

MTP_Final_Syllabus 2008_Jun2014_Set 2

Paper-17 - COST AUDIT & OPERATIONAL AUDIT

Time allowed-3 hrs.

Full Marks: 100

Section I (50 Marks) (Cost Audit)

Answer Question No. 1 (carrying 14 marks) which is compulsory and answer any two (carrying 18 marks each) from the rest in this Section.

Working Notes should form part of the answer.

“Wherever necessary, suitable assumptions should be made and indicated in answer by the candidates”

1.(a) State whether the following statements based on the quoted terms are “TRUE” or “FALSE” with justifications for your answer. No credit will be given for any answer without justifications.

[5×1=5]

- (i) Cost Audit is synonymous with efficiency audit.
- (ii) Cost Audit Order is product specific.
- (iii) Goodwill is to be deducted while computing Net Worth of the Company.
- (iv) Donations given to Charitable Institutions should not form part of Cost Accounts.
- (v) CAS 9 deals with indirect material cost.

(b) Choose the most correct answer among four alternatives:

[5×1=5]

- (i) A Cost Auditor should 'qualify' the Cost Audit Report where:
 - A. He is unable to form an opinion due to non availability of appropriate records/data.
 - B. He finds that items in the cost statements are mistated.
 - C. None of the above.
 - D. Both of the above.

(ii) CAS 11 deals in :

- A. Administrative Overheads.
- B. Factory Overheads.
- C. Selling and Distribution Overheads.
- D. Financial Costs.

(iii) According to CAS 2 on Capacity Determination , 'Normal Capacity' is :

- A. Practical capacity minus the loss of productive capacity due to external factors.
- B. Difference between installed capacity and the actual capacity utilization.
- C. Maximum productive capacity of a plant.
- D. Installed capacity minus the inevitable interruptions.

(iv) Each major materials for which details to be furnished as per Annexure to the Cost Audit Report Rules should constitute

- A. 10% of the raw material cost
- B. 2% of the raw material cost
- C. 5% of the raw material cost
- D. 1% of the raw material cost

(v) 'significant influence' means:

- A. Participation in the financial policy decisions and control but not operating policy decisions and control of an enterprise.
- B. Participation in the financial or operating policy decisions of an enterprise and control over those policies.

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- C. Participation in the financial or operating policy decisions of an enterprise but not control over those policies.
 D. None of the above.

(c) Fill in the blanks: [1x4]

- (i) The ceiling on number of Cost Audits to be undertaken by a Cost Auditor is laid down in Section ----- of Companies Act, 1956.
 (ii) Cost Audit was initially introduced in the year-----.
 (iii) Each Cost Accounting Record rule is given a ----- number and date of publication in the Gazette.
 (iv) According to CAS 8 on Utilities the cost of maintaining stand-by utilities is -----
 - cost.

2. (a) Explain the term 'full time employment' in respect to disqualifications of Cost Auditor. [5]

(b) Under what conditions can a firm of Cost Accountants be appointed as Cost Auditors? [4]

(c) What is the relevance of Cost Audit in India. [9]

3. (a) How do you define a Service Cost Centre according to CAS-13? [2]

(b) How is Cost Computed of Services in the following cases as per CAS-13?

- (i) In-house
 (ii) By Contractor [2+2=4]

(c) ASHLEEN SUGAR MILLS LTD., a sugar manufacturing company, located at Uttar Pradesh has a boiler which is used for its own by-product, bagases as fuel. The steam generated is first used for generation of power and the exhaust steam is used in the process of sugar manufacture. The following details are extracted from the financial accounts and cost accounting records of ASHLEEN SUGAR MILLS LTD for the year ended March 31,2013:

Sugar produced	28,70,000 Quintals
Steam generated and consumed	14,65,000 Tonnes
Fuel (Bagases) consumed for production of steam	6,85,000 Tonnes
Cost of generation of steam including cost of water (other than fuel cost)	₹ 6,45,30,000
Steam used for generation of power	6,20,000 Tonnes
Power purchased from Electricity Board @ ₹ 5.40 per KWH	52,70,000 KWH
Power generated from Steam Turbine	4,85,25,000 KWH
Variable conversion cost of generation of power(excluding cost of steam)	₹ 4,22,18,000

Notes: (1) The Sale Value of bagasse if sold in the open market is ₹ 1,820 per Tonne.

