

Paper-17 - Cost Audit & Operational Audit

Time allowed-3hrs

Full Marks: 100

Working Notes should form part of the answer.

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

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.

(1)(a) Choose the most correct answer among four alternative statements: [8×1=8]

(i) Joint costs are allocated:

- (a) Based on a measure of the number of units, weight, or volume of the joint products.
- (b) Based on the values attributed to the joint products.
- (c) (a) and (b).
- (d) None of the above.

(ii) CAS 6 deals with the following issues:

- (a) Principle of Valuation of receipt of materials.
- (b) Principle of Valuation of issue of materials.
- (c) Assignment of material cost to cost objects.
- (d) All of the above.

(iii) Part D, Para 4 of the Cost Audit Report deals with:

- (a) Product group details.
- (b) Quantitative information of each product group separately.
- (c) Financial Position and ratio analysis (for the company as a whole).
- (d) Abridged cost statement for each product group separately.

(iv) The Cost Accounting Standard which deals with the principles and methods of classification, measurement and assignment of Direct Expenses, for determination of the cost of product or service, and the presentation and disclosure in cost statements, is:

- (a) CAS-6;
- (b) CAS-10;
- (c) CAS-11;
- (d) CAS-9.

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(v) The Cost Audit and Assurance Standard which deals with Planning an Audit of Cost Statements, is:

- a. CAAS-101;
- b. CAAS-102;
- c. CAAS-103;
- d. CAAS-104.

(vi) As per ----- Outward Transportation Cost shall form part of cost of sales. (Fill in the gap from the below)

- a. CAS-5
- b. CAS-6
- c. CAS-9
- d. CAS-10

(vii) Profit Reconciliation under Part D, Para 2 of the Cost Audit Report to be furnished for:

- a. Last year only;
- b. Previous three years;
- c. Current year and previous 2 years;
- d. Current year and previous year.

(viii) The main purpose of 'efficiency Audit' is to ensure that -

- a. Every rupee invested gives optimum returns
- b. Planned expenditure gives optimum returns
- c. Various policies of management are implemented
- d. Activities of business are beneficial to Society at large

(b) 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: [6×1=6]

- (i)** Dumping is an 'illegal' practice.
- (ii)** Assurance engagements involve three separate parties.
- (iii)** Excise Audit 2000 was initiated from 1st April 2000.
- (iv)** "Firm of Cost accountants" should have at least two partners who are practicing Cost Accountants.
- (v)** GATT and its agreement are permanent.
- (vi)** "Organisation Development" (OD) is a "Sensitivity Training" intervention.

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(2)(a) VRC Ltd. has its own power plant, which has two users, Cutting Department and Welding Department. When the plans were prepared for the power plant, top management decided that its practical capacity should be 1,50,000 machine hours. Annual budgeted practical capacity fixed costs are ₹9,00,000 and budgeted variable costs are ₹4 per machine-hour. The following data are available:

	Cutting Department	Welding Department	Total
Actual Usage in 2013-14 (Machine hours)	60,000	40,000	1,00,000
Practical capacity for each department (Machine hours)	90,000	60,000	1,50,000

Required:

- (i) Allocate the power plant's cost to the cutting and the welding department using a single rate method in which the budgeted rate is calculated using practical capacity and costs are allocated based on actual usage.
- (ii) Allocate the power plant's-cost to the cutting and welding departments, using the dual – rate method in which fixed costs are allocated based on practical capacity and variable costs are allocated based on actual usage.
- (iii) Allocate the power plant's cost to the cutting and welding departments using the dual-rate method in which the fixed-cost rate is calculated using practical capacity, but fixed costs are allocated to the cutting and welding department based on actual usage. Variable costs are allocated based on actual usage.
- (iv) Comment on your results in requirements (i), (ii) and (iii). **[10 Marks]**

(b) Basic pay ₹5,00,000; Lease rent paid for accommodation provided to an employee ₹2,00,000, amount recovered from employee ₹40,000, Employer's Contribution to P.F. ₹75,000, Employee's Contribution to P.F. ₹75,000; Reimbursement of Medical expenses ₹67,000, Hospitalisation expenses of employee's family member borne by the employer ₹19,000, Festival Bonus ₹30,000, Festival Advance ₹30,000. Compute the Employee cost. **(5 Marks)**

