

**Mock Test Paper - Series II: April, 2026**

**Date of Paper: 8<sup>th</sup> April, 2026**

**Time of Paper: 10 A.M. – 1 P.M.**

**INTERMEDIATE: GROUP – II**

**PAPER – 4: COST AND MANAGEMENT ACCOUNTING**

*Answers are to be given only in English except in the case of the candidates who have opted for Hindi medium. If a candidate has not opted for Hindi medium his/ her answer in Hindi will not be valued.*

*Working notes should form part of the answer.*

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Case Scenario based Multiple Choice Questions (MCQs) for 30 marks
3. Part II comprises questions which require descriptive type answers for 70 marks.

**PART I – Case Scenario based MCQs**

**Part I is compulsory.**

**Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.**

**Case Scenario 1**

In a factory, both direct and indirect employees are entitled to production bonus in accordance with a group incentive scheme, the outline of which is as follows:

- (a) For any production in excess of the standard production which is fixed at 22,400 tonnes per month (of 28 days), a general incentive of ₹ 2,000 per tonne is to be paid in aggregate. The amount payable to each separate group of employees is determined based on an assumed percentage of such excess production being contributed by them which is as follows:

<b>Employee Group</b>	<b>% Contribution in excess production over standard</b>
Direct Employee	60%
Inspection Staff	20%
Maintenance Staff	15%
Supervisory Staff	5%

- (b) Moreover, if the excess production (without considering rejections) is more than 15% above the standard, the direct employees also get a special bonus @ ₹ 400 per tonne for all production in excess of 115% of standard production.
- (c) Inspection staff are penalised @ ₹ 2,500 per tonne for rejection by customers in excess of 3% of production.
- (d) Maintenance staffs are also penalised @ ₹ 2,500 per hour for machine breakdown.
- (e) Actual working days are 25 days in a month.
- (f) Actual production achieved during the month is 27,000 tonnes, of which the customers have rejected 1,000 tonnes.
- (g) Machine breakdown (in 25 days) : 75 hours

On the basis of above Case Scenario, you are required to answer the following MCQs 1 to 5:

1. What is the percentage of excess production to standard production?
  - (A) 20%
  - (B) 15%
  - (C) 35%
  - (D) 45%
2. What will be the general incentive to Direct Employees, Inspection Staff, Maintenance Staff & Supervisory Staff?
  - (A) ₹ 55,20,000, ₹ 18,40,000, ₹ 13,80,000 & ₹ 4,60,000 respectively.
  - (B) ₹ 84,00,000, ₹ 28,00,000, ₹ 21,00,000 & ₹ 7,00,000 respectively.
  - (C) ₹ 55,20,000, ₹ 18,40,000, ₹ 21,00,000 & ₹ 7,00,000 respectively.
  - (D) ₹ 84,00,000, ₹ 28,00,000, ₹ 13,80,000 & ₹ 4,60,000 respectively.
3. What will be the special bonus to Direct Employees?
  - (A) ₹ 28,00,000
  - (B) ₹ 12,00,000
  - (C) ₹ 16,00,000
  - (D) ₹ 15,00,000

4. What will be the amount of penalty that is to be imposed on the Inspection Staff and the Maintenance Staff?
- (A) ₹ 4,75,000 & ₹ 1,87,500 respectively  
(B) ₹ 1,87,500 & ₹ 4,75,000 respectively  
(C) ₹ 7,45,000 & ₹ 1,87,500 respectively  
(D) ₹ 4,75,000 & ₹ 1,78,500 respectively
5. What will be the aggregate production bonus (net of penalty) earned by Direct Employees, Inspection Staff, Maintenance Staff & Supervisory Staff?
- (A) ₹ 1,40,00,000  
(B) ₹ 1,33,37,500  
(C) ₹ 1,24,00,000  
(D) ₹ 1,49,37,500
- (5 x 2 = 10 Marks)**

**Case Scenario 2**

A company, ABC Professional Services Ltd., is organizing a one-day corporate training workshop as part of its annual employee development program. The objective is to improve managerial efficiency, team coordination, and leadership skills of its employees.

The workshop will be conducted at a premium venue, and may include interactive sessions, guest lectures, and team-building activities.

