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 cost records are to be maintained as specified in:
(A) CRA3
(B) CRA1
(C) CRA 4
(D) CRA 2

(ii) The excisable goods not sold but used for consumption for manufacture in the production of other articles should be valued at___________________of cost.
(A) 100%
(B) 90%
(C) 110%
(D) 95%

(iii) *'Sugar and Industrial Alcohol' belong to ________________ sector for the purpose of Application of Cost Records.*
(A) Regulated
(B) Non-regulated
(C) Both depending on circumstances
(D) None of the above statements are correct.

(iv) *Administration Overheads is dealt in CAS--------------.*
(A) 12
(B) 11
(C) 10
(D) 9

(*v*)"Related party", with reference to a company, means—
(*A*) a director or his relative;
(*B*) a key managerial personnel or his relative;
(C) a firm, in which a director, manager or his relative is a partner;
(D) All the above are correct.

(vi) Part D of the Annexure to Cost Audit Report shows profit reconciliation for :

(A) Product group

(B) Service group

(C) Company as a whole.

(D) Individual product/services.

(vii) Items appearing only in Cost Records:

(A) Rent receivable

(B) Notional interest on capital

(C) Good will written off.

(D) Dividends.

(viii) The Balance Sheet of X Ltd. As on 31st March 2017 showed the following information:

Capital -₹1500 lacs, Reserves-₹696 lacs, Loans-₹600 lacs, Sundry Creditors 774 lacs, Total assets -₹3570 lacs. For the year 16-17, PBT-₹900 lacs, provision for tax is ₹360 lacs and proposed dividend is ₹300 lacs.

Return on Networth is:

(A) 30.41%

(B) 29.41%

(C) 28.41%

(D) 27.41%

(ix) 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 is:

(A) ₹57000/-

(B) ₹59000/-

(C) ₹37000/-

(D) ₹44000/-

(x) Which one of the following is not a professional misconduct in relation to Cost Accountants in Practice as per the First Schedule of The CWA Act, 1959?

(A) expresses his opinion on cost or pricing statements of any business or enterprise in which he, his firm or a partner in his firm has a substantial interest;

(B) allows any person to practise in his name as a cost accountant unless such person is also a cost accountant in practice and is in partnership with or employed by himself

(C) 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:

(D) 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:

Answer: 1(a)

(i) (B) CRA1. Pursuant to Rule 5(1) of the Companies(Cost Records and Audit) Rules, 2014

(ii)(C)110%. According to the Central Excise Valuation (Determination of Price of Excisable Goods) Rules 2000, the assessable value of goods used for captive consumption is 110% w.e.f. 05-08-2003 of cost of production of such goods, and as may be prescribed by the Government from time to time.

(iii)(A) Regulated. As per Rule 3 of the Companies(Cost Records and Audit)Rules , 2014 Table A.

(iv) (B)11. CAS 11 deals with the principles and methods of classification, measurement and assignment of administrative overheads, for determination of the Cost of product or service, and the presentation and disclosure in cost statements.

(v) (D) All the above are correct. This is as per clause 76 section 2 of the Companies Act 2013

(vi)(C)Company as a whole. As per Form CRA-3, pursuant to Rule 6(4) of the Companies(Cost Records and Audit) Rules, 2014.

(vii)(B) Notional interest on capital. This does not involve actual outlay of funds but is included in cost records as an opportunity cost to determine product cost. The other three items are not related to actual production and this do not form part of cost records.

(viii) (B)29.41%
Networth =Capital +Reserves-Revaluation reserve (if any)-accumulated losses(if any)-deferred expenditure(if any)-misc. expenditure not written off(if any)
Networth =₹1500+₹696-₹360=₹1836
Total Earning =₹900-₹360=₹540
Return on Networth =₹540/₹1836=29.41%

(ix)(B)₹59000/-
Direct expenses= Royalty paid on units produced+ Hire Charges of equipment used for production+ Design charges+ Software development charges related to production=₹20000 + ₹2000 + ₹15000 + ₹22000 = ₹59000/-

(x) (A) It is a misconduct as per the Second Schedule, Part I of the CWA Act, 1959

Section B [80 marks]

2 (a) (i) KPI Ltd. is engaged in construction of residential housing, offices, industrial units, Roads, Bridges, Marine facilities etc. having sites in India and abroad. The company also has Joint venture projects in India and abroad. Whether Companies (Cost Records and Audit) Rules 2014 would be applicable to the company?

