



INTERMEDIATE EXAMINATION
ANSWERS TO PRACTICE TEST PAPER
PAPER – 8
COST ACCOUNTING

TERM – JUNE 2026
SYLLABUS 2022

Time Allowed: 3 Hour

Full Marks: 100

The figures in the margin on the right side indicate full marks.

SECTION – A (Compulsory)

1. Choose the correct option:

[15 x 2 = 30]

- i) Which of the following classification is meant for distinction between direct cost and indirect cost?
- (a) Function
 - (b) Element
 - (c) Variability
 - (d) Controllability
- ii) Danger Level is calculated by multiplying:
- (a) Maximum consumption × Minimum re-order period
 - (b) Normal rate of consumption × Maximum re-order period
 - (c) Average consumption × Average re-order period
 - (d) Minimum consumption × Maximum re-order period
- iii) JIT helps in:
- (a) Increasing excess inventory
 - (b) Minimizing waste
 - (c) Increasing production delays
 - (d) Maximizing storage cost
- iv) Material Cost deals with which Cost Accounting Standard:
- (a) CAS-6
 - (b) CAS- 3
 - (c) CAS-12
 - (d) CAS-16
- v) _____ deals with the principles and methods of determining the production or operation overheads.
- (a) CAS-3
 - (b) CAS-5
 - (c) CAS-9
 - (d) CAS-16



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- vi) Which among the following is not the significance of cost record in India:
- (a) Legal Compliance
 - (b) Government Regulations
 - (c) Cost Audit requirement
 - (d) Economical requirement
- vii) Under non-integrated accounting system:
- (a) Same ledger is maintained for cost and financial accounts by accountants
 - (b) Separate ledgers are maintained for cost and financial accounts
 - (c) (a) and (b) both
 - (d) None of the above
- viii) Operating costing is applicable to:
- (a) Hospitals
 - (b) Cinemas
 - (c) Transport undertaking
 - (d) All of the above
- ix) In a job cost system, costs are accumulated _____.
- (a) On a monthly basis
 - (b) By specific job
 - (c) By department or process
 - (d) By kind of material used
- x) Which among of the following is true regarding process costing:
- (a) Continuous and Mass Production
 - (b) Homogeneous Products
 - (c) Average Cost per Unit is calculated for each process
 - (d) All of these
- xi) Following information is available of XYZ Limited for quarter ended June, 2023
- | | |
|---------------|----------------|
| Fixed cost | ₹5,00,000 |
| Variable cost | ₹ 10 per unit |
| Selling price | ₹ 15 per unit |
| Output level | 1,50,000 units |
- What will be amount of profit earned during the quarter using the marginal costing technique?
- (a) ₹ 2,50,000
 - (b) ₹ 10,00,000
 - (c) ₹ 5,00,000
 - (d) ₹ 17,50,000



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- xii) When the sales increase from ₹ 40,000 to ₹ 60,000 and profit increases by ₹ 5,000, the P/V ratio is:
(a) 20%
(b) 30%
(c) 25%
(d) 40%
- xiii) Standard price of material per kg ₹ 20, standards consumption per unit of production is 5 kg. Standard material cost for producing 100 units is:
(a) ₹20,000
(b) ₹12,000
(c) ₹8,000
(d) ₹10,000
- xiv) Which among the following is not true regarding Budget:
(a) Budget is related to planned events.
(b) Budget is planned or prepared for a shorter period
(c) Budget is unfixed for a period
(d) Result of planning is budgeting
- xv) The cost per unit of a product manufactured in a factory amounts to ₹ 160 (75% variable) when the production is 10,000 units. When production increases by 25%, the cost of production will be ₹ per unit.
(a) ₹ 145
(b) ₹ 150
(c) ₹ 152
(d) ₹ 140

Answer

i	ii	iii	iv	v	vi	vii	viii	ix	x	xi	xii	xiii	xiv	xv
b	b	b	a	a	d	b	d	d	d	a	c	a	c	c



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Section – B

(Answer any five questions out of seven questions given. Each question carries 14 Marks)

[5 x 14 = 70]