(c) State the meaning of Captive Consumption. What types of goods covered under CAS-4? **(3 Marks)**

(3)(a) Whether finance costs incurred in connection with the acquisition of materials shall form part of material cost? **(3 Marks)**

- (b)** How would you deal the following items in the cost accounts of a manufacturing concern?
- (i) Research and Development Cost;
 - (ii) Packing Expenses;
 - (iii) Fringe Benefits;
 - (iv) Expenses on Removal and Re-erection of Machinery;
 - (v) Training Costs. **(3×5=15 Marks)**

- (4)(a)** State the needs & elements of planning in a Cost Audit? **(6 Marks)**
- (b)** Discuss the essential features of a cost accounting system. **(6 Marks)**
- (c)** What are the objectives and functions of the Cost Audit and Assurance Standards? **(6 Marks)**

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) Fill in the blanks in the following sentences by using appropriate word(s)/ phrase(s) : **[8×1=8]**

- (i)** The main emphasis of Management Audit is problem ----- rather than problem solving.
- (ii)** Pareto distribution is technique used in ----- control.
- (iii)** ----- is needed to create corporate culture of transparency.
- (iv)** SALVAGE is considered as ----- by insurer against what is owed under the policy for an insured loss.
- (v)** Operation audit is an audit for the -----.
- (vi)** Operational auditing concentrates on effectiveness, efficiency and economy of operations and therefore it is -----.
- (vii)** Operational audit is considered as a ----- tool to fill the void that conventional information sources ----- to fill.

(b) 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: **[6×1=6]**

- (i)** Operational audit is a part of Internal Control.
- (ii)** The main function of the operational audit is to safeguard the assets of the enterprise.
- (iii)** Operational Audit's focus is on effectiveness of management decisions and actions.
- (iv)** The efforts which are directed towards humanizing and harmonizing the jobs and their content are collectively known as "Job Enlargement".
- (v)** Consumerism is a movement protecting the interest of the consumers.
- (vi)** Principles of management audit remain valid irrespective of the nature of an enterprise.

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(6)(a) What are the scopes of internal control of a company. **(6 Marks)**

(b) What are the factors need to be considered while designing an internal control system?

(6 Marks)

(c) Explain the main area of operation of an internal audit of a company?

(6 Marks)

(7)(a) What are the documentations required for an internal audit as per Standard on Internal Audit-3? **(6 Marks)**

(b) Prepare the checklist of Purchasing Function.

(12 Marks)

(8)(a) Harsh Ltd has the following extract Balance Sheets as on 31 March 2015 and 31 March 2014:

Particulars	₹ in lakhs	
	31 March 2015	31 March 2014
EQUITY AND LIABILITIES:		
Shareholder's Fund	2,677	1,772
Loan Funds	3,470	2,983
	6,147	4,755
ASSETS:		
Fixed Assets	3,566	3,000
Cash & Bank	389	370
Debtors	1,895	1,568
Stock	2,667	2,207
Other Current Assets	1,667	1,504
Less: Current Liabilities	(4,037)	(3,894)
	6,147	4,755

The Income Statement of the Harsh Ltd for the year that ended is as follows:

	₹ in lakhs	
	31 March 2015	31 March 2014
Sales	24,265	14,982
Less: CGS	22,960	13,644
GP	1,305	1,338
Less: Selling, General & Administrative Expenses	1,035	652
Earnings before Interest and Tax (EBIT)	270	686
Less: Interest Expense	113	105
Profit before tax	157	581
Less: Tax	23	192
Profit after Tax	134	389

Required:

(i) Calculate for the year 2014-15:

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- a. Inventory Turnover Ratio
 - b. Return on Net worth
 - c. ROI
 - d. ROE
 - e. Profitability ratio
- (ii) Give a brief comment on the financial position of Harsh Ltd. **(10 Marks)**
- (b)** What are the limitations in implementation of an effective internal control system of a company? **(8 Marks)**