

**FINAL EXAMINATION**

December 2019

*P-19(CMAD)  
Syllabus 2016*

**Cost and Management Audit**

Time Allowed: 3 Hours

Full Marks: 100

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

*All Sections are compulsory. Each Section contains instructions regarding the number of questions to be answered within the Section.*

*All working notes must form part of the answer.*

*Wherever necessary, candidates may make appropriate assumptions and clearly state them.*

**Section-A (20 Marks)**

Section-A contains Question Number 1.

All parts of this question are compulsory.

**1. Choose the correct option from amongst the four alternatives given (1 mark is for the correct choice and 1 mark is for the justification/workings):** 2×10=20

- (i) SHYAN LTD. has a machine of productive capacity of 1500 unit per hour. It runs 3 shifts with 1 weekly off and 12 holidays per year, each shift has one hour stoppage due to lunch, change shift etc. Maintenance is done in running time. The Normal Capacity of the plant as per CAS-2 will be
- (A) 131.40 lakh units  
(B) 94.815 lakh units  
(C) 108.36 lakh units  
(D) None of the above
- (ii) BORS & Co., a firm of Cost Accountants was appointed as Cost Auditor of PANTEX LTD on 31.07.2018 for auditing the cost records for the FY 2018-19. The Auditor appointed as such shall continue in such capacity upto
- (A) 31.07.2019, on expiry of one year of appointment.  
(B) 30.09.2019, on expiry of six months from close of accounts.  
(C) 30.08.2019, date of submission date of Cost Audit Report.  
(D) 15.09.2019, date of holding of Annual General Meeting of PANTEX LTD.

- (iii) Which one of the following KPI (Key Performance Indicator) is used to measure efficiency of manufacturing performance?
- (A) Production per Machine Hour
  - (B) Operating Cycle of Materials turnover
  - (C) Material as % of Total Cost
  - (D) % of idle time to total available time
- (iv) The consumer service audit critically examines:
- (A) Outstanding payment of consumers.
  - (B) Price consumers are ready to pay for particular product/service.
  - (C) And appraise management of business enterprise of responsibility towards consumers.
  - (D) Demand of a product by consumers.
- (v) "Related Party" with relation to a party means
- (A) a Director or his relative.
  - (B) a Key Managerial Person or his relative.
  - (C) a firm, in which a Director, Manager or his relative is a partner.
  - (D) Either or all of the above
- (vi) Once the instance document is successfully validated from the tool, the next step is to
- (A) download XBRL validation tool.
  - (B) pre-scrutinize the validated instance document.
  - (C) convert to human readable format and verify correctness of the instance document.
  - (D) attach instance document to the Form CRA-4.
- (vii) The Bureau of Energy Efficiency is formed under
- (A) The Electricity Act, 2003
  - (B) The Energy Conservation Act, 2001
  - (C) The Electricity (Supply) Act, 1948
  - (D) The Electricity Regulatory Commission Act, 1998

(viii) The knowledge of Entity's Internal Control is to be understood by the Cost Auditor as required by

- (A) Cost Auditing Standard 101
- (B) Cost Auditing Standard 102
- (C) Cost Auditing Standard 103
- (D) Cost Auditing Standard 104

(ix) Profit Reconciliation of the company as a whole is dealt in

- (A) Part D para 2 of the Annexure to Cost Audit Report.
- (B) Part C para 1 of the Annexure to Cost Audit Report.
- (C) Form of the Cost Audit Report.
- (D) Part A para 1 of the Annexure to Cost Audit Report.

(x) The following details relating to MENG LTD are given:

	₹
Royalty paid on Units produced	25,000
Hire charges on Equipment	20,000
Design Charges	18,000
Software Development Charges for Production	22,000

What will be the Direct Expenses of the Company (as per CAS-10)?

- (A) ₹ 60,000
- (B) ₹ 63,000
- (C) ₹ 65,000
- (D) ₹ 85,000

### Section-B (80 Marks)

Answer *any five* questions from Question Numbers 2 to 8.

Each question carries 16 marks.

2. (a) (i) Healthcare Equipment Limited is engaged mainly in the production of Cardiac stents, Catheters, Pacemakers and Intraocular lenses.  
State below whether maintenance of Cost Records is applicable if the company fulfils turnover criteria and is
- (I) a foreign company having registered office at Mumbai.
  - (II) a company classified as a micro enterprise.
  - (III) a foreign company having only liaison offices at Delhi and Mumbai.
  - (IV) a domestic company whose average turnover of ₹ 40 crore for last two years has dropped to ₹ 24 crore in FY 2018-19.

