



INTERMEDIATE EXAMINATION
ANSWERS TO PRACTICE TEST PAPER
PAPER – 12
MANAGEMENT ACCOUNTING

TERM – JUNE 2026
SYLLABUS 2022

Time Allowed: 3 Hours

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) The main objective of management accounting is _____.
- To maintain the accounting records
 - To know the amount due from customers and suppliers
 - To ascertain analyse and interpret the results of business operations
 - To record all the business transactions
- (ii) Where is management accounting applied?
- Small trading organisations
 - NPOs
 - Cooperative societies
 - Large industrial and trading organizations
- (iii) _____ is an item for which cost measurement is required e.g. product, job or a customer.
- Cost Object
 - Pool
 - Cost Driver
 - Cost Absorption
- (iv) Cost of maintaining a building is _____.
- Unit Level Cost
 - Batch Level Cost
 - Product Level Cost
 - Facility Level Cost
- (v) What will be sales in rupees for desired profit if fixed cost is ₹30,000, desired profit is ₹15,000 and P/V ratio is 30%?
- ₹1,50,000
 - ₹1,00,000
 - ₹2,00,000
 - None of the above



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- (vi) Determine B.E.P in units and amount if Units produced if ₹10,000, Fixed cost is ₹40,000, Selling price is ₹50 per unit and Variable cost us ₹30 per unit.
- ₹40 per unit, ₹2,00,000
 - ₹50 per unit, ₹10,00,000
 - ₹20 per unit, ₹1,00,000
 - None of the above
- (vii) A fixed cost is relevant if it is:
- uncontrollable.
 - avoidable
 - sunk.
 - a product cost.
- (viii) Division under transfer pricing system is treated as _____.
- Profit centre
 - System centre
 - Investment centre
 - Cost centre
- (ix) Standard price of material per kg is ₹ 20, standard usage per unit of production is 5 kg. Actual usage of production 100 units is 520 kgs, all of which was purchase at the rate of ₹ 22 per kg. Material cost variance is _____.
- ₹ 2,440 (A)
 - ₹ 1,440 (A)
 - ₹ 1,440 (F)
 - ₹ 2,300 (F)
- (x) The setting of standards is:
- A managerial accounting decision.
 - A management decision.
 - A worker decision.
 - Preferably set at the ideal level of performance.
- (xi) Functional budget is subsidiary to_____.
- Variable budget
 - Fixed budget
 - Master budget
 - All of the above



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- (xii) Norton and Kaplan recommend that a separate balanced score card be developed for _____.
a. Each department within the company.
b. Each product line within the company.
c. Each division or business unit with the company.
d. The whole company.
- (xiii) In responsibility accounting the organization is divided into different center
a. Responsibility
b. Cost
c. Profit
d. None of these
- (xiv) The maximin criterion is a feature of which of the following?
a. Deterministic model
b. Decision-making under uncertainty
c. Optimization
d. Decision-making under certainty
- (xv) The sequence of possible managerial decisions and their expected outcome under each set of circumstances can be represented and analyzed by using _____.
a. The minimax regret criterion.
b. A decision tree.
c. A payoff matrix.
d. Simulation.

Answer:

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

SECTION – B

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

[5 x 14 = 70]

2. (a) The business world has radically changed from what it used to be a few decades ago and accordingly the role of the management accountant has also changed significantly. In this context, illustrate the functions of management accountant in a dynamic business world. [7]



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- (b) Hot n Cold, a FMCG company manufactures and sells three flavours of ice cream: Dark chocolate, Chocolate, and Butterscotch. The batch size for the ice cream is limited to 1,000 ice cream based on the size of the fridge and ice cream moulds owned by the company. Based on budgetary projections, the information listed below is available:

Particulars	Dark Chocolate	Chocolate	Butterscotch
Projected sales in units	5,00,000	8,00,000	6,00,000
PER UNIT data: (₹)			
Selling price	80	75	60
Direct materials	20	15	14
Direct labour	4	2	2
Hours per 1000-unit batch:			
Direct labour hours	20	10	10
Fridge hours	1	1	1
Packaging hours	0.5	0.5	0.5

Total overhead costs and activity levels for the year are estimated as follows:

Activity	Overhead costs (₹)	Activity levels
Direct labour		24,000 hours
Fridge	2,10,00,000	1,900 fridge hours
Packaging	1,50,00,000	950 packaging hours

Required:

- (i) With the help of traditional system (with direct labour hours as the overhead allocation base), for the Chocolate ice cream, compute the estimated operating profit per thousand ice cream.
- (ii) With the help of Activity Based Costing (ABC) system, for the Chocolate ice cream:
- I. Calculate the activity cost-driver rate.
 - II. Calculate the estimated overhead costs per thousand ice cream.
 - III. Calculate the estimated operating profit per thousand ice cream.

