

FINAL EXAMINATION

December 2017

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 along with the observations shall be filed in Form CRA _____.
 - (ii) The excisable goods not sold but used for consumption for manufacture in the production of other articles should be valued at _____ of cost.
 - (iii) 'Sugar and Industrial Alcohol' belong to _____ sector for the purpose of Application of Cost Records.
 - (iv) Administration Overheads is dealt in CAS _____.
 - (v) Cost Auditing Standard 102 deals with _____.
- (b) State whether the following statements are TRUE or FALSE: 1×5=5
 - (i) A job worker listed under Table A or B of the Rules and paying Excise Duty on behalf of the principal need not maintain cost records even if the transactions exceed the threshold limit.
 - (ii) The Cash Discount allowed on Cash Sales will be charged to Selling and Distribution overheads.
 - (iii) 'Related Party Transaction' means transfer of resources or obligations among persons related by blood relations.
 - (iv) The Audit Committee should recommend appointment and remuneration of the Auditor and also review and monitor the Auditor's independence and performance.
 - (v) Maximum amount of penalty payable by a Cost Auditor for non-compliance with the provisions of Companies (Cost Audit Report) Rules, 2014 is ₹ 5,000.

Please Turn Over

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

2×5=10

- (i) What is meant by 'Cost Records'?
- (ii) How the Demurrage Charges be treated as per the CAS 15?
- (iii) What are the objectives of the Cost Audit Standard 104?
- (iv) Explain the 'Ageing Analysis' of Receivables.
- (v) What is the scope of Government Audit?
- (vi) State the basic objective to prepare a report on Performance Appraisal.

Section-B (80 Marks)

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

2. (a) (i) What is meant by 'Normal Price' as per the Companies (Cost Records & Audit) Rules?
(ii) State the basis adopted in determining Normal Price.
(iii) How is this relevant for 'Related Party Transactions'?
- (b) (i) What are the provisions in the Companies (Cost Records & Audit) Rules, 2014 (as amended) for maintaining records of Physical Verification of Fixed Assets and Inventory?
(ii) What are requirements of maintaining records of Fixed Assets as per the said Rules?
3. (a) M/s Telekraft Paper Ltd., located in a costal state, had the following days of interruption out of total 300 working days during the year 2016-17: (a) Flood : 5 days and (b) Cyclone (2 times) - total 3 days. Disruption in working for 4 days (50% partial) occurred even after resumption of work. There was no cut in wages as lay-off was not allowed by the State Government. Find out the abnormal cost deductible from the product cost on the basis of the following expenses incurred in the Financial Year 2016-17:

(₹ in lakh)

Direct Wages & Salaries	1550	Indirect Wages & Salaries	970
Power	990	Depreciation	350
Other Fixed Expenses	680	Finance Charges	235

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- (b) (i) The Board of Directors of XYZ Ltd. appointed M/s. Luthra & Co., Cost Accountants, as Cost Auditor of the company for the Financial Year 2017-18. On receipt of the appointment letter, what statement or declaration need to be submitted by the Auditor to the company?
(ii) Whether companies registered under Section 8 of the Companies Act, 2013 (Non-profit Orgn.) and One-Person Company (OPC) introduced in the Companies Act, 2013 are covered under the Rules?

4+4=8

4. (a) (i) What are the areas the Cost Accounting Policy of a company will cover in the Cost Audit Report?
- (ii) Ambica Textile Mills produced cloth and fabrics. In addition, they undertook customer's job order for processing of cloth towards optimum utilisation of its spare capacity and earned from loan licence. From the following Income figures, find out the turnover of the company as per the Companies (Cost Records and Audit) Rules:

Income	(₹ in lakh)
Sales (include Excise Duty 1200)	20,500
Trading Sales from Depots	1,250
Export Income	2,100
Export Duty	450
Income from Job Processing	1,100
Scrap Sale	235
Income from Loan Licence operations	560

3+5=8

- (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:
- 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,
 - some discarded assets sold off with no scrap value for ₹ 90,000,
 - 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,
 - interest was received amounting to ₹ 1,40,000 from outside investments,
 - Voluntary Retirement payment of ₹ 3,50,000 was not included in the Cost Accounts,
 - insurance claim of previous year was received to the extent of ₹ 2,50,000 but was not considered in the Cost Accounts,
 - opening stock or 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
 - 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

5. (a) A company, manufacturing electronic goods, invests 2% of turnover on R & D projects. Though the outcome from such investment was considered satisfactory, it apprehends threats from global competitors in the coming days. In order to retain the market share of its product range, it has approached you as a Management Auditor to examine the adequacy and cost effectiveness of its R & D programme. Discuss about major questions which your Audit should address. 10

- (b) Define the terms: Installed Capacity, Normal Capacity and Abnormal Idle Capacity as per the CAS 2 of the Rules. 6

6. (a) A company incurred the expenses given below during the Financial Year 2016-17. Find out the Employee Cost as per the CAS 7.

	₹
Gross Pay (including the cost of idle time hours paid to the employees ₹ 25,000)	10,30,000
Accommodation paid to the employees free of cost	1,00,000
Subsidy for Canteen, Recreation Club	90,000
Group Insurance	3,000
Employer's Contribution to PF & ESI	1,00,000
Employees' Contribution to PF & ESI	75,000
Festival Bonus	85,000
Unamortised amount of Employee Cost related to discontinued operation	90,000
Employee Training Cost	2,00,000

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- (b) (i) ABC Ltd., a public limited company not listed in Stock Exchange, had turnover of ₹ 250 crore in the year 2016-17. Is the company under obligation to appoint an Internal Auditor? Will the answer differ if the company

(a) is a private limited company?

(b) is a producer company?

- (ii) In case of In-house Internal Audit, how to ensure quality in Internal Audit? 4+4=8

7. (a) 'Operational Audit' is a tool of the Management to improve operational efficiency. Identify the focus areas of Operational Audit as distinct from Internal Audit.

- (b) A company intends to arrange payment of wages and other monetary benefits to the workers by e-payment only. State the steps to be taken by the Personnel Department in this regard.

- (c) State the areas to be covered in 'Corporate Social Responsibility (CSR) Audit'. 8+4+4=16

8. (a) Discuss the role of the Comptroller & Auditor General of India in the Proprietary Audit of a Government company.

- (b) Write a short note on "Customer Costing in Service Sector".

- (c) A Cost Accountant has taken voluntary retirement from his/her employer and has started practice. He/she continues his/her association with his/her previous employer as an advisor, on a monthly retainer basis. State whether the practice amounts to Professional Misconduct.

6+6+4=16