Skillshort

Self-Study Preparation Pack

CMA INTERMEDIATE

Paper 8: Cost Accounting (CA)

Mock Test 1 – Full Paper with Model Answers

ICMAI Syllabus 2022 pattern: 100 marks · 3 hours · Section A – 15 MCQs × 2 (compulsory) · Section B – any 5 of Q2–Q8 (14 marks each) · Original Skillshort questions, figures verified in Python

Time: 3 hours | Max marks: 100 | No negative marking | Model answers follow the paper

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This subject pack has 6 parts

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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.

Section A – Multiple Choice Questions (30 marks)

Q1. Choose the correct option (2 × 15 = 30).

1. The value of the benefit sacrificed when one alternative is chosen in preference to the next best alternative is
(a) Sunk cost
(b) Opportunity cost
(c) Imputed cost
(d) Differential cost

2. The Cost Accounting Standard on repairs and maintenance cost is
(a) CAS 10
(b) CAS 11
(c) CAS 12
(d) CAS 15

3. CAS 15 deals with
(a) Selling and distribution overheads
(b) Pollution control cost
(c) Depreciation
(d) Interest and financing charges

4. Maintenance of cost records by specified companies is required under the Companies Act, 2013 by
(a) Section 128
(b) Section 143
(c) Section 148
(d) Section 134

5. Annual demand 4,800 units, ordering cost ₹150 per order and carrying cost ₹4 per unit per year. The EOQ is
(a) 400 units
(b) 600 units
(c) 800 units
(d) 360 units

6. Sales ₹8,00,000, P/V ratio 40% and fixed cost ₹2,00,000. The margin of safety is
(a) ₹3,00,000
(b) ₹5,00,000
(c) ₹1,20,000
(d) ₹2,00,000

7. A contract is 70% complete. Notional profit is ₹3,00,000 and cash received is 80% of work certified. Profit to be credited to the P&L is
(a) ₹2,00,000
(b) ₹2,40,000
(c) ₹1,60,000
(d) ₹3,00,000

8. When the value of a by-product is small, the most common treatment is to
(a) Apportion joint cost on physical units
(b) Credit its net realisable value to the cost of the main product
(c) Treat it as a joint product
(d) Ignore it

9. Idle time caused by an abnormal power breakdown is
(a) Added to direct wages
(b) Charged to the Costing Profit and Loss Account
(c) Included in factory overheads
(d) Charged to selling overheads

10. Under integrated accounts, the entry for wages paid in cash is
(a) Wages Control A/c Dr, To Cost Ledger Control A/c
(b) Wages A/c Dr, To Bank A/c
(c) WIP Control A/c Dr, To Wages A/c
(d) Bank A/c Dr, To Wages A/c

11. Input 1,000 units costing ₹20,000; normal loss 10% (scrap value ₹5 per unit); output 880 units. The cost per unit of good output is

(a) ₹20.00 (b) ₹21.67
(c) ₹22.16 (d) ₹22.73

12. Standard time 10 hours, time taken 8 hours, rate ₹50 per hour. Earnings under the Halsey plan (50%) are

(a) ₹400 (b) ₹450
(c) ₹480 (d) ₹500

13. The factor that limits the activities of an undertaking and is considered first when preparing budgets is the

(a) Key result area (b) Principal budget factor
(c) Master budget (d) Budget centre

14. During a year 30 workers left and the average number of workers was 600. The labour turnover rate (separation method) is

(a) 2.5% (b) 5%
(c) 6% (d) 10%

15. A truck carries 10 tonnes for 100 km, unloads 4 tonnes, then carries the balance for another 50 km. Absolute tonne-km are

