

## FINAL EXAMINATION

December 2017

P-19(CMAD)  
Syllabus 2016

### Cost and Management Audit

Time Allowed: 3 Hours

Full Marks: 100

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

Answer Question No. 1 which is compulsory and carries 20 marks and  
any five questions from Question Nos. 2 to 8.

#### Section-A (20 Marks)

1. Choose the correct answer with short justification/working. (1 mark for correct choice and 1 mark for justification/working) 2×10=20

- (i) The Cost Accounting Standard 15 is a Cost Accounting Standard on \_\_\_\_\_.
- (a) Employee Cost
  - (b) Utilities Cost
  - (c) Pollution Control Cost
  - (d) Selling and Distribution Overheads Cost
- (ii) Overall Objectives of the independent Cost Auditor and conduct of an Audit in accordance with Cost Auditing Standard is dealt in \_\_\_\_\_.
- (a) Cost Auditing Standard 101
  - (b) Cost Auditing Standard 102
  - (c) Cost Auditing Standard 103
  - (d) Cost Auditing Standard 104
- (iii) A company, engaged in construction business, is covered under the Companies (Cost Records and Audit) Rules, 2014 but does not include \_\_\_\_\_.
- (a) outsourcing by a sub-contracting company
  - (b) a company working on BOT (Build, Operate, Transfer) mode
  - (c) a company working in a Special Economic Zone
  - (d) a project undertaken as EPC (Eng., Procurement, Constn.) contract
- (iv) A manufacturing unit showed, during the Financial Year 2016-17, the following financial data (in ₹ lakh): Net Sales 1,250, Export Incentives 85, Other income 106, Adj. of Finished Stock (+) 95, Materials 634, Salaries 425, Overheads 101.8, and Tax 52.6. The Value Added as per Rules is (in ₹ lakh) \_\_\_\_\_.
- (a) 946
  - (b) 796
  - (c) 755
  - (d) 688

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- (v) Royalty paid on production ₹ 35,000, Job Charges ₹ 20,000, Special Design Charges ₹ 20,000, Software Development Charges related to Production ₹ 27,000, and Travelling abroad for Training ₹ 25,000 The Direct Expenses as per CAS 10 is ₹ \_\_\_\_\_.
- (a) 92,000
  - (b) 1,00,000
  - (c) 1,02,000
  - (d) 1,27,000
- (vi) Operational Audit can lead to better management with the focus on \_\_\_\_\_.
- (a) Transaction-based analysis for Fraud Prevention
  - (b) Compliance of Rules
  - (c) Risk Identification, Process Improvement
  - (d) Budget Monitoring
- (vii) Penalty paid to PF authorities is \_\_\_\_\_ in Employee Cost.
- (a) included
  - (b) excluded
  - (c) based on individual case
  - (d) partly included
- (viii) Item appearing only in Cost Records is \_\_\_\_\_.
- (a) Profit on Sale of Assets
  - (b) Interest Received
  - (c) Loss on Sale of Assets
  - (d) Notional Interest on Capital
- (ix) \_\_\_\_\_ Analysis is evaluation of every resources declared in the industry.
- (a) Capacity
  - (b) Energy
  - (c) Productivity
  - (d) Efficiency
- (x) Which one of the following is not a professional misconduct in relation to Cost Accountants in Practice as per the Second Schedule of The CWA Act, 1959?
- (a) He/she fails to invite attention to any material departure from the generally accepted procedure of costing and pricing applicable to the circumstances.
  - (b) He/she does not exercise due diligence or is grossly negligent in the conduct of his/her professional duties.
  - (c) He/she fails to report a material misstatement known to him/her to appear in a cost or pricing statement with which he/she is concerned in a professional capacity.
  - (d) In the opinion of the Council, he/she brings disrepute to the Profession or the Institute as a result of his/her action whether or not related to his/her professional work.

