

Time Allowed : 3 Hours

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

Answer *Question No. 1* and Question No. 5 which are compulsory and two each from the remaining questions of Sections I & II.

SECTION I (Marks 50)

1. (a) State whether the following statements are "True" or "False" justify with reasons: No credit will be given, if justification for your answer is not given: 1x8=8

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| (i) The annexure to the Cost Audit Report is to be prepared by the cost auditor. |
| (ii) The cost auditor is appointed by the Board of Directors subject to the approval of the Central Government. |
| (iii) A company which is sick and close can seek exemption from Cost Audit even through an order has been issued to that company earlier under section 233B of the Companies Act. |
| (iv) Non-moving stock of raw materials and components are those stocks which have not moved for more than 24 months. |
| (v) If any of the products under audit is incurring losses, the cost auditor should work out the break-even level for the product, and report the same in his Cost Audit Report. |
| (vi) A footwear unit in the Co-operative sector need not maintain cost accounting records u/s 209(1)(d) of the Companies Act. |
| (vii) The Central Excise authorities have the right to call for a copy of the Cost Audit Report. |
| (viii) A nominee director is covered by the definition of "related party". |

(b) Which of the following answers is correct? 2x3=6

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| (i) The Annexures to the Cost Audit Report and Proforma should be signed by
A. The Chief Finance Officer and the Managing Director
B. One Director and Secretary
C. The Secretary and the Chief Finance Officer
D. The Officer-in-Charge of Cost Accounts and the Secretary. |
| (ii) The maximum number of audits which can be accepted by a firm of cost accounts having three partners is
A. 30 Products
B. 60 companies out of which not more than 30 companies shall be companies with paid up capital of more than Rs. 25 lakhs.
C. 60 Products
D. 30 companies |
| (iii) Under the existing regulations, a Cost Accountant in practice can take as his partner
A. Another practising Cost Accountant;
B. A practising Chartered Accountant;
C. A practising Company Secretary;
D. An Advocate registered with the Bar Council. |

2. (a) The following details are extracted from the accounts of Super Chemicals Ltd., which manufactures only one product in a single location:

	(Rs. in lakhs)		
	31.3.2008	31.3.2007	31.3.2006
Gross Fixed Assets	13,845	12,636	11,535
Cummulative Depreciation	3,936	3,789	3,672
Value of trade marks included under fixed assets (net of depreciation)	240	360	480
Capital Work-in-Process	819	675	951
Investments in Shares & Debentures	2,172	2,136	2,079
Inventories	1,875	1,740	1,533
Sundry Debtors	1,002	951	876
Advances for purchase of capital equipment	72	183	141
Other Loans & Advances	195	174	159
Other Current Assets	96	87	78
Sundry Creditors	642	561	522
Term loans due for repayment within 12 months	100	120	80
Provision for Expenses	87	102	84
Net Sales	11,772	9,636	8,793
Interest	1,842	1,491	1,248
Depreciation	162	141	132
Profit before taxes	696	435	591

Compute the following ratios as required in para 24 of the Annexure to the Cost Audit Report for the year 2007–2008 and 2006–2007:

- Profit as a percentage of capital employed.
- Profit as a percentage of Sales.

- (b) What are the duties of the Cost Auditor?

3. (a) Saleswell Ltd. sells a range of products. Each territory is allotted to a salesman and the salesman are given the discretion of increasing or reducing the catalogue prices within a certain range. In their respective territories, if the circumstances so warrant. This they do, by levying a surcharge or by offering discounts. For each quarter sales quotas are fixed for each salesman and a 5% commission is given on actual orders booked, in addition to a fixed monthly salary. The quantum of commission earned serves as an indication of the efforts made by salesmen. The new Cost Accountant who has joined the company recently has devised a management information system for quarterly appraisal and the following are figures called out from his records:
For the quarter April—June 2008

Salesmen	A Rs.	B Rs.	C Rs.	D Rs.
Commission earned	2,380	1,650	2,985	2,110
Standard cost of quota sales	29,400	26,000	28,400	24,000
Selling Price variance	600 U	6,000 U	2,300 U	2,700 F
Sales volume variance	800 U	1,000 U	14,000 U	500 U
Contribution margin mix variance	900 U	14,000 U	42,000 U	1,800 F

[U = Unfavourable; F = Favourable]

You re required to:

- Compute the sales quota given to each salesman and their actual contribution made.

