

Paper – 19: Cost and Management Audit

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Full Marks: 100

Time allowed: 3 hours

Section A - (35 marks)

Answer Question 1 and any 2 from rest of Section A.

1. (A) Fill in the blanks:

- a) Cost Audit was initially introduced in the year -----
- b) According to CAS 8 on Utilities the cost of maintaining stand-by utilities is -----
-- cost.
- c) Efficiency audit ensures -----return on Capital Employed.
- d) Rule 4 of the Companies Cost (Records and Audit) Rules, 2014 deals with -----
- e) Form CRA -3 is -----.

[5]

(B) State whether following statements are “True” or “False” with reasoning/ justification for your answer.

- a) Cost Audit is synonymous with efficiency audit.
- b) CAS 9 deals with indirect material cost
- c) Donations given to Charitable Institutions should not form part of Cost Accounts
- d) Rule 3 deals with application of Cost Audit.
- e) Part B of the Annexure to Cost Audit Report deals with Service Sector.

[5]

2. How would you treat the following as per CAS 9 related to Packing Material Cost?

- (i) Primary and Secondary packing material cost.
- (ii) Finance cost directly attributable to packing material.
- (iii) Self manufactured packing material
- (iv) The forex component of imported packing material

[12.5]

3. Answer the following questions with reference to the Companies(Cost Records and Audit) Rules, 2014.

- a) Which Rules govern maintenance of cost accounting records and cost audit as per Section 148 of the Companies Act, 2013?
- b) A company is engaged in manufacturing products on its own as well as purchase the same products from other companies. The outsourced products are treated as trading activity in the financial accounts. Same products are also manufactured by supply of materials to converters. What would be treatment of such products for the purposes of maintenance of cost accounting records and cost audit?
- c) In the abridged cost statement, what are Industry specific operating expenses? When should this be used?

[12.5]

4. How do you define the following under Generally Accepted Cost Accounting Principles?

- (a) Value of self manufactured materials.
- (b) Cost of cane supplied from own farm to sugar mill.
- (c) Depot.
- (d) Packing Material Development Cost.

[12.5]

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Section B (15 marks)

Answer any one question from Section B

5. (a) Discuss the desirable qualities and functions of a Management Auditor.
(b) Discuss the concept of 'evidence' in relation to Management Audit. [8+7]

6. You have been appointed as Management Auditor of a Public Ltd company. State whether the use of quantitative ratios is more effective than the use of financial ratios to gain real insight into the financial statements. [15]

Section C (25 marks)

Answer any 2 questions from Section C

7. As an internal auditor of DEF Ltd. the Managing Director has asked you to enquire into the causes of abnormal wastage of raw materials during the month of September, 2016.

The wastage percentages are as follows:

June, 2016	1.3%
July, 2016	1.1%
August, 2016	1.4%
September, 2016	3.8%

How will you proceed to carry out the Assignment?

[12.5]

8. How will you evaluate the internal control system in the area of credit card operations in a bank? [12.5]

9. Evaluation of the personnel function of an organization by management auditor is by no means an easy task. In your view what areas are to be covered and points to be kept in mind while assessing the personnel function of an organization ? [12.5]

Section D (25 marks)

Answer any two questions from this section.

10. The Cost Accountant of a company has arrived at a profit of ₹ 73,24,150 based on cost accounting records for the Year ended 31.03.2016. As Cost Auditor, you find the following differences between the Financial Accounts and Cost Accounts (figures are in ₹)

Particulars	₹
(i) Profit on sale of fixed assets	63,000
(ii) Loss on sale of investments	11,200
(iii) Voluntary retirement compensation included in salaries & wages in Financial Accounts	16,75,000
(iv) Donation paid	25,000
(v) Profit from retail trading activity	7,12,300

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You are required to calculate the profit as per financial books after reconcile between the profit figures as per Cost Accounts and Financial Accounts. [12.5]

11. (a) How Value Chain activity can have an impact in performance analysis?

(b) A company manufactures two products X and Y. Product X requires 8 hours to produce while Product Y requires 12 hours. In April , of 22 effective working days of 8 hours a day, 1,200 units of X and 800 units of Y were produced. The Company employs 100 workers in the Production Department to produce X and Y. the Budgeted Hours are 1,86,000 for the year. Calculate Capacity, Activity and Efficiency Ratio and establish their inter-relationship. [5+7.5]

12. The Total Overhead Expenses of a factory are ₹4,46,380. Taking into account the normal working of the factory, Overhead was recovered in production at ₹1.25 per hour. The actual hours worked were 2,93,104. How would you proceed to close the books of accounts, assuming that besides 7,800 units produced to which 7,000 were sold, there were 200 equivalent units in WIP?

On investigation, it was found that 50% of the Unabsorbed Overhead was on account of increase in the cost of indirect Materials and Indirect Labour and the remaining 50% was due to factory inefficiency. Also give the profit implication of the method suggested.

[12.5]