



CANDIDATE DETAILS			
Access Number	Roll Number	For Official Use Only	Serial Number
Subject <b>MANAGEMENT ACCOUNTING FOR FINANCIAL SERVICES</b>			
Candidate's Name			
Father's Name			
CNIC Number			
Cell Number		E-mail	
I verify that my particulars given above are correct and I declare that I have read the INSTRUCTIONS printed in the examination booklet, and/or given in the ISQ Examination Guidelines, violation of which would mean cancellation of my paper and debarment from appearing in future examinations.			
Candidate's Signature		Invigilator's Signature	

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# The Institute of Bankers Pakistan

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## ISQ Examination Winter - 2018 Stage III Management Accounting for Financial Services

SEAL  
BOOK  
HERE

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Section 2  
Constructed and Extended  
Response Questions

Number of Questions: 8  
Marks: 55

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Allotted time : 120 minutes

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## INSTRUCTIONS FOR THE CANDIDATE

1. The candidate must abide by the ISQ Examination Guidelines sent along with the admit card.
2. The candidate must sign the booklet after verifying the particulars and should **NOT** write his/her name or roll number on any other page of the examination booklet.
3. Use of non-programmable scientific calculator is allowed;
4. The candidate is advised **NOT** to approach the invigilators for seeking any explanation related to the questions in the examination paper.
5. Laptops, mobile phones or any other gadgets are **NOT** permitted in the examination hall. **ONLY** simple calculators are allowed except where indicated in the ISQ Examination Guidelines. If any candidate is found in possession of any restricted gadgets or items, his/her examination paper will be cancelled immediately.
6. The candidate must ensure that the examination booklet has all the pages duly numbered. If any page is missing, damaged or not numbered, then return the booklet to the superintendent / invigilator and obtain another booklet.
7. Write your answer **ONLY** in the given space for each question. Anything written outside the given space will not be considered for marking.
8. **ONLY** blue or black ball points are to be used.
9. The candidate must attempt **ALL** questions in the paper.

For Official Use Only										
Marks Obtained	Q.1	Q.2	Q.3	Q.4	Q.5	Q.6	Q.7	Q.8	Total Marks	Total in words
Marker - I										
Q.C										
Scrutiny										
Re-Scrutiny										
Marker- II										

Signatures:

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1. Marker - I

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2. QC

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3. Scrutinizer

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4. Re-Scrutinizer

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5. Marker – II

**Q1.** 'F' (Pvt) Ltd. has reported the following costs and expenses for the month of June 30, 2018:

Direct materials	Rs. 115 Million
Direct labor	Rs. 85 Million
Manufacturing Overheads	Rs. 62 Million
Selling and marketing expenses	Rs. 32 Million
General and Administrative expense	Rs. 56 Million

You are required to calculate:

- A. Prime cost (1.25 Marks)
- B. Conversion cost (1.25 Marks)
- C. Product cost (1.25 Marks)
- D. Period cost (1.25 Marks)

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**Q2.** ‘E’ Ltd. is engaged in the processing and assembly business since 1990 and has been using the Tradition cost accounting methods. The Board of Directors in recent past meeting was briefed to adopt Activity Based Costing for its processing and assembly business. Presently, the company has two overhead departments.

The extract of most recent information is given as under:

	Rs. in million
Manufacturing Overhead department	600
General Administration, selling and marketing Overhead	400
<b>Total overhead costs</b>	<b>1,000</b>

The company identified following activity cost pools and activity measures for both overhead departments in order to implement ABC system:

Activity Cost Pools	Activity Measures
Processing orders	Number of orders
Assembly units	Number of units
Supporting customers	Number of customers

Top management of the company finalized distribution of manufacturing cost overheads and General Administration, selling and marketing Overhead as under:

	Processing orders	Assembly units	Supporting customers	Total
Manufacturing Overhead department	40%	50%	10%	100%
General Administration, selling and marketing Overhead	45%	25%	30%	100%
Total activity	4,820 orders	1,380 units	3,330 customers	

**Required:**

**A.** Based on information tabulated above, allocate the costs to the activity pools.  
(3.5 Marks)

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**B. Determine activity rates for the activity cost pools.** (4.5 Marks)

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**Q3.** ‘AS’ (Pvt.) Ltd. engaged in the manufacturing and selling of chemicals used in house surface cleaning. Standard cost for one bottle is worked out hereunder for the month of July 2018:

	(Rupees)
Direct material: 1.5 Liters @ Rs. 20 per Liter	30
Direct labor: 2 Hours @ Rs. 13 per hour	26
Variable manufacturing overhead: 2 Hours @ Rs. 8 per hour	16
<b>Total standard variable cost per bottle</b>	<u><u>72</u></u>

