FINAL EXAMINATION

June 2015

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.

This paper contains 3 questions, representing three separate sections.

All three questions are compulsory, subject to the specific instructions provided against each question.

All workings wherever necessary, must form a 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 (60 marks)

1. Answer the *four* questions. (carrying 15 marks each):

(a) (i) The following information is extracted from the Cost Accounting Records of RAYGOLD LTD. a Cement Company for the year ended March 31, 2015.

Production	96100 Tonnes
Norms for power consumption per tonne of cement	95 KWH
Total power generated/consumed:	
From the Electricity Board (EB) Grid.	52272540 KWH
From the Captive power plant.	62726720 KWH
From the Wind Mill (fed into the EB Grid and drawn at the factory site)	47044815 KWH
Cost of fuel consumed	₹ 11,39,26,234
Other operating costs of generating set.	₹ 2,84,81,558
Total operating cost of Wind Mill.	₹ 7,33,89,913

Note: The Electricity Board detects 10% of the Power fed into the Grid towards transmission losses.

Required:

As a Cost Auditor of the Company, How will you present the above data in the Annexure to the Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014? 4+2=6

(ii) MEGLOW TECHNO LTD. is a manufacturer of Ball and Roller bearings. In the Company four operations are carried on simultaneously in the manufacture of components.

The input/output data and Direct Wages Cost relating to the year 2014-15 for one component are as follows:

Opeations	Gross Input (Tonnes)	Scrap (Tonnes)	Direct Wages (₹)
PM	48000	8000	12,40,000
QN	50000	10000	12,50,000
RA	72000	12000	23,60,000
SB	55000	5000	32,70,000

Material is introduced at start of Operation PM at a cost of ₹ 6,000 per tonne. Scrap can be sold at ₹ 500 per tonne. Overheads are absorbed at 150% on Direct Wages.

You are appointed as a cost consultant of Meglow Techno Ltd. The company has not maintained cost records so far and seeks your advice in the matter.

Show your computation of the total cost per tonne of finished component so that the company can adopt the same in future. 7+2=9

(b) (i) 'Research and Development Costs shall include all the costs that are directly traceable to research and/or development activities'.

On what basis these costs can be assigned to Research and Development activities as per CAS-18?

Also state the constituent elements of such costs. 2+5=7

(ii) The extracts of Trial Balance of PANCHAL LTD. a manufacturing company pertaining to employees as on March 31,2015 are given below:

Particulars	Amount ₹
Debit	
Salaries Cost	25,45,785
Employees Training Cost	4,73,000
Employees Selection Expences	2,25,000
Perquisites To Employees	12,45,000
Contribution to Gratutity Fund	5,25,000
Lease rental for accomodation provided to employees	3,25,000
Festival Bonus	1,25,000
Unamortised amount of Employee Cost related to a discontinued operation	1,85,000
Employer's contribution to P.F. including Penalties ₹ 35,000	2,75,325
Free accomodation to own employees	
Depreciation	1,00,000

Municipal Tax	5,500
Maintenance	45,000
Credit	
Special subsidy received from Government towards employees salary	1,75,000
Recoverable amount from employee out of perquisites extended.	35,000

Required:

(1) Calculate the Employees cost for the year ended March 31, 2015—Keeping in view of cost Accounting Standard (CAS)–7.

(2) Specify the disclosures required. 6+2=8

(c) **(i)** What disclosures are required to be made in cost statement as per CAS–14 as regard to Pollution Control Cost? 5

(ii) The following particulars pertaining to product AZ are extracted from the record of SHINJIN LTD. for the half year ended March 31, 2015.

