

COST ACCOUNTING RECORDS AND AUDIT [P3] – PROFESSIONAL LEVEL

Marks

Question No. 1

(a)

Taj Jute Mills Limited
Computation of Value of Closing Stock
and Raw Material Consumed

Particulars	Qty M.T	Rs. '000'	
Raw material – Opening stock	10,000	360,000	01
Raw material – purchased	35,000	1,400,000	01
Custom duty etc	–	80,000	0.5
Demurrage paid to K.P.T due to uncertain strike	–	12,000	0.5
Freight inward	–	100,000	0.5
Sub-total- Raw material purchased	35,000	1,592,000	01
Less: Abnormal loss due to absorption of moisture before delivery (W-1)	(200)	(9,097)	01
Less: Normal loss due to shrinkage of material during transit (1% unit) (W-2)	(350)	–	01
Add: Cost of self-manufactured packing material for purchased raw material only (W-3)		104,000	0.5
Total cost of raw material	44,450	2,046,903	01
Less: Value of closing stock (W-4)	(7,000)	(320,903)	01
Cost of raw material consumed	37,450	1,726,000	01

$$W-1: \text{ for abnormal loss} = \frac{15,92,000}{35,000} \times 200 = \text{Rs. } 9,097 \quad 01$$

$$W-2: \text{ for normal loss} = 1\% \text{ of } 35,000 \text{ units} = 350 \text{ units} \quad 0.5$$

$$W-3: \text{ for packing materials} = \text{Rs. } 120,000 - \text{Rs. } 16,000 = \text{Rs. } 104,000 \quad 0.5$$

$$W-4: \text{ for closing stock} = \text{Total cost} \div \text{Total units} - \text{units of normal loss} \times \text{No. of unit in stock}$$

$$= \frac{2,046,903}{45,000 - 350 = 44,650} \times 7,000 = \text{Rs. } 320,903$$

01

Notes:

- (i) Normal loss units adjusted in quantity only and not in cost. 0.5
- (ii) Cost of manufactured packing materials does not include any share of administrative overhead or finance cost or marketing overhead. Hence, Marketing overhead excluded. 0.5
- (iii) Abnormal loss of material arisen before receipt of raw materials, hence, valuation done on the basis of costs related to purchases only. Value of stock is not considered for arriving at the valuation of abnormal loss. 0.5
- (iv) Demurrage charges paid to K.P.T is an includible item. Since this was paid to K.P.T due uncertain strike in the city not forecasted or estimated of abnormal loss. 0.5

COST ACCOUNTING RECORDS AND AUDIT [P3] – PROFESSIONAL LEVEL

Marks

(b)

Indus Cement Ltd
Reconciliation Statement for the year ended June 30, 2017

Particulars	Rs. '000'	
	2016 – 2017	
Profit as per financial accounts	67,138	0.5
Add: Difference of Stock valuation	12,310	01
- Corporate Social Responsibility	2,375	0.5
- Loss on sale of tangible assets	1,520	01
-3/4 th of overhaul expenses amortized	3,000	1.5
	86,343	01
Less - Dividend received from associated company	(2,110)	0.5
- Difference in value of cement taken for own consumption	(160)	01
- Profit as per cost accounting records	84,073	01

Notes:

- (i) Dividend received, loss of sale tangible assets, payment for corporate social responsibility are not considered in cost accounts 01
- (ii) Valuation of cement taken for own consumption, valuation stock are considered at valuation are considered as per cost accounting record and only difference arisen with financial accounts will be considered and taken while reconciliation, 01

Question No. 2

Under Vegetable, Ghee & Cooking Oil Companies (Cost Accounting Records) Order, 1990, the related companies should keep cost account records of the following as per section 3 of the Order (Schedule-1) for each financial year.

(a) Steam:

Adequate records shall be maintained to ascertain the cost of steam produced and charged to different process. The cost of steam may be determined on an estimate of basis, if it is not possible to determine the actual cost. In case, the cost of steam is allocated to different processes on any basis other than actual cost, reconciliation of actual cost of steam produced and treatment of variances, if any in determining the cost of items referred to Para-2 of the Order shall be indicated in the cost records.

