Mock Test Paper - Series I: November, 2025

Date of Paper: **24th November, 2025**

Time of Paper: 10 P.M. to 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 I

A company deals in manufacturing and selling hand sanitizers since 1998. Due to it's reputation company never really required any innovative selling techniques to sell its sanitizers. It sells the same at a very competitive price of ₹ 150 per unit. The variable cost ratio of the company was 67% in the previous year. After the COVID-19 government had ease the policies on manufacturing of sanitizers, this resulted in sudden increase of manufacturers in this industry. The reason that lured people to enter was that the process is pretty simpler to manufacture the sanitizers and it has a very high demand post Coronavirus. Due to this company lost a fair market share and incurred a loss of ₹ 85,000 last year, first time in 25 years. Company is proactive and took immediate steps to control the situation. For this they appointed a modern age sales manager and fired the old one. This new manager used digital marketing, data science, and artificial intelligence to increase the market presence & sales and as a result this year company sold 19,500 units, 30% more than the previous year, without changing the selling price. Old marketing techniques were not required anymore, thus they were removed. So it balanced out the new cost of digital marketing and other new techniques.

Based on the above data, you are required to answer the following questions (MCQ 1 to 5):

1. Find out the fixed cost of the company?

   (a) 10,50,250

   (b) 8,27,500

   (c) 10,60,000

   (d) 8,35,000

2 What is MOS in value of current year?

   (a) 4,42,500

   (b) - 2,57,700

   (c) 417,300

   (d) - 2,32,500

3. If target profit for the next year is ₹ 160,000, how much percentage increase in sale is required in comparison to current year.

   (a) 2.307%

   (b) 1.282%

   (c) 2.255%

   (d) 1.265%

4. In current year, if selling price is increased by 25%, demand will reduce by 9%. What will be the new MOS in value?

   (a) 15,43,687.5

   (b) 24,21,000

   (c) 20,91,937.5

   (d) 18,72,750

5. BEP in percentage and value of current year?

   (a) 85.75%, ₹ 25,07,750

   (b) 84.87%, ₹ 29,25,500

   (c) 84.90%, ₹ 29,25,000

   (d) 85.73%, ₹ 25,07,700 **(5 x 2 Marks)**

Case Scenario II

Aroma Beverages Ltd. is a growing beverage company that produces and sells four varieties of tea-based drinks. The company operates across major cities and experiences strong seasonal fluctuations in demand. The management closely monitors quarterly sales trends to plan production and inventory levels effectively.

The sales quantity and selling price for the month of September 2024 are given below:

Product	Sales Quantity	Selling Price per unit (₹)
Classic Tea	1,40,000 units	20
Iced Tea	3,40,000 units	40
Herbal Infusion	4,20,000 units	20
Sparkling Tea	2,70,000 units	20

During the quarter October to December 2024, the company expects significant changes in demand due to seasonal weather variations, consumer preferences, and a marketing campaign launched for its flagship product, Classic Tea.

Based on market forecasts and internal analysis, the following estimates are made:

- The demand for Classic Tea will increase by 50% every month compared to the previous month, owing to cooler weather and the ongoing marketing campaign.
- The demand for Iced Tea will decrease by 30% each month as the weather cools down.
- The demand for Herbal Infusion will fall by 20% in October 2024 due to new competition but will remain constant thereafter.
- Due to a limited production capacity and distributor commitments, sales of Sparkling Tea will be restricted to 60,000 units in October, 50,000 units in November, and 30,000 units in December 2024.

There will be no change in the selling prices of the products during the quarter.

The standard quantity of closing stock from September 2024 to December 2024 is as follows:

Month	Classic Tea	Iced Tea	Herbal Infusion	Sparkling Tea
September 2024	12,000	13,000	11,000	7,500
October 2024	15,000	14,000	12,000	5,500
November 2024	13,000	15,000	10,000	6,000
December 2024	11,000	16,000	13,000	7,000

Additionally, the company plans to maintain sufficient stock levels to meet holiday season demand in December while ensuring that excess production is minimized due to limited storage capacity.

Based on the above data, you are required to answer the following questions (MCQ 6 to 10):

6. What will be the required production units for *Classic Tea* for each month — October, November, and December 2024 respectively?

