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**CERTIFIED ACCOUNTING TECHNICIAN  
STAGE 2 EXAMINATIONS  
S2.2 MANAGING COSTS AND CASH FLOWS  
DATE: THURSDAY 27, FEBRUARY 2025  
MARKING GUIDE AND MODEL ANSWERS**

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## **SECTION A**

### **Marking Guide**

<b>Question</b>	<b>Answer</b>	<b>Marks</b>	<b>Question</b>	<b>Answer</b>	<b>Marks</b>
1	A	2	26	A	2
2	A	2	27	A	2
3	D	2	28	A	2
4	B	2	29	D	2
5	A	2	30	B	2
6	A	2	31	A	2
7	B	2	32	D	2
8	D	2	33	A	2
9	A	2	34	D	2
10	B	2	35	A	2
11	B	2	36	A	2
12	A	2	37	D	2
13	B	2	38	D	2
14	A	2	39	D	2
15	A	2	40	D	2
16	B	2	41	A	2
17	D	2	42	A	2
18	D	2	43	D	2
19	B	2	44	B	2
20	C	2	45	A	2
21	D	2	46	D	2
22	D	2	47	C	2
23	D	2	48	A	2
24	A	2	49	A	2
25	C	2	50	C	2
<b>Total Marks:</b>			<b>100 marks</b>		

## **Model Answers**

### **QUESTION ONE**

#### **Correct option is A**

To maintain your inventory at optimum level possible, three control levels must be in place namely reorder level, minimum level and maximum level

Other Options are wrong like:

Option B the reorder quantity and reorder price are not control levels they only indicate the quantity and price at which the order was placed.

Option C is also wrong because it missed reorder level only it shows control levels as combination of minimum level and maximum level.

Option D is not correct because it is related to Economic Batch Quantity.

### **QUESTION TWO**

#### **Correct option is A**

Economic order quantity is defined as the quantity at which the inventory cost is minimized

Other Options are wrong

Option B state that it is when stock is at maximum cost which is wrong the purpose of EOQ is to minimize inventory cost.

Option C is also wrong the minimum quantity to retain in our inventory this definition refers to buffer stock.

Option D is wrong because all of the above is not applicable there is only one option which is correct.

### **QUESTION THREE**

#### **Correct answer is D**

The reasons why profits from marginal costing and absorption costing differs is due to

B In Marginal costing only variable cost are charged to cost of sales whereas in Absorption costing fixed cost are also absorbed into the cost of units

C Closing inventories are valued at marginal production cost and Closing inventories are valued at full production

Option A is wrong because in the question other factors are assumed to be the same, therefore the sales in this scenario are the same.

## QUESTION FOUR

Correct answer is B

Particulars	Per stick	Stick sold	Total
sales price	11,000	1200	13,200,000
variable cost	8000	1500	12,000,000
Closing stock	8000	300	(2,400,000)
Total contribution			<b>3,600,000</b>

Option A is wrong the candidate has used wrong quantity on production

Particulars	Per stick	Stick sold	Total
sales price	11,000	1200	13,200,000
variable cost	8000	1200	9,600,000
Closing stock	8000	300	(2,400,000)
Total contribution			<b>6,000,000</b>

Option C is wrong as the candidate has not considered the closing stock

Particulars	Per stick	Stick sold	Total
sales price	11,000	1200	13,200,000
variable cost	8000	1500	(12,000,000) _
Total contribution			<b>1,200,000</b>

Option D is not correct as the candidate has also considered fixed cost.

Particulars	Per stick	Stick sold	Total
sales price	11,000	1200	13,200,000
variable cost	8000	1200	(9,600,000)
Fixed cost			(2,000,000)
Total contribution			<b>1,600,000</b>

## QUESTION FIVE

Correct answer is A

Particulars	Per stick		
sales price	11,000	1200	13,200,000
variable cost	8000	1500	12,000,000
Closing stock	8000	300	(2,400,000)
Total contribution			<b>3,600,000</b>
Fixed cost			2,000,000
<b>Profit</b>			<b>1,600,000</b>

Other Options are wrong, B has deducted wrongly fixed production cost to get profit 3,600,000-1,500,000 = FRW 2,100,000.

Option C is also wrong, the candidate has used wrong calculated contribution omitted with the adjustment of closing stock in C question four above 1,200,000 - 2,000,000 = FRW 800,000.

Option D is not correct as the candidate deducted only other fixed cost: 3,600,000-500,000=3,100,000.