The record shall be maintained in such details as may enable the company to compile the cost data in Annexure A-3 of Performa 'A' of Schedule II or in any form as near there to, as practicable. 05

(b) Hydrogen:

Adequate records shall be maintained to ascertain the cost of hydrogen produced and charged to vegetable ghee and cooking oil production as well as that sold. 02

(c) Water:

Appropriate records shall be maintained to determine the cost of water used by the company. The expenditure on water shall be allocated to boiler house and oil processing on estimated basis which shall be consistently from year to year and indicated in the cost record. 02

COST ACCOUNTING RECORDS AND AUDIT [P3] – PROFESSIONAL LEVEL

Marks

Question No. 3

Power Generation Co. Limited
Statement of Cost of Thermal Electricity Produced
and sold for the year ended June 30, 2017

Actual Production and sales 27,000 thousand units.

		Rs. '000'		
	No.	Total Cost	Period Cost	
Net income from operation	1	1,242,000	4.60	01
Material consumed (916050 – 43980)	2	872,070	3.23	01
Cost of utilities		52,500	0.19	01
Direct Employee Cost (59,550 – 4,920)	3	54,630	0.20	01
Repairs & Maintenance (Transferred from other Expense)	4	27,240	0.10	01
Depreciation		37,650	0.14	01
Other Expenses (82050 – 6,140 – 3180 – (27240 of RM)	4	45,490	0.17	1.5
Sub-total		1,089,580	4.03	01
Administrative overhead		75,330	0.28	01
Cost of Sales before Interest		1,164,910	4.31	01
Interest & Financial charges		7,500	0.03	01
Total Expenses		1,172,410	4.34	01
Net Profit before tax/ Margin Profit as per Cost Accounts		69,590	0.26	01

- Note-1. Other income including profit on sale of tangible assets and other items are not included in the cost statement. 0.5
- Note-2. Prior period material cost Rs. 4,390 thousand is not included. 0.5
- Note-3. Arrear salary for last year Rs. 4,920 excluded from employee cost. 0.5
- Note-4. Expense relating to corporate social responsibilities Rs. 6,140, K.P.T demurrage charge (Rs. 3180) and repair and maintenance (Rs. 27,240) are not considered as other expense in cost accounts except amount of Rs. 27,240 which is transferred to separate account viz. Repairs & Maintenance being considered as expenses in cost accounts. 01

Question No. 4**(a) Contribution of TCM Framework:**

Certainly Total Cost Management Framework (TCM) has provided a significant contribution to the Cost Management profession. Its principles and techniques can be applied by cost management professionals to all fields including business, industry and services. It is just like a technical document that joins current body of knowledge for related fields such as cost & management accounting, operation management and project management. It is also consistent with organizational and portfolio thinking which ties all practices and processing back to overall business strategies and objectives. 03

The TCM Framework addresses strategic cost management practices in business and capital planning, operations and maintenance and product cost management. It assist the cost management profession in the enhance coverage areas such as historical cost data management, cost modelling, value analysis, economic and decision analysis. 03

COST ACCOUNTING RECORDS AND AUDIT [P3] – PROFESSIONAL LEVEL**Marks**

The TCM Framework is a structured, an noted process map that explains to cost management professionals each areas of the cost engineering field in the context of its relationship to the other practice areas including allied profession. It provides a process for applying the skills and knowledge of cost engineering. Thus we can conclude that the key feature of the TCM Framework is that it highlights and differentiate and provides the main cost management application areas for control and management.

04

(b) Purpose and uses of TCM Framework:

The Total Cost Management (TCM) Framework provides an integrated and theoretically sound structure on the basis of recommendation practices (RP) can be developed for areas of TCM achieves this objective and purpose by establishing an integrated process map of TCM. The process map helps ensure that RP products are consistent with each other and free of unnecessary duplication. The principle objective and purpose of the TCM is to provide balanced approach to cost management profession a technical perspective that is often missing from financially focused approaches.

04

The purpose of TCM Framework is unique in that it integrates the best approaches from all the major fields that have cost management interest. There are many other possible uses of TCM Framework – e.g. the Framework defines key concepts and terminology and provides illustrations that can aid communication cost management and cost engineeringpractioners. This is particularly important because Cost Management is practical in a myriad of enterprises such as manufacturing, software development etc. Companies and skilled cost engineering practioners and cost management professionals that are looking for better ways to tie their disperate cost functions and asset management into effective system will find that TCM Framework structure and value to their efforts. In addition to, the TCM Framework also provides a conceptual process model on which Cost Management professionals can benchmark or pattern cost management work process and practices with their enterprises.

