COST AUDIT & MANAGEMENT AUDIT

Full Marks: 100

Section A

Answer any four Questions [4x15=60]

1. **(a)** From the following figures extracted from the financial and cost accounting records, you are required to compute:

(i) Value Added.
(ii) Ratio of Operating Profit to Sales.
(iii) Ratio of Operating Profit to Value Added.

Particulars	₹ in lacs
Net Sales excluding Excise Duty	21000
Increase in Stock of finished goods	250
Expenses:	
Raw Materials consumed	2600
Packing materials consumed	1200
Stores and spares consumed	560
Power and fuel	4600
Repairs and maintenance	200
Insurance	120
Direct salaries and wages	480
Depreciation	885
Interest paid	1398
Factory overhead:	
Salaries and wages	240
Others	250
Selling and distribution expenses:	
Salaries and wages	120
Additional sales tax	457
Others	1700
Administration overheads:	
Salaries and wages	120
Others	80

[10]

(b) A company has following four operations undergone by a product under cost audit.

The input, output and employee costs process-wise are given below:

Process	Input M.T.	Output M.T.	Direct employee cost of the process (₹)
A	48,000	43,200	1,29,600
B	50,000	44,000	1,76,000
C	72,000	66,240	3,31,200
D	60,000	55,500	4,44,000

Calculate "Direct employee cost per unit of the product under reference" as required in para 5 of the new Companies (Cost Audit Report) Rules, 2011. **[5]**

2. **(a)** Based on the following information, in respect of a concern manufacturing cement, you are required to offer your comments, as a Cost Auditor on

(i) the performance of the concern,

(ii) your suggestions for improvement:

Given: Rated Capacity 80 MT/Hr.

Year	2010	2009
(1) Breakdown (Hrs)	2164	1009
(2) Planned maintenance (Hrs)	246	420
(3) Power restrictions (Hrs)	1230	1472
(4) Shortfall (there are no orders) (Hrs)	787	673
(5) Want of wagons (Hrs)	492	631
(6) Total stoppage (Hrs)	4919	4205
(7) Total running (Hrs)	3865	4555
(8) Total available Hours	8784	8760
(9) Production during the year (MT)	2,47,360	3,27,960
(10) Hourly Rate of Production (MT) [(9) ÷ (7)]	64	72
(11) Capacity Utilization (%)	61.84	81.99
Annual Installed Capacity	4,00,000 MT	

[10]

(b) A company has following four operations undergone by a product under cost audit. The input, output and Material costs process-wise are given below:

Process	Input M.T.	Output M.T.	Direct Material cost of the process (₹)
A	52,000	46,800	1,87,200
B	55,000	49,500	2,22,750
C	66,000	66,240	2,81,520
D	65,000	60,125	3,96,825

Calculate "Direct Material cost per unit of the product under reference" as required in para 5 of the new Companies (Cost Audit Report) Rules, 2011 **[5]**

3. **(a)** Comment on the following:

(i) A company has not maintained cost accounting records though having the obligation under 209(1)(d) notification. The management is of the opinion that necessary steps could be taken after the cost audit order is received from Government. Are the Directors of the Company absolved of the obligation to maintain cost accounting records?

(ii) A company receives the Cost Audit report for a period after filing of the Income Tax Return. Is the company required to submit a copy of the report to the ITO? If yes, what is the period by which the Report must be so filed?

(iii) During plant stoppages, the operational labour is being utilized by the company for cleaning, oiling, and such other routine jobs of the same plant. Their wages for the period also are treated as direct wages in cost of production.

(iv) Sugar mills use bagasse as fuel in the boilers. One sugar mill has not valued bagasse as according to the management it has incurred no cost in acquiring it. What is the requirement under 209(1)(d) regulations relating to sugar? **[8]**

(b) What are 'waste multipliers' in textile costing? The following are the process wise wastages on inputs in the year 2011-12.

Process	% age of Wastages on Input
Blow Room	9.18
Carding	7.17
Drawing	1.10
Roving(Simplex)	0.30
Ring Frame(Spinning)	7.21
Reeling and Winding	1.50

From the above, calculate the process wise waste multiplier factor. **[7]**

4. **(a)**The following figures are extracted from the Financial Accounts of BSL Ltd. for the year ended 31-03-2012:

	₹	₹
Sales (20,000 units)		50,00,000
Materials		20,00,000
Wages		10,00,000
Factory Overheads		9,00,000
Administrative Overheads		5,20,000
Selling and Distribution Overheads		3,60,000
Finished Goods (1,230 units)		3,00,000
Work-in-progress:		
Materials	60,000	
Labour	40,000	
Factory Overheads	40,000	1,40,000
Goodwill Written off		4,00,000
Interest paid on capital		40,000

In the costing records, Factory Overhead is charged at 100% of Wages, Administration Overhead 10% factory cost and Selling and Distribution Overhead at the rate of ₹ 20 per unit sold.

