Skillshort

Self-Study Preparation Pack

CMA INTERMEDIATE

Paper 12: Management Accounting (MA)

Chapter-wise Practice Questions with Answers

For the December 2026 term · 50 MCQs (5 sets) + 10 descriptive questions with solutions · Original Skillshort questions

50 MCQs with key | 10 descriptive with solutions | Numbers verified in Python | Solve after each chapter

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This subject pack has 6 parts

1 Chapter-wise notes | 2 Important topics & weightage | 3 Past papers: trends & links

4 Mock tests + solutions | **5 Chapter practice questions** | 6 Last-week plan & strategy

Prepared by Skillshort for self-study. Original explanations and questions; not an official ICAI/ICMAI/ICSI publication. Items marked VERIFY should be checked against the latest official material.

Part A – Chapter-wise MCQs

Each set is followed by its answer key. Attempt a set in 20 minutes after finishing the related chapters.

Set 1 – Chapters 1–2 (Management accounting and ABC)

1. Management accounting mainly serves

(a) Shareholders and regulators
(b) Internal managers
(c) Tax authorities
(d) Creditors only

2. The period of "lost relevance" in the evolution of management accounting refers to

(a) Cost determination before 1950
(b) Management accounting that served external reporting rather than decisions (1950s–1980s)
(c) The digital era
(d) Value creation

3. Cost reduction differs from cost control because it

(a) Keeps costs within standards
(b) Achieves a permanent fall in unit cost without hurting quality
(c) Is a one-off exercise only
(d) Uses budgets only

4. Under ABC, overheads are first assigned to

(a) Products
(b) Activity cost pools
(c) Departments only
(d) Customers

5. Which is a facility-sustaining (organisation-level) activity?

(a) Machine set-up
(b) Plant security
(c) Product design
(d) Machine running

6. The most suitable cost driver for inspection costs is

(a) Number of inspections
(b) Units sold
(c) Labour hours
(d) Floor area

7. Set-up cost ₹90,000 for 45 set-ups. A batch of 500 units needs 3 set-ups. Set-up cost per unit is

(a) ₹6
(b) ₹12
(c) ₹18
(d) ₹30

8. Which is a value-added activity?

(a) Storing finished goods
(b) Inspecting incoming material
(c) Machining the product
(d) Moving work in progress

9. ABC is most beneficial when

(a) Overheads are small
(b) The firm makes one product
(c) Products differ widely in volume and complexity
(d) All costs are direct

10. Activity-based budgeting starts with

(a) Last year's budget
(b) Forecast activity volumes and drivers
(c) Labour hours only
(d) The cash budget

Set 1 – Answer key

Q	Ans	Explanation / working
1	(b)	It supplies information for **internal** planning, control and decisions.
2	(b)	Johnson and Kaplan's *Relevance Lost* – systems driven by **financial reporting** lost usefulness for decisions VERIFY.
3	(b)	Control **maintains** standards; reduction **lowers** them permanently.
4	(b)	Resources → **activity cost pools** → cost objects via drivers.
5	(b)	**Plant security** supports the facility as a whole.
6	(a)	**Number of inspections** (or inspection hours).
7	(b)	Rate ₹2,000 a set-up; 3 × 2,000 ÷ 500 = **₹12**.
8	(c)	**Machining** changes the product in a way the customer pays for.
9	(c)	**Diverse products** consume activities differently – volume-based rates distort cost.
10	(b)	ABB = forecast outputs → **activities and drivers** → resources needed.

