

Mock Test Paper - Series II: August, 2026

Date of Paper: 14th August 2026

Time of Paper: 10 AM - 1 PM

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 evaluated.

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

Sunrise Oil Mills Ltd. is engaged in refining crude vegetable oil into multiple marketable products. During the refining process, a single manufacturing operation results in the simultaneous production of four joint products—AOXE, BOXE, COXE, and DOXE. Up to the point where these products become separately identifiable (known as the split-off point), the company incurs common manufacturing costs that cannot be traced to any individual product. These costs are therefore treated as joint costs.

For the quarter ending 31 March 2026, the company incurred a total joint processing cost of ₹ 1,48,000 up to the split-off point. After separation, management has the option of either selling the products immediately at the split-off point or carrying out additional processing to enhance their quality, increase their market value, and sell them as finished products.

The production, additional processing costs, and final sales values after further processing for the quarter are summarized below:

Product	Output (Liters)	Additional Processing Cost after split off (₹)	Final Sales Value (₹)
AOXE	8,000	43,000	1,72,500
BOXE	4,000	9,000	15,000
COXE	2,000	–	6,000
DOXE	4,000	1,500	45,000

The production manager has informed the finance department that all four products could alternatively be sold immediately at the split-off point, thereby avoiding any further processing costs. Based on prevailing market conditions, the estimated selling prices at the split-off point are as follows:

Product	Selling Price at Split-off (₹ per Liter)
AOXE	15.00
BOXE	6.00
COXE	3.00
DOXE	7.50

The finance manager has been asked to evaluate the profitability of the products under different joint cost allocation methods and to determine whether the additional processing undertaken after the split-off point is economically justified. Management is particularly interested in comparing allocations based on physical output, sales value at split-off, and net realizable value (NRV), as well as assessing the incremental revenues and incremental costs associated with further processing.

Assume that all units produced during the quarter were sold and that there are no opening or closing inventories. Unless otherwise stated, ignore taxes and other indirect costs.

Based on the above information, answer the following questions (MCQ 1 to 5):

1. Which product is loss making if they are sold after further processing
 - (a) AOXE
 - (b) BOXE
 - (c) COXE
 - (d) DOXE.

2. If all the products are sold after further processing, if possible, what is the total profit or loss?
- (a) ₹ 37,000 Profit
 - (b) ₹ 50,733 Profit
 - (c) ₹ 37,000 Loss
 - (d) ₹ 50,733 Loss
3. What is the ratio of share in the joint costs, if Joint costs are allocated on the basis of Sales Value at split off point
- (a) 115:10:4:30.
 - (b) 4:3:2:1
 - (c) 20:4:1:5
 - (d) 10:4:2:5.
4. If product BOXE is sold at split off point, what is the total profit or loss on BOXE?
- (a) ₹ 1,067 Profit
 - (b) ₹ 5,333 Profit
 - (c) ₹ 4,267 Loss
 - (d) ₹ 4,267 Profit
5. If optimum profit is achieved, what is the total profit?
- (a) ₹ 37,000 Profit
 - (b) ₹ 32,000 Profit
 - (c) ₹ 55,000 Profit
 - (d) ₹ 50,733 Profit
- (5 x 2 = 10 Marks)**

Case Scenario - 2

The HomeMart is the latest trending brand offering home improvement appliances with broadest selection of products with highly competitive prices. The sale is increasing year by year with huge multiples. Current year also the sales reached triple the last year. The reason being company having good customer support where it provides after sales assistance over phone

per item sold. Though it costs only Re. 1 per item sold to the company, it enhanced to ₹ 49,15,200 last year making a huge impact on the total support cost.

All the company's appliances have been majorly categorised into three product lines namely Fancy fans, Home decors, Assembled furniture. During the current year, the company's revenue as generated is ₹ 3,80,88,000, ₹ 10,08,28,800 and ₹ 5,80,75,200 respectively. However, the cost of goods sold is ₹ 2,88,00,000, ₹ 7,20,00,000 and ₹ 4,32,00,000 respectively.

In business, there's a saying "The packaging sells the product the first time, but what's inside sells the product a second time". Following the saying, the company has the policy of taking back the cartons of the products sold relating to Fancy fans to reduce the packaging cost. However, for smooth returning of cartons, the company has to incur certain carrier cost on its own which is ₹ 5,76,000 for the current year and allocating the same directly to the said product.