(a) 1,500 (b) 1,300
(c) 1,200 (d) 1,000

Section A – Answer key with reasons

Q	Ans	Explanation / working
1	(b)	**Opportunity cost** – the benefit forgone from the next best alternative. It is not recorded in the books.
2	(c)	**CAS 12** – Repairs and Maintenance Cost. CAS 10 is direct expenses, CAS 11 administrative overheads, CAS 15 selling and distribution overheads.
3	(a)	**CAS 15** – Selling and Distribution Overheads.
4	(c)	**Section 148(1)** – the Central Government may direct specified classes of companies to keep cost records; s. 148(2) provides for cost audit.
5	(b)	EOQ = √(2 × 4,800 × 150 ÷ 4) = √3,60,000 = **600 units**.
6	(a)	Profit = 8,00,000 × 40% − 2,00,000 = 1,20,000. MOS = Profit ÷ P/V = 1,20,000 ÷ 40% = **₹3,00,000** (BEP 5,00,000; 8,00,000 − 5,00,000).
7	(c)	Work 50%–90% complete: ⅔ × notional profit × cash ÷ certified = ⅔ × 3,00,000 × 80% = **₹1,60,000**.
8	(b)	Small-value by-products: net sales value (or NRV) is **credited to the main product's cost** or treated as other income.
9	(b)	**Abnormal idle time** is not a cost of production; it goes to the Costing P&L Account. Normal idle time is part of cost.
10	(b)	Integrated accounts keep one set of books, so cash entries go through **Bank A/c** directly. No cost ledger control account is used.
11	(b)	(20,000 − 100 × 5) ÷ (1,000 − 100) = 19,500 ÷ 900 = **₹21.67**. Abnormal loss = 20 units.
12	(b)	8 × 50 + 50% × 2 × 50 = 400 + 50 = **₹450**.
13	(b)	The **principal (key) budget factor** – often sales – is identified first; the other budgets are built around it.
14	(b)	Separations ÷ average workers × 100 = 30 ÷ 600 × 100 = **5%**.
15	(b)	10 × 100 + 6 × 50 = 1,000 + 300 = **1,300 tonne-km**.

Section B – Descriptive Questions (70 marks)

Answer any five of Questions 2 to 8 (14 marks each). Working notes form part of the answer.

Q2 (a) (7 marks). From the following data of Arjun Industries for 2025-26 (10,000 units produced, 9,000 units sold), prepare a cost sheet showing raw materials consumed, prime cost, works cost, cost of production, cost of goods sold, cost of sales and sales, if profit is **20% of sales**.

Item	₹	Item	₹
Opening raw materials	50,000	Factory overheads	1,80,000
Purchases of raw materials	4,50,000	Opening WIP	40,000
Closing raw materials	80,000	Closing WIP	60,000
Direct wages	2,30,000	Administration overheads (production-related)	40,000
Direct expenses	50,000	Opening finished goods (1,000 units)	85,000

Selling and distribution overheads: ₹5 per unit sold. Closing finished goods are valued at the current cost of production per unit (FIFO).

(b) (7 marks). Annual demand 9,000 units; ordering cost ₹320 per order; price ₹100 per unit; carrying cost 16% p.a. Calculate the EOQ and its total ordering plus carrying cost. The supplier offers a **3% discount** on orders of 1,500 units. Should the offer be accepted?

Q3 (a) (7 marks). Shakti Ltd. has three production departments (P1, P2, P3) and two service departments (S1, S2). Primary distribution: P1 ₹2,00,000; P2 ₹1,60,000; P3 ₹1,40,000; S1 ₹70,000; S2 ₹52,000. Services are rendered as follows:

From	P1	P2	P3	S1	S2
S1	30%	30%	20%	–	20%
S2	20%	40%	20%	20%	–

Re-apportion the service department costs using the **simultaneous equation method**.

(b) (7 marks). Profit as per cost accounts is ₹3,40,000. Prepare a reconciliation statement from: works overheads under-recovered in cost accounts ₹12,000; administration overheads over-recovered ₹8,000; depreciation charged in financial accounts ₹45,000 and in cost accounts ₹40,000; interest received ₹10,000 and dividend received ₹4,000 not recorded in cost accounts; loss on obsolescence ₹6,000 charged only in financial accounts; closing stock valued at ₹1,20,000 in cost accounts and ₹1,10,000 in financial accounts.

Q4 (a) (7 marks). Hotel Sagar Vista has **50 single rooms** and **30 double rooms**, open 360 days a year. Expected occupancy: single rooms 80%, double rooms 60%. Rent of a double room is to be **1.5 times** that of a single room. Annual costs: staff salaries ₹48,00,000; repairs and maintenance ₹7,20,000; depreciation of building and furniture ₹12,00,000; interior decoration and furnishing ₹4,02,000; lighting and fixed power ₹6,00,000. Variable costs per occupied room-day: electricity ₹100 and laundry ₹50. Calculate the rent per room-day for single and double rooms to earn a profit of **25% on rent**.

