

Paper – 19 – Cost and Management Audit

MTP_Final_Syllabus 2016_June 2018_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 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.

MTP_Final_Syllabus 2016_June 2018_Set 2

(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.

MTP_Final_Syllabus 2016_June 2018_Set 2

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.

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	—

MTP_Final_Syllabus 2016_June 2018_Set 2

- 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]

- 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?

- 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.

MTP_Final_Syllabus 2016_June 2018_Set 2

- 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]

- 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]

MTP_Final_Syllabus 2016_June 2018_Set 2

8. Answer any 4 questions

[4*4=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.