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**CERTIFIED ACCOUNTING TECHNICIAN
STAGE 2 EXAMINATIONS
S2.2 MANAGING COSTS AND CASH FLOWS
DATE: THURSDAY 30, MAY 2024**

MARKING GUIDE AND MODEL ANSWERS

Marking guide

Question number	Choice	Question number	Choice
1	B	26	A
2	D	27	C
3	D	28	D
4	B	29	D
5	A	30	B
6	C	31	B
7	D	32	C
8	D	33	A
9	C	34	D
10	D	35	C
11	A	36	C
12	B	37	D
13	A	38	C
14	C	39	D
15	A	40	C
16	A	41	C
17	A	42	c
18	B	43	B
19	A	44	C
20	D	45	C
21	A	46	C
22	C	47	D
23	A	48	A
24	D	49	B
25	C	50	C

Award 2 Marks for each correct answer**2****Total Marks****100**

QUESTION 1

Answer: B

Year	Initial investment		FRW10,000,000	
	Cash inflows in FRW for project A	Cash inflows in FRW for project B	Cumulative cash flow for Project A (FRW)	Cumulative cash flow for Project B (FRW)
1	2,000,000	2,500,000	2,000,000	2,500,000
2	2,500,000	3,000,000	4,500,000	5,500,000
3	3,500,000	4,500,000	8,000,000	10,000,000
4	2,000,000	6,000,000	10,000,000	16,000,000
5	3,000,000	4,000,000	13,000,000	20,000,000

A. Project A has the payback period of 4 years which exceeds the policy of the company of 3 years or less and therefore should not be considered.

C. One of the projects has been accepted which is B. Project B has exceeded the 3 years required by the company

A. Project B is considered while project A rejected. Therefore, they cannot both be considered

QUESTION 2

Answer: D

A, B, and C are all true

Pay back does not consider all the cash flow when calculating the payback period

QUESTION 3

Answer: D. Irregular cash flows.

Irregular cash flows are cash flows that occur fairly infrequently and with no set pattern

- A. Regular cash flows take place according to a known pattern, eg weekly, monthly, quarterly or annually.
 - B. Exceptional cash flows are one off cash flows which are not expected to reoccur and are not in the normal course of business.
 - C. Fixed and variable cash flows are cash flows which are in fixed amount and variable amounts respectively
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QUESTION 4

Answer: B

$$\text{Repayment} = \text{loan} / (1+i)^2$$

$$\text{Repayment} = 10,000,000 / (1+0.10)^2$$

$$\text{Repayment} = \text{FRW } 8,264,463$$

A. The candidate used simple interest method

$$\text{Repayment} = \text{Loan} - (\text{principal} * \text{interest rate} * \text{time period})$$

$$\text{Repayment} = \text{FRW } 10,000,000 - (\text{FRW } 10,000,000 * 0.10 * 2)$$

$$\text{Repayment} = \text{FRW } 8,000,000$$

C. Forgot to use 2 years but used 4 years instead

$$\text{Repayment} = \text{Loan} - (\text{principal} * \text{interest rate} * \text{time period})$$

$$\text{Repayment} = \text{FRW } 10,000,000 - (\text{FRW } 10,000,000 * 0.10 * 4)$$

$$\text{Repayment} = \text{FRW } 6,000,000$$

QUESTION 5

Answer: A

They are correct except for the guarantor because the bank only requires the collateral instead

QUESTION 6

Answer: C

Managing Director's salary is an overhead cost to the entire factory to be allocated through overheads allocation processes. Others are production costs.

QUESTION 7

Answer: D

Responsibility for revenues and costs is for a profit centre, Responsibility for revenues, cost and investment is for an investment centre, Responsibility for costs but not revenues is for a cost centre, Responsibility for revenues but not costs is for a revenues centre.

QUESTION 8

Answer: D

Step-fixed costs are costs that are fixed over a relatively small range of activity level but then increase in steps when certain levels of activities are reached.