Prepare a statement reconciling the profit as per Cost Records with the profit as per Financial Records. **[8]**

(b) What as a Cost Auditor, will you verify in the area of work-in-progress? **[5]**

(c) Whether separate Form 23C is required to be filed by a company having two or more different types of products covered under cost audit? **[2]**

5. **(a)** In dealing with the financial position of a company as per para 9 of the Annexure in line with new Companies (Cost audit Report) Rules, 2011, state your opinion regarding:

(i) Is the Capital Employed to be computed as at the beginning of the accounting period or at the end of the accounting period or average of both?

(ii) Should investments like National Savings Certificates deposited with Government authorities for Sales Tax, Excise etc. as security be treated as investments outside the business?

(iii) How is 'net worth' defined in this para? The para also states "if there is any change in the composition of the net worth during the year, special mention may be made along with the reasons there for." How would you take care of this provision?

(iv) Should the net sales figure include other service charges and jobbing income?

(v) In case the financial accounts of the company are yet to be finalized and audited, should the cost auditor provide the data under para 9 in line with new Companies (Cost Audit Report) Rules, 2011? **[10]**

(b) Following data is available for a company relating to the cost of production of a product subjected to Cost Audit. Prepare the Export Profitability Statement to be included in the Annexure to the Cost of Production of 10,000 units.

	₹
Sales(local) 9000 units	202500
Sales (export) 1000 units	20000
Material consumed 20 tonnes @₹ 5 kg.	100000
Imported Component @ ₹ 3/unit	30000
Direct Labour	10000
Factory Overhead	15000
Administrative Overhead	5000
Freight & Packing (local sales)	4500
Packing for export	2000
Handling at port	500
Opening Work-in-progress	10000
Closing Work-in-progress	5000

Additional Information:
(i) Export incentive of 10% on F.O.B is receivables.
(ii) Draw Back on duty paid on raw materials and components available on export is ₹2500/- **[5]**

Section B
Answer any two Questions [2x10=20]

6. **(a)** What is productivity audit? Describe the steps involved and the measures used in this audit. **[5]**

(b) You are the Management Auditor of a large manufacturing company suffering from working capital crunch. What are the related areas which you would probe into to overcome the company's problem. **[5]**

7. **(a)** Draft an "Audit Programme" as a Cost Auditor after being appointed for Cenvat Credit Audit. **[5]**

(b) For what purposes the Cost Auditor refers to financial records while conducting Cost Audit of an entity? **[5]**

8. **(a)** As a management auditor of an engineering company, you are requested to submit a report to the management suggesting suitable control procedures for wastage, scrap, spoilage and obsolescence of materials. Draft a report explaining the areas, which you would like to highlight. **[5]**

(b) Write short notes on disclosure and transparency of Corporate Governance. **[5]**

Section C

Answer any two Questions [2x10=20]

9. **(a)** The following is the abridged Balance Sheet of BRL Batteries Ltd:

	₹ in lacs	
	31.3.2013	31.3.2012
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:		
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 31.3.13

(ii) Net worth as on 31.3.12 and 31.3.13

(iii) Debt Equity Ratio as on 31.3.2013

(b) As a manager of a financial service company, you have received a proposal seeking a term loan, from a firm that is planning an investment in a Fixed Asset of ₹800 lakhs, in a new project.

The loan is indicated to be repayable in three annual installment commencing from the end of the 2nd year. The following information concerning the project is available:

	₹ in lakhs			
	Year 1	Year 2	Year 3	Year 4
Gross Profit [before depreciation]	150	200	300	300
Depreciation	100	90	80	70
Interest on Term Loan	50	90	60	30
Working Capital borrowing	12	18	24	24
Provision for Tax	-	-	20	60

Assuming other techno-economic criteria to be satisfactory, you are required to:

a. Compute any three Ratios which, in your opinion, would guide the financial decision.
b. Interpret briefly such ratio and give views on the proposal.

(c) The Balance Sheet of Rishi Ltd. stood as follows as on: **(₹ in Lakhs)**

Liabilities	**31 March 2012**	**31 March 2011**	**Assets**	**31 March 2012**	**31 March 2011**
Capital	500	500	Fixed Assets	800	600
Reserves	232	200	Less: Depreciation	280	200
Loans	200	240		520	400
Creditors & Others			Investment	80	60
Current Liabilities	258	50	Stock	240	200
			Debtors	140	100
			Cash & Bank	40	40
			Other Current assets	50	50
			Miscellaneous Expenditure	120	140
	1,190	**990**		**1,190**	**990**

You are given the following information for the year 2011-12:

	₹ in Lakhs
Sales	1,200
Profit before Interest & Tax	300
Interest	48
Provision for Tax	120
Proposed Dividend	100

Required:

i. Calculate for the year 2011-12:

a. Return on Capital Employed.
b. Stock Turnover Ratio.
c. Return on Net Worth.
d. Current Ratio.
e. Proprietary Ratio

ii. Give a brief comment on the financial position of Rishi Ltd.