Unlimited possibilities

S2.2 MANAGING COSTS AND CASH FLOWS

CERTIFIED ACCOUNTING TECHNICIAN (CAT)

STAGE 2 EXAMINATIONS

MARKING GUIDE AND MODEL ANSWERS DATE: 01 DECEMBER 2022

NOV2022ICPARN		RNOV20221CPARNOV20221CPA	RNOV2022ICPARNOV202
MOV2022ICPARN	OV2022ICPARNOV2022ICPAR OV2 C 22ICPARNOV2022ICPAR	RNOV2022ICPARNOV2022ICPA RNOV2022ICPAR <mark>126</mark> V2022ICPA	RNOV2022ICPARNOV202 RNOV2022ICPARNOV202
NOV2022ICPARN	OV2C22ICPARNOV2022ICPAR	RNOV2022ICPAR <mark>nyv2022ICP</mark> A RNOV2022ICPARNOV2022ICPA	RNOV2022ICPARNOV20
30V2022ICPARN	OV20221CPARNOV20221CPAR OV2 $f B$ 221CPARNOV20221CPAR	RNO V 20221CPAR <u>NO V 20221CPA</u> RNO V 20221CPARN 28 V 20221CPA	$rac{1}{2} rac{1}{2$
AOV2022ICPARN	OV2@22ICPARNOV2022ICPAR	RNOV2022ICPARN <mark>29</mark> V2022ICPA	RNOV2@21CPARNOV202
1 5 0V2022ICPARN	OV2022ICPARNOV2022ICPAR	RNOV20221CPAR NOV20221CPA RNOV20221CPARN 30 V20221CPA	$rac{RNOV20221CPARNOV202}{RNOV20221CPARNOV202}$
60V2022ICPARN	OV2 <mark>D</mark> 22ICPARNOV2022ICPAR	RNOV2022ICPAR <mark>131</mark> V2022ICPA	RNOV20A2ICPARNOV20
NOV2022ICPARN NOV2022ICPARN	OV2022ICPARNOV2022I CPAR OV2 C 22ICPARNOV2022ICPAR	RNOV2022ICPAR NOV2022ICPA RNOV2022ICPARN 32 V2022ICPA	RNOV 2022 ICPARNOV 20. RNOV 2022 ICPARNOV 20.
80V2022ICPARN	OV2A2ICPARNOV2022ICPAR	RNOV2022ICPARI <mark>33</mark> V2022ICPA	RNOV2(A2ICPARNOV20)
NOV2022ICPARN NOV2022ICPARN	OV2022ICPARNOV2022I CPAR OV2022ICPARNOV2022ICPAR	RNOV2022ICPAR <mark>nav2022ICP</mark> A Rnov2022ICPARnov2022ICPA	RNOV2022ICPARNOV201
MOV2022ICPARN	OV2D22ICPARNOV2022ICPAF	RNOV2022ICPAR 135 V 2022ICPA	RNOV2 B 2ICPARNOV202
NOV2022ICPARN	OV2B22ICPARNOV2022ICPAR	RNOV2022ICPARN <mark>36</mark> V2022ICPA	RNOV 2022 21 CPARNOV 202 RNOV 2022 21 CPARNOV 202
12v2022icparn	OV2C22ICPARNOV2022ICPAR	RNOV2022ICPAR <mark>\\ 37\\\ 2022ICPA\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\</mark>	
13V2022ICPARN	OV2A22ICPARNOV2022ICPAR	RNOV2022ICPARN38V2022ICPA	RNOV2B2ICPARNOV20
14V2022ICPARN	OV2B221CPARNOV20221CPAR	RNOV2022ICPARN39V2022ICPA	rnov2021c1741110 v 20.
