FINAL EXAMINATION

GROUP IV

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS

December 2012

Paper-17 : COST AUDIT & OPERATIONAL AUDIT

Time Allowed: 3 Hours **Full Marks :** 100

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

Please: (1*) Answer all bits of a question at one place.*
(2) Open a new page for answer to a new question.
(3) Attempt the required number of questions only.

Answer Question No. 1 *and* Question No. 5 *(carrying 14 marks each) which are compulsory and any two (carrying 18 marks each) each from the remaining questions of Section I and Section II.*

SECTION I (50 Marks)
(Cost Audit)

1.(a) State whether the following statements based on the quoted terms are "TRUE" or "FALSE" with justifications for your answer. No credit will be given for any answer without justifications: [1x4]

(i) **The Compliance Report is to be issued by the certifying Cost Accountant in Form C of the Companies (Cost Accounting Records) Rules, 2011.**

(ii) **The Cost Auditor, before finalizing his Cost Audit Report needs to submit a draft Cost Audit Report to the Board to give them an opportunity to comment on the report, suggestions, observations and conclusions drawn by him.**

(iii) **Financial Position and Ratio Analysis are being dealt with under PARA- 6 of the Companies (Cost Audit Report) Rules, 2011.**

(iv) **CAS – 13 deals with cost of utilities.**

(b) In each of the cases / statements given below, one out of four alternatives is correct. Indicate the correct answer (only indicate A or B or C or D as you think correct): [1x5 =5]

(i) **Rectified spirit is covered by**

A. **Cost Accounting Records (Chemical Industries) Rules, 2004**
B. **Cost Accounting Records (Formulations) Rules, 1988**
C. **Cost Accounting Records (Bulk Drugs) Rules, 1974**
D. **Cost Accounting Records (Industrial Alcohol) Rules, 1997**

(ii) **CAS -9 deals with**
   - **A. Packing material cost**
   - **B. Pollution control cost**
   - **C. Cost of Utilities**
   - **D. Direct material cost**

(iii) **PARA – 8 of the Annexure to the Cost Audit Report Rules, 2011 deals with**
   - **A. Product group details**
   - **B. Abridged cost statement for each product group separately**
   - **C. Value addition and distribution of earnings for the company as a whole.**
   - **D. Operating ratio analysis for each product group separately**

(iv) **As per Rule 7 of the Companies (Cost Accounting Records) Rules, 2011, the Annexure to the Compliance Report is to be duly approved by the**
   - **A. Secretary**
   - **B. Cost Accountant**
   - **C. Board of Directors**
   - **D. None of the above**

(v) **As per ----------------- Outward Transportation Cost shall form part of cost of sales. (Fill in the gap from the below)**
   - **A. CAS-5**
   - **B. CAS-6**
   - **C. CAS-9**
   - **D. CAS-10**

(c) Fill in the blanks in the following sentences by using appropriate word(s)/ phrase(s) number (s): [1x5=5]

(i) **Rate per unit for each product group under para-5 of the Annexure to the Cost Audit Report Rules, 2011 is to be furnished for current year and ------------------------------.**

(ii) **Caustic Soda is covered by the Cost Accounting Records (---------------) Rules, 2004.**

(iii) **Corporate objectives represent the ------------- that the organization has laid down for itself.**

(iv) **CERA (Central Excise Revenue Audit) is conducted by the organization of ---------------------.**

(v) **-------------------- is the maximum productive capacity according to the manufacturer's specification of machines/ equipment.**

Answer 1.

(a)

(i) **False:** The compliance Report is to be issued by the certifying Cost Accountant in Form – B of the Companies (Cost Accounting Records) Rules, 2011

(ii) **True** : The Cost Auditor, before finalizing his Cost Audit Report needs to submit a draft Cost Audit Report to the Board to give them an opportunity to comment on the report, suggestions, observations and conclusions drawn by him.

(iii) **False** : Financial Position and Ratio Analysis are being dealt with under PARA- 9 of the Companies (Cost Audit Repost)Rules- 2011.

(iv) **False** : CAS-13 deals with Cost of Service Cost centre.

