

**FINAL EXAMINATION**

December 2018

**P-19(CMAD)  
Syllabus 2016**

**Cost and Management Audit**

Time Allowed: 3 Hours

Full Marks: 100

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

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

**Section-A (20 Marks)**

1. Choose the correct answer with short justification/working. (1 mark for correct choice and 1 mark for justification/working) 2×10=20
- (a) Before submission to the Auditor for Report, the Form CRA 3 should be signed by \_\_\_\_\_.  
(A) the Secretary and the Chief Finance Officer of the company  
(B) the Secretary and the Cost Accounts Officer of the company  
(C) the Secretary and one Director of the company  
(D) the Chief Finance Officer and the Managing Director of the company
- (b) Cost of self-generation utilities for own consumption shall comprise \_\_\_\_\_.  
(A) administrative overheads  
(B) distribution cost  
(C) factory overheads  
(D) None of the above
- (c) The useful life of an intangible asset, like amount paid on technical knowhow, shall not exceed \_\_\_\_\_ from the date it is available for use.  
(A) 5 years  
(B) 8 years  
(C) 10 years  
(D) 12 years

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- (d) Product and Profitability Statement (for audited products/services) is shown under \_\_\_\_\_ of Annexure to the Cost Audit Report.
- (A) Part A
  - (B) Part B
  - (C) Part C
  - (D) Part D
- (e) Cost Audit Documentation is dealt in the \_\_\_\_\_.
- (A) Cost Auditing Standard 101
  - (B) Cost Auditing Standard 102
  - (C) Cost Auditing Standard 103
  - (D) Cost Auditing Standard 104
- (f) A member of The ICAI shall be deemed to be guilty of other misconduct, if he/she is held guilty by any civil or criminal court of an offence which is punishable with imprisonment \_\_\_\_\_.
- (A) for a term exceeding 3 years
  - (B) for a term exceeding 3 months
  - (C) for a term exceeding 6 months
  - (D) for a term exceeding 2 years
- (g) Costing Taxonomy is best defined as a \_\_\_\_\_.
- (A) Dictionary
  - (B) Made Easy
  - (C) Tax Ready Reckoner
  - (D) Referencer
- (h) The Consumer Services Audit critically examines \_\_\_\_\_.
- (A) outstanding payment of consumers
  - (B) the price consumers are ready to pay for a particular product/service
  - (C) and appraises management of a business enterprise of responsibility towards consumers
  - (D) demand of a product by consumers

- (i) Which of the following ratios appears as Profitability Ratio in Part D of Annexure to the Cost Audit Report?
- (A) Net Profit to Net Sales
  - (B) Value added to Net Sales
  - (C) Profit before Tax to Value Added
  - (D) Net Profit to Share Capital
- (j) CAS 24 deals with \_\_\_\_\_.
- (A) Overburden Removal Cost
  - (B) Interest and Financing Charges
  - (C) Royalty and Technical Knowhow Fee
  - (D) Treatment of Revenue in Cost Statements

**Section-B (80 Marks)**

2. (a) (i) While accepting the offer of appointment as Cost Auditor of a company, what certificate should be submitted by the Cost Auditor to the company? Is the Cost Auditor required to give any certificate with respect to his/her/its independence and 'arm's length relationship' with the appointing company?
- (ii) A company has units in SEZ and in non-SEZ areas. What would be the applicability of the Companies (Cost Records and Audit) Rules, 2014 on such a company with respect to maintenance of cost accounting records and Cost Audit? (3+2)+3=8
- (b) (i) Mr. Arumaya, a practicing Cost Accountant engaged two trainees, undergoing training under his guidance for audit job. Since the job was voluminous, he agreed to pay them, in addition to stipend, an amount of 10% of the audit fees. Does the action of Mr. Arumaya amount to professional misconduct?
- (ii) State the ethical requirements of a Cost Auditor for ensuring the conduct of the audit of Cost Statements as per the Cost Auditing Standard 103. 4+4=8
3. (a) (i) What items of expenses are to be included as Employee Cost as per the revised CAS 7 guidelines?
- (ii) What is the basis adopted to determine normal price with respect to related party transactions? 4+4=8

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- (b) The Financial Profit and Loss Account for the year 2017-18 of a company shows a net profit of ₹ 56,44,000.

During the course of Cost Audit, it was noticed that:

- (i) the company was engaged in trading activity by sale of brands other than its own through its retail outlets and thus earned a profit of ₹ 2,85,000 during the year,
- (ii) the claim on fire to the extent denied by the insurance company amounted to ₹ 3,50,000,
- (iii) an amount of ₹ 6,00,000 was charged in the Cost Accounts an notional rent for the plant premises owned by the company,
- (iv) interest received on inter-corporate deposits amounted to ₹ 5,60,000,
- (v) VRS payments to the extent not amortized in the Financial Accounts amounted to ₹ 4,50,000,
- (vi) unabsorbed assets value due to scrap of machine ₹ 4,10,000 was charged in the Financial Accounts, and
- (vii) stock valuation of finished and semi-finished goods was as given below.

