



**CERTIFIED ACCOUNTING TECHNICIAN (CAT)
STAGE 2 EXAMINATIONS**

S2.2 MANAGING COSTS AND CASH FLOWS

DATE: THURSDAY 27, APRIL 2023

MARKING GUIDE AND MODEL ANSWERS

Marking Guide

1	C
2	C
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10	A
11	C
12	C
13	C
14	B
15	D
16	B
17	A
18	A
19	B
20	A
21	D
22	C
23	A
24	C
25	A

26	A
27	A
28	A
29	C
30	B
31	C
32	B
33	A
34	B
35	B
36	A
37	A
38	C
39	D
40	C
41	D
42	D
43	A
44	B
45	D
46	B
47	B
48	A
49	C
50	A

Note: 2 Marks each correct answer

SECTION A

QUESTION ONE

The correct answer is C

Loan principal is repaid during the term of the loan but much of it is repaid at the end of loan period.

A is not right as the description is for Bullet payment

B is not right as the description is for Fully Amortized

C Is not right and the description is customized to specific loan

QUESTION TWO

The correct answer is C

Overdraft facility does not require borrower to have collateral security over loan

A is one of characteristics of Bank overdraft

B is one of characteristics of Bank overdraft

D is one of characteristics of Bank overdraft

QUESTION THREE

The correct answer is B

Even though extra ordinary expenses do not relate to business, they still affect both Profit calculation and reflected in cash flow statement

A is a one the reason as accrual concept recognize transaction when happened other than when cash flow has taken place

C is not right as non-cash are still removed into cash flow statement

D is one of the reasons for cash flow differences as the same doesn't affect statement of profit or loss

QUESTION FOUR

The correct answer is D

% of collection	January "FRW"	Feb "FRW"	Mar "FRW"	April "FRW"
	9,000,000	12,000,000	15,000,000	17,000,000
50%	4,500,000	6,000,000	7,500,000	8,500,000
30%		2,700,000	3,600,000	4,500,000
20%			1,800,000	2,400,000
Total collections	4,500,000	8,700,000	12,900,000	15,400,000

A is not right answer since computation shows total collection to be FRW 15,400,000

B is not right answer since computation shows total collection to be FRW 15,400,000

C is total collections for March FRW 12,900,000

QUESTION FIVE

The correct answer is B

Sales	January "FRW"	Feb "FRW"	Mar "FRW"	April "FRW"
	9,000,000	12,000,000	15,000,000	17,000,000
50%	4,500,000	6,000,000	7,500,000	8,500,000
30%		2,700,000	3,600,000	4,500,000
20%			1,800,000	2,400,000
Total sales collection	4,500,000	8,700,000	12,900,000	15,400,000
Purchases				
	4,000,000	6,000,000	9,000,000	12,000,000
40%	2,000,000	3,000,000	4,500,000	6,000,000
30%		1,200,000	1,800,000	2,700,000
30%			800,000	1,200,000
Total purchase payments	2,000,000	4,200,000	7,100,000	9,900,000
Electricity				600,000
Internet expense				300,000
Other Operating expenses				1,000,000
Laptop purchase				2,500,000
Loan repayment				4,000,000
Total cash outflow				18,300,000
Net cash need				(2,900,000)

QUESTION SIX

The correct answer is C

Cash receipt variance is equal to $1,600,000 = 17,000,000 - 15,400,000$

QUESTION SEVEN

The correct answer is B

Cash outflow variance was equal to FRW 1,500,000 favourable variance = $16,800,000 - 18,300,000$

QUESTION EIGHT

The correct answer is B

Time value of money theory predict that money received currently is worth more than money received in future as there is possibility of generating returns from investment

A is not a theory explained above

C is not a theory explained above

D is not a theory explained above

QUESTION NINE

The correct answer is A

Net present value refers to summation of total discounted cash flows at predetermined discount rate

B is not right as it will relate to future value of total cash flows compounded at pre-determined interest rate

C is not concept described in the question

D is not concept explained in the question

QUESTION 10

The correct answer is A

Job costing is a costing method applied where work is undertaken to customers' special requirements.