**Section-B (80 Marks)**

2. (a) (i) What are 'Books of Accounts' as per the Companies Act, 2013? Do 'Cost Records' become part of Books of Accounts?
- (ii) Is maintenance of Cost Accounting Records mandatory for a multi-product company where all the products are not covered under the Rules, even if the turnover of the individual products, which are covered under the Rules, is less than rupees thirty five crore? 4+4=8
- (b) (i) Mr. X, the Cost Auditor of a company, contributes articles in various papers or journals, discussing matters of professional interest. In the course of such discussion, he mentions various data which include some vital, but unpublished, data relating to his client company without its tacit approval. State whether there is punishment, if any, of the Cost Auditor for such contravention.
- (ii) A member of the Institute, whether in practice or not, is liable for disciplinary action if he/she is found guilty of professional and other misconduct. Explain the term 'other misconduct.' 4+4=8
3. (a) (i) How would you treat the following as per the CAS 7 related to Employee Cost?
- I. Separation Cost due to voluntary retirement, retrenchment termination, etc.
- II. Idle Time Cost
- (ii) Find the Employee Cost of a company for the year 2016-17 as per the CAS 7 from the following figures:

Particulars	(₹ lakh)
Salaries, wages, allowances and bonus	950
Wage award arrears for the previous year	85
Contribution to provident and other funds	188
Employee welfare	56
Abnormal Idle Labour cost due to strike	95
Wages of contractual labour	125
VRS payment for the year	66

4+4=8

- (b) The following particulars pertaining to production of yarn are extracted from the records of Balarampur Textiles Ltd. for the year ended March 31, 2017:

Particulars	₹ '000
Direct Material Cost per unit inclusive of Excise Duty ₹ 280 thousand	2,560
Direct Wages & Salaries	1,540
Direct Expenses	450
Indirect Materials	533
Factory Overheads	897
Administrative Overheads (40% relating to Production activities)	1,250
Quality Control Cost	565
Research and Development Cost	600
Interest on Working Capital	350
Sale of Scrap Realised	460

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

4. (a) A company manufacturing various packing ingredients is not covered under the Companies (Cost Records and Audit) Rules, 2014. The Managing Director of the company wants to introduce costing system and wants your advice for coverage of various areas of Management Accounting Control. Discuss. 8
- (b) What do you mean by 'Productivity Audit'? Mention some major ratios which are used for measuring productive efficiency. 8
5. (a) (i) State which one of the following companies is required to appoint Internal Auditor as per the Companies Act, 2013, and the Rules made thereunder:

Figures are in ₹ crore and correspond to the previous year.

Name	Nature	Equity Capital	Turnover	Loan from Bank/PFI	Public Deposit
LMN Ltd.	LISTED	100	190	50	24
PQR Ltd.	UNLISTED PUBLIC	60	190	50	24
XYZ Ltd.	UNLISTED PRIVATE	60	190	50	-

- (ii) Can the Chief Cost Accounts Officer of the company be given additional charge as Internal Auditor? 6+2=8
- (b) You are the Internal Auditor of Atlas Manufacturing Ltd. The Audit Committee desires to enquire into the cause of abnormal rise in raw materials costs during the previous month when there was no significant change in the production programme. How will you proceed? 8
6. (a) The following are the summarised Balance Sheet and Income Statement of Ambica Cement Co. Ltd. which is selling Cement & Clinkers. The Management wants to know how its financial leverage appears *vis-à-vis* the norm of the industry.

Income Statement for the year ended 31.03.2017 (in ₹ '000)

Sales	9,800
Cost of Goods Sold	7,460
Less: Administrations & Selling Overheads	750
Interest	280
Tax	330
Earnings after Tax	980

Balance Sheet as on 31.03.2017 (in ₹ '000)

Equity & Liabilities		Assets	
Share Capital	1,500	Net Fixed Assets	6,550
Reserves, Retained Earnings	3,700	<b>Current Assets</b>	
Loan from IDBI	1,800	Inventory	1,600
Short-term Loan	1,200	Trade Receivables	1,100
Trade Payables	1,100	Cash	800
Other Current Liabilities	750		
	<b>10,050</b>		<b>10,050</b>

