

Paper-17 - Cost Audit & Operational Audit

Time allowed -3hrs

Full Marks: 100

Working Notes should form part of the answer.

“Wherever necessary, suitable assumptions should be made and indicated in answer by the candidates.”

SECTION I (50 Marks)

(Cost Audit)

Answer Question No. 1 (carrying 14 marks) which is compulsory and answer any two (carrying 18 marks each) from the rest in this Section.

(1)(a) Choose the most correct answer among four alternative statements: [8×1=8]

(i) Installed capacity is determined based on:

- (a) Manufacturers' Technical specifications
- (b) Capacities of individual or interrelated production centres
- (c) Operational constraints/ capacity of critical machine
- (d) All of the above

(ii) Example of indirect labour:

- (a) Salaries of staff in the administration and accounts department
- (b) Salaries of securities staff etc.
- (c) (a) and (b)
- (d) None of the above.

(iii) Distribution costs includes-

- (a) Transportation cost
- (b) Cost of warehousing saleable products
- (c) Cost of delivering the products to customers etc.
- (d) All of the above.

(iv) Material Consumed shall include materials directly identifiable for production of goods such as:

- (a) Imported materials
- (b) Cost of utilities
- (c) Amortized cost of moulds
- (d) Consumable stores and spares

(v) Joint costs are allocated:

- (a) Based on a measure of the number of units, weight, or volume of the joint products.
- (b) Based on the values attributed to the joint products.
- (c) (a) and (b).
- (d) None of the above.

(vi) CAS 6 deals with the following issues:

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- (a) Principle of Valuation of receipt of materials.
- (b) Principle of Valuation of issue of materials.
- (c) Assignment of material cost to cost objects.
- (d) All of the above.

(vii) Para 6 of the Annexure to Cost Audit Report, 2011 deals with:

- (a) Product group details.
- (b) Quantitative information of each product group separately.
- (c) Operating ratio analysis for each product group separately.
- (d) Abridged cost statement for each product group separately.

(viii) Rectified Spirit is covered by

- (a) Cost Accounting Records(Chemical Industries) Rules, 2004
- (b) Cost Accounting Records(Formulations) Rules, 1988
- (c) Cost Accounting Records(Industrial Alcohol) Rules, 1997
- (d) Cost Accounting Records(Bulk Drugs) rules,1974

(b) State whether following statements are “True” or “False”. Reasons or justification is needed for the answer. [6×1=6]

(i) Compliance Report is to be prepared for the company as a whole.

(ii) Production, processing, manufacturing or mining involving manual operation, without the use of power is covered under these Rules.

(iii) It is necessary to first prepare “unit-wise’ and “product/activity-wise” cost statements and then merge into product group-wise cost statement for the company as a whole.

(iv) Value addition is to be computed based on Cost record data.

(v) Export Benefits are to be considered as a part of other operating income.

(vi) Retail Company with service tax registration is engaged in telecommunication services. Hence it is covered under Companies (Cost Accounting Records) Rules, 2011.

(2) (a) Discuss the basis of apportionment for primary distribution of overhead. (12 Marks)

(b) As a cost accountant of a manufacturing company, how would you dealt with over and under absorption of overhead? (6 Marks)

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(3)(a) How would you deal the following items in the cost accounts of a manufacturing concern?

- (i) Research and Development Cost;
- (ii) Packing Expenses;
- (iii) Fringe Benefits;
- (iv) Expenses on Removal and Re-erection of Machinery;
- (v) Training Costs.

(3×5=15 Marks)

(b) Any change in the cost accounting principles applied for the determination of the cost should be made only if it is required by law or for compliance with the requirements of a cost accounting standard or generally accepted cost accounting principles or a change would result in a more appropriate preparation or presentation of cost statements of an enterprise. Comments. (3 Marks)

(4)(a) TPO manufacturers - a small scale enterprise produces a single product and has adopted a policy to recover the production overheads of the factory by adopting a single blanked rate based on machine hours. The budgeted production overheads of the factory are ₹10,08,000 and budgeted machine hours are 96,000.

For the period first six month of the financial year 2007-2008, following information were extracted from the books:

Actual production overheads	₹6,79,000
Amount included in the production overheads:	
Paid as per court's order	₹45,000
Expenses of previous year booked in current year	₹10,000
Paid workers for strike period under an award	₹42,000
Obsolete stores written off	₹18,000

Production and sales data of the concern for the first six months are as under:

Production:	
Finished goods	22,000 units
Work- in – progress (50% complete in every respects)	16,000 units
Sales: Finished goods	18,000 units

The actual machine hours worked during the period were 48,000 hours. It is revealed from the analysis of information that $\frac{1}{4}$ of the under-absorption was to defective production policies and the balance was attributable to increase in costs. You are required:

- (i) to determine the amount of under absorption of production overheads for the period,
- (ii) to show the accounting treatment of under-absorption of production overheads, and
- (iii) to apportion the unabsorbed overheads over the items. (15 Marks)

(b) State the time limit within which Compliance Report should be submitted to the Central Government. Is there any penalty for contravention of these provisions? (3 Marks)

SECTION II (50 Marks)

(Operational Audit)

Answer Question No. 5 (carrying 14 marks) which is compulsory and answer any two (carrying 18 marks each) from the rest in this Section.

5. (a) Fill in the blanks in the following sentences by using appropriate word(s)/ phrase(s) : **[8×1=8]**

- (i)** The main emphasis of Management Audit is problemrather than problem
- (ii)** Pareto distribution is technique used in control.
- (iii)** Section 292 A of the Companies Amendment Act ,2000 provides for constitution of.....
- (iv)** SALVAGE is considered as..... by insurer against what is owed under the policy for an insured loss.
- (v)** Excisable goods must come out of process.
- (vi)** Margin of Dumping means the difference betweenand

(b) State whether the following statements are TRUE or FALSE with justification for your answer. No credit will be given for merely answering TRUE or FALSE — without giving any justification/reasoning: **[6×1=6]**

- (i) Dumping is an 'illegal' practice.**

- (ii) Assurance engagements involve three separate parties.**

- (iii) Excise Audit 2000 was initiated from 1st April 2000.**

- (iv) "Firm of Cost accountants" should have at least two partners who are practicing Cost Accountants.**

- (v) GATT and its agreement are permanent.**

- (vi) "Organisation Development" (OD) is a "Sensitivity Training" intervention.**

(6)(a) What are the areas need to be examined by the management auditor of the company to evaluate the adequacy of Budgetary Control System? **(6 Marks)**

(b) Prepare the checklist of Purchasing Function. **(12 Marks)**

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(7)(a) Write short notes on objectives of Operational Auditing. (10 Marks)

(b) "Management Audit can be potent tool for managerial control and reduction of cost". Do you agree with the above statement? Briefly comment on the potential of management audit as a tool for managerial control and reduction of costs. (8 Marks)

(8) Write Short Notes on:

- (i) Energy Conservation**
- (ii) SWOT Analysis**
- (iii) Qualities and function of a Management Auditor**
- (iv) Management Audit Programme /MAP**
- (v) Management Frauds**
- (vi) Audit Committee**

(6×3=18 Marks)