Mock Test Paper - Series II: August, 2025

Date of Paper: 7th August, 2025

Time of Paper: 10 A.M. to 1 P.M.

INTERMEDIATE: GROUP – II

PAPER – 4: COST AND MANAGEMENT ACCOUNTING

Answers are to be given only in English except in the case of the candidates who have opted for Hindi medium. If a candidate has not opted for Hindi medium his/ her answer in Hindi will not be valued.

Working notes should form part of the answer.

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs) for 30 marks*
3. *Part II comprises questions which require descriptive type answers for 70 marks.*

Part I is compulsory.

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

PART I - Case Scenario based MCQs (30 Marks)

Case Scenario 1

ZEN Manufacturing Pvt. Ltd., headquartered in Pune, Maharashtra, is a mid-sized but rapidly growing enterprise specializing in the production of precision-engineered automobile components tailored specifically for the electric vehicle (EV) industry. With India's EV segment witnessing exponential growth driven by sustainability goals and government incentives, ZEN has emerged as a trusted Tier-2 supplier to some of the country's leading electric vehicle manufacturers.

The company operates with a mission to deliver high-quality, durable, and technologically advanced components that meet stringent safety and efficiency standards. Its operations encompass R&D, material procurement, in-house manufacturing, and logistics support — all backed by a strong team of engineers, production planners, and administrative personnel.

With a focus on continuous process improvement and cost competitiveness, ZEN undertakes annual internal cost audits to evaluate operational efficiency, identify cost leakages, and support strategic decision-making. As part of this year's financial review for the period ending 31st March, 2025, the company has appointed you, a newly hired Cost Consultant, to analyze

its cost performance, prepare a comprehensive cost sheet, and evaluate the profitability of its operations based on the financial data provided.

Particulars	Amount (₹)
Purchase of raw materials	96,50,000
Consumable materials used	5,25,000
Direct labour wages	72,80,000
Freight and carriage inward	2,15,000
Wages to floor supervisors and store assistants	9,60,000
Indirect wages to factory staff	1,75,000
R&D expenses related to enhancing production methods	11,20,000
Salaries to accounts and admin staff	8,50,000
Penalty paid for the late payment of interest	80,000
Employer's contribution to EPF & ESI	8,00,000
Electricity and fuel used in production	30,50,000
Production scheduling & planning office expenses	13,50,000
Delivery personnel salaries	15,20,000
Income tax for AY 2024-25	3,10,000
Statutory audit fees	2,20,000
Cost audit fees	95,000
Honorarium to independent board members	10,50,000
Contribution to disaster relief fund	1,40,000
Total Value of Sales	3,12,80,000

Inventory details:

Particulars	As on 01-04-2024 (₹)	As on 31-03-2025 (₹)
Raw Materials	7,10,000	5,40,000
Work-in-Progress	8,50,000	7,25,000
Finished Goods	16,20,000	11,80,000

Based on the above information, as a Cost Consultant you are required to answer the following 5 MCQs:

1. What is the Prime Cost of ZEN Manufacturing Pvt. Ltd. for the year ended 31st March 2025?

   (a) ₹ 2,16,90,000

(b) ₹ 2,18,90,000

(c) ₹ 2,13,10,000

(d) ₹ 2,09,60,000

2. What is the Factory Cost of ZEN Manufacturing Pvt. Ltd.?

(a) ₹ 2,29,50,000

(b) ₹ 2,28,25,000

(c) ₹ 2,54,20,000

(d) ₹ 2,16,90,000

3. What is the Cost of Production of ZEN Manufacturing Pvt. Ltd?

(a) ₹ 2,28,25,000

(b) ₹ 2,29,50,000

(c) ₹ 2,54,20,000

(s) ₹ 2,13,10,000

4. What is the Cost of Goods Sold (COGS) for ZEN Manufacturing Pvt. Ltd. in FY 2024-25?

(a) ₹ 2,54,20,000

(b) ₹ 2,58,60,000

(c) ₹ 2,95,95,000

(d) ₹ 3,12,80,000

5. What is the Net Profit for ZEN Manufacturing Pvt. Ltd.?

(a) ₹ 22,15,000

(b) ₹ 16,85,000

(c) ₹ 19,20,000

(d) ₹ 2,95,95,000 **(5 x 2 = 10 Marks)**

Case Scenario 2

SunBright Appliances Ltd., founded in 2005, is a growing Indian manufacturer of three types of home appliances: Air Conditioners (ACs), Washing Machines (WMs), and Refrigerators (RFs). The company has built a reputation for quality and durability in the mid-range market segment and has seen stable demand across urban and semi-urban markets. In recent years, it has

invested in modernizing its production facilities with semi-automated machinery and upgraded ERP systems to support cost control and performance monitoring.

SunBright is currently facing a multi-dimensional challenge:

- Increasing input costs (particularly raw materials and electricity)
- Intense competition from both multinational brands and low-cost domestic players
- Demand fluctuation due to seasonal sales cycles and changing consumer preferences
- Pressure on profit margins, especially in the washing machine segment
- Sustainability targets and pressure to reduce carbon footprint by optimizing energy usage and waste

To stay competitive, the board has asked the finance and operations teams to assess:

- Cost structures and process efficiencies
- Profitability by product line
- Feasibility of accepting foreign bulk orders
- Operational variances impacting budgets and performance

Following data is available for the quarter:

Particulars	ACs	WMs	RFs
Units Produced	5,000	6,000	4,000
Units Sold	5,000	6,000	4,000
Direct Material Cost per Unit	₹ 7,500	₹ 5,000	₹ 6,000
Direct Labour Hours per Unit	6 hrs	4 hrs	5 hrs
Direct Labour Rate	₹ 250/hr	₹ 250/hr	₹ 250/hr
Selling Price per Unit	₹ 18,000	₹ 14,000	₹ 16,000
Standard Labour Hours	5.5 hrs	3.5 hrs	5.5 hrs

Overhead Costs for the Quarter:

Activity	Total Overhead (₹)	Cost Driver	Driver Quantity (Total)
Machine Setups	₹ 9,00,000	No. of setups	180 setups
Quality Inspections	₹ 6,00,000	No. of inspections	300 inspections
Material Handling	₹ 7,50,000	No. of material moves	500 moves
Utilities & Maintenance	₹ 15,00,000	Machine hours	30,000 machine hours

Activity Driver Consumption:

Product	Setups	Inspections	Material Moves	Machine Hours
ACs	60	90	200	12,000
WMs	70	100	150	10,000
RFs	50	110	150	8,000

SunBright also received a special order from a foreign buyer for 500 WMs at ₹ 12,000 each. This order requires an Additional packaging cost of ₹ 150/unit. However, no marketing costs will be incurred. Also, it can only be accepted fully.

Budgeted overhead of the company is ₹ 37,00,000.

On the basis of above information and requirements of the board, you are required to answer the following questions:

6. What is the total product cost per unit using Activity-Based Costing for ACs, WMs, RFs respectively?

   (a) ACs – ₹ 9,276.00, WMs – ₹ 6,212.50, RFs – ₹ 7,523.75

   (b) ACs – ₹ 9,560.50, WMs – ₹ 6,500.00, RFs – ₹ 7,800.00

   (c) ACs – ₹ 9,000.00, WMs – ₹ 6,065.55, RFs – ₹ 7,223.75

   (d) ACs – ₹ 8,800.00, WMs – ₹ 6,100.00, RFs – ₹ 7,300.00

7. What is the profit per unit and total profit for ACs, WMs, RFs respectively?

   (a) Profit/unit: ACs – ₹ 8,500.00, WMs – ₹ 7,500.00, RFs – ₹ 8,000.00;