(b)

(i) D
(ii) A
(iii) C
(iv) C
(v) A

(c)

(i) Previous year
(ii) (Chemical Industries)
(iii) Charter
(iv) Comptroller and Auditor General
(v) Installed Capacity

2. (a) The following figures are extracted from Accounts of IREVNA LTD., a single product manufacturing company:

Year ended 31st March	2012	2011	2010
	(Amount in ₹ lakh)		
Gross Sales including Excise duty:	**2,856**	**2,779**	**2,625**
Excise Duty	**413**	**392**	**371**
Raw materials consumed	**1,596**	**1,484**	**1,365**
Direct wages	**49**	**45**	**38**
Power and fuel	**42**	**38**	**34**
Stores and spares	**8**	**7**	**5**
Depreciation charges to production cost centres	**22**	**21**	**18**
Factory Overheads:			
Salaries and wages	**7**	**6**	**4**
Depreciation	**3**	**3**	**3**
Rates and taxes	**1**	**1**	**1**
Other Overheads	**8**	**7**	**6**
Administrative Overheads:			
Salaries and Wages	**14**	**13**	**11**
Rates and taxes	**3**	**3**	**3**
Other Overheads	**231**	**216**	**207**
Selling and Distribution Overheads:			
Salaries and wages	**10**	**8**	**7**
Packing and forwarding	**8**	**8**	**7**
Depreciation	**1**	**1**	**1**
Other overheads	**174**	**165**	**151**
Interest	**119**	**104**	**95**
Bonus and Gratuity	**17**	**14**	**13**
Current Assets	**1,176**	**1,014**	**896**
Current Liabilities and Provisions	**454**	**427**	**344**

You are required to compute the following ratios as per requirement of PARA-9 to the Annexure of the Companies (Cost Audit Report) Rule, 2011:

(i) Profit Before Tax (PBT) to Value Added
(ii) Value Added to Net Sales;
(iii) Profit Before Tax (PBT) to Net Sales. **[6+6+2=14]**

(b) A company with multiple products range is having Cost Audit for some of its products. What would be the applicability of Cost Audit on other products now covered under the Companies (Cost Accounting Records) Rules, 2011? [4]

Answer 2. (a)

IREVNA LTD

(Calculation of Profit Before Tax) (PBT)

Year ended 31st March	**2012**	**2011**	**2010**
	(Amount in ₹ Lakh)		
Gross Sales inclusive of Excise duty	2,856	2,779	2,625
Excise duty	413	392	371
NET Sales (A)	2,443	2,387	2,254
Cost of Sales			
Raw Material Consumed	1,596	1,484	1,365
Direct Wages	49	45	38
Power and Fuel	42	38	34
Stores & Spares	8	7	5
Depreciation charged to production centres	22	21	18
Factory overheads (including Depreciation):	19	17	14
Administration Overheads	248	232	221
Selling and Distribution Overheads (inclusive depreciation) :	193	182	166
Interest	119	104	95
Bonus and Gratuity	17	14	13
Total (B)	2,313	2,144	1,969
Profit Before Tax (PBT) (A-B)	130	243	285

Calculation of Valued Added:

Year ended 31st March	**2012**	**2011**	**2010**
	(Amount in ₹ Lakh)		
Net Sales (A)	2,443	2,387	2,254
Less: Cost of Bought out of Inputs:			
Direct Materials Consumed	1,596	1,484	1,365
Stores & Spares	8	7	5
Power & Fuel	42	38	34
Overheads (exclusive salaries & wages, rates & taxes and Depreciation)	421	396	371
Total Cost of Bought out of Inputs (B)	2,067	1,925	1,775
VALUE ADDED (A-B)	376	462	479

NOTE : Value Addition is defined in Para-8 of the Companies (Cost Audit report) Rules-2011 as "the difference between Net output value (Net Sales) and Cost of bought out materials and services for the product under reference".

Year ended 31st March	2012	2011	2010
	(Amount in ₹ Lakh)		
(i) Profit Before Tax (PBT) to Value Added as (%)	130/376 34.57%	243/462 52.60%	285/479 59.50%
(ii) Value Added to Net Sales as (%)	376/2443 15.39%	462/2387 19.35%	479/2254 21.25%
(iii) Profit Before Tax (BPT) to Net Sales as (%)	130/2443 5.32%	243/2387 10.18%	285/2254 12.64%

2.(b)

The Cost Audit on other products now covered under the Companies (Cost Accounting Records) Rules-2011 will not be applicable until Cost Audit orders are issued for its other products/ activities. However, Compliance Report is required to be submitted for the 'Company as a whole' under different product groups. If the Company's remaining products belong to the exempted categories, then Companies (Cost Accounting Records) Rules will not be applicable on such exempted category products.