B describes process costing,

C describes service costing

D describes absorption costing.

QUESTION 11

The correct answer is C

Interest amount = 50,000,000 *(8%/4)

A the amount is incorrect as it gives annual interest rather than quarterly = 50,000,000 * 8%
= FRW 4,000,000

B The amount gives monthly interest rather than quarterly = 50,000,000 *(8%/12)
=333,333

D is not right answer

QUESTION 12

The correct answer is C

Since consultant hours are considered to be in factory it will be allocated to production cost under prime cost

A is not right as it relates to selling and distribution cost

B is not right as it related to normal administrative cost

D is not right since answer C was chosen

QUESTION 13

The correct answer is C

Managing director's benefits are considered as normal administration cost as they are not directly related to production

A is not right as depreciation of machinery are considered part of production hence linked to production of output

B is not right as it relates to factory used in production

D did not right as heating and lightings relates to production

QUESTION 14

The correct answer is B

Determining overhead cost to be allocated to unit produced is part of absorption costing,

A is not right answer as salary of CEO is administrative cost rather than being production cost

C is not right as factory machine hours cannot be allocated to administration

D is not right since B is right answer

QUESTION 15

The correct answer is D

Management based costing is not under method of cost allocation.

A is not true as the same relates to cost allocation method

B is not true as the same related to cost allocation method based on level of production

C is not true as the same relates to cost allocation methodology

QUESTION 16

The correct answer is B

Under LIFO method, last stock bought are sold first and old ones remain in stock and it is the basis that closing stock will have to be valued at price they were bought at before.

A is not right as the same relates to FIFO

C is not right as the same relates to Weighted Average Method

D is not right as B is chosen

QUESTION 17

The correct answer is A

Using High- Low Method Variable cost per unit will be

$$= (920,000,000 - 505,000,000) / (63,000 - 32,000)$$

$$= \text{FRW } 13,387$$

QUESTION 18

The correct answer is A

As calculated below total cost for 70,000 units

Month	Total produced units	Total cost incurred FRW'000'
January	32,000	505,000
February	47,000	680,000
March	58,000	845,000
April	63,000	920,000

May	51,000	790,000
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High low difference	31,000 (63,000 – 32,000)	415,000 (920,000 – 505,000)
Variable cost per unit		13,387
Total variable cost		843,387,097
Fixed cost		76,612,903 (920,000 – 843,387,097)
Variable cost for 70,000 units produced		937,096,774 (70,000 * 13,387)
Fixed cost		76,612,903
Total cost of produced units		1,013,709,677

QUESTION 19

The correct answer is B

High low difference	31,000 units	FRW 415,000
Variable cost per unit		13,387
Total variable cost		843,387,097
Fixed cost		FRW 76,612,903

QUESTION 20

The correct answer is A

Semi-variable cost mainly contains both fixed and variable elements

B is not right as it description is for variable cost

C id not right as description relates to fixed cost

D is not right as A is chosen

QUESTION 21

The correct answer is D

It is always necessary to distinguish between variable and fixed costs in marginal costing theory.

A is among the principles of marginal costing

B is among the principles of marginal costing

C is among the principles of marginal costing

QUESTION 22

The correct answer is C

Marginal and absorption costing are not cost allocation basis

A Description is right and not all necessary for absorption costing

B inventory will be different in case there has been movement in stock during the period

C Both methods are used in allocating cost to unit produced since it is not a differentiation between both methods

QUESTION 23

The correct answer is A

Since wages are paid on a piecework basis they are a variable cost which will increase in line with the number of binders. The machine set-up cost and design costs are fixed costs for each batch which will not be affected by the number of binders in the batch.

