

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) Discuss the basis of apportionment for primary distribution of overhead. (9 Marks)

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

(b) 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)

(c) 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:

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- (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
- (ii) to apportion the unabsorbed overheads over the items. **(15 Marks)**

**(d) (i)** What are the objectives of Cost Audit? **(9 Marks)**

**(ii)** What are the certification procedures of compliance report of a company? State also the time limit within which compliance report should be submitted to the Central Government. Is there any penalty for contravention of these provisions? **(6 Marks)**

**(e)(i)** 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. **(5 Marks)**

**(ii)** Opening stock of raw materials (5,000 units) ₹ 1,80,000; Purchase of Raw Materials (17,500 units) ₹ 7,00,000; Closing Stock of Raw Materials 3,500 units; Freight Inward ₹ 85,000; Self-manufactured packing material for purchased raw materials only ₹60,000 (including share of administrative overheads related to marketing sales ₹ 8,000); Demurrage charges levied by transporter for delay in collection ₹ 11,000; Normal Loss due to shrinkage 1% of materials; Abnormal Loss due to absorption of moisture before receipt of materials 100 units. Calculate the value of closing stock. **(10 Marks)**

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

**(a)** In an audit, it is necessary for an auditor of the company to evaluate the internal control of the company. Comments. **(10 Marks)**

**(b)(i)** Analytical procedure is a pre-requisite procedure for an audit. Comments. **(5 Marks)**

**(ii)** What are the areas need to be examined by the management auditor of the company to evaluate the adequacy of Budgetary Control System? **(5 Marks)**

**(c)** Prepare the checklist of Purchasing Function. **(10 Marks)**

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

**(a)** Explain the Impact of IFRS on the Cost Structure, Cash Flows and Profitability. **(10 Marks)**

**(b)** Niraj Textiles Ltd. has been having low profits. A special task force appointed for reviewing performance and prospects has the following to report:

The company has 1,200 looms working 2 shifts per day. There are 25 sections of 48 looms each. Each section has 24 weavers and a jobber. Thus there are 1,250 direct labourers, other than indirect labourers and service hands. The working time is between 7 a.m. and 12 mid-night, comprising 2 shifts of 8 hours each, with half hour interval between shifts. The production is 18 lakh metres per month and the realization is ₹3 per metre. The average wage of the direct labourer is ₹800 per month and the fixed costs amount to ₹2,00,000 per month. The product cost is ₹2.25 per metre in addition to direct wages.

The following suggestions are to be considered:

- (i) Labour productivity can be improved by changing the layout of the machines.

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- (ii) Given the space available, with the proposed change in layout, only 1,008 looms can be re-installed, with 48 looms in each section.
- (iii) Technically, a section of 48 looms can be run with 12 weavers, a helper and a jobber. It will be necessary to increase the age of direct labour, for such sections, by ₹110 per head per month. There will be some drop in production per loom. The company is not for retrenchment of labour.
- (iv) The company can run a third shift between 12 mid-night and 7 a.m., with a half hour interval. However, for the six and half hours' work, eight hours' wage will have to be paid.
- (v) Only 18 lakh metres can be sold at the present price of ₹3 per metre. There is an export offer for ₹4.5 lakh metres at ₹2.70 per metre.
- (vi) As an initial step, the company can switch to 3 shift working, with 12 sections having 25 direct labourers each and 9 sections having 14 direct labourers each. Progressive conversion to 14 hands per section, for all sections, can be planned, as direct labourers retire or voluntarily leave the job. The production with three shift working will be 22.5 lakh metres. Additions to fixed costs will amount to ₹60,000 per month.

Examine the implications of the proposals for the company's profits and give your advice.

**(10 Marks)**

**(c)** A firm can produce three different products from the same raw material using the same production facilities. The requisite labour is available in plenty at ₹8 per hour for all products. The supply of raw material, which is imported at ₹8 per kg., is limited to 10,400 kgs. for the budget period. The variable overheads are ₹5.60 per hour. The fixed overheads are ₹50,000. The selling commission is 10% on sales.

(i) From the following information, you are required to suggest the most suitable sales mix, which will maximize the firm's profit. Also determine the profit that will be earned at that level:

Product	Market demand (units)	Selling price per unit (₹)	Labour hours required per unit	Raw material required per unit (kgs.)
P	8,000	30	1	0.7
Q	6,000	40	2	0.4
R	5,000	50	1.5	1.5

(ii) Assume, in above situation, if additional 4,500 kgs. of raw material is made available for production, should the firm go in for further production, if it will result in additional fixed overheads of ₹20,000 and 25 per cent increase in the rates per hour for labour and variable overheads.

**(10 Marks)**