115V2022ICPARN	OV2D22ICPARNOV2022ICPAR	RNOV2022ICPARN 40 V2022ICPA	RNOV2@2ICPARNOV20
16 V2022ICPARN	OV2022ICPARNOV2022ICPAR	RNOV2022ICPARNOV2022ICPA	$\frac{1}{1}$
M7V2022ICPARN	OV2 B 22ICPARNOV2022ICPAR	RNOV2022ICPARN 42 V2022ICPA	RNOV2 B 2ICPARNOV202
18 V2022ICPARN	OV2Q221CPARNOV20221CPAR OV20221CPARNOV20221CPAR	RNO V 20221 CPAR 1 <mark>43</mark> V 20221 CPA RNO V 20221 CPAR <u>NO V 20221 CPA</u>	RNOV20221CPARNOV20
19v2022ICPARN	OV2C22ICPARNOV2022ICPAR	rnov2022icparn <mark>44</mark> v2022icpa	rnov2 $f G$ 2ICPARNOV202
20 ^{V2022} ICPARN	OV2 <mark>d</mark> 221CPARNOV20221CPAR OV20221CPARNOV20221CPAR	RNOV2022ICPARN <mark>45</mark> V2022ICPA RNOV2022ICPAR NOV2022ICPA	RNOV2921CPARNOV2020000000000000000000000000000000000
21v2022icparn	OV2C22ICPARNOV2022ICPAR	46 v2022ICPAR 46 v2022ICPA	
122 V2022ICPARN	OVERSALODA PNOVESSALODA D	RNOV2022ICPARM 7 V2022ICPA RNOV2022ICPAR NOV2022ICPA	PNOVPOSTOPARNOVSO
23 _{V2022} ICPARN	OV2022ICPARNOV2022ICPAR	rnov2022icpar <u>n4<mark>8</mark>v2022icpa</u>	RNOV20221CPARNOV202
124V2022ICPARN	OD L	RNOV2022ICPARN 49 V2022ICPA RNOV2022ICPARN 48 V2022ICPA	
25 v 2022ICPARN NOV2022ICPARN	OV26221CPARNOV20221CPAF OV26221CPARNOV20221CPAF	RNOV20221CPARN50V20221CPA RNOV20221CPAR <u>NOV20221CPA</u>	RNOV2022ICPARNOV202 RNOV2022ICPARNOV202
NOV2022ICPARN NOV2022ICPARN NOV2022ICPARN lote: 2 Marks ea	COV2022ICPARNOV2022 CPAR OV2022ICPARNOV2022ICPAR OV2022ICPARNOV2022ICPAR OV2022ICPARNOV2022ICPAR ach correct answer 022ICPAR OV2022ICPARNOV2022ICPAR	RNOV2022ICPAP <mark>ROV2022ICPA</mark> RNOV2022ICPARNOV2022ICPA RNOV2022ICPARNOV2022ICPA	RNOV2022ICPARNOV202 RNOV2022ICPARNOV202 RNOV2022ICPARNOV202 RNOV2022ICPARNOV202 RNOV2022ICPARNOV202 RNOV2022ICPARNOV202
		RNOV2022ICPARNOV2022ICPA RNOV2022ICPARNOV2022ICPA RNOV2022ICPARNOV2022ICPA RNOV2022ICPARNOV2022ICPA RNOV2022ICPARNOV2022ICPA	RNOV2022ICPARNOV202 RNOV2022ICPARNOV202 RNOV2022ICPARNOV202 RNOV2022ICPARNOV202 RNOV2022ICPARNOV202
NOV2022ICPARN NOV2022ICPARN	OV2022ICPARNOV2022ICPAR OV2022ICPARNOV2022ICPAR		

