

FINAL EXAMINATION

June 2015

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.*

Wherever necessary, suitable assumptions should be made and indicated.

Working notes should form part of answer.

Answer Question No. 1 and Question No. 5 (carrying 14 marks each) which are compulsory and any two (carrying 18 marks each) from each of the remaining question of Section I and Section II

SECTION I (50 Marks)

(Cost Audit)

Answer Question No. 1 which is compulsory and any two from the rest in this Section.

1. (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 justification: 1×6=6
- (i) Cost Accounting Standard on Packing material cost is dealt in CAS-11.
 - (ii) Cost Accounting Record Rules, 2011 is applicable to Foreign companies engaged in production, processing, manufacturing or mining activities in India.
 - (iii) If the company has more than one factory producing the same product, during the cost audit, it need not be shown in separate annexure for each factory.
 - (iv) M/s. SSG Company Ltd. situated in Kolkata is planning to file a single form 23C by appointing RRD Associates, a Cost Audit firm for all three different types of products covered under Cost Audit.
 - (v) CAS-2 deals with determination of capacity of a unit.
 - (vi) Two companies simply having a common director shall not be deemed as 'Related Party Relation'.
- (b) In each of the case/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): 1×4=4
- (i) Abnormal loss of material are charged to
 - (A) Prime Cost
 - (B) Production Overhead
 - (C) Material Cost
 - (D) Costing Profit and Loss Account
 - (ii) Form A XBRL is used for
 - (A) Compliance Report of a company
 - (B) Annual Accounts of a company
 - (C) Cost Audit Report of a company
 - (D) Annual Report of a company

Please Turn Over

- (iii) Para (14) of the annexure to the Cost Audit Report deals with
 (A) Royalty and Technical know-how
 (B) Research and development expenses
 (C) Pollution control expenses
 (D) Abnormal non-recurring expenses
- (iv) Systematic examination, analysis and appraisal of management's overall performance is done in
 (A) Cost Audit
 (B) Efficiency Audit
 (C) Management Audit
 (D) Financial Audit

(c) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s): 1×4=4

- (i) The standard CAS-8 is not applicable to the organization primarily engaged in _____ of utilities.
 (ii) Responsibility centre is a _____ group of control centre.
 (iii) The _____ will be the Secretary of Cost Accounting Standard Board (CASB).
 (iv) Cost Accounting standard on cost of service cost centre is dealt in _____.

2. (a) The following is the abridged Balance Sheet of Shrijani Ltd., a single product manufacturing Company:

Year ended March, 31	2015 (₹ lakhs)	2014 (₹ lakhs)
<i>Liabilities</i>		
Share Capital	900	900
Reserves and Surplus:		
Debenture Redemption Reserve	75	90
Capital subsidy from State Govt.	90	90
Revaluation Reserve	375	420
General Reserve	480	360
Profit and Loss A/c	144	96
Secured Loan	825	885
Unsecured Loan	369	351
TOTAL	3258	3192
<i>Assets</i>		
Gross Block	2175	2040
Accumulated Depreciation	945	870
Net Block	1230	1170
Capital Work in Progress	129	111
Investments	45	45

	2015 (₹ lakhs)	2014 (₹ lakhs)
<i>Current Assets, Loans and Advances</i>		
Inventories	1251	1323
Sundry Debtors	546	585
Advance for equipments	72	51
Other Loans and Advances	432	411
Cash and Bank Balances	63	57
<i>Current Liabilities and Provisions</i>		
Sundry Creditors for Capital Expenses	(51)	(63)
Sundry Creditors (Others)	(555)	(591)
Provision for Taxes	(192)	(213)
Miscellaneous Expenditure	288	306
TOTAL	3258	3192

Following additional information are provided:

- Term Loan repayable in 12 months included under Secured Loans are ₹ 288 lakhs in 2015 (Previous year ₹ 252 lakhs).
- Profit before Tax (PBT) for the year ended March 31, 2015 is ₹ 240 lakhs (Previous year ₹ 261 lakhs).

You are required to compute the following items/ratios for the year ended 31st March, 2015 to be provided in Annexure to Cost Audit Report:

- Capital Employed (ii) Net Worth (iii) Debt Equity Ratio (iv) PBT to Capital Employed and (v) PBT to Net Worth. $5+3+2+1+1=12$

(b) How are Cost Accounting Standards different from Cost Accounting Record Rules? 6

- (a) In a factory producing industrial alcohol, biogas is generated from waste wash. Along with conventional Fuel Oil, the biogas is used as a fuel in generating steam. The high pressure steam is first sent to the steam turbine and the exhaust steam is used in the process of manufacturing alcohol.

