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Unlimited possibilities

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**CERTIFIED ACCOUNTING TECHNICIAN (CAT)**  
**STAGE 2 EXAMINATIONS**  
**S2.2 MANAGING COSTS AND CASH FLOWS**  
**MARKING GUIDE AND MODEL ANSWERS**  
**DATE: 01 DECEMBER 2022**

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## MARKING GUIDE

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

**Note: 2 Marks each correct answer**

## QUESTION ONE

**Answer: C**

All factors listed A. Supply of money, B. Treasury bills/bonds, C. Interest rates, and D. Availability of credit have influence on the businesses as they are having impact on how the government is controlling the financial market.

**The following data relates to questions 2, 3 and 4:**

**Workings:**

**Table 1.1**

	<b>Jan-21</b>	<b>Feb-21</b>	<b>Mar-21</b>
	<b>FRW 000</b>	<b>FRW 000</b>	<b>FRW 000</b>
Opening	18,000	1,800	(2,000)
Paul receipt	300		200
Advance payment		500	
Expected cash receipt			1,000
<b>Total receipt</b>	<b>18,300</b>	<b>2,300</b>	<b>(800)</b>
<b>Payment</b>			
Equipment	(1,500)		
Vehicle	(15,000)		
Furniture		(2,000)	
Rent		(500)	(250)
Cleaning fee		(100)	(100)
Salary and wages		(1,500)	(1,500)
Insurance		(200)	
<b>Total payment</b>	<b>(16,500)</b>	<b>(4,300)</b>	<b>(1,850)</b>
Cash balance	1,800	(2,000)	(2,650)
<b>Overdraft</b>	<b>-</b>	<b>2,000</b>	<b>2,650</b>

## QUESTION TWO

**Answer: C**

It is in February and March whereby Kamana will be requiring to seek for bank overdraft as his expenditures will not be covered by his revenues. A is not correct as on January, almost all cost will be covered by the opening balance; B is not correct because it omits the month of March as both are requiring seeking for overdraft to cover expenses which are exceeding revenues.

**QUESTION THREE**

**Answer: B**

A. is not correct as calculation has taken into consideration the depreciation which is not cash flows item FRW 1,800,000 – 150,000.

C. is not correct as the equipment of FRW 15,000,000 was omitted;

D. is not correct as the calculation includes salary which should start to be paid on February

**QUESTION FOUR**

**Answer: C working shown in table 1.1**

A and D are not correct as the calculation includes depreciation charge as shown below

	<b>Jan-21</b>	<b>Feb-21</b>	<b>Mar-21</b>
	<b>FRW 000</b>	<b>FRW 000</b>	<b>FRW 000</b>
Opening	18,000	1,650	(2,300)
Paul receipt	300		200
Advance payment		500	
Expected receipt from client			1,000
<b>Total receipt</b>	<b>18,300</b>	<b>2,150</b>	<b>(1,100)</b>
<b>Payment</b>			
Equipment	(1,500)		
Vehicle	(15,000)		
Furniture		(2,000)	
Rent		(500)	(250)
Cleaning fee		(100)	(100)
Salary and wages		(1,500)	(1,500)
Insurance		(200)	
Depreciation	(150)	(150)	(150)
<b>Total payment</b>	<b>(16,650)</b>	<b>(4,450)</b>	<b>(2,000)</b>
Cash balance	1,650	(2,300)	(3,100)

B. is incorrect as calculation has taken into consideration depreciation which is not cash flows item.

**QUESTION FIVE**

**Answer: D**

All above either receipts or payments do not affect the profit level of the business

### QUESTION SIX

**Answer: D**

D. Overdraft finance is repayable on demand to the bank and not on a set date. This is applicable to short-term bank loans

Commitment fee, repayment on demand, overdraft facilities are all features of an overdraft finance

### QUESTION SEVEN

**Answer: C**

Security is not required for taking the overdraft finance

A is not correct because the overdraft increases the finance risk

B is one of the drawbacks of overdraft because overdraft are very costly

D overdraft is on short-term and companies may fail to get repayment within such short period

### QUESTION EIGHT

**Answer: A**

Both statements describe the medium-term financing features

### QUESTION NINE

**Answer: C**

A. is incorrect as it is the interest rate over 4 years

B. is incorrect as it is interest rate computed wrongly, instead of dividing principal, they divided total payment.  $FRW 52,960/108,960$  D. is incorrect as by error, installments used to calculate the interest rate were made on 40 months

D; It is  $frw 56,960/108,960 * 1/4$  which is wrong

		<b>FRW 000</b>
Given:	Principal	56,000
	Repayment	2,270
	Months	48
Total repayment (monthly instalments * 48 months)		108,960