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: PARNOV

Table 1.1

NOV2022ICPARNOV2022ICPARNOV2	Jan-21 NOV2022ICPA	Feb-21221CPARNOV	2Mar-21RNOV2022
NOV2022ICPARNOV2022ICPARNOV2	FRW 000	FRW 000	FRW 000
Opening CPARNOV2022ICPARNOV2	0221CPARNOV 18,000	RNOV2022ICP1,800	2022ICPARN(2,000)
Paul receipt RNOV2022ICPARNOV2	022ICPARNOV202 300 A	RNOV2022ICPARNOV	2022ICPARNOV 200
Advance payment 2022ICPARNOV2	0221CPARNOV20221CPA 0221CPARNOV20221CPA	RNOV2022ICPAI500	2022ICPARNOV2022 [2022ICPARNOV2022]
Expected cash receipt2ICPARNOV2	022ICPARNOV2022ICPA	RNOV2022ICPARNOV	2022ICPARNO1,000
Total receipt NOV2022ICPARNOV2	18,300 18	2,300	2022ICPARNO (800)
NOV2022ICPARNOV2022ICPARNOV2	022ICPARNOV2022ICPA	RNOV2022ICPARNOV	2022ICPARNOV2022
Payment PARNOV2022ICPARNOV2	022ICPARNOV2022ICPA	RNOV2022ICPARNOV	2022ICPARNOV2022
Equipment ARNO V2022ICPARNO V2	022ICPARNOV(1,500)	RNOV2022ICPARNOV	2022ICPARNOV2022
Wehicle ICPARNOV2022ICPARNOV2	0221CPARNO(15,000)A	RNOV2022ICPARNOV	2022ICPARNOV2022
Furniture CPARNOV2022ICPARNOV2	0221CPARNOV20221CPA 0221CPARNOV20221CPA	(2,000)	2022ICPARNOV2022 2022ICPARNOV2022
Rent 0221CPARNOV20221CPARNOV2	022ICPARNOV2022ICPA	RNOV2022ICP(500)	2022ICPARNO(250)
Cleaning fee RNOV2022ICPARNOV2	0221CPARNOV20221CPA	(100)	²⁰²² ICPARNO (100)
Salary and wages V2022 ICPARNOV2	022ICPARNOV2022ICPA	RNOV20221 (1,500)	2022ICPARN(1,500)
Insurance PARNO V2022ICPARNO V2	022ICPARNOV2022ICPA	RNOV2022ICP(200)	2022ICPARNOV2022
Total payment OV2022ICPARNOV2	0221CPARNO (16,500)	RNOV20221 (4,300)	2022ICPAR (1,850)
Cash balance NOV2022ICPARNOV2	0221CPARNOV2(1,800 A	RNOV2022I((2,000)	2022ICPARN(2,650)
Overdraft ARNOV2022ICPARNOV2	0221CPARNOV20221CPA 0221CPARNOV20221CPA	2,000	20221CPARNO 2,650

OUESTION 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.

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PAIQUESTION THREE

Answer: B

A. is not correct as calculation has taken into consideration the depreciation which is not cash problems item FRW 1,800,000 - 150,000. ICPARNOV2022ICPARNOV202ICPARNOV2

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 2002

OUESTION FOUR

Answer: C working shown in table 1.1

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

NOV2022ICPARNOV2022ICPARN	Jan-21 Parnov 2022 ICPAR	Feb-21 _{ICPARNOV}	Mar-21 NOV2022
NOV2022ICPARNOV2022ICPARN	DV2022ICPARNO FRW 000 R	NOV202 FRW 000 V	2022ICPA FRW 000
Opening CPARNOV2022ICPARN	0V2022ICPARNOV2018,000	NOV2022ICP 1,650	2022ICPARN (2,300
Paul receipt RNOV2022ICPARN	0V2022ICPARNOV2022I 300 R	NOV2022ICPARNOV	2022ICPARNOV 200 1
Advance payment	OV2022ICPARNOV2022ICPAR OV2022ICPARNOV2022ICPAR	NOV2022ICPAR 500	20221CPARNOV20221 20221CPARNOV20221
Expected receipt from client	OV2022ICPARNOV2022ICPAR	NOV2022ICPARNOV	2022ICPARNO 1,000
Total receipt NOV2022ICPARN	0V2022ICPARNOV2018,300R	NOV2022ICP/ 2,150 V	2022ICPARN(1,100)
NOV2022ICPARNOV2022ICPARN	OV2022ICPARNOV2022ICPAR	NOV2022ICPARNOV	2022ICPARNOV2022I
Payment PARNOV2022ICPARN	OV2022ICPARNOV2022ICPAR	NOV2022ICPARNOV	2022ICPARNOV2022I
Equipment ARNOV2022ICPARN	DV2022ICPARNOV2 (1,500)	NOV2022ICPARNOV	2022ICPARNOV2022I
Vehicle ICPARNOV2022ICPARN	0V2022ICPARNOV (15,000) _R	NOV2022ICPARNOV	2022ICPARNOV2022I
FurnitureCPARNOV2022ICPARN	OV2022ICPARNOV2022ICPAR	NOV2022IC (2,000) V	2022ICPARNOV2022I
Rent Rent	0 V 2022I CPARNO V 2022I CPAR 0 V 2022I CPARNO V 2022I CPAR	(500)	(250)
Cleaning fee RNOV2022ICPARN	OV2022ICPARNOV2022ICPAR	NOV2022ICP (100) V	2022ICPARNO (100) 1
Salary and wages 2022 CPARN	OV2022ICPARNOV2022ICPAR	(1,500)	(1,500)
Insurance PARNOV2022ICPARN	OV2022ICPARNOV2022ICPAR OV2022ICPARNOV2022ICPAR	NOV2022ICP (200)	20221CPARNOV20221 20221CPARNOV20221
Depreciation RNO V2022 ICPARN	0V2022ICPARNOV202 (150) R	NOV2022ICP/(150)V	2022ICPARNO(1 50)
Total payment	0V2022ICPARNOV (16,650)	(4,450)	2022ICPAR (2,000)
Cash balance NOV2022ICPARN	0V20221CPARNOV202 1,650 R	NOV2022IC(2,300)V	2022ICPARN(3,100)

