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CERTIFIED ACCOUNTING TECHNICIAN (CAT)

STAGE 2 EXAMINATIONS

S2.2 MANAGING COSTS AND CASH FLOWS

DATE: THURSDAY, 01 DECEMBER 2022

INSTRUCTIONS:

1. Time allowed: **2 hours**.
2. This examination has **one section only: Section A**.
3. Section A has **50 compulsory multiple-choice questions** equal to 2 marks each.
4. The question paper should not be taken out of the examination room.

SECTION A

QUESTION ONE

Government monetary policies are policies that are implemented in order to deal with the factors below which can affect businesses:

- i. Supply of money
- ii. Treasury bills/bonds
- iii. Interest rates
- iv. Availability of credit

From above statement:

- A i. iii. iv are true
- B i. ii. iv. are true
- C i. ii. iii. iv are true
- D None is true

(2 Marks)

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

On 1 January 2022, Kamana started a Consultant Business with cash balance of FRW 18 million at bank. On the same date he made different transactions for setting up the business; whereby:

- 1) He spent FRW 1,500,000 on buying necessary initial equipment, related payment made in January 2022
- 2) He received office furniture of FRW 2,000,000 on credit from Peter payable on 21 February 2022.
- 3) On 30 January 2022, he paid a vehicle of 15 million for his business’s transport facilitation
- 4) He had an agreement of renting an office, monthly rent is FRW 250,000 but first two months was paid on 28 February 2022 and rent for march was paid on time.
- 5) He has monthly cleaning fees of FRW 100,000 payable one month in arrears
- 6) He pay monthly wages and salaries of FRW1,500,000 one moth in arrears.
- 7) Vehicle’s monthly depreciation is FRW 150,000.
- 8) On 22 January 2022, Kamana sent an invoice of FRW 500,000 to one of his client Paul. Paul paid FRW 300,000 on 22 January 2022 and the outstanding balance of FRW 200,000 would be settled on 30 March 2022.
- 9) On 25 February 2022, Kamana paid a monthly insurance fees covering the first semester of FRW 200,000.
- 10) On 30 February 2022, he received an advanced payment of FRW 500,000 for consultancy service to be offered in March 2022. In additional he is expecting to receive FRW 1 million from his client for the work to be completed in March.

Note: Assume, Kamana has the policy of seeking bank overdraft from the month in which he is not able to cover all expenses.

Using the above scenario, respond to the following 3 questions relating to cashflow from January to March 2022.

QUESTION TWO

From above scenario, on which month(s) will KAMANA seek the bank overdraft?

- A January 2022 only
- B March 2022 only
- C February and March 2022
- D None (he will not seek bank overdraft)

(2 Marks)

QUESTION THREE

From above scenario, what is the Opening balance for the February 2022?

- A FRW 1,650,000
- B FRW 1,800,000
- C FRW 16,800,000
- D FRW 300,000

(2 Marks)

QUESTION FOUR

From above scenario, what is the closing balance for March 2022? - Exclude overdraft if any

- A Positive balance of FRW 3,100,000
- B Positive balance of FRW 3,650,000
- C Negative balance of FRW 2,650,000
- D Positive balance FRW 3,100,000

(2 Marks)

QUESTION FIVE

Which of the following transaction(s) do not affect profit level of the business?

- i. Sole trader takes drawings out of the business,
- ii. A company issues additional equity shares for cash,
- iii. A company pays its shareholders a cash dividend,
- iv. A sole trader adds more capital into the business

- A i. ii. iv only
- B i. iii. iv only
- C ii. iv only
- D all above do not affect profit level of the business

(2 Marks)

QUESTION SIX

Which of the following is not part of overdraft finance features?

- A Commitment fee
- B Repayment on demand
- C Overdraft facility and actual overdraft
- D Repayment on a set date

(2 Marks)

QUESTION SEVEN

A bank overdraft is a source of short-term funding for a business to finance its working capital.

However, below are drawbacks of the use of overdraft finance except:

- A Increasing obligation
- B High cost
- C Security
- D Short term

(2 Marks)

QUESTION EIGHT

Below are statements relating to the medium-term financing?

