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CERTIFIED ACCOUNTINGTECHNICIAN
STAGE 2 EXAMINATIONS
S2.2 MANAGING COSTS AND CASH FLOWS

DATE: THURSDAY, 28 JULY 2022

INSTRUCTIONS:

1. Time allowed: **2 hours and 30 minutes**.
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

Which of the following should be classified as an advantage of FIFO method?

- i. Inventories are issued at a price which is close to current market value
- ii. The closing inventory value can be near to a valuation based on the cost replacing the inventory.
- iii. Fluctuations in prices are smoothed out, making it easier to use the data for decision making.

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

(2 Marks)

QUESTION TWO

What would be the impact of an increase in production volume (units) on the fixed cost per unit?

- A Reduces
- B Fluctuates
- C No change
- D Increases

(2 Marks)

QUESTION THREE

A business has to decide the optimum amount of inventory to hold so that the overall cost of inventory is minimized. Which of the following statements defines the economic order quantity?

- i. The order quantity which minimizes inventory costs
- ii. The order quantity which minimizes the costs of storage, interest charges, insurance costs, obsolescence, and deterioration.
- iii. The order quantity which minimizes the purchase, ordering, holding and stock out costs.

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

(2 Marks)

QUESTION FOUR

ABC Ltd planned to make 20,000 units of output (in five direct labour hours each) and set a time budget of 120,000 direct labour hours. The actual output during the period was 25,000 units which took 125,000 direct labour hours to make. **What was ABC Ltd.'s efficiency ratio?**

- A 80%
- B 125%
- C 100%
- D 104%

(2 Marks)

QUESTION FIVE

The following information has been extracted from the books of ABC Ltd regarding his stock: re-order quantity 1800 units, maximum consumption 450 units per week, re-order period 4 weeks, normal consumption 300 units per week, minimum consumption 150 units per week, maximum re-order period 5 weeks, minimum re-order period 3 weeks.

What will be the minimum stock level that the business will not go below to avoid the risk of stock outs?

- A 2,250 units
- B 1,050 units
- C 3,600 units
- D 1,950 units

(2 Marks)

QUESTION SIX

The over or under absorption of overheads occur because of:

- A Absorbed overheads exceed actual overheads
- B Absorbed overheads exceed budgeted overheads
- C Actual overheads exceed budgeted overheads
- D Pre-determined overhead absorption rates are based on forecasts (estimates)

(2 Marks)

QUESTION SEVEN

The following information is provided in respect of overheads apportionment of a manufacturing Business in FRW

Overheads	Production departments		Service departments	
	Making department	Finishing department	Maintenance	Stores
Indirect materials	15,000	10,000	48,000	33,000
Indirect labour	100,000	120,000	14,000	44,000
Other expenses	150,000	80,000	15,000	24,000
Depreciation	80,000	8,000	20,000	48,000
Apportioned costs (Rates, Heat, and lighting)	40,000	20,000	15,000	10,000
Total	385,000	238,000	112,000	159,000

The maintenance department provided 250 hours of work to Making department and 150 hours to finishing department. Making department requisitioned materials to the value of FRW 120,000, finishing department requisitioned FRW 80,000 of materials. Using the re-apportionment bases of requisitions values and number of hours, services costs are re-apportioned to production departments.

What will be the total overheads in the Making department after re-apportionment?

- A FRW 550,400
- B FRW 385,000
- C FRW 238,000
- D FRW 343,600

(2 Marks)

QUESTION EIGHT

XYZ Co manufactures Leather products for various end users. The following budget estimate were made by the company at the start of year:

Detail	Department A	Department B
Direct material cost (FRW)	8,000	6,000
Direct labour cost (FRW)	6,000	5,000
Machine hours	120	80

Factory overheads were FRW 10,000

What are the overheads absorbed by departments A&B using the overhead absorption rate per machine hour?