PA B. is incorrect as calculation has taken into consideration depreciation which is not cash flows PAItem. 2022ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPAR

OUESTION FIVE

Answer: D

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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

OUESTION NINE

Answer: C

- A. V20 is incorrect as it is the interest rate over 4 years PAR
- B. is incorrect as it is interest rate computed wrongly, intead 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

RNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNO	V2022ICPARNOV2022IC	FRW 000
Given: 21CPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNO	Principal	56,000
NOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNO	Repayment OV2022IO	JARNO2,270
NOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNO	Months ARNOV 2022IO	CPARNOV2048
nov2022icparnov2022icparnov2022icparno nov2022icparnov2022icparnov2022icparnov2022icparno	V 20221CPARNO V 202210 V 20221CPARNO V 202210	C Parnov 2022 CParnov 2022
Total repayment (monthly instalments * 48 months) CPARNO	V2022ICPARNOV2022IC	AR 108,960

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RNOV2022ICPAI	Interest cost (Total repayment — Principal) NOV2022ICPARNO V2022ICPARNOV2022ICI	ARN52,9601	CPARNOV2022IC
RNOV2022ICPAI RNOV2022ICPAI	Simple annual interest rate for 4 years (interest cost/principal)	94.5%	CPARNOV2022IC CPARNOV2022IC
RNOV2022ICPAI	Simple annual interest rate (94.5%/4) CPARNOV2022ICPARNOV2022ICPARNOV2022ICI	arnov 24% 1	CPARNOV2022IC
RNOV2022ICPAR	NOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICI	PARNOV2022I	CPARNOV2022IC

RNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022IC RNOV2022ICPAI**QUESTION 10**10 v2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV

RNOV2022ICPA Answer: D

RNOV2022ICPAIAll those factors have to be considered for choosing where to invest your cash surplus RNOV2022ICPARNOV2022IC

RNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022IC RNOV2022ICPA I**QUESTION 11**10 v2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022IC

RNOV2022ICPA Answer: B because Short-term bank loan is a source of financing and not a type of investment. 21CPARNOV2022ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV2

RNOV20221CPAI**QUESTION 12** OV20221CPARNOV20221CPARNOV20221CPARNOV20221CPARNOV20221CPARNOV20221CPARN

RNOV2022ICPAP<mark>answer: C</mark>parnov2022ICparnov2022ICparnov2022ICparnov2022ICparnov2022ICparnov2022ICparnov2022ICparnov

RNOV2022ICPA income 22ICPARNO V2022ICPARNO V

RNOV2022ICPA B OV2 is not correct as FRW 3 million is difference between actual cash inflow and actual expense

