

Paper – 19 - Cost and Management Audit

Answer to MTP_Final_Syllabus 2012_Jun 2017_Set 2

Paper – 19 - Cost and Management Audit

Full Marks : 100

Time allowed: 3 hours

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

Section A [20 marks]

1. Answer the following questions:

(a) Fill in the blanks: [5×1=5]

- (i) CAS 14 deals with _____
- (ii) Part B of the Annexure to Cost Audit Report provides information for _____ sector.
- (iii) As per CAS 2 Actual Capacity utilization shall be presented as a percentage of _____ capacity.
- (iv) Propriety audit stands of verification of transactions in the best interest of the _____.
- (v) Section 138 of the Companies Act 2013 deals with provisions of _____.

(b) State whether the following statements are true or false: [5×1=5]

- (i) Operational Audit is merely extension of Internal Auditing in operational areas.
- (ii) Interest cost should be included in inventory valuation for purposes of bank audit.
- (iii) (iii) Productivity Analysis is the evaluation of every resources declared in the industry.
- (iv) "Related party transaction" means transfer of resources or obligations among persons having blood relations.
- (v) Donation given to Charitable Institutions should not form part of Cost Accounts.

(c) Answer any five of the following in one or two sentences: [5×2=10]

- (i) What is the objective of Cost Auditing Standard 104?
- (ii) In the abridged cost statement, what are Industry specific operating expenses?
- (iii) How do you define 'Depot' under Generally Accepted Cost Accounting Principles?
- (iv) As per CAS 20 how is Royalty and Technical Knowhow fee assigned?
- (v) What is the objective of Consumer Services Audit?
- (vi) How would you treat finance cost directly attributable to packing material as per CAS 9 related to Packing Material Cost?

Answer 1 (a)

- (i) Pollution control cost
- (ii) Manufacturing
- (iii) Installed
- (iv) Public
- (v) Internal Audit

Answer 1 (b)

- (i) True.
- (ii) False.
- (iii) True.

Answer to MTP_Final_Syllabus 2012_Jun 2017_Set 2

- (iv) False.
- (v) True.

Answer 1 (c)

- (i) The objective of this standard is to enable the cost auditor to have knowledge of the client's business which is sufficient to identify and understand the events, transactions and practices that, in the cost auditor's judgment may have a significant effect on the examination of cost statements or on the preparation of the cost audit report.
- (ii) Industry Specific operating expenses are those which are peculiar to a particular industry such as Telecommunication Industry which shows expenses such as Network Operating cost, License fee, Radio Spectrum charges, Microwave charges etc. which are peculiar to this Industry and should be disclosed separately in the cost statement.
- (iii) Depot is the bounded premises / place managed internally or by an agent, including consignment agent and C & F agent, franchisee for storing of materials / goods for further dispatch including the premises of Consignment Agent and C&F Agent for the purpose. Depot includes warehouses, go-downs, storage yards, stock yards etc.
- (iv) Royalty and Technical Know-how fee that is directly traceable to a cost object shall be assigned to that cost object. In case such fee is not directly traceable to a cost object then it shall be assigned on any of the following basis:
 - a. Units produced
 - b. Units sold
 - c. Sales value
- (v) Consumer Service Audit is an audit of public responsibility of business enterprise in relation to its customers and is a part of social audit. The audit is based on the philosophy that the role of business should be conducive to raising the quality of life through its contribution in terms of better product-quality and services.
- (vi) Finance costs directly incurred in connection with the acquisition of Packing Material shall not form part of Packing Material Cost.

Section B [80 marks]

Answer any 5 questions from Question number 2 to 8. Each question carries 16 marks.

- 2 (a) (i) What is the meaning of "Turnover" in relation to the Companies (Cost Records and Audit) Rules, 2014?
- (ii) SHANHITA LTD., a manufacturing company, producing Industrial chemicals had the following income during the year 2016-17.

Income:	(Amount in ₹ Lakhs)
Sales: Manufactured products	43,750
Traded products	2,830
Income from job Works	780
Sale of Defectives	130
Export Incentives	85
Cash Discount Received	35
Note: Sales inclusive of Excise Duty	2,840

Required:

Find out the Turnover of the company as per the Companies (Cost Records and Audit) Rules, 2014.