For a batch of 300 binders:

FRW

Direct materials (50,000 × 3) 150,000

Direct wages (20,000 × 3) 60,000

Machine set up 3,000

Design and artwork 30,000

Total production cost 243,000

Profit (25% gross margin = Cost *(25%/75%) 81,000

Selling price for a batch of 300

324,000

QUESTION 24

The correct answer is C

Description is for benefits of using payback period

A is drawback of payback period

B is drawback of payback period

D is not right answer since C was selected

QUESTION 25

The correct answer is A

4 units of product A	$(4 \text{ units produced} \times 3.5 \text{ hours per unit}) = 14 \text{ hours}$
5 units of product B	$(5 \text{ units produced} \times 6 \text{ hours per unit}) = 30 \text{ hours}$
Total hours worked	$(4 \text{ units produced} \times 3.5 \text{ hours per unit}) + (5 \text{ units produced} \times 6 \text{ hours per unit}) = 44$
Cost per hour	FRW 4,000
Total employee salary	$(14+30) \times 4,000 = \text{FRW } 176,000$

QUESTION 26

The correct answer is A

Working Hours per working day	16
Total working days in October	20
Total working days hours in month	$16 \times 20 = 320$
Weekend days of working	8
Working hours per weekend day	10
Total working hours of weekend days	$8 \times 10 = 80$
Total working hours in October	400 hours (320 hours + 80 hours)

Note: Weekend has 10 days of which one weekend of 2 days, a machine will not work due to maintenance

QUESTION 27

The correct answer is A

			Allocated cost
Rent expense incurred	35,000,000		
Floor area occupied			
Production department	1,200	1,200×35,000,000	15,000,000
		2,800	
Service department	1,600	1,600×35,000,000	20,000,000
		2,800	
Total floor area “m2”	2,800		

QUESTION 28

The correct answer is A

Total absorbed overheads = overhead absorption × actual machine hours

Total absorbed cost was = 4,500 * 21,000 = FRW 94,500,000

QUESTION 29

The correct answer is C

	Machine shop A	Machine shop B	Total cost
Machine usage hours	6,800	13,500	
Predetermined overhead absorption rates	8,000	3,000	
Total overheads	(8,000×6,800) FRW 54,400,000	(3,000×13,500) FRW 40,500,000	(54,400,000+40,500,000) FRW 94,900,000
Total actual absorbed cost			FRW 94,500,000
Over absorbed overhead cost			FRW 400,000

A is not right answer and over absorbed cost was FRW 400,000

B is not right as FRW 400,000 was over absorbed instead

D is not right answer

QUESTION 30

The correct answer is B

This refers to comparing two or more different elements.

A is one of method of getting to overhead cost to be charged to unit produced

C is one of method of getting to overhead cost to be charged to unit produced

D is one of method of getting to overhead cost to be charged to unit produced

QUESTION 31

The correct answer is C

Yearly cash flow	70,000	70,000	70,000	70,000	70,000
Discount factor	0.909	0.82644	0.751	0.683	0.620
Present value	63,636	57,851	52,592	47,811	43,464
Cumulative present value	63,636	121,488	174,080	221,891	265,355
Investment				200,000	
Negative present value after year 3				25,920	
Present value in for next year				47,811	
Number of months to generate remaining cash				0.5	
Total payback period				3.5 years	

QUESTION 32

The correct answer is B

Even though he sold less than budgeted for, he can improve on it next time

A is false since he has underperformed the sales budget

QUESTION 33

The correct answer is A

Even though adverse variance is bad for the business, sometimes it can be caused by unfair budgeting made yet operations had favorable variance.

An adverse variance is a sign of inefficiency in spending or to realize revenue targets, however where unrealistic budget estimates and projections are made it may appear as though there is a problem where there isn't any.

B Adverse may be good if planning were wrong

C is not right since it may depend on plan made

D is not right since it may depend on plan made

QUESTION 34

The correct answer is B

$$\begin{aligned} \text{FRW} &= (200,000,000 * (1.12^4)) \\ &= \text{FRW } 314,703,872 \end{aligned}$$

C is not right answer since calculation was made to only add FRW100,000,000

QUESTION 35

The correct answer is B

$$\begin{aligned} \text{Cost of sales} &= (314,703,872) * 60\% \\ &= \text{FRW } 188,882,323 \end{aligned}$$

QUESTION 36

The correct answer is A

Activity Variance = 60 tons – 50tons = 10 tons favorable since company produced more than budgeted.