Semi-variables are costs which contain both fixed and variable components and so are partly affected by the level of activity.

QUESTION 9

Answer: C

Allocation, apportionment and absorption all are steps of absorption costing procedures, Costing is the general term used to determine the cost of event or a transaction and it is not for absorption of overheads procedures.

QUESTION 10

Correct Answer is D

The cost of the tools is a **direct cost** of the job because it can be specifically identified with the job.

Point A variable production overheads is indirect expense which varies in total directly with the volume of output. The variable cost per unit is the constant for each unit produced.

Point B: Fixed Production Overheads costs are not affected by the level of activity and are not specifically identified with the Job

Point C: Materials, labor or expenses which **cannot be directly identified** with producing a product or providing a service

QUESTION 11

Answer: Option A

Current ratio=current assets/current liabilities

$$27,000/10,000=2.7:1$$

Option B is wrong because the candidates have considered total liabilities yet it should be only current liabilities

$$27,000/27,000=1:1$$

Option C is wrong because the candidates have considered Liabilities over assets the formula is wrong it should be Current ratio=current assets/current liabilities

QUESTION 12

Answer: Option B is correct

Acid test ratio= $\frac{\text{current assets -inventories}}{\text{Current liabilities}}$

$$15,000/10,000=1.5:1$$

Option A is incorrect candidates have forgotten to deduct inventories from current liabilities

$$27,000/10000=2.7:1$$

Option C is incorrect

Candidates have considered total liabilities yet it should be only current liabilities

$$15000/27000=0.6:1$$

QUESTION 13

Answer: **Option A** is correct

$$\text{Inventory holding period} = \frac{\text{Average inventory}}{\text{Cost of sales}} \times 365 \text{ days}$$

$$12,000/300,000 \times 365 = 14.6 \text{ days}$$

Option B is wrong candidates has used sales instead of cost of sales

$$12,000/500,000 \times 365 = 8.76 \text{ days}$$

Option C is wrong candidates has used gross profit instead of sales

QUESTION 14

Answer: **Option C** is correct

$$\text{Trade receivables collection period} = \frac{\text{Trade receivables}}{\text{sales}} \times 365 \text{ days}$$

$$8,000/500,000 \times 365 = 5.8 \text{ days}$$

Other Options are wrong like B

Candidates have considered cost of sales instead of sales

$$8,000/300,000 \times 365 = 9.7 \text{ days}$$

Option A is wrong Candidates have considered gross profit instead of sales

$$8,000/200,000 = 14.6 \text{ days}$$

QUESTION 15

Answer: **Option A**

$$\text{Trade payables payment period} = \frac{\text{Trade payables}}{\text{Cost of sales}} \times 365 \text{ days}$$

$$10,000/300,000 \times 365 = 12 \text{ days}$$

Other Option B is wrong because candidates have used sales instead of cost of sales

$$10,000/500,000 \times 365 = 7 \text{ days}$$

Option C is wrong because candidates have used gross profit instead of cost of sales

$$10,000/200,000 \times 365 = 18 \text{ days}$$

QUESTION 16

Answer: **Option A**

A discount factor is a factor applied to a future cash flow to find its present value

Then the rest of Options are irrelevant to the matter under consideration Like that is B, C and D

QUESTION 17

Answer: **Option A**

Diversification is A process of reducing risk by increasing the number of separate investments in a portfolio.

