Paper 19 - COST AND MANAGEMENT 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.

1. Answer the four Questions [15×4=60]

(a) (i) In the Annexure to the Cost Audit (Report) Rules, 2011 details of production and percentage of production to installed capacity has to be given. How do you go about ascertaining:

(A) Installed Capacity

(B) Actual production.

(ii) In a Company manufacturing Electric motors, you notice that the licensed and installed capacity indicated in numbers in the Annual Audited Accounts of the Company.

Would you as Cost Auditor of the Company for the Electric Motors accept this capacity as production? If not, why? How would you present it as per requirements of Cost Audit (report) Rules. Illustrate with an example. **(8+4 = 12 Marks)**

(iii) What are the key features of Cost Audit? **(3 marks)**

(b) (i) State the applicability and non-applicability of provision of Cost Accounting Record Rules, 2011. Whether this rules is also applicable to Foreign companies in India? **(10 Marks)**

(ii) State the circumstances under which the companies are required to submit Compliance report instead of Cost Audit Report? **(5 Marks)**

(c) (i) What are the steps to be taken by the cost auditor to ensure proper maintenance of cost records? **(12 Marks)**

(c)(ii) Whether remuneration payable to Managerial Personnel including Executive Directors on the Board and other officers of a corporate body under a statute will be considered as part of the Employee Cost of the year under reference or whether the whole or part of the remuneration is computed as a percentage of profits? **(3 Marks)**

(d) (i) Determine the cost of production on manufacture of the under-mentioned product for purpose of captive consumption in terms of Rule 8 of the Central Excise Valuation (DPE) Rules, 2000 - Direct material - ₹ 23,200, Direct Wages & Salaries - ₹ 5,400, Direct Expenses - ₹3,000, Works Overheads - ₹ 5,200, Quality Control Costs - ₹ 4,000, Research and Development Costs - ₹ 2,400, Administrative Overheads - ₹ 4,600, Selling and Distribution Costs ₹ 1,600, Realisable Value of

Scrap - ₹ 1,200. Administrative overheads are in relation to production activities. Material cost includes Excise duty ₹ 2,108. **(8 Marks)**

(d) (ii) Gross pay ₹10,20,000 (including cost of idle time hours paid to employee ₹25,000); Accommodation provided to employee free of cost [this accommodation is owned by employer, depreciation of accommodation ₹2,00,000, maintenance charges of the accommodation ₹50,000, municipal tax paid for this accommodation ₹10,000], Employer's Contribution to P.F. ₹1,00,000 (including a penalty of ₹2,000 for violation of PF rules), Employee's Contribution to P.F. ₹75,000. Compute the Employee cost. **(7 Marks)**

(e) (i) What are the duties of Board of Directors for Compliance Report? **(5 Marks)**

(e)(ii) Explain the procedure for appointment of cost auditor. **(10 Marks)**

(2) Answer any two questions [10×2=20]

(a)(i) What are the scope of internal control of a company. **(4 Marks)**

(a)(ii) What are the factors need to be considered while designing an internal control system? **(6 Marks)**

(b)(i) Give a brief note on objectives and advantages of budgetary control of an organization? **(5 Marks)**

(b)(ii) What are the benefits of management audit? **(5 Marks)**

(c) As a management consultant, you have an assignment to conduct a Management Audit of the production function of a medium-scale engineering unit. Prepare a check list of the points on which you should undertake the study. **(10 Marks)**

(3) Answer any two questions [10×2=20]

(a) The Balance Sheets of Sun Ltd for the last 3 years read as follows:

	₹ in lakhs		
	As on 31 March 2012	As on 31 March 2013	As on 31 March 2014
Sources of Fund:			
Share Capital [Share of ₹10 each]	2,200	2,200	3,200

Securities Premium	1,900	2,000	700
Reserves [After 10% Dividend]	1,900	2,100	1,900
Long-term Loan	1,750	1,550	2,600
Total Funds	7,750	7,850	8,400
Represented by:			
Fixed Assets	2,800	3,200	3,500
Less: Depreciation	800	1,050	1,300
	2,000	2,150	2,200
Capital WIP [work-in-progress]	1,000	1,100	1,200
Investment	600	700	650
A.	3,600	3,950	4,050
Net Current Assets:			
Current Assets:			
Debtors	1,800	1,950	2,150
Stock	1,900	2,050	2,700
Cash & Bank	800	800	800
Others	550	750	1,800
	5,050	5,550	7,450
Less: Current Liabilities	900	1,650	3,100
B.	4,150	3,900	4,350
Total Assets [A+B]	7,750	7,850	8,400
Sales [excluding Excise Duty and Sales Tax @ 20%]	4,050	4,200	5,400

I. Calculate & analyse for the year 2012-13 and 2013-14:
   i. Fixed Asset Turnover Ratio
   ii. Stock Turnover Ratio
   iii. Debtors' 'Turnover Ratio in terms of number of days'
   iv. Debt-Equity Ratio
   v. Current assets to current liability

II. Briefly comment on the performance of the company. **(10 Marks)**

(b) Following are the summarized accounts of Kayal Ltd and Sonu Ltd for the 2 years 2012 and 2013:

Particulars	₹ in Lakhs			
	Kayal Ltd		Sonu Ltd	
	2012	2013	2012	2013
Sales	10,824	9,150	3,504	2,894
Manufacturing & Other Expenses	10,208	8,712	2,992	2,364
Depreciation	112	102	120	70
Profit before Tax	504	336	392	460
	10,824	9,150	3,504	2,894
Miscellaneous Expenditure	330	338	-	-
Fixed Assets	1,672	1,882	702	550
Stock	2,248	2,438	354	452
Debtors	1,456	1,648	1,164	804
Bank	186	66	928	492
	5,892	6,372	3,148	2,298
Creditors	1,894	1,852	466	350
Taxation [Less Advance Tax]	112	136	174	116
Short-term Borrowings	848	1,600	928	432
Long-term Borrowings	508	420	20	-
Capital & Reserves	2,530	2,364	1,560	1,400
	5,892	6,372	3,148	2,298

You are required to:

i. Indicate and calculate five Ratios which in your opinion are relevant in determining the stability of the two companies.

ii. Compare the Ratios so determined for the two companies. Indicate what conclusions can be drawn therefrom? **(10 Marks)**

(c) Poly Ltd has the following Balance Sheets as on 31 March 2014 and 31 March 2013:

Particulars	₹ in lakhs	
	31 March 2014	31 March 2013
Sources of Funds:		
Shareholder's Fund	2,677	1,772
Loan Funds	3,470	2,983
	6,147	4,755
Applications of Funds:		
Fixed Assets	3,566	3,000
Cash & Bank	589	570
Debtors	1,895	1,568
Stock	2,667	2,207
Other Current Assets	1,667	1,504
Less: Current Liabilities	(4,037)	(3,894)
	6,347	4,955

The Income Statement of the Poly Ltd for the year that ended is as follows:

	₹ in lakhs	
	31 March 2014	31 March 2013
Sales	24,265	14,982
Less: CGS	22,960	13,644
GP	1,305	1,338
Less: Selling, General & Administrative Expenses	1,035	652
Earnings before Interest and Tax (EBIT)	270	686
Less: Interest Expense	113	105
Profit before tax	57	481

Less: Tax	23	192
Profit after Tax	34	289

Required:

(i) *Calculate for the year 2013*-14:

a. Inventory Turnover Ratio
b. Return on Net worth
c. ROI
d. ROE
e. Profitability ratio

(ii) Give a brief comment on the financial position of Poly Ltd. **(10 Marks)**