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.

(v) CAS 16 deals with :

(A)Pollution control cost
(B) Packing material cost
(C) Depreciation and Amortisation
(D)Interest and Financing charges

(vi) Cost Auditing Standard 101 deals with:

(A) Planning an audit of cost statements;
(B) Cost audit documentation;
(C) Overall objectives of the independent cost auditor
(D) 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 ________.

(A) 735.27 kg.
(B) 725.27 kg.
(C) 745.27 kg.
(D) 755.27 kg.

(viii) Gross Sales ₹16500 lacs, Excise Duty ₹1240 lacs, Increase in stock ₹42lacs, Cost of raw materials₹6250lacs, Power ₹2220 lacs, other overheads₹ 215 lacs, Value Added is:

(A) ₹15260 lacs
(B) ₹6617 lacs
(C) ₹6533 lacs
(D) ₹15302 lacs.

(ix) Management Audit report is submitted to :

(A) Cost Audit Branch
(B) Audit Committee
(C) Central Government
(D) Management of concern.

(x) The consumer service audit critically examines:

(A) Outstanding payment of consumers.
(B) Price consumers are ready to pay for particular product/service
(C) And appraise management of business enterprise of responsibility towards consumers.
(D) Demand of a product by consumers.

Answer: 1(a)

(i) (C) One Director and one secretary. Pursuant to Rule 6(4)of the Companies(Cost Records and Audit)Rules, 2014 - Form CRA3

(ii) (A)Para 4 , Part D of the Annexure to Cost Audit Report. Pursuant to Rule 6(4) of the Companies(Cost Records and Audit)Rules, 2014 - Form CRA3

(iii) (D) does not exercise due diligence, or is grossly negligent in the conduct of his professional duties; this is professional misconduct as per Second schedule Part 1 of the CWA Act 1959.

(iv) (B) Cost of production. This is as per CAS 15 related to Selling and Distribution Overheads.

(v) (C) Depreciation and Amortisation. The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Depreciation and Amortisation with reasonable accuracy.

(vi) (A) Planning an audit of cost statements; The objective of this Standard is to guide the members in planning for the audit of cost statements so that it is performed in an efficient and effective manner.

(vii) *(B)725.27 kg*.Output at Ring Frame = 1000 × (100-92)% × (100-94)% × (100-96)% × (100-96)% × (100-91)% = 725.27 kgs.

(viii) (B)₹6617 lacs. Value Addition= Gross sales less Excise Duty Add Increase in stock less Cost of Raw materials less Power less Other Overheads=₹16500 – ₹1240+ ₹42 - ₹6250 - ₹2220 - ₹215 lacs= ₹6617 lacs.

(ix) (D)Management of concern. Management audit undertakes examination of the effectiveness of management in controlling the total activities of the organisation in the accomplishment of the organisation objectives.

(x) (C) And appraise management of business enterprise of responsibility towards consumers. 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 by making available the products and services of the right qualities at the right time, in right quantity, at the right place and right price.

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 marks]

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

(i) CMA Q gave press publicity(not an advertisement)regarding appointment as an Cost Auditor.
(ii) 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. [4+4 marks]

Answer:

2(a)(i) The Companies (Cost Records and Audit) Rules 2014 covers "Health services, namely functioning as or running hospitals, diagnostic centres, clinical centres or test laboratories". Any company engaged in providing Health services through functioning as or running hospitals, diagnostic centres, clinical centres, test laboratories, physiotherapy centres and post-operative/treatment centres are covered within the ambit of the Companies (Cost Records and Audit) Rules 2014. Further, companies running hospitals exclusively for its own employees are excluded from the ambit of these Rules, provided however, if such hospitals are providing health services to outsiders also in addition to its own employees on chargeable basis, then such hospitals are covered within the ambit of these Rules.

It is clarified that companies engaged in running of Beauty parlours / beauty treatment are not covered under these Rules.