Set 2 – Chapters 3–5 (CVP, decisions and transfer pricing)

11. Sales ₹6,00,000; P/V ratio 25%; fixed cost ₹1,00,000. Margin of safety is

(a) ₹1,50,000 (b) ₹2,00,000
(c) ₹4,00,000 (d) ₹5,00,000

12. Sales fall from ₹9,00,000 to ₹7,00,000 and profit falls by ₹50,000. The P/V ratio is

(a) 20% (b) 25%
(c) 30% (d) 40%

13. Two products are sold 3 : 2 (by value) with P/V ratios 40% and 30%. Composite P/V is

(a) 34% (b) 35%
(c) 36% (d) 38%

14. In a make-or-buy decision with spare capacity, which cost is irrelevant?

(a) Direct material (b) Direct labour
(c) Allocated fixed overhead (d) Variable overhead

15. When labour hours are the key factor, products are ranked by

(a) Selling price (b) Contribution per unit
(c) Contribution per labour hour (d) P/V ratio

16. In a recession, a firm may accept a price below total cost but not below

(a) Fixed cost (b) Marginal (variable) cost
(c) Market price (d) Standard cost

17. The opportunity cost of using a material in stock with no other use and a scrap value of ₹4,000 is

(a) Nil (b) ₹4,000
(c) Historical cost (d) Replacement cost

18. Variable cost ₹40, market price ₹70, selling costs of ₹5 saved internally; the supplier is at full capacity. The minimum transfer price is

(a) ₹40 (b) ₹45
(c) ₹65 (d) ₹70

19. Dual pricing in transfer pricing means

(a) Two divisions use different currencies
(b) Supplier credited at one price, buyer charged another
(c) Prices fixed by tax authorities
(d) Two market prices

20. Arm's-length price is the concept behind

(a) Internal negotiation
(b) International transfer-pricing rules for related parties
(c) Cost-plus pricing
(d) Penetration pricing

Set 2 – Answer key

Q	Ans	Explanation / working
11	(b)	BEP = 1,00,000 ÷ 25% = 4,00,000; MOS = 6,00,000 − 4,00,000 = **₹2,00,000**.
12	(b)	50,000 ÷ 2,00,000 = **25%**.
13	(c)	0.6 × 40 + 0.4 × 30 = **36%**.
14	(c)	**Allocated fixed overhead** continues either way.
15	(c)	Contribution **per unit of the scarce factor**.
16	(b)	Any price above **marginal cost** contributes to fixed costs.
17	(b)	The relevant cost is the **scrap value forgone**.
18	(c)	40 + (70 − 5 − 40) = **₹65**.
19	(b)	e.g. supplier gets market price, buyer is charged variable cost; the difference is absorbed centrally.
20	(b)	Tax laws require related-party prices at **arm's length** (Income-tax Act ss. 92–92F) VERIFY.

Set 3 – Chapter 6 (Standard costing and variance analysis)

21. Standard 3 kg at ₹20 per unit; output 1,000 units; actual 3,100 kg at ₹19. Material usage variance is

(a) ₹1,900 (F)
(b) ₹2,000 (A)
(c) ₹3,100 (F)
(d) ₹1,100 (A)

22. Using the data above, the material price variance is

(a) ₹3,000 (F)
(b) ₹3,100 (F)
(c) ₹2,000 (A)
(d) ₹1,100 (F)

23. Idle-time variance is always

(a) Favourable
(b) Adverse
(c) Nil
(d) Part of the rate variance

24. Standard time to produce 5 units is 6 hours; actual 7 hours were taken. Efficiency is

(a) 71.4%
(b) 83.3%
(c) 85.7%
(d) 116.7%

25. The fixed-overhead volume variance is split into

(a) Price and usage
(b) Efficiency and capacity
(c) Mix and yield
(d) Rate and idle time

26. A favourable material price variance with an adverse usage variance may indicate

(a) Purchase of cheaper, lower-quality material
(b) Better supervision
(c) Efficient labour
(d) A higher selling price

27. Budgeted 150 units at ₹12; actual 150 units at ₹11. The sales price variance is

(a) ₹150 (F)
(b) ₹150 (A)
(c) Nil
(d) ₹1,650 (A)

28. Material yield variance arises when

(a) Price changes
(b) Actual output differs from standard output for the actual input
(c) Mix changes only
(d) Labour is idle

