

## CERTIFIED ACCOUNTING TECHNICIAN (CAT) STAGE 2 EXAMINATIONS <u>S2.2 MANAGING COSTS AND CASH FLOWS</u> DATE: THURSDAY 27, APRIL 2023 MARKI NG GUIDE AND MODEL ANSWERS

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## 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 23 lopar April 2023 lopar Ap

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**

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#### 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

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## **QUESTION FOUR**

## 023 IcparApril The correct answer is D<sup>April2023</sup> IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2

% of collection	January "FRW"	Feb "FRW"	Mar "FRW"	April "FRW"
ril:1023 IcparApril2023	9,000,000	12,000,000	15,000,000	17,000,000
50% par April 2023	4,500,000	6,000,000	7,500,000	8,500,000
30% par April 2023	IcparApril2023 IcparA	2,700,000	3,600,000	4,500,000
20%	IcparApril2023 IcparA	pril2023 IcparA	1,800,000	2,400,000
<b>Total collections</b>	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

#### 023 IcparApril QUESTION FIVE IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2

#### The correct answer is B

Sales Sale	ril2023 IcparApril	12023 IcparApril	2023 IcparApri	l2023 IcparApr
% of collection	January "FRW"	Feb "FRW"	Mar "FRW"	April "FRW"
023 IcparApril2023 IcparAp	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%	ui2025 IopurAprii ui12022 IoparAprii	2,700,000	3,600,000	4,500,000
20%	ril2023 ToparApril	12023 Teparapra 12023 Teparapra	1,800,000	2,400,000
Total sales collection	4,500,000	8,700,000	12,900,000	15,400,000
Purchases 12023 TeparAp	ril2023 IcparApril	12023 IcparApril	2023 IcparApri	12023 IcparApr
023 IcparApril2023 IcparAp	4,000,000	6,000,000	9,000,000	12,000,000
40%cparApril2023 IcparAp	2,000,000	3,000,000	4,500,000	6,000,000
30% parApril2023 IcparAp	ril2023 IcparApril	1,200,000	1,800,000	2,700,000
30% par April2023 Icpar Ap	ril2023 IcparApril	12023 IcparApril	800,000	1,200,000
Total purchase payments	2,000,000	4,200,000	7,100,000	9,900,000
Electricity 2023 IcparAp	ril2023 IcparApril	12023 IcparApril	2023 IcparApri	600,000
Internet expense	ril2023 IcparApril	12023 IcparApru	2023 IcparApri	300,000
Other Operating expenses	rii2023 IcpurAprii	12023 IcparApril	2025 IcparApril	1,000,000
Laptop purchase	12023 IcparApril 12022 IoparApril	12025 IcparApril	2025 IcparApril 2022 Ionau Amri	2,500,000
Loan repayment	rii2023 IeparAprii ril2023 IeparAprii	12025 TeparApril 12023 TeparApril	2023 IcparApri 2023 IcparApri	4,000,000
Total cash outflow	ril2023 IcparApril	12023 IcparApril	2023 IcparApri	18,300,000
Net cash need	ril2023 IcnarApril	12023 IcparApril	2023 IcnarAnri	(2,900,000)

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023 IcparApril S2.1 023 IcparApril 2023

023 IcparAprili

## **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 I

Cash outflow variance was equal to FRW 1,500,000 favaurable 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 that 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 S2.1

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#### 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 a 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 id not right as heating and lightings relates to production

#### **QUESTION 14**

S2 1

#### 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

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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 id 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

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= (920,000,000-505,000,000)/(63,000-32,000)
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= FRW 13,387

## **QUESTION 18**

### The correct answer is A

As calculated below total cost for 70,000 units

Month 251 January 12023 IcparApril2023 Icpa	Total units produced	Total cost incurred FRW'000'
January	32,000	505,000
February April 2023 Jepar April 2023 Jepa	47,000	680,000
MarcharApril2023 IcparApril2023 Icpa	wApril2 (58,000 vApril2023 Icpd	845,000 Copar April 2
AprilparApril2023 IcparApril2023 Icpa	rApril2 63,000 April2023 Icpd	920,000 (par April)

