

Paper - 19 : Cost and Management Audit

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Full Marks : 100

Time allowed: 3 hours

Answer Question No. 1 which is compulsory and carries 20 marks and any five from Question No. 2 to 8.

Section - A [20 marks]

1. Choose the correct option among four alternative answers. (1 mark for correct choice, 1 mark for justification.) [10*2=20 marks]

- (i) Cost Auditing Standard 102 deals with _____.
- (a) planning an Audit of Cost Statements
 - (b) Cost Audit Documentation
 - (c) knowledge of process and business
 - (d) overall objectives of the Independent Cost Auditor
- (ii) Compensation paid to employees for the past period is _____ in Employee Cost.
- (a) included
 - (b) excluded
 - (c) based on individual case
 - (d) partly included
- (iii) The Cost Accounting Standard 14 is a Cost Accounting Standard on _____.
- (a) Employee Cost
 - (b) Utilities Cost
 - (c) Pollution Control Cost
 - (d) Selling and Distribution Overheads Cost
- (iv) The figures below are available for Welcome Limited.
Budgeted Production - 1000 units, Standard Hours per unit -10, Actual Production – 900 units and Actual Working - 7500 hours. What is the Efficiency Ratio?
- (a) 110%
 - (b) 120%
 - (c) 100%
 - (d) 125%
- (v) What is the time limit within which the Cost Auditor of the company should submit his report?
- (a) 90 days
 - (b) 120 days
 - (c) 150 days
 - (d) 180 days
- (vi) Under the Generally Accepted Cost Accounting Principles, the cost of cane supplied from own farm to the sugar mill is treated as _____.
- (a) Direct Materials Cost
 - (b) Indirect Materials Cost
 - (c) Production Overhead
 - (d) Administrative Overhead
- (vii) The Cost Accounting Standard 9 deals with _____.
- (a) Material Cost
 - (b) Employee Cost
 - (c) Packing Material Cost
 - (d) repairs and Maintenance Cost

MTP_Final_Syllabus-2016_June 2019_Set -1

- (viii) _____ of the Companies Act 2013 deals with Internal Audit.
- Section 137
 - Section 138
 - Section 139
 - Section 140
- (ix) The Local bodies in India are broadly classified into _____ categories.
- Two
 - Three
 - Four
 - Five
- (x) The first step in audit of Educational Institutions _____.
- Read through the minutes of the meetings of the Managing Committee or Governing Body
 - Check admission fees with admission slips signed by the head of the institution and confirm that the amount had been credited to a Capital Fund
 - Verify the annual statements of accounts
 - To examine the Trust Deed or Regulations

Section - B [80 marks]

1. (a) As per Section 143 of Companies Act, 2013 what is the duty of a Cost Auditor to Report Fraud?
- (b) The Cost Accountant of TRINCUS TEXTILES MILLS LTD. has arrived at a Profit of ₹ 20,10,500 based on Cost Accounting Records for the year ended March 31, 2018. Profit as per Financial Accounts is ₹ 22,14,100.

As a Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts:

| Sl. No. | Particulars | ₹ |
|---------|---|-------------|
| 1 | Profit on Sale of Fixed Assets | 2,05,000 |
| 2 | Loss on Sale of Investments | 33,600 |
| 3 | Voluntary Retirement Compensation included in Salary & Wages in F/A | 50,25,000 |
| 4 | Donation Paid | 75,000 |
| 5 | Insurance Claim relating to previous year received during the year | 5,08,700 |
| 6 | Profit from Retail trading activity | 32,02,430 |
| 7 | Interest Income from Inter-Corporate Deposits | 6,15,000 |
| 8 | Decrease in value of Closing WIP and Finished goods inventory | |
| | as per Financial Accounts | 3,82,06,430 |
| | as per Cost Accounts | 3,90,12,500 |

You are required to prepare a Reconciliation Statement between the two Accounts for the year ended March 31, 2018. [8 + 8]

3. (a) ABC LTD. has the following Balance Sheet as on March 31, 2018 and March 31, 2017.
(Amount in Lakh)

| Year ended March 31 | 2018 | 2017 |
|--------------------------|-------|-------|
| SOURCES OF FUNDS: | | |
| Shareholders' Fund | 2,972 | 1,886 |
| Loan Funds | 4,644 | 4,060 |

MTP_Final_Syllabus-2016_June 2019_Set -1

| | | |
|-------------------------------|---------|---------|
| | 7,616 | 5,946 |
| APPLICATIONS OF FUNDS: | | |
| Fixed Assets | 4,279 | 3,600 |
| Cash and Bank | 707 | 684 |
| Debtors | 1,914 | 1,522 |
| Stock | 3,560 | 3,008 |
| Other Current Assets | 2,000 | 1,805 |
| Less: Current Liabilities | (4,844) | (4,673) |
| | 7,616 | 5,946 |