(ii) Is a Cost Auditor required to audit and certify monthly, quarterly, half-yearly and yearly Cost Statements? [4+4 marks]

2 (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 marks]

Answer: 2(a)(i)

All companies engaged in construction business either as contractors or as subcontractors, who meet with the threshold limits laid down in the Companies (Cost Records and Audit) Rules, 2014 and undertake jobs with the use of own materials [whether self-manufactured/produced or procured from outside] shall be required to maintain Cost Records and get Cost Audit conducted as per the provisions of the Companies (Cost Records and Audit) Rules, 2014.

The provisions of the Companies (Cost Records and Audit) Rules, 2014 would also apply for construction activities undertaken under BOT/BOOT mode, or the projects undertaken as EPC contractor or the projects undertaken abroad by a company incorporated in India.

The Companies (Cost Records and Audit) Rules, 2014, do not make any distinction between the Contractor and Sub-Contractor and accordingly all such companies will be included within the ambit of the Rules.

Answer: 2(a)(ii)

As per Rule 5, every company under these Rules including all units and branches thereof are required, in respect of each of its financial year, to maintain Cost Records in form CRA-1. The Cost Records are required to be maintained on regular basis in such manner so as to facilitate calculation of per unit cost of production or cost of operations, cost of sales and margin for each of its products and activities for every financial year on monthly or quarterly or half-yearly or annual basis. The Cost Auditor is appointed to conduct audit of the Cost Records and make report thereon for the financial year for which he is appointed. It is not incumbent upon the Cost Auditor to certify monthly, quarterly, half-yearly Cost Statements.

Answer: 2(b)(i)

According to First Schedule, Part 1 Clause 4 of the CWA Act , 1959, a Cost Accountant in Practice shall be deemed to be guilty of professional misconduct , if he/she enters into partnership, in or outside India, with any person other than a Cost Accountant in practice or such other person who is a member of any other professional body having such qualifications as may be prescribed, including a resident who but for his residence abroad would be entitled to be registered as a member under clause (iv) of sub-section (1) of section 4 or whose qualifications are recognised by the Central Government or the Council for the purpose of permitting such partnerships;

In the given case if charge of branch office is given to a member of the Institute of Cost Accountants of India it is not a professional misconduct but if given to member of any other Institute it is professional misconduct.

Answer: 2(b)(ii)

According to First Schedule, Part 1 Clause 6 of the CWA Act , 1959, a Cost Accountant in Practice shall be deemed to be guilty of professional misconduct if he/she solicits clients or professional work, either directly or indirectly, by circular, advertisement, personal communication or interview or by any other means.

In the given case personal discussions with clients cannot be construed as advertisement and thus does not amount to professional misconduct.

3 (a) (i) 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 Material 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); Normal Loss due to shrinkage 1% of materials; Abnormal Loss due to absorption of moisture before receipt of materials 100 units.

Calculate cost of raw materials consumed.

3 (a) (ii) How do you determine manufacturing overheads as per CAS 22? [6+2 marks]

3 (b) The financial profit and loss account for the year 2016-17 of a company shows a net profit of ₹ 29,60,000. During the course of Cost Audit, it was noticed that:

(i) The company was engaged in trading activity by purchasing goods at ₹ 6,00,000 and selling it for ₹ 7,50,000 after incurring repacking cost of ₹25,000,

(ii) Some discarded assets sold off with no scrap value for ₹ 90,000,

(iii) Some renovation of machinery was carried out at a cost of ₹ 6,00,000, having a productive life of five years, but entire amount was charged to financial accounts,

(iv) Interest was received amounting to ₹ 1,40,000 from outside investments,

(v) Voluntary Retirement payment of ₹ 3,50,000 was not included in the Cost Accounts,

(vi) Insurance claim of previous year was received to the extent of ₹ 2,50,000 but was not considered in the Cost Accounts,

(vii) Opening stock or raw materials and finished goods was overvalued by ₹ 2,40,000 and closing stock of finished goods was overvalued by ₹1,10,000 in the financial accounts, and

(viii) Donation of ₹ 80,000 towards CSR commitment was not considered in the Cost Accounts.

