

Paper – 19 – Cost and Management Audit

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Full Marks: 100

Time allowed: 3 hours

Answer Question No. 1 which is compulsory and carries 20 marks and any five from Questions No. 2 to 8.

Section A [20 marks]

Answer the following questions:

1. (a) Choose the correct option among four alternative answer. (1 mark for correct choice, 1 mark for justification.) [10 × 2 = 10]

(i) The cost records are to be maintained as specified in:

- (A) CRA3
- (B) CRA1
- (C) CRA 4
- (D) CRA 2

(ii) The excisable goods not sold but used for consumption for manufacture in the production of other articles should be valued at _____ of cost.

- (A) 100%
- (B) 90%
- (C) 110%
- (D) 95%

(iii) 'Sugar and Industrial Alcohol' belong to _____ sector for the purpose of Application of Cost Records.

- (A) Regulated
- (B) Non-regulated
- (C) Both depending on circumstances
- (D) None of the above statements are correct.

(iv) Administration Overheads is dealt in CAS-----.

- (A) 12
- (B) 11
- (C) 10
- (D) 9

(v) "Related party", with reference to a company, means—

- (A) a director or his relative;
- (B) a key managerial personnel or his relative;
- (C) a firm, in which a director, manager or his relative is a partner;
- (D) All the above are correct.

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- (vi) Part D of the Annexure to Cost Audit Report shows profit reconciliation for :
- (A) *Product group*
 - (B) *Service group*
 - (C) *Company as a whole.*
 - (D) *Individual product/services.*
- (vii) Items appearing only in Cost Records:
- (A) Rent receivable
 - (B) Notional interest on capital
 - (C) Good will written off.
 - (D) Dividends.
- (viii) The Balance Sheet of X Ltd. As on 31st March 2017 showed the following information:
Capital -₹1500 lacs, Reserves-₹696 lacs, Loans-₹600 lacs, Sundry Creditors 774 lacs, Total assets -₹3570 lacs. For the year 16-17, PBT-₹900 lacs, provision for tax is ₹360 lacs and proposed dividend is ₹300 lacs .
Return on Networth is:
- (A) 30.41%
 - (B) 29.41%
 - (C) 28.41%
 - (D) 27.41%
- (ix) Royalty paid on units produced ₹ 20,000, Hire Charges of equipment used for production ₹2,000, Design charges ₹ 15,000, Software development charges related to production ₹ 22,000. The Direct Expenses is:
- (A) ₹57000/-
 - (B) ₹59000/-
 - (C) ₹37000/-
 - (D) ₹44000/-
- (x) Which one of the following is not a professional misconduct in relation to Cost Accountants in Practice as per the First Schedule of The CWA Act, 1959?
- (A) expresses his opinion on cost or pricing statements of any business or enterprise in which he, his firm or a partner in his firm has a substantial interest;
 - (B) allows any person to practise in his name as a cost accountant unless such person is also a cost accountant in practice and is in partnership with or employed by himself
 - (C) accepts or agrees to accept any part of the profits of the professional work of a person who is not a member of the Institute:
 - (D) secures, either through the services of a person who is not an employee of such cost accountant or who is not his partner or by means which are not open to a cost accountant, any professional business:

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Section B [80 marks]

- 2 (a) (i) KPI Ltd. is engaged in construction of residential housing, offices, industrial units, Roads, Bridges, Marine facilities etc. having sites in India and abroad. The company also has Joint venture projects in India and abroad. Whether Companies (Cost Records and Audit) Rules 2014 would be applicable to the company?
(ii) Is a Cost Auditor required to audit and certify monthly, quarterly, half-yearly and yearly Cost Statements? [4+4 marks]
- 2 (b) Explain whether the following amounts to professional misconduct by a Cost Accountant:
(i) ABC and Company, Cost Accountants, a firm maintains branch offices in India – each under the separate charge of a member of the Institute of Cost Accountants of India/The Institute of Chartered Accountants of India.
(ii) CMA P, a practicing Cost Accountant engages in personal discussions/correspondences with prospective clients relating to achievement and capabilities. [4+4 marks]
- 3 (a) (i) Opening stock of raw materials (10,000 units) ₹ 1,80,000; Purchase of Raw Materials (35,000 units) ₹ 7,00,000; Closing stock of Raw Material 7,000 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); Normal Loss due to shrinkage 1% of materials; Abnormal Loss due to absorption of moisture before receipt of materials 100 units.
Calculate cost of raw materials consumed.
- 3 (a) (ii) How do you determine manufacturing overheads as per CAS 22? [6+2 marks]
- 3 (b) The financial profit and loss account for the year 2016-17 of a company shows a net profit of ₹ 29,60,000. During the course of Cost Audit, it was noticed that:
- (i) The company was engaged in trading activity by purchasing goods at ₹ 6,00,000 and selling it for ₹ 7,50,000 after incurring repacking cost of ₹ 25,000,
 - (ii) Some discarded assets sold off with no scrap value for ₹ 90,000,
 - (iii) Some renovation of machinery was carried out at a cost of ₹ 6,00,000, having a productive life of five years, but entire amount was charged to financial accounts,
 - (iv) Interest was received amounting to ₹ 1,40,000 from outside investments,
 - (v) Voluntary Retirement payment of ₹ 3,50,000 was not included in the Cost Accounts,
 - (vi) Insurance claim of previous year was received to the extent of ₹ 2,50,000 but was not considered in the Cost Accounts,
 - (vii) Opening stock of raw materials and finished goods was overvalued by ₹ 2,40,000 and closing stock of finished goods was overvalued by ₹ 1,10,000 in the financial accounts, and
 - (viii) Donation of ₹ 80,000 towards CSR commitment was not considered in the Cost Accounts.
- Work out the profit as per the Cost Accounts and briefly explain the adjustment, if any, carried out. [8 marks]

