

**FINAL EXAMINATION**

**GROUP IV**

**(SYLLABUS 2012)**

**SUGGESTED ANSWERS TO QUESTIONS**

**JUNE 2016**

**Paper-19: COST AND MANAGEMENT AUDIT**

Time Allowed: 3 Hours

Full Marks: 100

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

*Section (A) questions are compulsory. Attempt all of them.*

*Section (B) has seven questions. Attempt any five of them.*

*All working must form part of your answer.*

*Assumptions, if any, should be clearly stated.*

*Please: (1) Answer all bits of a question at one place.*

*(2) Open a new page for answer to a new question.*

**SECTION A  
(20 Marks)**

1. Answer the following Questions:

(a) Fill in the blanks in the following sentences by using appropriate Word(s) / Phrase(s) / Number(s): 1×5=5

- i. The Companies are required to maintain Cost Records if turnover exceeds \_\_\_\_\_ crores or more during immediately preceding Financial Year in respect of the products and services specified.
- ii. Finance costs incurred in connection with the acquisition of materials \_\_\_\_\_ form part of material cost.
- iii. The systematic examination, analysis and appraisal of management's overall performance is done in \_\_\_\_\_ audit.
- iv. Cost Accounting Standard on Repairs and Maintenance Cost is dealt in \_\_\_\_\_.
- v. Any casual vacancy in the office of a cost auditor, shall be filled by the Board of Directors within \_\_\_\_\_ days of occurrence of such vacancy.

(b) State whether the following statements given below are TRUE or FALSE: 1×5=5

- i. As per CAS-6 the Forex Component of imported material is converted at the rate on date of payment.
- ii. Operational Audit is a Micro Level Management Audit.

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- iii. Exemptions from application of the Rules are provided to Companies whose revenue from exports, in foreign exchange, exceeds 50% of total revenue and companies operating from Special Economic Zones.
  - iv. XBRL is a language based on XML family of languages.
  - v. In case of utilities generated for the purpose of inter unit transfers, the distribution cost incurred for such transfers need not be added to the cost of utilities.
- (c) Answer any five of the following in one or two sentences: 2×5=10
- i. Explain the tenure of a Cost Auditor of the Company.
  - ii. Who is the approving authority to whom the Cost Audit report shall be submitted by the Cost auditor?
  - iii. Whether each and every transactions with Related Parties is to be disclosed under (Part - D, Para - 5) of Annexure to the Cost Audit Report?
  - iv. Define Corporate Branding.
  - v. What means 4-digit CETA Code as explained in the Companies [Cost Records and Audit] Rules, 2014?
  - vi. How the valuation is to be done for goods captively consumed in one's own factory?

Answer:

(a)

- i. ₹35 crores
- ii. Shall not
- iii. Management Audit
- iv. CAS-12
- v. 30

(b)

- i. False (The statement is false. As per CAS6, The forex component of imported material is converted at the rate on date of transaction)
- ii. True (The statement is true. The objective of operational audit is to appraise the effectiveness and efficiency of a division, activity, or operation of the entity in meeting organizational goals).
- iii. False (The statement is false. The requirement of Cost Audit under these rules shall not apply to companies whose revenue from exports in foreign exchange exceed 75% of total revenue and companies operating in special economic zone).
- iv. True (The statement is true. XBRL is an XML based technology and can be used to store or transport data).
- v. False (The statement is false. In case of utilities generated for the purpose of inter unit transfers, the distribution cost incurred for such transfers shall be added to cost of utilities).

(c)

- i. Every cost Auditor appointed as per Rule 6 (1) & (2) shall continue in such capacity till the expiry of 180 days from the closure of the financial year or till he/she submits the cost audit report for the financial year for which he/she has been appointed. [Rule 6(3)]
- ii. The report on the audit of cost records shall be submitted by the Cost Auditor to the Board of Directors of the Company. [Rule 6(5)]
- iii. Details of Related Party Transaction are required to be provided in respect of each Related Party and each Product/Service for the year as a whole and not transaction wise.
- iv. Corporate Branding: Corporate Branding is the process of creating and manufacturing a

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favorable reputation of the company and its constituent elements. It is an important organizational resource that enables to create, strengthen and sustain competitive advantage.