KNOV2022ICPARNO V2022ICPAR KNOV2022ICPARNO V2022ICPAR KNOV2022ICPARNO V2022ICPAR KNOV2022ICPARNO V2022ICPAR KNOV2022ICPARNO V2022ICPAR KNOV2022ICPARNO V2022ICPAR	Budgeted Cash flows FRW Million	Actual cash flows FRW Million	variance NOV2022ICPARN NOV2022ICPARN FRW Million	Adverse/Favorable
Receipts CPARNOV2022ICPAR	NOV2022ICPARN	OV2022ICPAF	NOV2022ICPARN NOV2022ICPARN	OV 2022ICPARNOV 2022I OV 2022ICPARNOV 2022I
Sales OZZICPARNOV 2022 ICPAR	NOV2022ICPARN NOV2022IC150	$\begin{array}{c} \text{OV2022ICPAI} \\ \text{OV2022I} 140 \end{array}$	NOV2022ICPARN NOV2022IC(10)	Adverse ARNOV20221
Receipts from customers PAR	NOV2022ICP 30 N	OV2022IC P5 F	NOV2022IC(15)N	Adverse ARNO V 2022 I
Sales of held for sale assets	NOV2022ICPARN	OV20221CPAI	NOV2022ICPARN	Favorable
Interest received V2022ICPAR	NOV2022ICP A0 N	OV2022IC 12 1	NOV2022ICPAI 2 N	Favorable RNOV2022I
RNOV2022ICPARNOV2022ICPAR RNOV2022ICPARNOV2022ICPAR	NOV2022ICPARN NOV2022ICPARN	OV2022ICPAE	NOV2022ICPARN	OV 2022ICPARNOV 2022I OV 2022ICPARNOV 2022I
Sub/Total PARNO V 2022 I CPAR	NOV2022IC 245 N	OV2022 227 1	NOV2022IC(18) N	Adverse ARNOV20221
NOV2022ICPARNOV2022ICPAR	NOV2022ICPARN	OV2022ICPAF	NOV2022ICPARN	OV2022ICPARNOV2022I
Payments ARNOV2022ICPAR	NOV2022ICPARN NOV2022ICPARN	OV2022ICPAI OV2022ICPAI	NOV2022ICPARN NOV2022ICPARN	OV 2022ICPARNO V 2022I OV 2022ICPARNO V 2022I
Wages and Salaries 0221CPAR	NOV2022IC 130 N	OV2022I 143 .F	NOV2022IC (13) N	OAdverse ARNOV2022I
Purchase of Vehicle	NOV2022ICP30N	OV2022IC33	NOV2022ICP (3)	Adverse
Rent 0221CPARNO V20221CPAR	NOV2022ICP. 20 N	0V2022IC 14 .F	NOV2022ICPAI 6 V	Favorable RNOV20221
Office furniture V2022ICPAR	NOV2022ICP42N	OV2022IC10H	NOV2022ICPAPN	Favorable RNOV20221
Cleaning fees NOV2022ICPAR	nov2022icparn nov2022icparn	OV2022ICPAI OV2022ICP A I	NOV2022ICPARN NOV2022ICPAI <mark>2</mark> N	Favorable RNOV2022I

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RNOV2022ICPARNOV2022ICPAR RNOV2022ICPARNOV2022ICPAR	Budgeted Cash flows	Actual PAR	variance PARN NOV2022ICPARN	Adverse/Favorable
RNOV2022ICPARNOV2022ICPAR RNOV2022ICPARNOV2022ICPAR	NOV2022ICPARN NOV2022ICPARN	flows ICPAR	NOV2022ICPARN Nov2022ICPARN	OV2022ICPARNOV2022I OV2022ICPARNOV2022I
JRNO V 2022 I CPARNO V 2022 I CPAR JRNO V 2022 I CPARNO V 2022 I CPAR JRNO V 2022 I CPARNO V 2022 I CPAR	FRW CPARN Million	FRW Million	FRW Million NOV2022ICPARN NOV2022ICPARN	FRW Million V202210 DV2022ICPARNOV202210 DV2022ICPARNOV202210
R Dividend payment 2022 ICPAR KNOV 2022 ICPARNOV 2022 ICPAR	NOV2022ICP 35 N	OV2022IC 27 F OV2022ICPAF	NOV2022ICPAI8V NOV2022ICPARN	Favorable RNOV202210
Sub/Total PARNOV2022 ICPAR	NOV2022IC 232	OV2022 230	nov2022icparn Nov2022icpai <mark>2</mark> n	Favorable RNOV202210
Net 2022ICPARNOV2022ICPAR	NOV2022ICP43N	OV2022I(3)F	NOV2022IC(16)V	Adverse ARNOV2022II