3.(a) (i) What do you understand by the term "Pollution Control" as per CAS-14?

(ii) How would you assign administrative overheads as per CAS-11? [2+3=5]

(b) GREAT PALS COMPANY LTD is engaged in construction of Roads, Bridges, Marine facilities etc. having sites in India and abroad. The Company's total turnover for the year ended March 31,2012 was ₹60 crores.

--- Whether the Companies (Cost Accounting Records) Rules, 2011 would be applicable to the company? [5]

(c) ENRON INDUSTRIES LTD. a manufacturing unit, provides the following extracts from its records for the year ended March 31, 2012:

The companies 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 days**

Annual 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

- **(i) Installed capacity;**
- **(ii) Practical capacity;**
- **(iii) Actual capacity utilization;**
- **(iv) Normal capacity;**
- **(v) Idle capacity;**
- **(vi) Abnormal idle capacity---- keeping in view of the relevant Cost Accounting Standard (CAS-2).**

[2x2+1x4=8]

Answer 3. (a)

(i) As per CAS-14, Pollution Control means the control of emissions and effluents into environment. It constitutes the use of materials, processes, or practices to reduce, minimize, or eliminate the creation of pollutants or wastes. It includes practices that reduce the use of toxic or hazardous materials, energy, water, and / or other resources.

(ii) According to CAS-11, Assignment of administrative overheads to the cost objects shall be based on either of the following two principles:

(a) *Cause and Effect* – Cause is the process or operation or activity and effect is the incurrence of cost.

(b) *Benefits received*- Overheads are to apportioned to various cost objects in proportion to the benefits received by them.

The cost of shared services should be assigned to user activities on the basis of actual usage. General management costs should be assigned on rational basis.

(b) As per the provisions of MCA General Circular No. 67/2011 dated 30th November 2011, all Companies engaged in the Construction business either as Contractors or as Sub-contractor who meet with the threshold limits laid down in Rule 3 of the Companies (Cost Accounting Records) Rules 2011 and undertake jobs with the use of own materials [whether Self-manufactured/produced or procured from outside] shall be required to maintain cost records and file a compliance report with the Central Government in accordance with the provisions of the Companies (Cost Accounting Records) Rules, 2011. This includes Companies engaged in the construction and / or development of residential, Commercial or Industrial estates i.e. development of township, residential units, commercial complex, office blocks, Industrial parks [including SEZ] etc, or construction of highways, rails, roads, bridges, industrial & non-industrial structures, or other infrastructure facilities etc. The provisions of Companies (Cost Accounting Records) Rules 2011 would also apply for construction activities undertaken under BOT/BOOT mode, or the projects undertaken as EPC Contractor or the projects undertaken abroad by a Company incorporated in India.

However, if a Company is engaged in the Contracting or Sub-Contracting activities and is paid only the job work or conversion charges, then the company will not be covered under companies (Cost Accounting Records) Rules, 2011. Such contactors or Sub-Contractors who are doing construction jobs without using own materials and thus paid either the job work charges or the conversion charges only will not be covered under the Companies (Cost Accounting Records) Rules-2011.

Thus, in the instant case, the company (Great Pals Company Ltd) will be covered under the Companies (Cost Accounting Records) Rules- 2011. So the Companies (Cost Accounting Records) Rules 2011 will be applicable to the Company (Great Pals Company Ltd.).

(c) **ENRON INDUSTRIES LTD**

Calculation of Different Capacities:

(I) INSTALLED CAPACITY : 365 X 8 X3 X 1600 = 140.16 Lakh Units

(ii) PRACTICAL CAPACITY : (365 – 52 – 10) x (8 – 1) x 3 x 1600
= 303 x 7x 3x 1600 = 101.81 Lakh Units.

