

Time Allowed : 3 Hours

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

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

SECTION I (Marks 50)

(a) State whether the following statements are 'True' or 'False', with justification/reasoning for your answer: 1x5=5

- (i) Detection of errors and fraud is one of the social objectives of Cost Audit.
- (ii) In case of delay in furnishing the Cost Accounting Records, etc. by the company, the Cost Auditor may still be advised to write a letter within 10 days from the expiry of 135 days from the close of the financial year to the company for non-receipt of Cost Accounting Records/Statements, Annexure/Proforma to the Cost Audit Report, as the case may be, and get it acknowledged by the company.
- (iii) Financial position including financial ratios as required to be stated in para 24 of the Annexures to the Cost Audit Report.
- (iv) The Cost Auditor of a company is appointed by the Board of Directors subject to the approval of the Central Government.
- (v) Two companies simply have a common Director shall not be deemed as 'Related Party Relationship'.

(b) Choose the correct answer: 1x5=5

- (i) The Annexures to the Cost Audit Report and proforma should be signed by
 - (a) the Secretary and the Finance Officer
 - (b) the Secretary and the Chief Finance Officer of the company
 - (c) one Director and one Secretary
 - (d) the Chief Finance Officer and the Managing Director
- (ii) A Cost Audit firm has three partners. State how many companies Cost Audit can be conducted where the paid up Capital of all the companies is less than Rs.25 lakhs.
 - (a) 30 companies
 - (b) 60 companies
 - (c) 15 companies
- (iii) Application for appointment of Cost Auditor should be sent to the Department of Company Affairs within
 - (a) 30 days of commencement of financial year
 - (b) 50 days of commencement of financial year
 - (c) 45 days of commencement of financial year
 - (d) 60 days of commencement of financial year
- (iv) CAS-9 deals with
 - (a) Packing materials cost
 - (b) Direct materials cost
 - (c) Indirect materials cost
 - (d) All of the above

- (v) Excisable clearances means.
- only sale of goods from factory
 - total clearances from factory
 - despatch from bonded warehouse

(c) Fill in the blanks:

1x4=

- Cost Accounting Record Rules were made first for _____ industry.
- Para 13 of the Annexure to Cost Audit Report Rules deals with _____.
- Outward transportation cost, as per CAS-5 shall form part of cost of _____.
- CERA (Central Excise Revenue Audit) is conducted by the organisation of -----.

(a) State with reasons whether a person can be appointed as Cost Auditor in the following cases:

2x2=

- A person has been appointed as Cost Auditor for 20 products manufactured in seven companies. He is again proposed for appointment as Cost Auditor, for three more products, manufactured by two other companies.
- A person is doing internal audit on one of the factories manufacturing 'Textile' located at Ahmedabad. He was proposed for appointment as Cost Auditor in another factory of same company of manufacturing 'Textile' for the same period located at Gwalior.

(b) (i) As per cost Audit Report Rules, 2001, 'the Cost Auditor shall suggest measures for making further improvements in the performance in respect of Cost Control and Cost Reduction'. You list out at least eight main points (headings).

(ii) Which of the following acts amount to professional misconduct on the part of a practicing Cost Accountant? (Preferably in one sentence.)

1x2=

- A firm of Cost Accountants undertake the Cost Audit of a company. The audit work is conducted by one of the partners and two assistants. The report is however, signed by another partner.
- Mr. Ashim Roy is a shareholder in Hicks Ltd. holding 100 shares. The company's Paid Up Capital is Rs.5 crores (50 lakh shares of Rs. 10 each) accepts a certification work from the company.

(iii) Following data of B. K. Ltd. is available relating to the Cost of Production of a product subjected to Cost Audit. Prepare the Export Profitability Statement to be included in the Annexure to the Cost of Production of 12,000 units:

5+5=10

	Rs.
Sales (Local) 10,000 units @ Rs.25	2,50,000
Sales (Export) 2,000 units @ Rs.21	42,000
Materials Consumed 25 tonnes @ Rs.6	1,50,000
Imported Components 12,000 units @ Rs.3	36,000
Direct Labour	12,000
Factory Overhead	17,000
Administrative Overhead	6,000
Freight and Packing (Local Sales)	5,000
Packing for Export	2,500
Handling at Port	600
Opening Work-in-Progress	12,000
Closing Work-in-Progress	6,000

Additional Information:

- Export incentive of 12% on FOB is receivables.
- Draw Back on duty paid on Raw Materials and components available on Export is Rs.3,000.

- (a) How would you treat the following as per CAS–7 related to Employee Cost?
- Separation Cost due to voluntary retirement, retrenchment, termination etc.,
 - Idle time Cost.