- (ii) Rank the salesmen according to performance explaining the basis
- (iii) Comment on the uses of commission as an incentive.
- (b) How will you treat the following items in the Cost Accounting Records?
- (i) Commission paid to the Managing Director as a percentage of profit, included in the financial accounts under the head "Salaries and Wages".
- (ii) Profit on sale of fertilisers to cane growers by a Sugar Company.
- (c) Can a Cost Accountant who is appointed as the concurrent auditor of a company accept appointment as Cost Auditor of the same company?
4. (a) Calculate the installed capacity, available capacity, normal capacity, actual capacity, idle capacity, abnormal idle capacity from the following data and as per CAS-2;
 Manufacture's specification capacity per hour = 600 units
 No. of shifts (each shift 8 hours = 3 shifts
 Holidays in a year (365 days):
 Sundays — 52 days
 Other holidays — 13 days
 Annual maintenance is done within 13 holidays
 Preventive weekly maintenance for the machine on Sunday
 Normal idle capacity for batch change
 Over, lunch, personal need etc. = 1 hr. per shift
 Production bases on sales expectancy in past 5 years = 36.12, 32.28, 35.64, 29.28 and 36.24 lakh units.
 Actual production for the year = 36.12 lakh units.
- (b) What type of manufacturing organisations are exempt from the maintenance of cost accounting records through they are engaged in the industries in respect of which section 209(1)(d) Rules have been prescribed?
- (c) What is the application fee along with form 23C payable to Govt. of India, Ministry of Corporate Affairs where the nominal share capital of the limited company is Rs. 10 crores and how payment is to be made?

SECTION II (Marks 50)

5. (a) State whether the following statements are "True" or "False". No reason for justification need be given: 1x7=7
- (i) Cost of production of goods produced for captive consumption as per CAS-4 for Central Exercise purpose should be certified in the prescribed form. (0)
- (ii) The statutory auditor (which term includes Cost Auditor) can only be an invitee and not a member of the audit committee. (0)
- (iii) Audit of records of manufacturing operations in customs bonded warehouse is compulsory in all cases. (0)
- (iv) In computing cost of production for captive consumption, administrative overheads which are not directly related to production activity may be excluded. (0)
- (v) Interest cost should be included in inventory valuation for purposes of bank audit. (0)
- (vi) Verification of compliance with various provisions of all applicable laws is part of the job of the internal auditor. (0)
- (vii) Operational audit is termed as micro level management audit. (0)
- (b) Fill up the blanks: 1x7=7
- (i) The audit committee shall meet at least _____ a year as per the SEBI listing agreement. (0)
- (ii) For the purpose of anti-dumping law, injury margin means the difference between the non- (0)

	injurious price due to the domestic industry and the _____ of the dumped imports.	
(iii)	CERA (Central Exercise Revenue Audit) is conducted by the organisation of_____.	(0)
(iv)	The scope of work of an insurance surveyor is laid down in section _____ of the Insurance Act.	(0)
(v)	_____ is the highest decision making body of the W.T.O.	(0)
(vi)	The audit of cenvat availed can be ordered only by the_____	(0)
(vii)	Operational audit (or value for money audit) has been defined as an organized search for ways of improving _____ of _____.	(0)
6. (a)	State the salient features of an ideal flow chart.	4 (0)
(b)	Define Opportunity cost and Imputed cost as per CAS–I.	4 (0)
(c)	Management Audit and Operational Audits are complementary and supplementary to one another. Discuss.	4 (0)
(d)	Which of the following acts amount to professional misconduct on the part of a practising cost accountant?	3x2=6
(i)	A cost accountant gives a certificate of cost of production for attaching with a tender for a cost-plus contract. He comes to know after signing the certificate that his client has won a case with a supplier on account of which the client is entitled to get a refund of substantial portion of the purchase price of the raw material. The certificate is not corrected.	(0)
(ii)	X is a shareholder, in PQ Ltd. holding 100 shares. The company's paid up capital is Rs. 5 crores (50 lakhs shares of Rs. 10 each). X accepts a certificate work from the company.	(0)
7. (a)	What is meant by "Corporate Services Audit"? Describe the areas of Corporate Services Audit, the scrutiny thereof and the evaluation criteria uses in audit?	12 (0)
(b)	Write short notes on (any two):	3x2=6
(i)	GATT;	(0)
(ii)	W.T.O;	(0)
(iii)	SOX Audit.	(0)
8. (a)	Write short notes on any three of the following:	4x3=12
(i)	Due Diligence Audit;	(0)
(ii)	Audit under EA–2000;	(0)
(iii)	Concurrent Audit;	(0)
(iv)	Professional misconduct in relation to members of the institute (ICWA) in service. Discuss.	(0)
(b)	Answer any two of the following:	3x2=6
(i)	The Cost Audit and Assurance Standard Board (CAAB)—Explain.	(0)
(ii)	A cost accountant give a certificate of cost for a product manufactured by an SSI unit owned by his son—whether his acts amounts to professional misconduct or not? — Explain.	(0)
(iii)	Productivity Audit.	