Work out the profit as per the Cost Accounts and briefly explain the adjustment, if any, carried out. [8 marks]

Answer: 3(a)(i)

	Particulars	Quantity (units)	Amount(₹)
	Opening Stock of raw materials	10000	180000
Add	Purchase of Raw Materials	35000	700000
Add	Freight inward		85000
			965000
Less	Abnormal loss of Raw Material(due to absorption of moisture before receipt of material)=[700000+85000]/35000*100	100	(2243)
Less	Normal loss due tom shrinkage during transit(1% of 35000 units)	350	
Add	Cost of self manufactured packing materials(60000-8000)		52000
	Cost of raw materials	44550	1014757
	Value of Closing stock= Total cost/(Total units – Units of Normal Loss) =1014757/(10000+35000-100-350)	(7000)	(159446)
	Cost of raw material consumed	37550	855311

3(a)(ii) Manufacturing Overheads for excisable goods representing procurement of resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts; taxes and duties refundable or to be credited as input credit. manufacturing overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.

3(b) Profit Reconciliation as per Cost and Financial Records for the year 2016-17

	Particulars	₹ in "000	₹ in "000
1	Profit as per Financial Accounts for Audited Products		29,60,000
2	Less : Incomes not considered in the Cost Accounts		
	a) Trading Profit (7,50,000-6,00,000-25,000)	1,25,000	
	b) Profit on Sale of Old Assets	90,000	
	c) Interest received from Outside Investments	1,40,000	
	d) Insurance claim for previous year received	2,50,000	
	Total		6,05,000
3	Add : Expenses not considered in the Cost Accounts		
	a) Donation towards CSR Commitment	80,000	
	b) VRS Expenses	3,50,000	
	c) Renovation (4/5th Outlay of 600000)	480000	
	Total		9,10,000
4	Valuation of stocks (240000-110000)(Overvaluation of opening stock and closing stock in financial accounts)		1,30,000
5	Other adjustments		---
	Profit as per the Cost Accounts		33,95,000

4 (a) You are appointed by Mr. K who wants to join DEF & Co , partnership firm as an investigating accountant. List out the steps involved in conducting the same

4 (b) What do you understand by Corporate Services Audit? Describe the areas covered by Corporate Services Audit. [9+7 marks]

Answer: 4(a)

The general approach of the investigating accountant in this type of investigation would be more or less similar, irrespective of the nature of business of the firm-manufacturing, trading or rendering a service. Primarily, an incoming partner would be interested to know whether the terms offered to him are reasonable having regard to the nature of the business, profit records, capital distribution, personal capability of existing partners, socio-economic setting, etc. and whether he would be capable for services to be rendered, which can be justified by the overall economic conditions prevailing and other considerations considering his own personality and achievements. In addition, he would be interested to ascertain whether the capital to be contributed by him would be safe and applied usefully. Broadly, the steps involved are as under :

(i) Ascertaining the history of the firm since inception and growth of the firm.

(ii) Studies of the provisions of the Deed of Partnership, particularly for composition of partners, their capital contribution, drawing rights, retirement benefits, job allocation, etc.

(iii) Scrutiny of the record of profitability of the firm's business over a suitable number of years, with usual adjustments that are necessary in ascertaining the true record of business profits. Particular attention should, however, be paid to the nature and profitability of the business, qualification and expertise of the partners and such others as may be relevant.

(iv) Examination of the asset and liability position to determine the tangible asset, partners, investment, appraisal of the value of intangibles like goodwill, knowhow, patents, etc impending liabilities including contingent liabilities and those for pending tax assessment.

(v) Assess position of order at hand and the range and quality of clientle should be thoroughly examined under which the firm is presently operating.

(vi) Scrutinise terms of loan finance to assess its usefulness and the implication for the overall financial position.

(vii) Study important contractual and legal obligations should be ascertained and their nature studied. It may be the case that the firm has standing agreement with the employees as regards salary and wages, bonus, gratuity and other incidental benefits. Full import of such standing agreements would be gauged before a final decision is reached.

