in the change to a control.
- (d) Collusion among employees: It is the possibility of circumvention of controls through collusion with parties outside the entity or with employees of entity. For example, management may enter into side agreements with customers that alter the terms and conditions of the entity's standard sales contracts, which may result in improper revenue recognition.
- (e) Abuse of authority: It is the possibility that a person responsible for exercising control could abuse that authority, for example, a member of management overriding a control
- (f) Inadequate procedure: It is the possibility that procedures may become inadequate due to changes in conditions and compliance with procedures may deteriorate
- (g) Manipulations by management: It is the manipulations with respect to transactions or estimates and judgments required in the preparation of financial statements.

5. (b):

8 Marks

Salient Features of Financial Administration of Local Bodies:

- (a) Budgetary Procedure: The objective of local bodies budgetary procedure are financial accountability, control of expenditure, and to ensure that funds are raised and moneys are spent by the executive departments in accordance with the rules and regulations and within the limits of sanction and authorisation by the legislature or Council. Different aspects covered in budgeting are determining the level of taxation, fees, rates, and laying down the ceiling on expenditure, under revenue and capital heads.
- (b) Expenditure Control: At the State and Central level, there is a clear demarcation between the legislature and executive. In the local body, legislative powers are vested in the Council whereas executive powers are delegated to the officers, e.g. Commissioners. All matters of regular revenue and expenditures are generally delegated to the executive wing. For special situations like, reduction in property taxes, refund of security deposits, etc., sanction from the legislative wing is necessary.

(c) Accounting System: Municipal Accounting System has been conventionally prepared under the cash system. In the recent past, however, it is being changed to the accrual system of accounting. The accounting system is characterised by:

- 1) Subsidiary and statistical registers for taxes, assets, cheques etc.
- 2) Separate vouchers for each type of transaction
- 3) Compulsory monthly bank reconciliation
- 4) Submission of summary reports on periodical basis to different authorities at regional and state level.

6. (a):

4+4 = 8 Marks

(i) Profit as percentage of Capital Employed =

20.00% (31.03.2022)

23.97% (31.03.2021)

(ii) Profit as percentage of Sales =

18.61% (31.03.2022)

24.96% (31.03.2021)

19.28% (31.03.2020)

6. (b):

8 Marks

CALCULATION OF PROCESSWISE WASTE MULTIPLIER:

PROCESS	Percentage of Wastages on input	Net output for 100 units of input	Waste Multiplier
Total	-	100	1.3101
Blow Room	9.14	100 - 9.14 = 90.86	1.1904
Carding	7.13	90.86 - 6.47 = 84.39	1.1056
Drawing	1.06	84.39 - 0.89 = 83.50	1.0939
Roving (Simplex)	0.20	83.50 - 0.17 = 83.33	1.0917
Ring Frame (Spinning)	7.11	83.33 - 5.92 = 77.41	1.0141
Reeling & Winding	1.40	77.41 - 1.08 = 76.33	1.0000

Calculation = $1/76.33 = 0.013101$

7. (a):

8 Marks

Special type Auto Components: 2,50,000 Nos	₹ in '000	₹ in '000
Materials (250,000 @ ₹ 3.25)	812,500	
Labour 8000 Hrs. @ ₹ 4.50	36,000	
Prime Costs		848,500
Factory Over Heads (8000 × 4)	32,000	
Factory Cost		8,80,500
Selling and Distribution Cost	30,000	
Cost of Sales		9,10,500
Interest @ 11.5% on (300000 + (0.25 × 910,500))	60,677	
Total Cost		9,71,177
Profit		323,726
Sales		12,94,903

7. (b):

8 Marks

The amount to the tune of Rs.1,569.73 lakh, is to be treated as abnormal cost and should be excluded from the product cost.

Answer any Four from the following five questions:

4X4 = 16 Marks

8. (a):

Determination of Capacity:

1. Capacity shall be determined in terms of units of production or services or equivalent machine or man hours.

2. Installed Capacity:

Installed capacity is usually determined based on:

- (i) Technical specifications of facility.
- (ii) Technical evaluation
- (iii) Capacities of individual or interrelated production or operation Centres.
- (iv) Operational constraints or capacity of critical machines or equipment
- (v) Number of shifts or machine hours or man hours.