Due to uncertainty in the number of participants, management wants to evaluate costs at different activity levels using a flexible budgeting approach.

The company plans to conduct the workshop for different numbers of participants. Each training batch can accommodate a maximum of 50 participants. Two trainers will be engaged for each batch.

The company will pay an honorarium of ₹1,000 per trainer. It will also hire the required number of venue and equipment setup.

The following are the other cost estimates:

Particulars	Cost per participant (₹)
Breakfast	80
Lunch	200
Evening Snacks	70
Training Material Kit	150

**Other Costs**

<b>Particulars</b>	<b>Amount</b>
Hall rent	₹8,000 per batch
Equipment charges	₹2,000 per batch
Guest speaker fees	₹10,000
Event coordination charges	₹5,000

Other information

- No costs are incurred in respect of trainers except the honorarium of ₹ 1,000 per trainer.
- If the number of participants exceeds 100, an additional lump-sum supervision cost of ₹ 3,000 will be incurred.
- A discount of 10% on hall rent will be available more than 3 batches are hired.

Management asked you to prepare a flexible budget and answer the following questions (MCQs 6 to 10):

6. What is the total cost and average cost per participant if there is 40 participants?  
(A) Total Cost ₹ 47,000; Avg ₹ 1,175  
(B) Total Cost ₹ 35,000; Avg ₹ 875  
(C) Total Cost ₹ 37,000; Avg ₹ 925  
(D) Total Cost ₹ 40,000; Avg ₹ 1,000
7. What is the total cost and average cost per participant if there is 80 participants?  
(A) Total Cost ₹ 69,000; Avg ₹ 862.5  
(B) Total Cost ₹ 65,000; Avg ₹ 812.5  
(C) Total Cost ₹ 75,000; Avg ₹ 937.5  
(D) Total Cost ₹ 79,000; Avg ₹ 987.5
8. What is the total cost and average cost per participant if there is 120 participants?  
(A) Total Cost ₹ 1,14,000; Avg ₹ 950  
(B) Total Cost ₹ 1,05,000; Avg ₹ 875  
(C) Total Cost ₹ 1,08,000; Avg ₹ 900  
(D) Total Cost ₹ 1,00,000; Avg ₹ 833

9. What is the total cost and average cost per participant if there is 180 participants?
- (A) Total Cost ₹ 1,45,000; Avg ₹ 805.5
  - (B) Total Cost ₹ 1,50,000; Avg ₹ 833.3
  - (C) Total Cost ₹ 1,52,800; Avg ₹ 848.9
  - (D) Total Cost ₹ 1,38,000; Avg ₹ 766.7
10. What will be your conclusions regarding the break-even level of participants, if the company proposes to charge ₹850 per participant?
- (A) 90 participants
  - (B) 180 participants
  - (C) 110 participants
  - (D) 125 participants
- (5 x 2 = 10 Marks)**

11. A manufacturer of industrial fasteners produces high-strength bolts. Last year, they sold 35,000 bolts at a price of ₹ 50 each. Their total fixed cost was ₹ 7,50,000 (including ₹ 2,50,000 depreciation on machinery) incurred uniformly throughout the year. There was no inventory at the beginning and all bolts produced during the year were shipped out, resulting in no inventory at the end of the year. The company's cash break-even point is 20,000 bolts.

**Calculate the amount of total variable costs incurred.**

- (A) ₹ 8,57,000
  - (B) ₹ 8,75,000
  - (C) ₹ 4,37,500
  - (D) ₹ 4,73,500
- (2 Marks)**
12. In a workshop, there is a standard requirement of 30 labour hours for producing a wooden toy. The standard wage rate is set at ₹ 20 per hour. In January 2025, the workshop successfully produced 1,000 wooden toys. The payroll records show that 22,800 labour hours were paid including 500 idle hours caused by a temporary power outage. The labour rate variance for the month was ₹ 15,960 (Favourable).