- v. Rule 2 (aa) of the Companies (Cost Records and Audit) Rules 2014 states that "Central Excise Tariff Act Heading" means the heading as referred to in the Additional Notes in the First Schedule to the Central Excise Tariff Act, 1985 [5 of 1986] in respect of goods a description in list of tariff provisions accompanied by a four digit number and includes all sub-headings of tariff items the first four-digits of which correspond to that number.
- vi. Rule 8 of the Central Excise Valuation Rules provides that where the excisable goods are not sold but are used for consumption by the assessee or on his behalf in the production or manufacture of other articles; the value shall be 110% of the cost of production or manufacture of such goods. The procedure for determination of cost of production for captive consumption is laid down in CAS(4) [Cost Accounting Standards-4] issued by the Council of the Institute of Cost Accountants of India.

## SECTION B

Answer any five questions (Carrying 16 Marks each)

From Question No. 2 to 8

2.

- (a) **AMRIT LTD.** a Sugar and Industrial Alcohol manufacturing company incorporated in May 2015 is having turnover ₹75 crores from all its activities during F.Y.2015-16.

Discuss about the applicability of Cost Audit to the company.

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- (b) **SRIZONI LTD.** of Gandhi Nagar producing industrial alcohol generates Bio-gas from the waste wash of alcohol in its Bio-gas Plant. The said Bio-gas is used as a fuel in generating steam along with conventional fuel oil. The high pressure steam is first sent to the STEAM TURBINE and the exhaust steam is used in the process of manufacturing Alcohol.

The following details are extracted from the financial accounts and cost accounting records of SRIZONI LTD. for the year ended March 31, 2016:

	Boiler ₹	Steam Turbine ₹
Cost of water	10,48,000	—
Fuel oil	918,85,000	—
Bio-gas Plant Expenses	258,02,000	—
Stores and Chemicals	2,57,000	66,000
Salaries and Wages	29,58,000	7,33,000
Repairs and Maintenance	65,64,000	2,58,000
Depreciation	17,25,000	6,50,000
Other Expenses	39,95,000	1,21,000
High Pressure Steam generated	34950 MT	
Power generated		2550200 KWH

Note: The fall in the enthalpic value of the steam is 10%

Required:

Prepare two separate cost sheets for steam and power as per the Companies (Cost Records and Audit) Rules 2014 for the year ended March 31, 2016.

4+6=10

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Answer:

(a) Rule 4 of the Companies (Cost Records and Audit) Rules, 2014 states that cost audit would be applicable for products under:

- i. Table A of Rule(3) if the overall turnover of the company is at least ₹50 crore during immediately preceding financial year and
- ii. Table B of Rule(3) if the overall turnover of the company is ₹100 crore during immediately preceding Financial year.

Sugar and industrial alcohol ( CETA 1701,1703,2207) fall in the Regulated Sector (Table -A) of Rule(3) and is required to maintain Cost Records and get the same audited by the Cost Auditor. Rule 3 states that a company engaged in the production of the goods or providing of services as prescribed having an overall turnover from all its products and services of rupees thirty five crore or more during the immediately preceding financial year, shall include cost records for such products or services in their books of account.

Since the threshold limit for applicability of maintenance of cost accounting records is met in year-0, the cost records are required to be maintained from Year-1. Once the maintenance of cost records becomes applicable, it would be maintained on a continuous basis in the subsequent year also. In the same line, cost audit will be applicable from Year-1 and for every year thereafter. The company has to maintain cost records for the year commencing from 01.04.2016.

(b)

i. Statement showing Cost of Steam

Quantity produced: 34950 mt

	Total amount (₹)	Cost/Mt (₹)
Water	1048000	29.98
Fuel oil	91885000	2629.04
Bio-gas plant expenses	25802000	738.25
Stores and chemicals	257000	7.35
Salaries and wages	2958000	84.64
Repairs and maintenance	6564000	187.81
Depreciation	1725000	49.36
Other expenses	3995000	114.31
	134234000	3840.74

ii. Statement showing Cost of Power generated by Steam Turbine

Power Generated: 2550200 KWH

	Total amount(₹)	Cost/Kwh (₹)
Steam	134234000	52.64
Stores and chemicals	66000	0.02
Salaries and wages	733000	0.29
Repairs and maintenance	258000	0.10
Depreciation	650000	0.25
Other expenses	121000	0.05
	136062000	53.35
Less: Credit for exhaust steam (90%)	122455800	48.02

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Cost of Power used in alcohol manufacture	13606200	5.33
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3.

