

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 101 deals with _____.
- (a) knowledge of business , its Process and the Business Environment
 - (b) planning an Audit of Cost Statements
 - (c) Cost Audit Documentation
 - (d) overall objectives of the Independent Cost Auditor
- (ii) Management Audit report is submitted to _____.
- (a) Cost Audit Branch
 - (b) Audit Committee
 - (c) Central Government
 - (d) Management of concern.
- (iii) The form in which appointment of cost auditor by the company to Central Government is intimated _____.
- (a) CRA-1
 - (b) CRA-2
 - (c) CRA-3
 - (d) CRA-4
- (iv) The Cost Accounting Standard 6 deals with _____.
- (a) Material Cost
 - (b) Employee Cost
 - (c) Direct Expenses
 - (d) Administrative Overhead

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- (v) The length of Corporate Identity Number (CIN) is _____.
- (a) 13
 - (b) 15
 - (c) 21
 - (d) 24
- (vi) The process of determining the elements which correspond to the lines and the columns in a financial statement and the elements which must be created by extension is called as _____.
- (a) Mapping
 - (b) Name
 - (c) Concept
 - (d) Scaling
- (vii) Which one of the followings is an example of "Solvency Ratio"?
- (a) Debt Equity ratio
 - (b) Capital turnover Ratio
 - (c) Debtors Turnover Ratio
 - (d) None of above
- (viii) Position Analysis is one of the techniques used by Management Auditor for evaluation of:
- (a) Profit of a Corporate.
 - (b) Net worth of a Corporate.
 - (c) Balance Sheet of a Corporate.
 - (d) Corporate image.
- (ix) CAS 19 deals with _____
- (a) Pollution Control Cost
 - (b) Research and Development Cost
 - (c) Joint Costs
 - (d) Royalty and Technical Know-How
- (x) Items appearing only in Cost Records:
- (a) Rent receivable
 - (b) Notional interest on capital
 - (c) Good will written off.
 - (d) Dividends.

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Section - B

[80 marks]

2. (a) In case of practical audit process, mention the steps to be followed by a cost auditor?
(b) The Companies Act, 2013 has introduced provision regarding rotation of auditors. Is the provision of rotation of auditors applicable to cost auditors also? [10+6]
3. (a) Z Electronics Co (ZEC) has made an agreement with Tuzuki of Japan for import of kits of Automatic Washing Machine in completely knocked down (CKD) condition. The terms of agreement are :
- (i) Tuzuki will supply some items keeping 20% margin on cost. These imported items are of value of 40% of FOB price of Washing Machine and balance 60% will be locally manufactured.
 - (ii) ZEC will pay a lump sum of ₹ 300 lakhs for technical know how and drawing for manufacturing of 3 lakhs washing machines.
 - (iii) ZEC will also pay a royalty at 10% of selling price fixed by it in the local market less landed cost of imported kits and cost of locally procured components.
- The following related information is also available :
- (i) FOB price for washing machine is ₹ 8,000.
 - (ii) Insurance & freight is ₹ 300 per set of imported items
 - (iii) Effective custom duty is @ 40% on CIF price
 - (iv) Assembling & other overhead costs will be ₹ 1,000 per set.
 - (v) Expected profit is 20% on selling price
- You are required to calculate the selling price of Washing machine (rounded to ₹ 10)
- (b) (i) How to treat Inward Transportation Cost as per the Cost Accounting Standard 5
(ii) How Transportation Cost is to be determined in case the manufacturer is having its own transport fleet? [10 + (2 + 4)]
4. (a) Management Audit and Operational Audit are complementary and supplementary to one another". Discuss in brief.
(b) What are the points to be consider by Management Auditor while determining the adequacy of Budgetary Control System? (8+8)
5. (a) In the Financial Accounts of Samriddhi Ltd. for the year ended March 31, 2019 the profit was ₹ 9,25,80,000. The profit as per Cost Accounting records for the same period was less.

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The following details are extracted from the accounting schedules and Cost Accounting records of the company.

Amount in ₹ thousand

Particulars	Financial A/c	Cost A/c
Opening : Semi Finished Goods	45,800	50,900
: Finished Goods	99,300	95,750
Closing : Semi Finished Goods	48,200	52,400
: Finished Goods	1,05,450	97,100
Urea & Transport subsidy	520	
Expenses on CSR	72	
Profit on sale of Fixed Assets	220	
Chemical used internally	425	400
Favourable Exch. Rate variation	350	
Post-retirement Medical grant	715	
Purchase Tax Refund	580	
Litigation Recovery-Prior year	175	

You are required to prepare a Reconciliation Statement and arrive at the Profit as per Cost Records for the year ended March 31, 2019

(b) Discuss about the responsibilities of Management with regard to Internal Control. [10+6]

6. (a) Jyoti Electronics Ltd. is engaged in the manufacture of Refrigerator having its factories at Bangalore and Chennai. The company manufactures Compressor at Bangalore which is consumed to produce Refrigerator at Chennai factory. The following information pertaining to captively consumed Compressors are extracted from the records of the company for the half year ended March 31, 2019.

(₹ in Thousand)

Direct material	1,200
Direct wages and salaries	470
Direct expenses	120
Indirect materials	90
Factory overheads	376
Administrative overheads (20% relating to production activities)	720
Quality control cost	150

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Research and development cost	150
Selling and distribution expenses	250
Sale of scrap realized	150
Profit margin	15%

You are required to determine:

- (i) The cost of production for purpose of captive consumption in terms of Rule 30 of the Central Goods & Services Tax Rules 2017 and as per CAS-4 (Revised), and
- (ii) Also Assessable Value for the purpose of paying GST on applicable transactions.

(b) What are the preliminary information you, as a Cost Auditor, will collect from the company which is subject to cost audit for the first time? [8+8]

7. (a) A nationalized bank which has extended cash credit to a manufacturing company on the security of the inventory holding, is periodically receiving stock statements from the company indicating the value of stocks held. The company is sick and the Bank wants to reassure itself that its loans are fully covered by stocks. You have been appointed by the Bank to certify the value of the inventory. How would you proceed to conduct the 'inventory audit'?

(b) Purchase of Materials ₹ 3,00,000 (inclusive of GST of ₹ 15,715); Fee on Board ₹ 12,000; Import Duty paid ₹ 15,000; Freight inward ₹ 20,000; Insurance paid for import by sea ₹ 10,000; Rebates allowed ₹ 4,000; Subsidy received from the Government for importation of these materials ₹ 20,000. Compute the landed cost of material (i.e. value of receipt of material). [10+6]

8. Answer any four. 4×4=16

- (a) "The Cost Audit Reports can be termed as propriety audit" -----Discuss.
- (b) Write a short note on Key Performance Indicators (KPIs).
- (c) A company is facing problem in satisfying customers' orders leading to backlog of supply position. How to identify the problem by means of Operational Audit?
- (d) What is Standard Stripping Ratio as per CAS-23?
- (e) Mention the steps involved in the preparation of the Performance Analysis?