

FINAL EXAMINATION

June 2015

P19(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.

This paper contains 3 questions, representing three separate sections.

All three questions are compulsory, subject to the specific instructions provided against each question.

All workings wherever necessary, must form a part of your answer.

Assumptions, if any, should be clearly stated.

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

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

SECTION A (60 marks)

1. Answer the *four* questions. (carrying 15 marks each):

- (a) (i) The following information is extracted from the Cost Accounting Records of RAYGOLD LTD. a Cement Company for the year ended March 31, 2015.

| | |
|--|----------------|
| Production | 96100 Tonnes |
| Norms for power consumption per tonne of cement | 95 KWH |
| Total power generated/consumed: | |
| From the Electricity Board (EB) Grid. | 52272540 KWH |
| From the Captive power plant. | 62726720 KWH |
| From the Wind Mill (fed into the EB Grid and drawn at the factory site) | 47044815 KWH |
| Cost of fuel consumed | ₹ 11,39,26,234 |
| Other operating costs of generating set. | ₹ 2,84,81,558 |
| Total operating cost of Wind Mill. | ₹ 7,33,89,913 |

Note: The Electricity Board detects 10% of the Power fed into the Grid towards transmission losses.

Required:

As a Cost Auditor of the Company, How will you present the above data in the Annexure to the Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014? 4+2=6

- (ii) MEGLOW TECHNO LTD. is a manufacturer of Ball and Roller bearings. In the Company four operations are carried on simultaneously in the manufacture of components.

The input/output data and Direct Wages Cost relating to the year 2014-15 for one component are as follows:

| Operations | Gross Input (Tonnes) | Scrap (Tonnes) | Direct Wages (₹) |
|------------|-------------------------|-------------------|----------------------|
| PM | 48000 | 8000 | 12,40,000 |
| QN | 50000 | 10000 | 12,50,000 |
| RA | 72000 | 12000 | 23,60,000 |
| SB | 55000 | 5000 | 32,70,000 |

Material is introduced at start of Operation PM at a cost of ₹ 6,000 per tonne. Scrap can be sold at ₹ 500 per tonne. Overheads are absorbed at 150% on Direct Wages.

You are appointed as a cost consultant of Meglow Techno Ltd. The company has not maintained cost records so far and seeks your advice in the matter.

Show your computation of the total cost per tonne of finished component so that the company can adopt the same in future.

7+2=9

- (b) (i) 'Research and Development Costs shall include all the costs that are directly traceable to research and/or development activities'.

On what basis these costs can be assigned to Research and Development activities as per CAS-18?

Also state the constituent elements of such costs.

2+5=7

- (ii) The extracts of Trial Balance of PANCHAL LTD. a manufacturing company pertaining to employees as on March 31,2015 are given below:

| Particulars | Amount ₹ |
|---|-------------|
| <i>Debit</i> | |
| Salaries Cost | 25,45,785 |
| Employees Training Cost | 4,73,000 |
| Employees Selection Expences | 2,25,000 |
| Perquisites To Employees | 12,45,000 |
| Contribution to Gratuity Fund | 5,25,000 |
| Lease rental for accomodation provided to employees | 3,25,000 |
| Festival Bonus | 1,25,000 |
| Unamortised amount of Employee Cost related to a discontinued operation | 1,85,000 |
| Employer's contribution to P.F. including Penalties ₹ 35,000 | 2,75,325 |
| <i>Free accomodation to own employees</i> | |
| Depreciation | 1,00,000 |

| | |
|---------------|--------|
| Municipal Tax | 5,500 |
| Maintenance | 45,000 |

Credit

| | |
|---|----------|
| Special subsidy received from Government towards employees salary | 1,75,000 |
| Recoverable amount from employee out of perquisites extended. | 35,000 |

Required:

- (1) Calculate the Employees cost for the year ended March 31, 2015—Keeping in view of cost Accounting Standard (CAS)–7.
- (2) Specify the disclosures required. 6+2=8
- (c) (i) What disclosures are required to be made in cost statement as per CAS–14 as regard to Pollution Control Cost? 5
- (ii) The following particulars pertaining to product AZ are extracted from the record of SHINJIN LTD. for the half year ended March 31, 2015.

| | Amount in ₹ Thousand |
|---|----------------------|
| Direct Material Cost | 827 |
| Direct Wages and Salaries | 200 |
| Indirect Materials | 75 |
| Direct Expenses | 100 |
| Factory overheads | 200 |
| Administrative overheads (20% relating to production activities) | 100 |
| Quality Control Cost | 25 |
| Research and Development Cost | 25 |
| Selling and Distribution Expenses | 15 |
| Sale of Scrap realised | 20 |
| Material Cost includes Excise duty paid | 27 |
| Actual Profit Margin | 15% |

You are required to determine:

- (1) 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 2000 and as per CAS–4 and
- (2) Also Assessable value for the purpose of paying excise duty on Captive Consumption. 6+2=8
- (iii) How will you treat an item of Direct Expenses that does not meet the test of materiality as per CAS–10? 2
- (d) (i) What Constitutes the Cost Records under Rule 2(e) of the Companies (Cost Records and Audit) Rules, 2014? 4

- (ii) You are the Cost Auditor of MERLIN TEXTILE MILLS LTD. for the year ended March 31, 2015.