(a) How the Cost Auditor is under obligation to report fraud identified during course of audit? 8

(b) PARTHAN CO. LTD. a single product manufacturing company, has following four operations undergone by a product under Cost Audit.

The Processwise Input, Output, Direct Employee Costs and Direct Material Costs for the year ended March 31,2016 are given below:

Process	Input Unit	Output Unit	Direct employee cost of the process (₹)	Direct Material cost of the process (₹)
MP-1	312000	280800	8,42,400	11,23,200
MP-2	330000	297500	11,90,000	13,38,750
MP-3	414000	397500	19,87,500	16,89,375
MP-4	390000	361000	28,88,000	23,82,600

You are required to calculate:

i. Direct Employee Cost per unit of the product,

ii. Direct Material Cost per unit of the product,

-- under reference as required in (PART-B, PARA-2) of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules,2014. **2+2+2+2=8**

Answer:

(a) Sub-rule (7) of Rule 6 of the Companies (Cost Records and Audit) Rules 2014 states that "the provisions of sub-section (12) of section 143 of the Act and the relevant rules made thereunder shall apply mutatis mutandis to a cost auditor during performance of his functions under section 148 of the Act and these rules". For the purpose of sub-section (12) of section 143, in case the auditor has sufficient reason to believe that an offence involving fraud, is being or has been committed against the company by officers or employees of the company, he shall report the matter to the Central Government immediately but not later than sixty days of his knowledge and after following the procedure indicated herein below:

- Auditor shall forward his report to the Board or the Audit Committee, as the case may be, immediately after it comes to his knowledge of the fraud, seeking their reply or observations within forty-five days;
- On receipt of such reply or observations the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days of receipt of such reply or observations;
- In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he failed to receive any reply or observations within the stipulated time.

Accordingly, as per sub-section (12) of section 143 of the Companies Act 2013, it is obligatory on the part of cost auditor to report offence of fraud which is being or has

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been committed in the company by its officers or employees, to the Central Government as per the prescribed procedure under the Rules.

- (b) Total employee cost per unit and total material cost per unit of the product under Audit must be an aggregation of processwise employee cost and material costs after taking into account the good units occurring in each process.

Process	Input(unit)	Output (unit)	Factor
Mp-1	312000	280800	$312000 \div 280800 = 1.1111$
MP-2	330000	297500	$330000 \div 297500 = 1.1092$
MP-3	414000	397500	$414000 \div 397500 = 1.0415$
MP-4	390000	361000	$390000 \div 361000 = 1.0803$

A) Processwise Employee costs per unit of output ( Product) are:	B) Processwise material cost per unit of output (product) are:
MP-1= $842400 \div 280800 = ₹3$	$1123200 \div 280800 = ₹4.00$
MP-2= $1190000 \div 297500 = ₹4$	$1338750 \div 297500 = ₹4.50$
MP-3= $1987500 \div 397500 = ₹5$	$1689375 \div 397500 = ₹4.25$
MP-4= $2888000 \div 361000 = ₹8$	$2382600 \div 361000 = ₹6.60$

- (i) Aggregating all above (A) employee cost to the finished product from process MP-4 will be:

Process MP-1	= ₹3.00	
Process MP-2	= ₹3 × 1.1092 + 4	= ₹7.3276
Process MP-3	= ₹7.3276 × 1.0415 + 5	= ₹12.6317
Process MP-4	= ₹12.6317 × 1.0803 + 8	= ₹21.6460

Direct employees cost per unit of finished product (output) in ₹21.65

- (ii) Aggregating all above (B), material costs to the finished product from process MP-4 will be:

Process MP-1	= ₹4.0000	
Process MP-2	= ₹4.00 × 1.1092 + 4.50	= ₹8.9368
Process MP-3	= ₹8.9368 × 1.0415 + 4.25	= ₹13.5577
Process MP-4	= ₹13.5577 × 1.0803 + 6.60	= ₹21.2464

Hence, Direct material cost per unit of finished product (output) is ₹21.25

#### 4.

- (a) As a part of management strategy SEASENA LTD. manufacturing soaps, purchased a popular soap brand 'SUNFLOWER' from a smaller company.

What will be treatment of such costs and the disclosure to be made in the Cost Statements as per relevant Cost Accounting Standard?

- (b) In the Financial Accounts of CHEMICALS & FERTILIZERS LTD. for the year ended March 31,2016 the profit was ₹898,07,500. The profit as per Cost Accounting records for the same period was less. The following details are extracted from the accounting schedules and Cost Accounting records of the company.