(viii) Study the composition and quality of key personnel employed by the firm and any likelihood of their leaning the organisation.

(ix) Ascertain reasons for the offer of admission to a new partner and it should be determined whether the same synchronizes with the retirement of any senior partner whose association may have had considerable impact having on the firm's successes.

(x) Appraisal of the record of capital employed and the rate of returns. It is necessary to have a comparison with alternative business avenues for investments and evaluation of possible results on a changed capital and organisation structure.

(xi) Ascertain manner of computation of goodwill on admission as also on retirement, if any.

(xii) Examine whether any special clause exist in the Deed of Partnership to allow admission in future a new partner.

4(b) Corporate Services Audit

The term 'Corporate Services' is a generic term, which implies service oriented obligations of a corporate body to different interested 'Public' such as consumers, shareholders, community, fellow-businessmen, government etc. It includes the social responsiveness of a business enterprise.

Corporate Services Audit is the audit of social behavior of the company to assess the extent to which the company had met the expectations of the customers, employees, shareholders, suppliers and the community.

The scope of the Corporate Services Audit extends to the critical examination of the different aspects of services and the extent to which the corporate body has rendered satisfactory services. It also includes the evaluation of the degrees of responsiveness and awareness on the part of such enterprise. The performance of the management towards customers, employees, shareholders, suppliers, the community and government is studied separately and properly evaluated by management auditor.

The areas of Corporate Services Audit and the scrutiny and evaluation criteria can be categorized as follows:

(i) **Consumers**: Quality of goods in right quantity at right price, right place and right time.

(ii) **Employees**: Pay, Safety, Welfare and Industrial Relations etc.

(iii) **Shareholders**: Safety of investment, satisfactory return and capital appreciation.

(iv) **Community**: Social cost and social benefit, public relation

(v) **Fellow-businessmen**: Business ethics and fair trade dealings.

(vi) **State**: Compliance with various legislations, fair trade practices, payment of taxes etc.

5 (a)(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? [5+3 marks]

(b) You have been appointed as a Management Auditor by KFC Bank. The Bank has recently launched a scheme of 'Gold Card' issuing credit card to all savings account holders with average of ₹ 50000/- in the account. How will you evaluate the internal control system in the area of credit card operations of the bank? [8 marks]

Answer: 5(a)(i)

The Board of directors of every listed company and the following classes of companies, as prescribed under Rule 6 of Companies (Meetings of Board and its powers) Rules, 2014 shall constitute an Audit Committee:

(a) all public companies with a paid up capital of ₹10 Crores or more;

(b) all public companies having turnover of ₹100 Crores or more;

(c) all public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding ₹50 Crores or more.

The paid up share capital or turnover or outstanding loans, or borrowings or debentures or deposits, as the case may be, as existing on the date of last audited Financial Statements shall be taken into account for the purposes of this Rule.

Responsibility of audit committee is to review adequacy of internal audit function and internal audit reports.

5(a)(ii) According to 'Technical Guide on Internal Auditing' by The Institute of Cost Accountants of India, Internal Auditor should have following three traits:

- Technical Expertise
- Right Attitude
- Communication and other soft skills.

An Internal Audit team has to have representation from diverse professional fields in order to understand the organization better, audit its function better and making internal audit recommendation better. Carrying 'right attitude' is most sought after skill of Internal auditor. Communication skills of Internal Auditor should be so strong to fit him in different roles while providing suggestion and consultancy to the Audit Committee, top Management and Auditees. Other soft skills include optimistic mindset, emotion regulation and presentation skills.

5(b) The evaluation of internal control system in the area of credit operations in the bank would have to be done in respect of following aspects:

i. **Segregation of Responsibilities:** The activities relating to credit card operations can be divided in specific areas, namely, beginning from the receipt of application form, evaluating the credit assessment, sanctioning the issuance of card, making and despatch of card would form part one of operations. Later on, particularly, from the accounting view, the significant operations would include receipt of statement from vendors/merchants, raising bills to customers, realisation either by directly debiting the customers' accounts or payment received through cheques, periodic reconciliation, etc. While evaluating internal controls, it would have to be seen that adequate division of responsibilities have been carried out to avoid any collusion and independent checks have been built in the system. While evaluating the internal control, it may also be considered whether some part of the operations have been outsourced or performed in-house.