   Total Profit: ACs – ₹ 4,25,00,000, WMs – ₹ 4,50,00,000, RFs – ₹ 3,20,00,000

   (b) Profit/unit: ACs – ₹ 8,724.00, WMs – ₹ 7,787.50, RFs – ₹ 8,476.25;

   Total Profit: ACs – ₹ 4,36,20,000, WMs – ₹ 4,67,25,000, RFs – ₹ 3,39,05,000

   (c) Profit/unit: ACs – ₹ 8,250.00, WMs – ₹ 7,250.00, RFs – ₹ 8,100.00;

   Total Profit: ACs – ₹ 4,12,50,000, WMs – ₹ 4,35,00,000, RFs – ₹ 3,24,00,000

   (d) Profit/unit: ACs – ₹ 8,000.00, WMs – ₹ 7,000.00, RFs – ₹ 7,800.00;

   Total Profit: ACs – ₹ 4,00,00,000, WMs – ₹ 4,20,00,000, RFs – ₹ 3,12,00,000

8. Calculate Total Labour Efficiency Variance and Labour Rate Variance.

   (a) Labour Efficiency Variance: ₹ 5,00,000 (Favorable), Labour Rate Variance: ₹ 0

   (b) Labour Efficiency Variance: ₹ 7,50,000 (Adverse), Labour Rate Variance: ₹ 1,00,000 (Favorable)

(c) Labour Efficiency Variance: ₹ 8,75,000 (Adverse), Labour Rate Variance: ₹ 0

(d) Labour Efficiency Variance: ₹ 6,25,000 (Adverse), Labour Rate Variance: ₹ 2,50,000 (Adverse)

9. If it has idle capacity of only 200 WMs assuming 50% overheads is variable. Should the company accept the foreign order along with reason?

(a) Yes, because the offer price is above variable cost and no capacity issue exists

(b) Yes, because accepting the full order causes a net profit of ₹ 5,03,750

(c) No, because idle capacity is not sufficient for full order.

(d) No, because accepting the full order causes a loss of ₹ 11,87,500 due to opportunity cost of reduced regular production

10. What is the Total Overhead Variance?

(a) ₹ 25,000 (Favorable)

(b) ₹ 0

(c) ₹ 37,50,000 (Adverse)

(d) ₹ 50,000 (Adverse) **(5 x 2 = 10 Marks)**

11. A machine which originally cost ₹ 25,000 has an estimated life of 10 years and is to be depreciated at ₹ 2,500 per year. It has remained idle recently due to a lack of orders. A special job has now been received that would require the use of the machine for three months. The current net realisable value of the machine is ₹ 18,000. If used for the order, its value is expected to fall to ₹ 15,000. The routine maintenance cost of the machine is ₹ 500 per month when idle. With usage, maintenance and repair costs are expected to increase to ₹ 700 per month. Additionally, a temporary machine operator would need to be hired at ₹ 800 per month for the duration of the job.

What would be the relevant cost of using the machine for the special order?

(a) ₹ 3,600

(b) ₹ 4,200

(c) ₹ 4,800

(d) ₹ 6,000 **(2 Marks)**

12. A company plans to produce 50,000 units during the budget period. To produce 1 unit of finished goods, the company requires 5 units of raw material, including an allowance for 5% raw material wastage during production. The company currently has 90,000 units of

raw material in stock and wishes to maintain an ending inventory of 1,20,000 units of raw material at the end of the budget period.

How many units of raw material should the company plan to purchase during the budget period?

(a) 3,45,000 units

(b) 3,50,000 units

(c) 2,80,000 units

(d) 3,70,000 units **(2 Marks)**

13. Consider the following data for a production process:

- Opening Work-in-Progress: 3,000 units (Degree of completion: 60%)
- Units introduced and completed during the period: 6,000 units
- Closing Work-in-Progress: 4,000 units (Degree of completion: 70%)

What is the equivalent production under the FIFO method in process costing?