	Financial Accounts ₹ 000	Cost Accounts ₹000
Opening : Semi Finished Goods	31700	35210
: Finished Goods	83220	78590
Closing : Semi Finished Goods	35260	39420

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<b>: Finished Goods</b>	<b>89320</b>	<b>80450</b>
<b>Urea &amp; Transport subsidy</b>	<b>348</b>	
<b>Expenses on CSR</b>	<b>56</b>	
<b>Profit on sale of Fixed Assets</b>	<b>150</b>	
<b>Chemical used internally</b>	<b>382</b>	<b>365</b>
<b>Favourable Exch. Rate variation</b>	<b>294</b>	
<b>Post-retirement Medical grant</b>	<b>584</b>	
<b>Purchase Tax Refund</b>	<b>453</b>	
<b>Litigation Recovery-Prior year</b>	<b>125</b>	

**You are required to prepare a Reconciliation Statement and arrive at the Profit as per Cost Records for the year ended March 31, 2016. 4+2+2+2=10**

Answer:

(a) The expenses paid or incurred for purchase of a brand is lump-sum in nature and purchased for the increase in revenue income over a long period of time. As per Cost Accounting Standard 10, expenses which are in the nature of 'one - time' payment, shall be amortized on the basis of the estimated output or benefit to be derived from such direct expenses. The expenses for which the benefit is ensued in the future period shall be equated with the estimated production/service volumes for the effective period and based on volume achieved during the Cost Accounting period. Accordingly, the charge for amortization shall be determined. In the given situation, the company is likely to be benefitted from the brand image of the product and the costs so amortized be treated as Selling Expenses over the estimated life of the brand image.

As per cas-10, the cost statements on direct expenses shall normally disclose the following:

1. The basis of distribution of Direct Expenses to the cost objects/cost units.
2. Quantity and rates of items of Direct Expenses, as applicable.
3. Where Direct Expenses are accounted at standard cost, the price and usage variances.
4. Direct expenses paid/payable to related parties.
5. Direct Expenses incurred in foreign exchange.
6. Any subsidy/Grant/incentive/credit/recoveries and any such payment be reduced from Direct Expenses.

Disclosure shall be made only where expenses are material, significant and quantifiable and be made in the body of the Cost Statement or as a foot note or as a separate schedule.

(b)

### CHEMICALS & FERTILIZERS LTD.

Reconciliation of financial profit and costing profit for the year ended  
March 31, 2016

Amount in ₹ thousand

Profit or loss as per Financial Accounts		89807.50
A. Less: Incomes not considered in Cost Accounts:		
i. Profit on sale of Fixed Assets	150	
ii. Urea & Transport Subsidy	348	
iii. Litigation Recovery-Prior year	125	
iv. Favorable Exch. Rate Variation	294	

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v. Purchase tax Refund	453	
vi. Own consumption (chemicals) valuation difference (382-365)	<u>17</u>	(1387.00)
<b>B. Add: Expenses not considered in Cost Accounts</b>		
i. Expenses on CSR	56	
ii. Post-retirement medical grant	584	640.00
<b>C. Less:</b>		
Difference in Valuation of stock between Financial Accounts and Cost Accounts (9660-6070) (workings)		(3590.00)
<b>Profit as per Cost Accounts</b>		<b>85470.50</b>

Workings: Current Year(2015-16)

(Amount in ₹ thousand)

	Financial Accounts	Cost Accounts
Opening Semi finished	31700	35210
Finished	83220	78590
<b>Total</b>	<b>114920</b>	<b>113800</b>
Closing semi finished	35260	39420
Finished	89320	80450
<b>Total</b>	<b>124580</b>	<b>119870</b>
Variation in inventory	9660	6070

Increase in Difference of stock valuation towards financial accounts = ₹3590

**5. PHIMPEX LTD. in the business of Real Estate and Consumer Goods shows the following financial position for the year ending March31, 2016:**

(Amount in ₹ crore)

