

FINAL EXAMINATION

June 2014

P19(CMAD)
Syllabus 2012

Cost and Management Audit

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.
The paper is divided in three sections.*

From Section A answer any four questions (4×15=60 marks)

From Section B answer any four questions (2×10=20 marks)

From Section C answer any four questions (2×10=20 marks)

Worlding Notes should form part of the answer.

"Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates."

SECTION A (60 marks)

Answer any four questions.

15×4=60

1. (a) From the following particulars make out a monthly cost sheet of Coke Oven Company Limited for the Financial Year ended 31.03.2014.

Coal used	7000 Tonnes @ ₹ 28 per tonne
Coke Produced and Sold (main product)	4900 Tonnes, Selling Price being ₹ 56 per tonne
Tar produced	280 Tonnes @ ₹ 60 per tonne
Sulphuric, etc.	70 Tonnes @ ₹ 210 per tonne
Benzole etc. produced	67 Tonnes @ ₹ 95 per tonne
Raw Material used	₹ 54,600
Wages paid	₹ 20,500
Repairs and Renewals	₹ 12,000
Salary and General Charges	₹ 7,500

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- (b) The following is a summary of the Profit and Loss Account of M/s. Straw Berry Company Limited for the year ended 31.03.2014

	₹ in lakh
Sales	13,540
Cost of Sales:	
Raw Materials, Stores and Spares	5,600
Excise Duty	830
Salaries and Wages	1,400
Power and Fuel	470
Repairs and Maintenance:	
Major Breakdown Repairs	35
Other regular maintenance	94
Carriage Outwards	320
Insurance General	34
Insurance-Transit	22

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Advertisement and Sales Promotion	720	
Rent, Rates and Taxes	97	
Printing, Stationery etc.	437	
Travelling and Conveyance	776	
Other Administrative expenses	426	
Depreciation	391	
Interest	<u>1,494</u>	
Profit		<u>13,146</u>
		<u>394</u>

There was a major breakdown of machinery resulting in loss of production for 42 days, in June and July, 2013 and a labour strike for 97 days from 14.2.2014 to 21.5.2014. The Company produced a single product (Steel-Billet) and the production during the year was 942000 kgs.

You are required to compute the amount of abnormal cost on account of the breakdown and strike and the impact on cost per unit of output. Where do these figures find a place in the Cost Audit Report? 10

2. (a) What procedure are to be followed for appointment of cost auditor? 7
- (b) Harish is an employee of M/s. Prix Co. and gets following emoluments and benefits
- | | |
|--|--------------------------------|
| (i) Salary | ₹ 2,500 per month |
| (ii) Dearness allowance | |
| On first ₹ 1,000 of salary | ₹ 4,000 |
| On next ₹ 1,000 of salary | ₹ 1,000 |
| On balance of every ₹ 1,000 | ₹ 500 or @ 50% of part thereof |
| (iii) Employers Contribution to Provident Fund | 8% of Salary and D.A. |
| (iv) Employer's Contribution to ESI | 4% of Salary and D.A. |
| (v) Bonus | 20% of Salary and D.A. |
| (vi) Other allowance | ₹ 2,725 per annum |

Harish works for 2400 hours per annum, out of which 400 hours are non-productive but treated as normal idle time. A worker works for 18 effective hours in job No. 11, where the cost of direct labour is @ effective hourly cost of Harish and direct material equal to direct labour cost, overhead applied is 100%, of Prime Cost.

The sale value of the job is quoted to earn a profit of 15%.

You are requested to find out:

- (A) Effectively Hourly cost of Harish, and
(B) The effective sale value of job No. 11.

4×2=8

3. (a) What are "waste Multiplier" in Textile Costing? The following are the process wise wastages on inputs in the year

Process	%age of wastage on input
Blow Room	9.18
Carding	7.17
Drawing	1.1
Roving (Simplex)	0.3
Ring Frame (Spinning)	7.21
Reeling and Winding	1.5

From the above calculate the process wise waste multiplier factor.

2+5=7

- (b) In dealing with the financial position of a company as per para 9 of the Annexure in line with the new Companies (Cost audit Report) Rules, 2011, State your opinion regarding:

- Should investments like National Savings Certificates deposited with Govt Authorities like Sales tax authorities etc. as securities be treated as investment out side the Business?
- Is the Capital employed to be computed as at the beginning of the year or at the end of the year or average of both?
- In case the financial accounts of the company are yet to be finalised and audited, should the cost auditor provide the data under Para 9 in line with the new Companies (Cost audit Report) Rules, 2011?
- How is "Net Worth" defined in this para? The para also states that "If there is any change in the composition of the net worth during the year, special mention may be made along with the reasons there for." How you would take the care of this provision?