(b) (7 marks). Shaurya Constructions Ltd. obtained Contract No. 27 for ₹1,20,00,000 and began work on 1 April 2025. Particulars for the year ended 31 March 2026: materials sent to site ₹30,00,000; materials returned to store ₹1,00,000; materials at site on 31 March ₹2,00,000; wages paid ₹18,00,000 and outstanding ₹50,000; plant sent to site on 1 April 2025 ₹10,00,000 (depreciation 20% p.a.); sub-contract charges ₹4,00,000; site overheads ₹3,00,000; head-office overheads are charged at 5% of wages (including outstanding). Work certified ₹72,00,000; work uncertified at cost ₹3,00,000; cash received is **90% of work certified**. Prepare the contract account and show the profit to be credited to the Profit and Loss Account and the value of WIP in the balance sheet.

Q5 (a) (8 marks). Product Z passes through Process I and Process II.

Particulars	Process I	Process II
Input	20,000 units at ₹20	Transfer from Process I
Labour	₹1,80,000	₹1,24,400
Overheads	₹1,50,000	₹1,00,000

Particulars	Process I	Process II
Normal loss (% of input)	10%	5%
Scrap value per unit	₹5	₹10
Output	17,600 units	16,900 units

Prepare Process I and II accounts and the Abnormal Loss and Abnormal Gain accounts.

(b) (6 marks). Standard: 5 labour hours per unit at ₹80 per hour. Actual production 800 units. Workers were paid for 4,200 hours at ₹82 per hour, of which **300 hours were idle** due to a power failure (abnormal). Calculate labour cost, rate, idle time and efficiency variances.

Q6 (a) (8 marks). Ishaan Ltd. sells A and B in the ratio 60 : 40 (sales value). P/V ratios: A 40%, B 25%. Fixed costs ₹3,40,000. (i) Find the composite P/V ratio and break-even sales. (ii) Profit at total sales of ₹15,00,000. (iii) If the mix changes to 40 : 60, find the new BEP and profit at ₹15,00,000. Comment.

(b) (6 marks). Only **12,000 kg** of a material is available. Fixed costs are ₹1,50,000.

Product	Contribution per unit (₹)	Material per unit (kg)	Maximum demand (units)
X	80	4	1,000
Y	120	8	800
Z	60	2	2,000

Determine the optimum product mix and the maximum profit.

Q7 (a) (9 marks). Pragati Ltd. forecasts quarterly sales (units): Q1 10,000; Q2 12,000; Q3 15,000; Q4 11,000; Q1 of next year 13,000. Closing finished stock is kept at **20% of next quarter's sales** (opening stock Q1: 2,000 units). Each unit needs **3 kg** of material at ₹40. Closing material stock is **25% of next quarter's production requirement**; production in Q1 of next year is 12,000 units; opening material stock is at the same policy level. Prepare (i) quarterly production budget and (ii) material purchase budget (kg and ₹).

(b) (5 marks). State the objective of CAS 3 (Production and Operation Overheads) and explain its main principles of measurement and assignment.

Q8 (a) (5 marks). Explain the treatment of idle time and overtime premium in cost accounts.

(b) (5 marks). What is zero-based budgeting? Explain the steps in its implementation.

(c) (4 marks). Distinguish between job costing and process costing.

Model Answers – Section B

SOLUTION Q2(a) Cost sheet of Arjun Industries for 2025-26

Particulars	₹
Opening raw materials	50,000
Add: purchases	4,50,000
Less: closing raw materials	(80,000)
Raw materials consumed	**4,20,000**
Direct wages	2,30,000
Direct expenses	50,000
Prime cost	**7,00,000**
Factory overheads	1,80,000
Add: opening WIP	40,000
Less: closing WIP	(60,000)
Works cost	**8,60,000**
Administration overheads (production-related)	40,000
Cost of production (10,000 units; ₹90 per unit)	**9,00,000**
Add: opening finished goods (1,000 units)	85,000
Less: closing finished goods (2,000 units × ₹90)	(1,80,000)
Cost of goods sold (9,000 units)	**8,05,000**
Selling and distribution overheads (9,000 × ₹5)	45,000
Cost of sales	**8,50,000**
Profit (20% on sales = 25% on cost)	2,12,500
Sales	**10,62,500**

Closing finished units = 1,000 + 10,000 − 9,000 = 2,000.

