

**FINAL EXAMINATION**

December 2013

**F-PI7(COA)**

**Syllabus 2008**

**Cost Audit & Operational Audit**

Time Allowed: 3 Hours

Full Marks: 100

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

- Please: (1) Answer all bits of a question at one place.  
(2) Open a new page for answer to a new question.  
(3) Attempt the required number of questions only.*

**SECTION I (50 Marks)**

(Cost Audit)

**Answer Question No. 1** (carrying 14 marks) which is compulsory and answer any two (carrying 18 marks each) from the rest in this Section.

1. (a) In each of the cases/statements given below, one out of Four alternatives is correct. Indicate the correct answer (only indicate A or B or C or D as you think correct) 1×8=8
- (i) PARA — 2 of the annexure to Cost Audit Report under the Companies (Cost Audit Report) Rules 2011 deals with
    - A. Cost accounting policy
    - B. Product group details
    - C. Related Party transactions
    - D. Quantitative information of each product group separately.
  - (ii) Form — 1 XBRL is used for filing :
    - A. Cost Audit Report of a Company
    - B. Annual Report of a Company
    - C. Annual Accounts of a Company
    - D. None of the above.
  - (iii) Excisable clearance means:
    - A. Only sale of goods from factory
    - B. Removal from godown
    - C. Despatches from bonded warehouse
    - D. Total clearance from factory.
  - (iv) CAS —14 deals with
    - A. Cost of Utilities
    - B. Pollution Control Cost
    - C. Employee Cost
    - D. Packing Material Cost.

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- (v) Cost Accounting Record Rules were first made for
- Jute Industry
  - Cement Industry
  - Chemical Industry
  - Sugar Industry.
- (vi) The Compliance Report is to be issued by the Certifying Cost Accountant in:
- Form — A of the Companies (Cost Accounting Records) Rules — 2011
  - Form — B of the Companies (Cost Accounting Records) Rules — 2011
  - Form — C of the Companies (Cost Accounting Records) Rules — 2011
  - None of the above.
- (vii) Soda Ash is Covered by
- Cost Accounting Records (Chemical Industries) Rules — 2004
  - Cost Accounting Records (Formulations) Rules — 1988
  - Cost Accounting Records (Bulk Drugs) Rules — 1974
  - Cost Accounting Records (Industrial Alcohol) Rules — 1997.
- (viii) According to \_\_\_\_\_ on Cost of utilities, the Cost of maintaining stand-by utilities shall be the Committed Cost. (Fill in the Gap from the below)
- CAS — 5
  - CAS — 6
  - CAS — 8
  - CAS — 10.
- (b) State whether the following statements based on the quoted terms are TRUE or FALSE with justifications for your answer. No credit will be given for any answer without justifications: 1×6=6
- The responsibility of creating XBRL document lie with the Cost Auditor
  - As per CAS — 5 Warranty Costs and after sales service cost are part of selling overheads
  - Abridged Cost Statement (for each product group separately) is being dealt in PARA-6 of the annexure to Cost Audit Report under the Companies (Cost Audit Report) Rules — 2011.
  - In view of e-filing of Cost Audit Report, only one hard copy is required to be submitted to the Cost Audit Branch.
  - CAS — 6 deals with determination of Cost of Production for Captive Consumption.
  - Acetate yarn/fibre is covered by the Cost Accounting Records (Textiles) Rules 1977.
2. (a) How would you treat the following as per CAS — 7 related to Employee Cost?
- Recruitment Costs
  - Overtime premium
  - Separation Cost due to Voluntary Retirement, retrenchment, termination etc.
  - Bonus
- 1+1+2+2=6

- (b) The following figures are extracted from the Cost Accounting records of ADRIJA LTD., a single product manufacturing company:

Year ended 31st March	2013	2012
	(Amount in ₹ lakh)	
Gross Sales including Excise duty:	2,600	2,080
Excise duty	200	160
Other Income	150	100
Increase in Value of Stock of Finished Goods	10	5
Raw materials Consumed	880	720
Direct wages, Salaries, Bonus, Gratuity etc.	220	176
Power & Fuel	120	96
Stores and Spares	80	70
Cess and local Taxes	60	50
Other manufacturing Overheads	215	185
Administrative Overheads:		
Audit fees	18	15
Salaries & Commission to Directors	24	20
Other overheads	130	110
Selling and Distribution Overheads:		
Salaries & Wages	18	15
Packing and forwarding	10	8
Other overheads	125	100
Total Depreciation	60	60
Interest Charges:		
On Working Capital Loans from Bank	30	25
On Fixed Loans from IDBI	45	35
On Debentures	15	15
Provision for Taxes	158	100
Proposed Dividends	210	115

You are required to Calculate the following Parameters as Stipulated in PARA — 8 of the Annexure to Cost Audit Report under the Companies (Cost Audit Report) Rules 2011 for the year ended March 31, 2013 and 2012:

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

5+1+6=12

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3. (a) KOOTCHAR SUGAR MILLS LTD. a Sugar manufacturing Company located at Maharashtra has a boiler which uses 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 Kootchar Sugar Mills Ltd:

Sugar Produced	19,60,000 Quintals
Steam generated and Consumed	9,96,000 Tonnes
Fuel (Bagasse) Consumed for production of steam	4,98,760 Tonnes
Cost of generation of steam including	
Cost of water (other than fuel cost)	₹ 4,60,32,000
Steam used for generation of Power	4,60,000 Tonnes
Power purchased from Electricity Board @ ₹ 5.75 per KWH	38,80,000 KWH
Power generated from Steam Turbine	3,85,72,000 KWH
Variable Conversion Cost for generation of Power (excluding Cost of Steam)	₹ 3,09,71,200

- Notes : (1) The Sales Value of bagasse, if sold in the open market is ₹ 1750 per tonne.  
(2) The exhaust steam (after generation of power) transferred to Sugar manufacturing process is valued at 85% of the cost of production of steam.