[7]

Answer:

- (a) The functions of a management accountant can be categorized as below:

Planning and Accounting - Management accountants prepare an accounting system covering costs, sales forecasts, profit planning, production planning, and allocation of resources. It should also include capital budgeting, short-term and long-term financial planning. They also prepare the procedures necessary to implement the plan effectively.

Controlling - Management accountants assist in the control of an organisation's performance through the use of standard costing, budget control, accounting ratios, funds flow statements, cost-cutting initiatives, and assessing capital expenditure proposals and returns on investment.



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Reporting - Management accountants assist the top management in finding out the root cause of an unfavorable operation or event by identifying the real reasons for the adverse events as well as the responsible parties and comprehensively report them.

Coordinating - Management accountants improve an organisation's efficiency and profits by providing various coordination tools such as budgeting, financial reporting, financial analysis and interpretation, and so on. These tools aid management by comparing cost and financial records, preparing financial budgets and establishing standard costs, and analyzing cost deviations to enable management by exception.

Communication - Management accountants create a wide range of reports to communicate results to the superiors. Through published financial statements and returns, they also inform the outside world about their company's success.

Financial evaluation and Interpretation - Management accountants analyze the data and present it to the management in a non-technical approach, together with their comments and ideas, so that the shareholders and senior management can understand it and make informed decisions.

Tax Administration - Management accountants are in charge of tax policies and processes. They make the reports that are required by various authorities. Further, they ensure that quarterly tax payments are made in advance, as required by the relevant Act, to prevent the payment of penal interest on late tax payments.

Evaluation of external effects - There may be changes in government policy and existing laws. These amendments and policy changes can affect business goals. Management accountants assess the extent of any impact of these external factors on the business and report it to the stakeholder to take necessary precautionary measures.

Economic appraisal - When the government makes regular announcements about the country's economic situation, management accountants is entrusted with making the economic study and determine the influence of current economic conditions on the company's operations. They compile a report containing their observations and present it to the higher management.

Asset Protection - Management accountants prepare fixed asset registers for each type of business and provide internal checks and controls to protect the company's assets. They also create the rules and regulations for each type of fixed asset and get insurance coverage for all types of fixed assets.

(b) (i) Calculation of Overhead per direct hour

= Total Overhead / Total Direct Labour Hours

= ₹ 3,60,00,000 / 24,000 hours

= ₹ 1,500 per direct labour hour.

Since it takes 10 direct labour hours per 1,000 Chocolate ice cream, the overhead is 10 x ₹ 1,500 per direct labour hour = ₹ 15,000



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Calculation of Operating Profit under Traditional Costing:

Particulars	Amount (₹)
Revenue (1,000x₹ 75)	75,000
Less: Direct Material (1,000x₹15)	15,000
Less: Direct Labour (1,000 x ₹ 2)	2,000
Less: Overhead	15,000
Operating Profit	43,000

(ii)

I. Estimation of cost-driver rate

Activity	Overhead cost (₹)	Cost driver	Cost driver rate (₹)
Fridge	2,10,00,000	1,900 Fridge hours	11,052.63
Packaging	1,50,00,000	950 Packaging hours	15,789.47

II. Overhead cost for chocolate ice cream

Activity	Overhead for an 1,000 ice cream batch	Amount (₹)
Fridge	1x ₹11,052.63	11,052.63
Packaging	0.5 x ₹15,789.47	7,894.74
		18,947.37

III. Operating Profit under ABC for chocolate ice cream

Particulars	Amount (₹)
Revenue (1,000x₹75)	75,000.00
Less: Direct Material (1,000x₹15)	15,000.00
Less: Direct Labour (1,000x₹2)	2,000.00
Less: Overhead	18,947.37
Operating Profit	39,052.63