(a) 9,600 units

(b) 9,800 units

(c) 10,000 units

(d) 8,600 units **(2 Marks)**

14. In a factory, a worker is paid ₹ 200 per day as basic pay, along with a Dearness Allowance (D.A.) of 120% of the basic pay, for working 6 days a week, 8 hours each day. He is allowed a 25 minutes lunch break and a 15 minutes tea break during his shift. Throughout the week, his time card recorded a total of 13 hours charged to Job A, 12 hours to Job B, and 15 hours to Job C. These hours reflect the time spent on each specific task during the workweek.

The time that was not assigned to specific jobs was considered abnormal idle time, as it was spent waiting for the next job to become available. This waiting time, which wasn't booked to any particular job, represents lost time that could have been used more efficiently if there had been a continuous flow of work.

CALCULATE the amount of wages to be allocated to different jobs and STATE the treatment of abnormal idle time.

(a) Job A - ₹ 780, Job B - ₹ 720, Job C- 900 and wages paid for Abnormal idle time - ₹ 240 to be charged to Job C as maximum time is devoted to this Job.

(b) Job A - ₹ 900, Job B - ₹ 720, Job C- 780 and wages paid for Abnormal idle time - ₹ 240 to be charged to Costing Profit & Loss A/c.

(c) Job A - ₹ 780, Job B - ₹ 720, Job C- 900 and wages paid for Abnormal idle time - ₹ 240 to be charged to Costing Profit & Loss A/c.

(d) Job A - ₹ 900, Job B - ₹ 720, Job C- 780 and wages paid for Abnormal idle time - ₹ 240 to be charged to Job C as maximum time is devoted to this Job.

(2 Marks)

15. PJ Ltd. is currently preparing cash budget for the year 2025. An extract from its sales budget for the same year shows the following sales values:

	(₹ '000)
March	750
April	900
May	1,000
June	600

40% of its sales are expected to be for cash. Of its credit sales, 80% are expected to be realised in the next month and the balance in the second month. The value of sales receipts to be shown in cash budget for May 2025 is (in ₹ '000):

(a) 840

(b) 922

(c) 948

(d) 1060 **(2 Marks)**

PART-II Descriptive Questions (70 Marks)

Question No. **1** is compulsory.

Attempt any **four** questions out of the remaining **five** questions.

1. (a) C.T Ltd. manufactures and sells a single product X whose selling price is ₹ 100 per unit and the variable cost is ₹ 60 per unit.

(i) If the Fixed Costs for this year are ₹ 24,00,000 and the annual sales are at 60% margin of safety, CALCULATE the rate of net return on sales, assuming an income tax level of 40%

(ii) For the next year, it is proposed to add another product line Y whose selling price would be ₹ 150 per unit and the variable cost ₹ 100 per unit. The total

fixed costs are estimated at ₹ 28,00,000. The sales mix of X : Y would be 5 : 3. COMPUTE the break- even sales in units for both the products.

(5 Marks)

(b) The assembly department of a manufacturing company employs 50 direct workers. Each worker earns a wage of ₹500 per week for a standard 40-hour workweek. When required, the workers may perform overtime up to 10 hours per week per worker, with overtime paid at time rate plus 50% premium.

Currently, the workers produce 5 units per hour on average, which is considered the standard output rate. The company is planning to introduce an incentive scheme expecting this rate to increase to 7 units per hour. Under the new scheme, workers will still be permitted to work overtime if needed, but no incentive will be paid on overtime hours.

The management is evaluating the introduction of either the Halsey Plan or the Rowan Plan to improve productivity. The company has a target weekly output of 17,500 units. The selling price per unit is ₹15, while the direct material cost is ₹10 per unit. The variable overheads are ₹0.60 per direct labour hour, and fixed overheads are ₹12,000 per week.