   (a) 2,13,000; 3,13,000; 4,70,500

   (b) 2,10,000; 3,15,000; 4,72,500

   (c) 2,15,000; 3,12,000; 4,75,000

   (d) 2,14,000; 3,13,000; 4,72,000

7. What will be the production quantity for *Iced Tea* for October, November, and December 2024 respectively?

   (a) 2,38,000; 1,67,000; 1,17,000

   (b) 2,39,000; 1,67,600; 1,17,620

   (c) 2,40,800; 1,69,000; 1,19,500

   (d) 2,36,000; 1,66,000; 1,15,000

8. Find the production quantities for Herbal Infusion for October, November, and December 2024 respectively.

   (a) 3,37,000; 3,34,000; 3,39,000

   (b) 3,36,000; 3,36,000; 3,36,000

   (c) 3,40,000; 3,38,000; 3,40,000

   (d) 3,34,000; 3,30,000; 3,35,000

9. Determine the production requirements for *Sparkling Tea* for the three months respectively.

   (a) 59,000; 50,000; 31,000

   (b) 60,000; 50,000; 32,000

   (c) 58,000; 50,500; 31,000

   (d) 61,000; 49,000; 29,000

10. What will be the total sales value for Classic Tea and Iced Tea combined for the month of December 2024?

(a) ₹ 1,48,20,000

(b) ₹ 94,40,000

(c) ₹ 46,80,000

(d) ₹ 1,41,14,800 **(5 x 2 Marks)**

11. A company observes that the consumption of raw materials varies between 300 units and 900 units per week. The lead time ranges from 3 weeks to 7 weeks, and the reorder quantity is 2000 units. What is the maximum stock level?

(a) 8,100 units

(b) 7,700 units

(c) 6,800 units

(d) 7,400 units **(2 Marks)**

12. The standard variable overhead cost of a product is ₹ 12, i.e. 6 hours at the rate of ₹ 2 per hour.

In a certain month, it took 2,400 hours at a cost of ₹ 5,800 to manufacture 450 units.

The variable overhead expenditure and efficiency variances, respectively, are:

(a) ₹ 1,000 (F) and ₹ 600 (A)

(b) ₹ 1,000 (A) and ₹ 600 (F)

(c) ₹ 1,000 (F) and ₹ 600 (F)

(d) ₹ 1,000 (A) and ₹ 600 (A) **(2 Marks)**

13. For an input of 4,000 kg of material introduced in the process, the normal loss is 6%. If the actual production from the process is 3,700 kg, the abnormal loss is:

(a) 100 kg

(b) 140 kg

(c) 80 kg

(d) 60 kg **(2 Marks)**

14. Consider the following information:

Market demand per month	:	600 units
Setting-up cost per batch	:	₹ 120
Cost of manufacture per unit	:	₹ 30
Rate of interest	:	10% p.a.

What is the EBQ?

(a) 758.95 units

(b) 848.53 units

(c) 268.33 units

(d) 1,200 units **(2 Marks)**

15. The relevant data is as below:

Time Rate (per hour)	₹ 60
Time allowed	8 hours
Time taken	6 hours
Time saved	2 hours

CALCULATE the earnings of a worker under Halsey System

(a) ₹ 360

(b) ₹ 420

(c) ₹ 500

(d) ₹ 600 **(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) Assuming a man-day of 8 hours, you are required to CALCULATE the labour cost per man-day. The following data has been provided.

(i)	Basic Salary	₹ 80 per day
(ii)	Dearness Allowance	80 paise per every point over 100 cost of living index for working class. Current cost of living index is 785 points.

(iii)	Leave Salary	10% of (i) and (ii)
(iv)	Employer's contribution to Provident Fund	10% of (i), (ii) and (iii)
(v)	Employer's contribution to State Insurance	2.5% of (i), (ii) and (iii)
(vi)	Expenditure on amenities to labour	₹ 30 per head per month
(vii)	Number of working days in a month	25 days of 8 hours each

(5 Marks)

(b) Your company uses a historical cost system and applies overheads on the basis of "pre-determined" rates. The following are the figure from the Trial Balance as at 30th September, 2025:

Manufacturing overheads	₹ 21,32,720 Dr.
Manufacturing overheads applied	₹ 18,29,520 Cr.
Work-in-progress	₹ 7,07,400 Dr.
Finished goods stocks	₹ 11,53,660 Dr.
Cost of goods sold	₹ 42,02,940 Dr.

Required:

(i) COMPUTE the over/ under absorption of the manufacturing overhead.