2. (a) Following data is available from the cost records of a company for the month of March 2022:
- i. Opening stock of job as on 1st March 2022
Job no. A 99: Direct Material - ₹80, Direct Wages - ₹150 and Factory Overheads - ₹200.
Job no. A 77: Direct Material - ₹420, Direct Wages - ₹450 and Factory Overheads - ₹400.
 - ii. Direct material issued during the month of February 2022 was:
Job no. A 99 - ₹120
Job no. A 77 - ₹280
Direct labour details for March 2022 were:

Job no.	Hours	Amount (₹)
A 99	400	600
A 77	200	450
 - iii. Factory Overheads are applied to jobs on production according to direct labour hour rate which is ₹2.10 per hour.
 - iv. Factory Overhead incurred in March 2022 were ₹2,100
 - v. Job numbers A 99 and A 77 were completed during the month. They were billed to the customers at a price which included 15% of the price of the job for Selling & Distribution expenses and another 10% of the price for Profit.
- Compute:
- I. Job Cost Sheet for Job No. A 77 and A 99.
 - II. Identify the selling price for the jobs. [7]

- (b) From the following particulars with respect to a particular item of materials of a manufacturing company, calculate the best quantity to order:

Ordering quantities (tonnes)	Price per tonne Amount (₹)
Less than 250	6.00
250 but less than 800	5.90
800 but less than 2,000	5.80
2,000 but less than 4,000	5.70
4,000 and above	5.60

The annual demand for the material is 4,000 tonnes. Stock holding costs are 20% of material cost p.a. The delivery cost per order is ₹ 6.00.

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Answer:

(a) I. Job Cost Sheets for the month of March 2022

Cost Items	Job A 77 Amount (₹)	Amount (₹)	Job A 99 Amount (₹)	Amount (₹)
Direct Material Issued		280		120
Direct Labour		450		600
Prime Cost		730		720
Add: Factory Overhead	$2.10 \times 200 =$	420	$2.10 \times 400 =$	840
Add: Opening WIP	$420 + 450 + 400 =$	1,270	$80 + 150 + 200 =$	430
Factory Cost		2,420		1,990
Add: S&D Overhead (WN 1)		484		398
Cost of Sales		2,904		2,388
Add: Profit (WN 1)		323		265
II. Selling Price		3,227		2,653

Working Note:

1. Factory cost + Selling & Distribution Overheads + Profit = Selling Price

Job A 77

Let, Selling Price be ₹x

∴ Selling & Distribution Overhead = $15\% \times \text{Selling Price} = 0.15x$

and, Profit = $10\% \times \text{Selling Price} = 0.10x$

or, $2,420 + 0.15x + 0.10x = x$

or, $0.75x = 2,420$

or, $x = ₹ 3,227$

∴ Selling & Distribution Overhead = $0.15 \times 3,227 = ₹484$

And, Profit = $0.10 \times 3,227 = ₹323$

Job A 99

Let, Selling Price be ₹ y

Similarly, Selling Price of Job 99

Or, $0.75y = ₹ 1,990$

Or, $y = ₹ 2,653$

∴ Selling & Distribution Overhead = $0.15 \times 2,653 = ₹398$

and, Profit = $0.10 \times 2,653 = ₹265$.

(b) Computation of Total Inventory Cost for different Ordering Quantities



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Particulars	Ordering Quantities (tonne)				
	200	250	800	2,000	4000
1. Annual Demand (tonne)	4,000	4,000	4,000	4,000	4,000
2. No. of orders [(1)/ordering quantity]	20	16	5	2	1
3. Price per tonne (₹)	6.00	5.90	5.80	5.70	5.60
4. Average Quantity (tonne)	100	125	400	1,000	2,000
5. Cost per Order (₹)	6.00	6.00	6.00	6.00	6.0
6. Rate of Interest	20%	20%	20%	20%	20%
Purchase Cost (1)×(3) (₹)	24,000	23,600	23,200	22,800	22,400
Ordering Cost (2)× (5) (₹)	120	96	30	12	6
Carrying Cost (₹) (4) × (3) ×(6)	120	147.50	464	1,140	2,240
Total Inventory Cost (₹)	24,240	23,843.50	23,694	23,952	24,646

From the above computations the best quantity to order is 800 units.

3. (a) During the year ending 31st March 2025, the factory overhead costs of three production departments of an organization are as under:

X = ₹ 50,000

Y = ₹ 45,000

Z = ₹ 70,000

The basis of absorption of overheads is given below:

Department X = ₹ 6 per machine hour for 10,000 hours

Y = 37% of direct labour cost of ₹ 1,00,000

Z = @ 5 per piece for 15,000 pieces

Calculate the department-wise under or over-absorption of overheads and present the data in a tabular form.