Some other information relating to each of the product lines is provided below:

	Fancy fans	Home decors	Assembled furniture
Items sold	12,09,600	1,05,98,400	29,37,600
Number of deliveries received	600	4,380	1,320
Number of purchase orders placed	720	1,680	720
Hours of shelf-stocking time	1,080	10,800	5,400

The company also provides the following basis of cost allocation:

Activity	Description of activity	Total Cost	Cost-allocation base
Delivery	Physical delivery and receipt of products	1,20,96,000	6,300 deliveries
Ordering	Placing of orders for purchases	74,88,000	3,120 purchase orders
Shelf stocking	Stocking of products in warehouse	82,94,400	17,280 hours of shelf-stocking time

The company wants you to FIGURE OUT the following to ascertain which of the product line is more profitable and answer the following question (MCQ 6 to 10):

6. The total support cost and its percentage to the cost of goods sold would be:
- ₹ 3,33,69,600 and 23.17%
 - ₹ 4,32,00,000 and 30%
 - ₹ 3,33,69,600 and 30%
 - ₹ 4,32,00,000 and 23.17%

7. Operating income as a percentage of revenues of each product line, namely Fancy fans, Home decors, Assembled furniture, when all the support costs are allocated on the basis of cost of goods sold would be:
 - (a) 6.87%, 12.05% and 8.38% respectively
 - (b) 12.05%, 6.87% and 8.38% respectively
 - (c) 1.70%, 7.17% and 3.30% respectively
 - (d) 7.17%, 3.30% and 1.70% respectively
8. The cost driver rate relating to Delivery, Ordering, Shelf stocking and Customer support would be:
 - (a) Delivery- ₹ 1,920 per delivery, Ordering- ₹ 2,400 per purchase order, Shelf stocking- ₹ 480 per stocking hour and Customer support- Re. 1 per item sold
 - (b) Delivery- ₹ 2,400 per delivery, Ordering- ₹ 1,920 per purchase order, Shelf stocking- ₹ 480 per stocking hour and Customer support- Re. 1 per item sold
 - (c) Delivery- ₹ 1,920 per delivery, Ordering- ₹ 2,400 per purchase order, Shelf stocking- ₹ 480 per stocking hour and Customer support- ₹ 3 per item sold
 - (d) Delivery- ₹ 480 per delivery, Ordering- ₹ 2,400 per purchase order, Shelf stocking- ₹ 1,920 per stocking hour and Customer support- ₹ 3 per item sold
9. Operating income of each product line, namely Fancy fans, Home decors, Assembled furniture, when all the support costs are allocated using an activity-based costing system would be:
 - (a) ₹ 16,84,800, ₹ -2,05,92,000 and ₹ -7,92,000 respectively
 - (b) ₹ 3,64,03,200, ₹ 12,14,20,800 and ₹ 5,88,67,200 respectively
 - (c) ₹ 92,88,000, ₹ 2,88,28,800 and ₹ 1,48,75,200 respectively
 - (d) ₹ 41,04,000, ₹ 6,04,800 and ₹ 50,83,200 respectively
10. Operating income as a percentage of revenues of each product line, namely Fancy fans, Home decors, Assembled furniture, when all the support costs are allocated using an activity-based costing system would be:
 - (a) 4.42%, -20.42% and -1.36% respectively
 - (b) 10.78%, 0.60% and 8.75% respectively

(c) 24.39%, 28.59% and 25.61% respectively

(d) 4.39%, 8.59% and -1.36% respectively **(5 x 2 = 10 marks)**

11. Mr. A works in a manufacturing company where he is paid bonus according to the Halsey 50% plan, besides the normal wages. The relevant data is as below:

Time Rate (per hour)	₹ 100
Time allowed	10 hours
Time taken	5 hours
Time saved	5 hours

Mr. A believes that his bonus under Halsey system is getting reduced by 50%, thus intending to shift towards Rowan Premium Plan.

You are required to CALCULATE the total earnings of Mr. A as per Halsey plan and Rowan Premium plan & ENUMERATE the reason for difference in both the earnings.