PREPARE a comparative statement showing the effect on the company's weekly profit under the following alternatives:

(a) Continuing with the existing wage system (no incentive)

(b) Introducing the Halsey Plan

(c) Introducing the Rowan Plan **(5 Marks)**

(c) Premier Industries has a small factory where 52 workers are employed on an average for 25 days a month and they work 8 hours per day. The normal down time is 15%. The firm has introduced standard costing for cost control. Its monthly budget for March, 2025 shows that the budgeted variable and fixed overhead are ₹ 1,06,080 and ₹ 2,21,000 respectively.

The firm reports the following details of actual performance for March,2025, after the end of the month:

Actual hours worked	8,100 hrs.
Actual production expressed in standard hours	8,800 hrs.
Actual Variable Overheads	₹ 1,02,000
Actual Fixed Overheads	₹ 2,00,000

You are required to CALCULATE:

(i) Variable Overhead Variances:

(a) Variable overhead expenditure variance.

(b) Variable overhead efficiency variance.

(ii) Fixed Overhead Variances:

(a) Fixed overhead capacity variance.

(b) Fixed overhead efficiency variance. **(4 Marks)**

2. (a) IOT Solutions Tech Pvt. Ltd., a leading provider of innovative IoT solutions and cutting-edge technology products, outlines the following budgeted and actual hours used for its two central corporate support departments, Finance and IT. These departments collaborate with one another and provide essential support to the company's two manufacturing divisions: Mobile Devices (MD) and Desktop Solutions (DS).

Particulars	Support Department		Operating Department	
	Finance	IT	MD	DS
Budgeted Usage				
Finance (hours)		750	4,500	2,250
(%)		10%	60%	30%
IT (hours)	7,500		67,500	75,000
(%)	5%		45%	50%
Actual Usage				
Finance (hours)		1,200	1,200	3,600
(%)		20%	20%	60%
IT (hours)	6,000		79,800	34,200
(%)	5%		66.5%	28.5%

The overhead costs under these two support departments before any inter-department cost allocations are also outlined as below:

Particulars	Support Department	
	Finance (₹)	IT (₹)
Budgeted fixed overhead costs	22,96,800	30,30,500
Actual variable overhead costs	12,76,000	38,28,000

The company uses dual- rate method of apportioning support departments cost to its operating departments where fixed overhead costs are apportioned using budgeted hours used by other departments, and variable overhead costs are apportioned using actual hours used by other departments.

You are required to PREPARE a statement apportioning the costs of support departments over the operating departments using:

(i) Direct method,

(ii) Step-down method (apportioning the Finance department costs first), and

(iii) Reciprocal method (using simultaneous equation). **(4 + 4 + 4 = 12 Marks)**

(b) A juice company receives an annual order for 2,00,000 liters from a single customer. The order includes various flavors, each produced in a continuous run, with machinery reconfigured between flavors. Finished batches are stored and delivered in a single shipment before production of the next flavor begins.

The setup cost is ₹ 600 for each setup, and the required services are provided by an external company as needed.

Holding costs for rented storage are ₹ 600 per square meter annually, with each square meter holding 500 liters of juice.

You are required to CALCULATE the batch size which will minimise the total cost.

(2 Marks)

3. (a) A Ltd. produces a product 'X' using a raw material D. To produce one unit of X, 2 kg of D is required. As per the sales forecast conducted by the company, it will able to sale 10,000 units of X in the coming year. The following is the information regarding the raw material D:

(i) The Re-order quantity is 200 kg. less than the Economic Order Quantity (EOQ).

(ii) Maximum consumption per day is 20 kg. more than the average consumption per day.

(iii) There is an opening stock of 1,000 kg.

(iv) Time required to get the raw materials from the suppliers is 4 to 8 days.

(v) The purchase price is ₹ 125 per kg.

There is an opening stock of 900 units of the finished product X.

The rate of interest charged by bank on Cash Credit facility is 13.76%.

To place an order company has to incur ₹ 720 on paper and documentation work.