	Year ended 31 <sup>st</sup> March	
	2016	2015
<b>Liabilities</b>		
<b>Share Capital</b>	<b>33</b>	<b>33</b>
<b>Securities Premium Account</b>	<b>931</b>	<b>928</b>
<b>General Reserve</b>	<b>57</b>	<b>44</b>
<b>Capital Redemption Reserve</b>	<b>42</b>	<b>40</b>
<b>Profit &amp; Loss Account</b>	<b>595</b>	<b>390</b>
<b>Long Term Borrowings</b>	<b>1013</b>	<b>670</b>
<b>Deferred Tax Liability</b>	<b>25</b>	<b>39</b>
<b>Short Term Borrowing</b>	<b>782</b>	<b>676</b>
<b>Trade Payable</b>	<b>715</b>	<b>747</b>
<b>Miscl. Provisions</b>	<b>77</b>	<b>73</b>
<b>Total:</b>	<b>4270</b>	<b>3640</b>
<b>Assets:</b>		



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Fixed Assets (Tangible)	647	614
Capital WIP	667	383
Non-Current Investments	2378	2048
Long Term Loans	53	66
Inventories	167	232
Trade Receivables	104	94
Cash and Bank Balance	107	69
Other Current Assets	25	30
Advance for Equipment	122	104
<b>Total:</b>	<b>4270</b>	<b>3640</b>

Profit before tax for the year 2015-16 was ₹326 crores (Previous year ₹397 Crores)

You are required to compute the following figures/ratios as stipulated in PART-D, PART-4 to Annexure of cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended 31<sup>st</sup> March, 2016:

- i. Capital Employed
- ii. Net Worth
- iii. Debt Equity Ratio
- iv. PBT to Capital Employed
- v. PBT to NET Worth
- vi. Current Assets to Current Liabilities (5+3+2+2+2+2)=16

Answer:

5.

PHIMPEX LTD.

(Amount in ₹ crore)

Year ended March 31	2015	2016	2016
(i) Capital Employed:			
Fixed assets (Tangible)	614	647	
Non-current investments	<u>2048</u>	<u>2378</u>	
	2662	3025	
Particulars	Previous Year2015	Current Year2016	
Current Assets: (A)			
Inventories	232	167	
Trade Receivables	94	104	
Cash and Bank Balance	69	107	
Other Current Assets	<u>30</u>	<u>25</u>	
(A)	425	403	
Current Liabilities:			
Short term borrowings	676	782	
Trade payables	747	715	
Misc. Provision	73	77	
(B)	1496	1574	
	<u>(1071)</u>	<u>(1171)</u>	

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Working Capital (A-B) CAPITAL EMPLOYED	<u>1591</u>	<u>1854</u>	
Average capital employed for the year ended March 31,2016	$(1591+1854)\div 2$		1722.5
(ii) Net Worth: (For the year ended Mar31,16 Share capital Securities premium a/c General reserve Capital redemption reserve Profit and loss account		33 931 57 42 <u>595</u>	1658
(iii) Debt (For the year ended March 31,2016) Long Term Borrowings Deferred Tax Liabilities Debt Equity Ratio: $(1038/1658) = 62.60\%$ = 62.6:100 or 0.63:1	$(1038\div 1658)$ =62.60%	1013 <u>25</u> Or	<u>1038</u> 62.6:100 0.63:1
Profit before tax (PBT) for the year ended March 31, 2016			326
(iv) PBT to Capital Employed:	$(326\div 1722.5)\times 100$		18.93%
(v) PBT to Net Worth	$(326\div 1658)\times 100$		19.66%
(vi) Current Assets to Current Liabilities: for 2016 (CA/CL) = $(403/1574)$		Or	0.256 0.26:1

**6. (a) A company has units in SEZ and in non-SEZ areas. The Companies (Cost Records and Audit) Rules 2014 has exempted companies operating in special economic zones from cost audit.**

**What would be applicability of the Companies (Cost Records and Audit) Rules 2014 on such a company in respect of maintenance of cost accounting records and cost audit? 4**

**(b) Analyze the role of Internal Auditor in the internal control system of the organization. 6**

**(c) How would compute Pollution Control Cost as per CAS-14 in the following circumstances? 6**

- i. Pollution Control Jobs carried out by outside contractors.**
- ii. Pollution control Jobs carried out by contractor at its premises.**
- iii. Pollution Control activity carried out by outside contractors inside the entity. 2×3=6**

Answer:

(a) Rule 3 of the Companies (Cost Records and Audit) Rules 2014 is specific and it has mandated maintenance of cost accounting records on all products/activities listed under Table-A and Table-B subject to threshold limits. No exemption is available to any company from maintenance of cost accounting records once it meets the threshold limits. Hence, the above company would be required to maintain cost accounting records for all its units including the one located in the special economic zone.

