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 Question No. 2 to 8.

Section - A [20 marks]

1. Choose the correct option among four alternative answers. (1 mark for correct choice, 1 mark for justification.) [10x2=20 marks]

(i) The Cost Auditor appointed has to render the cost audit report to the board of directors of the Company, as per the specified time limit, in Form _____.
(a) CRA-3
(b) CRA – 1
(c) XBRL
(d) CRA – 2

(ii) Cost Accounting Standard 8 is a Cost Accounting Standard on _____ .
(a) Employee Cost
(b) Utilities Cost
(c) Pollution Control Cost
(d) Selling and Distribution Cost

(iii) Operational Audit can lead to better management with the focus on_____.
(a) Transaction-based analysis for Fraud Prevention
(b) Compliance of Rules
(c) Risk Identification, Process Improvement
(d) Budget Monitoring

(iv) 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

(v) Quality costing is used for the purpose of _____ .
a) Cost Reduction
b) Pricing and decision making
c) Total performance management
d) Cost Control.

(vi) The Management Auditor should evaluate MIS of an organization after _____ .
(a) studying content, quality and source of information
(b) studying flow of information
(c) studying correlation of information in decision areas
(d) studying all the above

(vii) There is no requirement of Audit Working Papers while conducting audit and they only result in loss of time.
(a) The Statement is Correct
(b) The Statement is Incorrect
(c) The Statement is Incomplete
(d) None

(viii) Non-Governmental Organizations can be incorporated as a company
a. Section 25 of the Companies Act, 1956.
b. Section 8 of the Companies Act, 2013.
c. Section 28 of the Companies Act, 2013.
d. None of the above

(ix) As per Part D, Para 3 of the Companies (Cost Records and Audit) Rules, 2014, Value Addition and Distribution of Earnings are to be computed based on
(a) Audited Financial Data
(b) Cost Record Data
(c) Unaudited Financial Data
(d) Both (a) and (b)

(x) _____ Analysis is evaluation of every resources declared in the industry.
(a) Capacity
(b) Energy
(c) Productivity
(d) Efficiency

Section - B [80 marks]

2. (a) (i) What is the difference between Cost Accounting policy and Cost Accounting system?
(ii) 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?
2 + 6

(b) (i) Write a short note on Code of Ethics in the field of Cost and Management Accounting.
(ii) Discuss about the punishment of fraud (Section 447 of the Companies Act, 2013).
5 + 3

3. (a) What is meant by Cost Statement ? Discuss about the responsibilities of a Cost Auditor for preparing and presenting of a Cost Statement. **6**

(b) Following data is available Horizon Ltd. relating to cost of production of a product subject to Cost Audit. Prepare export Profitability statement to be included in the annexure to the cost of production of 30000 units.

Particulars	Rs.
Sales (Local) 18,000 units	54,00,000
Sales (Export) 12,000 units	33,60,000
Material consumed 150 tonnes at Rs. 250 per tonne	37,500
Imported components Rs. 200 per unit	60,00,000
Direct labour	1,25,000
Factory overhead	85,000
Administrative overhead	80,000
Freight & Packing (Local sales)	5,50,000
Packing for export	4,20,000
Handling at port	1,50,000
Opening Work in progress	4,10,000
Closing Work in progress	3,20,000

Additional information:
Export incentive of 12% on FOB is receivable.
Draw back on duty paid on raw materials and components available on export are Rs. 50,000. **10**

4. **(a)** What is meant by Management Audit Programme (MAP) ? Which factors should be considered for framing an efficient Management Audit Programme?

2 + 6

(b) What is Personnel Management? Discuss about the functional areas of Personnel Management along with the scope of Human Resources Management.

2 + 6

5. **(a)** What is Audit Programme? Discuss about the advantages and disadvantages of an Audit Programme. **10**

(b) Mention the provisions relating to Internal Audit under the Companies Act, 2013. **6**

6. **(a)** The following is the abridged comparative Balance Sheets of M/s. Subham Ltd., a manufacturing company for two years as on March 31, 2020 and 2019:

(Amount in Rs. Lakh)

	2020	**2019**
Equity & Liabilities		
Shareholders' Fund:		
Equity Share Capital	4,000	2,200
Reserves and Surplus	4,200	3,400
Non-Current Liabilities:		
Term Loans	3,600	1,800
Debentures	1,800	1,800
Other Long-term Loans	1,500	1,800
Current Liabilities:		
Current Liabilities	3,200	1,500
Short-term Provisions	950	750
Total	**19,250**	**13,250**
Assets		
Non-Current Assets:		
Fixed Assets:		
Tangible Assets	4,500	4,300
Intangible Assets	—	—
Capital Work-in-Progress	2,400	—
Non - Current Investments:		
Investment in subsidiaries	1,000	600
Current Assets:		
Inventories	4,300	2,500
Trade Receivables	5,200	3,600
Cash and Cash equivalents	900	650
Short-term Loans and Advances	950	1,600
Total	**19,250**	**13,250**