- (a) Total earnings as per Halsey plan- ₹ 500 and as per Rowan Premium plan- ₹ 750. Earnings under Halsey Plan is lower than that of Rowan Premium plan as the bonus is getting reduced by 50%.
- (b) Total earnings as per Halsey plan- ₹ 750 and as per Rowan Premium plan- ₹ 500. Earnings under Rowan Premium plan is lower than that of Halsey plan as the actual time taken is 50% of the time allowed.
- (c) Total earnings as per Halsey plan- ₹ 750 and as per Rowan Premium plan- ₹ 750. When the actual time taken is 50% of the time allowed, the earnings under Halsey and Rowan Plans are equal.
- (d) Total earnings as per Halsey plan- ₹ 250 and as per Rowan Premium plan- ₹ 250. Total earnings under both the Plans are equal as the time taken under both the plans are same. **(2 Marks)**

12. A hotel has 200 rooms (120 Deluxe rooms and 80 Premium rooms). The normal occupancy in summer is 80% and winter 60%. The period of summer and winter is taken as 8 months and 4 months respectively. Assume 30 days in each month. Room rent of Premium room will be double of Deluxe room. Hotel is expecting a profit of 20% on total revenue, total cost for the year is 2,66,11,200. Calculate the room rent to be charged for Premium room.

- (a) ₹ 450 per room day
- (b) ₹ 900 per room day

- (c) ₹ 380 per room day
(d) ₹ 760 per room day **(2 Marks)**
13. A business manufactures a single product and is preparing its production budget for the year ahead. It is estimated that 2,00,000 units of the product can be sold in the year and the opening inventory is currently 25,000 units. The inventory level is to be reduced by 40% by the end of the year. What is production budget in units?
- (a) 1,95,000 units
(b) 1,90,000 units
(c) 1,84,000 units
(d) 1,75,000 units **(2 Marks)**
14. The following figures are extracted from the books of a company:
Budgeted overheads ₹ 20,000 (Fixed ₹ 12,000, Variable ₹ 8,000)
Budgeted output 2,500 units
Actual Overheads ₹ 21,800 (Fixed ₹ 11,800, Variable ₹ 10,000)
Actual output 3000
Variable Overheads and fixed overheads cost variance will be:
- (a) 400 (A) and 2600 (F)
(b) 400 (A) and 200 (F)
(c) 2000 (A) and 200 (F)
(d) 2000 (F) and 200 (A) **(2 Marks)**
15. Pre-determined factory overhead rate was ₹ 15 per labour hour. Actual labour hour worked 60,000. Actual factory overhead was ₹ 11,00,000 however it includes ₹ 26,000 being the wages paid for strike period and overtime wages amounting to ₹ 9,000. It was observed that 2/3 of the under absorbed were due to inflation and rest were due to faulty planning. The amount of over/under absorbed factory overhead transferred to costing P&L will be:
- (a) 58,000 under-absorbed
(b) 55,000 over-absorbed
(c) 58,000 over-absorbed
(d) 55,000 under-absorbed **(2 Marks)**

PART – II Descriptive Questions

1. (a) In a factory, the average annual charges for direct wages amounts to ₹ 4,80,000. The following are some of the expenses (average figure for a year) incurred inside the factory:

- (a) Works Manager's salary and other emoluments ₹ 50,000.
- (b) Factory rent and rates ₹ 36,000. The total area of the factory is 45,000 sq. ft. of which the shops occupy 40,000 sq. ft.
- (c) Wages of caretakers, sweepers, etc., ₹ 7,000.
- (d) Other factory overhead charges ₹ 53,000.

A work order is executed in a shop occupying 3,000 sq. ft. and costs ₹ 10,000 in wages. If the total wages for all the work orders executed in this shop amount to ₹ 160,000, calculate the total amount of factory overhead charges for this work order. **(5 Marks)**

- (b) Vaibhav Industries Ltd. uses chemical-A in one of its finished products. The chemical-A is purchased from a vendor outside India. The company purchases 36,000 lit. of chemical-A per year at the rate of ₹ 900 per lit. plus import duty@10%on such purchases.

The chemical-A is used evenly throughout the year in the production process on a 360- day-per-year basis. The company incurs ₹ 1, 75,000 on one year agreement for material supply with the vendor and it estimates that ₹ 35,000 will be incurred to place a single purchase order. The chemical-A is needed to be kept in a very carefully controlled temperature and humidity conditions. Vaibhav Industries Ltd. incurs 1.5% and 0.2676% of the value of inventory as storage cost and as insurance cost respectively.