Interest cost (Total repayment – Principal)	52,960
Simple annual interest rate for 4 years (interest cost/principal)	94.5%
Simple annual interest rate (94.5%/4)	24%

### QUESTION 10

**Answer: D**

All those factors have to be considered for choosing where to invest your cash surplus

### QUESTION 11

**Answer: B** because Short-term bank loan is a source of financing and not a type of investment.

**All other option can be used to make an investment using cash surplus**

### QUESTION 12

**Answer: C**

**A** is not correct as FRW 13 million net balance between budgeted expense and budgeted income

**B** is not correct as FRW 3 million is difference between actual cash inflow and actual expense

	Budgeted Cash flows	Actual cash flows	variance	Adverse/Favorable
	FRW Million	FRW Million	FRW Million	FRW Million
<b>Receipts</b>				
Sales	150	140	(10)	Adverse
Receipts from customers	30	15	(15)	Adverse
Sales of held for sale assets	55	60	5	Favorable
Interest received	10	12	2	Favorable
<b>Sub/Total</b>	<b>245</b>	<b>227</b>	<b>(18)</b>	<b>Adverse</b>
<b>Payments</b>				
Wages and Salaries	130	143	(13)	Adverse
Purchase of Vehicle	30	33	(3)	Adverse
Rent	20	14	6	Favorable
Office furniture	12	10	2	Favorable
Cleaning fees	5	3	2	Favorable

	<b>Budgeted Cash flows</b>	<b>Actual cash flows</b>	<b>variance</b>	<b>Adverse/Favorable</b>
	<b>FRW Million</b>	<b>FRW Million</b>	<b>FRW Million</b>	<b>FRW Million</b>
Dividend payment	35	27	8	Favorable
<b>Sub/Total</b>	<b>232</b>	<b>230</b>	<b>2</b>	<b>Favorable</b>
<b>Net</b>	<b>13</b>	<b>(3)</b>	<b>(16)</b>	<b>Adverse</b>

**QUESTION 13**

**Answer: A**

Cash budget for Mark’s business is Adverse as a result of decrease in closing cash balance. This is different from what was expected because payments were more compared to the receipts.

Favorable variance occurs when favorable variances exceed adverse variances

**QUESTION 14**

**Answer: B**

Actual receipts is less than budgeted receipt which make variance adverse, while for payment, actual payment is less than what they budgeted to pay, hence variance is favorable

**QUESTION 15**

**Answer: D**

All these, are elements in the control cycle of cash budget to ensure that cash flows and cash balances revert to plan

**QUESTION 16**

**Answer: B**

It is a high inflation which may mean that though the business is profitable in historical cost terms

**QUESTION 17**

**Answer: B**

Certificate of Deposit is a financial instrument issued by banks. It is a document issued by a bank which certifies that a certain sum has been deposited with it to be repaid on a specific date. It is a negotiable instrument and highly marketable. A, financial instrument issued by companies are Commercial Papers (CP) or Corporate Bonds and Debentures which are alternatives to bank borrowing by corporations with high credit ratings. C and D financial instruments issued by a local authority or government are common types of securities including government treasury bills, government bonds,

### **QUESTION 18**

**Answer: A**

Note that ii. would not keep the company within the agreed overdraft limit.

### **QUESTION 19**

**Answer: C**

Only controlling cost should be under costing information rather than controlling selling processes

A: Cost can't help to determine production quantities

B Discontinuing product requires analysis of both cost and sales not only cost

D Disposal price are set using market price not costing information

### **QUESTION 20**

**Answer: D**

Distribution cost should not be directly associated to the production department

Labour cost, material cost and direct expense are all direct costs

### **QUESTION 21**

**Answer: C: Administration costs represent costs classified by function.**

Cost classification by behavior is: Variable costs, fixed costs, semi-variable costs while

### **QUESTION 22**

**Answer: B,**

While allocating overheads, the step is detailed as follows

i. Allocation of overheads that are related to just one cost centre,

ii. Apportionment of overheads that relate to a number of cost centres on some fair basis,

iii. Re-apportionment of service cost centre into the production cost centres,

iv. Absorption of the overheads of each production cost centre into the cost units on a fair basis,



**QUESTION 23**

**Answer: C**

A direct cost and variable costs are cost classification by behavior

**QUESTION 24**

**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.

**QUESTION 25**

**Answer: C**

Managing Director’s salary is an overhead cost to the entire factory to be allocated through overheads allocation processes.