ii. **Credit Assessment System:** Each application is scrutinised with reference to different parameters for assessing the credit limits to be awarded. The system must be able to generate exception reports at this stage itself. In fact, at the application stage itself, the system must ensure that the applicant was holding one card earlier or has defaulted in respect of any other agency.

iii. **Control Over Issuance of Cards:** The internal control system must ensure that the cards are under the control of responsible official. A detailed record alongwith relevant pin codes, etc. have been kept. See that the system has built-in features that it is almost impossible to make counterfeit cards as also photographs are affixed to prohibit any unauthorised use of the same.

iv. **Reconciling Merchant Records:** It is to be checked whether the system has built-in flexibility of reporting of the payments to be made to merchants and making prompt payment to them. Simultaneously, it should be seen that customer statements are also generated automatically and despatched to them.

v. **Periodic Reconciliation and follow-up:** It may be seen whether periodic reconciliation of customers' accounts is done and regular follow-up of overdue accounts takes place. The person who are responsible for maintaining customers' records are not entrusted with the responsibility of reconciliation and follow-up.

6 (a) The following figures relate to usage of power for a product:

	2014 -15	2015-16	2016 -17
Total power consumed to KWH Rate KWH ₹	2402474 2.29	249487 2	2175677 1.90
Total production in million kgs.	337.73	333.084	300.865

Compute necessary productivity measures and compare the efficiency of power usage during the three years.

6 (b) The following particulars pertaining to Product-A are extracted from the record of PROTECT LTD. for the Half year ended March 31, 2017:

	(Amount in ₹ thousand)
Direct Material Cost per unit inclusive of Excise Duty ₹ 191 thousand	1,740
Direct Wages & Salaries	1,260
Direct Expenses	200
Indirect Materials	253
Factory Overheads-	677
Administrative Overheads (25% relating to Production activities)	1,240
Quality control Cost	525
Research and Development Cost	360
Sale of scrap realized	180

You are to determine the cost of production for purpose of captive consumption in terms of Rule 8 of the Central Excise Valuation (DPE) Rules 2000 and as per CAS-4 and Assessable Value for purpose of paying excise duty on captive consumption.

[8+8 marks]

Answer:

6(a)

	2014-2015	2015-2016	2016-17
Power consumed in Kwh	**2402474**	**2494872**	**2175677**
Rate per Kwh (₹)	**2.29**	**2.12**	**1.90**
Total Power cost (₹)	**5501665**	**5289129**	**4133786**
Production (in million kgs)	**337.730 (337730 MT)**	**333.084 (333084 MT)**	**300.865 (300865 MT)**
Power cost/MT (₹)	**16.29**	**15.88**	**13.74**
Power usage MT (KWH)	**7.11**	**7.49**	**7.23**

Variances over previous year:

Rate (₹)	4,24,128 (F)	4,78,649 (F)
Volume (₹)	75,683 (F)	5,11,638 (F)
Usage (₹)	2,87,275 (A)	1,65,056 (F)
	2,12,536 (F)	**11,55,343 (F)**

Calculation of variances:

Rate variance:

	2014-15	2015-16	2016-17
Total power consumed (Kwh)	24,02,474	24,94,872	21,75,677
Rate per Kwh ₹	2.29	2.12	1.90
Rate variance		24,94,872×(2.29-2.12) = ₹4,24,128 (F)	21,75,677×(2.12-1.90) = ₹4,78,649 (F)
Production in Million Kgs	337.730	333.084	300.865

Volume variance:

2016-17 & 2015-16 (333084 – 300865) × 15.88 = ₹5,11,638 (F)

2015-16 & 2014-15 (337730 – 333084) × 16.29 = ₹75,683 (F)

Usage variance:

2016-17 & 2015-16 11,55,343 – 4,78,649 – 5,11,638 = ₹1,65,056 (F)

2015-16 & 2014-15 2,12,536 – 4,24,128 – 75,683 = ₹2,87,275 (A)

Total variance:

2016-17 & 2015-16 52,89,129 – 41,33,786 = ₹11,55,343 (F)

2015-16 & 2014-15 55,01,665 – 52,89,129 = ₹2,12,536 (F)

