

FINAL EXAMINATION

June 2018

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) In which CRA Form, is the Cost Audit Report of a company filed with the Central Government?
- (a) CRA – 4
 - (b) CRA – 3
 - (c) CRA – 1
 - (d) CRA – 2
- (ii) CAS 23 deals with
- (a) Quality Control
 - (b) Manufacturing Cost
 - (c) Overburden Removal Cost
 - (d) Treatment of Revenue in Cost Statements
- (iii) As per the Cost Auditing Standard 101, the risk of Material Misstatements has two components, viz.,
- (a) Inherent Risk and Control Risk
 - (b) Detection Risk and Audit Risk
 - (c) Material Risk and Implicit Risk
 - (d) Financial Risk and Explicit Risk

Please Turn Over

- (iv) As per Part D, Para 4 of the Companies (Cost Records and Audit) Rules, 2014, Value Addition and Distribution of Earnings are to be computed based on
- (a) Audited Financial Data
 - (b) Cost Record Data
 - (c) Unaudited Financial Data
 - (d) Both (a) and (b)
- (v) The audit of data or information, depicting social performance of a business in contrast to its normal economic performance as measured in financial audit, is
- (a) Energy Audit
 - (b) Efficiency Audit
 - (c) Social Audit
 - (d) Propriety Audit
- (vi) The figures below are available for Good Luck Limited.
Budgeted Production – 900 units, Standard Hours per unit – 10, Actual Production – 720 units and Actual Working – 6000 hours. What is the Efficiency Ratio?
- (a) 110%
 - (b) 120%
 - (c) 100%
 - (d) 125%
- (vii) Which of the following is not a Professional Misconduct as per the First Schedule of The CWA Act, 1959, in relation to the Cost Accountants in Practice?
- (a) Pays or allows or agrees to pay or allow, directly or indirectly, any share, commission or brokerage in the fees or profits of his/her professional work, to any person other than a member of the Institute or a partner or a retired partner or the legal representative of a deceased partner.
 - (b) Enters into a partnership, in or outside India, with any person other than a Cost Accountant in Practice or such other person who is a member of any other professional body having such qualifications as may be prescribed.
 - (c) Advertises his/her professional attainments or services or uses any designation or expression other than Cost Accountant on professional documents, visiting cards, letter heads or sign boards, unless it is a degree of a University established by law in India or recognised by the Central Government or a title indicating membership of

The ICAI or any other institution that has been recognised by the Central Government or may be recognised by the Council.

- (d) Expresses his/her opinion on cost or pricing statements of any business or enterprise in which, he/she, his/her firm or a partner in his/her firm has substantial interest.
- (viii) Remuneration of the Non-Executive Directors is treated as
 - (a) Employee Costs
 - (b) Administrative Overheads
 - (c) Salaries and Wages
 - (d) Management Expenses
- (ix) The process of determining the elements which correspond to the lines and the columns in a financial statement and the elements which must be created by extension is called as
 - (a) Mapping
 - (b) Name
 - (c) Concept
 - (d) Scaling
- (x) As per the CAS 23, the activity of Overburden Removal that benefits the identified component of an ore to be mined by the entity is called as
 - (a) Mining Activity
 - (b) Overburden Removal
 - (c) Stripping Activity
 - (d) Advance Stripping

Section-B (80 Marks)

2. (a) (i) A Company meets the threshold limits for both maintenance of Cost Records and Cost Audit in 2015-16 and, consequently, comes under the purview of the Rules in the year 2016-17. If the turnover of the company gets reduced to lower than the prescribed threshold limit in 2016-17, state whether the Rules relating to Cost Records and Cost Audit will be applicable for the year 2017-18?

(ii) What would be the treatment of cost of consumption of electricity from a captive generating plant and the applicability of Cost Audit to such captive generating plants?

4+4=8

(b) Explain whether the following activities amount to Professional Misconduct on the part of a Cost Accountant:

(i) Mr. Arun, a CMA , is working as Manager–Cost Accounts of PQR Ltd. He accepts 10% of profits from his friend, Mr. Raju, a lawyer and a legal consultant for PQR Ltd. He is doing the job on retainership basis.

(ii) Mr. S, a CMA in Practice, certifies a cost and pricing statement of manufacturing of pipes for the supply relating to a contract. The statement is prepared by Mr. T, who is not a CMA or an employee of Mr. S.

4+4=8

3. (a) As the per CAS – 21, explain

(i) Quality Control.

(ii) treatment of Quality Control Costs.

2+6=8

(b) ABC company is manufacturing Building Bricks and Fire Bricks. Both the products required two processes: Brick Forming and Heat Treating.

Time requirements for the two bricks	Building Bricks	Fire Bricks
Forming per 100 bricks	4 Hrs.	3 Hrs.
Heat Treatment per 100 bricks	3Hrs.	6 Hrs.

Total Cost of the two departments in one month

Forming ₹ 40,000

Heat Treatment ₹ 90,000

Production during the month

Building Bricks 1,40,000 Nos.

Fire Bricks 80,000 Nos.

Prepare a Statement of Manufacturing Cost for the two varieties of Brick.