	Financial Accounts ₹	Cost Accounts ₹
Opening Stock	27,79,000	29,56,200
Closing Stock	40,92,000	45,15,900

Work out the profit as per the Cost Accounts.

8

4. (a) Explain Management Audit and state its uses.

8

- (b) (i) You are appointed as the Energy Auditor of a medium-sized manufacturing company. Suggest some areas for conserving energy at the plant level.
- (ii) Briefly discuss the concept of Propriety Audit.

4+4=8

5. (a) Write a note on the provisions relating to Internal Audit under the Companies Act, 2013. 8
- (b) State the important steps to be taken in the internal audit of institutions providing Educational Services. 8

6. (a) In a factory, running single shift, two products M and N, are manufactured.

	M	N
Man hours/unit	3	7
Production/month (units)	1,500	1,000

Month means 26 working days and 8 hours a day. The company employs 60 workers and the budgeted man-hours are 1,32,000 for the year. You are required to work out the (i) Capacity Ratio (ii) Activity Ratio and (iii) Efficiency Ratio. 8

- (b) A chemical unit generates in-house power to meet its shortfall from grid supply. It has 20% surplus power which it can supply to the adjacent units. From the cost data given below, how would you compute the cost of power as per CAS 8 in the following circumstances?

- (i) power generated for the purpose of inter-unit transfers  
(ii) power generated for the inter-company transfers

Power generated		29,76,500 Kwh
<b>Particulars</b>	<b>Total Amount (₹)</b>	<b>(₹)/'00 kwh</b>
Coal Consumed <i>less</i> Ash Sale	15,80,000	53.08
Diesel Oil	1,85,000	6.22
Water	16,40,000	55.10
Stores	65,000	2.18
Salaries of Power House Staff	13,94,800	46.86
Repairs & Maintenance	2,96,000	9.94
Deprecation of Plant and Boiler	2,06,000	6.92
Share of Administration Overheads	2,05,000	6.89
Interest on Asset Purchase	1,40,000	4.70
Distribution Cost	1,80,000	6.05
<b>Total Power House Cost</b>	<b>58,91,800</b>	<b>197.94</b>

8

7. (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 Net Sales, and  
(iii) Ratio of Operating Profit to Value Added.

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Particulars	₹ in lakh
Net sales excluding Excise Duty	50,400
Increase in Stock of Finished Goods	600
<i>Expenses:</i>	
Raw Materials Consumed	6,240
Packing Materials Consumed	2,880
Stores and Spares Consumed	1,344
Power and Fuel	11,040
Repairs and Maintenance	480
Insurance	288
Direct Salaries and Wages	1,152
Depreciation	2,124
Interest Paid	3,355
<i>Factory Overheads:</i>	
Salaries and Wages	576
Others	600
<i>Selling and Distribution Expenses:</i>	
Salaries and Wages	288
Additional Sales Tax	1,097
Others	4,080
<i>Administration Expenses:</i>	
Salaries and Wages	288
Others	192

10

(b) A unit actually operated 291 days in a year and was stopped for abnormal circumstances —

- 6 days due to power disruption for cyclone and flood, and
- 4 days due to heavy breakdown of core machinery.

The rest of the days were weekly off or holidays. Half wages as lay-off compensation were paid for the stoppage period. During the year, total expenses incurred were

- salaries and wages (including lay-off compensation of ₹ 65 lakh) ₹ 3,360 lakh, and
- other fixed costs ₹ 1,050 lakh.

Find Abnormal Costs (in ₹ lakh).

6

## 8. Answer any four questions.

- (a) Write a note on adjustment of cost variances in working out total cost.
- (b) How do you assess the adequacy of the Internal Audit function?
- (c) How is the operational efficiency of a unit highlighted in the report by the Cost Auditor as per the Companies (Cost Records and Audit) Rules, 2014?
- (d) Fortune Textiles is using water for production and consumption purposes and raises water from a water body nearby and through recycling process. The water is treated through two processes and is transferred to the reservoir of the plant to supply for Boiler, Washroom, Humidification, Weaving, etc. A part of such water is transferred for human consumption in office, canteen and quarters through a branded Purifier. The initial water collection cost, inclusive of fees to local authorities, is ₹ 1/kl and the other costs, including process waste, are shown below:

Particulars	Process 1	Process 2	Domestic
Water Raised (kl)	26,000	24,700	6,500
Water Transferred (kl)	24,700	23,400	6,500
Cost of Water Raised (₹)	₹ 1/kl		
Processing Cost (₹)	57,460	39,700	15,000

Calculate the cost of water transferred from source to the Plant and the Domestic area.

- (e) The following figures relate to Walmat Steel Ltd. for two years:

	31.3.2018	31.3.2017
Gross Profit %	30	25
Average Stock (₹)	45,000	60,000
Average Debtors (₹)	1,20,000	1,55,000
Stock Turnover (times)	20	25
Income Tax Rate (%)	30	30
Post-tax Income as % of Sales	8	9

Prepare Statement of Profits for two years.

4×4=16