Answer: Aparnov2022icparnov2022icparnov2022icparnov2022icparnov2022icparnov2022icparnov2022

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

OHESTION 16

Answer: B

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

OUESTION 17

Answer: B

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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 CPARNO

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

OUESTION 21

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

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

OUESTION 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.

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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

RNOV2022ICPARNO	Services	Additional	Salaries	Bonus	Total receipts
NOV2022ICPARNO	V 2022ICPARI OV 2022ICPARI	OV2022ICPARN	FRW 000	FRW 000	FRW 000 PARNOV2022
February PARNO)V2022ICPA 5 N	OV2022IC N/A N	OV2022IC328	NOV2022ICI 0 \	RNOV2022ICPARNOV328
March	OV2022ICPARI OV2022ICPARI	OV2022ICPARN OV2022ICPARN	OV20221 328	VOV2022ICA VOV2022ICA	328+(33*1) = 361
NApril 22ICPARNO	DV2022ICP 47 N	OV2022ICPAI 7 N	OV2022IC 328	VOV2022I 33 A	$100 \times 328 + (33*7) = 559$
May	V2022ICP2RN	OV2022ICPARN	328	VOV2022ICBA	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

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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. 21CPARNOV20221CPARNOV

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

OUESTION 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

idio (bomiolilitio (bomiolilitio (bomiolilitio (bomiolilitio (bomioliliti)))
RNOV2022ICPARNOV202ICPARNOV
rnov2022icparnov20
R Selling price: NOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022IC 25,000 V2022ICPARNOV2022IC
Materials kg / unit price 2,000 2,00
RNOV 2022 CPARNOV
RFixed cost PARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2020ICPARNOV
RNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022IC
RNOV2022ICPARNOV202ICPARNO
R Materials limit 10 V20221CPARNOV20221CPARNOV20221CPARNOV20221335,000 V20221CPARNOV20221C
RLabor limit hours V2022ICPARNOV2022ICPARNOV2022ICPARNOV2022Z,800,000 V2022ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV2
RNOV2022ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICP
RNOV2022ICPARNOV202ICPARNOV
Materials limit 0V2022ICPARNOV2022ICPARNOV2022ICPARNOV2022I335,000V2022ICPARNOV2022IC
RNOV2022ICPARNOV202ICPARNOV
RNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022IC
R Labor limit hours V2022ICPARNO V2022ICPARN
RNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022IC
RNOV2022ICPARNOV202ICPARNOV

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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

RNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022	ICPA I FRW 2022ICPARNOV2022ICPARNOV2022I
Units to be produced (335,000/4) =83,750	ICPARNOV2022ICPARNOV2022ICPARNOV2022I
Sales (83,750*25,000) CPARNOV2022 ICPARNOV2022	ICPARN 2,093,750,000 OV 2022 ICPARNOV 2022 I
Variable cost NOV2022ICPARNOV2022ICPARNOV2022	ICP/RN(1,821,562,500) V2022ICPARNOV2022I
Contribution NOV2022ICPARNOV2022ICPARNOV2022	ICP RNO 272,187,500 OV 2022 ICPA RNO V 2022 I
Fixed cost ARNOV2022ICPARNOV2022ICPARNOV2022	ICP/RNO (280,000,000) V2022ICPARNOV2022I
Profit/loss	ICPARNOV (7,812,500) OV 2022I CPARNOV 2022I