[2+4=6]

Answer to MTP_Final_Syllabus 2012_Jun 2017_Set 2

- (b) The following figures are extracted from the Cost Accounting Records of SINJINI LTD. a single product manufacturing company:

Year ended 31st March	2017	2016
	(Amount in ₹ lac)	
Gross Sales including Excise duty:	5,200	4,160
Excise Duty	400	320
Other Income	300	200
Increase in Value of Stock of Finished Goods	20	10
Raw materials Consumed	1,760	1,440
Direct wages, Salaries, Bonus, Gratuity etc.	440	352
Power & Fuel	240	192
Stores and Spares	160	140
Cess and local Taxes	120	100
Other manufacturing Overheads	430	370
Administrative Overheads:		
Audit fees	36	30
Salaries & Commission to Directors	48	40
Other Overheads	260	220
Selling and Distribution Overheads:		
Salaries & Wages	36	30
Packing and Forwarding	20	16
Other Overheads	250	200
Total Depreciation	120	120
Interest Charges:		
On Working Capital Loans from Bank	60	25
On Fixed Loans from IDBI	90	70
On Debentures	30	30
Provision for Taxes	316	200
Proposed Dividends	420	230

You are required to calculate the following parameters as stipulated PART-D, PARA-3 of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2015 and March 31, 2014:

- (i) Value Addition
- (ii) Earnings available for Distribution
- (iii) Distribution of Earnings to the different claimants.

[4+1+5=10]

Answer 2 (a) (i)

Sub-section 91 of Section 2 of the Companies Act, 2013 defines "turnover" as "the aggregate value of the realization of amount made from the sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year. For the purposes of these Rules, "Turnover" means gross turnover made by the company from the sale or supply of all products or services during the financial year. It includes any turnover from job work or loan license operations but exclude duties and taxes. Export benefit received should be treated as a part of sales.

Answer to MTP_Final_Syllabus 2012_Jun 2017_Set 2

- (ii) The turnover of the company (Shanhita Ltd) for the year 2016-17 as per the Companies (Cost Records and Audit) Rules, 2014 is calculated as follows:-

	(₹ lacs)	₹ in lacs
Sales: Manufactured products	43,750	
Traded products	2,830	
Income from job works	780	
Sale of Defectives	130	
Exports incentives	85	47,575
Less: Excise Duty		2,840
Turnover		44,735

Answer 2 (b)

SINJINI LTD.

CALCULATION OF VALUE ADDITION

(Amount in ₹ lac)

	2017	2016
Year ended March 31,		
VALUE ADDITION:		
Gross Sales including Excise Duty	5,200	4,160
Less: Excise duty etc.	400	320
Net Sales	4,800	3,840
Add: Export Incentives	-	-
Add/Less: Adjustment in Finished stocks	20	10
	4,820	3,850
Less: Cost of bought out input:		
(i) Cost of Raw materials consumed	1,760	1,440
(ii) Consumption of stores and spares	160	140
(iii) Power & Fuel	240	192
(iv) Other overheads	1,056	861
(430 + 36 + 260 + 20 + 250 + 60) = 1,056		
(370 + 30 + 220 + 16 + 200 + 25) = 861		
Total cost bought out input	3,216	2,633
(i) VALUE ADDED	1,604	1,217
Add: Other Income	300	200
(ii) Earnings Available for distribution	1,904	1,417
(iii) Distribution of earnings to:		
(1) Employees as salaries and wages, bonus, gratuity etc.	476	382
Directors- Salaries and Commission	48	40
(2) Shareholders as dividend	420	230
(3) Company as retained funds (including depreciation)	404	365
(4) Government as taxes		
Cess & Local Taxes:	120	100
Income Taxes	316	200
	436	300
(5) Providers of Capital/Fund as Interest on Debentures		
Interest on debentures	30	30
Interest on Fixed loans from IDBI	90	70

Answer to MTP_Final_Syllabus 2012_Jun 2017_Set 2

	120	100
Total distribution of earnings	1,904	1,417

- 3 (a) GLORY LTD., a manufacturing company provides the following extracts from its Cost Accounting Records for the year ended March 31, 2017:

