

**Q.1** Classify each of the following costs as direct or indirect cost for the product.

S.#	Activities	Direct	Indirect
1	Insurance on manufacturing equipment		
2	Wages of assembly workers		
3	Rubber used in making tires		
4	Depreciation on the factory building		
5	Quality inspection costs		
6	Cost of electricity to operate machines		
7	Wages of production support staff		
8	Depreciation of computer used by production manager		
9	Salary of the production superintendent		
10	Salaries of plant security personnel		

- Q.2 A. Explain the following concepts with the help of at least one example:
- Margin of Safety
  - Financial Leverage

B. Wahid Bank is trying to figure out the profitability of hiring additional sales staff for its sales force. The following data is available:

Estimated sales	PKR 20,000 / month
Variable Cost	PKR 6,000/ month
Fixed Cost	PKR 140,000 per year

Using the data above please answer the following questions:

- What is the contribution margin ratio per month?
- Using the contribution margin ratio, determine the break-even point in Rupees.
- Compute the operating leverage at the current level of sales.

Q.3 Explain the following terms and give one example in each case:-

- Investment center
- Cost allocation
- Cost pool
- Cost object
- Flexible Budgeting

Q.4 A. Explain price leadership model?

B.Explain the three classes of the price leadership model.

Q.5 A. Following are the financial statement position of Abbas Tech as at Dec.31, 2012.

	PKR
Sales	100,000
Cost of goods sold	60,000
Gross profit 40,000	40,000
Expenses	10,000
Net income	30,000

Assets	PKR
Current assets	
Cash	50,000
Accounts receivable	30,000
Inventory	
Work in process	25,000
Materials	10,000
Finished goods	30,000
Fixed assets	55,000

	200,000
Liabilities	
Current liabilities	20,000
Long-term liabilities	30,000
Stockholders' Equity	
Paid-in capital	30,000
Retained earnings	120,000
	200,000

The entity is expecting that due to an improvement in the product and better market understanding, sales in 2013 will increase by 25%. Using the percentage of sales method of forecasting, create a Performa income statement and balance sheet for the year 2013.

B. Explain with the help of examples how Cost Volume Profit analysis and ratio analysis can be used for financial forecasting.

Q.6 With reference to SBP guidelines on Corporate Governance, recall any three features of financial reporting.

Q.7 Zahid Company produces a single product. Direct material is PKR 7 per unit and direct labor is PKR 5 per unit. Manufacturing overhead is PKR 40,000 per month plus PKR 0.5 per unit produced. The planned production each month is 25,000 units. During January, 21,500 units were produced with actual direct material cost of PKR 152,400, direct labor of PKR 109,200, fixed manufacturing overhead of PKR 40,500 and variable manufacturing overhead of PKR 11,500.

Prepare a flexible budget for Zahid Company and highlight the variances for all the cost heads and the total variance.

Q.8 Funds are often managed by specialists, many of whom have built up expertise in specific fund management areas. Explain any three common investing strategies used by fund managers.