(ii) Products manufactured by the company as well as conversion activity through third parties will be covered under the companies (cost Records and audit) Rules 2014 and the company would be required to maintain cost accounting records and get cost audit conducted subject to threshold limits. The finished products bought from outside parties (treated as Trading Activity in Financial Accounts) would be reflected as "Cost of Finished goods Purchased" in Abridged Cost Statement.

2(b)(i) 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 press publicity even if not an advertisement will be construed as a misconduct if as CMA Q notified his appointment as an Auditor.

(ii) Clause 4 of Part I of the Second Schedule to Cost and Works Accountants Act, 1959 states that expressing an opinion on cost and pricing of any business or any enterprise in which the auditor, his firm or a partner in his firm has a substantial interest would constitute misconduct, unless he discloses the interest also in his report.

As per facts of the given case, the firm has been retained to evaluate the cost of products manufactured by it for its information system. So this amounts to professional misconduct.

3 (a) (i) What disclosures are required to be made in Cost statement as per CAS-8 as regards to utility?

(ii) Define direct expenses as per CAS 10. How are they identified? [5+3 marks]

3 (b) The profit as per financial accounts of M/s Kalingpong Himalaya Private Company for the year 2016-2017 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:

[8 marks]

	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**
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**	**—**

Answer: 3(a)(i)

Disclosure in cost statements as regards to Utility as per CAS-8 are as follows-:

1. The basis of distribution of Cost of Utility to the consuming centres.
2. The cost of purchase, production, distribution, marketing and price with reference to sales to outside parties.
3. Where cost of utilities is disclosed at standard cost, the price and usage variances.
4. The cost and price of Utility received from/supplied to related parties.
5. The cost and price of Utility received from/supplied as inter unit transfers and inter company transfers
6. Cost of utilities incurred in foreign exchange.
7. Any Subsidy/Grant/Incentive and any such payment reduced from Cost of utilities.
8. Credits/recoveries relating to the Cost of utilities.
9. Any abnormal cost excluded from Cost of utilities.
10. Penalties and damages paid etc excluded from cost of utilities.

Further any change in the cost accounting principles and methods applied for the measurement and assignment of the Cost of utilities during the period covered by the cost statement which has a material effect on the Cost of utilities. Where the effect of such change is not ascertainable wholly or partly the fact shall be indicated.

Disclosures shall be made only where material, significant and quantifiable.

Disclosures shall be made in the body of the Cost Statement or as a foot note or as a separate schedule.

3(a)(ii) Direct Expenses are expenses relating to manufacture of a product or rendering a service, which can be identified or linked with the cost object other than direct material cost and direct employee cost. Examples of Direct Expenses are royalties charged on production, job charges, hire charges for use of specific equipment for a specific job, cost of special designs or drawings for a job, software services specifically required for a job, travelling Expenses for a specific job.

Identification of Direct Expenses shall be based on traceability in an economically feasible manner.

Direct expenses incurred for the use of bought out resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of trade discounts, rebates, taxes and duties refundable or to be credited.

Direct expenses other than those incurred for the use of bought out resources shall be determined on the basis of amount incurred in connection therewith.

Direct Expenses paid or incurred in lump-sum or which are in the nature of 'one – time' payment, shall be amortized on the basis of the estimated output or benefit to be derived from such direct expenses.

3(b) Working:

Computation in difference in Valuation of Stock

	Financial Accounts	Cost Accounts
Opening (WIP & FG)	2,91,09,835	3,14,84,660
Closing (WIP & FG)	4,15,35,070	4,72,61,495
	1,24,25,235	1,57,76,835

Reconciliation of Financial Profit and Costing Profit

	₹	₹
Profit as per Financial Accounts		1,54,28,642
Add: Difference in Stock Valuation	33,51,600	
Loss on Sale of Fixed Assets	1,22,546	
Donation not considered in Cost Records	4,85,560	
Voluntary retirement compensation not included in cost	16,76,540	56,36,246
Less: Non-operating income	45,36,770	2,10,64,888
Less: Interest income from inter-corporate deposit	6,15,340	
Difference in value of cement taken for own consumption	17,534	
Difference in valuation of windmill power (₹ 49,56,325 – 36,20,370)	13,35,955	
Insurance claim relating to previous year	14,35,620	79,41,219
Profit as per Cost Accounts		1,31,23,669

4 (a) XYZ Ltd. engaged in manufacturing of engineering goods is consistently recording higher sales turnover, but declining net profits since the last 5 years. As an management consultant appointed to find out the reasons for the same, what are the points you would verify?

