

FINAL EXAMINATION

December 2012

Cost Audit & Operational Audit

Time Allowed: 3 Hours

Full Marks: 100

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F-P17(COA)
Syllabus 2008

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

- 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.

Answer Question No. 1 and Question No. 5 (carrying 14 marks each) which are compulsory and any two (carrying 18 marks each) each from the remaining questions of Section I and Section II.

SECTION I (50 Marks)
(Cost Audit)

1. (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: 1×4=4
- (i) The Compliance Report is to be issued by the certifying Cost Accountant in Form C of the Companies (Cost Accounting Records) Rules, 2011.
 - (ii) The Cost Auditor, before finalizing his Cost Audit Report needs to submit a draft Cost Audit Report to the Board to give them an opportunity to comment on the report, suggestions, observations and conclusions drawn by him.
 - (iii) *Financial Position and Ratio Analysis are being dealt with under PARA-6 of the Companies (Cost Audit Report) Rules, 2011.*
 - (iv) CAS-13 deals with cost of utilities.
- (b) 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): 1×5=5
- (i) Rectified spirit is covered by
 - A. Cost Accounting Records (Chemical Industries) Rules, 2004
 - B. Cost Accounting Records (Formulations) Rules, 1988
 - C. Cost Accounting Records (Bulk Drugs) Rules, 1974
 - D. Cost Accounting Records (Industrial Alcohol) Rules, 1997
 - (ii) CAS-9 deals with
 - A. Packing material cost
 - B. Pollution control cost
 - C. Cost of utilities
 - D. Direct material cost

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- (iii) PARA-8 of the Annexure to the Cost Audit Report Rules, 2011 deals with
- A. Product group details
 - B. Abridged cost statement for each product group separately
 - C. Value addition and distribution of earnings for the company as a whole
 - D. Operating ratio analysis for each product group separately
- (iv) As per Rule 7 of the Companies (Cost Accounting Records) Rules, 2011, the Annexure to the Compliance Report is to be duly approved by the
- A. Secretary
 - B. Cost Accountant
 - C. Board of Directors
 - D. None of the above
- (v) As per _____ Outward Transportation Cost shall form part of cost of sale. (Fill in the gap from the below)
- A. CAS-5
 - B. CAS-6
 - C. CAS-9
 - D. CAS-10

(c) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s): 1×5=5

- (i) Rate per unit for each product group under para-5 of the Annexure to the Cost Audit Report Rules, 2011 is to be furnished for current year and _____.
- (ii) Caustic Soda is covered by the Cost Accounting Records (_____) Rules, 2004.
- (iii) Corporate objectives represent the _____ that the organization has laid down for itself.
- (iv) CERA (Central Excise Revenue Audit) is conducted by the organization of _____.
- (v) _____ is the maximum productive capacity according to the manufacturers' specification of machines/equipment.

2. (a) The following figures are extracted from the Accounts of IREVNA LTD., a single product manufacturing company:

Year ended 31st March	2012	2011	2010
	(Amount in ₹ lakh)		
Gross Sales including Excise duty:	2,856	2,779	2,625
Excise duty	<u>413</u>	392	371
Raw materials consumed	✓1,596	1,484	1,365
Direct wages	✓49	45	38
Power and fuel	✓42	38	34
Stores and spares	✓8	7	5

Year ended 31st March	2012	2011	2010
	(Amount in ₹ lakh)		
Depreciation charges to production cost centres	22	21	18
Factory Overheads:			
Salaries and wages	✓7	6	4
Depreciation	3	3	3
Rates and taxes	1	1	1
Other overheads	✓8	7	6
Administrative Overheads:			
Salaries and wages	✓14	13	11
Rates and taxes	3	3	3
Other Overheads	✓231	216	207
Selling and Distribution Overheads:			
Salaries and wages	✓10	8	7
Packing and forwarding	✓8	8	7
Depreciation	1	1	1
Other overheads	✓174	165	151
Interest	✓119	104	95
Bonus and Gratuity	17	14	13
Current Assets	1,176	1,014	896
Current Liabilities and Provisions	454	427	344

You are required to Compute the following ratios as per requirement of PARA-9 to the Annexure of the Companies (Cost Audit Report) Rules, 2011:

(i) Profit Before Tax (PBT) to Value Added

(ii) Value Added to Net Sales;

(iii) Profit Before Tax (PBT) to Net Sales.

6+6+2=14

(b) A company with multiple products range is having Cost Audit for some of its products. What would be the applicability of Cost Audit on other products now covered under the Companies (Cost Accounting Records) Rules, 2011?

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3. (a) (i) What do you understand by the term "Pollution Control" as per CAS-14?

(ii) How would you assign administrative overheads as per CAS-11?

2+3=5

(b) GREAT PALS COMPANY LTD is engaged in construction of Roads, Bridges, Marine facilities etc. having sites in India and abroad. The Company's total turnover for the year ended March 31, 2012 was ₹ 60 crores.