In case, technical specifications of facility are not available, the estimates by technical experts on capacity under ideal conditions shall be considered for determination of installed capacity.

In case the installed capacity is assessed as per direction of the Government or regulator it shall be in accordance with the said directives.

3. Reassessment of Installed Capacity:

Installed capacity shall be reassessed in case of any change due to addition, deletion, modification or for any other reason from the date of such change.

In case the installed capacity is reassessed as per direction of the Government or regulator it shall be in accordance with the said directives.

4. Normal Capacity:

Normal capacity is determined after suitable adjustments to the Installed Capacity

The adjustments may be of the following nature:

- (i) Time lost due to scheduled preventive or planned maintenance
- (ii) Number of shifts or machine hours or man hours
- (iii) Holidays, normal shut down days, normal idle time
- (iv) Normal time lost in batch change over

8. (b):

Internal Audit mainly plays a supplementary role only in financial and compliance audits. It is a statutory requirement but otherwise also this audit is to assist the organization in performing functions more effectively and economically with focus on the efficiency and effectiveness of operations. Operational auditing, on the other hand, is not the exclusive, domain of the internal auditor it is also stated to be an early warning system for the detection of potentially destructive problems. It is therefore, an auditor must establish the scope of an operational audit before formulating the approach to initiate an

operational audit. The next step shall be to understand the auditee's operation, its purpose in the total environment of the entity, its history, its image, its staff, their skills and competence and its reporting path. The reporting path is of very critical importance because this path is the communication route along which, the audit results and conclusions will flow. A comparison of their respective focus is stated below.

Internal Audit	Operational Audit
Compliance focussed.	Risk identification, process improvement
Financial transactions focussed	Business focuses
Correctness of accounts focussed	Efficiency & improvement focussed
Policies and procedure focussed	Risk management focussed
Budget monitoring on profit centres	Accountability for performance

8. (c):

CORPORATE DEVELOPMENT AUDIT:

A corporate development audit is an independent objective study of an organization's capabilities. It aims at identifying strengths and weaknesses and moving toward state-of-the-art performance. A Corporate Development Audit gives a comprehensive picture of the status of corporate development effectiveness and highlights developmental needs. Many organizations use the corporate development audit to identify the state-of-the-art in business development in their industry and determine exactly how much they differ from that ideal. The resulting feedback report highlights all key findings, with specific recommendations for course correction or improvement.

Corporate development audit is a comprehensive audit to assist the corporate management in various aspects of development through a process of systematic review and evaluation of long-term strategies of the company. Such corporate development audit assures that –

- a. The various factors and forces constituting a corporate enterprise are the right kind and quality.
- b. Communication remains the key to the functioning of an enterprise
- c. The pattern of departmentalization in an enterprise adopted in the past and proposed for the future for dealing with multidirectional responsibilities is fully responsive to circumstances and business environment.
- d. The personnel problems are handled appropriately considering the overall objectives of development of the corporate enterprise.
- e. The responsibilities of planning, coordination, motivation and control at functional management levels are discharges in proper spirit.

A corporate development audit is best performed by a team consisting of different experts of different disciplines as it requires multi-disciplinary approach. Large scale corporate enterprises offer opportunities to the conduct of corporate development audit. Contrary to other forms of audit – statutory or non-statutory (viz. financial audit, cost audit, efficiency audit, propriety audit, etc.) Corporate development audit plays a vital role not only lying up the loose ends, but also to forge a link in the knowledge that emanates from different quarters and on the basis of different types of experiences in dealing with varied types of problems.

As the corporate development audit is more of an introspective nature, necessary initiation and support should come from a firm decision taken by the Board of Directors and its Chairman. Moreover, as this audit highlights the corporate strengths and weakness, especially failures, inefficiencies and bottlenecks,

it should be undertaken by a high-powered team with the corporation and acceptability of all those concerned with it.

8. (d):

Profit before Tax = ₹ 26,683 (in Lakhs)

Value Added = ₹ 35,100 (in Lakhs)

8. (e):

- (i) Installed capacity for the machine: = 43.80 lakh units.
- (ii) Available Capacity: = 31.40 lakh units.
- (iii) Normal capacity = 36.58 lakh units
- (iv) Actual capacity utilisation: = 77.92%