4 (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 marks]

Answer:

4(a) As per the facts that there has been consistently high turnover but declining net profits is an anomalous situation. It may be attributed to one or more following reasons requiring further investigation:

(i) *Unfavourable Sales mix*: Where the company sells different engineering products with different product margins, the product with the maximum PV ratio/margin should have a higher share in the total sales. If due to revision of sales mix, more quantities of unprofitable products are sold, profits will be reduced inspite of an increase in sales.

(ii) *Negative Impact of Financial Leverage*: Where the company does not have sufficient own funds (equity) but has a higher debt-equity ratio, the interest commitments will be higher. As the volume of its operation increases, higher debt and interest charges would result in lower profits.

(iii) *Other Items Included in Sales*: The figure of sales as per Profit and Loss Account may include incidental revenues, e.g., freight, excise duty, sales-tax, etc. where the amount of excise duty goes up considerably the total sales may show an increase which is not represented by a real increase in sales quantity/value.

(iv) *High Administrative and Selling Expenses*: Administrative and selling costs are generally period costs which are fixed in nature. Their increase is generally not proportional to sale increase. However, a reduction in profit could also be due to increase in administrative overheads and sales overheads at a rate higher than the rate of increase in sales.

(v) *Cost-Price Relationship*: If the increases in cost of raw materials and labour has not been compensated by a corresponding increase in the sales price this would also result in higher sales and declining profits. Inspite of same sales quantity, for the increasing cost of raw materials and other services, per unit values of the product has been increased which is however unmatched by the increase in cost.

(vi) *Competitive Price*: Where sales have been made at cut-throat prices in order to eliminate competition from the market, the profits would be in the declining trend in the short-run.

(vii) *Additions to Fixed Assets*: Where there are heavy additions to fixed assets and consequent depreciation charges in the initial years of additions, there may be reduction in profits in spite of increased sales.

4(b) The term 'propriety' has been defined by Kholer as " that which meets the tests of public interest , commonly accepted customs and standards of conduct and particularly as applied to professional performance, requirements of Government regulations, and professional codes." Thus propriety audit is verification of transactions in best interest of public, commonly accepted customs and standards of conduct. Thus propriety audit seeks to ensure that expenditure is not only appropriate to the circumstances, the objectives for which it was incurred are also achieved. The principal standards adopted are as follows:

i) The expenditure should not be the prima facie more than what is required for the purpose and the person authorizing the expenditure should exercise the same degree of vigilance as he would when dealing with his own money.

ii) No person having power to authorize expenditure should exercise the power to his own advantage directly or indirectly.

iii) The funds should not be utilized for benefit of a particular person or group.

iv)Apart from agreed remuneration /computerization , these should not be left open to any other avenue to indirectly benefit the executives or other employees , and allowances should not be a source of profit for them.

In this context, Cost Audit may be termed as propriety audit as it also seeks to ensure that actual expenditure incurred at each stage of production is appropriate and optimum returns are achieved .The cost auditor has to report on matters which appear to him to be clearly wrong in principle, cases where company's fund have been used in negligent manner etc. These are the areas where the propriety aspect is involved and therefore the aspect is covered by cost audit.

5 (a) KPC Pvt. Ltd took a consortium loan in 2016-17 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 2015-16 its outstanding loan was ₹70 crores of which repayment was made in the year 2016-17 to the extent of ₹20 crores. Should KPC Pvt . Ltd conduct internal audit as per Companies Act 2013?

