

**FINAL EXAMINATION**

June 2013

**F-P17(COA)**

**Syllabus 2008**

**Cost Audit and Operational Audit**

Time Allowed: 3 Hours

Full Marks: 100

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

*Working notes should form part of the answer.*

*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.*

**SECTION I (50 Marks)**

**(Cost Audit)**

**Answer Question No. 1** (carrying 14 Marks) which is compulsory and answer any two (carrying 18 Marks each) from the rest in this Section.

1. (a) 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):
- (i) Rule 6 of the Companies (Cost Accounting Records) Rules 2011 provides that Compliance Report is to be submitted to the Central Government within
    - A. 180 days from the close of the Company's financial year
    - B. 120 days from the close of the Company's financial year
    - C. 90 days from the close of the Company's financial year
    - D. 60 days from the close of the Company's financial year
  - (ii) CAS-13 deals with
    - A. Cost of Service Cost Centre
    - B. Employee Cost
    - C. Pollution Control Cost
    - D. Repair and Maintenance Cost
  - (iii) Profit reconciliation for the Company as a whole is dealt in
    - A. Para 8 of the annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011
    - B. Para 7 of the annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011
    - C. Para 6 of the annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011
    - D. Para 4 of the annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011
  - (iv) Form A XBRL is used for filing
    - A. Cost Audit Report of a Company
    - B. Annual Report of a Company
    - C. Compliance Report of a Company
    - D. Annual Accounts of a Company
  - (v) The main purpose of 'efficiency Audit' is to ensure that
    - A. Every rupee invested gives optimum returns
    - B. Planned expenditure gives optimum returns
    - C. Various policies of management are implemented
    - D. Activities of business are beneficial to Society at large

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- (vi) Para 10 of the annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011 deals with
- Installed Capacity and Actual Production
  - Capital employed
  - Related Party transactions for the Company as a whole
  - Reconciliation of Indirect taxes for the Company as a whole
- (vii) Cost Audit was initially introduced in the year
- 1959
  - 1960
  - 1965
  - None of the above
- (viii) CAS-5 deals with
- Equalized Cost of Transportation
  - Captive Consumption
  - Cost of Utilities
  - Cost of Service Cost Centre

1×8=8

(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:

- XBRL (eXtensible Business Reporting Language) is a language based on XBL family of languages.
- Cost Audit in India appears to be Synonymous with Efficiency Audit.
- As per CAS-12, fines, penalties, damages and similar levies paid to Statutory Authorities or third parties shall form part of repair and maintenance cost.
- A concurrent auditor of a Company can accept appointment as the Cost Auditor of the same Company.
- The Costing Taxonomy and related Business Rules including sample instance documents can be downloaded from the website of the Institute of Cost Accountants of India (ICAI).
- 'Performance Appraisal Report' is a part of Cost Audit Report for filing in XBRL.

1×6=6

2. (a) The following is the abridged Balance Sheet of SARATHI LTD., a single product manufacturing Company:

| Year ended 31st March                 | 2013               | 2012        |
|---------------------------------------|--------------------|-------------|
|                                       | (Amount in ₹ Lakh) |             |
| <b>LIABILITIES:</b>                   |                    |             |
| Share Capital                         | 600                | 600         |
| Reserves & Surplus:                   |                    |             |
| Debenture Redemption Reserve          | 50                 | 60          |
| Capital Subsidy from State Government | 60                 | 60          |
| Revaluation Reserve                   | 250                | 280         |
| General Reserve                       | 320                | 240         |
| Profit & Loss A/c                     | 96                 | 64          |
| Secured Loans:                        | 550                | 590         |
| Unsecured Loans:                      | 246                | 234         |
| <b>Total:</b>                         | <b>2172</b>        | <b>2128</b> |