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May May	51,000	790,000	April2023 IcnarApri
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High low difference	<b>31,000</b> (63,000 – 32,000)	<b>415,000</b> (920,000 – 505,000)
Variable cost per unit	ril2023 IoparApril2023 Iopa	13,387
Total variable cost	vril2023 IcparApril2023 Icpa	843,387,097 and pril2023 Topar April
Fixed cost ril2023 IcparA	ril2023 IcparApril2023 Icpa	76,612,903 (920,000 - 843,387,097)
)23 IcparApril2023 IcparA	ril2023 IcparApril2023 Icpa	rApril2023 IcparApril2023 IcparApril
Variable cost for 70,000 units produced	vril2023 IcparApril2023 Icpa vril2023 IcparApril2023 Icpa	<b>937,096,774</b> (70,000 * 13,387)
Fixed cost	mil2023 IcparApril2023 Icpe	76,612,903
Total cost of produced units	ril2023 IcparApril2023 Icpa	1,013,709,677

## 023 IcparApril QUESTION 19023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2

#### 023 IcparApril The correct answer is B April 2023 IcparApril 2

High low difference	31,000 units	FRW 415,000	23 IcparApril2 2023 IcparApril2
Variable cost per unit	2023 IcparApril2023	13,387 23 Jonar April	2023 IcparApril2
Total variable cost [cparApril2023 [cparApril	2023 IcparApril2023	Icp 843,387,097 ar April 2	2023 IcparApril2
Fixed costoril2023 IcparApril2023 IcparApril.	2023 IcparApril2023	FRW 76,612,903	2023 IcparApril2

3 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril202

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#### **QUESTION 20**

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# The correct answer is A April2023 IcparApril2023 Ic

Semi-variable cost mainly contains both fixed and variable elements par April 2023 Icpar April 2023	IcparApril2
	IcparApril2
B is not right as it description is for variable cost	Tenav Anvil?

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## C id not right as description relates to fixed cost

#### 023 IcparApril D is not right as A is chosen il2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

#### 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.

2 For a batch of 300 binders: 2023 IcparApril2023 IcparApril2023 IcparApFRW3	
Direct materials $(50,000 \times 3)$	150,000
<sup>2</sup> Direct wages (20,000 × 3) <sup>12023</sup> IcparApril2023 IcparApril2023 IcparApril2023	60,000
2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 2 2 Machine set up 23 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023	3,000
Design and artwork CparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023	30,000
2 Total production cost April2023 IcparApril2023 IcparApril2023 IcparApril2023	243,000
Profit (25% gross margin = Cost *(25%/75%)	81,000

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S2.1

#### Selling price for a batch of 300

## QUESTION 24023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

#### The correct answer is C

Description is for benefits of using payback period

023 Jopar April A is drawback of payback period 3 Jopar April 2023 Jopar Apri

B is drawback of payback period

D is not right answer since C was selected

#### **QUESTION 25**

#### The correct answer is A

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

#### **QUESTION 26**

S2.1

The correct answer is AApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

Working Hours per working day	3 JeparApril 16023 JeparApril 2023 JeparApril	2023 Icpar
Total working days in October	3 IcparApr 20023 IcparApril2023 IcparApril	2023 Icpar/
Total working days hours in month	3 Jopan 16*20 320	2023 IcparA
Weekend days of working	3 IcparAp 82023 IcparApril2023 IcparApril	2023 IcparA
Working hours per weekend day	3 IcparApr <b>10</b> 023 IcparApril2023 IcparApril2	2023 IcparA
Total working hours of weekend days	8*10 80 222 CparApril	2023 IcparA
Total working hours in October	<b>400 hours</b> (320hours + 80hours)	023 Icparz

023 JeparApril Note: Weekend has 10 days of which one weekend of 2 days, a machine will not work due to 23 JeparApril 2

023 IeparApril <mark>maintenance</mark> il2023 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril2 023 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril2023 IeparApril2