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- (ii) How the cost of production of goods and provision of services as per CAS-4 read with CGST Rules are determined:
- (I) where the supply of goods or services is for a consideration not wholly in money.
  - (II) where goods are intended for further supply as such by the recipient? 4
- (b) (i) 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. Is it permissible?
- (ii) A Cost Auditor has reported fraud to the company as required under sec. 143 of the Companies Act, 2013. What disclosures are to be made by the company in its Board's Report? 4+4=8
3. (a) (i) What are the advantages of Cost Accounting Standards? 4
- (ii) Answer the following with reference to Transportation Cost as per Cost Accounting Standard-5 (CAS-5):
- (I) What items of cost shall not be included in Transportation Cost?
  - (II) For apportionment of outward Transportation Cost, what basis should be adopted? 2+2=4
- (b) The financial Profit and Loss Account of PANWOOD LTD, a manufacturing company for the year ended 31st March, 2019, was ₹ 1,15,71,480. During the course of Cost Audit, it was noticed the following:
- (i) Some discarded assets sold off which fetched a profit of ₹ 95,000.
  - (ii) Interest was received amounting to ₹ 1,05,000 from outside the business investment.
  - (iii) Voluntary Retirement payment of ₹ 3,80,000 was not included in the Cost Accounts.
  - (iv) Some renovation work was carried out at a cost of ₹ 6,20,000 and its useful life was only for five years.
  - (v) Donation of ₹ 1,28,000 towards CSR commitment was not considered in the Cost Accounts.
  - (vi) Insurance claim of ₹ 18,05,000 relating to previous year received during the year.
  - (vii) Loss on sale of investments amounts to ₹ 32,800.
  - (viii) The closing inventory of raw materials was undervalued ₹ 30,600 and that of finished goods was overvalued ₹ 2,30,700 in the financial records.

- (ix) Post retirement medical grant to the extent of ₹ 2,80,000 was not considered in Cost Accounts.
- (x) Profit from Retail trading activity amounting to ₹ 1,90,000.
- You are required to prepare a Reconciliation Statement between two Accounts and work out the Profit as per Cost Accounts.** 8
4. (a) You are the Management Accountant of MANGLOW LTD, a large manufacturing company suffering from Working Capital Crisis. Which areas will you cover to overcome the Crisis? 8
- (b) What is Energy Audit? Briefly state the key-functions of Energy Auditor. 2+6=8
5. (a) (i) For appointment of Internal Auditor by the company under Companies Act, 2013, state:  
 (I) Is it mandatory to file documents with ROC on appointment of Internal Auditors?  
 (II) Can a Director of a company be appointed as its Internal Auditor? 2+2=4  
 (ii) Explain briefly the concept of "Adequacy of Internal Control". 4
- (b) You are appointed as Internal Auditor of a Hospital. State your approach for steps to be taken for conducting the audit. 8
6. (a) The following are the summarized Balance Sheet and Income Statement of GREENCON LTD, a cement manufacturing company.

**Income Statement for the year ended March 31, 2019**

	(Amount in ₹ lakhs)
Sales	4,000
Less: Cost of Goods sold	3,275
Gross Margin	725
Less: Administrative and Selling Expenses	120
PBIT	605
Less: Interest Expenses	90
Profit before Tax (PBT)	515
Tax paid	180
Profit after Tax	335

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Balance Sheet as at 31.03.2019

(Amount in ₹ lakh)

Equity and Liability	₹	Assets	₹
(1) Shareholders' Fund:		(1) Non-Current Assets:	
(a) Share Capital:		Net Fixed Assets	1,600
Paid up Capital	800	(2) Current Assets:	
(80,00,000 Shares of		(a) Inventory	400
₹ 10 each fully paid)		(b) Trade Receivables	250
(b). Reserve and Surplus:		(c) Marketable Securities	350
Retained Earnings	600	(d) Cash and Cash Equivalents	400
(2) Non-Current Liabilities:			
Long-Term Borrowing			
7.5% Debenture	1,200		
(3) Current Liabilities:			
(a) Trade payables	260		
(b) Bills payable	100		
(c) Other Current Liabilities	40		
	3,000		3,000
Earning per Share (EPS)	₹ 4.19		
Market Price per Share	₹ 75		

Additional Information:

Their industry average ratios for the year 2018-19 are given below:

Current ratio	2.5
Quick ratio	1.5
Sales to inventory	8
Average collection period	35 days
Times interest earned	6
Profit margin	7%
Price to earning ratio	15
Return on total assets	10%

Required:

- Calculate the financial ratios as stated supra (in Additional information)
- Analyse the financial performance of GREENCON LTD for the year ended March 31, 2019.

- (b) GREENTECH LTD, a cement manufacturing company located at Ajmer (Rajasthan), has set up its own Power Plant to cater its need in manufacturing process for production of cement.

The following details are extracted from the Financial and Cost Accounting records of GREENTECH LTD for the year ended March 31, 2019.

Power Generated : 59885900 KWH of which 4% is used by Power Generating Plant.