SOLUTION Q2(b) EOQ and discount decision

C = 16% × 100 = ₹16. EOQ = √(2 × 9,000 × 320/16) = √3,60,000 = **600 units**; 15 orders.

Particulars	At EOQ (600)	At 1,500 units
Purchase cost	9,000 × 100 = 9,00,000	9,000 × 97 = 8,73,000
Ordering cost	15 × 320 = 4,800	6 × 320 = 1,920
Carrying cost	300 × 16 = 4,800	750 × 15.52 = 11,640
Total	**9,09,600**	**8,86,560**

Accept the discount – saving ₹23,040. (Carrying cost is 16% of the discounted price ₹97 = ₹15.52.)

SOLUTION Q3(a) Simultaneous equations

Let X = total cost of S1 and Y = total cost of S2.

X = 70,000 + 0.20Y and Y = 52,000 + 0.20X. Substituting: X = 70,000 + 10,400 + 0.04X → 0.96X = 80,400 → **X = ₹83,750**; Y = 52,000 + 16,750 = **₹68,750**.

Particulars	P1	P2	P3
Primary distribution	2,00,000	1,60,000	1,40,000
S1 (30% : 30% : 20% of 83,750)	25,125	25,125	16,750
S2 (20% : 40% : 20% of 68,750)	13,750	27,500	13,750
Total	**2,38,875**	**2,12,625**	**1,70,500**

Check: 2,38,875 + 2,12,625 + 1,70,500 = 6,22,000 = total primary overheads (5,00,000 + 70,000 + 52,000). ✓

SOLUTION Q3(b) Reconciliation statement

Particulars	₹
Profit as per cost accounts	3,40,000
Add: administration overheads over-recovered	8,000
Add: interest received (not in cost accounts)	10,000
Add: dividend received	4,000
Less: works overheads under-recovered	(12,000)
Less: excess depreciation in financial accounts (45,000 − 40,000)	(5,000)
Less: loss on obsolescence	(6,000)
Less: closing stock valued lower in financial accounts	(10,000)
Profit as per financial accounts	**3,29,000**

SOLUTION Q4(a) Room rent – Hotel Sagar Vista

Room-days occupied: single 50 × 360 × 80% = 14,400; double 30 × 360 × 60% = 6,480; total 20,880.

Equivalent single room-days = 14,400 + 6,480 × 1.5 = **24,120**.

Cost	₹
Staff salaries	48,00,000
Repairs and maintenance	7,20,000
Depreciation	12,00,000
Interior decoration and furnishing	4,02,000
Lighting and fixed power	6,00,000
Electricity and laundry (20,880 × ₹150)	31,32,000
Total cost	**1,08,54,000**
Profit 25% on rent (= 1/3 of cost)	36,18,000
Total rent required	**1,44,72,000**

Rent per equivalent single room-day = 1,44,72,000/24,120 = **₹600** (single room); double room = 600 × 1.5 = **₹900** per day.

Check: 14,400 × 600 + 6,480 × 900 = 86,40,000 + 58,32,000 = 1,44,72,000 ✓

SOLUTION Q4(b) Contract account – Contract No. 27 (year ended 31-3-2026)

Particulars	₹	Particulars	₹
Materials sent to site	30,00,000	Materials returned to store	1,00,000
Wages paid	18,00,000	Materials at site c/d	2,00,000
Add: wages outstanding	50,000	Plant at site c/d (10,00,000 − 20%)	8,00,000
Plant sent to site	10,00,000	Work-in-progress c/d: certified	72,00,000
Sub-contract charges	4,00,000	uncertified	3,00,000
Site overheads	3,00,000		
Head-office overheads (5% × 18,50,000)	92,500		
Notional profit c/d	**19,57,500**		
Total	**86,00,000**	**Total**	**86,00,000**

Cost of work done = materials 27,00,000 + wages 18,50,000 + plant depreciation 2,00,000 + sub-contract 4,00,000 + site overheads 3,00,000 + head office 92,500 = **₹55,42,500**. Value of work done = 72,00,000 + 3,00,000 = 75,00,000. Notional profit = **₹19,57,500**.