- i. A medium-term debt finance should be used to fund the purchase of assets with a three to ten years' life such as plant and machinery.

ii. A medium-term debt finance can be used to fund a medium-term deficit in working capital

Which of the above statements is true/false?

- A Both statements are true,
- B Both statements are false,
- C Statement (i) is true and statement (ii) is false,
- D Statement (i) is false and statement (ii) is true

(2 Marks)

QUESTION NINE

MUGABO business Co. has agreed to borrow FRW 56 million from IKIREZI bank in order to purchase a machine. The loan is to be paid in 48 equal monthly installments of FRW 2.27 million.

Assuming simple flat rate interest.

What should be the simple annual interest rate for this borrowing agreement?

- A 94.5%
- B 49%
- C 24%
- D 12%

(2 Marks)

QUESTION 10

Cash surplus held in bank which is not earning any interest or which has low rate of return should be invested to earn profits.

What are the factors to consider for choosing where to invest cash surplus?

- i. Growth prospects
- ii. Spreading risks
- iii. Security
- iv. Liquidity

- A (i) (ii) (iv)
- B (i) (iii) (iv)
- C (ii) (iv)
- D All above are factors to consider to make choice of investment

2 Marks

QUESTION 11

Which of the following is not a possible type of investment that may be suitable for any cash surplus a business may have?

- A Treasury bills
- B Short term bank loan
- C Money markets accounts
- D Bank or building society deposit accounts

(2 Marks)**The following data relates to questions 12, 13, and 14:**

Given below is Mark's business company cash budget for the month of March 2022, together with the actual cash flows for the month.

	Budgeted Cash flows	Actual cash flows
Receipts	FRW'million'	FRW'million'
Sales	150	140
Receipts from customers	30	15
Disposal of assets	55	60
Interest received	10	12
Sub/Total	245	227
Payments		
Wages and Salaries	130	143
Purchase of Vehicle	30	33
Rent	20	14
Office furniture	12	10
Cleaning fees	5	3
Dividend payment	35	27
Sub/Total	232	230

QUESTION 12

What is the variance from budgeted cash flows against actual cash flows?

- A Negative balance FRW 3 million
- B Positive balance FRW 13 million
- C Negative balance FRW 16 million
- D None

(2 Marks)

QUESTION 13

Taking into consideration the cash budget control analysis made on above scenario, **what is the net cash flow budget performance for Mark’s business company is?**

- A Adverse
- B Favorable
- C Not applicable
- D Nil

(2 Marks)

QUESTION 14

By referring to control comparisons made on cash budget for Mark’s business Co, the interpretation would be?

- i. Variance from receipts is adverse
- ii. Variance from receipts is favorable
- iii. Variance from payments is adverse
- iv. Variance from payments is favorable

- A (i) and (iii) only are correct,
- B (i) and (iv). only are correct,
- C (ii). and (iv) only are correct,
- D all above are correct

(2 Marks)

QUESTION 15

Which of the following is not an element in the control cycle of cash budget to ensure that cash flows and cash balances revert to plan?

- A Actual results should be recorded and analyzed,
- B Plans and targets are set for future
- C The feedback is used by management to compare actual results with the budget
- D All of the above

(2 Marks)

QUESTION 16

Which of the following is not a possible reason for a cash deficit?

- A The business has become loss making and is unable to cover its costs,
- B Low inflation
- C If the business is growing, it may face a shortage of working capital with which to finance expansion,
- D A large one-off item expenditure may mean that the company faces a temporary shortage of cash for further investment.

(2 Marks)

QUESTION 17

What is a certificate of deposit (CD)?

- A A financial instrument issued by companies
- B Document issued by a bank which certifies that a certain sum has been deposited
- C A financial instrument issued by a local authority
- D A financial instrument issued by a government

(2 Marks)

QUESTION 18

Which of the following courses of action could improve the cash forecast position and keep the company within agreed overdraft limit?