Answer: 6(b)

Protect Ltd

Computation of Cost of Production (as per CAS - 4)

Particulars	**(Amount in ₹ Thousand)**
Direct Material excluding Excise duty (1740-191)	1,549
Direct wages and salaries	1,260
Direct Expenses	200
Works Overhead (253+677)	930
Quality Control C-cost	525
Research and development cost	360
Administrative Overhead (relating production activities)	310
Less: Sale of scrap	180
Cost of Production	4,954
Add: 10% as per rule -8 of CEV (DPE) Rules	495.40
Assessable value as per Rule 8 of the CE valuation Rules of 2000	5,449.40

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

(₹ In lakhs)

	31.03.2017	31.3.2016	31.03.2015
Gross sales inclusive of Excise Duty	2,040	1,985	1,875
Excise Duty	295	280	265
Raw Materials consumed	1,140	1,060	975
Direct Wages	35	32	27
Power and Fuel	30	27	24
Stores and Spares	6	5	4
Depreciation charged to production cost centres	16	15	13
<u>Factory overheads:</u>			
Salaries and wages	5	4	3
Depreciation	2	2	2
Rates and Taxes	1	1	1
Other overheads	6	5	4
<u>Administrative overheads:</u>			
Salaries and Wages	10	9	8
Rates and Taxes	2	2	2
Other overheads	162	154	148
<u>Selling and distribution overheads:</u>			
Salaries and Wages	7	6	5
Packing and Forwarding	6	6	5
Depreciation	1	1	1
Other overheads	124	118	108
Interest	85	74	68
Bonus and Gratuity	12	10	9
Gross Current Assets	840	724	640
Current Liabilities and Provisions	324	305	246

You are required to compute the following ratios as per requirement of PART D in the Annexure to Companies(Cost Records and Audit) Rules, 2014

(i) Operating Profit as percentage of Value Addition.

(ii) Value Addition as percentage of Net Sales.

Note: The computation should be based on EBDIT as Operating Profit

7 (b) The following data have been available of Sunflag Dolon Limited:

	2014 - 15	2015 - 16	2016 - 17
Installed Capacity—Ton	250	250	250
Production—Ton	240	230	125
Cost Per Ton (₹)	1,000	1,077	1,660

The poor capacity utilisation in 2016-17 was due to abnormal power-cut. The escalation in costs were 5% in 2015-16 and 7% in 2016-17 base on 2014-15

(i) Calculate the abnormal cost due to power cut.

(ii) How would you treat these abnormal cost? **[10+6 marks]**

Answer: 7(a)

	Year Ending (₹ In lakhs)		
	31.3.17	**31.3.16**	**31.3.15**
Gross sales inclusive of Excise Duty	2,040	1,985	1,875
Excise Duty	295	280	265
Net sales (A)	1,745	1,705	1,610
Cost of Sales excluding depreciation & Interest			
Raw Material consumed	1,140	1,060	975
Direct Wages	35	32	27
Power and Fuel	30	27	24
Stores and Spares	6	5	4
Factory overheads (excluding depreciation)	12	10	8
Administrative overheads (excluding depreciation)	174	165	158
Selling and distribution overheads (excluding depreciation)	137	130	118
Bonus and Gratuity	12	10	9
Total (B)	1,546	1,439	1,323
Operating Profit (A) - (B) =	199	266	287

Value addition is defined in Part D, Para 3 of Annexure to Cost Audit report as per the Companies (Cost Records and Audit)Rules, 2014 as "the difference between the net output value (Net Sales) and cost of bought out materials and services for the product under reference".

The working will be:

	Year Ending		
	31.3.17	**31.3.16**	**31.3.15**
(X) Net sales	1,745	1,705	1,610
Less : (i) Cost of Bought Out Materials & Service (Raw Materials and Stores & Spares)	1,146	1,065	979
(ii) Power & Fuel, other bought out services	30	27	24
(iii) Over heads (excluding Salaries & Wages, Rates & Taxes and depreciation)	298	283	265
(Y) =(i)+(ii)+(iii)	1,474	1,375	1,268
Value Addition : (X) - (Y) =	271	330	342

