ISQ Examination - Summer-2013
Management Accounting for Financial Services - Stage- III

Q. A. Explain the following concepts and give ONE example of each:

- Contribution Margin
- Operating Leverage

Q. B. M/s Bilal Brothers sells fans only in the local market. Data relating to the company is as follows:

Selling Price	Rs.4,300/- each
Variable Cost	Rs.3,350/- each
Fixed Cost	Rs.115,000/-

Calculate and provide all the workings in support of your solution:

i. Break even sales in Rupees.

ii. If Bilal Bothers wants to earn a profit of Rs.350,000/- how many fans does it need to sell?

iii. What will be the firm's margin of safety (in Rupees) at the level of sales calculated in part (ii)?

Q. Classify each of the following costs as Manufacturing or Non-Manufacturing. Further, classify each non-manufacturing cost as distribution, selling, marketing, after-sales, research or administrative cost. Please provide your answer in the format below:

Sl.#	Activities		Non-Manufacturing					
		Manu-facturing	Distribu-tion	Selling	Marke-ting	After Sale	Research	Adminis-trative
1.	Wages paid to labor involved in production							
2.	Sales Commissions							
3.	Depreciation on delivery trucks							
4.	Product designing staff salaries							
5.	Property tax on Corporate Headquarters building							

6.	Operator of product helpline for customers							
7.	Gas and electricity for factory							
8.	Advertising							
9.	Salary and bonus for CEO							
10.	Accounting office staff salaries							

Q. A. Explain the concept of responsibility accounting.

Q. B. Explain any TWO advantages and ONE disadvantage of responsibility accounting.

Q. A. What is customer profitability analysis?

Q. B. Explain the relationship between customer profitability analysis and activity based costing.

Q. A. What is interest sensitive gap?

Q. B. Suggest at least THREE strategies to manage this gap.

Q. A. List at least FIVE internal factors that can affect forecasting. Explain ways of managing each factor.

Q. B. M/s Khan Brothers is a goods transport company, distributing goods within the city. Currently the company has a fleet of four trawlers which are working at 80% of practical capacity for three-quarters of the time. For the remainder of the time, operations are at 60% of practical capacity. Measured in operating hours, practical capacity of the business is 8,000 per annum; this is equivalent to 160,000 kilometres. Operating costs of the business are as follows:

- Vehicle depreciation: Rs. 40,000 per vehicle per annum.
- Basic maintenance: Rs. 11,000 per vehicle per 6 monthly service.
- Spares/replacement parts: Rs. 10,000 per 1,000 kilometers.
- Vehicle license: Rs. 16,000 per vehicle per annum.

- Vehicle insurance: Rs. 35,000 per vehicle per annum.
- Tyre replacements: after 40,000 kilometers, six at Rs. 2,000 each.
- Fuel: Rs. 110 per liter.
- Average kilometers per liter: 10.
- Drivers: Rs. 96,000 per annum each. (Four drivers are employed at all times, on a time rate basis)
- General administration costs: Rs. 19,700 per annum. (These are absorbed into the costs of jobs at 25% of total costs before general administration).

Required:

Calculate the variable and total costs that would be charged to a job if it requires one vehicle driving 64 kilometers. Clearly state any assumption you make regarding classification of cost.

Q. Explain FIVE ways through which you can detect manipulations in a financial statement.

Q. A. Explain the concept of transfer pricing. Illustrate the application of transfer pricing with an example.

Q. B. Haroon Printing Press processes a visiting cards order for Ali Brothers. As per their previous practice, they establish standard material and labor before commencing production. The standards are as given below:

Standard

Card Material:	2 kg per unit at a price of Rs.2.20/kg
Direct Labor:	4 hours per card at a wage rate of Rs.10/hour

In actual, 500 visiting cards were produced for which Haroon Printing Press had to purchase 1,200 kg of card material at a cost of Rs.2.5/kg. Of these, 1,050 kg of material was actually utilized. 1800 labor hours were utilized at a total cost of Rs.21,600/-.

Calculate:
- i) Material Price Variance
- ii) Material Quantity Variance
- iii) Labor Price Variance
- iv) Labor Usage Variance
- v) Total variance

-.-.-.-.-