In view of the provisions of Rule 4(3) (ii) of the Companies (Cost Records and Audit) Rules 2014 the unit located in the Special Economic Zone (SEZ) would be outside the purview of cost audit and the company would not be required to include particulars of such unit in its cost audit report. The other units of the company located outside the special economic

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zone would be covered under Cost Audit subject to the prescribed threshold limits.

- (b) The primary objectives of internal control are to ensure-
- i. Reliability and integrity of information
  - ii. Compliance with policies, plans, procedures, laws and regulations.
  - iii. The safeguarding of assets.
  - iv. The economical and efficient use of resources.
  - v. The accomplishment of established objectives and goals of operation or programme.

The management is usually on the lookout for someone who can assure them that control systems implemented-are being followed and- periodically reviewed/ cross checked for their suitability vis-à-vis adaptability-to-changing circumstances, so that management can earn confidence is managing the business in the desired direction. Then, the question arises as to the scope of appraisal by the internal auditor to aid management is keeping up confidence in running a business and in achieving organizational objectives. The internal auditor is to go beyond the ambit of control measures determine by appraising and assessing the extent of implementation of the management control systems, ensuring as well as assuring the management control systems are as effective as these are expected to be and thereby converting hopes and aspirations of the organization into reality and accomplishments.

Internal auditing, as has been seen, can therefore reveal a sound internal control system but nevertheless the support of the top and middle management is a must. The Audit committee as elaborated in the Companies Act, 2013 directs evaluation of internal controls and risk management systems. Since control mechanism operates through men only, the human side of the enterprise is to be relied on for efficient of control functions. The Committee is to hold discussion with internal auditors of any significant findings and follow up there on about the failure of internal control system.

- c. (i) As per CAS-14, Cost of Pollution Control Jobs carried out by outside contractors shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities and other costs incurred by the entity for such jobs.
- (ii) As per CAS-14, Cost of pollution Control Jobs carried out by contractor at its premises shall be determined at invoice or agreed price including duties and taxes and other expenditure directly attributable thereto net of discounts (other than cash discount) taxes and duties refundable or to be credited.
- This cost shall also include the cost of other resources provided to the contractors.
- (iii) According to CAS-14, cost of pollution control activity carried out by outside contractors inside the entity shall include charges payable to the contractor and cost of materials, consumable stores, spares, manpower, equipment usage, utilities, and other costs incurred by the entity for such jobs.

7.

- (a) You as a management auditor have been asked to conduct a review of the function of the personnel department of XYZ Ltd. State the various points which will be covered in the review.**

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- (b) The particulars of a Supervisory employee of MAHAVINA LTD., a manufacturing company show the annual expenses as follows:**

- i. Basic pay including Industrial D.A. ₹7,00,000**

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- ii. Lease rent paid for accommodation provided to the employee ₹2,40,000
- iii. Amount recovered from employee ₹60,000
- iv. Employer's contribution to P.F. ₹56,000
- v. Employee's contribution to P.F. ₹56,000
- vi. Reimbursement of medical expenses ₹67,000
- vii. Hospitalization expenses including Group Medical Insurance borne by the employer ₹19,000
- viii. Annual Bonus ₹30,000
- ix. Festival Advance ₹30,000
- x. The Employer manages P.F. through a Trust, and the shortfall in the return of the Trust Account compared to the notified rate is around 0.75% p.a. reimburse to the Trust.
- xi. The future benefit (Gratuity) to the employee is insured with L.I.C., the premium of which costs 4% p.a. approx.

**Required:**

**Calculate the Employee Cost for the year ended March 31, 2016- keeping in view of Cost Accounting Standard (CAS)-7.**

6

Answer:

- (a) Management audit covers among others Personnel Department audit which means' extending the general meaning of auditing to the field of personnel management. Personnel auditing may be defined as the analysis and evaluation of personnel policies, procedures and practices to determine the effectiveness of personnel/ human resource management in an organization. In other words, personnel audit is a periodic review to measure the effectiveness of personnel management and to determine the steps required for more effective utilization of human resources.