**Calculate total actual labour cost incurred in the month of January 2025.**

- (A) ₹ 4,40,040
  - (B) ₹ 4,40,140
  - (C) ₹ 4,40,240
  - (D) ₹ 4,30,040
- (2 Marks)**

13. Product Y yields two by-products A and B. The joint cost of manufacture is ₹ 2,00,000. Sales of A and B are ₹ 80,000 and ₹ 50,000 respectively. Manufacturing expenses after separation of A and B are ₹ 10,000 and ₹ 8,000 respectively while their respective estimated selling expenses on sales is 20% for both products. The estimated profit on sales of A and B is 25% and 30% respectively. What is the cost of product Y after adjusting joint cost apportioned to by-products A and B?

- (A) ₹ 1,50,000
- (B) ₹ 1,49,000
- (C) ₹ 1,82,000
- (D) ₹ 1,20,000

**(2 Marks)**

14. A company manufactures a product with a monthly demand of 2,000 units. Each unit costs ₹ 50 to produce, and the setup cost per batch is ₹ 3,000. The company incurs a storage cost of ₹ 2 per unit per month and applies an annual interest rate of 18% on capital tied up in inventory. The finished goods are stored for an average of 2 months before being sold.

Considering both storage cost and opportunity cost based on the average inventory holding period, what is the Economic Batch Quantity (EBQ)?

- (A) 2,376 units
- (B) 1,095 units
- (C) 1,200 units
- (D) 1,400 units

**(2 Marks)**

15. XYZ Ltd. manufactures a single product 'Z'. The company by using traditional costing method absorbs all production overheads based on machine hours. The machine hour rate of overheads is ₹ 50 per hour. Actual production overhead incurred were ₹ 12,00,000 (including ₹ 1,30,000 on account of written off obsolete stores and ₹ 75,000 wages being paid for the strike period). Actual machine hours worked during the year were 18,500 hours.

Calculate the amount of under-absorption of production overheads during the year.

- (A) ₹ 70,000
- (B) ₹ 2,75,000
- (C) ₹ 1,45,000
- (D) ₹ 2,00,000

**(2 Marks)**

**PART-II – Descriptive Questions (70 Marks)**

*Question No. 1 is compulsory.*

*Attempt any **four** questions out of the remaining **five** questions.*

1. (a) Alpha Tech Industries Pvt. Ltd. is a mid-sized company that manufactures electronic components for solar inverters. In the financial year 2024, the company produced 10,000 units of its flagship controller unit. Due to rising demand for renewable energy products, the company is planning to scale operations in 2025.

Below are the actual production costs for the year 2024:

<b>Particulars</b>	<b>Amount (₹)</b>
Direct Material Consumed	15,00,000
Direct Labour (Wages)	9,00,000
Factory Overheads:	
- Fixed Overheads (Depreciation, Salaries, etc.)	4,50,000
- Variable Overheads (Utilities, Consumables)	3,00,000
Total Production Cost (2024)	31,50,000

Due to a long-term supply contract and growing market demand, the company is planning the following changes in 2025:

1. Target production will rise due to the addition of a second shift and hiring of 50% more factory workers.
2. Due to the higher number of new hires and training time, the overall efficiency is expected to drop by 15%.
3. Cost Adjustments:
  - The company signed a new bulk procurement deal, reducing direct material costs by 8%.
  - Due to inflation and increased scale, variable overheads are expected to increase by 70%.
  - Fixed overheads (including salaries, rent, etc.) will rise by 10% due to new administrative hires and expansion.
4. Alpha Tech wants to maintain a 12.5% profit margin on selling price in 2025 to remain competitive and cover expansion-related risks.

ASCERTAIN the cost of production and selling price.

**(5 Marks)**

(b) The following details are available of Process X for August 2025:

(1)	Opening work-in-progress	8,000 units
	Degree of completion and cost:	
	Material (100%)	₹ 63,900
	Labour (60%)	₹ 10,800
	Overheads (60%)	₹ 5,400
(2)	Input 1,82,000 units at	₹ 7,56,900
(3)	Labour paid	₹ 3,28,000
(4)	Over heads incurred	₹ 1,64,000
(5)	Units scrapped	14,000
	Degree of completion:	
	Material	100%
	Labour and overhead	80%
(6)	Closing work-in-process	18000 units
	Degree of completion:	
	Material	100%
	Labour and overhead	70%
(7)	1,58,000 units were completed and transferred to next process.	
(8)	Normal loss is 8% of total input including opening work-in-process	
(9)	Scrap value is ₹ 8 per unit to be adjusted in direct material cost	

You are required to COMPUTE, assuming that average method of inventory is used:

- (i) Equivalent production, and
- (ii) Cost per unit **(5 Marks)**

(c) Fruit Ltd. produces “Mango Burst”, a popular beverage. It is reviewing their material costs for the month of March, 2025.