B. is not correct as it mistakenly assumes profit yet it is a loss V2022ICPARNOV2022ICPARNOV2022I

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

OUESTION 32

Answer: (

NOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICP	arnov20221cparnov20221cparno FRW 10
Unity to be produced = 2,800,000/25 = 112,000 0221CP	ARNOV2022ICPARNOV2022ICPARNOV2022I
Sales (112,000*25,000) PARNOV2022ICPARNOV2022ICP	RNOV2022ICPARNOV20222,800,000,000
Variable cost NOV2022ICPARNOV2022ICPARNOV2022ICP	ARNOV2022ICPARNOV2022 2,436,000,000 I
Contribution NOV2022ICPARNOV2022ICPARNOV2022ICP	364,000,000
NFixed cost Arnov2022ICPARNOV2022ICPARNOV2022ICP	ARNOV2022ICPARNOV2022IC 280,000,000 I
Profit 21CPARNOV2022ICPARNOV2022ICPARNOV2022ICP	RNOV20221CPARNOV20221CP 84,000,000

S2.2 20221CPARNOV2

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 NOV2022ICPARNOV2022ICPAR

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 2nd step used in calculating and using a predetermined overhead absorption rate is to "Estimate the activity level for the period"

OUESTION 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:

RNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV	otal
\mathbb{R} NOV2022ICPARNOV2022ICPARNOV2022ICPARNOV \mathbb{R} 022ICPARNOV \mathbb{R} 022ICPARNOV \mathbb{R} 022ICPARNOV \mathbb{R} 022ICPARNOV \mathbb{R} 022ICPARNOV2022ICPARNOV \mathbb{R} 022ICPARNOV20	Jiai
R Book) value of equipment RNOV2022ICPAR 20 M022ICPAR 10 M022ICPAR N 20 M02ICPAR N 50	0 M
$\mathbb{R}_{\mathbf{FRW}}^{\mathbf{W}}$ 0221CPARNOV2021CPARNOV2021CPARNOV2021CPARNOV2021CPARNOV2021CPARNOV2021CPARNOV2021CPARNOV202	202210
RNOV2022ICPARNOV202ICPARNOV2	202210
Apportionment ration $_{21CPARNOV20221CPA$	202210
RFloor space in m^2 V2022ICPARNOV2022ICPAR1,600)22ICPARN800022ICPARNO4002ICPAR2,800)m² [

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 ${
m Ratio}$ 0221CPARNOV20221CPARNOV20221CPARNOV40221CPARNOV20221CPARNOV21222

Workings: PARN

A.I.	RNOV2022ICPARNOV2022ICPARNOV2022ICP	Production cost cent		ost centres	es RNOV2022IC	
	RNOV2022ICPARNOV2022ICPARNOV2022ICP RNOV2022ICPARNOV2022ICPARNOV2022ICP	All centres	A2022ICPARN	$\mathbf{B}_{20221\text{CPARN}}$	\mathbf{C}_{202210}	
J	Depreciation of factory (4:2:1) 2022 CP	ARNOV2022IC 700 N	OV2022ICP 400 V	DV2022ICP 200 T)V 100 I(
/I	Equipment overheads (2:1:2)	ARNOV2022IC 125 ARNOV2022IC 125	0V2022ICPA 0V2022ICPA 50	0V2022ICPA 25	50	1
J	(Total)221CPARNOV20221CPARNOV20221CP	ARNOV2022IC 825 N	OV2022ICP 450 V	DV2022ICP 225 (OV 150 10	

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

OUESTION 38

Answer: B

A.A. 150 is production cost for C centre ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV202

C. 825 is the production costs of all three centres

D. 450 is a production cost for A centre PARNOV202

AI<mark>QUESTION 39</mark>10 V 2022 ICPARNO V 2

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.