The total capacity for 5 Machines per hour as per the company's specification.	2500 units
No. of shifts (each shift of 8 hours) per day	3
Paid holidays in a year (365 days):	
(i) Weekly holidays	52
(ii) Other holidays	10
Annual maintenance is done within these holidays (i.e. 10)	
Preventive maintenance for the machines is carried on during weekly off day.	
Normal idle capacity due to lunchtime, shift changes etc. per shift	0.5 hour
Production based on sales expectancy in past 3 years (units in lakh):	154.50
	159.54
	166.66
Actual production for the year ended March 31, 2015:	158.80

You are required to calculate:

- (1) Installed Capacity
- (2) Actual Capacity Utilization
- (3) Normal Capacity
- (4) Idle Capacity
- (5) Abnormal Idle Capacity—

—Keeping in view of the relevant Cost Accounting Standard (CAS-2).

[8]

- (b) The Cost Accountant of TRINCUS TEXTILES MILLS LTD. has arrived at a Profit of ₹ 20,10,500 based on Cost Accounting Records for the year ended March 31, 2017. Profit as per Financial Accounts is ₹22,14,100.

As a Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts:

		₹
(1)	Profit on Sale of Fixed Assets	2,05,000
(2)	Loss on Sale of Investments	33,600
(3)	Voluntary Retirement Compensation included in Salary & Wages in F/A	50,25,000
(4)	Donation Paid	75,000
(5)	Insurance Claim relating to previous year received during the year	5,08,700
(6)	Profit from Retail trading activity	32,02,430
(7)	Interest Income from Inter-Corporate Deposits	6,15,000
(8)	Decrease in value of Closing WIP and Finished goods inventory	
	as per Financial Accounts	3,82,06,430
	as per Cost Accounts	3,90,12,500

You are required to prepare a Reconciliation Statement between the two Accounts for the year ended March 31, 2017.

[8]

Answer to MTP_Final_Syllabus 2012_Jun 2017_Set 2

Answer 3 (a)

GLORY LTD.

CALCULATION OF DIFFERENT CAPACITIES FOR THE COMPANY:

- (1) Installed Capacity : $365 \times 8 \times 3 \times 2500 = 21900000$ i.e. 219 lac units
- (2) Actual capacity (given) = 158.80 lacs units
Actual capacity utilization: $(158.80/219) \times 100 = 72.51\%$
- (3) Normal Capacity: $(154.50 + 159.54 + 166.66)/3 = 160.23$ lac units
- (4) Idle capacity: $[(219 - 158.80) = 60.20, \text{lakh unit i.e. } (60.20/219) = 27.49\%$
- (5) Abnormal Idle capacity: $(170.4375 - 158.80) = 11.6375$ lac units i.e. $(11.6375/ 170.4375) = 6.83\%$.

Answer 3 (b)

RECONCILIATION OF PROFIT BETWEEN COST AND FINANCIAL ACCOUNTS FOR THE YEAR ENDED MARCH 31. 2017

	₹	₹
Profit as per Financial Accounts:		22,14,100
Add: Loss on sale of investments	33,600	
Add: Voluntary Retirement compensation included in salary and wages in F/A - Not included in cost A/c	50,25,000	51,33,600
Add: Donation paid		73,47,700
Less: Profit on Sale of Fixed Assets-Not considered in cost A/c	2,05,000	
Less: Receipts of insurance claim related to previous year	5,08,700	
Less: Profit from Retail trading activity	32,02,430	
Less: Interest income from inter-corporate deposit-not considered in cost accounts	6,15,000	
Less: Difference in valuation of stock:		
Decrease in inventories as per cost accounts	3,90,12,500	
Decrease in inventories as per financial accounts	3,82,06,430	8,06,070
Profit as per Cost Accounts		20,10,500

4(a) Evaluation of the personnel function of an organization by management auditor is by no means an easy task. In your view what areas are to be covered and points to be kept in mind while assessing the personnel function of an organization ? [8]

4(b) While performing an Information System Audit, the Management Auditor should make sure that various objectives are met. Briefly describe them. [8]

Answer 4 (a)

The personnel management is concerned with managing people at work for development of efficient and loyal employees for attainment of organization goals. So evaluation personnel function is not an easy task. The important areas to be covered by management auditor while evaluating personnel function are as follows:

- i) Methods followed for manpower planning, recruitment, training, promotion and transfers.
- ii) Action plan for reducing absenteeism.
- iii) Procedure for analysis of labour turnover and steps taken for reduction of the same.
- iv) Method adopted for developing wage and salary structure.