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- (b) Prepare Journal of the following transactions assuming that Cost and Financial Accounts are integrated

Particulars	Amount (₹)
Raw materials purchased	2,00,000



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Direct materials issued to production	1,80,000
Wages paid (20% Indirect)	80,000
Wages charged to production	75,000
Manufacturing expenses incurred	45,000
Manufacturing overhead charged to production	54,000
selling and distribution costs	28,000
Finished product at cost	1,85,000
Sales	2,84,000
Receipts from customers	74,000
Paid to creditors	92,000
Closing stock	Nil

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Answer:

- (a) Amount of cost absorbed factory overheads is calculated as follows:

X@ ₹ 6 per machine hour for 10,000 hours = ₹ 60,000

Y@37% of direct labour cost of ₹ 1,00,000 = ₹ 37,000

Z@5 per piece for 15,000 pieces = ₹ 75,000

Total overheads absorbed = ₹ 1,72,000

Statement Showing Department-wise Under/Over-absorption

Amount in ₹

Department	Actual overhead	Absorbed overhead	Under absorption	Over absorption
X	50,000	60,000		10,000
Y	45,000	37,000	8,000	
Z	70,000	75,000		5,000
Total	1,65,000		8,000	15,000

Net over absorption = 15,000 – 8,000 = ₹7,000

- (b)

Sl. No.	Particulars	Debit (₹)	Credit (₹)
1.	Stores ledger control A/c To Bought ledger control A/c (Being raw materials bought)	2,00,000	2,00,000



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2.	Work-in-progress ledger control A/c To Stores ledger control A/c (Being materials issued for production)	1,80,000	1,80,000
3.	Wages control A/c Factory overhead control A/c To Bank A/c (Being wages paid)	64,000 16,000	80,000
4.	Work-in-progress ledger control A/c To Wages control A/c To Factory overhead control A/c (Being the wages allocated to production)	75,000	52,500 22,500
5.	Factory overhead control A/c To Bank A/c (Being the manufacturing, expenses incurred)	45,000	45,000
6.	Work-in-progress ledger control A/c To Factory overhead control A/c (Being overheads charged to production)	54,000	54,000
7.	Selling and distribution overhead control A/c To Bank A/c (Being selling and distribution cost incurred)	28,000	28,000
8.	Finished stores ledger control A/c To Work-in-progress ledger control A/c (Being cost of production of completed jobs)	1,85,000	1,85,000
9.	Cost of sales A/c To Finished stock ledger control A/c To selling and distribution overhead control A/c (Being the cost of products sold)	2,13,000	1,85,000 28,000
10.	Sales ledger control A/c To Sales (Being the amount of sales)	2,84,000	2,84,000
11.	Bank A/c To Sales ledger control A/c (Being amount received from customers)	74,000	74,000
12.	Bought ledger control A/c To Bank A/c (Being amount paid to creditors)	92,000	92,000



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4. (a) XYZ Ltd. runs a holiday home. For this purpose, it has hired a building at a rent of ₹ 10,000 per month along with 5% of total taking. It has three types of suite for its customers, viz., single room, double rooms and triple rooms.

Following information is available:

Type of Suite	Number	Percentage of Occupancy
Single Room	100	100%
Double Rooms	50	80%
Triple Rooms	30	60%

The rent of double rooms suite is to be fixed at 2.5 times of the single room suite and that of triple rooms suite as twice of the double room suite.

Particulars	₹
Staff salaries	14,25,000
Room attendants' wages	4,50,000
Lighting, heating and power	2,15,000
Repairs and renovation	1,23,500
Laundry charges	80,500
Interior decoration	74,000
Sundries	1,53,000

Provide profit @ 20% on total taking and assume 360 days in a year.

Calculate the rent to be charged for each type of suite.

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- (b) A company of builders took to a multi-storied structure for ₹ 40,00,000 estimating the cost to be ₹36,80,000. At the end of the year, the company had received ₹ 14,40,000 being 90% of the work certified; work done but not certified was ₹ 40,000. Following expenditure were incurred.

Particulars	(₹)
Materials	4,00,000
Labour	10,00,000
Plant	80,000

Materials costing ₹ 20,000 were damaged. Plant is considered as having depreciated at 25%. Prepare Contract Account.