Delivery from the vendor generally takes 12 days, but it can take as much as 16 days. The days of delivery time and percentage of their occurrence are shown in the following tabulation:

Delivery time (days):	12	13	14	15	16
Percentage of occurrence:	70	10	10	5	5

Required:

- (i) Compute the economic order quantity (EOQ).
- (ii) Assume the company is willing to assume a 10% risk of being out of stock. What would be the safety stock? The re-order point?

- (iii) Assume 5% stock-out risk. What would be the total cost of ordering and carrying inventory for one year? **(5 Marks)**

- (c) A company manufactures two products X and Y. Product X requires 8 hours to produce while Y requires 12 hours. In April, 2024, of 22 effective working days of 8 hours a day, 1,200 units of X and 800 units of Y were produced. The company employs 100 workers in production department to produce X and Y. The budgeted hours are 1,86,000 for the year.

You are required to Calculate:

- (i) Capacity Ratio,
(ii) Activity Ratio and
(iii) Efficiency ratio. **(4 Marks)**

2. (a) The following data are available in respect of process I for February:

- i. Opening stock of work-in-progress: 2,400 units at a total cost of ₹ 12000

- ii. Degree of completion of opening work-in-progress:

Materials	100%
Labor	60%
Overhead	60%

- i. Input of materials at a total cost of ₹ 1,10,400 for 27,600 units.

- ii. Direct wages incurred ₹ 50,220

- iii. Production overheads ₹ 25,110

- iv. Units scrapped 3,600 units. The stage of completion of these units.

Materials	100%
Labor	80%
overheads	80%

- v. Closing work-in-progress: 2,700 units. The stage of completion of these units was:

Materials	100%
Labor	70%
overheads	70%

- vi. 23,700 units were completed and transferred to the next process.

- vii. Normal loss is 8% of the total input (opening stock plus units put in)
- viii. Scrap value is ₹ 4 per unit.

You are required to:

- a. Compute equivalent production,
- b. Calculate the cost per equivalent for each element,
- c. Calculate the cost of abnormal loss (or gain), closing work-in-process and the units transferred to the next process using the FIFO method,
- d. Show the process Account for February. **(8 Marks)**

- (b) M/s XY Travels has been given a 25 km. long route to run an air-conditioned Mini Bus. The cost of bus is ₹ 20,00,000. It has been insured @3% premium per annum while annual road tax amounts to ₹ 36,000. Annual repairs will be ₹ 50,000 and the bus is likely to last for 5 years. The driver's salary will be ₹ 2,40,000 per annum and the conductor's salary will be ₹ 1,80,000 per annum in addition to 10% of the takings as commission (to be shared by the driver and the conductor equally). Office and administration overheads will be ₹ 18,000 per annum. Diesel and oil will be ₹ 1,500 per 100 km. The bus will make 4 round trips carrying on an average 40 passengers on each trip.

Assuming 25% profit on takings and considering that the bus will run on an average 25 days in a month, you are required to:

- (i) Prepare operating cost sheet (for the month).
- (ii) Calculate fare to be charged per passenger km. **(6 Marks)**

3. (a) The financial books of a company reveal the following data for the year ended 31st March, 2026:

Opening Stock:	₹
Finished goods 625 units	53,125
Work-in-process	46,000
01.04.2025 to 31.03.2026	
Raw materials consumed	8,40,000
Direct Labour	6,10,000
Factory overheads	4,22,000
Administration overheads	1,98,000

Dividend paid	1,22,000
Bad Debts	18,000
Selling and Distribution Overheads	72,000
Interest received	38,000
Rent received	46,000
Sales 12,615 units	22,80,000
Closing Stock: Finished goods 415 units	45,650
Work-in-process	41,200

The cost records provide as under:

- Factory overheads are absorbed at 60% of direct wages.
- Administration overheads are recovered at 20% of factory cost.
- Selling and distribution overheads are charged at ₹ 2 per unit sold.
- Opening Stock of finished goods is valued at ₹ 120 per unit.
- The company values work-in-process at factory cost for both Financial and Cost Profit Reporting.

(i) Prepare statements for the year ended 31st March, 2026 show

The profit as per financial records

The profit as per costing records.

