

# EXAM WRAPPERS

Objective of exam wrapper is two fold

1. To guide you for time management
2. To give you a taste of upcoming exam questions

This wrapper will help you determine focus areas and improve weak understanding by going back to the readings provided, attending Skype Session, group discussions, and consulting books along with managing time appropriately to secure good grades.

A cheat sheet is provided at the end of this document to help you find accuracy level of your answers.

Please fill following before you start attempting wrapper questions.

<b>How much time did you spend on these activities?</b>	<b>Time spent/week</b>	<b>Ideally required time</b>
Reading module related readings		3 hr.
Reading textbook section(s) for the first time		1 hr.
Reviewing your own notes		30 min
Solving self-assessments		10 min
<b>Total</b>		<b>4 hrs. 40 min</b>

## EXAM QUESTION WRAPPER

### Question: 01

Absorption costing is also called full costing. In absorption costing fixed cost becomes the part of product cost. Most of the accountants think that still absorption cost is not a suitable technique to take shut down decision related to one of its departments rather marginal costing is a suitable technique. Explain.

### Question: 02

“Budget Padding” is a performance appraisal technique used by the management of the organization evaluating employee’s performance. Explain.

### Question: 03

Following data has been extracted from the ABC limited:

Budgeted sales of the company are 4,000 units which represents 25% of total market share.

Budgeted per unit contribution margin is Rs. 75.

Actual sales of the company are 4,500 units and actual contribution per unit is Rs. 80.

20,000 units actually sold in the market during the period.

You are required to calculate following variances:

- a. Market Size Variance
- b. Market Share Variance
- c. Contribution Margin Variance

# CHEAT SHEET

## Question 1:

Answers may vary. Marks will be awarded according to justification. However my point of view is as follows:

- In marginal costing only variable cost becomes the part of product cost and fixed cost is considered as period cost.
- If one among the set-ups is shut down then the fixed cost of that department of is shifted to other departments.
- In marginal costing, contribution margin per unit is calculated, which is the difference of selling price and variable cost.
- Shut down decision could not be taken until the contribution margin per unit becomes negative.
- Contribution margin is not calculated in absorption costing.

## Question 2:

Answers may vary. My point of view is as follows:

- No, Budget Padding is not a performance appraisal technique.
- Budget Padding is a budgeting technique in which conservative estimates are provided; revenues are understated and expenses are overstated.
- Sets easily achievable targets.
- It is often perceived that performance will look better in their superior's eyes if they can "beat the budget."

**Question 3:**

**a. Market Size Variance**

$$\begin{aligned} &= \{(\text{Actual Market Size} - \text{Budgeted Market Size}) - \text{Budgeted Market Share}\} \times \text{Budgeted} \\ &\text{Contribution Margin} \\ &= \{(20,000 - 16,000) \times 25\% \} \times 75 \\ &= 1,000 \times 75 \\ &= \text{Rs. } 75,000 \end{aligned}$$

**b. Market Share Variance**

$$\begin{aligned} &= \{(\text{Actual Market Share} - \text{Budgeted Market Share}) \times \text{Actual Units Sold in Market}\} \times \\ &\text{Budgeted Contribution Margin} \\ &= \{(22.50\% - 20\%) \times 20,000\} \times 75 \\ &= (2.50\% \times 20,000) \times 75 \\ &= 500 \times 75 \\ &= \text{Rs. } 37,500 \end{aligned}$$

**c. Contribution Margin Variance**

$$\begin{aligned} &= \text{Actual Units Sold} \times \text{Difference in Variance} \\ &= 4,500 \times (80 - 75) \\ &= 4,500 \times 5 \\ &= \text{Rs. } 22,500 \end{aligned}$$