Required:

- (i) Prepare Two Separate Cost Sheets for steam and power as per the Companies (Cost Accounting Records) Rules.
- (ii) Compute the average cost of Power as per PARA — 5 of the Annexure to the Cost Audit Report under the Companies (Cost Audit Report) Rules 2011. (5+4)+3=12
- (b) The Companies (Cost Accounting Records) Rules — 2011 have not prescribed any specific formats for the cost statements.  
In what manner and format would the cost statements be kept under these Rules? 4
- (c) What is the benefit of having cost related data in XBRL format? 2
4. (a) VINTEX LTD. having turnover above ₹ 100 Crore undertakes work 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. 4
- (b) Answer the following questions with respect to the Companies (Cost Audit Report) Rules — 2011. 2×2=4
- (i) Who will certify XBRL filing for Cost Audit Report?
- (ii) Is Performance Appraisal Report required to be filed with the Central Government as a part of the Cost Audit Report?

- (c) The following figures are extracted from the Financial Accounts of SIMON LTD. for the year ended March 31, 2013.

	(₹)	(₹)
Sales (20000 units)		50,00,000
Materials		20,00,000
Wages		10,00,000
Factory Overheads		9,00,000
Administrative Overheads		5,20,000
Selling and Distribution Overheads		3,60,000
Finished Goods (1230 units) (closing)		3,00,000
Work-in-Progress :		
Materials	60,000	
Labour	40,000	
Factory Overheads	40,000	1,40,000
Goodwill Written off		4,00,000
Interest paid on Capital		40,000

In the Costing records, Factory overheads is charged at 100% of Wages, Administrative overheads 10% of Factory Cost and Selling and Distribution overheads at the rate of ₹ 20 per unit sold.

Required :

Prepare a Statement Reconciling the Profit as per Cost Records with the Profit as per Financial Records.

(3+3)+4=10

### SECTION II (50 Marks)

#### (Operational Audit)

Answer **Question No. 5** (carrying 14 marks) which is compulsory and answer any two (carrying 18 marks each) from the rest in this Section.

5. (a) State whether the following statements based on the quoted terms are "TRUE" or "FALSE" with justifications for your answer. No credit will be given for any answer without justifications. 1×6=6
- Corporate image of a Company is built up exclusively by its product quality but is not affected by its attitude towards its other stakeholders.
  - Operational Audit is merely extension of internal Auditing in operational areas.
  - Dumping is an 'illegal' practice.
  - For stock hypothecation to the Bank, Insurance Coverage is required for seventy five percent of stock as margin money.
  - Three-fourths of the members of the Audit Committee shall be independent directors.
  - The Consumer Service Audit critically examines the outstanding payment of Consumers.

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- (b) Fill in the blanks in the following sentences by using appropriate word(s)/Phrase(s)/number(s): 1×8=8
- (i) Corporate objectives represent the \_\_\_\_\_ for the organization as laid down by itself.
  - (ii) \_\_\_\_\_ is transfer of goods to an alien market at a price which is less than the marginal cost of its production in the home country.
  - (iii) The main emphasis of Management Audit is problem \_\_\_\_\_ rather than problem solving.
  - (iv) \_\_\_\_\_ is the highest body of the structure of the WTO.
  - (v) \_\_\_\_\_ is needed to create corporate culture of transparency.
  - (vi) The origin of the term "Due Diligence" owes to \_\_\_\_\_.
  - (vii) \_\_\_\_\_ Pollution affects pedestrians and motorists due to the presence of dust, fumes and smoke in the atmosphere.
  - (viii) The Audit Committee shall meet at least \_\_\_\_\_ a year as per the SEBI listing agreement.
6. (a) ARITHI LTD. engaged in manufacturing of chemicals is consistently recording higher sales turnover, but declining net profits since the last 5 years.  
As a Management Auditor appointed to find out the reasons for the same, what are the points you would investigate? 8
- (b) Enumerate the main areas to be covered by the Auditor in the case of Environment Audit of an Industrial Unit. 6
- (c) State briefly the salient features of the traditional form of Internal Audit and Operational Audit. 4
7. (a) The Chief Commissioner of Customs has appointed you to carry out a Special Audit of Accounts of ANUKRITA LTD. which manufactures goods in Customs Bonded Warehouse.  
What are the points you will cover in your report? 6
- (b) Explain the Constitution and functions of AUDIT Committee under Section 292A of the Companies Act 1956. 2+4=6
- (c) Explain whether the following activities amount to professional misconduct on the part of a Cost Accountant.
- (i) CMA K. Kumar a practicing Cost Accountant certified the cost statements of SARATHI LTD. in which his wife is a Director holding substantial interest.
  - (ii) CMA ARTHITA BASU a practicing Cost Accountant had accepted appointment as an Cost Auditor of VENTEX LTD. without ascertaining from the Company whether the requirement of Section 224 and 225 of the Companies Act had been complied with. She realized this defect only after acceptance.
  - (iii) CMA AINDRIL a practicing Cost Accountant has sent letters under Certificate of Posting to the previous auditor informing him his appointment as an Cost Auditor before the commencement of Audit by him. 2×3=6
8. Write short notes on *any three* out of the following: 6×3=18
- (a) Ministerial Conference;
  - (b) Professional Behaviour in Relation to an Accountant;
  - (c) Assurance Services;
  - (d) Due Diligence Audit.