06

Question No. 5**(a) KamilRayan Mills Limited:**

07

The following observation and conclusion may be given by the Cost Auditor of KamilRayan Mills Limited based on the information/ cost data and his review of cost audit and making relevant necessary assumptions.

- (i) The profit of the company declined by Rs. 360,000 in the year 2017 as compared to the year 2017. This may be due to the following reasons.
 - Production during the year 2017 has decreased by 40,000 Metric Ton. Perhaps this is due to under utilization of capacity which comes from 89% to 83 % i.e. 6% lesser utilization capacity. It may also due to short power supply.
- (ii) Based on further analysis and scrutiny of cost records, it is noted that cost of production/ M.T has been increased.
- (iii) It has come to light that price of the product of the company in the market has been declined. There may be because of stiff competition.
- (iv) The consumption of electricity in terms of KWH / M.T of output has increased from 4.01 in 2016 to 4.11 in 2017. This is serious matter which needs inquiry and investigation and necessary action is required to be initiated.
- (v) There is increase in salary & wages by Rs.76,000. This may be due to increments, promotion; It is also due to more appointment, which requires justification on economic consideration.

COST ACCOUNTING RECORDS AND AUDIT [P3] – PROFESSIONAL LEVEL**Marks****(b)** Criteria for the appointment of Cost Auditors by Companies:

07

The securities & Exchange Commission of Pakistan, has specified the following criteria for the appointment of Cost Auditors by the Company, through Circular No. 17 of 2014 August 7, 2014 issued under rule 03 of the Companies (Audit of Cost Accounts) Rules 1998.

- (i) Following documents and information to the Commission along with Appendix 'I' of Rules, 1998.
- (ii) Recommendation of three names of Cost & Management Accountants or Chartered Accountants for consideration preferring one of them for appointment as Cost Auditor along with reasons of selection for the respective record.
- (iv) Valid copies of Certificate of Practice issued by ICMA or ICAP of individual and/or engagement partner.
- (v) Affidavit required under rule 30 of the Companies (General Provisions and Forms) Rules, 1985.
- (vi) Original paid challan on account of application processing fee under Sixth Schedule of the Ordinance.
- (vii) Application to be signed by the Chief Executive of the Company.
- (viii) Submit application along with the above documents and information to the Commission not later than thirty days before the date on which cost auditor is to be appointed.

Question No. 6**(a)** Elements of System of Quality control. (Any five-one mark each)

05

Under Para 16 of International Standards on Quality Control – (ISQC – 1), the CMA firms shall establish and maintain a system of quality control that includes policies and procedures that address each of the following

- (i) Leadership responsibilities for quality within the firm.
- (ii) Relevant ethical requirements.
- (iii) Acceptance and continuance of client relationships and specific engagements.
- (iv) Human resources.
- (v) Engagement performance.
- (vi) Monitoring.

(b) (i) Scope of framework of QCR Program – 2014:

06

This Framework applies to all Cost Accountancy Firms and Practicing CMAs holding certificate of Practice from ICMA, carrying out audits of financial statements, cost audit, special statutory audit, tax audits, public sector audits and review of historical financial information and other assurance and related service engagements having proper authority from a professional, legal or regulatory body.

(ii) Objective of QCR Program:

- To establish policies and procedures for the QCR, that assures that firm carrying audits in accordance with the professional standards as applicable in Pakistan and adopted by ICMA.
- To establish appropriate Quality Control Review and monitoring mechanism, including issuance of standards, directives and guidelines in relation to audit practice carried out by the firms in public interest and to comply on Quality Control issued by IFAC.

COST ACCOUNTING RECORDS AND AUDIT [P3] – PROFESSIONAL LEVEL**Marks**

(c) The Sugar Industry should keep cost accounting records of the following as per Schedule-I under Para 2(1) of the Sugar Industry (Cost Accounting Records) Order, 2001 for each financial year of the Company.

(i) **Process Material:**

03

Adequate records shall be maintained to show the receipts, issues and balances, both in quantities and costs of each items of the process material such as lime, sulphur, phosphate, caustic soda, filter cloth and other chemicals. The cost shall include all direct charges upto works, wherever specifically incurred. The issues of material shall include properly be identified with the departments or cost elements.

(ii) **Federal Excise Duty:**

02

Adequate records of federal excise duty paid and the rebate claimed or earned in case of allowance for excess production or export of sugar shall be maintained along with the record of white refined sugar manufactured. Calculation for rebate shall be worked out through formula prescribed by the government. The working of adjustment or claim if any, shall also be shown.

THE END