**QUESTION 26**

**Answer: D**

Purchase of office equipment is a capital expenditure, A, B and C are short-term expenses used in the current period or typically within one year. They include expenses required to meet the ongoing operational costs of running a business, and thus are essentially the same as operating expenses

**QUESTION 27**

**Answer: C**

**Working**

	Services	Additional	Salaries	Bonus	Total receipts
			FRW 000	FRW 000	FRW 000
February	5	N/A	328	0	328
March	11	1	328	33	328+(33*1) = 361
April	17	7	328	33	328+(33*7) = 559
May	21	11	328	33	328+(33*11) = 691

For (i) has been calculated by adding bonus to salary when there was bonus earned since services were only 5 and (ii) is not correct because the value of May was taken to be for March

**QUESTION 28**

**Answer: C**

This is uncontrollable cost as Gun Co. cannot control the agreement cost within the four-month period, as it is unable to get out of the agreement during this time.

A is not correct as Gun Co. should not avoid or cancel the agreement contract before those four months.

B and D the agreement cost for the first four months is neither semi-variable cost nor fixed cost

**QUESTION 29**

**Answer: C**

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

A. is not correct as the statement specifies that the material does not have the resale value,

B. only replacement value should be considered instead of the value of use.

D. purchase cost is a sunk cost and it is irrelevant.

**The following data relates to questions 30, 31, and 32:**

**Working: 30, 31 and 32 FRW**

	<b>FRW</b>	<b>FRW</b>
Selling price:	25,000	
Materials kg / unit price	4	2,000
Labor hour / unit price	25	550
Fixed cost		280,000,000
<b>Materials limit</b>	<b>335,000</b>	
<b>Labor limit hours</b>	<b>2,800,000</b>	
<b>Market demand</b>	<b>365,000</b>	
<b>Materials limit</b>	<b>335,000</b>	
<b>Labor limit hours</b>	<b>2,800,000</b>	
<b>Units to be produced (2,800,000/25)</b>		<b>112,000</b>

**Between material and labor, the limiting factor is materials. Therefore, the materials to be produced can't exceed 83,750. Though hours are available, but materials can't exceed the said limit**

**QUESTION 30**

**Answer: C**

A. is not correct as calculation of production units were calculated based on the market demand which is fixed to 365,000/4 without taking into consideration the limiting factor of ALPA Co. which is the production capacity.

B. is not correct as calculation of production units were calculated based on working labor hours available 2,800,000/25 without taking into consideration the limiting factor of ALPA Co. which is the production capacity.

D. this option considered market demand yet there is no capacity to meet demand

**QUESTION 31**

**Answer: A**

	<b>FRW</b>
<b>Units to be produced (335,000/4) =83,750</b>	
Sales (83,750*25,000)	2,093,750,000
Variable cost	(1,821,562,500)
Contribution	272,187,500
Fixed cost	(280,000,000)
<b>Profit/loss</b>	<b>(7,812,500)</b>

B. is not correct as it mistakenly assumes profit yet it is a loss

C and D are not correct as calculation of sales revenues were calculated based on demand yet the company has not capacity to meet demand

**QUESTION 32**

**Answer: C**

	<b>FRW</b>
<b>Unity to be produced = 2,800,000/25 = 112,000</b>	
Sales (112,000*25,000)	2,800,000,000
Variable cost	2,436,000,000
Contribution	364,000,000
Fixed cost	280,000,000
<b>Profit</b>	<b>84,000,000</b>

A Normally the figure is obtained assuming limiting factor of materials.  
 should be loss for ALFA considering the limited supply capacity

B called it loss yet it is profit

D computed profit using demand as sales, yet company has no capacity to meet demand due to limiting factor

**QUESTION 33**

**Answer: A**

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 34**

**Answer: C**

Step down method to reallocate overheads involves the following

1. Reapportion one of the services cost centre’s overheads to all of the other centres which use its services
2. Reapportion the overheads of the remaining services cost centre to the production cost centres only.