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Answer:

- (a) Total Equivalent Single Room Suites

Nature of Suite	Occupancy (Room-days)	Equivalent Single Room Suite (Room-days)
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Single Room	36,000 (100 rooms × 360 days × 100%)	36,000 (36,000 × 1)
Double Rooms	14,400 (50 rooms × 360 days × 80%)	36,000 (14,400 × 2.5)
Triple Rooms	6,480 (30 rooms × 360 days × 60%)	32,400 (6,480 × 2.5 × 2)
Total		1,04,400

Computation of Total Cost

Particulars	₹
Salary of Staff	14,25,000
Wages of Room Attendants	4,50,000
Lighting, heating and power	2,15,000
Repairs and renovation	1,23,500
Laundry charges	80,500
Interior decoration	74,000
Sundries	1,53,000
Total Cost (Excluding Building Rent)	25,21,000
Building Rent (10,000 × 12 + 5% × Takings)	1,20,000 + 5% takings
Total Cost	26,41,000 + 5% × Takings

Total Cost + Profit = Takings or, (26,41,000 + 5% × Takings) + 20% × Takings = Takings

or, 75% Takings = 26,41,000

or, Takings = $\frac{26,41,000}{75\%} = ₹ 35,21,333$

Let the Rent of Single Room Suite = R

or, Takings = 1,04,400 R

or, R = $\frac{₹ 35,21,333}{1,04,400 \text{ Equivalent Single Room}} \text{ days} = ₹ 33.73$

∴ Rent to be charged for Single Room = ₹ 33.73

Rent to be charged for Double Rooms = ₹ 33.73 × 2.5 = ₹ 84.33

Rent to be charged for Triple Rooms = ₹ 33.73 × 2.5 × 2 = ₹ 168.65

(b) Dr. Contract Account Cr.

Particulars	(₹)	Particulars	(₹)
To Materials A/c	4,00,000	By Costing Profit & Loss A/c	20,000
To Labour A/c	10,00,000	(loss due to damage)	
To Depreciation on Plant A/c [WN-1]	20,000	By Cost of Construction c/d (Bal. fig.)	14,00,000
	14,20,000		14,20,000



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To Cost of Construction b/d	14,00,000	By Work in Progress A/c - Value of Work Certified [WN-2]	16,00,000
To Notional Profit c/d (Bal. fig.)	2,40,000	- Cost of Uncertified Work	40,000
	16,40,000		16,40,000
To Profit & Loss A/c [WN-3]	72,000	By Notional Profit b/d	2,40,000
To Work in Progress - Provision for Contingencies (Bal. fig.)	1,68,000		
	2,40,000		2,40,000

Working Notes:

1. Depreciation on Plant = $80,000 \times 25\% = ₹ 20,000$

2. Value of Work Certified = $\frac{14,40,000}{90\%} = ₹ 16,00,000$

3. Amount to be credited to Profit & Loss Account = $\frac{1}{3} \times 2,40,000 \times 90\% = ₹ 72,000$

5. (a)

Degree of completion		
Opening stock	1,600 units	Material 70% Labour 60% Overhead 60%
Transfer from Process I	10,200 units	
Transfer to next process	9,200 units	
Units scrapped	800 units	
Normal Loss 10% of Input	1,800 units	Material 60% Labour 40% Overhead 40%
Closing stock		

Prepare a Statement of Equivalent Production.

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(b) The standard cost of a certain chemical mixture is as under:

40% of Material A at ₹ 20 per kg. 60% of Material B at ₹ 30 per kg. A standard loss of 10% is expected in production. The following actual cost data is given for the period:

180 kg material A at a cost of ₹ 18 per kg

220 kg material B at a cost of ₹ 34 per kg

The weight produced is 360 kg.

Calculate and present:

- i. Material Cost Variance
- ii. Material Price Variance
- iii. Material Usage Variance
- iv. Material Mix Variance
- v. Material Yield Variance

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Answer:

(a) Statement of Equivalent Production.