The following information are available for the year ended March 31, 2015:

	Boiler ₹	Steam Turbine ₹
Costs		
Cost of water	20,96,350	
Fuel Oil	18,37,70,900	
Biogas Plant Expenses	5,16,03,260	
Stores and Chemicals	5,14,150	1,31,390
Salaries and Wages	59,16,500	14,65,650
Repairs and Maintenance	1,31,28,310	5,15,240
Depreciation	34,49,480	12,99,050
Other Expenses	79,87,140	2,41,320

High Pressure Steam Generated 35,500 MT

Power Generated 25,50,900 kWh

(Note: To calculate cost of Power Generated, credit for exhaust steam to be taken as 90% of cost of steam, as the fall in enthalpic value of steam is 10%.)

You are required to prepare two separate cost sheets for Steam and Power as per Companies (Cost Records and Audit) Rules 2014 for the year ended March 31, 2015. 4+4=8

Please Turn Over

(b) The following figures are extracted from the Financial Accounts of ABL Ltd. for the year ended 31.03.2013:

	₹
Sales (20,000 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 (1,230 units)	3,00,000
Work-in-progress:	
Materials	60,000
Labour	40,000
Factory Overheads	40,000
Goodwill Written off	4,00,000
Interest paid on capital	40,000

In the costing records, Factory Overhead is charged at 100% of Wages, Administration Overhead 10% of factory cost and Selling and Distribution Overhead at the rate of ₹ 20 per unit sold. Prepare a statement reconciling the profit as per Cost Records with the profit as per Financial Records. 10

4. (a) How will you treat the following in Cost Accounting Records? 2×4=8
- Scrap and waste
 - Packing cost for captive consumption
 - Quality control cost
 - Abnormal and non-recurring cost
- (b) Define direct expenses as per CAS-10. How are they identified? 5
- (c) A Company under Cost Audit has three sources of Power supply like State Electric Board, Power generator and a bank of wind mills. The power cost statement of the generator power and wind mills are valued at Electricity Board energy rate which consists of maximum demand charges and energy-charges. Is the method correct for cost statement for Cost Audit and also Para-7 of Cost Audit Report Rules? 5

SECTION II (50 Marks)

(Operational Audit)

Answer Question No. 5 which is compulsory and answer any two from the rest in this Section.

5. (a) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s): 1×6=6
- _____ is the evaluation of every resources declared in the Industry.
 - Salvage is considered as _____ by insurer against what is owed under the policy for an insured loss.

- (iii) _____ audit is a step towards the pursuits of environment quality management.
- (iv) Audit committee shall have minimum _____ no. of directors as members.
- (v) _____ audit is a task to assist a corporate management at various aspects of development through systematic review and evaluation of long term strategies of the company.
- (vi) Management Audit requires _____ approach.
- (b) State whether the following statements are 'True' or 'False', with justifications for your answer. No credit will be given for any answer without justification: 1×4=4
- (i) Audit committee should meet at least 3 times in a year.
- (ii) Operational audit's focus is on effectiveness of management decisions and action.
- (iii) Management audit is carried out to appraise the management of performance at top level of management.
- (iv) Customs tariff act empowers the Central Government to levy anti dumping duty.
- (c) What the following abbreviations stand for? 1×4=4
- (i) DTA
- (ii) CPSE
- (iii) PCAOB
- (iv) CASB
6. (a) What is productivity audit? Which ratios are generally used to measure productivity efficiency of the resources deployed? 6
- (b) What are special features of an efficient management audit programme? 6
- (c) Write briefly on Consumer Services Audit. 6
7. (a) What is ERP environment? How is the audit under ERP different from other audit? 6
- (b) When is safeguard duty imposed? 6
- (c) What is due diligence audit? Why is it undertaken? 6
8. Write short notes on *any three* out of the following: 6×3=18
- (a) Difference between Financial and Operational Auditing
- (b) Corporate Image and Branding and the relation between them
- (c) Functions of Audit committee
- (d) Check list for carrying Central Excise Audit under 14AA of Central Excise Act