In question, the first item has negation which make it incorrect

**The following information relates to questions 35 and 36:**

**QUESTION 35**

**Answer: B**

The 2<sup>nd</sup> step used in calculating and using a predetermined overhead absorption rate is to “Estimate the activity level for the period”

**QUESTION 36**

**Answer: A**

A direct hour basis of overhead absorption is most appropriate in labour intensive

**The following data relates to questions 37, 38, and 39:**

	A	B	C	Total
Book value of equipment	20 M	10 M	20 M	50 M
FRW				
Apportionment ration	2	1	2	
Floor space in m <sup>2</sup>	1,600	800	400	2,800m <sup>2</sup>

Ratio 4:2:1

Workings:

	Production cost centres			
	All centres	A	B	C
Depreciation of factory (4:2:1)	700	400	200	100
Equipment overheads (2:1:2)	125	50	25	50
<b>Total</b>	<b>825</b>	<b>450</b>	<b>225</b>	<b>150</b>

### QUESTION 37

Answer: C

- A. 825 is the production overheads of all three centres
- B. 225 is a production cost for B centre
- D. 150 is production cost for C centre

### QUESTION 38

Answer: B

- A. 150 is production cost for C centre
- C. 825 is the production costs of all three centres
- D. 450 is a production cost for A centre

### QUESTION 39

Answer: D. The production costs of all three centres is FRW 825, production cost for centre A is FRW 450 and production cost for centre C is FRW 150 whilst the production cost for centre B is FRW 225.

### QUESTION 40

Answer: C, as shown in working below.

<b>Budgeted:</b>	<b>Budgeted</b>
Hours	80,000
Overheads	320,000
Overhead absorption rate = $320,000/80,000 = 4$ per hour	4
Amount absorbed $70,000 \times 4$	280,000
Actual overheads	315,500
Amount under absorbed	35,500

A represent total amount absorbed

B represent actual overheads

D is not correct as it represents difference between actual overheads and budgeted overheads

### QUESTION 41

**Answer: A**

The absorption overheads FRW 1,210 ('000') and FRW 5,644 ('000') are calculated basing on machine hours for assembling and packaging.

B; the absorption overheads for assembling and packaging are all based on machine hours

C; the absorption overheads for assembling is based on labour hours while for that packaging is based on machine hours

D; the absorption overheads for assembling is based on machine hours while for that packaging is based on labour hours

**Workings:**

	<b>Assembling</b>	<b>Packaging</b>
<b>Overhead</b>	254,000,000	185,000,000
<b>Labour hours</b>	210,000	78,000
<b>Machine hours</b>	45,000	55,000
	<b>Assembling (FRW'000')</b>	<b>Packaging (FRW'000')</b>
a. $(254,000,000/210,000) =$	1,210	$(185,000,000/78,000) =$ 2,372
b. $(254,000,000/45,000) =$	5,644	$(185,000,000/55,000) =$ 3,364
c.	1,210	3,364
d.	5,644	2,372

### QUESTION 42

**Answer: B**

1. If actual overheads are greater than absorbed overheads, the overheads are under absorbed,

2. If actual overheads are less than absorbed overheads, then overheads are over absorbed,

**QUESTION 43**

**Answer: B**

B. The margin of safety is the excess of budgeted or actual sales over the break-even point sales,

**QUESTION 44**

**Answer: C**

A & D are incorrect as the FRW 600,000 are calculated based on expected production level of 500 units,

B is not correct as FRW 400,000 are under absorbed as absorbed overheads exceeds actual overheads.

**Working:**

Actual overheads	2,600,000
Absorbed (750 @ FRW 4,000)	3,000,000
Over absorption	400,000

**QUESTION 45**

**Answer: D**

Variances can be calculated by comparing the budget with the actual results or comparing the flexed budget with the actual results.

**QUESTION 46**

**Answer: B**

A flexible budget: is a budget which, by recognizing different cost behavior patterns, is designed to change as the volume of activity changes,

A: Flexible budgeted does not change due to change in costs

C: budgeting does not require to know actual costs

D: Flexible budget is not changed by changes in unit costs

**QUESTION 47**

**Answer: D**

All of them. Activity variance, purchase price variance, efficiency usage variance and total cost variance are part of cost variance.

**QUESTION 48**

**Answer: B**

An adverse variance is neither always good nor bad. Whether it is good or bad depends on the reason for the variance. For example, adverse in labour variance should be linked to the increase in required labour for a high level of production hence a higher revenue.

**QUESTION 49**

**Answer: D**

All variances highlighted should be investigated, this is not the case for each and every variance as there are those which are favorable and others which are adverse. The investigation should be made according to specific case. And the cost of investigation should outweigh by associated benefits.

**QUESTION 50**

**Answer: C**

A is not correct as the activity variance was favorable as results of increase in units produced compared to those budgeted

B & D are selling price variances

	<b>Budget</b>	<b>Actual</b>	<b>variance</b>	
Sales Units	600	620	20	F
Selling price per unit	30,000	29,000	1,000	A
Activity variance	<b>600,000</b>	F		
Selling price variance	18,600,000	(620*30,000)		
	17,980,000	(620*29,000)		
	<b>620,000</b>	A		

**END OF MARKING GUIDE AND MODEL ANSWERS**