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INPUT		Output		EQUIVALENT PRODUCTION UNIT					
Item	Units	Item	Units	Material		Labour		Overhead	
				% completion	Unit	% completion	Unit	% completion	Unit
Op. WIP	1600	Op. WIP	1,600	30	480	40	640	40	640
Units Introduced	10,200	Normal Loss	1,000	-	-	-	-	-	-
		Finished Goods (Introduced & Completed)	7,600	100	7600	100	7600	100	7600
		Cl. WIP	1,800	60	1,080	40	720	40	720
			12,000		9,160		8,960		8,960
		Less: Abnormal Gain	200	100	200	100	200	100	200
	11,800		11,800		8,960		8,760		8,760

$$\text{Normal Loss} = \frac{10}{100} \times (\text{Op.WIP} + \text{Units Introduced} - \text{Cl.WIP}) = \frac{10}{100} \times (1,600 + 10,200 - 1,800) = 1,000 \text{ units}$$

Transfer to Next Process = 9,200 units (given)

Work done on Op. WIP and Completed = 1,600 units

Work done on units introduced and completed (9,200 – 1,600) = 7,600 unit.

- (b) Assume 100 kg of Standard Input is used in the ratio of 40% and 60% for Material A and Material B respectively. So, the information can be presented as follows:

Particulars	Standard		Actual	
	Quantity (kg)	Rate (₹)	Quantity (kg)	Rate (₹)



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Material A	40	20	180	18
Material B	60	30	220	34
Total	100		400	
Less: Loss	10		40 (Bal. fig.)	
Output	90		360	

When there are more than one input then five parameters are to be calculated as follows:

1. SQ – Standard Quantity for Actual Output

$$\text{Material A} = \frac{40}{90} \times 360 = 160 \text{ kg.}$$

$$\text{Material B} = \frac{60}{90} \times 360 = 240 \text{ kg.}$$

2. SP – Standard Price per unit Material A = ₹ 20, Material B = ₹ 30

3. AQ – Actual Quantity

$$\text{Material A} = 180 \text{ kg, Material B} = 220 \text{ kg.}$$

4. AP – Actual Price per unit

$$\text{Material A} = ₹ 18, \text{ Material B} = ₹ 34$$

5. RSQ – Revised Standard Quantity for Actual Input

$$\text{Material A} = \frac{40}{100} \times 400 = 160 \text{ kg.}$$

$$\text{Material B} = \frac{60}{100} \times 400 = 240 \text{ kg.}$$

6. Material Cost Variance = SQ × SP – AQ × AP

$$\text{Material A} = 160 \times 20 - 180 \times 18 = 3,200 - 3,240 = ₹ 40 \text{ (A)}$$

$$\text{Material B} = 240 \times 30 - 220 \times 34 = 7,200 - 7,480 = ₹ 280 \text{ (A)}$$
$$= ₹ 320 \text{ (A)}$$

7. Material Price Variance = (SP – AP) × AQ

$$\text{Material A} = (20 - 18) \times 180 = ₹ 360 \text{ (F)}$$

$$\text{Material B} = (30 - 34) \times 220 = ₹ 880 \text{ (A)}$$
$$= ₹ 520 \text{ (A)}$$

8. Material Usage Variance = (SQ – AQ) × SP

$$\text{Material A} = (160 - 180) \times 20 = ₹ 400 \text{ (A)}$$

$$\text{Material B} = (240 - 220) \times 30 = ₹ 600 \text{ (F)}$$
$$= ₹ 200 \text{ (F)}$$

9. Material Mix Variance = (RSQ – AQ) × SP

$$\text{Material A} = (160 - 180) \times 20 = ₹ 400 \text{ (A)}$$

$$\text{Material B} = (240 - 220) \times 30 = ₹ 600 \text{ (F)}$$



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= ₹ 200 (F)

10. Material Yield Variance = (SQ – RSQ) × SP
Material A = (160 – 160) × 20 = Nil
Material B = (240 – 240) × 30 = Nil

- 6.(a) Two businesses, AB Ltd and CD Ltd., sell the same type of product in the same market. Their budgeted profits and loss accounts for the year ending 30th June 2021 are as follows:

	Amount (₹)			
	AB Ltd		CD Ltd	
Sales		1,50,000		1,50,000
Less: Variable costs	1,20,000		1,00,000	
Fixed Cost	15,000	1,35,000	35,000	1,35,000
Profit		15,000		15,000

You are required to calculate the BEP and Margin of Safety of each business. [7]