5 (b) How will you evaluate the internal control system in the area of credit card operations in a bank?

[8+8 marks]

Answer: 5(a)

Section 138 of the companies act 2013 deals with provisions of internal audit. Section 138 of the Companies Act 2013 read with Rule 13 - Companies(Accounts) Rules, 2014 states that the following class of companies shall be required to appoint an internal auditor or a firm of internal auditors, every private company having-

(i) turnover of two hundred crore rupees or more during the preceding financial year; **or**

(ii) outstanding loans or borrowings from banks or public financial institutions exceeding one hundred crore rupees or more at any point of time during the preceding financial year:

Provided that an existing company covered under any of the above criteria shall comply with the requirements of section 138 and this rule within six months of commencement of such section.

Outstanding loan of KPC Pvt Ltd is ₹130 crores as on 31st March 2017. So the Company is required to appoint internal auditor as per Companies Act 2013 read with Rule 13- Companies(Accounts) Rules, 2014.

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, realization 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 along with 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 unauthorized 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 dispatched 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 is the Balance Sheet of Jamuna Sing Ltd. of Chandigarh as on 31st March, 2017 and 31st March 2016:

	31.03.17	31.03.16
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	**50,000**	**50,000**
Deferred Tax	**20,000**	**20,000**
Current Liabilities		
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.

6 (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(Rs.)
A	72000	64800	194400
B	75000	66000	264000
C	108000	99360	496800
D	90000	83250	666000

Calculate "Direct labour cost per unit of the product under reference". [10+6 marks]

Answer: 6(a) Schedule of changes in Working Capital:

	31.03.16	31.03.17	Increase	Decrease
Current Assets				
Stock in trade	1,50,000	2,30,000	80,000	
Sundry Debtors	1,50,000	1,60,000	10,000	
Bills Receivable	20,000	35,000	15,000	
Advance Payment to contractors	3,000	10,000	7,000	
Cash and Bank	15,000	25,000	10,000	
	3,38,000	4,60,000		
Current Liabilities				
Sundry Creditors	1,80,000	1,90,000		10,000
Bills Payable	48,000	60,000		12,000
	2,28,000	2,50,000		
Net working capital	1,10,000	2,10,000	1,22,000	22,000
Increase	1,00,000			1,00,000
	2,10,000	2,10,000	1,22,000	1,22,000

(ii) Liquidity Ratios:

(a)	Current Ratio	31.03.2013 = 338000/228000 31.03.2012 = 460000/250000	= 1.48 = 1.84
(b)	Acid Test Ratio	31.03.2013 = 188000/228000 31.03.2012 = 230000/250000	= 0.82 = 0.92
(c)	Proprietary Ratio	31.03.2013 = 655000/975000 31.03.2012 = 600000/898000	= 0.67 = 0.67

6(b) The total labour cost per tonne of the product under audit must be an aggregation of process-wise labour costs after taking into account the good units occurring in each process.

Process	Input	Output	Factor
A	72000	64800	72000/64800=1.1111
B	75000	66000	75000/66000=1.1364
C	108000	99360	108000/99360=1.0870
D	90000	83250	90000/83250=1.0811

Process wise labour costs per M.T of output are:

A 194400/64800= Rs. 3

B 264000/66000= Rs. 4

C 496800/99360= Rs. 5

D 666000/83250= Rs. 8

Charging all the above to the finished product from process D,
Process A = Rs. 3
Process B= (Rs. 3*1.1364)+Rs.4 =Rs. 7.4092
Process C= (Rs7.4092*1.0870)+Rs.5 =Rs.13.0538
Process D= (Rs.13.0538*1.0811)+Rs.8 =Rs.22.1125
Direct Labour cost per M.T. of Finished Product = Rs.22.11

7 (a) Harish is an employee of M/s. Prix Co. and gets following emoluments and benefits