The Company had a Strike from 16.09.2014 to 19.11.2014. Although the company resumed working from 20.11.2014 normal production was achieved only from 08.12.2014. The expenses incurred during the year ended March 31, 2015 were

| | Amount in ₹ Lakh |
|--|------------------|
| Salaries and Wages (Direct) | 1,800 |
| Salaries and Wages (Indirect) | 1,200 |
| Power (Variable-90%) | 600 |
| Depreciation | 1,080 |
| Other fixed expenses | 1,320 |
| Repairs and Maintenance (Variable-80%) | 600 |

Detailed examination of the records reveals that of the above, the following relate to the period 16.09.2014 to 19.11.2014.

| | Amount in ₹ Lakh |
|-------------------------------|------------------|
| Salaries and Wages (Direct) | Nil |
| Salaries and Wages (Indirect) | 480 |
| Depreciation (Non-productive) | 300 |
| Other fixed expenses | 660 |
| | <u>1,440</u> |

Required:

Calculate the amount which in your opinion should be treated as abnormal for exclusion from the product costs. 7

- (iii) How would you compute the Cost of Utilities as per CAS-8 in the following circumstances?
(A) Utilities generated for the purpose of Inter Company transfer.
(B) Utilities generated for the sale to outside parties. 2×2=4
- (e) (i) Whether maintenance of Cost Accounting records and Cost Audit thereof under the Companies (Cost Records and Audit) Rules, 2014, subject to threshold limits-prescribed, is applicable to products which are for 100% CAPTIVE CONSUMPTION? 5
- (ii) The profit as per Cost Accounts of RUKMANI SUGAR MILLS LTD for the year ended March 31, 2015 was ₹ 1,30,46,200. In the course of Cost Audit, you come across the following differences between the Financial Accounts and Cost Accounts.
- (A) Element of Profit on self-consumption of sugar included in Financial Accounts was ₹ 75,000.
- (B) A sum of ₹ 32 Lakhs has been paid during the year towards Additional Sales Tax for previous years and included in current year Rates and Taxes.
- (C) Income (dividend) from investment booked in Financial Accounts was ₹ 2,90,000.
- (D) Loss on Sale of investments—₹ 6,000
- (E) Profit on Sales of fixed Assets accounted in F/A was ₹ 6,25,000.

- (F) A sum of ₹ 15,00,000 had been written off in the financial A/c as new Project development expenses.
- (G) Major consumables written off in full in the Financial A/cs be treated as deferred revenue expenditure amortized over three years in the Cost Accounts full value of ₹ 24,00,000.
- (H) Insurance claim relating to previous years received during the year ₹ 54,00,000.
- (I) Loss from trading Activity ₹ 11,20,000.
- (J) Voluntary Retirement Compensation included in Salary & Wages in F/A—26,50,000.
- (K) Increase in value of work in-progress and finished goods inventory was as follows:
- | | |
|---------------------------|-------------|
| As per Financial Accounts | ₹ 18,30,000 |
| As per Cost Accounts | ₹ 16,15,000 |

You are required to prepare a reconciliation statement between Profit figures as per Cost and Financial Accounts and

Also show the Profit as per Financial Accounts for the year ended March 31, 2015. 5+4+1=10

SECTION B (20 marks)

2. Answer any two questions (carrying 10 marks each):

- (a) (i) What is the Role of Management with regard to Internal Control? 5
(ii) What are the quantities and functions of a Management Auditor? 5
- (b) (i) Write short notes on Disclosure and Transparency of Corporate Governance. 5
(ii) What is Energy Audit?
Briefly state the Key-functions of Energy Auditor? 2+3=5
- (c) As a Management Consultant, you have an assignment to conduct a Management Audit of the production function of a Medium-Scale Engineering Unit.

Prepare a check-list of the points on which you should undertake the study.