	Amount in ₹ Thousand
Direct Material Cost	827
Direct Wages and Salaries	200
Indirect Materials	75
Direct Expenses	100
Factory overheads	200
Administrative overheads (20% relating to production activities)	100
Quality Control Cost	25
Research and Development Cost	25
Selling and Distribution Expenses	15
Sale of Scrap realised	20
Material Cost includes Excise duty paid	27
Actual Profit Margin	15%

You are required to determine:

(1) the Cost of production for purpose of CAPTIVE CONSUMPTION in terms of Rule 8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000 and as per CAS–4 and

(2) Also Assessable value for the purpose of paying excise duty on Captive Consumption. 6+2=8

(iii) How will you treat an item of Direct Expenses that does not meet the test of materiality as per CAS–10? 2

(d) **(i)** What Constitutes the Cost Records under Rule 2(e) of the Companies (Cost Records and Audit) Rules, 2014? 4

(ii) You are the Cost Auditor of MERLIN TEXTILE MILLS LTD. for the year ended March 31, 2015.

The Company had a Strike from 16.09.2014 to 19.11.2014. Although the company resumed working from 20.11.2014 normal production was achieved only from 08.12.2014. The expenses incurred during the year ended March 31, 2015 were

	Amount in ₹ Lakh
Salaries and Wages (Direct)	1,800
Salaries and Wages (Indirect)	1,200
Power (Variable–90%)	600
Depreciation	1,080
Other fixed expenses	1,320
Repairs and Maintenance (Variable–80%)	600

Detailed examination of the records reveals that of the above, the following relate to the period 16.09.2014 to 19.11.2014.

	Amount in ₹ Lakh
Salaries and Wages (Direct)	Nil
Salaries and Wages (Indirect)	480
Depreciation (Non-productive)	300
Other fixed expenses	660
	1,440

Required:

Calculate the amount which in your opinion should be treated as abnormal for exclusion from the product costs. 7

(iii) How would you compute the Cost of Utilities as per CAS–8 in the following circumstances?

(A) Utilities generated for the purpose of Inter Company transfer.

(B) Utilities generated for the sale to outside parties. 2×2=4

(e) (i) Whether maintenance of Cost Accounting records and Cost Audit thereof under the Companies (Cost Records and Audit) Rules, 2014, subject to threshold limits prescribed, is applicable to products which are for 100% CAPTIVE CONSUMPTION? 5

(ii) The profit as per Cost Accounts of RUKMANI SUGAR MILLS LTD for the year ended March 31, 2015 was ₹ 1,30,46,200. In the course of Cost Audit, you come across the following differences between the Financial Accounts and Cost Accounts.

(A) Element of Profit on self-consumption of sugar included in Financial Accounts was ₹ 75,000.

(B) A sum of ₹ 32 Lakhs has been paid during the year towards Additional Sales Tax for previous years and included in current year Rates and Taxes.

(C) Income (dividend) from investment booked in Financial Accounts was ₹ 2,90,000.

(D) Loss on Sale of investments—₹ 6,000

(E) Profit on Sales of fixed Assets accounted in F/A was ₹ 6,25,000.

(F) A sum of ₹ 15,00,000 had been written off in the financial A/c as new Project development expenses.

(G) Major consumables written off in full in the Financial A/cs be treated as deferred revenue expenditure amortized over three years in the Cost Accounts full value of ₹ 24,00,000.

(H) Insurance claim relating to previous years received during the year ₹ 54,00,000.

(I) Loss from trading Activity ₹ 11,20,000.

(J) Voluntary Retirement Compensation included in Salary & Wages in F/A—26,50,000.

(K) Increase in value of work in-progress and finished goods inventory was as follows:

As per Financial Accounts	₹ 18,30,000
As per Cost Accounts	₹ 16,15,000

You are required to prepare a reconciliation statement between Profit figures as per Cost and Financial Accounts and

Also show the Profit as per Financial Accounts for the year ended March 31, 2015. 5+4+1=10

SECTION B (20 marks)

2. Answer *any two* questions (carrying 10 marks each):

(a) (i) What is the Role of Management with regard to Internal Control? 5

(ii) What are the quantities and functions of a Management Auditor? 5

(b) (i) Write short notes on Disclosure and Transparency of Corporate Governance. 5

(ii) What is Energy Audit?

Briefly state the Key-functions of Energy Auditor? 2+3=5

(c) As a Management Consultant, you have an assignment to conduct a Management Audit of the production function of a Medium-Scale Engineering Unit.