- i. Improve credit collection and speed up receipts from credit customers
- ii. Sell non-current asset earlier or arrange for cash to be received earlier
- iii. Increase credit period taken from suppliers by paying later
- iv. Finance capital expenditure differently for example bank loan

- A (i) (iii) (iv) only
- B (i) (ii) (iii) (iv) only
- C (i) (ii) (iv) only
- D (ii) (iv) only

(2 Marks)

QUESTION 19

Jeanne is running a small business at Musanze, she has approached the accountant to get costing information and **below are the purposes of requesting such information except:**

- A Determining the quantities of production and sales
- B Continuing or discontinuing a product
- C Controlling cost
- D Setting disposal price

(2 Marks)

QUESTION 20

Kiyovu Business Co is a manufacturing company with different departments, the management has approached you to differentiate direct cost from indirect cost. **Which of the following is not a direct cost to the production department?**

- A Direct labor costs
- B Direct material costs
- C Direct expenses
- D Distribution costs

(2 Marks)

QUESTION 21

Which of the following costs is not part of main classification of cost by behaviors:

- A Variable costs
- B Fixed costs
- C Administration costs
- D Semi-variables costs

(2 Marks)

QUESTION 22

The way in which overheads end up in cost units is achieved by the following process:

- i. Apportionment of overheads that relate to a number of cost centres on some fair basis,
- ii. Absorption of the overheads of each production cost centre into the cost units on a fair basis,
- iii. Re-apportionment of service cost centre into the production cost centres,
- iv. Allocation of overheads that are related to just one cost centre.

Which of the following represents the correct order of the steps cost absorption?

- A i, ii, iii, and iv
- B iv, i, iii, and ii
- C ii, iii, i, and iv
- D iv, iii, ii, and i

(2 Marks)

QUESTION 23

Which of the following are types of cost centres?

- i. Production cost centres,
- ii. Variable costs,
- iii. Service cost centres,
- iv. Direct cost,

- A i. ii. iii. iv.
- B i. iii. iv only
- C i. iii only
- D i. ii. iv only

(2 Marks)

QUESTION 24

- 1. 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 not reached.
- 2. Semi-fixed costs are costs which contain both a fixed and also a variable component and so are partly affected by the level of activity.

Consider above statements on Cost classification and cost behavior, **which of the following is true**

- A Both statements are true,
- B Both statements are false,
- C Statement 1 is true and statement 2 is false,

D Statement 1 is false and statement 2 is true

(2 Marks)

QUESTION 25

Which of the following is not a production cost?

- A Factory rent
- B Depreciation of plant and machinery
- C Managing Director's salary
- D Factory heating and lighting

(2 Marks)

QUESTION 26

Marc Co has different types of expenditure as listed below:

- i. Purchase of goods and services,
- ii. Purchase of office equipment,
- iii. Repairs to a building or machine,
- iv. Expenditure incurred for sales agents,

Which of the above are types of revenue expenditure?

- A i. ii. iii. iv.
- B iv only
- C ii only
- D i. iii. iv only

(2 Marks)

QUESTION 27

Mugabo is receiving a monthly fixed wages of FRW 328,000 from his consultant service, plus a bonus of FRW 33,000 for each additional service delivered over 10 (ten) services expected to be delivered a month. What is Mugabo's monthly receipts for February, March, April and May if his delivered services are 5, 11, 17 and 21 respectively?

- i. February FRW 361,000
- ii. March FRW 691,000
- iii. April FRW 559,000
- iv. May FRW 691,000

Which monthly receipts are true for Mugabo

A i. ii. iii. iv. only

B i. ii. Only

C iii. iv. Only

D i. iii. iv. Only

(2 Marks)

QUESTION 28

Gun Co enters into an agreement with a Wholesale dealer under the terms of the agreement.

The first four (4) months of 2021, Gun co did not operate due to restriction imposed to the company but they paid their wholesale as contract requires to pay on monthly basis. **How would Gun Co classify the agreement cost?**

A Avoidable cost

B Semi-variable cost

C Uncontrollable cost

D Fixed cost.