The Income statement of ABC LTD. for the year that ended is as follows:

| Year ended March 31 | (Amount in Lakh) | |
|--|------------------|--------|
| | 2018 | 2017 |
| Sales | 26,718 | 16,778 |
| Less: Cost of Goods Sold | 25,152 | 15,173 |
| Gross Profit | 1,566 | 1,605 |
| Less: Selling, General & Administrative expenses | 1,242 | 782 |
| Earnings before Interest & Tax (EBIT) | 324 | 823 |
| Less: Interest Expenses | 256 | 246 |
| Profit before Tax (PBT) | 68 | 577 |
| Less: Tax | 28 | 230 |
| Profit After Tax | 40 | 347 |

Required:

Calculate for the year 2017-18:

(a) Inventory Turnover Ratio

(b) Return on Net Worth

(c) ROI

(d) ROE

(e) Profitability Ratios

(f) Give brief comments on the financial position of company (1+1+1+2+3+2)=10

(b) What is meant by 'Normal Price' with reference to 'Related Party Transaction' in CRA 1? State the basis adopted to determine 'Normal Price'. 6

4. (a) What is XBRL and what are the steps to be followed to file the Cost Audit Reports in XBRL Format?

(b) Standard Material requirement to produce 1000 units of product X is 1200 units of material at a standard price of ₹ 60 per unit. The Standard allows for reject of 25% of input. It is estimated that one third of rejects can be reworked at an additional cost of ₹ 20 per unit. Scrap units can be sold at ₹ 5 per unit.

During a particular period, units produced were 19500 with 24000 units of materials at standard cost of ₹ 60 per unit, 7000 units were rejected out of which 2500 units were reworked at a cost of ₹ 51000. The balance units were sold as scrap for ₹ 5 per unit.

Calculate Material Quality Variance, Material Usage Variance and Scrap Variance. [8+8]

5. (a) Write a short note on Corporate Development Audit.

(b) What is Productivity Audit? What are the ratios are used in measuring productive efficiency of the resources deployed and utilised? [6 + 10]

6. (a) What is Internal Audit? Discuss about the necessity of Internal Audit.

(b) What is the role of CMA in Internal Audit? [6 + 10]

MTP_Final_Syllabus-2016_June 2019_Set -1

7. (a) (i) What is "Waste Multiplier" in Textile Costing?

(ii) The following are the process-wise input and output in a Spinning Mill –

| | | |
|-----------------------|--|------------------------------|
| Blow room : | Cotton processed Laps produced | 4672563 kgs 4258274 kgs. |
| Carding : | Laps processed Silvers produced | 4274362 kgs. 3976420 kgs. |
| Draw frames : | Silvers processed Silvers drawn | 3948241 kgs. 3901810 kgs. |
| Roving (Simplex) : | Drawn silvers processed Transferred to Ring frame | 3874125 kgs. 3831510 kgs. |
| Ring frame : | Silvers used Finished Yarn produced | 3911645 kgs. 3641741 kgs. |
| Reeling and Winding : | Yarn wound Salable Yarn produced | 3635420 kgs. 3580889 kgs. |

Calculate the process wise Waste Multiplier factors.

[4 + 6]

(b) There was a strike from 13.09.2017 to 16.11.2017 in a company of which you were the Cost Auditor for the year ending 31.03.2018. Although the company began working from 17.11.2017, production could effectively begin only from 5.12.2017. The expenses incurred during the year ended 31.03.2018 were:

| Particulars | (₹ in lakhs) |
|-----------------------------|--------------|
| Salaries & Wages (direct) | 450 |
| Salaries & Wages (indirect) | 300 |
| Power (variable) | 180 |
| Depreciation | 270 |
| Other Fixed Expenses | 360 |

Detailed examination of the records reveals that of the above, the following relate to the period 13.09.2017 to 16.11.2017:

| Particulars | (₹ in lakhs) |
|-----------------------------|--------------|
| Salaries & Wages (indirect) | 105 |
| Depreciation | 90 |
| Other Fixed Expenses | 135 |

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

6

8. Answer any four.

4x4=16

- How value Chain activity can have an impact in performance analysis?
- What is the Role of Management with regard to Internal Control?
- Briefly state the disclosure and transparency requirements for Corporate Governance.
- Distinguish between Management Audit and Internal Audit.
- Write a short note on Profitability Analysis.