ISQ Examination - Winter- 2012
Management Accounting for Financial Services - Stage- III

Q. What are 'cost', 'profit' and 'investment' centers? Explain with suitable examples.

Q. Differentiate between the following costs with the help of suitable examples:

a. Period and Product Costs
b. Controllable and Non-Controllable Costs
c. Fixed and Variable Costs
d. Relevant and Irrelevant Costs
e. Manufacturing and Non-Manufacturing Costs

Q. Define Interest Rate Risk and explain any of its four components.

Q. M/s Enehsar Ltd is a manufacturer of industrial generators. The company uses its facility to produce 40,000 units of an electrical switch used in the generators. The unit cost of the switch is as follows:

Description	Rs
Direct materials	23.40
Direct labor	22.30
Variable manufacturing overhead	1.40
Fixed manufacturing overhead	24.60
Unit cost	71.70

An outside supplier has offered to sell the company all of these switches it needs for Rs 59.20 a unit. If the company accepts this offer, the facilities now being used to make the switch could be used to make more units of another type of product that is in high demand. The additional contribution margin on this other product would be Rs 352,000 per year.

If the switch were purchased from the outside supplier, all of the direct labor cost of the part would be avoided. However, Rs 21.90 of the fixed manufacturing overhead cost being applied to the part would continue even if the part were purchased from the outside supplier. This fixed manufacturing overhead cost would be applied to the company's remaining products.

Required:

a. Define the following terms:- Relevant Cost, Opportunity Cost &Sunk Cost and give examples of each.

b. How much of the unit product cost of Rs 71.70 is relevant decision of whether to make or buy the part?

c. What is the net total rupee advantage/ disadvantage of purchasing the part rather than making it?

d. What is the maximum unit cost the company should be willing to pay an outside supplier for the switch, if the supplier commits to supplying all 40,000 units required each year?

Q. a. What is the basic concept of 'cost-plus' loan pricing model?

b. Identify three advantages that a cost-plus loan pricing model has over other models.

Q. Describe any FIVE techniques that can be used to predict the future financial performance of banks.

Q. Ayesha is the Product Manager for Car Loans. She is in the run for the position of Group Product Head and thus wants to keep her performance a cut above the others. The month has ended and the financial data is with her. The data shows the following:

	IN PKR	
	Actual Result	Static Budget
Loans Sold	8,000	8,500
Revenue	1,665,000	1,700,000
Variable Costs: Casual staff salaries and expenses	495,000	510,000
Communication costs	189,000	170,000
Stationery and computer items	144,000	119,000
Total variable cost	828,000	799,000
Contribution Margin	837,000	901,000
Fixed cost	830,000	850,000
Operating Income	7,000	51,000

Required:

a. Prepare a flexible budget for the month.

b. Find the flexible budget variances for revenue, variable costs and fixed costs.

c. Find the total sales volume variance.

d. Find the total static budget variance.

Q. Ramiz has been recently hired by Maghreb Bank as Manager Internal Audit. He has worked as the Assistant Manager Internal Audit at his previous job and is a highly respected professional. On the first day of his job, the CEO called him and expressed his fear that he thinks that the financial statements are manipulated and fraudulent activities are taking place at the bank. He asks Ramiz to look into this immediately and report back to CEO in three weeks time.

While going through the documents and financial statements, Ramiz notices the following:-

a. Car loans have been booked for 20 customers who have shown great interest in the product but have not given actual consent to buy the product.
b. Customer records are missing key data like telephone numbers and addresses.
c. A loan worth PKR 10.0 million sanctioned to an MNA of the ruling party has been written off.
d. The disclosure notes accompanying the financial statements are written in such a complex way that it is almost impossible to determine the actual event or transaction.
e. The financial statements show odd patterns in relationships of assets to other components of the financial report, such as sudden changes in the ratio of receivables to revenues.

Ramiz is worried and he can feel that there are clear indications of fraud and manipulations in the financial statements. He has decided to present a concrete and comprehensive report to the CEO so that appropriate actions could be taken.

Required:

Categorize the above mentioned frauds and manipulations on the basis of the heads given below:

a. Fictitious revenue
b. Inadequate disclosures
c. Concealed liabilities
d. Improper asset valuation
e. Revenue recognition or timing schemes

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