Following data is available :

- (i) Standard cost: Each bottle of “Mango Burst” should use 0.5 kg. of mangoes, costing ₹ 30 per kg.

- (ii) Actual production: 50,000 bottles of “Mango Burst”.
- (iii) Actual material usage: 26,000 kgs of mangoes.
- (iv) Actual material cost: The total cost of the mangoes used was ₹ 7,67,000.

You are required to CALCULATE:

- (i) Material Price Variance
- (ii) Material Usage Variance
- (iii) Material Cost Variance **(4 Marks)**

2. (a) GreenLeaf Furniture Ltd., a small but rapidly growing manufacturer of bespoke wooden furniture, has prepared its operating budget for the forthcoming year (figures in ₹000s). The company supplies premium handcrafted items to interior designers, boutique resorts, and high-end retail outlets. Due to rising demand for sustainable and custom-made furniture, GreenLeaf has recently expanded its workshop capacity, although it still operates close to full utilisation during peak months. The annual budget reflects management’s efforts to control costs while maintaining craftsmanship standards, and it serves as the basis for setting selling prices, estimating profitability, and negotiating large contracts for the year.

Particulars	Amount (₹000)
Budgeted Sales revenue	2,000
Direct materials	360
Direct labour	640
Factory overheads — Variable	220
Factory overheads — Fixed	260
Administration overheads — Fixed	180
Sales commission (variable)	100
Fixed selling overheads	40
Budgeted Profit	200

Company pricing policy: all production and selling overheads other than prime costs (i.e., everything except direct materials and direct labour) are recovered as a percentage of direct wages. After total cost is computed, the company adds a markup equal to one-ninth (1/9) of total cost to arrive at the selling price (this markup is intended to give the budgeted profit).

Situation: A boutique lakeside hotel approaches GreenLeaf directly to place a one-off order for a set of custom dining tables. Because the client is buying directly

(no dealer commission) and the order will be produced in addition to the budgeted output, GreenLeaf estimates the extra prime costs for the special order as follows:

- Direct materials: ₹ 45,000
- Direct labour: ₹ 75,000

Using its standard pricing policy, GreenLeaf prepared a quotation of ₹ 2,37,500 for the special order. The hotel, however, says it can only pay ₹ 1,80,000 and asks whether GreenLeaf will accept that price.

Management is reluctant to accept any order below the company's calculated total cost because they believe this will cause a loss.

Required:

1. STATE and EXPLAIN the arguments for and against accepting the hotel's offer of ₹ 180,000 for the special order. Consider:
  2. Provide a clear RECOMMENDATION to the management (accept / reject / accept with conditions). **(7 Marks)**
- (b) *Skyline Travels Pvt. Ltd.*, a New Delhi-based cab rental company, offers transportation services to tourists across major destinations including Delhi, Lucknow, and Ayodhya. With the objective of enhancing its customer base and attracting more tourists, the company has recently introduced an exclusive four-day tour package covering the route Delhi-Lucknow-Ayodhya-Delhi. This package is designed to provide a seamless and comfortable travel experience, combining convenience with cost-effectiveness. The management has compiled relevant operational and cost-related information pertaining to this package to evaluate its feasibility, pricing strategy, and profitability.

Distance Delhi to Lucknow (Km.)	555
Distance between Lucknow to Ayodhya (Km.)	135
Distance between Ayodhya to Delhi (Km.)	690
Price of diesel in Delhi	₹ 89 per litre
Price of diesel in Lucknow	₹ 92 per litre
Price of diesel in Ayodhya	₹ 93 per litre
Mileage of cab per litre of diesel (Km.)	18
Chauffeur's salary	₹ 18,000 per month
Cost of the cab	₹ 14,50,000

Expected life of the cab	3,00,000 kms.
Servicing cost	₹ 45,000 after every 40,000 kilometres run.
Chauffeur's meal allowance	₹ 120 for every 200 kilometres of completed journey
Other set up and office cost	₹ 6,000 per month.