From the above information, FIND out the followings in relation to raw material D:

(i) Re-order Quantity

(ii) Maximum Stock level

(iii) Minimum Stock level

(iv) Calculate the impact on the profitability of the company by not ordering the EOQ.

[Take 364 days for a year] **(8 Marks)**

(b) S Ltd. has prepared budget for the coming year for its two products A and B.

	Product A (₹)	**Product B (₹)**
Production & Sales unit	6,000 units	9,000 units
Raw material cost per unit	60.00	42.00
Direct labour cost per unit	30.00	18.00
Variable overhead per unit	12.00	6.00
Fixed overhead per unit	8.00	4.00
Selling price per unit	120.00	78.00

After some marketing efforts, the sales quantity of the Product A & B can be increased by 1,500 units and 500 units respectively but for this purpose the variable overhead and fixed overhead will be increased by 10% and 5% respectively for the both products.

You are required to PREPARE flexible budget for both the products:

(i) Before marketing efforts

(ii) After marketing efforts. **(6 Marks)**

4. (a) Pintoo Pvt. Ltd. runs a straightforward chemical process that transforms a single material into three distinct products, named Ae, Bee, and Cee. These three end products are separated simultaneously at a single split-off point.

Products Ae and Bee are ready for sale immediately after the split-off, with no additional processing or costs. However, Product Cee undergoes further processing before it can be sold. There is no market price available for Cee at the split-off point.

For the current year, the selling price of the products and the units sold were as follows:

Product	Units sold (tons)	Selling price (₹)
Ae	558	4,500
Bee	1,581	3,375
Cee	2,208	2,250

Cost related information for the same year is as follows:

Particulars	Amount (₹)
Total joint manufacturing costs	56,25,000
Additional cost spent to finish product Cee	27,90,000

There were no opening or closing work-in-progress, however, the following inventories of completed units were on hand at the end of the year:

Product	Units (tons)
Ae	540
Bee	180
Cee	75

You are required to:

(i) COMPUTE the cost of inventories of Ae, Bee and Cee for Balance Sheet purpose and cost of goods sold for income statement purpose using Net realizable value (NRV) method of joint cost allocation.

(ii) PREPARE Income Statement showing gross margin percentage of Ae, Bee and Cee. **(5 + 2 = 7 Marks)**

(b) The financial books of a company reveal the following data for the year ended 31st March, 2025:

	(₹)
Opening Stock:	
Finished goods 875 units	76,525
Work-in-process	33,000
01.04.2024 to 31.3.2025	
Raw materials consumed	7,84,000
Direct Labour	4,65,000

Factory overheads	2,65,000
Goodwill written off	95,000
Administration overheads	3,15,000
Interest paid	72,000
Bad Debts	21,000
Selling and Distribution Overheads	65,000
Interest received	18,500
Rent received	72,000
Sales 14,500 units	20,80,000
Closing Stock: Finished goods 375 units	43,250
Work-in-process	48,200

The cost records provide as under:

Factory overheads are absorbed at 60% of direct wages.

Administration overheads are recovered at 20% of factory cost.

Selling and distribution overheads are charged at ₹ 5 per unit sold.

Opening Stock of finished goods is valued at ₹ 105 per unit.

The company values work-in-process at factory cost for both Financial and Cost Profit Reporting.

Required:

(i) PREPARE statements for the year ended 31st March, 2025 show

- the profit as per financial records
- the profit as per costing records.

(ii) PRESENT a statement reconciling the profit as per costing records with the profit as per Financial Records. **(7 Marks)**

5. (a) BPS is a public school that operates a comprehensive transportation system with 25 buses, each serving different routes to transport students to and from school. Given the large student population requiring bus services, the school has implemented a dual-shift system where each bus operates twice daily during both morning and afternoon sessions. The morning schedule is strategically designed with the first trip collecting senior students, followed by a second trip one hour later for junior students, while the afternoon reverses this pattern with junior

students departing first and senior students following an hour later. Each bus travels a one-way distance of 8 kilometers per route, and all vehicles are housed in the school's on-site garage facility. The school works 22 days per month and observes vacation closures during May and June, yet the bus fee structure requires students to pay for all 12 months of the year regardless of the vacation periods.