| Year ended 31st March                        | 2013               | 2012        |
|--|--------------------|-------------|
|  | (Amount in ₹ Lakh) |             |
| <b>ASSETS:</b>                               |                    |             |
| Gross Block                                  | 1450               | 1360        |
| Accumulated Depreciation                     | (630)              | (580)       |
| Net Block                                    | 820                | 780         |
| Capital Work-in-Progress                     | 86                 | 74          |
| Investments:                                 | 30                 | 30          |
| <b>Current Assets, Loans &amp; Advances:</b> |                    |             |
| Inventories                                  | 834                | 882         |
| Sundry Debtors                               | 364                | 390         |
| Advances for Equipments                      | 48                 | 34          |
| Other Loans & Advances                       | 288                | 274         |
| Cash and Bank Balances                       | 42                 | 38          |
| <b>Current Liabilities &amp; Provisions:</b> |                    |             |
| Sundry Creditors for Capital Expenses        | (34)               | (42)        |
| Sundry Creditors for Others                  | (370)              | (394)       |
| Provision for Taxes                          | (128)              | (142)       |
| Miscellaneous Expenditure                    | 192                | 204         |
| <b>Total:</b>                                | <b>2172</b>        | <b>2128</b> |

*Additional information is available:*

- (i) Term Loans repayable in 12 months included under 'Secured Loans' are ₹ 192 lakh (Previous year ₹ 168 lakh).
- (ii) Profit before Tax (PBT) for the year ended March 31, 2013 is ₹ 160 lakh (Previous year ₹ 174 lakh).

You are required to compute the following figures/ratios as stipulated in PARA 9 of the Annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011, for the year ended March 31, 2013:

- (i) Capital Employed;  
(ii) Net Worth;  
(iii) Debt-Equity Ratio;  
(iv) PBT to Capital Employed;  
(v) PBT to Net Worth.

$$5+3+2+1+1=12$$

(b) How would you treat the following as per CAS-11 related to Administrative overheads?

- (i) Leased Assets;  
(ii) Cost of Administrative Services procured from outside;  
(iii) Cost of Software.

$$2 \times 3 = 6$$

3. (a) What is eXtensible Business Reporting Language (XBRL)? What are the applications of XBRL? 2+3=5

(b) Who can authenticate the Compliance Report as per the Companies (Cost Accounting Records) Rules 2011? 4

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- (c) (i) What are 'Waste Multipliers' in Textile Costing?  
(ii) The following details of the process-wise input and output are taken from the Cost Accounting Records of SUNNY COTTON MILLS LTD., a yarn manufacturing Company, for the year ended March 31, 2013:

| Process                | Input/Output               | Kgs.      |
|------------------------|----------------------------|-----------|
| Blowroom               | Cotton processed           | 46,72,560 |
|                        | Laps produced              | 42,58,270 |
| Carding                | Laps processed             | 42,74,360 |
|                        | Slivers produced           | 39,76,400 |
| Draw frames            | Slivers processed          | 39,48,240 |
|                        | Slivers drawn              | 39,01,800 |
| Roving (Simplex)       | Drawn Slivers processed    | 38,74,120 |
|                        | Transferred to Ring Frames | 38,31,500 |
| Ring Frames (Spinning) | Slivers used               | 39,11,640 |
|                        | Finished Yarn produced     | 36,41,740 |
| Reeling and Winding    | Yarn wound                 | 36,35,400 |
|                        | Salable Yarn produced      | 35,80,880 |

Required:

Calculate the process-wise Waste Multiplier factors for the year ended March 31, 2013. 2+7=9

4. (a) The Cost Accountant of SOVANA SUGAR MILLS LTD. has arrived at a profit of ₹ 73,24,150 based on Cost Accounting records for the year ended March 31, 2013. As Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts:

|  |              |
|--|--------------|
| (i) Decrease in value of Closing WIP and Finished goods inventory  |              |
| as per Financial Accounts  | ₹ 128,21,995 |
| as per Cost Accounts   | ₹ 131,04,220 |
| (ii) Profit on Sale of Fixed Assets  | ₹ 61 500     |
| (iii) Loss on Sale of Investments  | ₹ 11 200     |
| (iv) Voluntary Retirement Compensation included in Salary & Wages in F/A   | ₹ 16,75,000  |
| (v) Donation Paid  | ₹ 25,000     |
| (vi) Major Repairs & Maintenance written off in F/A<br>(Amount reckoned in Cost Accounts of ₹ 6,08,420 for this job) | ₹ 13,26,000  |
| (vii) Insurance Claim relating to previous year received during the year   | ₹ 14,29,000  |
| (viii) Profit from Retail trading activity   | ₹ 7,12,300   |
| (ix) Interest Income from Inter-Corporate Deposits   | ₹ 6,15,000   |

You are required to prepare a Reconciliation Statement and arrive at the Profit as per Financial Accounts.

