THE INSTITUTE OF BANKERS PAKISTAN

ISQ Examination (Winter-2011)

Management Accounting for Financial Services – Stage-III

Section-I

Multiple Choice Questions

Number of Questions: 30

Marks: 45

Allotted Time: 60 minutes

Section-II

Constructed Response Questions

Number of Questions: 8

Marks: 55

Allotted Time: 120 minutes

Q.31 **What are the two objectives of financial statement fraud? Explain THREE techniques for manipulating financial statements.**

Q.32 **State any TWO concepts that are required to initiate and maintain a responsibility accounting system.**

Q.33 **What is Customer Profitability Analysis? Identify the components for calculating CPA.**

Q.34 **Fixed and variable cost analysis enables management to decide whether an incentive scheme would be attractive to both employers and employees.**

M/s Pakistan Dairy manufactures a single product "XYZ" which sells Rs.2,000. The cost of production have been estimated as follows:

Fixed cost per month – Rs.1,000,00

Variable Cost – Rs. 1200 per unit

The variable costs have been analyzed further.
a) Labour cost (2 hours at Rs.200 per hour) = Rs.400
b) Material and other cost = Rs.800

Demand for the product varies from 400 units to 800 units per month. The maximum output which can be achieved is currently only 600 units per month, because the available labour hours are restricted to 1,200 hours per month. The nature of the product is such that stocks of work-in-progress or finished goods cannot be stored.

An incentive scheme has been proposed whereby the payment to employee will be increased from Rs.200 to Rs.300 per hour, provided that the time taken to produce each unit is reduced from 2 hours to 1 ½ hours.

State the effect of the incentive scheme on employees' wages and company profits at the minimum demand of output per month?

Show calculations in the grid below:

	With the incentive scheme		Without the incentive scheme	
	Rs	Rs	Rs	Rs
Sales				
Material cost				
Labour costs				
Total Variable cost				
Contribution				
Fixed costs				
Profit				

Q.35 Print-Fine Company produces and sells ribbon cartridges for electric prin[…] The ribbons are sold to computer dealers for Rs.5.20 each. The firm's control[…] has determined that the following costs are currently required for the ribbon:

<u>Variable costs per ribbon</u>:	
Direct materials	2.20
Direct labour	0.40
Manufacturing overhead	0.35
Selling	0.05
Total	3.00

<u>Fixed costs per moth</u>:	
Manufacturing overhead	24000
Selling and administrative	6000
Total	30000

The variable selling costs are freight charges incurred to ship the ribbons to the retail outlets. The firm has the capacity to produce 30,000 ribbons per month without working overtime, although the current production level is only 25,000 ribbons.

The company is seeking ways to better utilize the production capacity and /or improve its profitability.

<u>Required</u>:

Use differential analysis to evaluate how each of the following opportunities would affect the monthly net income of Print-Fine Company. Consider each situation independently:

1. An importer in South America has offered to buy 5,000 ribbons at a price of Rs.3.80 each. The importer would pay all freight cost, but Print-Fine estimates that it would require additional selling and administrative expense of Rs 600 if the offer is accepted.

2. A French importer has offered to buy 8,000 ribbons on a one-time- only basis for Rs.4 each. The importer would pay all freight costs, but Print-Fine estimates that additional selling and administrative expenses of Rs 900 would be required with the offer. Assume that the firm cannot work overtime to increase its production capacity of 30,000 ribbons.

3. An importer in China has offered to buy 6000 ribbons at Rs 4 each. The importer would pay all freight costs, but Print –Fine estimates that additional selling and administrative expenses of Rs 700 would be required with the offer. Assume that the firm can work overtime to produce any ribbons required in excess of its production capacity of 30,000. Direct labor costs for ribbons produced during overtime would increase by 50%.

4. A supplier has offered to sell Print-Fine the 25,000 cartridges needed for the current production volume of ribbons of Rs 1 each. If this offer is accepted, variable manufacturing costs would decrease by 40%. In addition, the building currently used to produce the cartridges would be rented to another manufacturing company for Rs 1,000 per month.

Q.36 Corvallis Inc., employs 10 production workers, working 8 hours a day, [illegible] days per month, at a normal capacity 2,400 units. The direct labor wage rate is Rs 6.30 per hour; direct materials are budgeted at Rs 2 per unit produced. Fixed factory overhead is Rs 960; supplies average Rs 0.25 per direct labor hour; indirect labor is 1/6 of direct labor cost; and other charges are Rs 0.45 per direct labor hour .

<u>Required</u>:

The flexible budget at 60% and 80% of normal capacity, showing itemized manufacturing costs, total manufacturing cost, and total manufacturing cost per unit.

Q.37 The following figures are an extract from the financial statements of ABC Bank Ltd:

	Amount (Rs)
Total Assets	65,000
Cash & balance with treasury	4,250
Property plant & equipment	4,800
Markup & interest earned	3,846
Balance with other banks	618
Investments	18,500
Advances	33,000
Bills payable	960
Borrowing from financial institutions	14,000
Markup & interest expense	1,310
Lending to financial institutions	3,900
Deposit & other accounts	39,000
Fees & commission income	326
Dividend	41
Income from gain on foreign exchange	148
Other income	162

<u>Note</u>: That all figures are in millions and for the ease of reference rounded off to the nearest.

<u>Required</u>:

Define & calculate Net Interest Margin and Interest Spread for ABC Bank Limited

Q.38 What is financial forecasting and describe any FOUR forecasting errors.

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