- i. FRW 3,600 for A and FRW 5,400 for B
- ii. FRW 5,400 for A and FRW 3,600 for B
- iii. FRW 6,000 for A and FRW 4,000 for B

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

(2 Marks)

QUESTION NINE

The company applies factory overheads to individual jobs on the basis of machine hours for both Production departments A&B. The costs records kept by the company showed a job to make 50 units of a product that consumed the following inputs in the year

Detail	Department A	Department B
Materials issued	50,000	150,000
Direct labour cost	48,000	40,000
Direct machine hours	15	10
Overhead absorption rate (OAR)/machine hour	300	300

The total cost for the job and the cost per unit will be?

- i. FRW 288,000 and FRW 5,760 per unit respectively
- ii. FRW 291,000 and FRW 5,820 per unit respectively
- iii. FRW 295,500 and FRW 5,910 per unit respectively

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

(2 Marks)

QUESTION 10

Which of the following are arguments in favour of the use of marginal costing?

- i. Fixed production costs are treated as period costs and are written off as they are incurred.
- ii. Closing inventories are valued at full production cost
- iii. Fixed production costs are absorbed into the costs of units

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

(2 Marks)

QUESTION 11

Which of the following is involved in three stages to account for overheads in absorption costing?

- i. Allocation of costs to cost centres
- ii. Apportionment of shared costs between cost centres
- iii. Absorption of costs into cost units

- A (i) only
- B (i) and (ii)
- C (i), (ii), and (iii)
- D (ii) and (iii)

(2 Marks)

QUESTION 12

A company operates an incentive scheme to pay its staff. Workers are paid based either on a piecework rate (number of units produced) or 80% of pay based on the hourly rate, whichever is higher. The company produces one product, M, and the standard time to make this product is 5 minutes. For the purposes of piecework calculations each minute is valued at FRW 150.

The following information for a week in December relates to one worker:

Hours worked: 45 hours

Rate of pay per hour: FRW 11,000

Units of M produced: 550 units

The amount of pay that the worker will receive is:

- A FRW 396,000
- B FRW 1,320,000
- C FRW 3,712,500
- D FRW 412,500

(2 Marks)

QUESTION 13

Which of the following might be associated with the lengthening cash operating cycle?

- A Longer inventory holding period
- B Taking longer to pay suppliers
- C Lower investment in working capital
- D Improved debt collection

(2 Marks)

QUESTION 14

A company uses the Economic Order Quantity (EOQ) to calculate the amount of inventory that it should order. The following details have been extracted from the company's accounting system:

Monthly demand 600 units

Purchase price per unit: FRW 1,000

Cost of placing an order: FRW 1,500

Costs of holding one unit of inventory for one year 1% of purchase price

The amount of inventory (in units) that the company should order (rounded to nearest whole number) is:

- A 424 units
- B 465 units
- C 1,470 units
- D 134 units

(2 Marks)

QUESTION 15

Which of the following are characteristics of job costing?

- i. Customer driven production
- ii. Complete production possible within a single accounting period
- iii. Homogeneous products

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

(2 Marks)

QUESTION 16

What distinguishes service costing from other costing methods?

- i. Indirect costs tend to represent a higher proportion of total cost compared with product costing
- ii. Cost of direct materials consumed will be relatively large compared to the labour, direct expenses and overhead cost
- iii. Variable costs tend to vary in total from period to period when production is constant

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

(2 Marks)

QUESTION 17

Which of the following options is a non-financial comparison?

- i. Number of units produced compared to those of last year
- ii. Profit compared to that of last year
- iii. Sales revenues compared to those of last year

- A (ii) only
- B (i) and (ii)
- C (ii) only
- D (i) only

(2 Marks)

QUESTION 18

Consider the production cost report for a business for the six months' period January-June 2021

Details	Actual	Budget
Production and sales (units)	5,000	4,000
Sales revenue (FRW'000')	50,000	40,000
Direct materials (FRW'000')	10,500	8,000
Direct labour (FRW'000')	6,500	6,000

What is the flexed budget for direct labour and variance (to the nearest FRW'000')?

- A 9,000 with 2,500 Favourable variance
- B 4,500 with 2,000 Adverse variance
- C 7,500 with 1,000 Favourable variance
- D 10,000 with 3,500 Favourable variance

(2 Marks)

QUESTION 19

Which of the following options describes a favourable variance?