3. (a) M/s Srikar Limited provides you the following data for the year ended 31-03-2024:

Particulars	Amount (in ₹)
Selling Price Per Unit	200
Raw Material Cost Per Unit	100
Direct Labour Per Unit	30
Variable & Fixed Overhead Cost	1,00,000



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M/s Srikar Limited sold 2000 units in 2024-25. In 2025-26, the selling price per unit will remain the same. Direct wage rate will increase by 20% and fixed cost will decrease by ₹6000. If 3,000 units are sold in 2025-26, the total Variable & Fixed Overhead will be ₹1,14,000.

You are required to:

- (i) Calculate the profit per unit in 2024-25.
(ii) Also calculate the units to be sold in 2025-26 to earn same amount of profit per unit as in 2024-25. [7]

- (b) A company is organized into two divisions, namely X and Y, and produces three products A, B and C. Data per unit are:

	A	B	C
Market price (₹)	240	230	200
Variable costs (Rs)	168	120	140
Direct Labour (hours)	4	5	3
Maximum sales potential (units)	1600	1000	600

Division Y has a demand for 600 units of product B for its use. If Division X cannot supply the requirement, Division Y can buy a similar product from market at ₹ 224 per unit.

Critically assess the situation and Advise the management, what should be the transfer price of 600 units of B for Division Y, if the total direct labour hours available in Division X are restricted to 15000? [7]

- (a) (i) Profit per Unit in 2024-25.

Particulars	Per unit (₹)	Total (₹)
Selling Price Per Unit	200	4,00,000
Less: Raw Material Cost Per Unit	100	2,00,000
Less: Direct Labour Per Unit	30	60,000
Less: Variable & Fixed Overhead Cost		1,00,000
Total Profit		40,000
Therefore, Profit Per Unit	20	

- (ii) Fixed Overheads and Variable Overheads in both the year:

Particulars	2024-25 (₹)	2025-26 (₹)
Units Sold	2000	3000
Variable & Fixed Overhead Cost (₹)	100000	120000

Therefore, Variable Cost Per Unit = Change in Total Cost / Change in Quantity
= 20000 / 1000 = ₹ 20/-

Therefore, Fixed Overheads = 100000 – 2000 x 20 = ₹ 60000



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Particulars	2024-25 (₹)	2025-26 (₹)
Variable Overheads Per Unit (₹)	20	20
Fixed Overhead (₹)	60000	54000 at 2025-26 price level

Contribution Per Unit in 2025-26

Particulars	Amount (₹)
Selling Price Per Unit	200
Less: Raw Material Cost Per Unit	100
Less: Direct Labour Per Unit	36
Less: Variable Overheads Per Unit	20
Contribution Per Unit	44

Target Profit Per Unit in 2025-26 is ₹ 20

Now, let's assume that X Units to be sold in 2025-26 in order to make same amount of Profit Per Unit. Therefore,

$$X = (54000 + 20X) / 44$$

$$\text{Or } 44X = 54000 + 20X$$

$$\text{Or } 24X = 54000$$

$$\text{Or } X = 2250$$

Therefore, 2250 units to be sold in 2025-26 in order to make same amount of profit per unit.

(b)

Particulars	Product		
	A	B	C
Market price(Rs.)	240	230	200
Less : Variable costs (Rs.)	168	120	140
Contribution p.u (i)	72	110	60
Direct labour hours p.u. (ii)	4	5	3
Contribution per D.L.H. (i)/(ii)	18	22	20
Rank	III	I	II

Production	Max. Sales	Hrs/Unit	Production	Hours used	Balance hours
B	1000	5	1000	5000	10000
C	600	3	600	1800	8200
A	1600	4	1600	6400	1800

Spare hours available in Division X = 1800 hrs



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Division X can produce Product B in 1800 spare hours = 1800 hrs/5 hrs. pu = 360 units of product B
Balance units of Products B required by Division Y = 600 units – 360 units = 240 units

Labour hours required for 240 units of Product B = 240 units x 5 hrs. per unit = 1200 hours.