29. The variance that is normally the responsibility of the purchase department is

(a) Material usage
(b) Material price
(c) Labour efficiency
(d) Overhead volume

30. Management by exception means

(a) Investigating every variance
(b) Concentrating on significant variances
(c) Ignoring standards
(d) Investigating only favourable variances

Set 3 – Answer key

Q	Ans	Explanation / working
21	(b)	(3,000 − 3,100) × 20 = **₹2,000 (A)**.
22	(b)	(20 − 19) × 3,100 = **₹3,100 (F)**.
23	(b)	Hours paid but not worked – **always adverse**.
24	(c)	6 ÷ 7 = **85.7%**.
25	(b)	Volume = **efficiency + capacity** (+ calendar where days differ).
26	(a)	Cheap material often causes **more wastage**.
27	(b)	(11 − 12) × 150 = **₹150 (A)**.
28	(b)	**Yield** compares actual output with what the actual input should have yielded.
29	(b)	The buyer controls **price**.
30	(b)	Attention goes to **significant** deviations only.

Set 4 – Chapter 7 (Forecasting, budgeting and budgetary control)

31. The budget that is prepared first and limits all others is based on the

(a) Cash budget
(b) Principal budget factor
(c) Master budget
(d) Capital budget

32. Sales 12,000 units; opening finished stock 2,000; closing 1,500. Production budget is

(a) 11,500
(b) 12,000
(c) 12,500
(d) 13,500

33. A budget prepared for one level of activity only is a

(a) Flexible budget (b) Fixed (static) budget
(c) Rolling budget (d) ZBB

34. A rolling (continuous) budget

(a) Is prepared once in five years
(b) Adds a new period as each period ends
(c) Ignores actuals
(d) Is used only for capital

35. Semi-variable cost is ₹50,000 at 5,000 units and ₹60,000 at 7,000 units. The fixed element is

(a) ₹10,000 (b) ₹20,000
(c) ₹25,000 (d) ₹30,000

36. Capacity ratio 90% and efficiency ratio 110%. The activity ratio is

(a) 81% (b) 99%
(c) 100% (d) 122%

37. Performance budgeting relates expenditure to

(a) Last year's spend
(b) Programmes, activities and measurable results
(c) Cash only
(d) Tax

38. Under the least-squares method with coded x ($\Sigma x = 0$), b equals

(a) $\Sigma y \div n$ (b) $\Sigma xy \div \Sigma x^2$
(c) $\Sigma x \div \Sigma y$ (d) $\Sigma x^2 \div \Sigma xy$

39. A budget committee is usually headed by the

(a) Chief executive or managing director
(b) Statutory auditor
(c) Company secretary only
(d) Sales clerk

40. Opening cash ₹40,000; receipts ₹1,60,000; payments ₹1,75,000. The closing cash is

(a) ₹15,000 (b) ₹25,000
(c) ₹40,000 (d) ₹55,000

Set 4 – Answer key

Q	Ans	Explanation / working
31	(b)	The **principal (key) budget factor** – usually sales.
32	(a)	12,000 + 1,500 − 2,000 = **11,500 units**.
33	(b)	**Fixed budget**.
34	(b)	It always looks a **full year ahead**.
35	(c)	Variable rate = 10,000 ÷ 2,000 = ₹5; fixed = 50,000 − 25,000 = **₹25,000**.
36	(b)	Activity = capacity × efficiency = 0.9 × 1.1 = **99%**.
37	(b)	Inputs are linked to **outputs and outcomes**.
38	(b)	b = **$\Sigma xy \div \Sigma x^2$**; a = $\Sigma y \div n$.
39	(a)	The **CEO/MD** chairs it; the budget officer (often the management accountant) co-ordinates.
40	(b)	40,000 + 1,60,000 − 1,75,000 = **₹25,000**.