- (b) A company manufactures scooters and sells it at ₹ 3,000 each. An increase of 17% in cost of materials and of 20% of labour cost is anticipated. The increased cost in relation to the present sales price would cause at 25% decrease in the amount of the present gross profit per unit. At present, material cost is 50%, wages 20% and overheads is 30% of cost of sales. You are required to:

(i) Prepare a statement of profit and loss per unit at present

(ii) Compute the new selling price to produce the same percentage of profit to cost of sales as before. [7]

Answer:

- (a) Statement showing computation of P/V Ratio, BEP and determination of Profitability in different conditions:

Particulars	AB Ltd (₹)	CD Ltd (₹)
Sales	1,50,000	1,50,000
Less: Variable Cost	1,20,000	1,00,000
Contribution	30,000	50,000
Less: Fixed Cost	15,000	35,000
Profit	15,000	15,000
$P/V \text{ Ratio} = \frac{\text{Contribution}}{\text{Sale}} \times 100$	$\frac{30000}{150000} \times 100 = 20\%$	$\frac{50000}{150000} \times 100 = 33\frac{1}{3}\%$
$BE \text{ Sales} = \frac{\text{Fixed Cost}}{P/V \text{ Ratio}} \times 100$	$\frac{15000}{20\%} = ₹ 75,000$	$\frac{35000}{33\frac{1}{2}\%} = ₹ 1,05,000$
Margin of Safety = Sales – Break Even Point	75,000	45,000

- (b) Let the total cost per unit at present be ₹ X and Profit per unit be ₹ Y



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Particulars	Present Cost Structure (₹)	Percentage increase/decrease	Anticipated Cost Structure (₹)
Material	0.50X	17% increase = 0.50X × 117%	0.585X
Labour	0.20X	20% increase = 0.20X × 120%	0.24X
Overheads	0.30X		0.30X
Total (Cost of Sales)	X		1.125X
Profit	Y	25% decrease = Y × 75%	0.75Y
Sales	3,000		3,000

So, two equations are $X + Y = 3,000$ (i)

and $1.125X + 0.75Y = 3,000$ (ii)

Multiplying equation (i) by 1.125 and subtracting equation (ii) from (i)

$$1.125X + 1.125Y = 3,375$$

$$(-) \quad \underline{1.125X + 0.75Y = 3,000}$$

$$0.375Y = 375$$

or, $Y = 1,000$ or, Profit = ₹ 1,000

by putting the value of $Y = 1,000$ in equation (i)

$$\text{or, } X + 1,000 = 3,000$$

$$\text{or, } X = 2,000$$

∴ Total Cost = ₹ 2,000.

i. Statement showing Profit or Loss per unit at present

Particulars	Workings	(₹)
Material	$0.50 \times 2,000$	1,000
Labour	$0.20 \times 2,000$	400
Overheads	$0.30 \times 2,000$	600
Total Cost		2,000
Profit		1,000
Selling Price per unit		3,000

$$\text{Percentage of Profit on Sales} = \frac{\text{Profit}}{\text{Sales}} \times 100 = \frac{1000}{3000} \times 100 = \frac{1000}{3000} \times 33 \frac{1}{3} \% = \frac{1}{3} \text{ rd of Sales}$$

ii. Computation of New Selling Price to get same percentage of profit on sales

Particulars	Workings	(₹)
Material	$0.585 \times 2,000$	1,170



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Labour	$0.24 \times 2,000$	480
Overheads	$0.30 \times 2,000$	600
Total Cost		2,250
Profit	Bal. fig. on Sales $\times \frac{1}{3}$	1,125
Selling Price per unit	(Working Note)	3,375

Working Note

Cost + Profit = Sales

or, $2,250 + \frac{1}{3} \times \text{Sales} = \text{Sales}$

or, $\frac{1}{3} \times \text{Sales} = 2,250$

or Sales = 3,375.

7. (a) From the following figures prepare the raw material purchase budget for January 2024:

	Materials					
	A	B	C	D	E	F
Estimated Stock on 1st Jan	16,000	6,000	24,000	2,000	14,000	28,000
Estimated Stock on 31st Jan	20,000	8,000	28,000	4,000	16,000	32,000
Estimated Consumption	1,20,000	44,000	1,32,000	36,000	88,000	1,72,000
Standard Price per unit	25 paise	5 paise	15 paise	10 paise	20 paise	30 paise

[7]

(b) Explain the need for systematic classification of costs under CAS-1.