2×4=8

4. (a) What process is to be followed to file the Cost Audit Reports in XBRL Format? 5

- (b) BURNET LTD., a manufacturing unit, provides the following extracts from its records for the year ended March 31, 2014:

The Company's specifications capacity for a machine per hour	1500 units
No. of shifts (each shift of 8 hours) per day	3 shifts
Paid Holidays in a year (365 days):	
(i) Sunday	52 days
(ii) Other holidays	12 days
Annual maintenance is done within these holidays	-
Preventive weekly maintenance for the machine is carried on during Sundays	
Normal idle capacity due to lunchtime, shift changes etc. per shift	1 hour
Production based on sales expectancy in past 5 years (units in Lakh):	75.70
	87.42
	65.38
	77.97
	76.08

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Actual Production for the year (units in lakh): 81.50

You are required to calculate:

- (i) Installed Capacity
- (ii) Practical Capacity
- (iii) Actual Capacity
- (iv) Normal Capacity
- (v) Idle Capacity
- (vi) Abnormal Capacity

—Keeping in view of the relevant Cost Accounting Standard (CAS-2). 1+2+1+2+2+2=10

5. (a) The following particulars pertaining to Product-A are extracted from the record of PROTECT LTD. for the Half year ended March 31, 2014:

(Amount in ₹ Thousand)

Direct Material Cost per unit inclusive of Excise Duty ₹ 191 thousand	1740
Direct Wages & Salaries	1260
Direct Expenses	200
Indirect Materials	253
Factory Overheads.	677
Administrative Overheads (25% relating to Production activities)	1240
Quality control Cost	525
Research and Development Cost	360
Sale of scrap realised	180

You are to determine the cost of production for purpose of captive consumption in terms of Rule 8 of the Central Excise Valuation (DPE) Rules 2000 and as per CAS-4 and Assessable Value for purpose of paying excise duty on captive consumption. 6+2=8

- (b) The companies (Cost Accounting Records) Rules 2011 have not prescribed any specific formats for the cost statements. In what manner and Format would the cost statements be kept under these Rules? 3
- (c) How would you treat future remediation or disposal costs under CAS-14 relating to Pollution Control Costs? 2
- (d) Whether film Industry like film producing companies/studios registered under Indian companies Act covered under companies (Cost Accounting Records) Rules 2011? 2

SECTION B (20 marks)

Answer any two questions.

10×2=20

6. (a) Write a short note on disclosure and transparency of corporate governance. 5
 (b) State the essential qualities required of a Management Auditor. 5
7. (a) What do you understand by Corporate Services Audit? Describe the areas covered by corporate services audit. 5
 (b) Classify Internal Control in four main categories. 5
8. (a) What is marketing audit? What are its essential features? 5
 (b) State briefly mandatory review area of the Audit Committee. 5

SECTION C (20 marks)

Answer any two questions.

10×2=20

9. What are the characteristics of a good performance Appraisal Report? 10
10. The following information pertains to REACON CEMENT LTD., a manufacturing cement company for the year that ended as follows:

The year ended March 31.	2013-14	2012-2013
Rated Capacity per Hr (in MT)	<u>80</u>	<u>80</u>
Break down (Hrs)	2177	1015
Planned Maintenance (Hrs)	247	422
Power restrictions (Hrs)	1237	1481
Shortfall (there are no orders) (Hrs)	792	677
Want of wagons (Hrs)	<u>495</u>	<u>635</u>
Total stoppage (Hrs)	<u>4948</u>	<u>4230</u>
Total running (Hrs)	<u>3888</u>	<u>4582</u>
Total available Hours	8836	8812
Production during the year (in MT)	248844	329928
Hourly Rate of Production (in MT)	64	72
Capacity Utilization (%)	62.21	82.48
Annual Installed Capacity (in MT)	400000	400000

Based on information stated above, you as a Cost Auditor are required to offer your comments on

- (i) the performance of the company
 (ii) your suggestion for improvement.

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11. ALLIED LTD. has the following Balance Sheet as on March 31, 2014 and March 31, 2013.

Year ended March 31	(Amount in ₹ Lakh)	
	2014	2013
SOURCES OF FUNDS:		
Shareholders' Fund	2972	1886
Loan Funds	4644	4060
	<u>7616</u>	<u>5946</u>
APPLICATIONS OF FUNDS:		
Fixed Assets	4279	3600
Cash and Bank	707	684
Debtors	1914	1522
Stock	3560	3008
Other Current Assets	2000	1805
Less: Current Liabilities	(4844)	(4673)
	<u>7616</u>	<u>5946</u>

The Income statement of ALLIED LTD. for the year that ended is as follows:

Year ended March 31	(Amount in ₹ Lakh)	
	2014	2013
Sales	26718	16778
Less: Cost of Goods Sold	<u>25152</u>	<u>15173</u>
Gross Profit	1566	1605
Less: Selling, General & Administrative expenses	1242	782
Earnings before Interest & Tax (EBIT)	324	823
Less: Interest Expenses	256	246
Profit before Tax (PBT)	68	577
Less: Tax	28	230
Profit After Tax	41	347

Required:

(i) Calculate for the year 2013-14:

- Inventory Turnover Ratio
- Return on Net Worth
- ROI
- ROE
- Profitability Ratios
- Give brief comments on the financial position of company

(1+1+1+2+3+2)=10