## QUESTION SIX

Correct answer is A

Particulars	Per stick	Stick sold	Total
sales price	11,000	1200	13,200,000
variable cost	8000	1500	12,000,000
Fixed production cost			1,500,000
Closing stock	9000	300	(2,700,000)
Total contribution			<b>2,400,000</b>
Other fixed cost			500,000
<b>Profit</b>			<b>1,900,000</b>

Option B is wrong because the candidate has not deducted other fixed cost to get the profit

Option C is wrong the candidate has not apportioned closing stock.

Option D is not correct because in the variable cost, the candidate used the sales units.

## QUESTION SEVEN

### Correct answer is B

Direct cost is defined as the Specific costs of the workforce used to make a unit of a product or provide a service.

Other Option are wrong A salaries paid when due may include both indirect and direct so this option is incorrect.

Option C is also wrong on the basis that the candidate referred to indirect cost

Option D. Idle time caused by machine breakdowns and scheduling mix-ups is an indirect labour cost as it cannot be traced to a specific job. Machine breakdowns occur randomly and therefore it would be unfair to charge them to particular jobs.

## QUESTION EIGHT

### Correct answer is D

In a business you trace the changes in cost by comparing with the forecasted, budgeted, previous periods or corresponding periods. However, the combination of A, B and C gives the correct answer. Other are not correct as they are omitted the remaining comparison types given.

## QUESTION NINE

### Correct answer is A

Particulars	2025	2026	2027	
Revenues	70,000,000	70,000,000	70,000,000	
Discount factor	0.917	0.842	0.772	
Present value	64,190,000	58,940,000	54,040,000	<b>177,170,000</b>

Other Options are wrong like B assumed the present value of cash inflow will be the same as total initial investment.

Option C is wrong as the candidate assumed the present value is initial investment minus A yearly generated Cash inflow.

Option D is not correct as option A above is correct.

## QUESTION 10

**The correct answer is B**

Initial investment	Present value of cash inflows	Net present value
(180,000,000)	177,170,000	(2,830,000)

Option A is incorrect because the candidate has interpreted wrongly the results and assumed the NPV is positive yet it is negative.

Option C is incorrect because the candidate has used the wrong present value

$180,000,000 - 110,000,000 = \text{FRW } 70,000,000$

Option D is not correct as option B above is correct.

## QUESTION 11

**Correct answer is B**

$*(80,000,000 - 70,000,000) = 10,000,000$

The actual cost incurred is less than the budgeted labour cost.

Option A is wrong because the candidate assumed the labour cost variance is adverse.

Option C is wrong the candidate has assumed the variance is equal to the actual labour cost.

Option D is wrong the candidate has assumed the variance is equal to the standard labour cost.

## QUESTION 12

**Correct answer is A**

In absorption costing Fixed production cost is absorbed to cost unit

Option B is wrong, as variable cost of production only is considered when using Marginal costing method.

Option C is wrong because the closing stock in absorption costing at production cost including the portion of fixed production cost.

Option D is not correct as option A above is correct.

## QUESTION 13

**Correct answer is B**

Period	Purchases	Cash payment	arrears	TOTAL
June	60,000,000	6,000,000	-	6,000,000
July	70,000,000	7,000,000	30,000,000	37,000,000

Other option A is wrong the candidate has assumed that the buyer will pay full payment over the counter yet there is instalment payment negotiated

Option C is wrong the candidates assumes the payment for July is the 50% arrears of June basically has not considered immediate payment of 10%

Option D is wrong as the candidates did not take into account the 50% arrear of June which will be paid in July

#### QUESTION 14

**Correct answer is A**

Period	Purchases	Cash payment	Arrears	Total
August	65,000,000	6,500,000	59,000,000	65,500,000

Other Option are wrong like B the candidates assumed the cash payment will be equal total purchases of the month regardless of credit terms

Option C is also wrong the candidates assumed payment is only 10% of the purchase and did not consider payment from previous arrears.

Option D is not because the candidate did not consider 40% for 3 months.

#### QUESTION 15

**Correct answer is A**

	July Arrears	August Arrears	Total
Value of account payable as of August	28,000,000	58,500,000	86,500,000

Other Option is wrong B assumed total payable is the same as August payment

Option C has only not considered the 40% arrears of July.

Option D is not correct because the candidate considered the purchases for the month of august.

#### QUESTION 16

**Correct Answer is B**

A Direct cost is a cost that can be directly traced to a cost unit

And other options are wrong like A, C and D are description of indirect costs.