Budgeted; ARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPAR	Budgeted RNOV2022
RNHours 21CPARNOV20221CPARNOV20221CPARNOV20221CPARNOV20221CPAR	OV2022IC 80,000 V2022I
Overheads Noverheads Noverheads	320,000
RNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPARNOV2022ICPAR	OV2022ICPARNOV2022
Overhead absorption rate = 320,000/80,000 = 4 per hour	10 V 20221CPARN 4 V 2022 10 V 20221CPARNO V 2022
Amount absorbed 70,000*4 NOV2022ICPARNOV2022ICPARNOV2022ICPAR	0V20221 280,000 V2022
Actual overheads 2022 ICPARNOV2022 ICPARNOV202 ICPARNOV2	OV20221315,500V2022
Amount under absorbed PARNOV2022ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202IC	OV2022IC35,500V2022

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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:

RNOV2022ICPARNOV2022ICPARN	Assembling OV2022ICPARNOV2022ICP	AFPackagingPARNOV2022I
Overhead PARNOV2022ICPARN	254,000,000 0V20221CPARNOV20221CP	185,000,000
Labour hours NOV2022ICPARN	0210,000°ARNOV2022ICPARNOV2022ICP	4.78,000221CPARNOV20221
Machine hours	45,000 PARNOV2022ICPARNOV2022ICP	55,000 221 CPARNO V 20221
NOV2022ICPARNOV2022ICPARN	OV2022ICPARNOV2022ICPARNOV2022ICP	ARNOV2022ICPARNOV2022I
RNOV2022ICPARNOV2022ICPARN	Assembling (FRW'000') NOV2022ICF	Packaging (FRW'000')
a. (254,000,000/210,000) =	1,210 (185,000,000/78,000)	$= \frac{2}{100000000000000000000000000000000000$
b. (254,000,000/45,000) P=RN	5,644 CPARN (185,000,000/55,000)	AR±10V2022I 3,364 10V2022I
CNO V 2022I CPARINO V 2022I CPARIN C NO V 2022I CPARINO V 2022I CPARIN	1,210 CPARNO V 2022 I CPARNO V	3,364 OZZICPARNOVZOZZI
dov20221cparnov20221cparn	0 5,644 ICPARNOV2022ICPARNOV2022ICP	af 2,372 0221CPARNOV20221

QUESTION 42

Answer: B

- 1. OV20 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,

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Answer: B

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

OUESTION 44

Answer: C

A & D are incorrect as the FRW 600,000 are calculated based on expected production level of 500 units. 2022ICPARNOV202ICPARNOV202ICP

B is not correct as FRW 400,000 are under absorbed as absorbed overheads exceeds actual overheads. PARNOV2022ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV

Working:

Actual overheads	PARNOV2022ICPARNOV2022,600,000
A1 1 1(750 C EDW 4 000)	PARNOV2022ICPARNOV2022 3,000,000
Over absorption V2022ICPARNOV2022ICPARNOV2022IC	PARNOV2022ICPARNOV2022I400,000V

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. 21CPARNOV2022ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV20

OUESTION 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

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Answer: D

All of them. Activity variance, purchase price variance, efficiency usage variance and total cost variance are part of cost variance. 2022ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV202ICPARNOV2

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.

OUESTION 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

RNOV2022ICPARNOV2022ICPA	ARN Budget PARNOV202	21 Actual)V2022ICPA	variance	V2022]
Sales Units RNO V2022ICPA	AR NOV2022ICPA600 V202	2ICPARNOV2620 CPA	RNOV 20 21 CPARNOV	(2 F 22)
Selling price per unit	AR NOV2022IC 30,000 V202	21CPARN 29,000 CPA	rn1,000 21CPARNOV	$(2\mathbf{A}_2)$
RNOV2022ICPARNOV2022ICPA	ARNOV2022ICPARNOV202	2ICPARNOV2022ICPA	RNOV2022ICPARNOV	V2022]
Activity variance	ARNOV2022 600,000 V202	ZICPARNOV2022ICPA ZICPARNOV2022ICPA	KNOV2022ICPARNOV RNOV2022ICPARNOV	/2022] /2022]
Selling price variance CP	ARNOV2(18,600,000 V202	(620*30,000) ICPA	RNOV2022ICPARNOV	V20221
RNO V 20221 CPARNO V 20221 CPA	17,980,000	(620*29,000)	RNOV2022ICPARNOV	(2022)
RNOV2022ICPARNOV2022ICPA	AR NOV2022 1620,000 V202	21 A ARNOV2022ICPA	RNOV2022ICPARNOV	V2022]

END OF MARKING GUIDE AND MODEL ANSWERS

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