Material and Utility used:

- (i) Coal consumptions : 1800 MT @ ₹ 30,000 per MT
- (ii) Oil : 30 MT @ ₹ 1,50,000 per MT
- (iii) Water (extraction and treatment): 40 lakh litres @ ₹ 3 per litre
- (iv) Stores and other consumptions : ₹ 1,60,000
- (v) Cost of Boiler Plant is ₹ 60 lakh with no residual values.
- (vi) Cost of Power Generating Plant is ₹ 100 lakh with no residual values.
- (vii) Depreciation is charged on Straight Line Method @ 10% [for (v) and (vi)].
- (viii) Wages and Salaries for Power Generating Plant:  
80 skilled workers @ ₹ 20,000 and 120 helpers @ ₹ 12,000 per month.
- (ix) Wages and Salaries for Boiler Plant:  
50 semi-skilled workers @ ₹ 15,000 and 80 helpers @ ₹ 10,000 per month.
- (x) Repairs & Maintenance of Generating Power Plant and Boiler Plant is ₹ 20 lakh.
- (xi) Share of Administrative Overhead Expenses — ₹ 125 lakh.
- (xii) Realization from Sale of Ash disposed is ₹ 9 lakh.

**You are required** to prepare a **Cost Sheet** for Electricity Generating Cost and calculate the Cost of Power per KWH for the year ended March 31, 2019, as per the Companies (Cost Records and Audit) Rules, 2014.

7. (a) The following parameters are extracted from the Cost Accounting Records of ALCOBOX Ltd. multi products manufacturing company for two years:

(Amount in ₹ lakh)

Year ended 31st March	2019	2018
Gross Sales including GST	28,560	27,790
GST	4,130	3,920
Other Income	—	—
Raw materials consumed	15,960	14,840
Direct wages and salaries	490	450
Power and fuel	350	320
Stores and spares consumed	80	70
Repairs and maintenance	70	60
Depreciation charged to production cost centres	220	210
<i>Factory overheads:</i>		
Salaries and wages	70	60
Depreciation	30	30
Rates and taxes	15	14
Other overheads	75	66
<i>Administrative overheads:</i>		
Salaries and wages	140	130
Rates and taxes	90	90
Other overheads	2,250	2,100
<i>Selling and distribution overheads:</i>		
Salaries and wages	100	80
Packing and forwarding	85	85
Depreciation	15	15
Other overheads	1,730	1,640
Interest	1,160	1,030
Bonus and gratuity	200	150



You are required to compute the following RATIOS as stipulated in PART-D, PARA-4 to the Annexure of Cost Audit Report under the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2019 and March 31, 2018.

- (i) Profit before Tax (PBT) to Value Added
- (ii) Value Added to Net Sales
- (iii) Profit before Tax (PBT) to Net Revenue from Operations

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(b) KASAUTI MOTORS LTD, a manufacturing company of motor vehicles has, in FY 2019-20, faced abnormal fall in demand of passenger vehicles. A huge inventory compelled the company to shut down production operations for 15 working days in the 1st part of September, 2019. But the plant was running at budgeted level of Utilization except the shut down period.

In this respect, the company has furnished the following information for the year ended March 31, 2020:

Particulars	Budget: FY 2019-20 (₹ in lakh)
No. of working days	305
Contribution (90% capacity)	2,250
Indirect Wages and Salaries	600
Depreciation	240
Other Fixed Expenses	350
Inventory Carrying Cost (Addl.)	15

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**Required:**

- (i) Find out expected abnormal loss due to shut down for the 1st six months of the year 2019-20, from the facts and figures stated supra.
- (ii) Write a note to the Management suggesting remedial measures. 4+4=8

8. Answer *any four* out of the following five questions: 4×4=16

- (a) Explain "Risk Assessment" with reference to Cost Audit Standard 104 at 'Cost Statement' level.
- (b) Write a short note on Internal Audit of Utilization of Resources.
- (c) A Corporate Social Responsibility (CSR) audit can identify various management risks. What are the areas that the audit should cover to mitigate risks?
- (d) The following are the process-wise input and output in a Textile Mill:

Department	Input (kg)	Output (kg)
Blow Room	41,10,169	38,27,662
Carding	38,42,123	35,74,310
Draw Frames	35,48,981	35,07,245
Roving (Simplex)	34,82,360	34,44,054
Ring Frame	35,16,085	32,73,475

**Required:**

Find the cotton input per 1000 kg of Ring Frame yarn output if initially the cotton under weight of 0.3% moisture loss from the invoice weight.

- (c) From the following figures of Diamond Industrial Components Ltd., a single product company, **Find out Value Addition** as defined in the Companies (Cost Records and Audit) Rules, 2014 for the year ended March 31, 2019.

Year ended	31.03.2019 (₹ in lakh)
1. Net Sales	4,980
2. Raw Materials	2,990
3. Stores and Spares	21
4. Power and Fuel	105
5. Overheads	377
6. Salaries, Wages	410
7. Bonus, Gratuity	42
8. Packing Forwarding Cost	21
9. Interest	280
10. Depreciation	11