	Year Ending		
	31.3.17	**31.3.16**	**31.3.15**
Hence, (a) Operating profit as % of Value Added i.e.	199/271 73.43%	266/330 80.6%	287/342 83.92% =84%
(b) Value Addition as % of Net Sales i.e.	271/1745 15.53%	330/1705 19.35%	342/1610 21.24%

7(b)

	2014-15	2015-16	2016-17
Installed Capacity - Ton	250	250	250
Production - Ton	240	230	125
% of Capacity Utilisation	96	92	50
Cost per Unit (₹/Ton)	1,000	1,077	1,660
Escalation factor	100	105	107
Cost at base year price	1,000	1,026	1,551
Total cost of production (₹)	2,40,000	2,35,980	1,93,875
Variable Cost/Ton (₹)	402	402	402
Fixed Cost/Ton	598	624	1,149
Fixed Cost @ 100% utilisation(₹)	574		

Hence, increase in Fixed Cost/Ton due to poor capacity utilization in 2016-17 =(1,149-574)= ₹ 575

i) Total abnormal cost due to power cut = 575 x 125 = ₹ 71,875
ii) The abnormal cost must be excluded from computation of cost of production.

8. Answer any 4 questions **[4×4=16 marks]**

(a) The risk of material misstatement has two components. What are the components?

(b) Discuss the role of C&AG in the Audit of a Government company.

(c) Discuss the risks that can be covered by a CSR Audit programme.

(d) Following figures are available for Good Luck Ltd.:
Budgeted Production-880 units, Standard Hours per unit-10, Actual Production-750 units and Actual working hours-6000
Calculate (i) Efficiency ratio (ii) Activity ratio and (iii) Capacity ratio

(e) 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 ₹ 20,000, Festival Advance ₹ 30,000. Compute the Employee cost.

Answer:

8(a) According to Cost Auditing Standard -101, the risk of material misstatement has two components viz. Inherent Risk and Control risk.

(1) Inherent risk: the susceptibility of an assertion about the measurement, assignment or disclosure of cost to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.

(2) Control risk: the risk that a misstatement that could occur in an assertion about the measurement, assignment or disclosure of cost and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal, operational and management control.

8(b) The auditor of a government company is appointed by the C&AG. The C&AG have powers under section 143 of the Companies Act, 2013 as follows:

(i) to direct the manner in which the company's accounts shall be audited by the auditor and to give such auditor instructions in regard to any matter relating to the performance of his functions as such;

(ii) to conduct a supplementary or test audit of the company's accounts by such person or persons as he may authorise in this behalf; and for the purposes of such audit, to require information or additional information to be furnished to person or persons so authorised, on such matters, by such person or persons, and in such form, as the Comptroller and Auditor-General may, by general or special order; direct.

In addition, the C&AG has a right to comment upon or supplement the audit report in such manner as he thinks fit.

8 (c) A CSR audit program can cover all or any of the following risks: -

- Effectiveness of the operating framework for CSR implementation
- Effectiveness of implementation of specific, large CSR projects
- Adequacy of internal control and review mechanisms
- Reliability of measures of performance
- Management of risks associated with external factors like regulatory compliance, management of potential adverse NGO attention, etc.

8(d) Efficiency Ratio:

=Standard Hours of Actual production/Actual Hours worked*100

= (750 units*10 hours)/6000*100=125%

Activity Ratio:

= Standard Hours of Actual production/Budgeted Hours*100

= [(750 units*10 hours)/(880 units*10 hours)]*100=85.23%

Capacity Ratio:

=Actual hours worked/Budgeted Hours*100

= [6000 hours/(880 units*10 hours)]*100= 68.18%

8(e)

	Particulars	**Amount (₹)**
	Basic Pay	500000
Add	Net cost to employer towards lease rent paid for accommodation provided to an employee [lease rent paid **less** amount recovered from employee] [2,00,000 (-) 40,000]	160000
Add	Employer's Contribution to PF	75000
Add	Reimbursement of Medical Expenses	67000
Add	Hospitalisation expenses of employee's family member paid by the employer	19000
Add	Festival Bonus	20000
	Employee Cost	**841000**

Note:

(i)Festival advance is a recoverable amount, hence not included in employee cost.

(ii)Employee's contribution to PF is not a cost to the employer, hence not considered