

Paper-19 - COST AUDIT & MANAGEMENT AUDIT

Time allowed-3hrs

Full Marks: 100

The figures in the margin on the right side indicate full marks.

The paper is divided in three sections.

From Section A answer any four questions (4x15=60 marks)

From Section B answer any two questions (2x10=20 marks)

From Section C answer any two questions (2x10=20 marks)

Working Notes should form part of the Answer.

“Wherever necessary, suitable assumptions should be made and indicated in answer by the candidates”

Section A

Answer any four Questions [4x15=60]

Question 1.

- (a) Purchase of Materials ₹ 3,00,000 (inclusive of Trade Discount ₹ 3,000); Fee on Board ₹ 12,000; Import Duty paid ₹ 15,000; Freight inward ₹ 20,000; Insurance paid for import by sea ₹ 10,000; Rebates allowed ₹ 4,000; Cash discount ₹ 3,000; CENVAT Credit refundable ₹ 7,000; Subsidy received from the Government for importation of these materials ₹ 20,000. Compute the landed cost of material (i.e. value of receipt of material). **[5]**
- (b) What are the records to be maintained for wastages or spoilages of materials according to the Cost Accounting Record Rules? **[5]**
- (c) Which persons cannot be appointed or reappointed as Cost Auditor of a company? **[5]**

Question 2.

- (a) Whether the Cost Accounting Record Rules, 2011 are applicable to foreign companies? State with reason. **[2]**
- (b) Capacity utilization depends on various factors like hours, the plant worked, efficiency with which it worked, quality of input materials etc. In the context of this statement, please give your comments on the following data relating to a chemical plant and a sugar mill.

| | | For the year 2013-14 | |
|------|---|----------------------|-----------|
| | | Budgeted | Actual |
| (i) | Chemical Plant: | | |
| | Production (KL) | 18,00,000 | 13,50,000 |
| | Vessel occupancy | 7,200 | 6,000 |
| (ii) | Sugar Mill: | | |
| | Installed Capacity: Tonnes of cane crushing per day (TCD) | 5,000 | 4,000 |
| | Duration of the season (days) | 240 | 250 |
| | Cane crushed (MT) | 10,20,000 | 8,00,000 |
| | Sugar production (MT) | 1,22,500 | 79,300 |

[8]

- (c) What is XBRL? Describe the process which is to be followed to file the reports in XBRL Format? **[2+3]**

Question 3.

- (a) Give a comparison between Compliance Report and Cost Audit Report. **[5]**
- (b) Bina Ltd. requiring to make and maintain cost accounts and records contends that the auditor need not report on the non-maintenance of cost records because the provisions of cost-audit were not made applicable to it. How would you react to the above situation? **[3]**
- (c) "Finance costs are those costs which are incurred by an enterprise in connection with the borrowing of funds" — State the principles of measurement of finance costs. **[5]**
- (d) Whether the Annexure to the Compliance Report is to be prepared by the company or by the Cost Accountant? **[2]**

Question 4.

- (a) There are various types of cost audits available. Describe those types of cost audit on the basis of persons who directs it and on the basis of persons who conduct it. **[7]**
- (b) The Cost Account of a company has arrived at a profit of ₹ 73,24,150 based on cost accounting records for the Year ended 31.03.2014. As Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts (figures are in ₹)

| Particulars | ₹ |
|--|-----------|
| (i) Profit on sale of fixed assets | 63,000 |
| (ii) Loss on sale of investments | 11,200 |
| (iii) Voluntary retirement compensation included in salaries & wages in Financial Accounts | 16,75,000 |
| (iv) Donation paid | 25,000 |
| (v) Profit from retail trading activity | 7,12,300 |

You are required to calculate the profit as per financial books after reconcile between the profit figures as per Cost Accounts and Financial Accounts. **[5]**

- (c) "Audit risk is the risk that the cost auditor expresses an inappropriate audit opinion on the cost statements that are materially misstated." — Write about the risks which are associated with Cost Audit. **[3]**

Question 5.

- (a) "The Council of the Institute of Cost Accountants of India has constituted Cost Accounting Standards Board (CASB)." — State the Objectives and Functions of the Cost Accounting Standards Board in this regard. **[5]**
- (b) You are the Cost Auditor of PP Jute Mills Ltd. for the year ended March 31, 2013. The company had a strike from 15.9.2012. Although the company resumed working from 18.11.2012, normal production was achieved only from 12.12.2012. The expenses incurred during the year ended March 31, 2013 were:

(Amount in ₹ lakh)

| | |
|-------------------------------|-----|
| Salaries and wages (Direct) | 450 |
| Salaries and wages (Indirect) | 220 |

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| | |
|----------------------|-----|
| Power (Variable) | 160 |
| Depreciation | 140 |
| Other fixed expenses | 260 |

Detailed examination of the records revealed that of the above, the following relate to the period 15.9.2012 to 17.11.2012:

| | |
|--------------------------------|--------------------|
| | (Amount in ₹ lakh) |
| Salaries & wages (Indirect) | 80 |
| Depreciation (Non- productive) | 60 |
| Other fixed expenses | 110 |

As a Cost Auditor you are requested to calculate abnormal cost which will be excluded from the product cost. **[8]**

(c) Define Service Cost Centre according to CAS-13. **[2]**

Section B

Answer any two Questions [2x10=20]

Question 6.

