

PAPER 19 - COST AND MANAGEMENT AUDIT

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Full Marks: 100

Time allowed: 3 hours

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

Section - A [20 marks]

Answer the following questions:

1. (a) Choose the correct option among four alternative answer. (1 mark for correct choice, 1 mark for justification.) [10 × 2 = 10]
- (i) The Annexure to Cost Audit Report should be signed by:
 - a. The secretary and the Finance Officer
 - b. The Secretary and the CFO of the company
 - c. One Director and one secretary
 - d. The CFO and the Managing Director
 - (ii) Financial Position and Ratio Analysis as required are to be stated in:
 - a. Para 4 , Part D of the Annexure to Cost Audit Report.
 - b. Para 3, Part D of the Annexure to Cost Audit Report.
 - c. Para 2, Part D of the Annexure to Cost Audit Report.
 - d. Para 1, Part D of the Annexure to Cost Audit Report.
 - (iii) Which of the following is not a professional misconduct as per the First Schedule of the CWA Act, 1959 in relation to Cost Accountants in practice:
 - a. accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute
 - b. secures, either through the services of a person who is not an employee of such cost accountant or who is not his partner or by means which are not open to a cost accountant, any professional business
 - c. solicits clients or professional work, either directly or indirectly, by circular, advertisement, personal communication or interview or by any other means.
 - d. does not exercise due diligence, or is grossly negligent in the conduct of his professional duties;
 - (iv) In case of machinery involving technical help in installation, such expenses for installation are part of:
 - a. Selling and Distribution Overheads
 - b. Cost of production
 - c. Any of the above.
 - d. None of the above.

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- (v) CAS 16 deals with:
- Pollution control cost
 - Packing material cost
 - Depreciation and Amortisation
 - Interest and Financing charges
- (vi) Cost Auditing Standard 101 deals with:
- Planning an audit of cost statements;
 - Cost audit documentation;
 - Overall objectives of the independent cost auditor
 - Knowledge of business, its processes and the business
- (vii) A cotton textile mill had cumulative waste percentage of 8% in Blow Room, 6% in Carding, 4% in Drawing, 4% in Simplex and 9% in Ring Frame. For an input of 1000 kg. of cotton in Blow Room, the output at Ring Frame is _____.
- 735.27 kg.
 - 725.27 kg.
 - 745.27 kg.
 - 755.27 kg.
- (viii) Gross Sales ₹16,500 lacs, Excise Duty ₹1,240 lacs, Increase in stock ₹42lacs, Cost of raw materials ₹6,250 lacs, Power ₹2,220 lacs, other overheads ₹ 215 lacs, Value Added is:
- ₹15,260 lacs
 - ₹66,17 lacs
 - ₹6,533 lacs
 - ₹15,302 lacs.
- (ix) Management Audit report is submitted to:
- Cost Audit Branch
 - Audit Committee
 - Central Government
 - Management of concern.
- (x) The consumer service audit critically examines:
- Outstanding payment of consumers.
 - Price consumers are ready to pay for particular product/service
 - And appraise management of business enterprise of responsibility towards consumers.
 - Demand of a product by consumers.

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Section - B [80 marks]

2. (a) (i) What types of Health Services are covered under the Companies (Cost Records and Audit) Rules 2014?
- (ii) ABC Ltd. is engaged in manufacturing products on its own as well as purchase the same products from other companies. The outsourced products are treated as trading activity in the financial accounts. Same products are also manufactured by supply of materials to converters. What would be treatment of such products for the purposes of maintenance of Cost Accounting Records and Cost Audit? [4+4=8]
- (b) Explain whether the following amounts to professional misconduct by a Cost Accountant:
- (i) ABC and Company, Cost Accountants, a firm maintains branch offices in India – each under the separate charge of a member of the Institute of Cost Accountants of India/The Institute of Chartered Accountants of India.
- (ii) CMA P, a practicing Cost Accountant engages in personal discussions/ correspondences with prospective clients relating to achievement and capabilities. [4+4=8]
3. (a) (i) How to treat Inward Transportation Cost as per the Cost Accounting Standard 5?
- (ii) How Transportation Cost is to be determined in case the manufacturer is having its own transport fleet? [5+3=8]
- (b) The profit as per financial accounts of M/s Kalingpong Himalaya Private Company for the year 2022-2023 was ₹ 1,54,28,642. The profit as per Cost Accounting Records for the same period was less. You are required to prepare a reconciliation statement and arrive at the profit as per Cost Records. The following details are collected from the financial schedules and cost accounting records:

| | Financial Accounts ₹ | Cost Accounts ₹ |
|--------------------|-------------------------|--------------------|
| Valuation of Stock | | |
| Opening: WIP | 25,62,315 | 22,65,710 |
| Finished Goods | 2,65,47,520 | 2,92,18,950 |
| Closing: WIP | 42,75,640 | 37,36,346 |
| Finished Goods | 3,72,59,430 | 4,35,25,149 |

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| | | |
|--|------------|-----------|
| Interest income from inter-corporate deposits | 6,15,340 | — |
| Donations given | 4,85,560 | — |
| Loss on Sale of Fixed Assets | 1,22,546 | — |
| Value of cement taken for own consumption | 3,82,960 | 3,65,426 |
| Cost of Power drawn from own Wind Mill | | |
| —At EB tariff | — | 49,56,325 |
| —At cost | 36,20,370 | — |
| Non-operating income | 45,36,770. | — |
| Voluntary retirement compensation | 16,76,540 | — |
| Insurance claim relating to previous year received during the year | 14,35,620 | — |

[8]

4. (a) You are the Management Auditor of a large manufacturing company suffering from working capital crisis. Which areas you will cover to overcome the crisis?

(b) Certain requirements of audit based on principles of propriety are stipulated in Cost Audit report.

Explain the meaning of propriety audit and how this aspect is covered by Cost Audit.

[8+8=16]

5. (a) KPC Pvt. Ltd took a consortium loan in 2022-23 amounting to ₹80 crores of which State Bank of India is the leading Bank for setting up a new plant in Haldia. During the year 2021-22 its outstanding loan was ₹70 crores of which repayment was made in the year 2022-23 to the extent of ₹20 crores. Should KPC Pvt. Ltd conduct internal audit as per Companies Act 2013?

(b) (i) Which companies are required to constitute Audit Committees? What is its responsibility regarding internal audit.

(ii) What are the qualities of a good internal auditor?

[8+5+3=16]

6. (a) The following is the Balance Sheet of Jamuna Sing Ltd. of Chandigarh as on 31st March, 2023 and 31st March 2022:

| | 31.03.23 | 31.03.22 |
|--|----------|----------|
| | ₹ | ₹ |
| | | |

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| | | |
|---|----------|----------|
| Non-Current Assets | | |
| Fixed Assets - Tangible Assets | 4,45,000 | |
| Non-Current Investments | 30,000 | |
| Long Term Loans and Advances | 85,000 | |
| Current Assets | | |
| Stock in trade | 1,50,000 | |
| Sundry Debtors | 1,50,000 | |
| Bills Receivable | 20,000 | |
| Advance Payment to contractors | 3,000 | |
| Cash and Bank | 15,000 | |
| | 8,98,000 | |
| Equity and Liabilities | | |
| Shareholders' Fund | 3,80,000 | 3,80,000 |
| Reserves and Surplus | 2,75,000 | 2,20,000 |
| Non-Current Liabilities Long term Borrowings Deferred Tax | 50,000 | 50,000 |
| Current Liabilities | 20,000 | 20,000 |
| Sundry Creditors | 1,90,000 | 1,80,000 |
| Bills Payable | 60,000 | 48,000 |
| | 9,75,000 | 8,98,000 |

You are required to prepare a schedule showing the followings:

- (i) Change in Working Capital
- (ii) Liquidity and proprietary ratios for the two years.