Set 5 – Chapters 8–10 (Divisional performance, responsibility accounting, decision theory)

41. Operating assets ₹5,00,000 and operating profit ₹90,000; cost of capital 15%. ROI and RI are
(a) 18%, ₹15,000 (b) 18%, ₹75,000
(c) 15%, ₹15,000 (d) 20%, ₹90,000

42. Under DuPont, ROE is driven by
(a) Margin, asset turnover and financial leverage
(b) Price and volume
(c) Liquidity and solvency
(d) Dividend and retention

43. With a 90% learning curve and 100 hours for the first unit, the cumulative average for 8 units is
(a) 59.0 hours (b) 72.9 hours
(c) 81.0 hours (d) 90.0 hours

44. A centre whose manager is responsible for costs, revenues and the assets used is
(a) Cost centre (b) Revenue centre
(c) Profit centre (d) Investment centre

45. In a control report, indirect materials charged by allocation from the stores are
(a) Always controllable
(b) Controllable only if the manager influences the quantity used
(c) Never shown
(d) A revenue item

46. An act yields ₹80 lakh (p 0.4) and ₹20 lakh (p 0.6). Its EMV is
(a) ₹44 lakh (b) ₹50 lakh
(c) ₹56 lakh (d) ₹100 lakh

47. The coefficient of optimism (α) is needed for the
(a) Laplace criterion (b) Hurwicz criterion
(c) Maximin criterion (d) Minimax regret criterion

48. Two projects have the same EMV; A has σ 8 and B σ 12. A risk-averse manager chooses
(a) A (b) B
(c) Either (d) Neither

49. In a decision tree, a square node represents
(a) A chance event (b) A decision point
(c) An outcome (d) A probability

50. Which criterion is used when probabilities are known?
(a) Maximax (b) Maximin
(c) Expected monetary value (d) Minimax regret

Set 5 – Answer key

Q	Ans	Explanation / working
41	(a)	ROI = 18%; RI = 90,000 − 75,000 = **₹15,000**.
42	(a)	ROE = **margin × turnover × equity multiplier**.
43	(b)	100 × 0.9^3 = **72.9 hours**.

Q	Ans	Explanation / working
44	(d)	**Investment centre** – judged on ROI, RI or EVA.
45	(b)	Controllability depends on **influence** over the quantity used.
46	(a)	32 + 12 = **₹44 lakh**.
47	(b)	**Hurwicz** weights the best payoff by α.
48	(a)	Same return with **lower risk** – A.
49	(b)	□ **decision**, ○ chance.
50	(c)	**EMV** applies to decisions under risk.

Part B – Descriptive Practice Questions

QUESTION D1 – ABC product cost (5 marks)

Product A 5,000 units; B 1,000 units. Set-up cost ₹60,000 (A 10, B 20 set-ups); inspection ₹40,000 (A 30, B 50 inspections); machining ₹1,00,000 (A and B 10,000 machine hours each). Find overhead per unit under ABC and under a single rate per unit produced.

SOLUTION D1

Rates: set-up ₹2,000; inspection ₹500; machining ₹5 per hour.

A = 20,000 + 15,000 + 50,000 = ₹85,000 → **₹17 a unit**; B = 40,000 + 25,000 + 50,000 = ₹1,15,000 → **₹115 a unit**.

A single rate of 2,00,000 ÷ 6,000 = **₹33.33 a unit** over-costs A and badly under-costs B.

QUESTION D2 – CVP from two periods (4 marks)

Period 1: sales ₹4,00,000, profit ₹40,000. Period 2: sales ₹5,00,000, profit ₹70,000. Find the P/V ratio, fixed cost, BEP and sales for a profit of ₹1,00,000.

SOLUTION D2

P/V = 30,000 ÷ 1,00,000 = **30%**; FC = 4,00,000 × 30% − 40,000 = **₹80,000**; BEP = **₹2,66,667**; sales for ₹1,00,000 profit = 1,80,000 ÷ 30% = **₹6,00,000**.

QUESTION D3 – Labour as key factor (5 marks)

Products P, Q, R: contribution ₹30, ₹24, ₹20; labour hours 3, 2, 1; demand 2,000, 2,000, 1,500 units. Labour available 8,500 hours. Find the optimum plan and contribution.