#### QUESTION 17

**Correct Option is D**

A unit cost is also known as cost per unit or amount spent to produce one unit of a product

Other options are not correct as:

A. The description given was for cost unit

B. The description given was for cost centres



C. Unit cost is not a cost centre nor a profit centre

## **QUESTION 18**

### **Correct Option is D**

A, B and C are the reasons of cash deficit for an organization and they form correct answers when all are combined: A. The business has become loss making and is unable to cover its costs. B. High inflation may mean that even though the business is profitable in historical cost terms, it is still failing to generate sufficient funds to replace assets and C. If the business is growing, it may face a shortage of working capital with which to finance expansion.

Other options are not correct as they are omitting other reasons given.

## **QUESTION 19**

### **Correct answer is B**

Over capitalization is defined as Availability of surplus assets that are being under-utilized because of over-investment in working capital.

Other Options are wrong it is not defined as suggested below

Option A is not correct as over capitalization is where a business has surplus assets that are being under-utilized because of over-investment in working capital not over-utilized.

Option C Capital injections and reduction of dividends

Option D describes a business where there is an over trading.

## **QUESTION 22**

### **Correct Option D**

Having a clear treasury policy in an organization has numerous advantages as provided in statement A, B and C.

Other options are not correct as they are omitting remaining advantages given in the scenario.

## **QUESTION 23**

### **The correct answer is D**

Correct answer is option D the elements of cost of capital are: Risk-free rate of return, Premium for business risk, Premium for financial risk. Therefore, the right option was D whereas A, B and C were not correct as the correct answer should consider all three elements.

## QUESTION 24

**The correct answer is A**

Current asset – Current liabilities

Other options below are wrong:

B. is not correct as current liabilities are added to Current assets instead of being deducted.

C. Total assets include non-current assets which are not part of management of working capital.

D. the formula is wrong Liabilities – Current asset instead Current liabilities should be deducted from Current asset.

## QUESTION 25

**The correct Option is C**

The variance in relation to the budgeted profit is  $25,000,000 - 20,000,000 = \text{FRW } 5,000,000$

Other options are wrong the candidate considered the exact profit as the loss made on A and B respectively. D is not correct as the student took 20 million minus 25 million.

## QUESTION 26

**The correct answer is A**

Costs which are relevant and can be avoided if a project is not undertaken,

Other Options are not correct.

Option B is wrong these are costs which are fixed and cannot be avoided this is unavoidable costs.

Option C is wrong these are costs which have been already incurred.

Option D describes an unavoidable cost.

## QUESTION 27

**The correct answer is A**

Asset bought for long-term use in the business is also known capital expenditure

Other Options are wrong like

B. Revenue expenditure this is for recurrent expenses.

C. Capital investment this not correct as it is referred to shareholding not expenditure.

D. Drawing this for the money taken from business for personal use.

## QUESTION 28

### Correct answer is A

Costs are classified as Material, labour and overheads

Other Options are wrong like

B. Overheads and indirect labour

C. Indirect expenses and direct expenses.

D is not correct as it includes marginal cost.

## QUESTION 29

### Correct Option is D

The A, B and C are the main functions of a manufacturing business. Other option are correct as they are omitting remaining true main functions given.

## QUESTION 30

### Correct Option is B

Simply the payback period will be calculated as initial investment over yearly cash flow  
 $200,000,000/20,000,000 = 10$  years

The rest of the options are wrong

On option A the candidate has used the planned years to recover the investment

Option C the candidate has calculated percentage of return instead of calculating payback period  
 $20,000,000/200,000,000 = 0.1$  years

D is not correct as B above is the correct answer.

## QUESTION 31

### Correct answer is A

It is the role of the treasurer to prepare the cash position

Other Options are wrong B and C are having other responsibilities than preparation of cash budget. B prepares financial statements and C prepares payroll for the company.

D is not correct as chief accountant have other responsibilities like review.

## QUESTION 32

### Correct answer is D

All A, B and C options form part of financial instrument traded in the money market.

Other option are not correct as they are omitting other financial instruments given.

### QUESTION 33

**Correct answer is A**

Current ratios is  $100,000,000/50,000,000 = 0.2:1$

Other Options are wrong like

Option B has calculated current ratios as  $50,000,000/100,000,000 = 0.5:1$

Option C has calculated current ratios as total assets – liabilities / liabilities

$50,000,000:50,000,000 = 1:1$

D is not correct because it only considered account payables for current liabilities:

$100,000,000/40,000,000 = 2.5$

### QUESTION 34

**Correct Option is D**

Option B and C are correct which Repair of a building or machine and Motor vehicle maintenance as all are revenue expenditures.

Option A is not correct as the extension of building is a capital expenditure.