Opportunity contribution of A per hr. = Rs. 18

Calculation of Minimum Transfer Price p.u.	Rs.
Variable cost (600 units × Rs. 120)	72000
Opportunity cost of contribution lost (1200 hrs × Rs. 18)	21600
Amount to be recovered	93600
Transfer price p.u (Rs.) (Rs. 93600 / 600 units)	156

4. (a) A company has annual fixed cost of ₹14,00,000. In 2023 sales amounted to ₹ 60,00,000 as compared with ₹ 45,00,000 in 2022 and profit in 2023 was ₹ 4,20,000 higher than in 2022.
Calculate:
- At what level of sales does the company break-even?
 - Demonstrate profit or loss on a precast sales volume of ₹ 85,00,000.
 - If there is a reduction in selling price in 2024 by 10% and the company desires to earn the same profit as in 2023, what would be the required sales volume? [7]
- (b) PIECO Ltd. having an installed capacity of 1,00,000 units of product is currently operating at 70% utilization. At current levels of input prices, the unit costs (after taking credit for applicable export incentives) work out as follows:

Capacity utilization (%)	Unit costs (₹)
70	97
80	92
90	87
100	82

The company has received three foreign offers from different sources as under:

Source A: 5,000 units at 55 per unit.

Source B: 10,000 units at 52 per unit.

Source C: 10,000 units at 51 per unit.

Examine whether the company should accept any or all of the export orders or not.

[7]



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Answer:

(a) $PV \text{ Ratio} = \frac{\text{Increase in Profit}}{\text{Increase in Sales}} \times 100$

$$= \frac{420000}{15,00,000} \times 100 = 28\%$$

(i) $\text{Break Even Point} = \frac{\text{Fixed Cost}}{PV \text{ Ratio}} = \frac{1400000}{28\%} = ₹ 50,00,000$

(ii) Profit on Sales of ₹ 85,00,000	
Total Contribution ₹ 85,00,000 × 28%	23,80,000
Less: Fixed Cost	<u>14,00,000</u>
Profit	<u>9,80,000</u>

(iii) If present Selling price is reduced by 10%

	₹
Present selling price	100
Variable Cost (100-28)	72
New Selling Price (100-10)	90
New Contribution	₹ 18

$$\text{New PV Ratio} = \frac{\text{Contribution}}{\text{Sales}} \times 100 = \frac{18}{90} \times 100 = 20\%$$

Profit in 2024

Contribution 60,00,000 × 28%	16,80,000
Less: Fixed Cost	<u>14,00,000</u>
Profit	<u>2,80,000</u>

Sales for desired profit of ₹ 2, 80,000

$$= \frac{\text{Fixed Cost} + \text{Desired Profit}}{\text{New PV Ratio}}$$

$$= \frac{1400000 + 2,80,000}{20\%}$$

$$= \frac{16,80,000}{20\%} = ₹ 84, 00, 000$$

(b) **Statement showing Differential Cost**

Capacity	Production (units)	Unit costs (₹)	Installed total cost	Differential cost	Per unit differential cost
70	70,000	97	67,90,000	---	---
80	80,000	92	73,60,000	5,70,000	57
90	90,000	87	78,30,000	4,70,000	47
100	1,00,000	82	82,00,000	3,70,000	37



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Statement Showing Gain or Loss on Accepting Various Export Orders

Particulars	Source A	Source B	Source C	Total
Export Orders (in units)	5,000	10,000	10,000	25,000
Capacity Utilizations (%)	75%	85%	95%	95%
Differential Cost (₹/unit)	57	5,000 @ 57 5,000 @ 47	5,000 @ 47 5,000 @ 37	–
Total Cost (₹)	2,85,000	5,20,000	4,20,000	12,25,000
Offer Price (₹/unit)	55	52	51	–
Sales Revenue (₹)	2,75,000	5,20,000	5,10,000	13,05,000
Gain / (Loss) (₹)	(10,000)	NIL	90,000	80,000

Analysis: From the above analysis it can be said that when all the three export orders are accepted, the company will make a profit of ₹ 80,000.