(iii) ACTUAL CAPACITY UTILIZATION : [(84.50) /140.16] x100 = 60.29%

(iv) NORMAL CAPACITY : (81.28 +83.73 + 81.70)Lakh Units ÷3
= 82.24 Lakh Unit

(v) IDLE CAPACITY : (140.16 -84.50) Lakh Units = 55.66 Lakh Units
[(55.66)÷140.16] Lakh Units = 0.3971 i.e 39.71%

(vi) ABNORMAL IDLE CAPACITY : (101.81-84.50) = 17.31 Lakh Units.

4. (a) Enumerate the duties to be performed by a Cost Auditor. [6]

(b) Answer the following questions with respect to the Companies (Cost Accounting Records) Rules, 2011:

(i) Whether product manufactured for 100% captive/ self –consumption shall be covered under these Rules?

(ii) What does turnover mean under these Rules? Is gross turnover inclusive of excise duty?

(iii) Whether film industry like film producing companies/ studios registered under Indian Companies Act shall be covered under these Rules? [2x3=6]

(c) The following details of the process wise, Input Output and Direct Employees Costs are taken from the RUKMARI INDUSTRIES LTD., a manufacturing company, for the year ended March 31,2012:

Process	Input (Tonne)	Output (Tonne)	Direct Employee Costs (₹)
I	48,000	43,200	1,29,600
II	50,000	44,000	1,76,000
III	72,000	66,240	3,31,200
IV	60,000	55,500	4,44,000
V	80,000	73,400	6,60,600

Required :

Calculate " the Direct Employees Cost per Tonne of the product under reference" as required in PARA-5 of the Annexure to the Cost Audit report Rules, 2011. [6]

Answer 4. (a)

The duties to be performed by a Cost Auditor are enumerated below:

(i) To ensure that the proper books of accounts as required by the Cost Accounting Records Rules have been kept by the Company and proper returns for the purpose of his Audit have been received from branches not visited by him.

(ii) To ensure that the Cost Audit Report and the detailed Cost Statements are in the form prescribed by the Cost Audit Report Rules by following sound professional practices i.e. the report should be based on verified data and observations may be framed after the Company has been afforded an opportunity to Comment on them;

(iii) To ensure that the underlying assumptions and basis for allocation and absorption of indirect expenses are reasonable and are as per the established accounting principles;

(iv) If the auditor is not satisfied in any of the aforesaid matters, he my give a qualified report along with the reasons for the same.

(v) He is to send the Cost Audit Report to the Cost Audit Branch within 180 days from the end of the financial year with one copy to the Company.

(vi) He is required to send his replies to any clarification that may be sought by the Cost Audit Branch on his report. Sending such replies within 30 days from the date of receipt of communication calling for clarification

(b).

(i) The test of inclusion under the Rules is whether it is a production, processing, manufacturing or mining activity resulting in a product intended for use, consumption, sale, transport, store, delivery or disposal and whether the company carrying out the activity falls within the criteria mentioned under Rule 3(1). If the company meets requirement of Rule 3(1), the activity – whether or not for captive / self-consumption – will come under the ambit of these Rules. (CARR-2011).

(ii) As per Rule 2(p), “Turnover” means gross turnover made by the company from the sale or supply of all products or services during the financial year. It includes any turnover from job work or loan license operations but does not include any non-operational income. From a reading of the Rules, it appears that the word “Gross” denotes “total”. Hence, the “Turnover” under these Rules would exclude duties and taxes. (CARR-2011)

(iii) The companies (Cost Accounting Records) Rules 2011 is applicable to developing, fixing, and washing exposed photographic or cinematographic film or paper to produce either a negative image or a positive image. In case a film producing company is also engaged in these activities, the same would be covered.

(c).

RUKMARI INDUSTRIES LTD

The total Direct Employees Cost per Tonne of the product under Audit must be an aggregation of process wise Direct Employee Cost after taking into account the good units occurring in each process.