[7]

Answer:

(a) Opening Stock + Purchase = Consumption + Closing Stock

or, Purchase = Consumption + Closing Stock – Opening Stock

Raw Materials Purchase Budget for January 2022

Particulars	A	B	C	D	E	F
Budgeted Consumption (units)	1,20,000	44,000	1,32,000	36,000	88,000	1,72,000
Add: Estimated Stock on 31st Jan (units)	20,000	8,000	28,000	4,000	16,000	32,000
	1,40,000	52,000	1,60,000	40,000	1,04,000	2,04,000
Less: Estimated Stock on 1st Jan (units)	16,000	6,000	24,000	2,000	14,000	28,000
Budgeted Purchase (units)	1,24,000	46,000	1,36,000	38,000	90,000	1,76,000
Standard Price per unit	25 paise	5 paise	15 paise	10 paise	20 paise	30 paise
Budgeted Purchase Cost (₹)	31,000	2,300	20,400	3,800	18,000	52,800

(b) CAS – 1 – Cost Accounting Standard on “Classification of Cost”



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This standard establishes a framework for systematically classifying costs, ensuring transparency and comparability in financial reporting for products or services.

1. Introduction: CAS - 1 addresses the principles of cost classification to determine the cost of a product or service.
2. Objective: The objective is to ensure uniformity and consistency in the classification of costs for disclosure and presentation in cost statements.
3. Scope: Applies to cost statements requiring classification, presentation, and disclosure, including those needing attestation.
4. Definitions: Defines key terms such as abnormal cost, administrative overheads, conversion cost, cost center, cost object, cost of production, and others.
5. Principles of Classification of Costs: Costs are classified based on nature, traceability to a cost object, function, behavior, and production/operation process. The scheme ensures every cost item is classified.
6. Classification of Costs:
 - By Nature of Expenses: Material, Employee, and Expenses.
 - By Nature of Traceability: Direct and Indirect Costs.
 - By Function: Production, Administration, Selling, Distribution, Research, and Development.
 - By Nature of Behavior: Fixed, Variable, and Semi-Variable Costs.
 - By Nature of Production/Operation Process: Batch Cost, Process Cost, Operation Cost, Contract Cost, Joint Costs.
7. Presentation: Cost items in the cost statement must be presented based on relevant classification consistently from period to period.
8. Disclosure: Changes in cost classification are allowed only if required by law or compliance with a standard. Material changes must be disclosed in cost statements.

8. Write answers of the following:

- (a) Describe the scope of Cost Accounting. [4]
- (b) Analyse the Labour Turnover Cost. [5]
- (c) Explain the concept of Quality Control cost as per CAS–21. [5]

Answer:

- (a) The scope of cost accounting is broad and is directed into the operations of the organisation. Thus, a proper functioning cost accounting system ensures the strategic success/ failure of the organisation.
 - Cost book-keeping - It involves maintenance of records of all costs incurred from their incurrence to their charge to departments, products and services. Such recording is done on the basis of double entry system.
 - Cost ascertainment - Ascertaining cost of products, processes, jobs, services, etc., is the important function of cost accounting. Cost ascertainment becomes the basis of managerial decision making such as pricing, planning and control.
 - Cost Analysis - It involves the process of finding out the causal factors of actual costs varying from the budgeted costs and fixation of responsibility for cost increases.



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- Cost Comparisons - Cost accounting also encompasses comparisons between cost from alternative courses of action such as use of technology for production, cost of making different products and activities, and cost of same product/ service over a period of time.
- Cost Control - Cost accounting also includes the utilization of cost information for exercising control. It involves a detailed examination of each cost in the light of benefit derived from the incurrence of the cost. Thus, cost is analyzed to recognize whether the current level of costs is satisfactory in the light of standards set in advance.
- Cost Reports - Presentation of cost is the ultimate function of cost accounting. These reports are primarily for use by the management at different levels. Cost Reports forms the basis for planning and control, performance appraisal and managerial decision making.
- Cost Audit - Cost Audit is the verification of correctness of Cost Accounts and check on the adherence to the Cost Accounting plan. Its purpose is not only to ensure the arithmetic accuracy of cost records but also to see the principles and rules have been applied correctly.