- (a)** You are the Internal Auditor of Arena Manufacturing Ltd. The Managing Director has asked you to enquire into the cause of abnormal wastage of raw materials during the month of April. The wastage percentages for the last few months are: Jan. — 1.3%, Feb. — 1.1%, Mar. — 1.3% and Apr. — 3.9%. How will you proceed to carry out the assignment? **[7]**
- (b)** Describe Internal Audit Evidence as per Standards on Internal Audit (SIA) 10. **[3]**

Question 7.

- (a)** Distinguish between Management Audit and Internal Audit. **[6]**
- (b)** State the roles of stakeholders in Corporate Governance. **[4]**

Question 8.

- (a)** How can an internal control system with regard to sales return and purchase return be designed? **[7]**
- (b)** "Management audit is the unique process appraising the performance of directors, managers or in the other words, appraising the performance of the management." — List out the uses of management Audit in this context. **[3]**

Section C

Answer any two Questions [2x10=20]

Question 9.

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- (a) From the following figures extracted from the accounting records, you are required to compute:
- (i) Value added;
 - (ii) Ratio of operating profit to Net sales; and
 - (iii) Ratio of operating profit to value added.

| | ₹ lakhs |
|--------------------------------------|---------|
| Net sales excluding excise duty | 20,980 |
| Increase in stock of finished goods | 241 |
| Expenses : | |
| Raw materials consumed | 2,686 |
| Packing materials consumed | 1,196 |
| Stores and spares consumed | 560 |
| Power and fuel | 4,640 |
| Repairs and maintenance | 199 |
| Insurance | 117 |
| Direct salaries and wages | 480 |
| Depreciation | 880 |
| Interest paid | 1,390 |
| Factory overheads : | |
| Salaries and wages | 240 |
| Others | 220 |
| Selling and distribution overheads : | |
| Salaries and wages | 120 |
| Additional sales tax | 457 |
| Others | 1,673 |
| Administration overheads: | |
| Salaries & Wages | 120 |
| Others | 82 |

[3+2+2]

- (b) Which are the criteria may help the Cost Auditor to select and include the various performance measurement criteria in the Performance Appraisal Report? **[3]**

Question 10.

- (a) Following are data available from a company which has both domestic and export sales. The company is subject to cost audit. Prepare a statement of export profitability.

| | | |
|---|----------------|-----------|
| Production | 10,000 units | |
| Sales Domestic | 9,000 units at | ₹22/unit |
| Sales Export | 1,000 units at | ₹17/ unit |
| Raw materials consumed | | ₹90,000 |
| Imported component used only for exported quality | | ₹3,000 |
| Direct Labour | | ₹10,000 |
| Factory overhead | | ₹15,000 |
| Administration overhead | | ₹5,000 |
| Export Packing | | ₹3,000 |
| Freight and Packing for Domestic Sales | | ₹4,500 |
| Handling at Port | | ₹500 |
| Opening WIP | | ₹10,000 |
| Closing WIP | | ₹5,000 |

For export an imported component is to be used at a cost of ₹3 per unit. The indigenously produced component that is used for domestic sales and included in raw material consumption is ₹4 per unit. Duty drawback on the 1000 units export is ₹1,500. **[6]**

- (b)** State the importance of the following areas that could be covered in the Performance Appraisal Report:
- (i) R & D Performance
 - (ii) Human Resource Accounting. **[4]**

Question 11.

- (a)** The PQR Company has a system of a quarterly-meeting of two days, to discuss the performance as against budgets. In the meeting which is chaired by the Managing Director all senior managers of the operating, costing and finance departments participate. To ensure that there is reasonable interaction among the participants, there is always a final session for two hours duration known as "Open House". In that session the participants are encouraged to bring out all their criticisms against their colleagues so that each function becomes aware of the extent to which they do not measure up to expectation of their peers.

The Managing Director feels that during the last one or two open sessions, the Cost Department is increasingly being accused of collecting data mostly for statutory and external purpose and less for information of operating managers. He is not sure whether such a criticism is fair. He therefore invites as a representative of the company's cost auditors to attend to the open session. His request to you is that you should sit through the session without participating in it, but later give him your personal view of the role of cost department.

Prepare a note making out that the criticism is partly valid and suggesting how such criticism can be got over. **[7]**

- (b)** How Value Chain activity can have an impact in performance analysis? **[3]**