Process	Input (T)	Output (T)	Factor
I	48,000	43,200	48,000/43,200= 1.1111
II	50,000	44,000	50,000/44,000 = 1.1364
III	72,000	66,240	72,000/66,240 = 1.0870
IV	60,000	55,500	60,000/55,500 = 1.0811
V	80,000	73,400	80,000/73,400 = 1.0900

Process wise Direct Employees Cost per Tonne of the output are:

Process		₹
I	1,29,600 ÷ 43,200 =	3
II	1,76,000 ÷ 44,000 =	4
III	3,31,200 ÷ 66,240 =	5
IV	4,44,000 ÷ 55,500 =	8
V	6,60,600 ÷ 73,400 =	9

Aggregating all the above to the Finished Product from Process V :

Process I	= ₹ 3.00
Process II	= ₹ 3 x 1.1364 + 4 = ₹ 7.4092
Process III	= (₹ 7.4092 x 1.0870) + ₹ 5= ₹13.0538
Process IV	= (₹ 13.0538 x 1.0811) + ₹ 8 = ₹ 22.1125
Process V	= (₹ 22.1125 x 1.09) + ₹ 9 = **₹ 33.1026 per Tonne of Finished Product**

SECTION II (50 Marks)

(Operational Audit)

5. (a) Fill in the blanks in the following sentences by using appropriate word(s)/ phrase (s) number(s) : [1x5=5]

(i) -------------------- is the evaluation of every resources declared in the industry.

(ii) Management Audit can be a -------------------- for managerial control and reduction of cost.

(iii) ------------------------- Audits are concerned with objectives of efficiency and effectiveness.

(iv) ------------------------- services have been defined as independent professional services that improve the quality of information for decision makers.

(v) ---------------------------- is a movement protecting interest of the consumers.

(b) State whether the following statements based on the quoted terms are " TRUE" or 'FALSE" , with justifications for your answer. No credit will be given for any answer without justifications: [1x4=4]

(i) Audit Committee should meet at least three times in a year as per Clause-49 of the listing agreement.

(ii) The secretariat of WTO will be headed by a secretary.

(iii) Physical verification of stock is not a part of Stock Audit conducted by a bank or their authorized person.

(iv) The concept of Management Audit was developed by Luis F. Gillman.

(c) What the following abbreviations stand for? [1x5=5]

(i) PCAOB

(ii) MAR

(iii) EIA

(iv) QRB

(v) NFCG

Answer 5.

(a)

(i) Productivity Analysis

(ii) Potent tool

(iii) Operational

(iv) Assurance

(v) Consumerism

(b)

(i) False : Audit committee should meet at least four times in a year as per clause 49 of the listing Agreement.

(ii) False: The Secretariat of the WTO will be headed by a Director-General.

(iii) False: Physical verification of stock is the most important part of Stock Audit conducted by a bank or their authorized person.

(iv) False: The concept of Management Audit was developed by T.G. Rose.

(c)

(i) PCAOB : Public Company Accounting Oversight Board.

(ii) MAR: Management Audit Report.

(iii) EIA: Environmental Impact Assessment.

(iv) QRB: Quality Review Board.

(v) NFCG: National Foundation for Corporate Governance.

6. (a) What do you understand by ”Corporate Services Audit” ? Describe the areas of Corporate Services Audit, the scrutiny thereof and the evaluation criteria used in such Audit. [2+4=6]

(b) Prepare a check list for carrying out an audit under section 14AA of the Central Excise Act. [6]

(c) Explain the basic differences between : “Management Audit” and “ Operational Audit”. [3+3=6]

Answer 6.

(a) Corporate Services Audit :

The term “Corporate Services” is a generic term, which implies service oriented obligations of a corporate body to different interested ‘Public’ such as consumers, shareholders, community, fellow-business men, government etc. It includes the social responsiveness of a business enterprise.

Corporate Services Audit is the audit of social behavior of the company to assess the extent to which the company had met the expectations of the customers, employees, shareholders, suppliers and the community.

The scope of the Corporate Services Audit extends to the critical examination of the different aspects of services and the extent to which the corporate body has rendered satisfactory services. It also includes the evaluation of the degree of responsiveness and awareness on the part of such enterprise. The performance of the management towards customers, employees, shareholders, suppliers, the community and government is studied separately and properly evaluated by Management Auditor.

The areas of Corporate Services Audit and the scrutiny and evaluation criteria can be categorized as follows:

Consumers: Quality of goods in right quantity, right price, right place and right time.

Employees: Pay, Safety, Welfare and Industrial Relations etc.

Shareholders: Safety of investment, satisfactory return and capital appreciation.

Community: Social cost and social benefit, public relation.

Fellow-businessmen: Business ethics and fair trade dealings.

State: Compliance with various legislations, fair trade practices, payment of taxes etc.