(ii) STATE the treatment of the over/ under absorbed overhead computed in (i) above. **(5 Marks)**

(c) Creamy Delights Ltd. is engaged in the production of Flavored Milk, Cheese, and Clarified Cheese Oil. It purchases processed milk cream and subjects it to a churning process until it separates into flavored milk and cheese.

For the month of January 2025, the company purchased 50 kilolitres of processed cream @ ₹100 per 1,000 ml.

Conversion costs of ₹1,00,000 were incurred up to the split-off point, where two saleable products were obtained — flavored milk and cheese.

Cheese can be further processed into clarified cheese oil.

Production and Sales Information for January 2025

Product	Production (KL / tonne)	Sales Quantity (KL / tonne)	Selling Price per Litre / Kg (₹)
Flavored Milk	28	28	30
Cheese	20	—	—
Clarified Cheese Oil	16	16	480

All 20 tonnes of cheese were further processed at an incremental cost of ₹ 1,20,000 to yield 16 kilolitres of clarified cheese oil.

There was no opening or closing inventory of flavored milk, cheese, or clarified cheese oil during January 2025.

Required:

(i) SHOW how the joint cost would be apportioned between Flavored Milk and Cheese under the Estimated Net Realisable Value (NRV) method.

(ii) In February, "Dairy Fresh Foods" offers to purchase 20 tonnes of cheese at ₹ 360 per kg.

If Creamy Delights Ltd. accepts this offer, no clarified cheese oil would be produced in February.

SUGGEST whether Creamy Delights Ltd. should accept the offer or continue further processing the cheese into clarified cheese oil, considering its effect on operating income. **(4 Marks)**

2. (a) VTR Tech Ltd is a precision engineering company that has experienced rapid automation in its production processes. The company now manufactures over 80 specialised components using CNC machines and automated systems. Despite this shift, VTR still allocates manufacturing overheads using a single plant-wide overhead absorption rate based on machine hours.

In the quarter ending June, VTR's manufacturing overhead costs were as follows:

Cost Item	₹ ('000)
Machine Operating Expenses	140
Maintenance Costs	30
Wages of Machine Supervisors	90
Stores Handling Staff Wages	28
Packaging & Despatch Department Wages	42

During the quarter, management initiated a review of the costing system and concluded that using machine hours to absorb all overheads is no longer meaningful. The company decided to implement an Activity-Based Costing (ABC) approach and identified the following key activities:

1. Receiving raw materials and components
2. Setting up machines for production
3. Quality assurance checks
4. Packaging and despatching finished goods

The following data was also recorded during the quarter:

- Total machine hours used: 2,500 (charged at ₹18 per hour)
- 1,100 material consignments were received from suppliers
- 950 machine setups were carried out
- 700 quality inspections were conducted
- 480 customer orders were packaged and despatched

Allocation Ratio

Machine Operation & Maintenance: 15% Receiving, 70% Setups, 15% Despatch

Supervisors: 7.5% Receiving, 70% Setups, 15% Inspections, 7.5% Despatch

VTR Tech manufactured Components A, B, and C during the quarter. The details for each are:

Particulars	Component A	Component B	Component C
Direct Material Cost (₹)	1,500	3,800	2,200
Machine Hours Used	30	520	60
Material Consignments Received	45	32	33
Machine Setups	20	22	18
Quality Inspections	12	10	20
Orders Despatched	25	90	55
Units Produced	600	13,000	2,600

Required:

(i) CALCULATE the unit cost of Components A, B, and C using VTR's existing traditional costing system (overheads absorbed on machine hours basis).

(ii) EXPLAIN how an Activity-Based Costing (ABC) system would be developed using the above data.

Then CALCULATE the unit cost of Components A, B, and C using the ABC system, showing detailed allocation of overheads and unit cost.

(iii) COMPARE the cost of component under both costing system

(10 Marks)

(b) Distinguish between Job Costing and Process Costing? **(4 Marks)**

3. (a) You are working as a Cost Analyst at TechMech Ltd., a company that manufactures Product-Y, a specialized industrial tool. The company uses standard costing to monitor cost performance.