- (b) A unit generates bio-gas out of the waste of industrial alcohol. The unit generates power from diesel oil and, in addition, the said bio-gas so generated is used as a fuel in generating steam for power. 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 the cost accounting records of the unit for the year ending 31.03.2017:

	Boiler (₹)	Steam Turbine (₹)
Cost of Water	13,10,000	
Fuel Oil	11,50,05,800	
Bio-gas Plant expenses	3,20,60,500	
Stores and Chemicals	3,10,000	79,200
Salaries and Wages	37,10,000	8,79,600
Repairs and Maintenance	75,15,400	3,09,600
Depreciation	21,56,250	7,80,000
Other expenses	48,95,500	1,45,200
High Pressure Steam generated (mt.)	43,690	
Power generated (kWh.)		30,60,500

**Note:** The fall in the Enthalpy value of the steam is 8%. 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, 2017.

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7. (a) Southern Auto Components Ltd. has received an enquiry for supply of 2,50,000 numbers of special type of auto components. The Company can execute the assignment provided a capital investment of ₹ 3,00,000 and working capital to the extent of 3 months' cost of sales are made available. The costs estimated are as follows:

Raw Materials - @ ₹ 3.25 per unit

Direct Labour Hours - 8,000

Labour Rate - ₹ 4.50 per hour

Factory Overheads - ₹ 4 per direct labour hour

Selling and Distribution expenses - ₹ 30,000

Borrowed funds will be available @ 11.5% on additional capital outlay. The company expects a net Return of 25% on Sales. The Managing Director wants a Cost and Price statement, indicating the price which should be quoted to the customer.

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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 31.03.2017 (₹ in lakh):

Sales		13,540
Cost of Sales: Raw Materials, Stores, Spares	5,600	
Excise Duty	830	
Salaries, Wages	1,400	
Power and Fuel	470	
Repairs: Major Breakdown	35	
Regular Maintenance	94	
Selling and Distribution Cost	1,040	
Insurance	56	
Rent, Rates and Taxes	97	
Printing, Stationery, etc.	437	
Travelling	776	
Other Administrative expenses	426	
Depreciation	391	
Interest	1,494	
Total expenses		13,146
Profit		394

There was a major breakdown of machinery, resulting in loss of production for 42 days in June and July, 2016 and there was a labour strike of 97 days from 14.02.2017 to 21.05.2017. The company produced a single product (Steel-Billet) and the production during the year was 9,42,000 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?

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8. Answer any four.

4×4=16

- (a) How to treat Inward Transportation Cost as per the Cost Accounting Standard 5? How Transportation Cost is to be determined in case the manufacturer is having its own transport fleet?
- (b) Write a short note on the role of Internal Auditor of a company to review Custodianship and Safeguarding of Assets.

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- (c) A company is facing problem in satisfying customers' orders leading to backlog of supply position. How to identify the problem by means of Operational Audit? 4
- (d) From the following information, find the Economic Value Added (EVA) of a company for the previous year 2016-17:

Particulars	Amount (₹ '000)
Value added as per the Annexure to the Cost Audit Report-Part D	30,00,000
Distribution of Earning to Wages	12,50,000
Interest	3,30,000
Dividend @ 12%	3,60,000
Taxes	3,50,000
Capital Employed (as in the Cost Audit Report)	65,00,000

The Dividend at 12% of paid up capital is normal as per the market norms for the industry.

Taxes and all expenses are considered on cash basis.

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- (e) From the following figures of Systematics Polytex Ltd., compute the landed cost of Egyptian Cotton for the year 2016-2017:

Particulars	Amount
Materials	\$ 35,000
Import Duty	₹ 3,35,000
Freight Inward	₹ 1,62,000
Insurance of Import by sea	₹ 48,000
Cash Discount	₹ 33,000
Bank Interest for Import Credit	₹ 15,000
CENVAT Credit refundable	₹ 37,000
Weight Reduction due to Moisture Loss	0.6%

Parity value of US \$ :

On the date of Contract ₹ 64.40

On the date of Import ₹ 64.60

On the date of Payment ₹ 65.20

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