Answer to MTP_Final_Syllabus 2012_Jun 2017_Set 2

- v) Incentives plan –both financial , i.e bonus, increment etc and non financial e.g job enrichment, promotion etc.
- vi) Welfare and safety measures adopted including social security measures and community development programmes.
- vii) Performance appraisal system of the organization.
- viii) Measures undertaken to boost employee morale.

The following points to be kept in mind while assessing the personnel function of an organization :

- i) It is difficult to exactly quantify the influence of human factors and its contribution to success or failure of the organization.
- ii) Development of a uniform yard stick for measurement of performance of a large group of workers is also not easy.
- iii) Workers get influenced by the overall industrial environment.
- iv) Motivating the employees towards achievement of organization goals is a very important as well as difficult task.
- v) The management auditor should assess whether the managers possess necessary leadership qualities and dynamic ideas to motivate their personnel.
- vi) The personnel function is a very important function because in the absence of a well organized personnel function, the company will not be able to utilize the other resources in optimum manner. Human resource is the most important resource in any organization.

Answer 4 (b)

While performing an Information System audit, Management Auditors should ascertain that the following objectives are met:

- (i) Security provisions protect computer equipments, programs, communications and data from unauthorized access, modification, or destructions.
- (ii) Program development and acquisition is performed in accordance with management's general and specific authorization.
- (iii) Program modifications have the authorization and approval of management.
- (iv) Processing of transactions, files, reports and other computer records is accurate and complete.
- (v) Source data that is inaccurate or improperly authorized is identified and controlled according to prescribed managerial policies.
- (vi) Computer data files are accurate, complete and confidential.

5 (a) How the Cost Auditor is under obligation to report fraud identified during course of audit?

[8]

- (b) You have been appointed as an internal auditor for M/s KBC Ltd which is a large manufacturing concern. You are asked to verify whether there are adequate records for identification and value of Plant and Machinery, tools and dies and whether any of these items have become obsolescent and not in use. Draft a suitable audit programme for the above.**

[8]

Answer 5 (a)

Sub-rule (7) of Rule 6 of the Companies (Cost Records and Audit) Rules 2014 states that “the provisions of sub-section (12) of section 143 of the Act and the relevant rules made thereunder shall apply mutatis mutandis to a cost auditor during performance of his functions under section

Answer to MTP_Final_Syllabus 2012_Jun 2017_Set 2

148 of the Act and these rules". For the purpose of sub-section (12) of section 143, in case the auditor has sufficient reason to believe that an offence involving fraud, is being or has been committed against the company by officers or employees of the company, he shall report the matter to the Central Government immediately but not later than sixty days of his knowledge and after following the procedure indicated herein below:

- i. Auditor shall forward his report to the Board or the Audit Committee, as the case may be, immediately after it comes to his knowledge of the fraud, seeking their reply or observations within forty-five days;
- ii. On receipt of such reply or observations the auditor shall forward his report and the reply or observations of the Board or the Audit Committee along with his comments (on such reply or observations of the Board or the Audit Committee) to the Central Government within fifteen days of receipt of such reply or observations;
- iii. In case the auditor fails to get any reply or observations from the Board or the Audit Committee within the stipulated period of forty-five days, he shall forward his report to the Central Government along with a note containing the details of his report that was earlier forwarded to the Board or the Audit Committee for which he failed to receive any reply or observations within the stipulated time.

Accordingly, as per sub-section (12) of section 143 of the Companies Act 2013, it is obligatory on the part of cost auditor to report offence of fraud which is being or has been committed in the company by its officers or employees, to the Central Government as per the prescribed procedure under the Rules.

