

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) Rate per unit for each product separately under annexure 2 of part B of CRA-3 for manufacturing sectors of the Companies (Cost Records and Audit) Rules, 2014 to be furnished for :
 - A) Last year only.
 - B) Current year and previous 2 years.
 - C) Current year and previous year.
 - D) Previous three years.

 - ii) Form CRA-2 of the Cost Records and Audit Rules, 2014 deals with:
 - A) Form of intimation of appointment of Operational auditor by the board to the stakeholder.
 - B) Form of intimation of appointment of internal auditor by the board to the stakeholder.
 - C) Form of intimation of appointment of cost auditor by the company to Central Government.
 - D) Form of intimation of appointment of Branch auditor by the board to the stakeholder.

 - iii) Annexure 5 of Part D of the Companies (Cost Records and Audit) Rules, 2014 deals with
 - A) Value Addition and Distribution of Earning for the company as a whole
 - B) Profit Reconciliation for the company as a whole
 - C) Related Party transactions for the Company as a whole
 - D) Reconciliation of Indirect taxes for the Company as a whole

 - iv) CAS -19 deals with
 - A) Packing material cost
 - B) Joint cost
 - C) Pollution control cost
 - D) Direct material cost

 - v) 'Significant influence' means:
 - A) Participation in the financial policy decisions and control but not operating policy decisions and control of an enterprise.
 - B) Participation in the financial or operating policy decisions of an enterprise and

control over those policies.

- C) Participation in the financial or operating policy decisions of an enterprise but not control over those policies.
- D) None of the above.

vi) According to CAS 2 on Capacity Determination, 'Normal Capacity' is :

- A) Practical capacity minus the loss of productive capacity due to external factors.
- B) Difference between installed capacity and the actual capacity utilization.
- C) Maximum productive capacity of a plant.
- D) Installed capacity minus the inevitable interruptions.

vii) The Cost auditor of the company shall continue in office, for the financial year for which he has been appointed, in such capacity till the expiry of:

- A) 135 days from the close of the financial year.
- B) Till he submits the cost audit report.
- C) 180 days from the close of the financial year.
- D) 180 days from the closure of the financial year or till he submits the cost audit report.

viii) Excisable clearance means:

- A) Only sale of goods from factory
- B) Removal from godown
- C) Despatches from bonded warehouse
- D) Total clearance from factory.

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

- i)** Abridged Cost Statement (for each service separately) is being dealt in annexure 2 of part B of CRA-3 to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014.
- ii)** Market research cost is not a part of Research and Development Cost.
- iii)** XBRL (Extensible Business Reporting Language) is a language based on XBL family of languages.
- iv)** Under Part-D of the Annexure to Cost Audit Report the Cost Auditor gives Profit Reconciliation for the company as a whole of only 2 years.
- v)** M/s. JTS Company situated in Jamshedpur has been planning to file a single form CRA-2 by appointing BMS & Associates a Cost Audit firm for all the three different types of products covered under Cost Audit.
- vi)** UK is the first country in the world in introducing the provisions of compulsory maintenance of Cost Accounting Records.

2.

- a)** The Tables listing the industry/sector/product/service in the Rules have described the same by way of description as well as CETA Heading, wherever applicable. For certain sectors, the coverage under the CETA Heading are apparently not in line with the description of the sector. How to determine the coverage in such cases? [6]
- b)** The following details of the process wise, Input-Output and Direct Employees Costs are taken from the SUSITRA INDUSTRIES LTD., a manufacturing company, for the year ended March 31,2012:

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Process	Input (Tonne)	Output (Tonne)	Direct Employee Costs (₹)
I	48,000	43,200	1,29,600
II	50,000	44,000	1,76,000
III	72,000	66,240	3,31,200
IV	60,000	55,500	4,44,000
V	80,000	73,400	6,60,600

Required:

Calculate "the Direct Employees Cost per Tonne of the product as per CAS 7. [6]

- c) How would you treat the following as per CAS-15 related to selling and distribution overheads?
- i) Leased Assets;
 - ii) Cost of Administrative Services procured from outside;
 - iii) Cost of Software
- [2×3=6]**

3.

