

FINAL EXAMINATION

December 2016

P-19(CMAD)

Syllabus 2012

Cost and Management Audit

Time Allowed: 3 Hours

Full Marks: 100

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

SECTION-A has one question which is compulsory. Attempt this question.

SECTION-B has seven questions. Attempt any five of them.

Working Notes should form part of the respective answers.

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Please: (1) Answer all bits of a question at one place.

(2) Open a new page for answer to a new question.

Section-A (20 Marks)

Answer the following:

1. (a) **Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s):** 1×5=5
- (i) The Cost Audit Report is required to be in conformity with the 'Cost Auditing Standards' as referred to in section _____ of the Companies Act, 2013.
 - (ii) Power generation, Telecommunication services fall in _____ sector as per Companies (Cost Records and Audit) Rules, 2014.
 - (iii) The FOREX component of imported material cost shall be converted at the rate on the date of the _____.
 - (iv) The review of Organization Plan, Policies, Structure are done through _____ audit.
 - (v) Cost Accounting Standard on Cost of Service Cost Centre is dealt in _____.
- (b) **State whether the following statements given below are TRUE or FALSE:** 1×5=5
- (i) Part-D Para-4 of the Annexure to cost Audit Report under the companies (Cost Records and Audit) Rules 2014 deals with Profit Reconciliation (for the company as a whole).
 - (ii) Cost Audit and Management Audit are one and the same.
 - (iii) Main objective of Internal Audit is to prevent errors and frauds.
 - (iv) Government Audit does not comment on economy and efficiency other than viewing on fairness of financial statement.
 - (v) A Limited liability partnership firm registered under the Limited Liability Partnership Act, 2008 can be appointed as Cost Auditor of a company.

Please Turn Over

(c) Answer any five of the following in one or two sentences:

2×5=10

- (i) The Cost Auditor of a company was offered to act as ERI (e-Return Intermediary) for filing income tax related matter on behalf of one of its subsidiary company.
Can the Cost Auditor accept the assignment?
- (ii) Explain 'Corporate Development Audit.'
- (iii) Whether the companies (Cost Records and Audit) Rules 2014 is applicable to a company which is generating electricity for captive use?
- (iv) How would you treat demurrage charges as per CAS-15?
- (v) What is the time limit within which the cost Auditor of the company should submit his report?
- (vi) Whether all petroleum products are covered under the Companies (Cost Records and Audit) Rules, 2014?

Section-B (80 Marks)

Answer any five questions (carrying 16 marks each) from question no. 2 to question no. 8.

2. (a) MITHAS LTD. is a top sugar manufacturer and exporter in India operating from Noida Special Economic Zone, Uttar Pradesh. Its revenue from sale/export for the current year is given below:

| | |
|-----------------------------|-------------|
| Sale within India | ₹ 153 lakhs |
| Sale outside India (Export) | ₹ 357 lakhs |
| Total Revenue | ₹ 510 lakhs |

Mr. X, the statutory auditor of Mithas Ltd., is of the view that the company is mandatorily required to include cost records in their books of account and consequently conduct cost audit. He also suggested the name of his friend, who is a Cost Accountant in Practice, for the purpose of such cost audit. However, the management is of the view that the company neither required including cost records in their books of account nor conduct cost audit.

Being an expert in cost records and audit rules, you are required to guide the management in this regard.

- (b) The cost accountant of URASHI LTD. a cement company has arrived at a profit of ₹ 732,40,000 based on cost accounting records for the year ended March 31, 2016. In the course of Cost Audit you come the following differences between the Financial Accounts and Cost Accounts:

(Amount in ₹ Thousand)

| | | |
|--------|---------------------------------------------------------------------------------------------------------------------------------------|--------|
| (i) | Loss on Sale of Fixed Assets | 61 |
| (ii) | Profit on Sale of investments | 1,200 |
| (iii) | Donation paid | 200 |
| (iv) | Loss from Retail trading activity | 5,100 |
| (v) | Voluntary retirement compensation included in salary and wages in financial accounts | 16,800 |
| (vi) | Major repair and maintenance written off in Financial Accounts (Amount reckoned in cost accounts of ₹ 6,100 thousand for this job) | 10,300 |
| (vii) | Insurance claim relating previous year received during the year | 14,300 |
| (viii) | Element of profit on self consumption of cement included in financial accounts | 720 |
| (ix) | Interest income from inter-corporate deposits | 6,100 |
| (x) | Increase in value of work-in-progress and finished goods inventory was as follows: (₹ in Thousand) | |
| | As per Financial Accounts | 9,200 |
| | As per Cost Accounts | 6,150 |

You are required to prepare a Reconciliation Statement and arrive at the profit as per financial accounts for the year ended March 31, 2016. 4+5+1=10

3. (a) **What disclosures** are required to be made in cost statement as per CAS-20 as regard to Royalty and Technical know-how fee? 5
- (b) SHARATHI LTD. a tyre and tube manufacturing company is having turnover of ₹ 75 crores from all its activities. The company has filed its prospectus with SEBI for a public issue of equity shares and it hopes to complete the public offering by September, 2015 end.
- Whether** cost audit will become applicable to the company? If yes, then from which financial year will cost audit become applicable? 6
- (c) **Explain what** is the procedure for appointment of a cost auditor of the company under the Companies Act, 2013. 5

Please Turn Over

4. The following figures are extracted from the Books of VENNELA LTD., a Multi products Company mainly producing Cement and Readymix Concrete for the years ended March 31, 2016 and 2015.

| Year ended 31st March | 2016 | 2015 |
|----------------------------------------------|------------------------|-------|
| Particulars | (Amount in ₹ Millions) | |
| Gross Sales including Excise Duty : | 7,720 | 6,180 |
| Excise Duty | 600 | 480 |
| Other Income | 450 | 300 |
| Export Incentives | 80 | 60 |
| Increase in Value of Stock of Finished Goods | 30 | 15 |
| Raw materials consumed | 2,640 | 2,160 |
| Direct wages, salaries, bonus, gratuity etc. | 660 | 528 |
| Power & Fuel | 360 | 288 |
| Stores and spares | 240 | 210 |
| Other manufacturing overheads | 645 | 555 |
| Administrative Overheads : | | |
| Audit fees | 54 | 45 |
| Salaries & commission to directors | 72 | 60 |
| Other overheads | 390 | 330 |
| Selling and distribution overheads : | | |
| Salaries & Wages | 54 | 45 |
| Packing and forwarding | 30 | 24 |
| Other overheads | 375 | 300 |
| Total depreciation | 180 | 180 |
| Interest Charges : | | |
| On working capital loans from Bank | 90 | 75 |
| On fixed loans from IDBI | 135 | 105 |
| On Debentures | 45 | 45 |
| Tax paid including provisions | 474 | 300 |
| Dividend paid | 630 | 345 |
| Dividend Distribution Tax | 110 | 60 |

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, 2016 and March 31, 2015:

- (i) Value addition
(ii) Earnings available for Distribution
(iii) Distribution of Earnings to the different claimants 8+1+7=16

5. (a) GOLDEN FIBRE LTD. producing Jute goods wants to participate in the 'Swatch Bharat Mission' of Government of India.

Discuss about the social commitment of the corporates towards environment pollution control and the treatment of costs as per CAS-14. 5+3=8

- (b) ABUNA ELECTRONICS LTD. is engaged in the manufacture of LED TV sets having its factories at Patna and Gujarat. The company manufactures picture tube at Patna which is consumed to produce LED TV sets at Gujarat factory. The following information pertaining to captively consumed picture tubes are extracted from the records of the company for the Half year ended March 31, 2016.

