

FINAL EXAMINATION

June 2013

F-P17(COA)

Syllabus 2008

Cost Audit and Operational Audit

Time Allowed: 3 Hours

Full Marks: 100

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

Working notes should form part of the answer.

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):
- (i) Rule 6 of the Companies (Cost Accounting Records) Rules 2011 provides that Compliance Report is to be submitted to the Central Government within
 - A. 180 days from the close of the Company's financial year
 - B. 120 days from the close of the Company's financial year
 - C. 90 days from the close of the Company's financial year
 - D. 60 days from the close of the Company's financial year
 - (ii) CAS-13 deals with
 - A. Cost of Service Cost Centre
 - B. Employee Cost
 - C. Pollution Control Cost
 - D. Repair and Maintenance Cost
 - (iii) Profit reconciliation for the Company as a whole is dealt in
 - A. Para 8 of the annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011
 - B. Para 7 of the annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011
 - C. Para 6 of the annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011
 - D. Para 4 of the annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011
 - (iv) Form A XBRL is used for filing
 - A. Cost Audit Report of a Company
 - B. Annual Report of a Company
 - C. Compliance Report of a Company
 - D. Annual Accounts of a Company
 - (v) The main purpose of 'efficiency Audit' is to ensure that
 - A. Every rupee invested gives optimum returns
 - B. Planned expenditure gives optimum returns
 - C. Various policies of management are implemented
 - D. Activities of business are beneficial to Society at large

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- (vi) Para 10 of the annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011 deals with
- Installed Capacity and Actual Production
 - Capital employed
 - Related Party transactions for the Company as a whole
 - Reconciliation of Indirect taxes for the Company as a whole
- (vii) Cost Audit was initially introduced in the year
- 1959
 - 1960
 - 1965
 - None of the above
- (viii) CAS-5 deals with
- Equalized Cost of Transportation
 - Captive Consumption
 - Cost of Utilities
 - Cost of Service Cost Centre

1×8=8

(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:

- XBRL (eXtensible Business Reporting Language) is a language based on XBL family of languages.
- Cost Audit in India appears to be Synonymous with Efficiency Audit.
- As per CAS-12, fines, penalties, damages and similar levies paid to Statutory Authorities or third parties shall form part of repair and maintenance cost.
- A concurrent auditor of a Company can accept appointment as the Cost Auditor of the same Company.
- The Costing Taxonomy and related Business Rules including sample instance documents can be downloaded from the website of the Institute of Cost Accountants of India (ICAI).
- 'Performance Appraisal Report' is a part of Cost Audit Report for filing in XBRL.

1×6=6

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

Year ended 31st March	2013	2012
	(Amount in ₹ Lakh)	
LIABILITIES:		
Share Capital	600	600
Reserves & Surplus:		
Debenture Redemption Reserve	50	60
Capital Subsidy from State Government	60	60
Revaluation Reserve	250	280
General Reserve	320	240
Profit & Loss A/c	96	64
Secured Loans:	550	590
Unsecured Loans:	246	234
Total:	2172	2128

Year ended 31st March	2013	2012
	(Amount in ₹ Lakh)	
ASSETS:		
Gross Block	1450	1360
Accumulated Depreciation	(630)	(580)
Net Block	820	780
Capital Work-in-Progress	86	74
Investments:	30	30
Current Assets, Loans & Advances:		
Inventories	834	882
Sundry Debtors	364	390
Advances for Equipments	48	34
Other Loans & Advances	288	274
Cash and Bank Balances	42	38
Current Liabilities & Provisions:		
Sundry Creditors for Capital Expenses	(34)	(42)
Sundry Creditors for Others	(370)	(394)
Provision for Taxes	(128)	(142)
Miscellaneous Expenditure	192	204
Total:	2172	2128

Additional information is available:

- (i) Term Loans repayable in 12 months included under 'Secured Loans' are ₹ 192 lakh (Previous year ₹ 168 lakh).
- (ii) Profit before Tax (PBT) for the year ended March 31, 2013 is ₹ 160 lakh (Previous year ₹ 174 lakh).

You are required to compute the following figures/ratios as stipulated in PARA 9 of the Annexure to Cost Audit Report under Companies (Cost Audit Report) Rules 2011, for the year ended March 31, 2013:

- (i) Capital Employed;
(ii) Net Worth;
(iii) Debt-Equity Ratio;
(iv) PBT to Capital Employed;
(v) PBT to Net Worth.

$$5+3+2+1+1=12$$

(b) How would you treat the following as per CAS-11 related to Administrative overheads?