Actual cost for the month of July 2018 were as follows:

	(Rupees)
Material purchased: 3,000 Liters @ Rs. 21.5 per Liter	64,500
Direct labor: 6,000 Hours @ Rs. 12.75 per hour	76,500
Variable manufacturing overhead cost incurred	55,200
<b>Total Actual variable cost per bottle</b>	<u><u>196,200</u></u>

**Required:**

From the above data, calculate the Material Price Variance and wage Rate Variance of ‘AS’ (Pvt.) Ltd. for the month of July 2018. (5 Marks)

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**Q4.** Following is the extract of financial records of ‘S’ (Pvt.) Ltd. for the period ended June 30, 2018:

Sales	PKR 32.10	per unit
Cost of Goods sold	PKR 24.08	per unit
Salaries and wages	PKR 123,000	
Repair and maintenance	PKR 45,000	
Rent and taxes	PKR 75,000	

From the above information, you are required to prepare following budgets pertaining to the period ending on June 30, 2019:

- 1. Planning Budget on the level of 35,000 units sold.
- 2. Flexible Budget if actual units sold are 32,200 units.
- 3. Calculate Activity Variance. (10 Marks)

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**Q5.** 'K' Textile (Pvt) Limited a renowned name in textile industry and producing two famous brands "Bee" and "Zee". During to overalls market crises, the company is facing liquidity problems. The Board of Directors unanimously decided two financial plans i.e., "Plan A" and "Plan B" in order to maximize the overall profitability of the company under two situations namely "Good Quality" and "Medium Quality". The accounts department provides you following information:

<b>Particulars</b>	<b>Proposed situations</b>	
	<b>Good Quality</b>	<b>Medium Quality</b>
Sales in units	150,000	125,000
Selling price per unit- Rs.	230	112
Variable Cost	75% of total sales	65% of total sales
Fixed Cost	Rs. 4,200,000	Rs. 2,800,000

**Proposed Capital Structure**

<b>Particulars</b>	<b>Proposed financial plan</b>	
	<b>Plan A</b>	<b>Plan B</b>
	-----( <i>Rupees</i> )-----	
Equity	22,000,000	25,000,000
Debt	14,000,000	15,000,000
Cost of debt	13%	11%

You are required to calculate the following: (10 Marks)

1. Operating Leverage for Good Quality and Medium Quality.
2. Financial Leverage for Good Quality and Medium Quality.
3. Calculate Degree of combined.

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**Q6.**

**A.** What is Transfer Pricing?

(2 Marks)

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**B.** State the objectives of Transfer Pricing.

(2 Marks)

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**Q8.** Lathertax Limited presented following extract of financial statements for the period ended June 30, 2018:

**Statement of profit and loss for the period ended June 30, 2018**

	<b>2018</b>
	(Rs. in million)
Sales	250,000
Cost of goods sold	150,000
Gross profit	100,000
Administrative and selling expenses	23,000
Earnings before interest and taxes	77,000
Interest	8,400
Earnings before taxes	68,600
Taxes (32%)	21,952
<b>Net Income</b>	<b>46,648</b>
Dividend (65%)	30,321
Addition to retained earning	16,327

**Balance Sheet as at June 30, 2018**

	(Rs. in million)
Cash in hand and Bank	29,000
Debtors	165,500
Inventories and pre-payments	154,000
Total Current assets	348,500
Property, Plant and Equipment	453,000
<b>Total assets</b>	<b>801,500</b>
Creditors	64,000
Accruals	72,500
Notes payable	35,000
	171,500
Mortgage bonds	140,000
Ordinary share capital	400,000
Retained earnings	90,000
<b>Total liabilities and equity</b>	<b>801,500</b>

Following projections proposed by management for financial year 2018-19:

- i. 18% increase in sales;
- ii. 12% increase in assets and liabilities;
- iii. 18% increase in cost of goods sold and 16% increase administrative and selling expenses;
- iv. Company was operating at full capacity in year 2018 and no disposal of

- fixed asset.
- v. Any required financing will be borrowed as Notes payable.

**Required:**

A. Determine Additional Finance Needed (AFN). (0.5 Marks)

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B. Using the percent of sales method to develop a pro forma Balance Sheet and Income Statement for the year ended June 30, 2018. Use an interest rate of 10% on the balance of debt at the beginning of the year to compute. Use the pro forma income statement to determine the addition to retained earnings. (7.5 Marks)

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