4+3+1+1=9

- (b) Answer the following questions with respect to Companies (Cost Accounting Records) Rules 2011:
- Are there any sectors exempted under Companies (Cost Accounting Record) Rules 2011?
  - What constitutes the Cost records under Rule 2(e)? Whether the format of 'Abridged Cost Statement' prescribed in the Companies (Cost Audit Report) Rules 2011 can be considered as a Sample Cost Statement? 2+3=5

- (c) Answer the following questions with reference to CAS-14:
- How is cost computed if Pollution Control Jobs are carried out by outside contractors?
  - How is cost determined if Pollution Control Jobs are carried out by contractor at its premises? 2×2=4

**SECTION II (50 Marks)**  
**(Operational Audit)**

*Answer Question No. 5 (carrying 14 Marks) which is compulsory and answer any two (carrying 18 Marks each) from the rest in this Section.*

5. (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:
- The Consumer Service Audit critically examines the outstanding payment of consumer.
  - GATT and its agreement are permanent.
  - Sarbanes-Oxley Act of 2002 is a U.K. Federal Law enacted on July 30, 2002.
  - Interest Cost should be included in inventory valuation for purposes of Bank Audit.
  - Management Audit Report is to be submitted to the Cost Audit Branch of Central Government. 1×5=5
- (b) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s):
- Management Audit requires \_\_\_\_\_ approach.
  - Excise-Audit-2000 was initiated from \_\_\_\_\_.
  - Section 292A of the Companies (Amendment) Act 2000, provides for Constitution of \_\_\_\_\_.
  - India had to remove \_\_\_\_\_ on imports as per WTO stipulations.
  - \_\_\_\_\_ is transfer of goods to an alien market at a price which is less than marginal cost of its production in the home country.
  - Central Excise Revenue Audit (CERA) is conducted by the organization of \_\_\_\_\_. 1×6=6
- (c) What do the following abbreviations stand for?
- OECD;
  - CEGAT;
  - TPRM. 1×3=3
6. (a) What do you understand by 'Corporate Image' and 'Branding'? Are they inter-related? What are the possible approaches to evaluate Corporate Image? 4+1+4=9
- (b) What is the scope of work for a Cost Accountant as a Loss Assessor under the Insurance Act? Give an illustrative list of the types of claims and points to be considered in assessing the quantum of loss. 2+5+2=9

**Please Turn Over**

7. (a) Your client, ASHEETA LTD. is contemplating to take over a manufacturing concern and desires that in the course of due diligence review, you should look specifically for any hidden liabilities and overvalued assets. —State (in brief) the major areas you would examine for the above. 2+4+4=10
- (b) Management Audit and Operational Audit are Complementary and Supplementary to one another.—Discuss. 4
- (c) Explain whether the following activities amount to professional misconduct on the part of a Cost Accountant:
- (i) F. B. HORE & CO., a firm of Cost Accountants was appointed by a Company to evaluate the Costs of the various products manufactured by it for its information system. One of the partners of the firm was a Non-Executive Director of the Company.
- (ii) CMA DEBOSMITA, a practicing Cost Accountant, takes up a job as a full time lecturer in a College affiliated to University of Calcutta. 2+2=4
8. Write short notes on *any three* out of the following:
- (a) International Auditing and Assurance Standard Board (IAASB);
- (b) Consumer Services Audit;
- (c) Difference between Financial and Operational Auditing;
- (d) Environmental Pollution;
- (e) Safeguard Duty. 6×3=18
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