

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) A Company is engaged in both Regulated and Non-Regulated sectors and all its products are not covered under the Rules. How to determine applicability of cost audit for the products covered under the Regulated and Non-Regulated sectors since different threshold limits have been prescribed under Rule 4?

(ii) What would be the treatment of cost consumption of electricity from a captive generating plant and applicability of cost audit to such captive generating plants?

(8+4 = 12 Marks)

(iii) Is a cost auditor required to audit and certify monthly, quarterly, half-yearly and yearly cost statements?

(3 marks)

(b) (i) The Rules state that cost records are to be maintained in Form CRA-1. However, CRA-1 does not prescribe any format but only provides principles to be followed for different cost elements. What are the role and status of Cost Accounting Standards/GACAP and its applicability vis-à-vis CRA-1?

(6 Marks)

(ii) Is maintenance of cost accounting records mandatory for a multi-product company where all the products are not covered under the Rules even if the Turnover of the individual product/s that are covered under the Rules is less than rupees thirty five crores?

(4 Marks)

(iii) Whether separate Form CRA-2 is required to be filed by a company having two or more different types of products covered under cost audit?

(5 Marks)

(c) (i) What are the eligibility criteria for appointment as a cost auditor?

(12 Marks)

(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)

PTP_Final_Syllabus 2012_Jun2015_Set 1

(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)**

(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) Is there any obligation on the part of cost auditor to report offence of fraud being or has been committed in the Company by its officers or employees? **(6 Marks)**

(ii) The Companies Act, 2013 has introduced provision regarding rotation of auditors. Is the provision of rotation of auditors applicable to cost auditors also? **(6 Marks)**

(iii) What is the difference between Cost Accounting policy and Cost Accounting system?

(3 Marks)

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

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

(4 Marks)

(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)

(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 Surya Ltd for the last 3 years read as follows:

	₹ in lakhs		
	As on 31 March 2013	As on 31 March 2014	As on 31 March 2015
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 2013-14 and 2014-15:
 - 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

PTP_Final_Syllabus 2012_Jun2015_Set 1

II. Briefly comment on the performance of the company.

(10 Marks)

(b) Following are the summarized accounts of Usha Ltd and Sandhya Ltd for the 2 years 2014 and 2015:

Particulars	₹ in Lakhs			
	Usha Ltd		Sandhya Ltd	
	2014	2015	2014	2015
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)**

PTP_Final_Syllabus 2012_Jun2015_Set 1

(c) ICML Ltd has the following Balance Sheets as on 31 March 2015 and 31 March 2014:

Particulars	₹ in lakhs	
	31 March 2015	31 March 2014
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	389	370
Debtors	1,895	1,568
Stock	2,667	2,207
Other Current Assets	1,667	1,504
Less: Current Liabilities	(4,037)	(3,894)
	6,147	4,755

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

	₹ in lakhs	
	31 March 2015	31 March 2014
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	157	581
Less: Tax	23	192
Profit after Tax	134	389

Required:

(i) Calculate for the year 2014-15:

- 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 ICML Ltd.

(10 Marks)