The details of expenses for a year are as under:

Driver's salary – payable for all the 12 in months	₹ 12,000 per month per driver
Cleaner's salary payable for all the 12 months	₹ 8,000 per month per cleaner
License fees, taxes etc.	₹ 8,400 per bus per annum
Insurance Premium	₹ 15,600 per bus per annum
Repairs and Maintenance	₹ 20,500 per bus per annum
Purchase price of the bus	₹ 20,00,000 each
Life of the bus	16 years
Scrap value	₹ 1,60,000
Diesel Cost	₹ 84.50 per litre

Each bus gives an average of 5 km. per litre of diesel. The seating capacity of each bus is 40 students.

The school follows differential transportation fees based on distance travelled as under:

Students picked up and dropped within the range of distance from the school	Transportation fee	Percentage of students availing this facility
2 km.	25% of Full	15%
4 km.	50% of Full	30%
8 km.	Full	55%

Due to excess pollution, the school remained closed from December 2024 to January 2025. Drivers and cleaners were paid 75% of their salary during these period. Repairing cost reduced to 90% for the year 2024.

Ignore the interest cost.

Required:

(i) PREPARE a statement showing the expenses of operating a single bus and the fleet of 25 buses for a year.

(ii) FIND OUT transportation fee per student per month in respect of:

(a) Students coming from a distance of upto 2 km. from the school.

(b) Students coming from a distance of upto 4 km. from the school; and

(c) Students coming from a distance of upto 8 km. from the school.

(iii) CALCULATE the minimum bus fare that has to be recovered from the students for the year 2025. **(9 Marks)**

(b) STATE with a brief reason whether you would recommend an activity based system of costing in each of the following independent situations:

(i) Company K produces one product. The overhead costs mainly consist of depreciation.

(ii) Company L produces 5 different products using different production facilities.

(iii) A consultancy firm consisting of lawyers, accountants and computer engineers provides management consultancy services to clients.

(iv) Company S produces two different labour intensive products. The contribution per unit in both products is very high. The BEP is very low. All the work is carried on efficiently to meet the target costs. **(5 Marks)**

6. (a) STATE the method of costing and the suggested unit of cost for the following nature of output along with the one example of industry.

Nature of Output	**Method**	**Cost**	**Examples of Industries**
A Series of Processes			
Similar units of a Single Product, produced by Single Process			
Customer Specifications: single Unit			
Consisting of multiple varieties of activities and processes			

(5 Marks)

(b) You are the finance manager of a medium-sized manufacturing company. Recently, the management noticed that the actual expenses for the last quarter significantly exceeded the amounts allocated in the fixed budget, primarily due to unexpected fluctuations in production levels and raw material prices. The CEO has asked you to suggest how the budgeting system can be improved to address such deviations in the future.

Required:

IDENTIFY and EXPLAIN which type of budgeting system you would recommend in this situation and justify your answer with at least three key advantages it offers over the current system. **(5 Marks)**

(c) EXPLAIN spoiled and defective work. Also, EXPLAIN the treatment of defect under the following circumstances:

Circumstances	Treatment
(1) Where a percentage of defective work is allowed in a particular batch as it cannot be avoided.	
(2) Where defect is due to bad workmanship.	
(3) Where defect is due to the Inspection Department wrongly accepting incoming material of poor quality.	

(4 Marks)

OR

(c) XYZ Ltd. is experiencing a high rate of employee turnover in its production department, resulting in increased training costs, recruitment expenses, and loss of productive hours. As the cost accountant, you are asked to analyze the situation and recommend two practical measures the company can implement to reduce these costs and improve employee retention. IDENTIFY and EXPLAIN two major cost impacts of high employee turnover on the organization. **(4 Marks)**