SOLUTION D3

Contribution per hour: P 10, Q 12, R 20 → rank R, Q, P. R 1,500 units (1,500 hrs); Q 2,000 units (4,000 hrs); P 3,000 hrs ÷ 3 = 1,000 units.

Contribution = 30,000 + 48,000 + 30,000 = **₹1,08,000**.

QUESTION D4 – Make or buy with alternative use (4 marks)

A part costs ₹15 variable to make; 10,000 units a year. A supplier quotes ₹18. If bought, the released capacity can make another product with a contribution of ₹40,000. Decide.

SOLUTION D4

Extra cost of buying = 10,000 × (18 − 15) = ₹30,000; contribution from the released capacity ₹40,000 → **buy; gain ₹10,000**.

QUESTION D5 – Transfer-price range (4 marks)

Division S: variable cost ₹40, market price ₹70; internal sales save ₹5 selling cost. Division B can buy outside at ₹68. Find the range with spare capacity and at full capacity.

SOLUTION D5

Spare capacity: minimum ₹40, maximum ₹68 → **₹40–₹68**. Full capacity: minimum 40 + (70 − 5 − 40) = ₹65 → **₹65–₹68**. Internal transfer is in the group's interest in both cases.

QUESTION D6 – Material variances (4 marks)

Standard 2 kg at ₹10 per unit. Output 1,000 units; actual 2,100 kg at ₹9.50. Compute MCV, MPV and MUV.

SOLUTION D6

MCV = 20,000 − 19,950 = **₹50 (F)**; MPV = (10 − 9.50) × 2,100 = **₹1,050 (F)**; MUV = (2,000 − 2,100) × 10 = **₹1,000 (A)**. Cheaper material may have caused extra usage.

QUESTION D7 – Flexible budget (5 marks)

At 60% capacity (6,000 units): variable cost ₹25 a unit; semi-variable ₹60,000 (50% fixed); fixed ₹1,00,000. Prepare a flexible budget at 60%, 80% and 100%.

SOLUTION D7

Item (₹)	60% (6,000)	80% (8,000)	100% (10,000)
Variable @ ₹25	1,50,000	2,00,000	2,50,000
Semi-variable (30,000 + ₹5 a unit)	60,000	70,000	80,000
Fixed	1,00,000	1,00,000	1,00,000
Total	**3,10,000**	**3,70,000**	**4,30,000**
Cost per unit	51.67	46.25	43.00

QUESTION D8 – ROI vs RI (4 marks)

Division: investment ₹50 lakh, profit ₹9 lakh, cost of capital 14%. A project needs ₹10 lakh and earns ₹1.6 lakh. Will the manager accept under ROI and under RI?

SOLUTION D8

ROI now 18%; with project 10.6 ÷ 60 = 17.7% → **rejects under ROI**. RI now 9 − 7 = ₹2 lakh; project RI = 1.6 − 1.4 = **+₹0.2 lakh → accepts under RI**. The project earns 16% > 14%, so RI gives the right decision.

QUESTION D9 – 90% learning curve (4 marks)

The first unit takes 50 hours (90% curve). Four units have been made. How many hours will the next four take?

SOLUTION D9

Total for 4 units = 4 × 50 × 0.81 = 162 hours; for 8 units = 8 × 50 × 0.729 = 291.6 hours. **Next four = 129.6 hours**.

QUESTION D10 – EMV and value of perfect information (5 marks)

Launch cost ₹8 lakh. Demand high (0.5) PV ₹20 lakh; medium (0.3) ₹10 lakh; low (0.2) ₹2 lakh. Find the EMV of launching and the EVPI.

SOLUTION D10

EMV = 0.5 × 20 + 0.3 × 10 + 0.2 × 2 − 8 = **₹5.4 lakh** → launch.

With perfect information the firm would not launch in the low state: 0.5 × 12 + 0.3 × 2 + 0.2 × 0 = 6.6 → **EVPI = ₹1.2 lakh** – the most worth paying for a market survey.