Management Accounting for Financial Services

The sample questions are related to the JAIBP Stage 3 course **"Management Accounting for Financial Services"**. The students are advised to thoroughly read the exam guidelines and the syllabus guide for this course before start studying for the paper. The questions are shared to give an idea to the student about the paper format and types of questions. For further information visit the IBP website www.ibp.org.pk

Multiple Choice Questions

Each MCQ carry one and half mark.

Q1. The central method used in management accounting is:

A. Cost Accounting (Answer)
B. Financial Accounting
C. Activity Based Accounting
D. GAAP Accounting

Q2. Which one of the following factors is NOT true for management accounting?

A. Forward Looking
B. Follows International Cost Accounting Standards (Answer)
C. Assists internal users
D. Helps in day to day operating decisions

Q3. Differentiate Management accounting from financial accounting on the basis of one of the following.

A. helps external users
B. applies Corporate Income Tax
C. assist in Long-term strategic decisions (Answer)
D. determines financial stability

Constructed Response Question

Each CRQ carry five marks.

Question:

Define following costs with an example? **5 Marks**

1. Committed Cost
2. Semi Variable Cost
3. Uncontrollable Cost
4. Differential Cost
5. Opportunity Cost

Answer:

1. **Committed Cost:**

   An investment that a business entity has already made and cannot recover by any means Example include long term lease and depreciation on an asset with an extended life.

2. **Semi Variable Cost:**

   Some costs contain fixed and variable elements. These costs include an amount that is fixed within a relevant range of output and amount that varies proportionately with the output changes. – Example include electricity cost may be semi-variable to the extent it is used and meter rent and other charges are fixed whether electricity is used or not.

3. **Uncontrollable Cost:**

   These are the costs that a specific manager cannot influence or control. Most of fixed costs are uncontrollable. - Example include factory rent, manager's salary and depreciation.

4. **Differential Cost:**

   Costs and benefits that would occur if a particular course of action were taken compared to those that would occur if that course of action were not taken. - For example, a company would like to change advertising criteria from a signboard which costs Rs 500,000 to a TV commercial which costs 900,000, the differential cost is Rs 400,000.

5. **Opportunity Cost:**

   Benefits forgone by not adopting the next best alternative. - Examples of opportunity cost is more easily presented as situations of choice under resource constraint. If one has an amount of money free to spend at the month. On the other hand, his home needs some repair work urgently. The opportunity cost of going on holiday would be to delay house repair.

Extended Response Question

Each ERQ carry ten marks.

Question:

A. Compute labor wage rate variance and labor efficiency variance for June.
B. Compute variable overhead spending and efficiency variances for June**.**
Note: *Show all the necessary Computations.*

(Marks 10 (2.5 for each of the variance calculation)

Answer:
Part-A

A. Labor wage rate variance:
Formula:
(Standard wage rate per hour – actual wage rate per hour) * actual hours worked
Given: Standard wage rate per hour = 12
Actual wage rate per hour=?
Actual hours worked = 8,500

Step 1:
Actual wage rate per hour
Direct labor cost / actual labor hours worked = 98,600/ 8,500= PKR 11.6 per hour

Step 2:
(Standard wage rate per hour – actual wage rate per hour) * actual hours worked
= (12-11.6) *8,500 = 0.4*8,500 = **PKR 3,400 favorable**

B. Labor efficiency variance
Formula: (Standard labor hours for actual production – actual labor hours worked) * standard wage rate per hour
Given:
Standard labor hours for actual production =?
Actual labor hours worked= 8,500
Standard wage rate per hour= 12

Step 1:
Standard labor hours for actual production
Standard no. of hour to produce one unit * No. of units manufactured
= (24/60) *20,000 =8,000/-

Step 2:
(Standard labor hours for actual production – actual labor hours worked) * standard wage rate per hour (8,000 – 8,500) * 12= -500 *12 = **PKR -6,000 unfavorable**

Part- B

A. Variable overhead spending variance:
Formula: (Standard variable overhead rate– actual variable overhead rate) * Actual hours worked
Given:
Standard variable overhead rate = PKR 8
Actual variable overhead rate=?
Actual hours worked= 8,500

Step 1:
Actual variable overhead rate
Variable manufacturing overhead cost / actual hours worked = PKR 78,200 / 8,500 = PKR 9.2

Step 2:
(Standard variable overhead rate – actual variable overhead rate) * Actual hours worked
= (8 – 9.2) * 8,500
= (1.2 * 8,500) = **- 10,200 unfavorable**

B. Variable overhead efficiency variance:
Formula:
(Standard labor hours of output – actual labor hours worked) * standard variable overhead rate
= (8,000 – 8,500) * 8 = -500* 8 = **PKR - 4,000 unfavorable**