Prepare a check list of the points on which you should undertake the study.

1+1+1+1+(½×12)=10

SECTION C (20 marks)

3. Answer *any two* questions (carrying 10 marks each):

(a) The Balance Sheet of MOUNTHILL LTD. for the last two years stood as follows:

(Amount in ₹ Lakh)

As on March 31,		2015	2014
*Sources of **Fund***			
Share Capital (Share of ₹ 10 each)		3,000	3,000
Reserves and Surplus		1,392	1,200
Loans		1,200	1,440
	Total	5,592	5,640
Represented by:			
Fixed Assets		4,800	3,600
Less: Depreciation		1,680	1,200
		3,120	2,400
Investment		480	360
	(A)	3,600	2,760

Net Current Assets:			
Current Assets:			
Stock		1,440	1,200
Debtors		840	600
Cash and Bank		240	240
Other Current assets		300	300
		2,820	2,340
Less: Current Liabilities		1,548	300
	(B)	1,272	2,040
Miscellaneous Expenditure	(C)	720	840
	Total (A+B+C)	5,592	5,640

You are giving the following additonal information for the year 2014-15:

	(Amount in ₹ Lakh)
Sales	7,200
Profit before Interest and Tax	1,800
Interest	288
Provision for Tax	720
Proposed Dividend	600

Required:

(i) Calculate for the year 2014-15:

(A) Return on Capital Employed

(B) Stock Turnover Ratio

(C) Return on Net-worth

(D) Current Ratio

(E) Proprietory Ratio

(ii) Give a brief comment on the financial position of Mounthill Ltd. 10

(b) The following parameters are extracted from the records of PHIMPEX TECHNO LTD. a cement manufacturing company for the year that ended as follows:

Year ended March 31,	2015	2014
Rated capacity (per HR)	90 Tonne	90 Tonne
Installed capacity per Annum (in Tonnes)	4,50,000	4,50,000
Capacity Utilization	62.80%	84.28%
(A) Plant Stoppage (Hours)		
1. Breakdown (Hrs.)	2,435	1,135
2. Planned Maintenance (Hrs.)	277	472
3. Power Restriction (Hrs.)	1,384	1,656
4. Stoppage (There are no orders) (Hrs.)	884	757

	5. Want of wagon (Hrs.)	554	710
	6. Total stoppage (Hrs.)	5,534	4,730
(B)	1. Total Running (Hrs.)	4,348	5,125
	2. Total available (Hrs.)	9,882	9,855
	3. Production during the year (in Tonnes)	282620	379250
	4. Hourly Rate of Production (in Tonnes)	65	74

Based on the information Stated Supra, you, as a Cost Auditor are required to offer your Comments on

(i) The performance of the company

(ii) Your suggestions for improvement. 8+2=10

(c) The following parameters are extracted from the Cost Accounting Records of ADRIJA LTD, a single product manufacturing company.

Year ended 31st March	2015	2014
	(Amount in ₹ Lakh)	
Gross Sales including Excise duty	5,712	5,558
Excise duty	826	784
Raw materials consumed	3,192	2,968
Direct wages	98	90
Power and fuel	84	76
Stores and spares	16	14
Depreciation charged to production cost centres	44	42
Factory Overheads:		
Salaries and Wages	14	12
Depreciation	6	6
Rates and Taxes	2	2
Other overheads	16	14
Administrative Overheads:		
Salaries and Wages	28	26
Rates and Taxes	6	6
Other Overheads	462	432
Selling and Distribution Overheads:		
Salaries and Wages	20	16
Packing and Forwarding	16	16
Depreciation	2	2
Other Overheads	348	330
Interest	238	208
Bonus and Gratuity	34	28

You are required to compute the following RATIOS as stipulated in PART-D, PARA-4 to the Annexure of Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2015 and March 31, 2014.

(i) Profit before Tax (PBT) to Value Added.

(ii) Value Added to Net Revenue from Operations.

(iii) Profit before Tax (PBT) to Net Revenue from operations. 4+3+(1×3)=10