5. (a) **WESTLAND LTD.**, a manufacturing company, operates standard costing system and showed the following data in respect of the month of May 2025:

Budgeted		Actual	
Working days	20	Working days	22
Man hours	4000	Man hours	4200
Fixed overhead cost (₹)	2400	Fixed overhead cost (₹)	2500
Output (units)	800	Output (units)	900

You are required to calculate the following Fixed overheads variances:

- (i) FOH Budget Variance
- (ii) FOH Cost Variance
- (iii) FOH Efficiency Variance
- (iv) FOH Capacity Variance
- (v) FOH Calendar Variance
- (vi) FOH Volume Variance

[7]

- (b) One kilogram of product 'K' requires two chemical A and B. The following were the details of product 'K' for the month of June 2025:

- i. Standard mix ratio is 1:1
- ii. Standard price per kilogram of chemical 'A' ₹ 12 and chemical 'B' ₹ 15.
- iii. Actual input of chemical 'B' 70 kilograms
- iv. Actual price per kilogram of Chemical 'A' ₹ 15
- v. Standard normal loss 10% of total input.
- vi. Materials cost variance total ₹ 650 adverse and the same was fully attributable to Chemical 'B'.
- vii. Materials yield variance total ₹ 135 adverse.



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Required:

Calculate all missing variances and complete the Variance Report.

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Answer:

(a) $SR = \text{Budgeted FOH} / \text{Budgeted Hours} = 2400 / 4000 = ₹0.60$

Standard Man hours per unit = $4000 / 800 = 5$

Standard hours for Actual Output = $900 \times 5 = 4500$

Revised Budgeted Hours = $(22/20 \times 4000) = 4400$

SRSR (₹) (1)	SRAH (₹) (2)	RBH5R (₹) (3)	SRBH (₹) (4)	ARAH (₹) (5)
$0.6 \times 4500 = 2,700$	$0.6 \times 4200 = 2,520$	$0.6 \times 4400 = 2,640$	$0.6 \times 4000 = 2,400$	2,500

Fixed overhead Variances:

(i)	FOH Budget Variance	= (4)-(5) = ₹ 100(A)
(ii)	FOH Cost Variance	= (1)-(5) = ₹ 200 (F)
(iii)	FOH Efficiency Variance	= (1)-(2) = ₹ 180 (F)
(iv)	FOH Capacity Variance	= (2)-(3) = ₹ 120 (A)
(v)	FOH Calendar Variance	= (3)-(4) = ₹ 240 (F)
(vi)	FOH Volume Variance	= (1)-(4) = ₹ 300 (F)

(c) 1) **Material Cost Variance = (Standard Quantity × Standard Rate - Actual Quantity × Actual Rate)**

(For Chemical B) $650(A) = (50 \times 15) - (70 \times \text{Actual Rate})$

$650(A) = 750 - 70 \text{ Actual Rate}$

$1400(A) = -70 \text{ Actual Rate}$

Actual Rate = 20

[Note: Since Material cost variance was fully attributable to Chemical B]

2) **Material Price Variance = (Standard Rate - Actual Rate) × Actual Quantity**

Chemical A = $(12 - 15) \times 40 = 120(A)$

Chemical B = $(15 - 20) \times 70 = 350(A)$

470(A)

3) **Material Usage Variance (Standard Quantity - Actual Quantity) × Standard Rate**

Chemical A = $(50 - 40) \times 12 = 120(F)$

Chemical B = $(50 - 70) \times 15 = 300(A)$

180(A)

4) **Material Mixed Variance = (Actual Quantity in standard proportion - Actual Quantity) × Standard Rate**

Chemical A = $(55 - 40) \times 12 = 180(F)$

Chemical B = $(55 - 70) \times 15 = 225(A)$



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45(A)

- 1) **Material Yield Variance = Standard Quantity – Actual Quantity in standard proportion) × Standard Rate**

$$\text{Chemical A} = (50 - 55) \times 12 = 60(A)$$

$$\text{Chemical A} = (50 - 55) \times 15 = 75(A)$$

135(A)

[Note: **Material Cost Variance (For Chemical A) = (50 × 12) – (Actual Quantity × 15)**

$$0 = 600 - \text{Actual Quantity} \times 15$$

$$- 600 = - 15 \times \text{Actual Quantity}$$

$$\text{Actual Quantity} = 40 \text{ Units}$$

Hence, the Actual input = 40 Units of Chemical A + 70 units of Chemical B = 110Units
Since the Normal Loss is 10 Units Hence, Actual Input 110units.