Below is the standard cost structure for one unit of Product-Y:

Component	**Amount (₹)**
Direct Materials 15 kg @ ₹ 80 per kg	1,200
Direct Labour 5 hours @ ₹ 120 per hour	600
Variable Overhead 5 hours @ ₹ 25 per hour	125
Fixed Overhead	300
Total	**2,225**

Production Details:

- Budgeted Output: 3,000 units
- Actual Output: 2,750 units
- Abnormal Material Loss: 400 kg
- Idle Time: 300 hours

Actual Costs:

Component	Amount (₹)
Direct Materials 41,600 kg @ ₹ 84 per kg	34,94,400
Direct Labour 14,500 hours @ ₹ 125 per hour	18,12,500
Variable Overhead	3,62,500
Fixed Overhead	8,50,000

You are required to CALCULATE:

(i) Material Usage Variance (adjust for abnormal loss)

(ii) Material Price Variance

(iii) Material Cost Variance

(iv) Labour Efficiency Variance (exclude idle time)

(v) Labour Rate Variance (include idle time)

(vi) Labour Idle Time Variance

(vii) Labour Cost Variance

(viii) Variable Overhead Cost Variance

(ix) Fixed Overhead Cost Variance. **(9 Marks)**

(b) A manufacturing company has disclosed a net loss of ₹ 3,15,000 as per their cost accounting records for the year ended March 31, 2025. However, their financial accounting records disclosed a net loss of ₹ 3,70,000 for the same period.

A scrutiny of both sets of books revealed the following information:

Particulars	Amount (₹)
(i) Factory overheads under-absorbed	8,000
(ii) Administration overheads over-absorbed	5,000
(iii) Depreciation charged in financial accounts	75,000
(iv) Depreciation charged in cost accounts	90,000
(v) Interest on investments (not included in cost accounts)	25,000
(vi) Income-tax provided in financial accounts	80,000

(vii)	Transfer fees (credit in financial accounts)	3,000
(viii)	Preliminary expenses written off (financial accounts only)	5,000
(ix)	Overvaluation of closing stock of finished goods in cost accounts	10,000

PREPARE a Memorandum Reconciliation Account to reconcile the results shown by the cost and financial accounts. **(5 Marks)**

4. (a) Golden Harvest Foods Pvt. Ltd. is engaged in the production of organic honey blocks. Its process involves crushing of honeycombs for nectar extraction, followed by filtration and heating of the nectar along with certain natural stabilizers, and finally cooling and cutting the solidified honey into blocks.

The main process of nectar extraction (Process–I) is carried out in mechanical crushers, after which the nectar is filtered and boiled (Process–II) in steel vessels. The solidified honey blocks are then cut, packed, and dispatched.

For producing 10 kg of honey blocks, 100 kg of honeycombs are required, from which only 45 litres of nectar can be extracted.

Information for Process – I (Nectar Extraction) for January 2020

Particulars	Amount (₹)
Opening Work-in-Process (4,500 litres)	
Honeycombs	50,000
Labour	15,000
Overheads	45,000
Honeycombs introduced for nectar extraction (1,00,000 kg)	5,00,000
Direct Labour	2,00,000
Overheads	6,00,000

Additional Information:

- Abnormal Loss: 1,000 kg
- Degree of completion for abnormal loss:
  - Honeycombs – 100%
  - Labour & Overheads – 80%
- Closing Work-in-Process: 9,000 litres

- Degree of completion:
  - Honeycombs – 100%
  - Labour & Overheads – 80%

- Extracted nectar transferred to Process–II: 39,500 litres
- (Assume 1 litre of nectar = 1 kg)

You are required to PREPARE (using Average Method):

(i) Statement of Equivalent Production

(ii) Statement of Cost

(iii) Statement of Distribution of Cost

(iv) Process–I Account **(8 Marks)**

(b) The yearly production of a company's product which has a steady market is 40,000 units. Each unit of a product requires 1 kg. of raw material. The cost of placing one order for raw material is ₹ 1,000 and the inventory carrying cost is ₹ 20 per annum. The lead time for procurement of raw material is 36 days and a safety stock of 1,000 kg. of raw materials is maintained by the company. The company has been able to negotiate the following discount structure with the raw material supplier:

Order quantity (kg.)	Discount (₹)
Upto 6,000	NIL
6,001 – 8,000	4,000
8,001 – 16,000	20,000
16,001 – 30,000	32,000
30,001 – 45,000	40,000

You are required to:

(i) CALCULATE the re-order point considering 30 days in a month.

(ii) PREPARE a statement showing the total cost of procurement and storage of raw material after considering the discount of the company elects to place one, two, four or five orders in the year.