The concept of Corporate Services Audit is that its appraisal system should consider the level of contribution a business entity makes to society and its environment towards raising the quality of life through better product quality and services rather than profit maximization. The Corporate Services Audit thus attempt to distinguish between the end and means of business and provides a new dimension to the concept of audit approach. In Corporate Services Audit, the auditor checks the company’s response to different social needs.

(b) As per section 14AA of Central Excise Act, a special audit of Cenvat credit availed or utilized can be ordered by commissioner of Central Excise.

Checklist for carrying out an audit under Section 14AA of Central Excise Act are as follows:

(i) Name of the Industry and the method of Costing adopted.
(ii) Principal raw materials used, the input/output ratio norms established for the industry/company.
(iii) Percentage of wastage/scrap/loss-Standard and Actual for the previous five years.
(iv) Value of inputs for which Cenvat has been availed/utilized vis-a-vis the value of inputs actually consumed for production.
(v) In the case of consumables for which Cenvat has been availed, whether expenses charged to revenue are gross or net of Cenvat.
(vi) Procedures adopted for payment of duty on goods sent to subcontractors/other factories of the assessee.

(c) Operational Audit vs. Management Audit

Operational Audit concentrates on seeking out aspects of operations in which waste, inefficiency and excessive costs and would be subject to reduction by the introduction of improvement of operating controls. It is the audit of the performance at mainly operating level i.e., supervisory level. It is also termed as micro level Management Audit.

Operational Audit is an organized search for ways of improving efficiency and effectiveness. The objective is to assist the organization in performing functions more effectively economically with focus on the efficiency and effectiveness of operations. It is also stated to be an early warning system for the detection of potentially destructive problems.

Management Audit extends to the entire management decision making areas and has a broader time- frame to analyze past, present and future. Hence it becomes a qualitative audit and not audit of only value and quantity. Management Audit brings out errors or policy, decisions and action with recommendations to avoid them. Management Audit extends beyond Operations Audit.

Management Audit is the total examination of all transactions of an organization and includes checks on the effectiveness of managers and their compliances with company on professional standards. It undertaken examination of the effectiveness of management in controlling the total activities of the organization in the accomplishment of the organization objectives. It does not concentrate on financial matters alone as in case of financial audit. It looks into the efficiency and effectiveness of performance in an organization.

7. (a) DNA BANK, a nationalized bank is considering an application from GLORIOUS INDUSTRIES LTD. for enhancement of working capital limits with sub-limits for inventories and book debts. You have been asked to study the operations of the company and submit your recommendations for enhancement of working capital limits.

Prepare a questionnaire listing out your requirements of information for the purpose. [12]

(b) Explain whether the following activities amount to professional misconduct on the part of a Cost Accountant: [2x3=6]

(i) CMA ANUSUA, a Cost Accountant in practice published a book and gave her personal as an author. These details also mentioned her professional experiences and her association as partner with PKR and Associates, a firm of Cost Accountants.

(ii) M/s. R.K. Bhatia & Associates, a firm of Cost Accountants in practice, develops a website "bhatia.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.

Answer 7. (a)

The following points should be examined for assessing the working capital requirements and the borrowing limits on behalf of the bank:

1. General

- **a)** What is the present limit sanctioned by the bank for the various components of working capital viz, inventory and book debts? What is the type of limit i.e. key loan or cash credit? Are there sub-limits for raw materials, and work-in-process, finished goods etc.?
- **b)** Are there separate limits other than cash credit, such as bill discounting, drawee bills, packing credit for export etc.? Is the company availing factoring services?
- **c)** What are the actual limits availed during the last two years under the various sublimits- month by month? Has there been any irregularity/ excess drawing?
- **d)** Is the company regular in submitting monthly stock statements and quarterly information system statements?
- **e)** What is the frequency of inspection by the bank staff?
- **f)** What is the present method of lending followed?