1+1+1+1+(1/2×12)=10

SECTION C (20 marks)

3. Answer any two questions (carrying 10 marks each):

- (a) The Balance Sheet of MOUNTHILL LTD. for the last two years stood as follows:

| | (Amount in ₹ Lakh) | |
|------------------------------------|--------------------|--------------|
| As on March 31, | 2015 | 2014 |
| Sources of Fund | | |
| Share Capital (Share of ₹ 10 each) | 3,000 | 3,000 |
| Reserves and Surplus | 1,392 | 1,200 |
| Loans | <u>1,200</u> | <u>1,440</u> |
| Total | <u>5,592</u> | <u>5,640</u> |
| Represented by: | | |
| Fixed Assets | 4,800 | 3,600 |
| Less: Depreciation | <u>1,680</u> | <u>1,200</u> |
| | 3,120 | 2,400 |
| Investment | <u>480</u> | <u>360</u> |
| (A) | <u>3,600</u> | <u>2,760</u> |

| | | |
|---------------------------|------------------|--------------|
| Net Current Assets: | | |
| Current Assets: | | |
| Stock | 1,440 | 1,200 |
| Debtors | 840 | 600 |
| Cash and Bank | 240 | 240 |
| Other Current assets | 300 | 300 |
| | <u>2,820</u> | <u>2,340</u> |
| Less: Current Liabilities | 1,548 | 300 |
| | (B) <u>1,272</u> | <u>2,040</u> |
| Miscellaneous Expenditure | (C) 720 | 840 |
| | <u>5,592</u> | <u>5,640</u> |

You are giving the following additional information for the year 2014-15:

(Amount in ₹ Lakh)

| | |
|--------------------------------|-------|
| Sales | 7,200 |
| Profit before Interest and Tax | 1,800 |
| Interest | 288 |
| Provision for Tax | 720 |
| Proposed Dividend | 600 |

Required:

(i) Calculate for the year 2014-15:

- (A) Return on Capital Employed
- (B) Stock Turnover Ratio
- (C) Return on Net-worth
- (D) Current Ratio
- (E) Proprietary Ratio

(ii) Give a brief comment on the financial position of Mounthill Ltd.

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(b) The following parameters are extracted from the records of PHIMPEX TECHNO LTD. a cement manufacturing company for the year that ended as follows:

| Year ended March 31, | 2015 | 2014 |
|--|----------|----------|
| Rated capacity (per HR) | 90 Tonne | 90 Tonne |
| Installed capacity per Annum (in Tonnes) | 4,50,000 | 4,50,000 |
| Capacity Utilization | 62.80% | 84.28% |
| (A) Plant Stoppage (Hours) | | |
| 1. Breakdown (Hrs.) | 2,435 | 1,135 |
| 2. Planned Maintenance (Hrs.) | 277 | 472 |
| 3. Power Restriction (Hrs.) | 1,384 | 1,656 |
| 4. Stoppage (There are no orders) (Hrs.) | 884 | 757 |

| | | |
|---|---------------|---------------|
| 5. Want of wagon (Hrs.) | 554 | 710 |
| 6. Total stoppage (Hrs.) | <u>5,534</u> | <u>4,730</u> |
| (B) 1. Total Running (Hrs.) | 4,348 | 5,125 |
| 2. Total available (Hrs.) | <u>9,882</u> | <u>9,855</u> |
| 3. Production during the year (in Tonnes) | <u>282620</u> | <u>379250</u> |
| 4. Hourly Rate of Production (in Tonnes) | 65 | 74 |

Based on the information Stated Supra, you, as a Cost Auditor are required to offer your Comments on

- (i) The performance of the company
(ii) Your suggestions for improvement.

8+2=10

- (c) The following parameters are extracted from the Cost Accounting Records of ADRIJA LTD, a single product manufacturing company.

| Year ended 31st March | 2015 | 2014 |
|---|--------------------|-------|
| | (Amount in ₹ Lakh) | |
| Gross Sales including Excise duty | 5,712 | 5,558 |
| Excise duty | 826 | 784 |
| Raw materials consumed | 3,192 | 2,968 |
| Direct wages | 98 | 90 |
| Power and fuel | 84 | 76 |
| Stores and spares | 16 | 14 |
| Depreciation charged to production cost centres | 44 | 42 |
| Factory Overheads: | | |
| Salaries and Wages | 14 | 12 |
| Depreciation | 6 | 6 |
| Rates and Taxes | 2 | 2 |
| Other overheads | 16 | 14 |
| Administrative Overheads: | | |
| Salaries and Wages | 28 | 26 |
| Rates and Taxes | 6 | 6 |
| Other Overheads | 462 | 432 |
| Selling and Distribution Overheads: | | |
| Salaries and Wages | 20 | 16 |
| Packing and Forwarding | 16 | 16 |
| Depreciation | 2 | 2 |
| Other Overheads | 348 | 330 |
| Interest | 238 | 208 |
| Bonus and Gratuity | 34 | 28 |

You are required to compute the following RATIOS 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, 2015 and March 31, 2014.

- (i) Profit before Tax (PBT) to Value Added.
(ii) Value Added to Net Revenue from Operations.
(iii) Profit before Tax (PBT) to Net Revenue from operations.

4+3+(1×3)=10