(iii) STATE the number of orders which the company should place to minimize the costs after taking EOQ also into consideration. **(6 Marks)**

5. (a) Priyank Ltd. produces two types of bags — 'Premium' and 'Standard'.

The summarized cost data for the year ended 31st March, 2025 is given below:

Particulars	Amount (₹)
Direct Materials	12,00,000
Direct Wages	6,72,000
Production Overheads	2,88,000
Total Cost	21,60,000

There was no work-in-progress at the beginning or at the end of the year. The following additional information is available:

1. The direct material cost per unit of 'Premium' bags was twice that of 'Standard' bags.
2. A 2% cash discount was received for payments made within 30 days to suppliers of direct materials.
3. The direct labour cost per unit of 'Standard' bags was 60% of that of 'Premium' bags.
4. The rate of production overhead per unit was identical for both types of bags.
5. Administration overheads were charged at 200% of direct labour cost for each product type.
6. The selling cost was ₹ 1 per 'Premium' bag.
7. The details of production and sales during the year were as follows:

Type	Units Produced	Units Sold
Premium	60,000	54,000
Standard	1,80,000	—

8. The selling price of each 'Premium' bag was ₹ 30.
9. During the year, the company had to pay a penalty of ₹ 50,000 due to a copyright infringement case related to the manufacturing process of 'Premium' bags.

PREPARE a Cost Sheet of Priyank Ltd. for 'Premium' bags showing:

(i) Cost per unit and Total Cost

(ii) Profit per unit and Total Profit **(7 Marks)**

(b) A hotel is being run in a Hill station with 200 single rooms. The hotel offers concessional rates during six off-season (winter) months in a year.

During this period, half of the full room rent is charged. The management's profit margin is targeted at 20% of the room rent. The following are the cost estimates and other details for the year ending 31st March, 2025:

(i) Occupancy during the season is 80% while in the off-season it is 40%.

(ii) Total investment in the hotel is ₹ 300 lakhs of which 80% relates to Buildings and the balance to Furniture and other Equipment.

(iii) Room attendants are paid ₹ 15 per room per day on the basis of occupancy of rooms in a month.

(iv) Expenses:

- Staff salary (excluding that of room attendants) ₹ 8,00,000
- Repairs to Buildings ₹ 3,00,000
- Laundry Charges ₹ 1,40,000
- Interior Charges ₹ 2,50,000
- Miscellaneous Expenses ₹ 2,00,200

(v) Annual Depreciation is to be provided on Buildings @ 5% and 15% on Furniture and other Equipments on straight line method.

(vi) Monthly lighting charges are ₹ 110 per room, except in four months in winter when it is ₹ 30 per room and this cost is on the basis of full occupancy for a month.

You are required to WORKOUT the room rent chargeable per day both during the season and the off-season months using the foregoing information.

(Assume a month to be of 30 days and winter season to be considered as part of off-season). **(7 Marks)**

6. (a) You are a cost accountant working with a consultancy that advises different types of businesses. A few clients have approached you seeking advice on the best costing methods for their operations. Analyze each of the following businesses

and recommend the most suitable method of costing for each, explaining your reasoning:"

(i) A company that manufactures cement in large quantities.

(ii) A custom furniture workshop that designs unique pieces per customer.

(iii) A pharmaceutical company that produces medicine in batches.

(iv) A food processing unit producing packaged snacks on a continuous basis.

(v) A transport company that operates a fleet of buses across cities.

(5 Marks)

(b) "You are appointed as an inventory manager in a manufacturing firm. The company is facing problems of both overstocking and frequent stockouts, which is affecting production. Your task is to apply inventory control methods by setting appropriate quantitative stock levels. Management asked you to Explain any 5 methods of inventory control by setting quantitative levels.

(5 Marks)

(c) Show the basis of apportionment of following overhead cost:

Overhead Cost	
1.	Lighting and heating (conditioning), Fire precaution service
2.	Time keeping, labour welfare expense
3.	Holiday pay and ESI and PF contribution
4.	General overhead
5.	(i) Depreciation of plant and machinery (ii) Insurance of stock
6.	(i) Power/steam consumption (ii) Internal transport (iii) Managerial salaries
7.	Lighting expenses (light)
8.	Electric power (machine operation)

(4 Marks)

OR

(c) WRITE DOWN the cost units for the following industry-

Power, Steel, Transport, Brewing, Electricity, Oil, Hotel, Hospital **(4 Marks)**