(Amount in ₹ Thousand)

| | |
|------------------------------------------------------------------|-------|
| Direct material inclusive of excise duty ₹ 94 thousand | 1,044 |
| Direct wages and salaries | 357 |
| Direct expenses | 80 |
| Indirect materials | 70 |
| Factory overheads | 320 |
| Administrative overheads (20% relating to production activities) | 640 |
| Quality control cost | 100 |
| Research and development cost | 125 |
| Selling and distribution expenses | 225 |
| Sale of scrap realised | 130 |
| Profit margin | 15% |

You are **required to determine:**

- (i) The cost of production for purpose of captive consumption in terms of Rule-8 of the Central Excise Valuation (Determination of price of Excisable Goods) Rules and as per CAS-4, and
(ii) Also Assessable Value for the purpose of paying excise duty on Captive Consumption. 6+2=8
6. (a) When the internal auditor uses the work of an expert, what precautions he should undertake? 6
(b) Explain what are the objectives of Operational Audit. 6
(c) What do you understand by "Audit Risk" as per Cost Auditing Standard-101 on 'Planning an Audit of Cost Statements'? 4
7. (a) The term 'Image' in relation to a company refers to how it is perceived by the public at large.

Please Turn Over

Keeping this in mind how would a Management Auditor approach to evaluate the Corporate Image of a company?

Discuss the technique available to the Management Auditor to evaluate the Corporate Image. 4+4=8

- (b) ASHIRBAD CEMENT LTD. has a captive power generation plant for its cement factory. The following information is available with regard to the power generation for the year ended March 31, 2016:

| | |
|------------------------------|----------------------------------|
| Coal consumption | 2400 tonnes @ ₹ 600 per tonne |
| Oil | 3000 liters @ ₹ 50.50 per litre |
| Water | 24000 gallons at ₹ 60 per gallon |
| Stores and other consumables | ₹ 55,000 |

Salaries of power generating plant:

2 supervisors each at ₹ 10,600 p.m., 5 skilled workers each at ₹ 6,100 p.m., 3 helpers each at ₹ 4,200 p.m.

Salaries to boiler house attendant, 8 workers, each at ₹ 4,200 p.m.

Cost of power generating plant—₹ 15,00,000 having life of plant 15 years with ₹ 60,000 residual value.

Cost of Boiler plant—₹ 6,00,000 having life of plant 10 years with no residual value.

Miscellaneous income received by sale of ash—₹ 50,000.

Repair and maintenance—Power generating plant ₹ 1,50,000, Boiler house ₹ 1,26,000.

Share of Administrative Overhead—₹ 1,35,000.

Power generated during the year: **3024250 KWH.**

Note: No power generated is used by the power generated plant itself.

You are **required to prepare the Cost Sheet** to calculate cost per kWh of electricity generated as per the companies (Cost Records and Audit) Rules 2014 for the year ended March 31, 2016. 8

8. (a) TROMA LTD., a manufacturing unit, produces two products PB and PS. The following information is extracted from the Books of the Company for the year ended March 31, 2016:

| Particulars | Product PB | Product PS |
|----------------------------------|------------|------------|
| Units Produced (Qty.) | 2,10,000 | 1,68,000 |
| Units sold (Qty.) | 1,68,000 | 1,36,500 |
| Machine hours utilized | 1,26,000 | 84,000 |
| Design charges (₹) | 1,57,500 | 1,89,000 |
| Software development charges (₹) | 2,62,500 | 3,78,000 |

(i) Royalty paid on sales ₹ 6,09,000 [@ ₹ 2 per unit sold for both the products].

(ii) Royalty paid on units produced ₹ 3,78,000 [@ ₹ 1 per unit produced for both the products].

(iii) Hire charges of equipment used in the manufacturing process of product PB only ₹ 53,000.

Note: No adjustments are to be made related to units held i.e. Closing Stock.

You are required to compute the **DIRECT EXPENSES**—keeping in view of Cost Accounting Standard (CAS)-10. 6

- (b) Who is the approving authority of the Company to fix the remuneration of the Cost Auditor? 3
- (c) Write a note on "Audit Committee" under the Companies Act, 2013 in brief. 7
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