

**INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS
OF PAKISTAN**

PROFESSIONAL-IV (NEW/EXISTING) EXAMINATION— SUMMER 2003

Wednesday, the 28th May, 2003

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**CORPORATE PERFORMANCE AUDIT & EVALUATION/
CORPORATE PERFORMANCE EVALUATION**

Time Allowed : 3 Hours

Maximum Marks : 100

- (i) Attempt FIVE questions selecting THREE from Part A and TWO from Part B. Question No. 1 is compulsory.
- (ii) Each question carries 20 marks.
- (iii) In marking paper, the examiners take into account clarity of exposition, logic of arguments, presentation and language.
- (iv) Use of non-programmable scientific calculators of; O Casio fx-82 LB, O Casio fx-82 Super, O Casio fx-350 D, O Casio fx-350 HA models is allowed.
- (v) Read the instructions printed on the top cover of answer script CAREFULLY before attempting the paper.
- (vi) DO NOT write your Name, Reg. No. or Roll No., anywhere inside the answer script.

PART "A"
(Marks : 60)

Marks

Special instructions for Question 1.

- ♦ An overwritten reply will carry no mark.
- ♦ Use following format to answer this question:

<i>Sl. No.</i>	<i>Your choice</i>	<i>Rationale (brief reason for your answer)</i>
<i>(i)</i>		
<i>(ii) & so on</i>		

Q. 1 Choose the correct answer:

20

- (i) The process that provides reasonable assurance of achieving effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations is called:
- (a) Management process. (c) Internal control process.
(b) Internal audit. (d) Statutory audit.
- (ii) The process, to ensure that the project and contracts are delivering the desired objectives and results as per agreed plans, is called:
- (a) Re-engineering. (c) Contracting.
(b) Benchmarking. (d) Performance monitoring.

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- (iii) In a manufacturing organization, the most significant plan following the sales plan is:
- (a) Procurement plan. (c) Marketing plan.
(b) Production plan. (d) Business plan.
- (iv) Which function of an organization is categorized as non-personal mass-communication component of its promotional mix?
- (a) Advertising and sales promotion. (c) Warehousing.
(b) Distribution. (d) Consumer research.
- (v) Improving employee motivations & team work, identifying and developing leadership are part of the activities co-ordinated and managed by:
- (a) Research department. (c) Systems support department.
(b) Monitoring department. (d) Human resources department.
- (vi) One of the most difficult functions in Performance Audit & Evaluation due to its open-ended nature of activities is:
- (a) Research & development. (c) Selling & distribution.
(b) Advertising & sales promotion. (d) Personnel & administration.
- (vii) One of the higher risk areas with respect to security in Information Technology is:
- (a) LAN (c) Internet
(b) WAN (d) Database
- (viii) Organizations engaged in business with high levels of transactions regularly flowing between parties can use the:
- (a) Electronic data interchange (EDI) (c) E-mail.
(b) Internet. (d) Telecommunications.
- (ix) Organizations requiring quantum leap improvements in its operational performance can use the following technique:
- (a) Continuous process improvement (CPI).
(b) Business process re-engineering (BPR).
(c) Total quality management (TQM).
(d) Corporate performance evaluation (CPE).
- (x) The principle that allows employees the flexibility to meet customers' requirements at their own responsibility is called:
- (a) Interaction. (c) Convenience.
(b) Trust. (d) Empowerment.
- Q. 2 You have joined head office of a multinational company with units located abroad. The following performance measures have been in use:
- (a) Marketing/Sales. (c) Liquidity.
(b) Stability. (d) Profitability.

Required :

Marks

- (i) State the above in terms of priorities. List these accurately. 8
- (ii) Identify six performance measures under the heading "Profitability" and explain these briefly in terms of their significance as "Performance Measure". 12
- Q. 3 (a) List key risk and control issues pertaining to tendering process. 6
- (b) Describe "Quality Control" and its major objectives. 6
- (c) Which factors play a vital role in devising a pricing policy. List the control objectives and risk areas relating to pricing policy. 8
- Q. 4 Following comparative information is available from the records of ABC & Co.

	<u>(Rs. in '000)</u>	
	<u>2002</u>	<u>2001</u>
Net sales	1,765	1,690
Gross margin	615	608
Admin. & selling expenses	290	255
Financial charges	32	40
Net profit after tax	<u>160</u>	<u>140</u>
Market share	34.8%	37%
Number of product lines	15	15
Number of ordinary shares	30,000	30,000
Number of sale orders	105	85
Number of unfulfilled orders	8	3
Number of defected product	12	10
Cost of damage claims from distributors	14	12
Proceeds from sale of scrap	14	15
Units of products manufactured	570	530
Units of products in beginning inventory	6	76
Units of products in ending inventory	8	6
Number of workers	<u>155</u>	<u>150</u>
	<u>(Rs. in '000)</u>	
<u>Debtors</u>		
0-30 days	98	100
31-60 days	26	20
61-90 days	6	Nil
Over 90 days	20	10
Total Debtors	<u>150</u>	<u>130</u>

Required :

You have been appointed as the performance auditor of ABC & Co. Prepare a Performance Appraisal Report critically examining the factors responsible for variation in business and its operating results. You may make necessary assumptions, wherever necessary.

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P.T.O.

		Marks
Q. 5	(a) A performance auditor is evaluating effectiveness of a company management's decision-making. What areas should the auditor review for such an evaluation?	10
	(b) A Bank has hired you as a Management Consultant to evaluate the service levels and to submit a report containing recommendations for improvement. You may make necessary assumptions.	10

PART "B"

(Marks : 40)

Q. 6	(a) Briefly discuss the purpose of Cost Audit and its benefits to the management, government and the shareholders.	8
	(b) List the Cost Audit procedures for Vegetable Ghee Industry.	12
Q. 7	(a) How should the Cost Auditor examine material cost?	5
	(b) Elaborate major classifications of labour cost.	5
	(c) List some of the major criteria used as basis for allocation of overheads.	5
	(d) What are the risk areas relating to inter-company transactions and what is Cost Auditor's responsibility in this respect?	5
Q. 8	(a) Distinguish between a Financial Auditor and Cost Auditor.	10
	(b) In an industry producing by-products as well, what are the methods of valuing such by-products?	6
	(c) What is "Spoilage"? Discuss its classifications.	4

THE END