Answer 5 (b)

The Internal Audit Programme in connection with Plant and Machinery and Tools and Dies may be on the following lines:

- (i) Internal Control Aspects: The following may be incorporated in the audit programme to check the internal control aspects:
 - (A) Maintaining separate register for hired assets, leased asset and jointly owned assets.
 - (B) Maintaining register of fixed asset and reconciling to physical inspection of fixed asset and to nominal ledger.
 - (C) All movements of assets are accurately recorded.
 - (D) Authorization be obtained for –
 - (i) A declaring a fixed asset scrapped.
 - (ii) Selling a fixed asset.
 - (E) Check whether additions to fixed asset register are verified and checked by authorised person.
 - (F) Proper recording of all additions and disposal.
 - (G) Examining procedure for the purchase of new fixed assets, including written authority, work order, voucher and other relevant evidence.
 - (H) Regular review of adequate security arrangements.
 - (I) Periodic inspection of assets is done or not.
 - (J) Regular review of insurance cover requirements over fixed assets.
- (ii) Assets Register: To review the registers and records of plant, machinery, etc. showing clearly the date of purchase of assets, cost price, location, depreciation charged, etc.
- (iii) Cost Report and Journal Register: To review the cost relating to each plant and machinery and to verify items which have been capitalised.
- (iv) Code Register: To see that each item of plant and machinery has been given a distinct code number to facilitate identification and verify the maintenance of Code Register.
- (v) Physical Verification: To see physical verification has been conducted at frequent intervals.

Answer to MTP_Final_Syllabus 2012_Jun 2017_Set 2

- (vi) Movement Register: To verify (a) whether a Movement Register for movable equipments and (b) log books in case of vehicles, etc. are being maintained properly.
- (vii) Assets Disposal Register: To review whether assets have been disposed off after proper technical and financial advice and sales/disposal/retirement, etc. of these assets are governed by authorisation, sales memos or other appropriate documents.
- (viii) Spare Parts Register: To examine the maintenance of a separate register of tools, spare parts for each plant and machinery.
- (ix) Review of Maintenance: To scrutinise the programme for an actual periodical servicing and overhauling of machines and to examine the extent of utilisation of maintenance department services.
- (x) Review of Obsolescence: To scrutinise whether expert's opinion have been obtained from time to time to ensure purchase of technically most useful efficient and advanced machinery after a thorough study.
- (xi) Review of R&D: To review R&D activity and ascertain the extent of its relevance to the operations of the organisation, maintenance of machinery efficiency and prevention of early obsolescence.

6 (a) ASHIRBAD CEMENT LTD. has a captive power generation plant for its cement factory. The following information is available with regard to the power generation for the year ended March 31, 2017:

Coal consumption	2400 tonnes @ ₹600 per tonne
Oil	3000 liters @ ₹50.50 per litre
Water	24000 gallons at ₹60 per gallon
Stores and other consumables	₹ 55,000

Salaries of power generating plant:

2 supervisors each at ₹10,600 p.m., 5 skilled workers each at ₹6,100 p.m., 3 helpers each at ₹4,200 p.m.

Salaries to boiler house attendant, 8 workers, each at ₹4,200 p.m.

Cost of power generating plant — ₹15,00,000 having life of plant 15 years with ₹ 60,000 residual value.

Cost of Boiler plant — ₹6,00,000 having life of plant 10 years with no residual value.

Miscellaneous income received by sale of cash — ₹ 50,000.

Repair and maintenance — Power generating plant ₹ 1,50,000, Boiler house ₹ 1,26,000.

Share of Administrative Overhead — ₹ 1,35,000.

Power generated during the year: 3024250 KWH.

Note: No power generated is used by the power generated plant itself.

You are required to prepare the Cost Sheet to calculate cost per kWh of electricity generated as per the Companies (Cost Records and Audit) Rules 2014 for the year ended March 31, 2017.

[10]

6 (b) What is the procedure for appointment of Cost Auditor under the Companies Act, 2013?

[6]

Answer 6 (a)

ASHIRBAD CEMENT LTD
STATEMENT SHOWING COST OF POWER GENERATED BY POWER GENERATED PLANT FOR
YEAR ENDED MARCH 31, 2017

Power generated			3024250 kwh
Particulars		Total	Cost Per Kwh

Answer to MTP_Final_Syllabus 2012_Jun 2017_Set 2

		Amount (₹)	(₹)
Coal consumption (2400 × 600)	1440000		
Less: Sale of Ash	50000	1390000	0.46
Oil 3000 litres at ₹ 50.50 per ltr.		151500	0.05
Water 24000 gallans at ₹60/- per gallan		1440000	0.48
Stores and other consumables		55000	0.02
Salaries of generating plant			
Supervisor (2 × 10600 × 12)	254400		
Skilled Worker (5 × 6100 × 12)	366000		
Helpers (3 × 4200 × 12)	151200	771600	0.26
Salaries To Boiler House Attendant (8 × 4200 × 12)		403200	0.13
Repairs and maintenance			
Generating plant	150000		
Boiler house	126000	276000	0.09
Depreciation			
Generating Plant (1500000 - 60000)/15 Yrs.	96000		
Boiler House (600000/10 Yrs.)	60000	156000	0.05
Share of administrative overhead		135000	0.04
Total cost of power generated		4778300	1.58