	<u>Units</u>
∴ Actual Input	<u>110</u>
Less: Normal Loss	<u>10</u>
Actual Output	<u>100</u>

Actual Quantity in standard proportion

$$\text{Chemical A} = \frac{50}{100} \times 110 = 55 \text{ Units}$$

$$\text{Chemical B} = \frac{50}{100} \times 110 = 55 \text{ Units}]$$

The final variance report is as follows

	SPSQ	SPRSQ	SPAQ	AQAP
A	600	660	480	600
B	750	825	1050	1400
Total	1350	1485	1530	2000

	Yield	Mix Variance	Usage Variance	Price Variance	Cost Variance
A	60A	180F	120F	120A	0
B	75A	225A	300A	350A	650A
Total	135A	45A	180A	470A	650A

6. (a) **SBT LTD., a newly established manufacturing company, has an installed capacity to produce 100000 units of a consumer product annually. However, its practical capacity is only 90%.**

The actual capacity utilization may be substantially lower, as the firm is new to the market and the demand is uncertain.

The following budget has been prepared for 90% capacity utilization.



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Particulars	Cost per unit (₹)
Direct Materials	12
Direct Labour	8
Direct Expenses	5
Production Overheads	10 (40% Variable)
Administrative Overheads	5 (100% Fixed)
Selling and Distribution	6 (50% Variable)

Prepare the budgets at 70% and 80% levels of capacity utilization giving clearly the:

- (i) Unit Variable Costs
 - (ii) Unit Fixed Cost
 - (iii) Total Cost under various heads at all the above levels. [7]
- (b) Summarised below are the revenue and expenditure figures of AB Ltd. for the month of March to August, 2025:

Month	Sales (₹)	Purchases (₹)	Wages (₹)	Expenses (₹)
March	6,50,000	4,00,000	1,20,000	50,000
April	7,00,000	4,80,000	1,50,000	50,000
May	7,50,000	4,50,000	1,50,000	60,000
June	8,00,000	4,80,000	1,80,000	60,000
July	8,20,000	4,00,000	1,80,000	80,000
August	8,90,000	5,00,000	2,00,000	80,000

The following further information is available:

- (i) 10% Purchases and sales are on cash basis.
- (ii) Advance payment of income tax in August 2025 ₹ 50,000.
- (iii) Plant purchased and price to be paid in June 2025 ₹ 1,00,000.
- (iv) Time lag-

Credit sales	2 months
Credit purchases	1 month
Wages	½ month
Expenses	½ month

Required:

Prepare a Cash Budget for 3 months starting on 1st June 2025 when cash balance is ₹ 2,00,000. [7]



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Answer:

(a)

SBT Ltd.

Budget for 70% and 80% level of capacity utilization

Amount in (₹)

Particulars		90%	70%	80%
Units (A)		90,000	70,000	80,000
Direct Material	₹12	10,80,000	8,40,000	9,60,000
Direct Labour	₹8	7,20,000	5,60,000	6,40,000
Direct Expenses	₹5	4,50,000	3,50,000	4,00,000
Variable Production Overhead	₹4	3,60,000	2,80,000	3,20,000
Variable Selling Overhead	₹3	<u>2,70,000</u>	<u>2,10,000</u>	<u>2,40,000</u>
Total Variable Cost (B)		<u>28,80,000</u>	<u>22,40,000</u>	<u>25,60,000</u>
Variable Cost/unit (C) = (B) ÷ (A)		₹32	₹32	₹32
Fixed Production Overhead	(₹)	5,40,000	5,40,000	5,40,000
Fixed Administrative Overhead	(₹)	4,50,000	4,50,000	4,50,000
Fixed Selling Overhead	(₹)	2,70,000	2,70,000	2,70,000
Total Fixed Overhead (D)(₹)		12,60,000	12,60,000	12,60,000
Fixed Cost/unit (E) = (D) ÷ (A)	(₹)	14	18	15.75
Total Cost/unit (F) = (C) + (E)	(₹)	46	50	47.75
Total Costs (B) +(D)		41,40,000	35,00,000	38,20,000

