

# FINAL EXAMINATION

December 2013

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.*

*The paper is divided in three sections.*

*From Section A answer any four questions (4×15=60 marks)*

*From Section B answer any two questions (2×10=20 marks)*

*From Section C answer any two questions (2×10=20 marks)*

### SECTION A (60 Marks)

Answer any four Questions.

15×4=60

1. (a) MNC Sugar Mill Ltd. located at Uttar Pradesh has a boiler which is used for its own by product, Bagasse, as fuel. The steam generated is first used for generation of power and the exhaust steam is used in the process of sugar manufacture. The following details are extracted from the financial accounts and cost accounting records of the MNC Sugar Mill:

Sugar Produced	2870000 Quintals
Steam generated and consumed	1465000 Tonnes
Fuel (Bagasse) consumed for production of steam	685000 Tonnes
Cost of Generation of Steam including cost of water (other than Fuel Cost)	₹ 64530000
Steam used for generation of power	620000 Tonnes
Power Purchased from Electricity Board @ ₹ 5.40 per KWH	5270000 KWH
Power Generated from Steam Turbine	48525000 KWH
Variable conversion cost of generation of power (excluding cost of steam)	₹ 42218000

Notes: (1) The Sale Value of Bagasse, if sold in the open market is ₹ 1820/- per Tonne.

(2) The Exhaust steam (after generation of power) transferred to sugar manufacturing process is 82% of the cost of production of Steam.

Prepare two separate cost sheet for steam and power as per Cost Accounting Record Rules and compute the average cost of power as per Cost Audit Report. 12

- (b) Define direct expenses as per CAS 10. How are they identified? 3
2. (a) How would you treat the following as per CAS 9 related to packing material cost? 6
- Primary and Secondary packing material cost.
  - Self manufactured packing material.
  - The forex component of imported packing material.
- (b) The following figures relate to usage of power for a product:

	2010-11	2011-12	2012-13
Total power consumed to KWH	2402474	2494872	2175677
Rate KWH ₹	2.29	2.12	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

- (c) As a Cost Auditor you find that indicative Break-even Point is higher than Actual Sales. Give your suggestions for improvements. 3

**Please Turn Over**

3. (a) Para 9 of the Companies (Cost Audit Report) Rules 2011 requires disclosure of "Cost of Production" and "Cost of Sales" at a company level. How the same would be available when all the products/activities are not covered under cost audit? 3
- (b) What disclosures are required to be made in Cost statement as per CAS-8 as regards to utility? 5
- (c) Are there any sectors exempted under Companies (Cost Accounting Records) Rules 2011? 4
- (d) Company having turnover above ₹ 100 crore undertakes works contracts for pipe line execution for Drinking, Sewerage and Irrigation purpose. The required pipes for the projects, falling under Chapter 68 of CETA, are manufactured by the Company itself. A part of the production is also sold outside. Whether Cost Audit is applicable for pipe manufacture. 3
4. (a) What review should be made by a Cost Auditor of Cost Accounting Records? 7
- (b) The profit as per financial accounts of M/s Kalingpong Himalaya Private Company for the year 2012-2013 was ₹ 1,54,28,642/-. The profit as per Cost Accounting Records for the same period was less. You are required to prepare a reconciliation statement and arrive at the profit as per Cost Records. The following details are collected from the financial schedules and cost accounting records: 8

	Financial Accounts	Cost Accounts
Valuation of Stock		
Opening: WIP	25,62,315	22,65,710
Finished Goods	2,65,47,520	2,92,18,950
Closing: WIP	42,75,640	37,36,346
Finished Goods	3,72,59,430	4,35,25,149
Interest income from inter-corporate deposits	6,15,340	—
Donations given	4,85,560	—
Loss on Sale of Fixed Assets	1,22,546	—
Value of cement taken for own consumption	3,82,960	3,65,426
Cost of Power drawn from own Wind Mill		
—At EB tariff	—	49,56,325
—At cost	36,20,370	—
Non-operating income	45,36,770	—
Voluntary retirement compensation	16,76,540	—
Insurance claim relating to previous year received during the year	14,35,620	—

5. (a) Trial Balance extract of M/s Rashid Ltd. as on 31.03.2013 is given below: 7