—Whether the Companies (Cost Accounting Records) Rules, 2011 would be applicable to the company?

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- (c) ENRON INDUSTRIES LTD. a manufacturing unit, provides the following extracts from its records for the year ended March 31, 2012:

The companies specifications capacity for a machine per hour	1,600 units
No. of shifts (each shift of 8 hours)	3 shifts
Paid holidays in a year (365 days):	
(i) Sundays	52 days
(ii) Other holidays	10 days

Annual maintenance is done during the 10 other holidays.

Preventive weekly maintenance is carried on during Sundays.

Normal idle capacity due to lunch time, shift changes etc. = 1 hour per shift.

Production based on sales expectancy in

past 5 years are: (unit in lakh) = 81.28, 93.86, 70.20, 83.73 and 81.70 respectively.

Actual production during the year: 84.50 lakh units.

You are required to calculate

- (i) Installed capacity;
- (ii) Practical capacity;
- (iii) Actual capacity utilization;
- (iv) Normal capacity;
- (v) Idle capacity;
- (vi) Abnormal idle capacity—keeping in view of the relevant Cost Accounting Standard (CAS-2). 2×2+1×4=8

4. (a) Enumerate the duties to be performed by a Cost Auditor. 6
- (b) Answer the following questions with respect to the Companies (Cost Accounting Records) Rules, 2011:
- (i) Whether product manufactured for 100% captive/self-consumption shall be covered under these Rules?
 - (ii) What does turnover mean under these Rules? Is gross turnover inclusive of excise duty?
 - (iii) Whether film industry like film producing companies/studios registered under Indian Companies Act shall be covered under these Rules? 2×3=6
- (c) The following details of the processwise, Input Output and Direct Employees Costs are taken from the RUKMARI INDUSTRIES LTD., a manufacturing company, for the year ended March 31, 2012:

Process	Input (Tonne)	Output (Tonne)	Direct Employees Costs (₹)
I	48,000	43,200	1,29,600
II	50,000	44,000	1,76,000
III	72,000	66,240	3,31,200
IV	60,000	55,500	4,44,000
V	80,000	73,400	6,60,600

Required:

Calculate "the Direct Employees Cost per Tonne of the product under reference" as required in PARA-5 of the Annexure to the Cost Audit Report Rules, 2011. 6

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SECTION II (50 Marks)
(Operational Audit)

5. (a) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s) number(s): 1×5=5

efficiency
tool

- (i) _____ is the evaluation of every resources declared in the industry.
- (ii) Management Audit can be a _____ for managerial control and reduction of cost.
- (iii) _____ Audits are concerned with objectives of efficiency and effectiveness.
- (iv) _____ services have been defined as independent professional services that improve the quality of information for decision makers.
- (v) _____ is a movement protecting interest of the consumers.

(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: 1×4=4

- (i) Audit Committee should meet at least three times in a year as per Clause-49 of the listing agreement.
- (ii) The secretariat of WTO will be headed by a secretary.
- (iii) Physical verification of stock is not a part of Stock Audit conducted by a bank or their authorised person.
- (iv) The concept of Management Audit was developed by Luis F. Gillman.

(c) What the following abbreviations stand for? 1×5=5

- (i) PCAOB
- (ii) MAR
- (iii) EIA
- (iv) QRB
- ~~(v) NFCG~~

6. (a) What do you understand by "Corporate Services Audit"? Describe the areas of Corporate Services Audit, the scrutiny thereof and the evaluation criteria used in such Audit. 2+4=6

- (b) Prepare a check list for carrying out an audit under section 14AA of the Central Excise Act. 6
- (c) Explain the basic differences between "Management Audit" and "Operational Audit". 3+3=6

7. (a) DNA BANK, a nationalised bank is considering an application from GLORIOUS INDUSTRIES LTD. for enhancement of working capital limits with sub-limits for inventories and book debts. You have been asked to study the operations of the company and submit your recommendations for enhancement of working capital limits.

Prepare a questionnaire listing out your requirements of information for the purpose. 12

(b) Explain whether the following activities amount to professional misconduct on the part of a Cost Accountant: 2×3=6

- (i) CMA ANUSUA, a Cost Accountant in practice published a book and gave her personal as an author. These details also mentioned her professional experiences and her association as partner with PKR and Associates, a firm of Cost Accountants.

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- (ii) M/s. R.K. Bhatia & Associates, a firm of Cost Accountants in practice, develops a website "bhatia.com". The colour chosen for website was very bright yellow where the names of the partners of the firm along with their various professional attainments and the major clients were to be displayed on the website.
- (iii) CMA D. R. RADHAKRISHNAN a Cost Accountant in practice takes up the appointment as Managing Director of ANKRIT LTD., a public limited company.

8. Write short notes on *any three* out of the following:

6×3=18

- (a) Corporate Governance;
(b) Probable format of Environmental statement;
(c) Quality Review Board;
(d) Functions of the W.T.O.;
(e) Management Audit Programme (MAP)
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