2. Quantum of limits

- **a)** What is the total inventory, in terms of number of months' consumption of raw materials and stores and spares, number of days production for work-in-process, number of days' sales for finished goods?
- **b)** What is the total level of book debts in terms of number of days' sales?
- **c)** Is the holding of inventory reasonable compared to industry standards as fixed by the Bank?
- **d)** What is the basis for asking for enhancement of limits? Is it due to increase in production or increase in price level?
- **e)** If the increase in borrowing limits to meet increased production levels, is it supported by proof of increased capacity (or full utilization of capacity) and making projections of demand for the company's products?
- **f)** Is adequate margin money available with the company by way of internal generation to cover the enhanced limits? If not, what arrangements are proposed to meet the margin requirements?
- **g)** Is the industry seasonal? If so, what are the requirements for the peak season and other periods?

3. Inventory

- **a)** What is the method of material accounting followed? Are there priced store ledgers for raw materials and stores and spares?
- **b)** What is the method of valuation of stock (FIFO,LIFO, etc.) and is it followed consistently?
- **c)** Are the manufactured intermediates and finished products valued at total cost or prime cost?
- **d)** If the valuation is at total cost, the method of absorption of overheads should be examined.
- **e)** Are unpaid stocks included in inventory?
- **f)** What are the basic records maintained in the stores (e.g., Bincards, Kardex, data stored in computers, etc)?
- **g)** Is there a perpetual inventory system? If not, what is the frequency of physical verification of stocks by
    - stores department staff/ supervisors
    - internal audit
    - statutory auditors?
- **h)** What is the basis for categorizing inventory into A, B and C categories (if such an analysis is being done)?
- **i)** Is there a 100% check or only random sampling is followed?

4. Book Debts

a) What is the Company's history in writing off bad debts?
b) Is there any ageing analysis of debtors available? If not, get analysis prepared of debts outstanding for less than 30 days, more than 30days but less than 90days, more than 90 days but less than 6 months, more than 6 months etc.?
c) Is any part book debts covered by bill discounting scheme?

Taking all the above factors into consideration, the consultant should give his recommendations and also give his comments on the quality and reliability of the data collected.

7. (b)

(i) A Cost Accountant in practice shall be deemed to be guilty of professional misconduct, if he solicits clients or professional work either directly or indirectly, by circular, advertisement, personal communication or interview or by any other means.

CMA, AUSUA being a Cost Accountant in practice has committed a professional misconduct by mentioning that at present she is a partner of M/s PKR & Associates, a firm of Cost Accountants (Clause 6 of part I of First Schedule to the Cost and Works Accountants Act, 1959)

(ii) The Council of the Institute of Cost Accountants of India had approved posting of particular on website by Cost Accountants in practice under clause (6) of Part-I of First Schedule to the Cost and Works Accountants Act, 1959 subject to the prescribed guidelines. The relevant guidelines are:

- No restriction on the colours used in the website.
- Names of clients and fees charged not to be given.

Clause (7) of Part-I of First Schedule to the Cost and Works Accountants Act, 1959 prohibits a member not to advertise his professional attainments or services other than Cost Accountant pn professional documents, visiting cards, letter heads or sign boards.

In view of the above, M/s R.K. Bhatia & Associates would have no restriction on the colours used in the website but failed to satisfy other guidelines.

Thus M/s R.K.Bhatia & Associates would be held guilty of professional misconduct under clause (6) and clause (7) of Part-I of First Schedule to the Cost and Works Accountants Act,1959.

(iii) Clause 10 of Part-I of the First Schedule to the Cost and Works Accountants Act, 1959 aims to restrain a member in practice from engaging himself in any business or occupation other than that of a Cost Accountant except when permitted by the Council to be so engaged. Accordingly, in the absence of specific and prior approval, Cost Accountant would be held guilty of professional misconduct. Thus in the instant case CMA Dr. Radhakrishnan would be held to be guilty of professional misconduct.

8. Write short notes on *any three* out of the following: [6x3=18]

a) Corporate Governance;
b) Probable format of Environmental statement;
c) Quality Review Board;
d) Functions of the W.T.O;
e) Management Audit Programme (MAP)

a) Corporate Governance:

Corporate Governance is the system by which companies are directed and controlled by the management in the best interest of the shareholders and others ensuring greater transparency and better and timely financial reporting. The Board of Directors are responsible for governance of their companies. A number of reports and codes of Corporate Governance have been published internationally. The Securities and Exchange Board of India (SEBI) had set up a Committee under the Chairmanship of Shri Kumar Mangalam Birla to formulate the code of Corporate Governance. Based on this report, SEBI has by circular in February 2000 directed stock exchanges to amend the Listing Agreement between them and the entities whose securities are listed on such stock exchanges and include a new Clause 49 in such Listing Agreement. Various clauses deal with composition of board, setting-up of Audit Committee including scope thereof, remuneration of directors, meetings of Board, contents of management discussions and analysis report, etc. Clause 49 also prescribes that there shall be a separate section on Corporate Governance in the annual reports of company, with a detailed compliance report on Corporate Governance. Non compliance of any mandatory requirement i.e. which is part of the listing agreement with reasons thereof and the extent to which the non-mandatory requirements have been adopted, should be specifically highlighted. Further, the entity is required to obtain a certificate from the statutory auditor of the entity as regards compliance of conditions of Corporate Governance as stipulated in that clause.

b) Probable format of Environmental Statement:

The following are the main aspects which may be covered in the probable format of Environmental Statement:

- **(i)** Name and address of the owner/occupier of the industry, operation or process.
- **(ii)** Date of last environmental audit report submitted.
- **(iii)** Consumption of water and other raw materials during current and previous year.
- **(iv)** Pollution generated in air and water along with the output and the types of pollutants and the deviation from standards.
- **(v)** Generation of hazardous waste in current year and previous year from processes.
- **(vi)** Quantity of solid waste generated during current year and previous year and from recycling or reutilization of waste, etc.
- **(vii)** Disposal practice for different type of waste.
- **(viii)** Practice in operation for conservation of natural resources.
- **(ix)** Additional investment proposal for environmental protection including abatement of pollution.

c) Quality Review Board:

There has been growing demand for high quality assurance, consistency and greater transparency in functioning of profession. So, Board for Quality Review has set up, named “Quality Review Board” and incorporated in the Cost and Works Accountants Act, 1959 which would contribute to public confidence in the integrity and enhancing the quality of work done by the members of the Institute, U/S 29A of Cost and Works Accountants Act , 1959. “Quality Review Board” constitute a Chairperson and four other members of which two members shall be nominated by the Council and other two members shall be nominated by the Central Government U/S 29-B of the Act relates to the functions of the Board which are as follows:

- **(i)** To make recommendations to the Council with regard to quality of services provided by members of the Institute;
- **(ii)** To guide the members of the Institute to improve the quality services, provided by the members of the Institute including cost advisor services and
- **(iii)** To review the quality and adherence to the various statutory and other regulatory requirements.

d) Functions of the WTO:

The main functions of WTO are-

- **(i)** Facilitate the management of the Multilateral Trade Agreements (MTA) and the Plurilateral Trade Agreements (PTA) for the fulfillment of their obligations.
- **(ii)** All Multilateral Trade Relations concerning the above agreements will be negotiated by the Members in this forum.
- **(iii)** WTO will also facilitate implementation of the results of the negotiations as decided by the Ministerial Conference.
- **(iv)** The WTO shall administer the Understanding on Rules and Procedures Governing the Settlement of Disputes, forming part of the Agreements (MTAs and PTAs)
- **(v)** The WTO is responsible for administration of the Trade Policy Review Mechanism (TPRM) forming part of the Agreement.
- **(vi)** WTO is also the organ for establishing coordination with other wings of the UNO such as the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) and its affiliated agencies.

e) Management Audit Programme (MAP)

Management Audit Programme is an essential pre-requisite to conduct the audit. It is a plan of action drawn in advance of taking up the audit, and to help the auditor to cover the entire area of his function thoroughly.

He should lay down for himself a proper procedure to be followed to complete the work in time, giving thorough coverage to all aspects.

An efficient management Audit Programme comprises the following:

- **(i)** Review of the organizational objectives and plans.
- **(ii)** Study of the policy and practices of the management.
- **(iii)** Critical review of organizational structure.
- **(iv)** Study the systems and procedures.
- **(v)** Evaluation of operations and utilization
- **(vi)** Study of the efficiency of the use of physical resource available.
- **(vii)** Exercise proper management control.
- **(viii)** Maintain suitable monitoring system through MIS.
- **(ix)** Check adherence to the statutory obligation
- **(x)** Review the efficiency of manpower handling, which is the key factor for organization’s success.

A Management Auditor shall shrewdly assess weak and risk areas and deal with such areas in more details.