Stage of completion = 72,00,000 ÷ 1,20,00,000 = **60%** → between 50% and 90%.

Profit to P&L = ⅔ × 19,57,500 × (64,80,000 ÷ 72,00,000) = ⅔ × 19,57,500 × 90% = **₹11,74,500**.

Reserve (carried forward) = 19,57,500 − 11,74,500 = **₹7,83,000**, shown as a deduction from WIP in the balance sheet.

WIP in balance sheet = 75,00,000 − 7,83,000 − cash received 64,80,000 = **₹2,37,000**.

SOLUTION Q5(a) Process accounts

Process I: total cost 4,00,000 + 1,80,000 + 1,50,000 = 7,30,000. Normal loss 2,000 units × ₹5 = 10,000. Normal output 18,000. Cost per unit = (7,30,000 − 10,000)/18,000 = **₹40**. Abnormal loss = 18,000 − 17,600 = 400 units.

Process I – Dr	Units	₹	Cr	Units	₹
Materials	20,000	4,00,000	Normal loss	2,000	10,000
Labour	–	1,80,000	Abnormal loss (@ ₹40)	400	16,000
Overheads	–	1,50,000	Process II (@ ₹40)	17,600	7,04,000
Total	20,000	7,30,000	**Total**	20,000	7,30,000

Process II: total cost 7,04,000 + 1,24,400 + 1,00,000 = 9,28,400. Normal loss 5% × 17,600 = 880 units × ₹10 = 8,800. Normal output 16,720. Cost per unit = (9,28,400 − 8,800)/16,720 = **₹55**. Actual output 16,900 → abnormal gain **180 units**.

Process II – Dr	Units	₹	Cr	Units	₹
From Process I	17,600	7,04,000	Normal loss	880	8,800
Labour	–	1,24,400	Finished stock (@ ₹55)	16,900	9,29,500
Overheads	–	1,00,000			
Abnormal gain (@ ₹55)	180	9,900			
Total	17,780	9,38,300	**Total**	17,780	9,38,300

Abnormal Loss A/c: Dr Process I 16,000; Cr Bank/debtors (scrap 400 × 5) 2,000; Cr Costing P&L **14,000**.

Abnormal Gain A/c: Dr side – Normal Loss A/c (scrap not realised, 180 × ₹10) 1,800 and Costing P&L A/c (balance) **8,100**; Cr side – Process II 9,900.

SOLUTION Q5(b) Labour variances

Standard hours for actual output = 800 × 5 = 4,000. Hours worked = 4,200 − 300 = 3,900.

Variance	Working	₹
Labour rate	AH paid × (SR − AR) = 4,200 × (80 − 82)	8,400 (A)
Idle time	Idle hours × SR = 300 × 80	24,000 (A)
Labour efficiency	(SH − AH worked) × SR = (4,000 − 3,900) × 80	8,000 (F)
Labour cost	SC − AC = 3,20,000 − 3,44,400	**24,400 (A)**

Check: 8,400 A + 24,000 A − 8,000 F = 24,400 A ✓

SOLUTION Q6(a) Composite break-even

(i) Composite P/V = 60% × 40% + 40% × 25% = **34%**; BEP = 3,40,000/0.34 = **₹10,00,000** (A ₹6,00,000; B ₹4,00,000).

(ii) Profit at ₹15,00,000 = 15,00,000 × 34% − 3,40,000 = **₹1,70,000**.

(iii) New mix 40 : 60 – P/V = 40% × 40% + 60% × 25% = **31%**; BEP = 3,40,000/0.31 = **₹10,96,774**; profit = 15,00,000 × 31% − 3,40,000 = **₹1,25,000**.

Comment: the shift towards the lower-margin product B raises the BEP by ₹96,774 and cuts profit by ₹45,000. Sales effort should focus on A.

SOLUTION Q6(b) Key factor – material

Product	Contribution per kg (₹)	Rank	Units	Kg used	Contribution (₹)
Z	60/2 = 30	I	2,000	4,000	1,20,000
X	80/4 = 20	II	1,000	4,000	80,000
Y	120/8 = 15	III	500 (balance)	4,000	60,000
Total				**12,000**	**2,60,000**

Less fixed costs 1,50,000 → **maximum profit ₹1,10,000**. Y has the highest contribution per unit but the lowest per kg of the scarce material – rank by **contribution per unit of the key factor**.