Skyline Travels Pvt. Ltd. has entered tie-ups with fuel service centres at Delhi, Lucknow, and Ayodhya to facilitate diesel refilling for its cabs through a fuel passbook system. As per company policy, fuel is filled only to the extent required to reach the next destination.

You are required to COMPUTE the package price (inclusive of GST @ 5%) to be quoted for the four-day Delhi-Lucknow-Ayodhya-Delhi tour, assuming that the company desires to earn a profit of 25% on its net takings (i.e., excluding GST). Take 30 days in a month. **(7 Marks)**

3. (a) ZED Limited is working by employing 50 skilled workers, it is considering the introduction of incentive scheme-either Halsey scheme (with 50% bonus) or Rowan scheme of wage payment for increasing the labour productivity to cope up the increasing demand for the product by 40%. It is believed that proposed incentive scheme could bring about an average 20% increase over the present earnings of the workers; it could act as sufficient incentive for them to produce more.

Because of assurance, the increase in productivity has been observed as revealed by the figures for the month of April, 2025.

Hourly rate of wages (guaranteed)	₹ 30
Average time for producing one unit by one worker at the previous performance (This may be taken as time allowed)	1.975 hours
Number of working days in the month	24
Number of working hours per day of each worker	8
Actual production during the month	6,120 units

Required:

- (i) CALCULATE the effective rate of earnings under the Halsey scheme and the Rowan scheme.

- (ii) CALCULATE the savings to the ZED Limited in terms of direct labour cost per piece.
- (iii) ADVISE ZED Limited about the selection of the scheme to fulfill their assurance. **(6 Marks)**

(b) Stellar Equipments Pvt. Ltd. manufactures advanced renewable-energy control modules used in solar and wind-power systems. During the financial year ending 31<sup>st</sup> March 2025, the company upgraded its testing laboratory, strengthened quality assurance, and revised its overhead absorption methods. The following financial data has been extracted from the company's financial books:

Opening Stock

- Finished Goods: 1,050 units — ₹ 1,31,250
- Work-in-Process — ₹ 46,500

**Expenses for the Year (01.04.2024 to 31.03.2025)**

Particulars	Amount (₹)
Raw Materials Consumed	9,60,000
Direct Labour	6,10,000
Factory Overheads	3,45,000
Goodwill Written Off	1,20,000
Administrative Overheads	4,10,000
Interest Paid	96,000
Bad Debts	35,000
Selling & Distribution Overheads	88,000
Loss on Obsolete Inventory	42,000
Interest Received	27,000
Rent Received	96,000

Sales

- Units Sold: 18,700 units
- Total Sales: ₹ 26,18,000

Closing Stock

- Finished Goods: 620 units — ₹ 82,160
- Work-in-Process — ₹ 59,400

The cost records provide as under:

1. Factory overheads are absorbed at 50% of direct wages.
2. Administration overheads are recovered at 18% of factory cost.
3. Selling & Distribution overheads are charged at ₹ 6 per unit sold.
4. Opening Stock of Finished Goods is valued at ₹ 125 per unit under cost accounts.
5. Work-in-Process is valued at factory cost in both financial and cost records.
6. Loss on obsolete inventory is treated as abnormal loss and excluded from cost accounts.

You are required to:

- (i) PREPARE statements for the year ended 31st March 2025 showing:
    - Profit as per Financial Records
    - Profit as per Costing Records
  - (ii) PREPARE a Reconciliation Statement between the profit as per Cost Accounts and the profit as per Financial Accounts. **(8 Marks)**
4. (a) ABC Steel Ltd has its own Captive Power Generation Unit, which has two users, Rolling Mill Department and Finishing Department. When the plans were prepared for the power plant, top management decided that its practical capacity should be 2,00,000 machine hours. Annual budgeted practical capacity fixed costs are ₹ 15,00,000 and budgeted variable costs are ₹ 5 per machine-hour. The following data are available:

	Rolling Mill Department	Finishing Department	Total
Actual Usage in 2025-26 (Machine hours)	65,000	45,000	1,10,000
Practical capacity for each department (Machine hours)	1,10,000	90,000	2,00,000

Required

- (i) ALLOCATE the Power Generation Unit cost to the rolling mill and the finishing department using a single rate method in which the budgeted rate is calculated using practical capacity and costs are allocated based on actual usage.

