

FINAL EXAMINATION

June 2016.

*P-19(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.

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

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

All workings 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)

Answer the following Questions:

1. (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.
 - (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.

Please Turn Over

- (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?

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. 6
- (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

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-I	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

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? 6
- (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
: Finished Goods	89320	80450
Urea & Transport subsidy	348	
Expenses on CSR	56	
Profit on sale of Fixed Assets	150	
Chemicals used internally	382	365
Favourable Exch. Rate variation	294	
Post-retirement Medical grant	584	
Purchase Tax Refund	453	
Litigation Recovery-Prior year	125	

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

5. PHIMPEX LTD. in the business of Real Estate and Consumer Goods shows the following financial position for the year ending March 31, 2016:

(Amount in ₹ crore)

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

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, PARA-4 to Annexure of cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended 31st 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

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? 2×3=6
- Pollution Control Jobs carried out by outside contractors.
 - Pollution control Jobs carried out by contractor at its premises.
 - Pollution Control activity carried out by outside contractors inside the entity.
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. 10
- (b) The particulars of a Supervisory employee of MAHAVINA LTD., a manufacturing company show the annual expenses as follows:
- Basic pay including Industrial D.A. ₹ 7,00,000
 - Lease rent paid for accommodation provided to the employee ₹ 2,40,000
 - Amount recovered from employee ₹ 60,000
 - Employer's contribution to P.F. ₹ 56,000
 - Employee's contribution to P.F. ₹ 56,000
 - Reimbursement of medical expenses ₹ 67,000
 - Hospitalization expenses including Group Medical Insurance borne by the employer ₹ 19,000
 - Annual Bonus ₹ 30,000
 - Festival Advance ₹ 30,000
 - 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. reimbursed to the Trust.
 - 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

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