(i)	**Salary**	**₹ 2,500 per month**
(ii)	**Dearness allowance** **On first ₹ 1,000 of salary** **On next ₹ 1,000 of salary** **On balance of every ₹ 1,000**	 **₹ 4,000** **₹ 1,000** **₹ 500 or @ 50% of part thereof**
(iii)	**Employers Contribution to Provident Fund**	**8% of Salary and D.A.**
(iv)	**Employer's Contribution to ESI**	**4% of Salary and D.A.**
(v)	**Bonus**	**20% of Salary and D.A.**
(vi)	**Other allowance**	**₹ 2,725 per annum**

Harish works for 2400 hours per annum, out of which 400 hours are non-productive but treated as normal idle time. A worker works for 18 effective hours in job No. 11, where the cost of direct labour is @ effective hourly cost of Harish and direct material equal to direct labour cost, overhead applied is 100%, of Prime Cost. The sale value of the job is quoted to earn a profit of 15%. You are requested to find out:

(A) Effectively Hourly cost of Harish, and

(B) The effective sale value of job No. 11.

7 (b) The following information pertains to REACON CEMENT LTD., a manufacturing cement company for the year that ended as follows:

The year ended March 31.	**2016-17**	**2015-2016**
Rated Capacity per Hr (in MT)	**80**	**80**
Break down (Hrs)	**2,177**	**1,015**
Planned Maintenance (Hrs)	**247**	**422**
Power restrictions (Hrs)	**1,237**	**1,481**
Shortfall (there are no orders) (Hrs)	**792**	**677**
Want of wagons (Hrs)	**495**	**635**
Total stoppage (Hrs)	**4,948**	**4,230**
Total running (Hrs)	**3,888**	**4,582**
Total available Hours	**8,836**	**8,812**
Production during the year (in MT)	**2,48,844**	**3,29,928**
Hourly Rate of Production (in MT)	**64**	**72**
Capacity Utilization (%)	**62.21**	**82.48**
Annual Installed Capacity (in MT)	**4,00,000**	**4,00,000**

Based on information stated above, you as a Cost Auditor are required to offer your comments on

(i) The performance of the company

(ii) Your suggestion for improvement. **[8+8 marks]**

Answer: 7(a)

Harish's Earnings:

1	Salary		₹2,500 per month
2	D.A.		
	On first ₹ 1000	₹4,000	
	On next ₹1000 of salary	₹1,000	
	On balance ₹500 of Salary	₹250	₹5,250 per month
3	Total Salary and D.A.		₹7,750 Per month
4	Annual salary and D.A.		₹93,000 per annum
5	Employer's contribution to PF(8% Of 4)		7,440
6	Employer's contribution to ESI(4% Of 4)		3,720
7	Bonus (20% of 4)		18,600
8	Other allowance		2,725
9	Total annual earnings		1,25,485
10	Annual working hours		2,400
11	Less normal idle time		400
12	Effective annual working hours		2,000
13	Effective hourly cost of Harish	₹ 1,25,485/2,000 hr =₹62.74 per hour	

(B) Statement showing effective sales value of job no. 11.

Direct labour cost (₹62.74X18 hrs)	1,129.32
Direct material cost	1,129.32
Prime Cost	2,258.64
Overhead (100% of prime cost)	2,258.64
Total cost	4,517.28
Profit (Balancing Figure)	797.17
Sale value (4517.28 x 100/85)	5,314.45

7(b) Performance of the Company:

(a) Rated capacity = 80 MT/Hr: Rated capacity achieved in 2015-16=(72/80)x100 =90%
Rated capacity achieved in 2016-17= (64 /80)x100 = 80%

The capacity achievement as % of rated capacity has declined from 90% to 80% in 2016-2017

Further the Capacity Utilization has gone down to 62.21% in 2016-17 from 82.48% of previous year; a reduction of 20.27%