- (ii) ALLOCATE the Power Generation Unit cost to the rolling mill and the finishing department, using the dual -rate method in which fixed costs are allocated based on practical capacity and variable costs are allocated based on actual usage.
- (iii) ALLOCATE the Power Generation Unit cost to the rolling mill and the finishing department using the dual-rate method in which the fixed-cost rate is calculated using practical capacity, but fixed costs are allocated to the cutting and welding department based on actual usage. Variable costs are allocated based on actual usage.
- (iv) COMMENT on your results in requirements (i), (ii) and (iii). **(9 Marks)**
- (b) "Calculation of variances in standard costing is not an end in itself, but a means to an end." DISCUSS. **(5 Marks)**
- 5. (a) M/s Nova Private Limited has a normal production capacity of 48,000 units of toys per annum. The estimated costs of production are as under:
  - (i) Direct Material ₹ 55 per unit
  - (ii) Direct Labour ₹ 32 per unit (subject to a minimum of ₹ 84,000 p.m.)
  - (iii) Factory Overheads:
    - (a) Fixed ₹ 4,80,000 per annum
    - (b) Variable ₹ 14 per unit
    - (c) Semi-variable ₹ 1,50,000 per annum up to 60% capacity and additional ₹ 60,000 for every 20% increase in capacity or proportionately.
  - (iv) Administrative Overheads related to factory ₹ 6,72,000 per annum (fixed)
  - (v) Selling overheads are incurred at ₹ 10 per unit.
  - (vi) Each unit of raw material yields scrap which is sold at the rate of ₹ 7 per unit.
  - (vii) In year 2025, the factory worked at 60% capacity for the first four months but it was expected that it would work at 90% capacity for the remaining eight months.
  - (viii) During the first four months, the selling price per unit was ₹ 180.

You are required to:

- (i) Prepare a cost sheet showing Prime Cost, Works Cost, Cost of Production and Cost of Sales.
  - (ii) Calculate the selling price per unit for remaining eight months to achieve the total annual profit of ₹ 15,60,000. **(8 Marks)**
- (b) XYZ Engg. Ltd. manufactures two types of specialized components Alpha and Beta.

Following data pertains to their operations for the month of October 2024:

Component	Units produced and sold	Direct material cost per unit (₹)	Direct labour cost per unit (₹)
Alpha	8,000	25	18
Beta	12,000	15	12

Activity	Cost Driver	Alpha	Beta	Total Overhead Cost
Material Handling	Purchase Orders	30 Orders	20 Orders	₹ 60,000
Production Set-up	Machine Set-ups	80 Set-ups	100 Set-ups	₹ 1,44,000

**You are required to:**

- (i) CALCULATE the cost driver rates for each overhead activity.
  - (ii) CALCULATE the total cost and cost per unit of producing and selling each component using Activity-Based Costing (ABC).
  - (iii) Use ABC data calculated above and ANALYSE, whether outsourcing the production set-up for Alpha would be financially advantageous, if a specialized firm has offered to do production set-up at a contract price of ₹ 600 per machine set-up. **(6 Marks)**
6. (a) STATE cost unit of the following Industry Sector:

Industry Sector	Cost Unit
Oil	
Professional services	
Education	

Brick-making	
Education	
Brick-making	
Engineering	
Electricity	
Hotel/Catering	
Coal mining	
Brewing	
Hospitals	

**(5 Marks)**

- (b) DESCRIBE Unit Costing and Batch Costing. GIVE three examples of industries for each method where these are used. Also, EXPLAIN the costing procedure in batch costing. **(5 Marks)**
- (c) DESCRIBE briefly idle time and explain the treatment of idle time in cost accounts in following situations:
- (i) The setting up time for the machine in case of Direct Worker Mr. A.
  - (ii) Normal break time for lunch in case of Indirect Worker Mr. B.
  - (iii) Time lost due to breakdown of machine in case of Worker Mr. C.

**(4 Marks)**

**OR**

- (c) DISCUSS Feedback Control and Feedforward Control system of budgetary control. **(4 Marks)**