- a) The management of Up and Down Ltd. is worried about their increasing labour turnover in the factory and before analyzing the causes and taking remedial steps, they want to have an idea of the profit foregone as a result of labour turnover in the last year. Last year sales amounted to ₹83,03,300 and the P/V Ratio was 20%. The total number of actual hours worked by the direct labour force was 4.45 lakhs. As a result of the delays by the personnel department in filling vacancies due to labour turnover, 1,00,000 potentially productive hours were lost. The actual direct labour hours included 30,000 hours attributable to training new recruits, out of which half of the hours were unproductive. An analysis of costs incurred consequent on labour turnover revealed the following:
- | | |
|--------------------------------|---------|
| Settlement cost due to leaving | ₹43,820 |
| Recruitment Costs | ₹26,740 |
| Selection Costs | ₹12,750 |
| Training Costs | ₹30,490 |
- Assuming that the potential lost as a consequence of labour turnover could have been sold at prevailing prices, find out the profit foregone last year on account of labour turnover. [6]

- b) The Trial Balance of IGP Ltd as on 31.3.2014 are as follows;

Particulars	Amount (₹)	
	Dr.	Cr.
Materials consumed	25,00,000	
Salaries	15,00,000	
Employee Training Cost	2,00,000	
Special Subsidy received from Government towards Employee salary		2,75,000
Perquisites to Employees	4,50,000	

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Contribution to Gratuity Fund	4,00,000	
Recoverable amount from Employee out of perquisites extended		35,000
Lease rent for accommodation provided to employees	3,00,000	
Festival Bonus	50,000	
Unamortised amount of Employee cost related to a discontinued operation	90,000	

Calculate the employee cost according to CAS 7.

[6]

- c) Boruah Electronics Ltd. is engaged in the manufacture of colour television sets having its factories at Kolkata and Gujarat. At Kolkata the company manufactures picture tubes which are stock transferred to Gujarat factory where it is consumed to produce television sets. Determine the Excise duty liability of captively consumed picture tubes from the following information: - Direct Material Cost (per unit) ₹ 800; Direct Labour ₹ 100; Indirect Labour ₹ 50; Direct Expenses ₹ 100; Indirect Expenses ₹ 50; Administrative Overheads ₹ 50; Selling and Distribution Overheads ₹ 100.

Additional Information: -

(1) Profit Margin as per the Annual Report of the company for 2013-14 was 12% before Income Tax.

(2) Material Cost includes Excise Duty paid ₹ 73.

(3) Excise Duty Rate applicable is 12%, plus education cess of 2% and SHEC @ 1%. **[6]**

4.

- a) The following is the abridged Balance Sheet of BRL Batteries Ltd:

	₹ in lacs	
	31.3.2014	31.3.2013
Liabilities:		
Share Capital	450	450
Debenture Redemption Reserve	25	30
Capital subsidy from State Government	30	30
Revaluation Reserve	125	140
General Reserve	160	120
Balance in Profit and Loss A/c	48	32
Secured Loans	275	295
Unsecured Loans	123	117
	1236	1214
Assets:		
Gross Block	725	680
Accumulated Depreciation	(315)	(290)
Capital WIP	43	37
Investments	165	165
Current Assets:		

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Inventories	417	441
Sundry Debtors	182	195
Advances for Capital Equipment	24	17
Other Loans & Advances	144	137
Cash and Bank Balances	21	19
Current Liabilities:		
Sundry Creditors		
For Capital Expenses	(17)	(21)
For others	(185)	(197)
Provision for Taxes	(64)	(71)
Misc. Expenses	96	102
Total	1236	1214

Notes:

- (i) Fixed Assets include Goodwill and Patents ₹122 lacs (Previous year ₹137 lacs)
- (ii) Term loans due for repayment within 12 months are ₹96 lacs (Previous year ₹ 84 lacs)

Calculate & analyse the following for the company as a whole:

- (i) Capital Employed for the year ended 31.3.14
- (ii) Net worth as on 31.3.12 and 31.3.14
- (iii) Debt/ Equity Ratio as on 31.3.2014. **[5+4+3=12]**

- b) What are the penal provisions for non-compliance of any of the provisions of the Act regarding Cost Audit? **[6]**

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 Secretariat of WTO is headed by a _____.
 - ii) _____ is a movement protecting interest of the consumers.
 - iii) Section 177 of the Companies Act 2013, provides for Constitution of _____.
 - iv) SALVAGE is considered as _____ by insurer against what is owed under the policy for an insured loss.
 - v) Excise Audit-2000 was initiated from _____.
 - vi) The origin of the term 'Due Diligence' owes to _____.
 - vii) The main emphasis of Management Audit is problem _____ rather than problem _____.
 - viii) Corporate image and _____ are closely related concepts.

- 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) There are no fixed items of evidence to be checked by Management Auditor.
 - ii) For stock hypothecation to the Bank, Insurance Coverage is required for seventy-five percent of stock as margin money;
 - iii) CAS 17 deals with the principles and methods of determining the Research and Development Costs and their classification, measurement and assignment for determination of the cost of product or service and the presentation and disclosure in cost statements.
 - iv) According to CAS 19, Joint Costs shall not include imputed costs.
 - v) The impact of higher depreciation due to revaluation of assets shall be assigned to cost object.
 - vi) Cost incurred after split-off point for further processing of Joint product/By-Product shall be the aggregate of only direct costs.

6.

- a) **Explain whether the following amounts to professional misconduct by a Cost Accountant:**
- i) A practicing Cost Accountant uses a visiting card in which he designates himself, besides as Cost Accountant, as Tax Consultant.
 - ii) A Cost Accountant takes voluntary retirement from his employer and starts practice. He continues his association with his previous employers as an advisor, on a monthly retainer.
 - iii) A Cost Accountant gives a certificate of cost for a product manufactured by an SSI unit owned entirely by his son. **[3+2+3=8]**
- b) You are appointed statutory auditor of X Ltd. X Ltd. has an internal audit system and reports for the same are given to you. Mention the factors you will consider to ensure that the said system of internal audit of X Ltd. is commensurate with the size of the company and nature of its business. **[5]**
- c) XYZ, a manufacturing unit does not accept the recommendations for improvements made by the Operational Auditor. Suggest an alternative way to tackle the hostile management. **[5]**

7.

- a) Your client, ASHEETA LTD. is contemplating to take over a manufacturing concern and desires that in the course of due diligence review, you should look specifically for any hidden liabilities and overvalued assets. —State (in brief) the major areas you would examine for the above. **[7]**
- b) A company manufacturing consumer electronic goods has a fairly Research and Development set up. So far the company has been earmarking 2% of its turnover to R&D budget. Such an approach has so far paid ample dividends to the company. The

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company has been able to establish a reputation of introducing innovative products, which has excellent customer acceptability.

The company, however, is now worried that new players, some of whom are of international repute, entering Indian market, whether their R&D efforts are really giving them value for their money. Since your firm is well known consultancy firm, they have approached you to conduct a management audit of their R&D activities.

List out five major questions, which your audit will address. **[5]**

- c)** The management of a very big public sector Company suspects the existence of "ghost workers". You, as an Internal Auditor of the company are required to formulate a system of Internal Control for payment of wages and salaries. **[3]**

- d)** A company under Cost Audit has three sources of power supply:

- i) Electricity Board
- ii) Heavy Power Generator
- iii) A bank of 100 windmills

In the Power Cost Statement the generator power and the windmill power are valued at Electricity Board energy bill rate which consists of maximum demand charges and energy charges.

Is this method acceptable for cost statements for Cost Audit. **[3]**

- 8. Write short notes on any three out of the following: [6×3=18]**

- a)** The major characteristics of ERP systems necessitating change in Audit Approach.
- b)** Industrial Sickness
- c)** Audit of Work-in-Progress
- d)** Environment Pollution