(2) The exhaust steam (after generation of power) transferred to sugar manufacturing process is 82% of the cost of production of steam.

Required:

- (i) Prepare two separate Cost Sheet (i) for steam and power.
 (ii) Compute the average Cost of Power. [5+4+3=12]

4. (a) Who can authenticate the Compliance Report as per the Companies (Cost Accounting Records) Rules,2011? [4]

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(b) Write a note on 'Social objectives' of Cost Audit. [5]

(c) Opening stock of raw materials (10,000 units) ₹ 1,80,000; Purchase of Raw Materials (35,000 units) ₹ 7,00,000; Closing Stock of Raw Materials 7,000 units; Freight Inward ₹ 85,000; Self-manufactured packing material for purchased raw materials only ₹ 60,000 (including share of administrative overheads related to marketing sales ₹ 8,000); Demurrage charges levied by transporter for delay in collection ₹ 11,000; Normal Loss due to shrinkage 1% of materials ; Abnormal Loss due to absorption of moisture before receipt of materials 100 units. [9]

Section II (50 Marks) (Operational Audit)

**Answer Question No. 5 (carrying 14 marks) which is compulsory and
Answer any two (carrying 18 marks each) from the rest in this Section.**

5. (a) State whether the following statements are TRUE or FALSE with justification for your answer. No credit will be given for merely answering TRUE or FALSE — without giving any justification/reasoning : [1×4=4]

- (i) Dumping is an 'illegal' practice.
- (ii) Productivity is defined as ratio of production and sales.
- (iii) There are no fixed items of evidence to be checked by Management Auditor.
- (iv) Three-fourths of the members of the Audit Committee shall be independent directors.

(b) What do the following abbreviations stand for? [1×5=5]

- (i) OECD;
- (ii) MTA;
- (iii) TPRM;
- (iv) CFC;
- (v) TPRB.

(c) Fill in the blanks in the following sentences by using appropriate word(s)/ phrase (s) number(s) : [1×5=5]

- (i) _____ is the evaluation of every resources declared in the industry.
- (ii) Management Audit can be a _____ for managerial control and reduction of cost.
- (iii) _____ Audits are concerned with objectives of efficiency and effectiveness.
- (iv) _____ services have been defined as independent professional services that improve the quality of information for decision makers.
- (v) _____ is a movement protecting interest of the consumers.

6. (a) You are required to look into, as a Management Auditor, the production functions of a manufacturing units. How would you proceed and what areas would look into. [8]

(b) In the conducting of a Management Audit, a controversy often arises on identifying the criteria or standards against which performance should be judged. Discuss. [6]

(c) Write a short note on Professional Ethics. [4]

7. (a) "Operating auditing is an extension of internal audit in operational areas, but with different approach".

Examine this statement in the light of the objectives of operational audit.

[6]

- (b) What do you mean by the term "Due Diligence"? What are the areas Due Diligence ought to investigate?

[3+5=8]

- (c) Explain whether the following activities amount to professional misconduct on the part of a Cost Accountant:

[2x2=4]

(i) CMA Mitra, a Cost Accountant in practice published a book and gave her personal as an author. These details also mentioned her professional experiences and her association as partner with MKR and Associates, a firm of Cost Accountants.

(ii) M/s. K. Bhatt & Associates, a firm of Cost Accountants in practice, develops a website "bhatt.com". The colour chosen for website was very bright yellow where the names of the partners of the firm along with their various professional attainments and the major clients were to be displayed on the website.

8. Write a short note on any three of the following:

[6x3=18]

- (a) Functions of the WTO
- (b) Environmental Pollution
- (c) SWOT Analysis
- (d) Productivity audit