SOLUTION Q7(a) (i) Production budget (units)

Particulars	Q1	Q2	Q3	Q4	Year
Sales	10,000	12,000	15,000	11,000	48,000
Add: closing stock (20% of next quarter)	2,400	3,000	2,200	2,600	2,600
Less: opening stock	(2,000)	(2,400)	(3,000)	(2,200)	(2,000)
Production	**10,400**	**12,600**	**14,200**	**11,400**	**48,600**

SOLUTION Q7(a) (ii) Material purchase budget

Particulars	Q1	Q2	Q3	Q4	Year
Material required (production × 3 kg)	31,200	37,800	42,600	34,200	1,45,800
Add: closing stock (25% of next quarter's need)	9,450	10,650	8,550	9,000	9,000
Less: opening stock	(7,800)	(9,450)	(10,650)	(8,550)	(7,800)
Purchases (kg)	**32,850**	**39,000**	**40,500**	**34,650**	**1,47,000**
Purchases (₹ @ 40)	13,14,000	15,60,000	16,20,000	13,86,000	**58,80,000**

Q4 closing stock = 25% × (12,000 × 3) = 9,000 kg; Q1 opening = 25% × 31,200 = 7,800 kg.

SOLUTION Q7(b) CAS 3 – Production and operation overheads

Objective: to bring uniformity and consistency in the principles and methods of classification, accumulation, assignment and presentation of production or operation overheads.

Key principles of measurement and assignment:

- Production overheads are the indirect costs of production – indirect materials, indirect employee cost and indirect expenses – collected under **cost centres** (cost pools).
- Overheads are **absorbed on the basis of normal capacity** of the facility; the unabsorbed cost due to low production or abnormal idle capacity is not added to the cost of the product but is charged to the Costing P&L.
- Overheads of a service cost centre are re-apportioned to user cost centres on a **rational basis** (benefit received, usage, etc.).
- Variable production overheads are absorbed on the basis of actual production.
- Any subsidy, grant or incentive received is reduced from the overheads to which it relates; **abnormal and non-recurring costs** and penalties are excluded.
- Fixed overhead absorption rates should be reviewed periodically; under- or over-absorption is treated as per the costing policy.

Disclosures: the basis of assignment of overheads to cost objects, the overheads incurred in foreign exchange and those paid to related parties, any subsidy or grant, and penalties and damages excluded.

SOLUTION Q8(a) Idle time and overtime premium

Idle time. (i) *Normal idle time* (tea breaks, tool change) is unavoidable; its cost is included in the labour rate or charged to **factory overheads**. (ii) *Abnormal idle time* (power failure, strikes, machine breakdown) is **excluded from cost** and charged to the **Costing P&L A/c**. (iii) Idle time due to a customer's request is charged to that job.

Overtime premium. (i) Overtime at the **customer's request** – charged to that **job** as a direct cost. (ii) Overtime due to a **general pressure of work** – charged to **production overheads**. (iii) Overtime due to **abnormal conditions** (flood, fire) – **Costing P&L A/c**. (iv) Overtime to make up a backlog caused by the department's own inefficiency is charged to that department's overheads.

SOLUTION Q8(b) Zero-based budgeting

Meaning: every activity is justified **afresh from zero**, as if it were new, rather than adding an increment to last year's budget. It forces managers to rank activities and fund them by cost-benefit.

Steps: (1) identify the objectives of the budget; (2) identify **decision units** and the activities in each; (3) develop **decision packages** (alternative ways and levels of doing each activity with cost and benefit); (4) evaluate and **rank** the packages by cost-benefit; (5) allocate resources to packages in rank order until funds run out; (6) monitor and review.

SOLUTION Q8(c) Job costing vs process costing

Basis	Job costing	Process costing
Production	Specific orders, non-standard	Continuous, standard output
Cost unit	Each job	Each process/period
Cost collection	Job-wise	Process-wise for a period
WIP	May or may not exist at period end	Always present; equivalent units needed
Transfers	None between jobs	Output of one process is input of the next
Control	Difficult – each job differs	Easier – standardised operations