- (b) A company has following four operations undergone by a product under cost audit. The input, output and labour costs process-wise are given below:

| Process | Input M.T. | Output M.T. | Direct Labour cost of the process (₹) |
|---------|------------|-------------|---------------------------------------|
| A | 72,000 | 64,800 | 1,94,400 |
| B | 75,000 | 66,000 | 2,64,000 |
| C | 1,08,000 | 99,360 | 4,96,800 |
| D | 90,000 | 83,250 | 6,66,000 |

Calculate “Direct labour cost per unit of the product under reference”. [10+6=16]

7. (a) The following figure are extracted from the statement prepared by the Cost Accountant and the Trial Balance of ABC Ltd., which is a single product company calculate Value Added:

| | (₹ in lacs) 31.03.2023 |
|------------------------------|------------------------|
| Gross sales inclusive of GST | 2,040 |
| GST | 300 |
| Raw Materials consumed | 1,140 |
| Direct Wages | 35 |

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| | |
|---|-----|
| Power and Fuel | 30 |
| Stores and Spares | 6 |
| Depreciation Charged to production cost centers | 16 |
| Factory Overheads: | |
| Salaries and wages | 5 |
| Depreciation | 2 |
| Rates and Taxes | 1 |
| Other Overheads | 6 |
| Administrative Overheads: | |
| Salaries and Wages | 10 |
| Rates and Taxes | 2 |
| Other Overheads | 162 |
| Other overheads | 7 |
| Selling and Distribution overheads: | |
| Salaries and Wages | 6 |
| Packing and Forwarding | 1 |
| Depreciation | 124 |
| Other overheads Interest | 85 |
| Bonus and Gratuity | 12 |
| Gross Current Assets | 840 |
| Other overheads Interest | 324 |

- (b) There was a strike from 13.09.2022 to 16.11.2022 in a company of which you were the Cost Auditor for the year ending 31.03.2023. Although the company began working from 17.11.2022, production could effectively begin only from 5.12.2022. The expenses incurred during the year ended 31.03.2023 were:

| Particulars | (₹ in lakhs) |
|-----------------------------|--------------|
| Salaries & Wages (direct) | 450 |
| Salaries & Wages (indirect) | 300 |
| Power (variable) | 180 |
| Depreciation | 270 |
| Other Fixed Expenses | 360 |

Detailed examination of the records reveals that of the above, the following relate to the period 13.09.2022 to 16.11.2022:

| Particulars | (₹ in lakhs) |
|-----------------------------|--------------|
| Salaries & Wages (indirect) | 105 |
| Depreciation | 90 |
| Other Fixed Expenses | 135 |

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Calculate the amount which in your opinion should be treated as abnormal for exclusion from the product costs. [9+7=16]

8. Answer any 4 questions :

[4x4=16]

- (a) Discuss the concept of 'Common Cost' as per GACAP.
- (b) Distinguish between internal audit and operational audit.
- (c) The essential qualities required of a Management Auditor.
- (d) From the following particulars make out a monthly cost sheet of Coke Oven Company Limited for the Financial Year ended 31.03.2023.

| | |
|---------------------------------------|--|
| Coal used | 7,000 Tonnes @ ₹ 28 per tonne |
| Coke Produced and Sold (main product) | 4,900 Tonnes, Selling Price being ₹ 56 per tonne |
| Tar produced | 280 Tonnes @ ₹ 60 per tonne |
| Sulphuric, etc. | 70 Tonnes @ ₹ 210 per tonne |
| Benzole etc. produced | 67 Tonnes @ ₹ 95 per tonne |
| Raw Material used | ₹ 54,600 |
| Wages paid | ₹ 20,500 |
| Repairs and Renewals | ₹ 12,000 |
| Salary and General Charges | ₹ 7,500 |

- (e) The capacity usage ratio and the capacity utilization ratio in respect of machine for a particular month is 80% and 90% respectively. The available working hours in a month is 200 hours. The break-up of idle time is as follows: Waiting time for job - 5 hours; breakdown - 4 hours; waiting time for tools - 3 hours. Calculate the cost and present the same in a tabular form when the hourly fixed cost of running the machine is ₹8.00.