(b) Cost of labour turnover

The rising labour turnover presents a dual challenge, adversely affecting both workforce productivity and leading to increased costs. The costs associated with labour turnover can be categorized into two main groups:

- Preventive Costs – Preventive Costs refer to the expenditures incurred by an organization with the primary objective of maintaining worker satisfaction and discouraging employees from leaving their employment. These costs are essentially investments made to create a positive work environment, foster employee engagement, and address factors that might contribute to high turnover. Examples of preventive costs include:

- i. Employee Benefits: Offering attractive benefits such as health insurance, retirement plans, and wellness programs to enhance job satisfaction and loyalty.
- ii. Training and Development: Providing ongoing training and development opportunities to enhance employee skills, job satisfaction, and career growth, making them more likely to stay with the organization.
- iii. Workplace Wellness Programs: Implementing initiatives to support the well-being of employees, both physically and mentally, contributing to overall job satisfaction and reducing the likelihood of turnover.
- iv. Competitive Compensation: Ensuring that salaries and other forms of compensation are competitive within the industry, preventing employees from seeking better-paying opportunities elsewhere.
- v. Employee Recognition Programs: Acknowledging and rewarding employees for their contributions, fostering a positive work culture and reinforcing their sense of value within the organization.

By investing in these preventive measures, organizations aim to create a workplace that employees find fulfilling and satisfying, reducing the inclination to leave for better opportunities.

- Replacement Costs – Replacement Costs encompass the financial outlays associated with the



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recruitment and training of new employees, as well as the subsequent impacts on productivity and efficiency resulting from the inexperience of the newly acquired workforce. These costs are incurred when turnover occurs and a vacant position needs to be filled. Examples of replacement costs include:

- i. Recruitment Expenses: Costs related to advertising job openings, conducting interviews, and screening candidates during the hiring process.
- ii. Training and orientation: Expenses associated with training new hires to ensure they are equipped with the necessary skills and knowledge to perform their roles effectively.
- iii. Productivity loss: The decrease in overall productivity and efficiency as new employees acclimate to their roles, resulting in potential disruptions to workflow.
- iv. Wastage: Resources wasted during the transition period, including any work left incomplete by departing employees and potential errors made by the inexperienced new hires.

By understanding and quantifying these replacement costs, organizations can better appreciate the financial impact of high turnover and develop strategies to minimize these expenditures through effective retention efforts.

(c) CAS – 21 Cost Accounting Standard on “Quality Control”

1. Introduction:
CAS-21 addresses principles and methods for measuring, assigning, presenting, and disclosing Quality Control costs in cost statements.
2. Objective:
Aims to bring uniformity and consistency in determining and assigning Quality Control costs with reasonable accuracy.
3. Scope:
Applicable to cost statements requiring classification, measurement, assignment, presentation, and disclosure of Quality Control costs, including those needing attestation.
4. Definitions:
Provides definitions for terms such as Abnormal Cost, Cost Object, Defectives, Imputed Costs, Quality, Quality Control, Quality Control Cost, Scrap, Waste, and Spoilage.
5. Principles of Measurement:
 - Quality Control cost incurred in-house includes the aggregate cost of resources consumed.
 - Costs procured from outside determined at invoice or agreed price, net of applicable discounts, taxes, and duties.
 - Includes costs of conformance to quality, namely prevention cost and appraisal cost.
 - Identification of Quality Control costs based on traceability.
 - Finance costs in connection with self-generated or procured resources excluded from Quality Control cost.
 - Quality Control costs exclude imputed costs.



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- Subsidies/Grants/Incentives related to Quality Control cost reduce the cost of the corresponding object.
 - Abnormal portions of Quality Control cost, penalties, and damages excluded from the total cost.
6. Assignment of Costs:
- Directly traceable Quality Control costs assigned to the respective cost object.
 - Assignment based on benefits received, apportioned to cost objects in proportion to the benefits.
7. Presentation:
- If material, Quality Control cost presented as a separate cost head with suitable classification.
8. Disclosures:
- Disclosures include the basis of distribution of Quality Control cost, quantity and cost of resources used, payments to related parties, foreign exchange costs, abnormal portions, and penalties and damages excluded.
 - Made where material, significant, and quantifiable, in the body of the Cost Statement, footnotes, or separate schedules.
 - Any changes in cost accounting principles affecting Quality Control costs disclosed, indicating the extent of ascertain ability.