Particulars	Amount ₹	Particulars	Amount ₹
Materials Consumed	32,00,000	Special subsidy received from Govt. towards employees Salary	2,80,000
Salaries	18,00,000	Recoverable amount from employees out of perquisites extended	30,000
Employees training cost	1,80,000		
Perquisites to employees	4,50,000		
Contribution to Gratuity Fund	4,10,000		
Festival Bonus	65,000		
Lease rental for accommodation	3,00,000		
Unamortised amount of employee cost related to a discontinued operation	80,000		

- Compute employees cost.
- (b) Explain how Installed Capacity, Practical Capacity and Normal Capacity are calculated as per CAS-2 of a manufacturing concern. 3+2+3=8

**SECTION B (20 Marks)**

Answer any two Questions.

10×2=20

6. (a) How the adequacy of Internal Audit function can be assessed? 5  
 (b) What is the role of Audit Committee, where applicable, in dealing with the Cost Audit Report? Can the Cost Audit Report and Annexure be approved by the Audit Committee and/or Board of Directors by circular resolution? 5
7. (a) What is the objective of purchase management? What are the main points to be taken into account while preparing a set of questionnaire to evaluate purchase management function? 6  
 (b) What are the characteristics of ERP system and what are the requirements for Audit approach? 2+2=4
8. (a) A Company engaged in manufacturing of chemicals is consistently recording higher sales turnover, but the net profits is showing a declining trend since the last 5 years. As a Management Auditor appointed to find out the reasons for the same, mention the points you would investigate. 5  
 (b) "Management Audit and Operational Audit are complementary and supplementary to one another". Discuss in brief. 5

**SECTION C (20 Marks)**

Answer any two Questions.

10×2=20

9. 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:

	(₹ in lakhs)		
	31.3.2013	31.3.2012	31.3.2011
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
<b>Factory overheads:</b>			
Salaries and wages	5	4	3
Depreciation	2	2	2
Rates and Taxes	1	1	1
Other overheads	6	5	4
<b>Administrative overheads:</b>			
Salaries and Wages	10	9	8
Rates and Taxes	2	2	2
Other overheads	162	154	148

**Please Turn Over**

	(₹ in lakhs)		
	31.3.2013	31.3.2012	31.3.2011
<b>Selling and distribution overheads:</b>			
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 Para 9 in the Cost Audit Report Rules 2011 for 3 years:

(i) Operating Profit as percentage of Value Addition.

(ii) Value Addition as percentage of Net Sales.

5+5=10

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

10. (a) The following data have been available of Sunflag Dolon Limited:

	2010-11	2011-12	2012-13
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 2012-13 was due to abnormal power-cut. The escalation in costs were 5% in 2011-12 and 7% in 2012-13 base on 2010-11

(i) Calculate the abnormal cost due to power cut.

(ii) How would you treat these abnormal cost?

7

(b) 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

3

11. The following is the Balance Sheet of Jamuna Sing Ltd. of Chandigarh as on 31st December, 2013 and 31st December, 2012:

	31.03.13	31.03.12
<i>Non Current Assets</i>		
Fixed Assets - Tangible Assets	4,20,000	4,45,000
Non Current Investments	55,000	30,000
Long Term Loans and Advances	40,000	85,000
<i>Current Assets</i>		
Stock in trade	2,30,000	1,50,000
Sundry Debtors	1,60,000	1,50,000
Bills Receivable	35,000	20,000
Advance Payment to contractors	10,000	3,000
Cash and Bank	25,000	15,000
	9,75,000	8,98,000
<i>Equity and Liabilities</i>		
Shareholders' Fund	3,80,000	3,80,000
Reserves and Surplus	2,75,000	2,20,000
<i>Non Current Liabilities</i>		
Long term Borrowings	50,000	50,000
Deferred Tax	20,000	20,000
<i>Current Liabilities</i>		
Sundry Creditors	1,90,000	1,80,000
Bills Payable	60,000	48,000
	9,75,000	8,98,000

You are required to prepare a schedule showing the followings:

- (i) Change in Working Capital
- (ii) Liquidity and proprietary ratios for the two years.