B is not right answer since variance was favourable

C is not right and variance is 10tons instead 9tons

D is not right is since variance is 10 tons

QUESTION 37

The correct answer is A

Even though company sold at lower price that budgeted, it managed to produce more units which helped in generating significant revenue.

B is not right since they sold at lower than budgeted price

C is not right since, even though company sold at lower price, it managed to produce more units

D is not right since A is correct answer

QUESTION 38

The correct answer is C

A decision is about the future; therefore, relevant costs are future costs (i). If a cost is unavoidable then any decision taken about the future will not affect the cost, therefore unavoidable costs are not relevant costs (ii). Incremental costs are extra costs which will be incurred in the future therefore relevant costs are incremental costs (iii). Differential costs are the difference in total costs between alternatives and they are therefore affected by a decision taken now and they are associated with relevant costs (iv).

A is not right answer since unavoidable costs are not relevant costs

B is not right answer since Differential costs are also relevant costs

D is not right answer since unavoidable costs are not relevant costs

QUESTION 39

The correct answer is D

The margin of safety is the difference between the amount of expected profitability and the break-even point. The margin of safety formula is equal to current sales minus the breakeven point, divided by current sales.

A is not right as statement one is false

B is not right as statement two is true

C is not right as statement two is true

QUESTION 40

The correct answer is C

Job costing does not require homogeneous products

A customer driven product is one of characteristics of job costing since job directly goes with customer request

B Possibility of completing production within single accounting period

D Homogeneous product is not characteristics of job costing

QUESTION 41

The correct answer is D

Penalising manager s is not amounting the element of control cycle

A is an element of control cycle

B is an element of control cycle

C is an element of control cycle

QUESTION 42

The correct answer is D

A profit center manager is responsible for revenues and costs for the profit center he is managing

A is not right as manager is also responsible on cost of profit center

B is not right as manager is also responsible on revenue of profit center

C right as manager is also responsible on cost of profit center

QUESTION 43

The correct answer is A

This is an uncontrollable cost as Kagabo Ltd cannot control the agreement cost within the eight-month period, as it is unable to get out of the agreement during this time.

B. is not correct as Kagabo should not avoid or cancel the agreement contract before those eight months.

C and D the agreement cost for the first eight months is not either semi-variable nor prime costs

QUESTION 44

The correct answer is B

The margin of the safety is the difference in units between the expected sales volume and breakeven sales volume and it is sometimes expressed as a percentage of the expected sales volume.

QUESTION 45

The correct answer is D

Senior meeting costs could not be part of profit centre as it is not a centre that incur and earn revenue

A is not right as Guest generate revenue as well as incur cost to hotel

A B is not right as Person employed in a hotel spa revenue as well as incur cost to hotel

B C is not right as Meal served in a hotel restaurant revenue as well as incur cost to hotel

QUESTION 46

The correct answer is B

All are ways of funding forecast cash deficit except current retained earning which is not cash item

Other options are not correct because current retained earnings is not cash item and funding way of forecasted cash deficit.

QUESTION 47

The correct answer is B

Safety, exposure and Liquidity are key factors considered when investing surplus funds.

Profitability is more related to investing capital in general yet surplus funds needs to ensure liquidity to support when working capital runs into deficit

QUESTION 48

The correct answer is A

	FRW
Total revenue	25,666,667
Production cost	15,400,000
Gross profit 40% = cost *40%/60%	10,266,667
Admin cost @30%	4,620,000
Net profit	5,646,667

B is the administrative cost

C is the gross profit

D is the profit computed as 40% of gross profit

QUESTION 49

The correct answer is C

Annual interest rate = $(1+4.3\%/2)^2-1=4.346\%$

A is no right and it will be simple multiplication by 2 = $4.3\%*2=8.6\%$

B is not right and it will be $(1+4.3\%)^2=8.78\%$

D is not right answer

QUESTION 50

The correct answer is A

Discount factor is used for future cash flows to find its present value

B is not right as discount factor relates to cost of fund

C is not right as discount factor relates to cost of fund

D is not right as discount factor relates to cost of fund

END OF MARKING GUIDE AND MODEL ANSWERS