(2 Marks)

QUESTION 29

If materials have no resale value and/or other possible use, what would be the relevant cost of using those materials for any other opportunity under consideration?

A Its current resale value,

B The value it would obtain if it were put to an alternative use

C Nil

D Its purchase cost

(2 Marks)

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

ALPHA business Co, is a manufacturing and selling company of textile product, the direct costs for the product are:

Raw materials; 4 kg per unit

Labor: 25 hours per unit

The fixed cost for ALPHA co business is FRW 280 million.

The selling price per unit is FRW 25,000

The variable cost per unit is FRW 21,750

The supply capacity of the company is limited to 335,000 kg whilst the market demand is fixed to 365,000 kg. Available working labor hours are limited to 2,800,000 hours.

QUESTION 30

Considering the limited supply capacity, how many units should be produced by ALPA Co.

- A. 91,250 Units
- B. 112,000 Units
- C. 83,750 Units
- D. 365,000 Units

(2 Marks)

QUESTION 31

Considering the limited supply capacity, what should be profit/Loss for ALPA Co.

- A FRW 7,812,500 loss
- B FRW 7,812,500 profit
- C FRW 16,562,500 profit
- D FRW 16,562,500 loss

(2 Marks)

QUESTION 32

If limiting factor is only labor hours, what would be profit for ALPA Co.

- A FRW 7,812,500 loss
- B FRW 84,000,000 loss
- C FRW 84,000,000 profit
- D FRW 16,562,500 profit

(2 Marks)

QUESTION 33

Which of the following is not part of costs absorption procedures?

- A Costing
- B Allocation
- C Apportionment
- D Absorption

(2 Marks)

QUESTION 34

Below are steps involved in the “Step down method” on reapportionment to allocate the service cost centre’s costs:

1. Reapportion one of the services cost centre’s overheads to all of the other centres which do not use its services
2. Reapportion the overheads of the remaining services cost centre to the production cost centres only.

Considering the above, step down method works as follows:

- A Both statements are true,
- B Both statements are false,
- C Statement 1 is false and statement 2 is true
- D Statement 1 is true and statement 2 is false,

(2 Marks)

QUESTION 35

Below are the steps used in calculating a predetermined overhead absorption rate. **Which step is incorrect?**

- A Estimate the overhead
- B Estimate the production overhead for the period,
- C Divide the estimated overhead by the budgeted activity level
- D Absorb or recover the overhead into the cost unit

(2 Marks)

QUESTION 36

A direct labour hour basis of overhead absorption is most appropriate in which of the following environments?

- A Labour intensive
- B Machine intensive
- C When all units produced are identical
- D None of the above

(2 Marks)

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

Umwezi Co incurred the following overhead cost:

Depreciation of factory	FRW 700
Equipment overheads	FRW 125
Total	FRW 825

Information relating to the production cost centres in the factory is as follows:

Production cost centres	A	B	C
Book value of equipment (FRW)	20 million	10 million	20 million
Factory floor space (m ³)	1,600	800	400

QUESTION 37

How much overhead would be apportioned to the production cost centre A

- A FRW 825
- B FRW 225
- C FRW 450
- D FRW 150

(2 Marks)

QUESTION 38

How much overhead would be apportioned to the production cost centre B?

- A FRW 150
- B FRW 225
- C FRW 825
- D FRW 450

(2 Marks)

QUESTION 39

What are the total overhead costs for all the production cost centres?

- A FRW 850
- B FRW 450
- C FRW 150
- D FRW 825

(2 Marks)

QUESTION 40

Uwase Co is a manufacturing company. In April 2022, the actual hours worked are 70,000 and the actual fixed overheads are FRW 315,500 whilst it budgets on work was 80,000 hours per month and having budgeted fixed overheads of FRW 320,000.

Uwase Co's under absorption of overheads is?