- (i) Leased Assets;
(ii) Cost of Administrative Services procured from outside;
(iii) Cost of Software.

$$2 \times 3 = 6$$

3. (a) What is eXtensible Business Reporting Language (XBRL)? What are the applications of XBRL? 2+3=5

(b) Who can authenticate the Compliance Report as per the Companies (Cost Accounting Records) Rules 2011? 4

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- (c) (i) What are 'Waste Multipliers' in Textile Costing?
(ii) The following details of the process-wise input and output are taken from the Cost Accounting Records of SUNNY COTTON MILLS LTD., a yarn manufacturing Company, for the year ended March 31, 2013:

Process	Input/Output	Kgs.
Blowroom	Cotton processed	46,72,560
	Laps produced	42,58,270
Carding	Laps processed	42,74,360
	Slivers produced	39,76,400
Draw frames	Slivers processed	39,48,240
	Slivers drawn	39,01,800
Roving (Simplex)	Drawn Slivers processed	38,74,120
	Transferred to Ring Frames	38,31,500
Ring Frames (Spinning)	Slivers used	39,11,640
	Finished Yarn produced	36,41,740
Reeling and Winding	Yarn wound	36,35,400
	Salable Yarn produced	35,80,880

Required:

Calculate the process-wise Waste Multiplier factors for the year ended March 31, 2013. 2+7=9

4. (a) The Cost Accountant of SOVANA SUGAR MILLS LTD. has arrived at a profit of ₹ 73,24,150 based on Cost Accounting records for the year ended March 31, 2013. As Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts:

(i) Decrease in value of Closing WIP and Finished goods inventory	
as per Financial Accounts	₹ 128,21,995
as per Cost Accounts	₹ 131,04,220
(ii) Profit on Sale of Fixed Assets	₹ 61,500
(iii) Loss on Sale of Investments	₹ 11,200
(iv) Voluntary Retirement Compensation included in Salary & Wages in F/A	₹ 16,75,000
(v) Donation Paid	₹ 25,000
(vi) Major Repairs & Maintenance written off in F/A (Amount reckoned in Cost Accounts of ₹ 6,08,420 for this job)	₹ 13,26,000
(vii) Insurance Claim relating to previous year received during the year	₹ 14,29,000
(viii) Profit from Retail trading activity	₹ 7,12,300
(ix) Interest Income from Inter-Corporate Deposits	₹ 6,15,000

You are required to prepare a Reconciliation Statement and arrive at the Profit as per Financial Accounts.

4+3+1+1=9

(b) Answer the following questions with respect to Companies (Cost Accounting Records) Rules 2011:

- (i) Are there any sectors exempted under Companies (Cost Accounting Record) Rules 2011?
- (ii) What constitutes the Cost records under Rule 2(e)? Whether the format of 'Abridged Cost Statement' prescribed in the Companies (Cost Audit Report) Rules 2011 can be considered as a Sample Cost Statement? 2+3=5

(c) Answer the following questions with reference to CAS-14:

- (i) How is cost computed if Pollution Control Jobs are carried out by outside contractors?
- (ii) How is cost determined if Pollution Control Jobs are carried out by contractor at its premises? 2×2=4

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:

- (i) The Consumer Service Audit critically examines the outstanding payment of consumer.
- (ii) GATT and its agreement are permanent.
- (iii) Sarbanes-Oxley Act of 2002 is a U.K. Federal Law enacted on July 30, 2002.
- (iv) Interest Cost should be included in inventory valuation for purposes of Bank Audit.
- (v) Management Audit Report is to be submitted to the Cost Audit Branch of Central Government. 1×5=5

(b) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s):

- (i) Management Audit requires _____ approach.
- (ii) Excise-Audit-2000 was initiated from _____.
- (iii) Section 292A of the Companies (Amendment) Act 2000, provides for Constitution of _____.
- (iv) India had to remove _____ on imports as per WTO stipulations.
- (v) _____ is transfer of goods to an alien market at a price which is less than marginal cost of its production in the home country.
- (vi) Central Excise Revenue Audit (CERA) is conducted by the organization of _____. 1×6=6

(c) What do the following abbreviations stand for?

- (i) OECD;
- (ii) CEGAT;
- (iii) TPRM. 1×3=3

6. (a) What do you understand by 'Corporate Image' and 'Branding'? Are they inter-related? What are the possible approaches to evaluate Corporate Image? 4+1+4=9

(b) What is the scope of work for a Cost Accountant as a Loss Assessor under the Insurance Act? Give an illustrative list of the types of claims and points to be considered in assessing the quantum of loss. 2+5+2=9

Please Turn Over

7. (a) Your client, ASHEETA LTD. is contemplating to take over a manufacturing concern and desires that in the course of due diligence review, you should look specifically for any hidden liabilities and overvalued assets. —State (in brief) the major areas you would examine for the above. 2+4+4=10
- (b) Management Audit and Operational Audit are Complementary and Supplementary to one another.—Discuss. 4
- (c) Explain whether the following activities amount to professional misconduct on the part of a Cost Accountant:
- (i) F. B. HORE & CO., a firm of Cost Accountants was appointed by a Company to evaluate the Costs of the various products manufactured by it for its information system. One of the partners of the firm was a Non-Executive Director of the Company.
- (ii) CMA DEBOSMITA, a practicing Cost Accountant, takes up a job as a full time lecturer in a College affiliated to University of Calcutta. 2+2=4
8. Write short notes on *any three* out of the following:
- (a) International Auditing and Assurance Standard Board (IAASB);
- (b) Consumer Services Audit;
- (c) Difference between Financial and Operational Auditing;
- (d) Environmental Pollution;
- (e) Safeguard Duty. 6×3=18
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