- A The difference between planned and actual results in the organization having less money than the forecast.
- B The budgeted efficiency in which resources are used being different to actual efficiency
- C The actual quantity produced being different to budgeted production volume
- D The difference between planned and actual results in the organization having more money than the forecast

(2 Marks)

QUESTION 20

The budgeted labour cost for a business was FRW 10,000 per hour for 18,000 hours. Actual labour cost was FRW 210,000,000 (for 20,000 hours worked).

What is the labour activity variance?

- A FRW 20,000,000 Favourable
- B FRW 20,000,000 (Adverse)
- C FRW 21,000,000 (Adverse)
- D FRW 21,000,000 Favourable

(2 Marks)

QUESTION 21

Which of the following statement(s) is/are true?

- i. The break-even point is the level where all costs are covered by sales revenue but no profit is made.
 - ii. If the activity level (sales revenue) falls below the break-even point, losses will be made.
 - iii. The breakeven point in units is found by dividing the fixed costs by variable cost per unit.
- A (i) only
 - B (i) and (ii)
 - C (iii) only
 - D (i), (ii) and (iii)

(2 Marks)

QUESTION 22

A business has fixed costs of FRW 500,000,000. It sells just one product for a price of FRW 160,000 and the variable costs of production are FRW 120,000. **Which volume of sales is required to achieve a profit of FRW 250,000,000 for the business during the year 2021?**

- A 30,000 units
- B 18,750 units
- C 25,000 units
- D 20,000 units

(2 Marks)

QUESTION 23

Break-even chart shows:

- i. The profit or loss at any level of activity can be read off the chart
- ii. The break-even point where the profit line crosses the horizontal axis (where profit is zero)
- iii. Sales revenue on horizontal axis rather than activity level

- A (i) only
- B (ii) only
- C (iii) only
- D None of the above

(2 Marks)

QUESTION 24

A limiting factor is a factor of production or sales that limits the number of products that can be produced or sold.

Which of the following statements is correct?

- i. If a business has more than one product, and only one limiting factor, the technique to use in order to maximize contribution is to produce and sell more than the break-even number of units in order to cover fixed costs and make a profit.
- ii. If a business has more than one product, and only one limiting factor, the technique to use in order to maximize contribution is to determine the contribution per unit of the scarce resource and concentrate upon the production of the product with the highest contribution per limiting factor unit.

- A Both statements are correct
- B Both statements are incorrect
- C Statement (i) is correct but the statement (ii) is incorrect
- D Statement (i) is incorrect but the statement (ii) is correct

(2 Marks)

QUESTION 25

Which of the following are arguments in favour of payback period method?

- i. Method which takes into account the time value of money
- ii. Method with complex calculations to make and is not easily understood by management
- iii. Method that considers the cash flows occurrence over a given period of time

- A (i) only
- B (ii) only
- C (ii) and (iii)
- D None of the above

(2 Marks)

QUESTION 26

Which of the following statements describes the consumption preference with regards to the time value for money?

- i. If money is received now then it is ours and there is no risk that it might not be paid in one year's time
- ii. If money is received now then we can spend it now rather than having to wait for year.
- iii. If money is received now then we can invest it, and earn interest on it.

- A (i) only
- B (ii) only
- C (iii) only
- D (i), (ii) and (iii)

(2 Marks)

QUESTION 27

A business is considering investment in new machinery at a cost of FRW 120,000,000 on 01 January 2021. The machinery will be used to make a new product which will provide additional cash inflows as follows:

Year ending	FRW
31 December 2021	40,000,000
31 December 2022	50,000,000
31 December 2023	50,000,000
31 December 2024	30,000,000

The cash inflows occur at the end of each year.

The discount factors to use are: 0.909(Year 1), 0.826(Year 2), 0.751(Year 3), and 0.683(Year 4).

The business has a cost of capital of 10%?

What is the net present value of this investment?

- A FRW 13,700,000
- B FRW 15,500,000
- C FRW 17,500,000
- D FRW 15,700,000

(2 Marks)

QUESTION 28

Which of the following costs is a direct cost?

- A Factory maintenance.
- B Wood for a furniture maker.
- C Brushes and materials used by factory cleaners.
- D Oil for factory machinery.