- A Amount absorbed = FRW 280,000
- B Actual overheads = FRW 315,500
- C Amount under absorbed FRW 35,500
- D Amount under absorbed = FRW 4,500

(2 Marks)

QUESTION 41

A business has two production cost centres, assembling and packaging. The overheads and other details for these cost centres are as follows:

	Assembling	Packaging
Overhead (FRW)	254 million	185 million
Labour hours	210,000	78,000
Machine hours	45,000	55,000

The management has decided that the overheads are to be absorbed on the basis of labour hours in assembling cost centre and machine hours in the packaging cost centre.

What is the correct pair of overhead absorption rate for each cost centre?

- | | Assembling (FRW) | Packaging (FRW) |
|---|-------------------------|------------------------|
| A | 1,209.5 | 2,372 |
| B | 5,644 | 3,364 |
| C | 1,210 | 3,364 |
| D | 5,644 | 2,372 |

(2 Marks)

QUESTION 42

Which of among the following statements is correct about how under or over absorption of overheads should occur:

- 1) If actual overheads are greater than absorbed overheads, the difference represent over absorption
 - 2) If actual overheads are less than absorbed overheads, then overheads are under absorbed,
- A Both statements are true,
 - B Both statements are false,
 - C Statement 1 is false and statement 2 is true,
 - D Statement 1 is true and statement 2 is false,

(2 Marks)

QUESTION 43

Which of the following statement is not true on short-term decision-making purposes?

- A The breakeven point is the level of the sales whereby sales revenue is equal to total costs,
- B The margin of safety is the excess of budgeted or actual sales over total cost,
- C A relevant cost is a future incremental cash flow arising as direct consequence of a decision,
- D Profit volume ratio measures contribution per FRW sales revenue rather than per physical sales unit.

(2 Marks)

QUESTION 44

An overhead absorption rate of FRW 4,000 per unit is based on expected production level of 500 units. Actual overheads turn to be FRW 2,600,000 and actual production is 750 units. **What is the over or under absorption of overheads?**

- A 600,000 under-absorbed
- B 400,000 under-absorbed
- C 400,000 over-absorbed
- D 600,000 over-absorbed

(2 Marks)

QUESTION 45

Variances can be calculated by:

- 1) Comparing flexed budget with actual results,
- 2) Comparing budget with flexed budget,

Considering the above statements, which one is correct

- A Both comparisons are true,
- B Both comparisons are false,
- C Comparison 1 is false and comparison 2 is true
- D Comparison 1 is true and comparison 2 is false,

(2 Marks)

QUESTION 46

Which of the following best describes a flexible budget?

- A A budget which is prepared on spreadsheet, with the flexibility to add new cost items to prepare new forecasts as circumstances change during year,
- B A budget which, by recognizing different cost behavior patterns, is designed to change as the volume of activity changes,
- C A budget which can be flexed when actual costs are known, to provide a realistic forecast for the forthcoming period,
- D A budget which is designed to be easily updated to reflect recent changes in unit costs or selling prices,

(2 Marks)

QUESTION 47

Below are different budget variances:

- i) Activity variance
- ii) Purchase price variance
- iii) Effective usage variance
- iv) Total cost variance

Which of the following is not part of cost variance?

- A i. ii. iii. iv. only
- B iii. iv. Only
- C i. iii. iv. Only
- D None

(2 Marks)

QUESTION 48

Below are statements on budget variance analysis:

- 1) An adverse variance is always good for the business
- 2) An adverse variance is always bad for the business

Consider above Statements:

- A Both statements are true,
- B Both statements are false,
- C Statements 1 is false and statements 2 is true
- D Statements 1 is true and statements 2 is false

(2 Marks)

QUESTION 49

Which of the following information about variance reporting is false?

- A It reports variances which exceed a certain amount or percentage,
- B It makes it easier for managers to spot important variances,
- C It avoids information overload,
- D All variances highlighted should be investigated,

(2 Marks)

QUESTION 50

Pilot Co is a business company and the following are budget and actual figures for 2022.

	Budget FRW	Actual FRW
Sales Units	600	620
Selling price per unit	30,000	29,000

Calculate the volume variance

- A 600,000 Adverse
- B 620,000 Adverse
- C 600,000 Favorable
- D 620,000 Favorable

(2 Marks)

End of question paper