

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 Question No. 2 to 8.

SECTION - A

1. Choose the most appropriate answer to the following questions giving justification:
[10x2=20]

- (i) The form in which the cost records shall be maintained: .
a) CRA -1;
b) CRA -2;
c) CRA -3;
d) CRA -4;
- (ii) Item appearing only in Cost Records is
a) Profit on Sale of Assets;
b) Interest Received;
c) Loss on Sale of Assets;
d) Notional Interest on Capital;
- (iii) The form in which appointment of cost auditor by the company to Central Government is intimated
a) CRA -1
b) CRA -2
c) CRA -3
d) CRA -4
- (iv) The applicability of maintenance cost records under CCRA – Rules, 2014 for regulated industries having overall turnover of
a) ₹ 25.00 crores
b) ₹ 35.00 crores
c) ₹ 50.00 crores
d) ₹ 100.00 crores
- (v) The Cost Auditing Standard which deals with Cost Audit Documentation:
a) 101
b) 102
c) 103
d) 104
- (vi) A person shall be punishable for first time conviction for falsely claiming to be a member with fine which may extend to Rupees .
a) ₹1,000

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- b) ₹ 2,000
c) ₹3,000
d) ₹ 5,000
- (vii) Royalty paid on sales ₹30,000; Royalty paid on units produced ₹20,000, Hire Charges of equipment used for production ₹2,000, Design charges ₹15,000, Software development charges related to production ₹22,000. The Direct Expenses amount is:
a) ₹88,000
b) ₹89,000
c) ₹99,000
d) ₹98,000
- (viii) The Balance Sheet of X Ltd. As on 31st March 2017 showed the following information: Capital - ₹1500 lakhs, Reserves - ₹696 lakhs, Loans - ₹600 lakhs, Sundry Creditors ₹774 lakhs, Total assets - ₹3570 lakhs. For the year 22 -23, PBT - ₹900 lakhs, provision for tax is ₹360 lakhs and proposed dividend is ₹ 300 lakhs. Return on Net worth is:
a) 30.41 %
b) 29.41 %
c) 28.41 %
d) 27.41%
- (ix) 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__ .
a) 735.27 Kg.
b) 725.27 Kg.
c) 745.27 Kg.
d) 755.27 Kg.
- (x) Consumer Service Audit is part of
a) Business Activity Audit
b) Social Audit
c) Service Audit
d) None of Above

SECTION - B (5 questions to be answered out of 7 questions)

2. (a) (i) What categories of company can appoint cost auditor? What is the threshold limit to appoint Cost auditor?

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(ii) To determine the Repairs and maintenance cost what kind of expenses/cost to be included? **[6+4=10]**

(b) Explain whether the following amounts to professional misconduct by a Cost Accountant:

(1) Mr. X, a CMA was invited by the Chamber of Commerce to present a paper in a symposium on the issues facing Indian Jute Industry. During the course of his presentation he shared some of the vital information of his client's business under the impression that it will help the Nation to compete with other countries at international level.

(2) A firm of Cost Accountants was appointed by a company to evaluate the costs of the various products manufactured by it for its information system. One of the partners of the firm was a Non-Executive Director of the company. **[6]**

3. (a) A manufacturing firm has up its own power plant to cater its need in manufacturing process.

It's one-month data is given below:

Number of units produced = 100 lakh units of which 5% is used by generating unit.

Material and utility used:

- (1) Coal 300 MT @ ₹ 30,000 per MT
- (2) Oil 5 MT @ ₹ 1,60,000 MT
- (3) Cost of Water extraction and treatment: 6 lakhs litres @ ₹ 3 per litre
- (4) Steam boiler cost ₹ 55 lakhs with residual value of ₹ 5 lakhs after life of 10 years.
- (5) Cost of Generating Plant is ₹ 90 lakhs with no residual value. Depreciation is charged on straight line method @ 10%
- (6) Generating Plant: 100 skilled workers@ ₹ 30,000 & 150 helpers @ ₹ 20,000 pm.
- (7) Boiler plant: 60 semi-skilled workers @ ₹ 25,000 & 100 helpers @ ₹ 20,000 pm.
- (8) Repair & Maintenance of generating plant & Boiler is ₹ 5.0 lakhs
- (9) Share of Administrative charges ₹ 20 lakh
- (10) Realization from Sale of ash disposed is ₹ 1.5 lakh

Prepare a cost sheet for Electricity Generating Unit and calculate cost per unit.