The other Options are irrelevant to the subject matter Like:

- A A process of reducing risk by decreasing the number of separate investments in a portfolio
 - B A process of increasing return by increasing a single investment in a portfolio
 - C A process of increasing risk by decreasing the number of separate investments in a portfolio
-

QUESTION 18

Correct Answer is B

$$\text{Fixed Cost} = \text{Total Cost} - \text{Total Variable Cost} \\ = \text{FRW } 156,980 - (740 * 122) = \text{FRW } 66,700$$

Point A: FRW 156,980 was total Cost

Point C: FRW 90,280 was total variable Cost (740 Unit* 122 as cost per Unit)

Point D: FRW 247,260 was Total Cost (156,980) + Total Variable Cost (740*122)

QUESTION 19

Correct Answer is A FRW 119,280,000

Total Direct Costs=

[(Total Direct Labor + Total Direct Materials)] * Number of Unit produce per

$$(\text{FRW } 48,000 + \text{FRW } 23,000) * 1,680 \text{ Suitcase} = \text{FRW } 119,280,000$$

Total Direct labor for 1 suitcase = 4hours* FRW 12,000= FRW 48,000 per Suitcase

Total Direct Materials per 1 suitcase = 23,000

Number of Suitcase produced during the year= 140 suitcase per month * 12 month = 1,680 Suitcase

Point B: only includes one hour of labor for each suitcase and only one month
(FRW 12,000 + FRW 23,000) * 140 Suitcase per month

Point C includes the correct cost per suitcase but only for one month
((4hours * FRW 12,000) + FRW 23,000) * 140

Point D: includes only one hour of labor for each suitcase
(RWF12,000 + RWF23,000) * (140 * 12 months).

QUESTION 20

Answer: D

Lower interest rates are likely to lead to an increase in spending. Others are not correct: A & B. The cost of borrowing will decrease, so people can borrow more, and use their borrowings to spend more. C. Conversely, people will save less, because they will earn less interest on their savings.

QUESTION 21

Answer: A

The rest are the reasons for holding inventory. The company does not holding to make profits.

QUESTION 22

Answer: C

The present value is the discounted value of a future cash flow converted into its equivalent terms cash flows values by now.

The time value of money is the fact that money received or paid in the future is worth less than money received or paid now due to the risk, consumption and investment preferences.

QUESTION 23

Answer: Option A

The value of purchases is $300,000 + 20,000 - 40,000 = \text{FRW} 280,000$

Other options are wrong like

B. Candidates has assumed that the value of purchases is equal to the cash paid FRW 300,000 which is wrong

Candidates has wrongly calculated purchases as $300,000 + 40,000 - 20,000 = \text{FRW} 320,000$

QUESTION 24

Answer: D

If the material has no resale value and other possible use, then the relevant cost of using them for the opportunity under consideration, it is would be NIL.

Option A is not correct as the statement specifies that the material is not having the resale value, on option B only replacement value should be considered instead of the value of use. On option C, the purchase cost is a sunk cost and it is irrelevant.

QUESTION 25

Answer: C

The absorption overheads of FRW 1,500 and FRW 5,000 are calculated basing on labour and machine hours for each centre. Below are workings:

	Stage 1	Stage 2
Machine hours	50,000	40,000
Labour hours	100,000	50,000
Overhead	150,000,000	200,000,000
Workings:	$150,000,000/100,000 = 1,500$	$200,000,000/40,000 = 5,000$
	Stage 1	Stage 2
a.	1,500	4,000
b.	3,000	5,000
c.	1,500	5,000
d.	3,000	4,000

QUESTION 26

Answer: A

Answer: A. Motivation cannot a reason for labour turnover

The rest are the reasons for labour turnover

QUESTION 27

Answer: C

A. Fixed costs are costs which do not change with the level of output

B. A semi-variable cost comprises a fixed and a variable element

D. Variable costs are costs which change with the level of output

QUESTION 28**Answer: D**

All of statements are true

QUESTION 29**Answer: D**

Depreciation is a non-cash expense

The rest are considered when preparing a cash budget

QUESTION 30**Correct Answer is B****Job Costing is used for work carried out at the specific request of a customer.**

Process, Service and Batch Costing all use averaging to arrive at the final cost per Unit

The following data relates to questions 31, 32, and 33:

Cash budget December 2023						
Receipt						
Cash Sales						
December	83,000		83,000			
Credit Sales						
October	400,000	18%	72,000	8,000		
November	525,000	60%	315,000	10,500	18%	94,500
December	600,000	20%	120,000	12,000	78%	468,000
Total Receipts			590,000	30,500		562,500
				Q.32		Q.33
Payments						
Purchases	280,000	0.5	140,000			
accounts payable	161,000		161,000			
Web Server	76,000		76,000			
Total Payments (Disbursements)			377,000	Q. 31		
Net Cash flows						
Opening Bal			40,000			
Closing Balance			253,000			

QUESTION 31

Answer: B

Other figures are not correct as: A. RWF 517,000 assumes full payment of all purchase is made during the month of transaction; C. RWF 562,500 is the total of receivables for December 2022

QUESTION 32

Answer: C

Other figures are not correct as: A. RWF 20,000 is the total of Bad debts balance at December 2022 where by bad debts for November 2022 sales are omitted, B. RWF 562,500 is the total of receivables for December 2022.

QUESTION 33

Answer: A

Other figures are not correct as: B. RWF 253,000 is the closing balance for December 2022, C. RWF 590,000 is the total cash receipts for December 2022

QUESTION 34

Correct Answer is D

Let's assume the value of current liabilities is FRW 50,000. To find the value of current assets, we can set up a proportion using the given current ratio:

$$\frac{CURRENT\ ASSET}{CURRENT\ LIABILITIE} = \frac{2}{1} \qquad \frac{CURRENT\ ASSET}{FRW\ 50,000} = \frac{2}{1}$$

$$Current\ Asset = 2 * Frw50,000 = 100,000$$

Wrong

Answer

- A FRW 25,000 is incorrect because $50000/2$
 - B FRW 50,000 is incorrect because $50000*1$
 - C FRW 75,000 is irrelevant on above question $(50,000+50,000/2)$
-

QUESTION 35

Correct Answer was C

Interest is only Charged on the Amount Actual overdrawn

Overdraft Interest have to be divided by 12 Month to Find Interest per Month (12%/12) = 1%

Interest = FRW 2,500,000 * 1% = FRW25,000

Interest = FRW 2,500,000 * 12% = FRW300,000

Interest = FRW 6,000,000 * 1% = FRW60, 000

Interest = FRW 6,000,000 * 1% = FRW720,000

QUESTION 36

Answer: **Option C**

Period	FRW '000' cash flow	Discount factor	PV FRW '000'
January 2023	100,000	0.90910	90,910
Feb-24	120,000	0.8265	99,180
Mar-25	95,000	0.7513	71,374
April 2026	150,000	0.6830	102,450
May 2027	75,000	0.6209	46,568
TOTAL			410,481

NPV= 410,481,000 - FRW 200,000,000 = **FRW 210,481,000**

Other options are wrong like:

A.FRW 200,000 Candidates has assumed NPV to be equivalent to investment

B.FRW 410,481 Candidates has assumed NPV to be equivalent to total PV

QUESTION 37

Answer: **Option D**

Cash and cash equivalent is the only option given which is not a financial instrument

Other options form part of financial instrument

A Certificate of deposit

B Bills

C Government bonds

QUESTION 38

Correct Answer is C

Point A and B: is wrong Answer because instead of deducting finance cost, they add it to profit

Point D: is wrong answer because net profit before finance cost less finance cost, come up with Increase of profit not Decrease.

Current Receivables (FRW 1,200,000 *1month/ 12 Month in year) = FRW 100,000

New receivables after increase

[(FRW 1,200,000 *1.25) *1month/ 12 Month in year)] = 250,000

Net Increase in receivables = 250,000 -100,000 = 150,000

Finance Costs on Increase at 10% = FRW 150,000 * 10% = 15,000

Net profit after increase FRW45,000

Less: Finance Cost (FRW 15,000)

Net increase in Profit FRW 30,000

QUESTION 39

Answer: **Option D**

A percentage of direct labour cost is the only option which is incorrect in regard To the overhead absorption rate.