3x2=

- (b) The following figures are taken from the accounts of XYZ Ltd.:

6+6=12

Rupees in lakhs			
	31.3.2007	31.3.2006	31.3.2005
Gross Fixed Assets	4,615	4,212	3,845
Cumulative Depreciation	1,312	1,263	1,224
Capital Work–in–Progress	273	225	317
Investments in Shares & Debentures	724	712	693
Inventories	625	580	511
Sundry Debtors	334	317	292
Advances for Purchase of Capital Equipments	24	61	47
Other Loans and Advances	65	58	53
Other Current Assets	32	29	26
Sundry Creditors	214	187	174
Provisions for Expenses	29	34	28
Net Sales	3,924	3,212	2,931
Depreciation	54	57	44
Interest	614	497	416
Profit before Taxes	232	145	197

Compute the following ratios as defined in para 3 of the Cost Audit Report Rules, for the year ended 31.3.2006 and 31.3.2007:

- Profit as a percentage of Capital.
- Profit as a percentage of Net Sales.

- (a) How would you treat the following as per CAS–7 related to Employee Cost?
- Recruitment Cost;
 - Overtime premium;
 - Co–products.

1x3=

- (b) Which number of Form is to be used for application for appointment of Cost Auditor(s)?

- (c) The following is the abridged Balance Sheet of BEEKAY Ltd.:

7+

Rupees in lakhs		
	31.3.2010	31.3.2009
Liabilities		
Share Capital	300	300
Debenture Redemption Reserve	30	35
Capital Subsidy from State Government	40	40
Revaluation Reserve	125	140
General Reserve	150	110
Balance in Profit & Loss A/c	45	30
Secured Loans	292	300
Unsecured Loans	110	114
	1,092	1,069
Assets		

Gross Block	740	690
Accumulated Depreciation	(320)	(300)
	420	390
Capital Work-in-Progress	45	35
Investments	15	17
Current Assets		
Inventories	420	430
Sundry Debtors	180	200
Advances for Capital Equipments	25	20
Other Loans & Advances	140	135
Cash & Bank Balances	20	22
Current Liabilities		
Sundry Creditors for Others	(180)	(190)
Capital Expenses	(18)	(20)
Provision for Taxes	(65)	(70)
Miscellaneous Expenses	90	100
Total	1,092	1,069

Notes:

- (1) Fixed Assets include Goodwill and Patents Rs.120 lakh (previous year Rs.125 lakh).
(2) Term Loan due for repayment within 12 months are Rs.90 lakh (previous year Rs.85 lakh).

Calculate the following for the company as a whole:

- (i) Capital Employed for the year ended 31.3.2010 and in which Para No. it is to be filled up.
(ii) Net worth as on 31.3.2009 and 31.3.2010.

SECTION II (Marks 50)

5. (a) State whether the following statement are 'True' or 'False'. Justify your answer: 1x5=5

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|--|-----|
| (i) The Internal Audit function in any organisation can be broadly categorized into three major functions namely (a) Financial audit (b) Compliance audit and (c) Operational audit. | (0) |
| (ii) Operational Audit is a micro level management audit. | (0) |
| (iii) Depreciation in excess of that computed under section 205(2) of the Companies Act cannot be taken for determination of cost under the Cost Accounting Record Rules. | (0) |
| (iv) Physical verification of Stock is not a part of Stock Audit conducted by a Bank or their authorised person. | (0) |
| (v) Excise Audit, 2000 was initiated from 1 st April, 2000. | (0) |

(b) Fill up the blanks with appropriate word/words: 1x5=5

- | | |
|--|-----|
| (i) "_____ is to know best that has been said and thought in the world." – Mathew Arnold. | (0) |
| (ii) SOX Audit is known as _____. | (0) |
| (iii) Annexure 27 of Cost Audit Report Rules, 2001 relating to Central Excise Reconciliation for product under reference as the information will be useful for Conducting Valuation Audit _____ u/s 14A and 14AA of the CEA. | (0) |
| (iv) The GATT was transformed in a _____ with effect from January, 1995. India is one of the founder member of IMF, World Bank, GATT and the _____. | (0) |

(v)	Outward transportation cost, as per CAS–5 shall form part of cost of _____.	(0)
(c)	What do the following abbreviations stand for?	1x4=4
(i)	MAR;	(0)
(ii)	CPSE;	(0)
(iii)	IFAC;	(0)
(iv)	EIA.	(0)
6. (a)	(i) Define Management Audit and Operational Audit	2+2=4 (0)
	(ii) Who are the members of the Audit Committee?	2 (0)
(b)	(i) Define extract of section 292A of the Companies Act, 1956 i.e. Audit Committee.	11 (0)
	(ii) What is the full form MAOCARO?	1 (0)
7. (a)	What is Due Diligence Audit? Why it is undertaken?	10 (0)
(b)	(i) Enumerate eight statutory and specific fields of audit, verification and certification open to Cost Accountants in practice other than Cost Audit. Indicate a reference to the concerned authority/stature under which the work is prescribed.	4 (0)
	(ii) What is IFAC and who are members of how many countries?	3 (0)
	(iii) What is meant by ‘COSO Report’?	1 (0)
8.	Write short notes (any three):	6x3=18
(a)	Professional Misconduct in Relation to Members of the Institute in Service;	(0)
(b)	Difference between ‘Cost Accountants in Practice’ and ‘Firm of Cost Accountants’	(0)
(c)	Quality Review Board (QRB);	(0)
(d)	Management Audit Programme (MAP);	(0)
(e)	Productivity Audit and main objectives.	(0)