Additional Information:

(Rs. in Lakh)

Year ended March 31	2020	2019
Profit before Tax (PBT)	1,600	1,450

You are required to compute the following as stipulated in PART-D, PARA-4 to the Annexure of Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2020:

(i) Capital Employed
(ii) Net Worth
(iii) PBT to Capital Employed
(iv) PBT to Net Worth

(v) Debt-Equity Ratio
(vi) Current Assets to Current Liabilities **8**

(b) A Company introduced a new product EZY with advanced technology in a product market where there is huge competition with many competitors having individual market share 5% to 10%. Survey on the present market estimates that demand will increase of 80,000 units per year. The company is presently targeting 50% of the additional market demand as competitors will need at least two years to match its product.
The Product EZY passes through three departments. Direct cost per unit of product at present rate: Material cost Rs. 65 and Labour Cost Rs. 45. Overheads are absorbed on the basis of normal capacity. The following relevant information is given:

Production Dept	Unit of Measurement	Normal monthly capacity	Monthly Allocated Fixed Overheads (Rs.)	Full Overhead cost Rate (Rs.)	Hours consumed by product
X	Machine Hour	12,500 machine hrs	50,000	10.50	2
Y	Labour Hr.	15,000 labour hrs.	60,000	9.00	1.5
Z	Labour Hr.	25,000 labour hrs.	75,000	6.00	3

Company has set a target of Selling and Distribution cost of Rs. 3,00,000 irrespective of sales volume. The company normally sets a price by adding a mark-up on cost between 30% to 40%.

You are required to suggest the price so as to take care of competition in the right perspective. **8**

7. (a) The following figures are extracted from the Cost Accounting Records of Active Ltd. a single product manufacturing company:

Year ended 31st March	2020	2019
	(Amount in Rs. lakh)	
Net Sales	5,400	4,200
Other Income	400	300
Increase in Value of Stock of Finished Goods	30	20
Raw materials Consumed	1,840	1,520
Direct wages, Salaries, Bonus, Gratuity etc.	520	410
Power & Fuel	280	220
Stores and Spares	190	160
Cess and local Taxes	140	120
Other manufacturing Overheads	520	440
Administrative Overheads:		
Audit fees	48	40
Salaries & Commission to Directors	54	45
Other Overheads	320	250
Selling and Distribution Overheads:		
Salaries & Wages	48	40
Packing and Forwarding	25	20
Other Overheads	300	250
Total Depreciation	140	140
Interest Charges:		
On Working Capital Loans from Bank	90	50
On Fixed Loans from IDBI	120	90
On Debentures	50	40

Provision for Taxes	380	280
Proposed Dividends	500	300

You are required to calculate the following parameters as stipulated PART-D, PARA-3 of the Annexure to Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2020 and March 31, 2019:

(i) Value Addition
(ii) Earnings available for Distribution
(iii) Distribution of Earnings to the different claimants.

10

(b) A unit actually operated 290 days in a year and was stopped for abnormal circumstances-

(i) 6 days due to power disruption for cyclone and
(ii) 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

(A) Salaries and wages (including lay-off compensation of Rs. 95 lakh) Rs. 4,200 lakh, and
(B) Other fixed costs Rs. 1,260 lakh.

Find Abnormal Costs (in Rs. lakh). **6**

8. Answer any four. **4x4=16**

(a) Write a short note on Manpower Analysis.

(b) A company is facing problem in satisfying customers' orders leading to backlog of supply position. How to identify the problem by means of Operational Audit?

(c) Classify the main categories of Internal Control.

(d) Find the Employee Cost of a company for the year 2019-20 as per the CAS 7 from the following figures:

Particulars	(Rs. lakh)
Salaries, wages, allowances and bonus	1,250
Wage award arrears for the previous year	115
Contribution to provident and other funds	210
Employee welfare	60
Abnormal Idle Labour cost due to strike	100
Wages of contractual labour	150
VRS payment for the year	75

(e) The following figures relate to Silver Mountain Ltd. for two years :

	31.3.2020	31.3.2019
Gross Profit%	25	20
Average Stock (Rs.)	50,000	70,000
Average Debtors (Rs.)	1,50,000	1,80,000
Stock Turnover (times)	20	25
Income Tax Rate (%)	30	30
Post-tax Income as % of Sales	10	12

Prepare Statement of Profits for two years.