Other options form part of the basis for absorption

- A. Rate per machinery
 - B. Rate per direct labour
 - C. Rate per unit
-

QUESTION 40

Answer: **C**

The management and reduction of risk is a fundamental issue in all definitions of good governance; whether explicitly stated or merely implied.

QUESTION 41

Answer: **C**

Inflation is a rise in the general level of price of goods and services in the economy and a fall in the purchasing value of money.

QUESTION 42

Answer: **Option C**

The point at which the business's total revenues are equal to total cost

The rest of the Options are wrong Like:

- A. The breakeven point is the level of sales whereby sales revenue is less than total costs.
 - B. The breakeven point is the level of sales whereby sales revenue is greater than total costs.
-

QUESTION 43

Answer: **Option B**

The right answer is $100 \times 102 / 100 = 102$ this will be for September and then October will be $102 \times 102 / 100 = \text{FRW}104.04 \text{million}$.

Other options are incorrect like:

- A. has only taken figure of September $100 \times 102 / 100 = \text{FRW}102 \text{million}$
 - B. has also considered that it will remain FRW 100 million which is incorrect
-

QUESTION 44

Correct Answer is C

To calculate the fixed production overhead absorption rate per unit, we need to consider the difference in profit between marginal costing and absorption costing

In marginal costing, fixed production overhead costs are not allocated to units produced. Therefore, the difference in profits between the two costing methods is solely due to the allocation of fixed production overheads.

Decrease in inventory levels = $48,500 - 45,500 = 3,000 \text{units}$

Difference in profits = FRW315,250,000 – FRW288,250,000 = FRW 27,000,000

Fixed overhead per unit = FRW27,000,000 / 3,000 = FRW9,000 per unit

Wrong Answer

Point A: Profit from Absorption / Opening inventory
(315,250,000 / 48,500) = 6,500

Point B: Profit from Margin / Closing inventory
(288,250,000 / 45,500) = 6335

Point D: none of the above is not collect answer because C was Collect Answer

QUESTION 45

Collect Answer is C

The cash flow statement is a financial statement that provides information about the cash generated and used by a company during a specific period. It presents the cash inflows and outflows from three main activities: operating activities, investing activities, and financing activities.

Point A: the company's net income for a specific period is shown by statement of profit or loss not purpose of cash flow statement.

Point B: the company's assets and liabilities at a specific point in time is shown by statement of financial position not by cash flow statement

Point D: The company's revenue and expenses for a specific period is the purpose of statement of profit or loss Account not cash flow statement

QUESTION 46

Correct answer is C.

The purpose of cash flow forecasting is to predict future cash inflows and outflows for a business. It helps businesses manage their liquidity, make informed decisions, plan strategically, and mitigate financial risks.

Point A: is wrong because the profitability of the business is not the purpose of cash flow forecasting

Point B: is wrong because to track the movement of inventory in and out of the business is not the purpose of cash flow forecasting

Point D: To calculate the accounting rate of Return (ARR) is not the purpose of cash flow forecasting

QUESTION 47

Answer: D

- A. FRW 70,000 is the variance for cash sales but should not be adverse
 - B. FRW 30,000 is the variance for credit sales
 - C. FRW 30,000 is the variance for credit sales which should not be adverse
-

QUESTION 48

Answer: A

- B. FRW 12,100 is the variance for rental income which should not be favourable
 - C. FRW 13,000 is the variance for rental payment which should not be favourable
 - D. FRW 12,100 is the variance for rental income
-

QUESTION 49

Answer: B

- A. FRW 12,100 is the variance for rental income which should not be adverse
 - C. FRW 13,000 is the variance for rental payment
 - D. FRW 13,000 is the variance for rental payment which should not be favourable
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QUESTION 50

Answer C

The rest are directly linked to production

End of Model Answer and Making Guide