(b) Auto Parts Manufacturing Company Ltd. showed a profit for the year 2022-23 as ₹35,46,700. During the course of Cost Audit, the followings transactions were noticed:

- (1) an old machine with net value of ₹ 6,54,000 was sold off for ₹ 9,30,000,
- (2) dividend income was received amounting to ₹ 84,500 from investments,
- (3) a sum of ₹ 58,000 was spent towards CSR commitment,
- (4) the company was engaged in trading activity where purchase of goods was ₹13,50,000 and sales was ₹ 13,42,300, after incurring ₹ 40,800 as expenditure,
- (5) some renovation work was carried out at a cost of ₹ 7,75,000 and its useful life was only for five years, and
- (6) the closing inventory of raw material was undervalued ₹ 29,600 and that of finished goods was overvalued ₹ 65,400 in the financial records.

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Work out the Profit as per the Cost Accounts.

[9+7=16]

4. (a) Management Audit and Operational Audit are complementary and supplementary to one another". Discuss in brief.

(b) What is proprietary audit? While conducting proprietary audit what should be the observation of an auditor? **[6+10=16]**

5. (a) As per Companies Act, 2013 which companies are required to conduct Internal Audit?

(b) What are the role of CMA's in internal audit. **[7+9=16]**

6. (a) As a cost auditor you are required to record your observations and conclusions in para 16 of the Annexure of the cost audit report. From the following information in respect of the concern manufacturing cement offer comments on the performance and suggestions for improvements:

Utilisation and performance of Grinding Mill of a cement factory (rated capacity 80Mt/Hr)

	2022		2021	
1. break down	2164	44%	1009	24%
2. planned Maintenance	246	5%	420	10%
3. power restriction	1236	25%	1472	35%
4. short fall (there are no order)	787	16%	673	16%
5. Want of wagons	492	10%	631	15%
	4919	100%	4205	100%
Total stoppage hours	4919	56%	4205	48%
Total running hours	3865	44%	4555	52%
Total available hours	8784	100%	8760	100%
Production during the year (M.T.)	247360		327960	
Hourly rate of production (M. T.)	64		72	
Capacity utilisation	61.84%		81.99%	
(Annual installed capacity----- 400000 M.T.)				

(b) RAJA 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 tonne @ ₹ 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

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plant 10 years with no residual value. Miscellaneous income received by sale of ash— ₹ 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. **[7+9=16]**

7. (a) The following figures are obtained from the Cost Accounting Records of M Ltd. a single product manufacturing company:

Year ended 31st March Particulars	2022 (₹ in lakh)	2021 (₹ in lakh)
Net Sales	4,800	3,840
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, 2022 and 2021:

- (i) Value Addition

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

(b) There was a strike from 13.09.22 to 16.11.22 in a garment company of which you were the cost auditor for the year ending 31.03.23 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 31.03.23:

	₹
Salaries and Wages (direct)	3,500
Salaries and Wages (indirect)	2,500
Power(variable)	1,200
Depreciation	1,800
Other Fixed Expenses	2,400

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

Salaries and wages (indirect)	₹ 710 lakhs
Depreciation	₹ 690 lakhs
Other Fixed expenses	₹ 800 lakhs

Calculate the amount which, in your opinion, should be treated as abnormal for exclusion from the product costs. **[10+6=16]**

8. Any four to be answered out of 5 questions: [4x4=16]

- (a) How Value Chain activity can have an impact in performance analysis?
- (b) Write a short note on Audit Working Papers.
- (c) List the Steps of Management Audit.
- (d) The following are the process wise wastages on inputs in a Spinning Mill in the year 2022-23.

Particulars	% age of Wastages on Input
Blow room	9.18
Drawing	1.10
Roving (Simplex)	0.30
Ring Frame(spinning)	7.21
Reeling and winding	1.50

From the above, calculate the process wise waste multiplier factor.

- (e) Purchase of Materials \$ 50,000 [Forward contract rate \$ = ₹54.40 but \$ = ₹54.60 on the date of importation]; Import Duty paid ₹ 5,65,000; Freight inward ₹1,62,000; Insurance paid on import by road ₹ 48,000; Cash discount ₹ 33,000; Payment made to the foreign vendor after a month, on that date the rate of exchange was \$ = 55.20. Compute the landed cost of material.