The report should cover various areas with an objective of

- i. Outlining the need for personnel evaluation to "improve productivity" of individual employees and thus increase "organizational effectiveness" by better utilization of a firm's human resources.
- ii. Assess how the various units are functioning and how they have been able to meet the policies and guidelines which were agreed upon; and to assist the rest of the organization by identifying the gaps between objectives and results, for the end product of an evaluation should be to formulate plans for corrections of adjustments."
- iii. Review the whole organizational system of human resource practices, i.e., acquiring, developing, allocating and utilizing human resource in the organization.
- iv. Evaluate the effectiveness of various personnel policies and practices.
- v. Identify shortcomings in the implementation of human resource practices in the organization.
- vi. Suggest modification of the existing human resource practices to meet the challenges of personnel/human resource management.
- vii. Cover each area like recruitment, selection, job analysis, training, management development, promotions and transfers, labor relations, morale development, employee benefits, wage and salary administration, collective bargaining, industrial relations and communication. Further, the areas like leadership, grievances, and performance appraisal and employee mobility are also included within the scope of personnel audit.
- viii. Identifying indices, indicators, statistical ratios and gross numbers in some cases, examining

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- the variations in a time frame in comparison with a similar previous corresponding period.
- ix. Comparing the variations of different departments during different time periods and then comparing them with the similar units, working in the region.
  - x. Drawing trends, ascertaining frequency distribution and correlations between them, preparing a report and send it to the top management for information and action.

(b) Computation of employee cost:

(As per principles laid down in CAS-7)

	Particulars	Amount in ₹
i)	Basic pay (including industrial DA)	7,00,000
	Add: Leased Accommodation (2,40,000-60,000)	1,80,000
	Medical Expenses (67,000+19,000)	86,000
	Annual Bonus	30,000
	Contribution to P.F	56,000
	Premium for Gratuity (@ 4% on 700000)	28,000
	Total: Employee Cost	1080000

Note:

- i. Festival advance is a recoverable amount-not to be included in employee cost.
- ii. Employee's computation to PF is not a cost to employer- not to be included in employee cost.
- iii. Shortfall in PF the return of Trust A/c is an unusual cost- not to be included in employee cost.

**8.**

**(a) State briefly the Salient features of the traditional form of Internal Audit and Operational Audit.** **5**

**(b) Who can be appointed as a "Cost Auditor" of a company?** **3**

**(c) What is meant by "Corporate Services Audit"?**

**Describe the areas of the "Corporate Services Audit", the scrutiny thereof and evaluation criteria used in the Audit.** **2+6=8**

Answer:

(a) The following table highlights salient features of the traditional for Internal Audit and Operational Audit.

Internal audit	Operational audit
1. Compliance Objective	Risk identification, process improvement objective
2. Financial Accounts focus	Business Focus
3. Audit focus	Efficiency and improvement focus
4. Transaction based	Process based
5. Policies and procedures focus	Risk Management focus
6. Cost centre wise budget monitoring	Accountability for performance improvement results
7. Focus on policies, transactions and compliance	Focus on goals, strategies and risk management process

(b) "Cost Auditor" means an auditor appointed to conduct an audit of cost records, under

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sub-sections (2) of section 148 of the Companies Act-2013 and shall be a Cost Accountant within the meaning, of the Cost and Works Accountants Act, 1959. "Cost Accountant" for the purpose of these rules means a Cost Accountant defined in clause (b) of sub-section (1) of Section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under sub-section-1 section-6 and who is deemed to be in practice under sub-section (2) of section 2 of that Act and includes a firm of Cost Accountants.

(c) With the enlarged role assumed by corporate organization in this country, the corporate bodies are expected to have better social responsibilities than in the past. The term "Corporate Services" refer to the activities that combine or consolidate certain enterprise- wide needed support services, provided based on specialized knowledge, best practices, and technology to serve internal (and sometimes external) customers and business partners viz. employees, shareholders, community, fellow businessman and Government. Management Auditor studies separately and properly, evaluate after critically examination of the different aspects of services and their extent that have been satisfactorily rendered by the corporate body and of evaluation of degrees of responsiveness and awareness on the part of such enterprise.

The areas of Corporate Service Audits are:

- Consumers - Quality goods in right qualities at right price, place and time.
- Employees - Pay, training, safety, welfare, industrial relations, etc.
- Shareholders - Safety of investment, satisfactory return, appreciation (in Value & Quantity & marketability)
- Community - Social Cost and Social benefit, public relations.
- Fellow businessmen - Business ethics and fair trade dealings.
- State/Government - Compliance with, the spirit of laws, fair trade practices, payment of taxes.

Auditor 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. So, it is an appraisal by the auditor as referred above and auditor's responsibilities lies in evaluating the company's response to social needs.