4. (a) (i) What do you mean by Key Performance Indicators (KPIs)? What are the Key Performance Indicators for a company?
(ii) What are the additional references for a Cost Auditor available for Management Reporting? 4+4=8
- (b) Explain Corporate Development Audit. Prepare a checklist for various areas of Corporate Development, which may be helpful in appraising the structural aspect of a corporation. 8
5. (a) Prepare an Internal Control Questionnaire relating to Inventory. 8
(b) What are the important points to be considered for conducting Audit of a Hospital? 8
6. (a) The financial statements of PQR Ltd. contain the information given below for the years ended on 31st March, 2017 and 31st March, 2018.

Particulars	31.03.2017	31.03.2018
	₹	₹
Cash	1,50,000	1,75,000
Sundry Debtors	4,20,000	4,50,000
Short-term Investment	3,35,000	3,75,000
Stock	21,72,000	22,80,000
Prepaid Expenses	15,000	22,000
Total Current Assets	30,92,000	33,02,000
Current Liabilities	10,50,000	12,72,000
10% Debentures	18,00,000	18,00,000
Equity Share Capital	25,00,000	25,00,000
Retained Earnings	9,00,000	10,00,000

Statement of Net Profits for the years ended on 31st March, 2017 and 31 March, 2018.

Particulars	31.03.2017	31.03.2018
Sales (20% cash sales)	48,00,000	51,60,000
Less : Cost of Goods Sold	33,60,000	36,12,000
Profits before Interest and Tax	14,40,000	15,48,000
Less : Interest	1,80,000	1,80,000
Profits before Tax	12,60,000	13,68,000
Less: Tax @ 30%	3,78,000	4,10,400
Profits after Tax	8,82,000	9,57,600

You are required to calculate the following for the years ending 31.03.2017 and 31.03.2018:

- (i) Quick Ratio
- (ii) Current Ratio
- (iii) Debt-Equity Ratio
- (iv) Return on Capital Employed
- (v) Average Collection period (assuming 360 days a year)

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(b) The following are the process-wise wastages on inputs in a Spinning Mill in the year 2017-18:

Process	% of Wastages on Input
Blow Room	9.13
Carding	7.14
Drawing	1.20
Roving (Simplex)	0.25
Ring Frame (Spinning)	7.11
Reeling and Winding	1.35

From the above, calculate the process-wise Waste Multiplier Factor.

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7. (a) ABC Ltd. is engaged in the manufacture of an electronic gadget. It produces 30,000 gadgets per annum. The company also manufactures the component needed for gadgets – 30,000 units of component.

The departmental expenses per annum are as follows:

	₹
Direct Material	39,60,000
Direct Labour	14,48,000
Indirect Labour	8,40,000
Inspection and Testing	4,70,000
Lighting	45,000
Power	4,90,000
Insurance	30,000
Depreciation (fixed)	98,000
Miscellaneous Fixed Expenses	56,000

If the company stops manufacturing the components and buys the same from market, the saving in the departmental budget will be as under.

Direct Material	20%
Direct Labour	25%
Indirect Labour	20%
Inspection and testing	25%
Power	25%

The purchase price of each component is ₹ 60.

Required :

- State whether the company should make or buy the component.
- The company has received an export order of 15000 units of the electronic gadget at a price of ₹ 270 each. If the offer is accepted by the company, the capacity will be fully utilised and the component will have to be purchased. Should the company then make or buy the component?

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(b) The following data are available for Limelight Limited:

Particulars	2015-16	2016-17	2017-18
Installed Capacity (tonnes)	320	320	320
Production (tonnes)	310	300	160
Cost Per tonne (₹)	1,000	1,070	1,641

The poor capacity utilisation in 2017-18 was due to abnormal power cut. The escalation in costs were 5% in 2016-17 and 7% in 2017-18 (based on 2015-16).

Required:

- Calculate the abnormal costs due to power cut.
- How would you treat the Abnormal Cost?

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8. Answer any four.

- As per the CAS-12, how should high value spare, when replaced by a new spare and reconditioned, be treated? 4
- What do you mean by Internal Check? Is it different from Internal Audit? Explain. 4
- Explain the Adequacy of Budgetary Control System. 4
- PQR Ltd. has received an enquiry for supply of 2,50,000 special type of machine parts. Capacity exists for manufacture of the machine parts but a fixed investment of ₹ 1,20,000 and working capital to the extent of 25% of sales value will be required to undertake the job.

The cost estimated is as follows:

Raw Materials – 25000 kgs. at ₹ 3.00 per kg.

Labour Hours – 10000 hrs. of which 1500 would be overtime hours payable at double the labour rate.

Labour Rate – ₹ 3 per hour

Factory overheads – ₹ 3.50 per direct labour hour

Selling and Distribution overheads – ₹ 32,000

Materials recovered at the end of the operation will be ₹ 10,000 (estimated).

The company expects a net return of 25% on capital employed.

You are the Management Accountant of the company. The Managing Director requests you to prepare a cost and price statement, indicating the price which should be quoted to the customer.

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- (e) The following figures are taken from the accounts of Best Ltd. for the year ended on 31.03.2018:

Particulars	₹ (in lakh)
Gross Fixed Assets	5,600
Cumulative Depreciation	1,300
Investment in Shares and Debentures	650
Inventories	545
Sundry Debtors	347
Advances for Purchase of Capital Equipment	38
Other Loans and Advances	72
Other Current Assets	37
Sundry Creditors	229
Provision for Expenses	34
Net Sales	4,152
Depreciation	54
Interest	704
Profits before Tax	318

Compute the following under the Companies (Cost Records and Audit) Rules:

- Profit as a percentage of capital Employed
- Profit as a percentage of Net Sales