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324,000

IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2

## The correct answer is A April2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

023 IcparApril2023 Icpar	April2023 Icpa	April2023 IcparApril20	Allocated cost parApril2
Rent expense incurred	35,000,000	April2023 IcparApril20	23 IcparApril2023 IcparApril2
Floor area occupied	April2023 Icpa	April2023 IcparApril20	23 IcparApril2023 IcparApril2
Production department	1,200	1,200×35,000,000	15,000,000
	April2023 Icpa	2,800 <sup>23</sup> Icpar April20	23 cparApril2023 IcparApril2
Service department	1,600	1,600×35,000,000	20,000,000
	April2023 Icpa	2,800 <sup>23</sup> Icpar April 20	23 cparApril2023 IcparApril2
Total floor area "m2"	2,800	April2023 IcparApril20	23 CourApril2023 CourApril2

### **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<sup>023</sup> IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023

#### The correct answer is C

2023 IcparApril2023 IcparApril202. 2023 IcparApril2023 IcparApril202.	Machine shop A	Machine shop B	Total cost arApril2023 10 pril2023 1cparApril2023 1c
Machine usage hours and provide 202.	6,800 pril2023 lop	13,500 23 Icpar.	lpril2023 IcparApril2023 Ic
Predetermined overhead absorption rates	8,000 pril2023 Icp	3,000	tpril2023 IcparApril2023 Ic tpril2023 IcparApril2023 Ic
Total overheads	(8,000×6,800)	(3,000×13,500)	(54,400,000+40,500,000)
	FRW 54,400,000	FRW 40,500,000	tpril2023 IcparApril2023 Ic pril2023 IcparApril2023 Ic pril2023 IcparApril2023 Ic
023 TepurApril2023 TepurApril202.	TeparApril2023 Tep	ur April2023 Tepurs	FRW 94,900,000
Total actual absorbed cost	2 Ionar Anvil2023 Ion	an April 2023 Topan	FRW 94,500,000
Over absorbed overhead cost	Longe April 2023 Lop	ar April 2023 Topari ar April 2023 Topar	FRW 400,000

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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

- 023 IcparApril D is not right answer parApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023 IcparApril2023
  - S2.1

#### 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 12023 IcparApril2	023 IcparApril202.	3 IcparApril.	2023 Icpar	200,000	cparApril2
Negative present value after year 3		3 IcparApril	2023 Icpar	25,920	cparApril2
Present value in for next year	3 IcparApril	2023 Icpar	47,811	cparApril2	
Number of months to generate remaining cash		3 IcparApril.	2023 Icpar	0.5 2023 1	cparApril2
Total payback period	3 IcparApril.	2023 Icpar	3.5 years	cparApril2	

#### **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**

S2.1

#### 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

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D is not right since it may depend on plan made

## **QUESTION 34**

The correct answer is B

 $FRW = (200,000,000*(1.12^4))$ 

= FRW 314,703,872

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

## **QUESTION 35**

The correct answer is B

Cost of sales = (314,703,872) \* 60%

= FRW 188,882,323

#### **QUESTION 36**

The correct answer is A

Activity Variance = 60 tons - 50 tons = 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 *April* 2023 *IcparApril* 2023

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#### 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 reak-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

2022 Janay Angil2022 Janay Angil2022 L

C is not right as statement two is true

#### **QUESTION 40**

S2 1

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

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B Possibility of completing production within single accounting period

D Homogeneous product is not characteristics of job costing

#### 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 eightmonth 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**

S2.1

## 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.

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#### The correct answer is D

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

### **OUESTION 46**

#### The correct answer is I

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

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

### **QUESTION 47**

#### The correct answer is

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 ensu liquidity to support when working capital runs into deficit

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#### OUEST N 48

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Total revenue	25,666,667
Production cost 23 CoparApril2023 Ic	15,400,000
Gross profit 40% = cost *40%/60%	10,266,667
Admin cost @30%	4,620,000
Net profit ril2023 IcparApril2023 Ic	

## 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%

8.6%

M

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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 valu

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

S2.1