(b) From the data available the following observations are noted:-

1. Breakdown hours have gone up from 1,015 hours to 2,177 hrs, an increase by 114.48%
2. Planned Maintenance hrs has reduced from 422 hrs to 247 hrs i.e. by 41.47%
3. Shortfall hrs due to lack of orders has increased from 677 hrs to 792 hrs i.e. by 16.99%
4. The total stoppage hrs. has increased from 4,230 hrs to 4,948 hrs i.e. by 16.97%
5. The total running hrs has come down from 4,582 hrs to 3,888 hrs i.e. by 15.15%
6. The production has come down from 3,29,928 Mt to 2,48,844 Mt i.e. by 24.58%

   From the above findings, it can be pointed out that the under utilization of capacity to the extent of little over 20% can be attributed mainly to:-

- Increased total stoppage hours of 4,948 of 2016-17 as against that of 4,230 hrs in 2015-16 and
- The net increase of 718 hrs (4,948-4,230) is again due to increase of break down by 1,162 hrs (2,177-1,015) in the year 2016-17

(ii) Suggestion:

Therefore, the Company should look into the aspect of proper maintenance, securing sufficient orders to avoid lost time. Better utilization of capacity can be also be achieved by improving availability of wagons. The company may also carry out a cost-benefit analysis to have captive source of power.

8. Answer any 4 questions **[4x4=16 marks]**

(a) Discuss the concept of 'Common Cost' as per GACAP.

(b) Discuss the points to be included in audit programme of Local Bodies.

(c) State 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 31.03.2017.

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.

Answer:

8(a) Common Costs

1. A common cost is the cost of operating a common facility, activity or service or that is shared by two or more cost objects.
2. The common cost is generally lower than the stand-alone individual cost to each cost object was the facility not shared.
3. Common costs are therefore allocated to each cost object based on the individual costs of the cost object

(b) The audit programme for local bodies include the following:

- All sanctions are accorded by competent authority
- Expenditure incurred are according to provisions and as per regulations framed by competent authority
- Different schemes, programmes, and projects are running economically and the purpose such programme is achieved.

(c) The Essential Qualities Of A Management Auditor are:

(i) Ability to grasp business problems.
(ii) Ability to determine or assist the progress of the organization.
(iii) Knowledge of the principles of delegation of authority and control and the preparation of different budgets.
(iv) Power of grasping and understanding different internal control devices.
(v) General understanding of different laws.
(vi) Sufficient knowledge and experience in preparing various reports for submission to different levels of management including the top management.
(vii) Tactfulness, perseverance, pleasing and dynamic personality.

(d) Monthly Cost Sheet of Coke Oven Company Limited for the Financial Year ended 31st March 2017

Particulars		Total cost(₹)	Cost per ton(₹)
Coal used (7,000 tonnes x ₹ 28)		196000	
Raw Material used		54600	
Wages		20500	
Repairs and renewals		12000	
Salaries and general charges		7500	
		290600	
Less: Value of byproduct:			
Tar produced (280 tonnes x ₹ 60)	16,800		
Sulphur etc. (70 tonnes x ₹ 210)	14,700		
Benzole etc. (67 tonnes x ₹ 95)	6,365	37865	
Cost of Coke Produced (4900 tonnes)		252735	51.58
Profit(balancing figure)		21665	4.42
Sales Revevnue(4900 tonnes*₹56)		274400	56.00

(e)

			Hours
Available working hours in a month			200
Capacity usage @ 80%			160
Idle time unavoidable			40
Capacity utilization ratio = 90%			
Actual hours worked	= 160 hrs. x (90/100)		= 144 hrs.
Idle time	= 160 hrs. – 144 hrs.		= 16 hrs.
Breakup of Idle Time		Hrs.	
Waiting for job		5	
Breakdown		4	
Waiting for tools		3	
Miscellaneous causes		4	
Total idle time		16	

Calculation of Idle Time Cost

Particulars	Hours	Rate per hr. (₹)	Amount (₹)
Cost of unavoidable idle time	40	8	320
Cost of avoidable idle time:			
Waiting for job	5	8	40
Breakdown	4	8	32
Waiting for tools	3	8	24
Other reasons	4	8	32
Total cost of idle time	16		128
	56		448