### QUESTION 35

**Correct answer is A**

$(5000-2000) * 15,000 = \text{FRW } 45,000,000$

Other Options are wrong like

Option B is wrong the candidate assumed the fixed cost is the contribution for the period

Option C the candidate has assumed the contribution is equal to total sales  $\text{FRW } 5000 * 15000 = \text{FRW } 75,000,000$ .

D is not correct as it considered fixed cost.

### QUESTION 36

**The correct Option is A**

Planned selling price per unit =  $9 \text{ million}/15,000 = \text{FRW } 6,000$

Variance is  $(5000-6000) * 10,000 = 10,000,000$  Adverse

Other Options are wrong like B

The variance adverse the sales price has gone below the expected

C is also wrong the candidate assumed the variance is the same as the budgeted

D is not correct as A above is the correct answer.

### **QUESTION 37**

#### **The correct Option is D**

The correct Option is option **D** as A, B and C all together are the factors that are taken into account when choosing investment. Other options are not correct as they omitting other factors given.

### **QUESTION 38**

#### **The correct Option is D**

When preparing the cashflow statement we start with profit before tax, therefore A and B are not element of the cash flow statement. Option C is wrong this is part of the statement of cashflow Proceeds from issuing new shares

### **QUESTION 39**

#### **The correct answer is D**

A, B and C all together are costs classified by function.

Other options are not correct as they omitting other two remaining costs classified by their function given.

### **QUESTION 40**

#### **The correct answer is D**

Cashflow are of diverse types including all together A, B and C choices and therefore other options are not correct as they missing remaining true types of cashflows given.

### **QUESTION 41**

#### **Correct Option is A**

Period fixed costs are the same for any volume of sales and production is the principle of marginal costing.

Other Options B and C are not principle of marginal costing

D is not correct as it is the principle of costing.

### **QUESTION 42**

#### **Correct Option is A**

Job costing is the costing method used where each job is separately identifiable as a cost unit.

Other Options are wrong

B. is a wrong option because it relates to process costing

- C. option is also wrong because it relates to process costing
- D. option is wrong because it relates to batch costing

### **QUESTION 43**

#### **The correct Option is D**

Option A, B and C are factor to be considered when considering to invest surplus cash the following factors should be considered.

Other options are not correct as the are omitting other true stated factors to consider once making an investment.

### **QUESTION 44**

#### **The correct Option is B**

The correct Option is B which is  $FC / \text{contribution per unit} = 4,000,000 / 2,000 = 2,000 \text{ kgs}$

Other Options are wrong like A the candidate assumed that the breakeven units were 7,000 kgl equivalent to the total sales.

Option C is also wrong the candidate assumed that the breakeven units were 4,000 kgl equivalent to the total units produced.

Option D is not correct because it is  $4,000,000 / 4,000$ .

### **QUESTION 45**

#### **The correct Option is A**

The present value is FRW 4,760,000 ( $5,000,000 \times 0.952$ )

Other Options are wrong Like B because the candidate has assumed the present value is 5,000,000 which is due after one year.

Option C is also wrong the candidate has wrongly applied the formula by  $5,000,000 / 0.952$ .

Option D is not correct as the A above is the only correct answer.

### **QUESTION 46**

#### **The correct Option is D**

The option D is correct as A, B and C all together are part of types responsibility center.

Other options are not correct as they omitting other true stated types of responsibility center.

### QUESTION 47

**Correct answer is C**

Total Cost	60,000,000
Variable cost	(20%*60,000,000) 12,000,000
Total units	5,000
Variable cost per unit	<b>2,400</b>

Option A is wrong:  $60,000,000/5,000$

Option B is selling price

Option D is fixed cost divided by unit produced

### QUESTION 48

**Correct Option is A**

time series is simply a record of figures or values that have occurred over a period of time.

Other Options are wrong

B. Time series is the prediction of future events in a business.

C. Time series show the performance of an organization.

Option D is not correct as the B above is the only correct answer.

### QUESTION 49

**Correct Option is A**

FRW 10,000,000 is the correct answer

Other Options are wrong; on option B candidate has assumed the payment for March is the only closing account payable of FRW 20,000,000.

Option C is wrong like a student assumed the account payables balance to be the total of all purchase.

Option D is not correct as it considered 50% of February and 50% of March.

### QUESTION 50

**Correct Option is C**

C equals to  $\text{FRW } 55,000,000 + 6,000,000 + 2,000,000 = \text{FRW } 63,000,000$

Other options are wrong

Like A has assumed total profit is the same as cash balance.

B option has not taken into account the amortization.

D is not correct as all non-monetary items has to be added back to get the cash balance instead of being deduct again.

**End of Marking Guide and Model Answers**