(b) Working Notes:

(i) Collection from Debtors:

	June (Rs.)	July (Rs.)	August (Rs.)
Sales for April, May and June respectively	7,00,000	7,50,000	8,00,000
Less: 10% for Cash Sales	70,000	75,000	80,000
Credit Sales (Collection from Debtors)	6,30,000	6,75,000	7,20,000

(ii) Payment to Creditors:

	June (Rs.)	July (Rs.)	August (Rs.)
Purchases for the preceding month	4,50,000	4,80,000	4,00,000
Less: 10% for Cash Purchases	45,000	48,000	40,000
Credit Purchases (Payment to Creditors)	4,05,000	4,32,000	3,60,000



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Cash Budget (for June to August ,2025)

Particulars	June (Rs.)	July (Rs.)	August (Rs.)
Cash Balance	2,00,000	1,32,000	1,67,000
Receipts:			
Cash Sales	80,000	82,000	89,000
Collection from Debtors	6,30,000	6,75,000	7,20,000
Total Receipts (A)	<u>9,10,000</u>	<u>8,89,000</u>	<u>9,76,000</u>
Payments:			
Cash Purchases	48,000	40,000	50,000
Payment to Creditors	4,05,000	4,32,000	3,60,000
Wages	1,65,000	1,80,000	1,90,000
Expenses	60,000	70,000	80,000
Plant	1,00,000		
Advance Income Tax			50,000
Total Payments (B)	7,78,000	7,22,000	7,30,000
Cash Balance (A – B)	1,32,000	1,67,000	2,46,000

6. (a) Sandip Corporation has three divisions whose income statements and balance sheets are summarised below:

Division	X	Y	Z
Sales	₹10,00,000	(iv)	(vii)
Operating Income	₹50,000	₹ 60,000	₹ 10,000
Operating Assets	₹2,00,000	(v)	₹ 5,00,000
Asset Turnover	(i)	(vi)	0.5
Margin	(ii)	0.5%	4%
ROI	(iii)	2.5%	2%

Calculate the missing values through (i) to (vii) in the table above.

[7]

- (b) Explain the difficulties with Balanced Scorecard for measuring Performance.

[7]

Answer:

- (a) To find the missing values, we use the following formulas:

Asset Turnover = Sales / Operating Assets

Margin = (Operating Income / Sales) × 100

ROI = Margin × Asset Turnover

Division X

Given: Sales = ₹ 10,00,000, Operating Income = ₹ 50,000, Operating Assets = ₹ 2,00,000

- (i) Asset Turnover = ₹ 10,00,000 / ₹ 2,00,000 = 5
(ii) Margin = (₹ 50,000 / ₹ 10,00,000) × 100 = 5%
(iii) ROI = 5% × 5 = 25%



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Division Y

Given: Operating Income = ₹ 60,000, Margin = 0.50%, ROI = 2.5%

Step 1: Sales (iv)

Margin = (Operating Income / Sales) × 100

0.50% = (₹ 60,000 / Sales) × 100

Sales = ₹ 60,000 / 0.005 = ₹ 1,20,00,000

Step 2: Operating Assets (v)

Asset Turnover = Sales / Operating Assets

5 = ₹ 1,20,00,000 / OA

Operating Assets = ₹ 1,20,00,000 / 5 = ₹ 24,00,000

Step 3: Asset Turnover

(vi) ROI = Margin × Asset Turnover

2.5% = 0.50% × AT

Asset Turnover = 2.5 / 0.5 = 5

Division Z

Given: Operating Assets = ₹ 5,00,000, Asset Turnover = 0.5, Margin = 4%

(vii) **Asset Turnover = Sales / Operating Assets**

0.5 = Sales / ₹ 5,00,000

Sales = 0.5 × ₹ 5,00,000 = ₹ 2,50,000

(b) Difficulties with Balanced Scorecard for measuring Performance

There are several problems with the balanced scorecard:

- The efficacy of the balanced scorecard in achieving the organization's strategic goals must be monitored closely. If all of the non-financial targets are achieved but the financial targets are not achieved, then probably a strong causal relationship does not exist between the non-financial indicators chosen for monitoring and the financial goals. The non-financial indicators may need to be re-evaluated and changed.
- In order to implement balanced scorecard performance measurement, a firm must have extensive enterprise resource planning
- If the balanced scorecard is used as a "command and control" document that is used to control behaviour, employees may "make the numbers" but not be committed to achieving the organization's goals. Instead, the balanced scorecard should be used to create an environment in which everyone can learn and grow.
- Non-financial data is not subject to control or audit and thus its reliability could be questionable.
- It is difficult to use scorecards for comparisons across business units because each business unit has its individualized scorecard. Scorecard evaluation is more effective when it is used to judge the progress of an individual business unit relative to the prior year or relative to its goals rather than when used to



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compare a manager's performance with that of other managers or a segment's performance with that of other segments.

8. (a) Explain the meaning of decision-making under conditions of certainty. [7]
- (b) Explain the significance of identifying responsibility centres in responsibility accounting. [7]

Answer:

(a)

1. The Minimax (Maximin) Criterion

The maximin (minimax) criterion is based on the conservative attitude of making the best of the worst-possible conditions). The logic is simple. The decision maker would zero upon such a decision which will give him optimum results under the given condition.

If $p(a_i, s_j)$ is loss or cost, then selection of an action is made on the basis of minimax criterion as the objective would be to minimise loss or cost (as the payoff denotes loss or cost)

On the contrary, If $p(a_i, s_j)$ is profit or revenue, then selection of an action is made on the basis of maximin criterion as the objective would be to maximise profit or revenue (as the payoff denotes profit or revenue).

2. The Laplace Criterion

This is based on the principle of insufficient reason. The simple argument is that because the probability distributions are not known, there is no reason to believe that the probabilities associated with the states of nature are different. The alternatives are thus evaluated on the basis of the assumption that all states of nature are equally likely to occur. Given that the payoff $p(a_i, s_j)$ represents gain, the best alternative is the one that yields the maximum expected value (using equal probability). And in situation payoff $p(a_i, s_j)$ represents loss the minimum value represents the best alternative.

3. The Savage Criterion

Under this rule, the degree of conservatism in the minimax (maximin) is moderated by replacing the (gain or loss) payoff matrix $p(a_i, s_j)$ with a loss (or regret) matrix, $r(a_i, s_j)$. This is also known as minimax regret criterion. Since the payoff matrix represents cost, Minimax criterion is to be applied on the basis of the conservative principle.

4. The Hurwicz Criterion

The minimax and the maximin criteria, discussed above, assumes that the decision-maker is either optimistic or pessimistic. These are, as such, two extreme cases and a more realistic approach would be to consider the degree of optimism or pessimism of the decision-maker. The Hurwicz criterion, is designed to represent different decision-making attitudes, ranging from the most liberal (optimistic) to the most conservative (pessimistic). This is also referred as condition of equal likelihood.

One parameter α is used as the index of optimism. If $\alpha = 0$, then the criterion reduces to conservative minimax criterion, on the basis of the best of the worst conditions. If $\alpha = 1$, then the criterion is generous because it is based on the underlying assumption of the best of the best conditions. The degree of optimism (or pessimism) can be adjusted by selecting a value of α between 0 and 1. In the absence of strong feeling regarding extreme optimism and extreme pessimism, $\alpha = 0.5$ which indicates a fair choice, neither.



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(b)

Identification of Responsibility Centers:

1. The whole concept of responsibility accounting is focused around identification of responsibility centres.
2. The responsibility centres represent the sphere of authority or decision points in an organisation.
3. In a small firm, one individual or a small group of individuals, who are usually the owners may possibly manage or control the entire organisation.
4. However, for effective control, a large firm is, usually, divided into meaningful segments, departments or divisions. These sub-units or divisions of organisation are called responsibility centres.
5. A responsibility centre is under the control of an individual who is responsible for the control of activities of that sub-unit of the organisation.
6. This responsibility centre may be a very small sub-unit of the organisation, as an individual could be made responsible for one machine used in manufacturing operations, or it may be a very big division of the organization, such as a divisional manager could be responsible for achieving a certain level of profit from the division and investment under his control.
7. However, the general guideline is that “the unit of the organisation should be separable and identifiable for operating purposes and its performance measurement possible.