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4 (a) You are appointed by Mr. K who wants to join DEF & Co , partnership firm as an investigating accountant. List out the steps involved in conducting the same

4 (b) What do you understand by Corporate Services Audit? Describe the areas covered by Corporate Services Audit. [9+7 marks]

5 (a)(i) Which companies are required to constitute Audit Committees? What is its responsibility regarding internal audit.

(ii) What are the qualities of a good internal auditor? [5+3 marks]

(b) You have been appointed as a Management Auditor by KFC Bank. The Bank has recently launched a scheme of 'Gold Card' issuing credit card to all savings account holders with average of ₹ 50000/- in the account. How will you evaluate the internal control system in the area of credit card operations of the bank?

[8 marks]

6 (a) The following figures relate to usage of power for a product:

	2014 -15	2015-16	2016 -17
Total power consumed to KWH	2402474	249487	2175677
Rate KWH ₹	2.29	2	1.90
Total production in million kgs.	337.73	333.084	300.865

Compute necessary productivity measures and compare the efficiency of power usage during the three years.

6 (b) The following particulars pertaining to Product-A are extracted from the record of PROTECT LTD. for the Half year ended March 31, 2017:

	(Amount in ₹ thousand)
Direct Material Cost per unit inclusive of Excise Duty ₹ 191 thousand	1,740
Direct Wages & Salaries	1,260

Direct Expenses	200
Indirect Materials	253
Factory Overheads-	677
Administrative Overheads (25% relating to Production activities)	1,240
Quality control Cost	525
Research and Development Cost	360
Sale of scrap realized	180

You are to determine the cost of production for purpose of captive consumption in terms of Rule 8 of the Central Excise Valuation (DPE) Rules 2000 and as per CAS-4 and Assessable Value for purpose of paying excise duty on captive consumption.

[8+8 marks]

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7(a) The following figures are extracted from the statement prepared by the Cost Accountant and the Trial Balance of ABC Ltd., which is a single product company:

	31.03.2017	31.3.2016	31.03.2015
	(₹ In lakhs)		
Gross sales inclusive of Excise Duty	2,040	1,985	1,875
Excise Duty	295	280	265
Raw Materials consumed	1,140	1,060	975
Direct Wages	35	32	27
Power and Fuel	30	27	24
Stores and Spares	6	5	4
Depreciation charged to production cost centres	16	15	13
<u>Factory overheads:</u>			
Salaries and wages	5	4	3
Depreciation	2	2	2
Rates and Taxes	1	1	1
Other overheads	6	5	4
<u>Administrative overheads:</u>			
Salaries and Wages	10	9	8
Rates and Taxes	2	2	2
Other overheads	162	154	148
<u>Selling and distribution overheads:</u>			
Salaries and Wages	7	6	5
Packing and Forwarding	6	6	5
Depreciation	1	1	1
Other overheads	124	118	108
Interest	85	74	68
Bonus and Gratuity	12	10	9
Gross Current Assets	840	724	640
Current Liabilities and Provisions	324	305	246

You are required to compute the following ratios as per requirement of PART D in the Annexure to Companies(Cost Records and Audit) Rules, 2014

- (i) Operating Profit as percentage of Value Addition.
- (ii) Value Addition as percentage of Net Sales.

Note: The computation should be based on EBDIT as Operating Profit

7 (b) The following data have been available of Sunflag Dolon Limited:

	2014 - 15	2015 - 16	2016 - 17
Installed Capacity—Ton	250	250	250
Production—Ton	240	230	125
Cost Per Ton (₹)	1,000	1,077	1,660

The poor capacity utilisation in 2016-17 was due to abnormal power-cut. The escalation in costs were 5% in 2015-16 and 7% in 2016-17 base on 2014-15

- (i) Calculate the abnormal cost due to power cut.
- (ii) How would you treat these abnormal cost?

[10+6 marks]

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8. Answer any 4 questions

[4×4=16 marks]

- (a) The risk of material misstatement has two components. What are the components?
- (b) Discuss the role of C&AG in the Audit of a Government company.
- (c) Discuss the risks that can be covered by a CSR Audit programme.
- (d) Following figures are available for Good Luck Ltd.:
Budgeted Production-880 units, Standard Hours per unit-10, Actual Production-750 units and Actual working hours-6000
Calculate (i) Efficiency ratio (ii) Activity ratio and (iii) Capacity ratio
- (e) Basic pay ₹ 5,00,000; Lease rent paid for accommodation provided to an employee ₹2,00,000, amount recovered from employee ₹ 40,000, Employer's Contribution to P.F. ₹75,000, Employee's Contribution to P.F. ₹ 75,000; Reimbursement of Medical expenses ₹67,000, Hospitalisation expenses of employee's family member borne by the employer ₹19,000, Festival Bonus ₹ 20,000, Festival Advance ₹ 30,000. Compute the Employee cost.