So, Cost per KWH of Electricity generated = ₹1.58

Answer 6 (b)

The cost auditor is to be appointed by the Board of Directors on recommendation of the audit committee, where the company is required to have an audit committee. The cost auditor proposed to be appointed is required to give a letter of consent to the Board of Directors. The company shall inform the cost auditor concerned of his or its appointment as such and file a notice of such appointment with Central Government within a period of thirty days of the Board Meeting in which such appointment is made or within a period one hundred and eighty days of the commencement of financial year, whichever is earlier, through electronic mode in Form CRA-2 along with fee as specified in Companies (Registration offices and fees) Rule, 2014.

Any casual vacancy in the office of a cost auditor, whether due to resignation, death or removal, shall be filled by the Board of Directors within thirty days of occurrence of such vacancy and the company shall inform the Central Government in Form CRA-2 within thirty days of such appointment of cost auditor.

7 (a) The following data have been collected by you, as a Cost Auditor of a Company:

Particulars	14-15	15-16	16-17
Installed Capacity(lac MT)	2.5	2.5	2.5
Production(lac MT)	2.4	2.3	1.25
Cost/MT of the product(₹.)	1000	1077	1660

The poor capacity utilization in 2016-17 was due to abnormal power cut. The escalation in costs were 5% in 14-15 and 2% over 15-16 in 2016-17.

- i) Calculate the abnormal cost due to power cut.
- ii) How would you treat these abnormal costs?

[6+2=8]

Answer to MTP_Final_Syllabus 2012_Jun 2017_Set 2

7 (b) As a Management Auditor of a large organization, you have been asked to carry out the review of "MARKETING POLICIES: as a part of Corporate Development.

Prepare a questionnaire for carrying out such a review.

[8]

Answer 7 (a)

Particulars	14-15	15-16	16-17
Installed Capacity(lac MT)	2.5	2.5	2.5
Production(lac MT)	2.4	2.3	1.25
% of Capacity Utilisation	96	92	50
Cost per unit(₹/MT)	1000	1077	1660
Escalation factor	100	105	107
Cost at Base Year price	1000	1025	1551
Total cost of production(₹ in lacs)	2400	2359.8	1938.75
Variable cost /MT	402	402	402
Fixed cost /MT	598	623	1149
Fixed cost@100% utilisation	574		

Hence, increase in Fixed Cost /MT due to poor capacity utilization in 2016-17 is= $1149 - 574 = ₹575$.

- i) Abnormal cost due to power cut= $575 * 1.25 = ₹718.75$
- ii) The abnormal cost must be excluded from computation of Cost .

Working Notes:

i)

As compared to 04-15	15-16	16-17
(A) Difference in total cost(₹ in lacs)	$2400 - 2359.8 = 40.2$	$2400 - 1938.75 = 461.25$
(B) Difference in Production(lac MT)	$2.4 - 2.3 = 0.1$	$2.4 - 1.25 = 1.15$
Variable Cost/MT(Rs) (A)/(B)	402	402 approx

Answer 7 (b)

A questionnaire for review of 'Marketing Policies' of the company:

(i) **Consumer needs assessment -**

- Is the policy rationable in terms of marching customers' needs with the firm's offering and capabilities?
- What is the likely consumer reaction?
- What are the evaluation studies undertaken to assess consumer reaction, particularly, in respect of product features, price, distribution outlets, new product concept, new product introduction?

(ii) **Market segmentation -**

- What is target market conceived?
- Is market segmentation based on empirical data, such as-usage, demographic, benefits sought, consume characteristics etc.?

(iii) **Competition and product position -**

- How many are competitive producers?
- What is company's share in the total market?
- How many competitors have left the market over the last few years?
- What is the general competitive environment?
- What particular product characteristics does the firm possess that contribute to the market place?