(ii) Present a statement reconciling the profit as per costing records with the profit as per Financial Records. **(10 Marks)**

(b) Distinguish between:

(i) Casual worker and Outworker

(ii) Job and Batch Costing **(4 Marks)**

4. (a) Following is the standard cost card of a component:

Martials	2 Units at ₹ 15	₹ 30
Labour	3 Hours at ₹ 20	₹ 60
Total overheads	3 Hours at ₹ 10	₹ 30

During a particular month 10,000 units of the component were produced and the same was found to be at 60% capacity of the budget. In preparing the variances report for the month, the cost accountant gathered the following information:

Labour	₹ 6,50,000
Variable overheads	₹ 2,00,000
Fixed overheads	₹ 3,00,000
Material price variance	₹70,000 (A)
Material cost variance	₹ 50,000 (A)
Labour rate variance	₹ 50,000 (F)
Fixed overhead expenditure variance	₹ 50,000 (A)

You are required to prepare from the above details:

- (1) Actual material cost incurred
- (2) Standard cost of materials actually consumed
- (3) Labour efficiency variance
- (4) Variable OH efficiency variance
- (5) Variable OH expenditure variance
- (6) Fixed OH efficiency variance
- (7) Fixed OH capacity variance
- (8) Fixed OH volume variance.

(8 Marks)

- (b) A factory incurred the following expenditure during the year 2025:

		₹
Direct material consumed		12,00,000
Manufacturing Wages		7,00,000
Manufacturing overhead:		
Fixed	3,60,000	
Variable	<u>2,50,000</u>	<u>6,10,000</u>
		<u>25,10,000</u>

In the year 2026, following changes are expected in production and cost of production.

- i. Production will increase due to recruitment of 60% more workers in the factory.
- ii. Overall efficiency will decline by 10% on account of recruitment of new workers.

- iii. There will be an increase of 20% in Fixed overhead and 60% in Variable overhead rate.
- iv. The cost of direct material will be decreased by 6%.
- v. The company desire to earn a profit of 10% on selling price.

Ascertain the cost of production and selling price.

(6 Marks)

5. (a) A laboratory carrying out various tests on products produced by various drug companies to ascertain whether drugs are fit for medical use or not. At present, the laboratory carries out 10,000 tests each year and a survey carried out by the laboratory shows a rise in number of tests to 15,000 tests a year, to carrying out all these tests would require an additional shift to be worked.

The current cost of carrying out a full test is:

	₹ per test
Materials	1,800
Technicians' fees	180
Variable expenses	45
Fixed cost	200

Working the additional shift would

- (i) require a shift premium of 50 per cent to be paid to the technicians on the additional shift;
- (ii) enable a quantity discount of 10 per cent to be obtained for all materials if an order was placed to cover 15,000 tests;
- (iii) Increase fixed costs by ₹ 5, 00,000 per year.

The current fee per test is ₹ 2500.

- (1) Calculate the profit for the period at the current capacity of 10,000 tests.
- (2) A profit statement if the additional shift was worked and 15,000 tests were carried out.

(8 Marks)

- (b) Calculate Sales in rupees for desired profit on the basis of the following information:

- (a) Fixed cost ₹ 25,000, Variable Cost ₹ 2,50,000; Sales ₹ 5,00,000; Desired profit ₹ 20,000
- (b) Fixed cost ₹ 40,000; Desired profit ₹ 30,000; P/V Ratio 40%

(c) Fixed cost ₹ 60,000; Selling price ₹ 20 per unit. Variable cost ₹ 12 per unit., Desired profit ₹ 2 per unit.

(d) Fixed cost ₹ 80,000; Variable Cost ₹ 2,40,000; Sales Rs.,4,00,000, Desired profit 15% on sales. **(6 Marks)**

6. (a) Discuss the treatment of by-product Cost in Cost Accounting. **(5 Marks)**

(b) Standard costs, marginal costs are some of the types of cost which helps the management in decision making. DISCUSS any five types of costs categorised based on its use in Managerial Decision Making. **(5 Marks)**

(c) ABC Ltd., a mid-sized manufacturing company, has been facing frequent cost overruns and profit fluctuations over the past year. The management is considering implementing a Budgetary Control System to improve financial planning and operational efficiency.

As a financial consultant, you have been asked to IDENTIFY any EXPLAIN at least four key objectives of a Budgetary Control System that would benefit ABC Ltd. **(4 Marks)**

Or

(c) Elaborate the practical application of Marginal Costing. **(4 Marks)**