Answer to MTP_Final_Syllabus 2012_Jun 2017_Set 2

- What is the relative market position of the products at different stages of their life cycle?
- (iv) **Marketing mix -**
- How is the optimum mix of pricing, distribution and promotional policy for each of the products of firms determined?
 - What are the company's approaches to issue like product Design, products Positioning, Price-range, advertising and promotion media etc.?
- (v) **Marketing programme**
- Is the marketing program of the company designed to emphasise lower price, mass distribution channels and mass advertising to reach numerous market segments?
- (vi) **Resource Allocation**
- Does the marketing program take into account the interdependencies among the various options and a resource allocation procedure to direct the company's commitment of resources among products, markets segments and the related marketing strategies to accomplish the objectives?
 - If so, how is the resource allocation procedure has been established for different marketing decisions?
8. (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:**
- i. **Basic pay including Industrial D.A. ₹7,00,000**
 - ii. **Lease rent paid for accommodation provided to the employee ₹2,40,000**
 - iii. **Amount recovered from employee ₹60,000**
 - iv. **Employer's contribution to P.F. ₹56,000**
 - v. **Employee's contribution to P.F. ₹56,000**
 - vi. **Reimbursement of medical expenses ₹67,000**
 - vii. **Hospitalization expenses including Group Medical Insurance borne by the employer ₹19,000**
 - viii. **Annual Bonus ₹30,000**
 - ix. **Festival Advance ₹30,000**
 - x. **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. reimburse to the Trust.**
 - xi. **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]

Answer 8 (a)

Management audit covers among others Personnel Department audit which means' extending the general meaning of auditing to the field of personnel management. Personnel auditing may be defined as the analysis and evaluation of personnel policies, procedures and practices to determine the effectiveness of personnel/ human resource management in an organization. In other words, personnel audit is a periodic review to measure the effectiveness of personnel management and to determine the steps required for more effective utilization of human resources.

The report should cover various areas with an objective of

- i. Outlining the need for personnel evaluation to "improve productivity" of individual

Answer to MTP_Final_Syllabus 2012_Jun 2017_Set 2

- employees and thus increase "organizational effectiveness" by better utilization of a firm's human resources.
- ii. Assess how the various units are functioning and how they have been able to meet the policies and guidelines which were agreed upon; and to assist the rest of the organization by identifying the gaps between objectives and results, for the end product of an evaluation should be to formulate plans for corrections of adjustments."
 - iii. Review the whole organizational system of human resource practices, i.e., acquiring, developing, allocating and utilizing human resource in the organization.
 - iv. Evaluate the effectiveness of various personnel policies and practices.
 - v. Identify shortcomings in the implementation of human resource practices in the organization.
 - vi. Suggest modification of the existing human resource practices to meet the challenges of personnel/human resource management.
 - vii. Cover each area like recruitment, selection, job analysis, training, management development, promotions and transfers, labor relations, morale development, employee benefits, wage and salary administration, collective bargaining, industrial relations and communication. Further, the areas like leadership, grievances, and performance appraisal and employee mobility are also included within the scope of personnel audit.
 - viii. Identifying indices, indicators, statistical ratios and gross numbers in some cases, examining the variations in a time frame in comparison with a similar previous corresponding period.
 - ix. Comparing the variations of different departments during different time periods and then comparing them with the similar units, working in the region.
 - x. Drawing trends, ascertaining frequency distribution and correlations between them, preparing a report and send it to the top management for information and action.

Answer 8 (b)

Computation of employee cost:
(As per principles laid down in CAS-7)

	Particulars	Amount in ₹
i)	Basic pay (including industrial DA)	7,00,000
	Add: Leased Accommodation (2,40,000-60,000)	1,80,000
	Medical Expenses (67,000+19,000)	86,000
	Annual Bonus	30,000
	Contribution to P.F	56,000
	Premium for Gratuity (@ 4% on 700000)	28,000
	Total: Employee Cost	1080000

Note:

- i. Festival advance is a recoverable amount-not to be included in employee cost.
- ii. Employee's computation to PF is not a cost to employer- not to be included in employee cost.
- iii. Shortfall in PF the return of Trust A/c is an unusual cost- not to be included in employee cost.