(2 Marks)

QUESTION 29

Which of the following are cash transactions?

- i. A cheque made out for FRW 2,500,000 for the payment of rent
- ii. Credit card sales of FRW 1,000,000
- iii. Goods purchased for FRW 350,000 with payment to be made on receipt of the invoice
- iv. Goods and an invoice delivered to a customer today for payment in 30 days

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

(2 Marks)

QUESTION 30

Which of the following statements correctly describe non capital items?

- i. Items which relate to the long-term running of the business
- ii. Items which relate to the day-to-day running of the business
- iii. Items which are part of the business' working capital

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

(2 Marks)

QUESTION 31

The following information has been extracted from the Sales' ledger control account for the year ended 31 December 2020.

Opening trade receivables	FRW 25,000,000
Closing trade receivables	FRW 15,000,000
Sales per statement of comprehensive income	FRW 275,000,000

How much cash was received from customers during the year?

- A FRW 265,000,000
- B FRW 285,000,000
- C FRW 300,000,000
- D FRW 235,000,000

(2 Marks)

QUESTION 32

Which of the following items should not be included in the cash flow report?

- i. Interest payments
- ii. Receipts from a share issue
- iii. Depreciation
- iv. Dividend payment

- A (i) only
- B (ii) only
- C (iii) only
- D (ii), and (iii)

(2 Marks)

QUESTION 33

Under which of the following circumstances would a multiplicative model be preferred to an additive model in time series analysis?

- A When a model easily understood by non-accountants is required
- B When the trend is increasing or decreasing
- C When the trend is steady
- D When accurate forecasts are required

(2 Marks)

QUESTION 34

Which of the following are necessary if forecasts obtained from a time series analysis are to be reliable?

- i. There must be no unforeseen events
- ii. The model used must fit the past data
- iii. The trend must be increasing
- iv. There must be no seasonal variation

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

(2 Marks)

QUESTION 35

A company makes credit sales with a typical payment pattern of 40% of the cash being received in the month of sale, 40% one month after the sale and 20% two months after the sale. Credit sales in August, September and October 2022 were FRW 420,000, FRW 560,000, and FRW 600,000 respectively.

What will be the total amount of cash receipts from sales end October 2022?

- A FRW 548,000
- B FRW 1,580,000
- C FRW 940,000
- D FRW 1,108,000

(2 Marks)

QUESTION 36

The estimated purchases of TMC Co for the first three months for the year ending 31 December 2021 are as below:

Month	Purchases (FRW)
January 2021	45,000,000
February 2021	48,000,000
March 2021	54,000,000
TOTAL	147,000,000

The Contract terms with suppliers allows TMC Company to pay half of their purchases within the month of supply and the balance paid in the following month.

What will be the total payments after three months?

- A FRW 147,000,000
- B FRW 120,000,000
- C FRW 54,000,000
- D FRW 97,500,000

(2 Marks)

QUESTION 37

A company plans to sell 20,000 units of a product, Y next year. Opening inventory of the product Y is 1,800 units and the increase of 30% is expected by the end of next year.

How many units of product Y should be produced next year?

- A 20,500 units
- B 20,450 units
- C 20,540 units
- D 21,000 units

(2 Marks)

QUESTION 38

Which of the followings is possible cause of the variance of “capital expenditure higher than expected”?

- i. Decision taken to reduce inventory levels
- ii. High level of demand necessitated overtime working
- iii. Unforeseen discounts received

- A (i) only
- B (i) and (ii)
- C (iii) only
- D None of the above

(2 Marks)

QUESTION 39

In April, a business budgeted FRW 450,000,000 for the purchase of non-current asset. The actual amount paid for the purchase gave rise to an adverse variance of FRW 50,000,000

How much did the non-current asset actually cost?

- A FRW 500,000,000
- B FRW 450,000,000
- C FRW 400,000,000
- D FRW 550,000,000

(2 Marks)

QUESTION 40

Examine whether the following statements are true or false

- i. A cash deficit may arise if the business is making losses and is unable to cover its costs
- ii. Delaying payments for non-current assets can be an action taken to improve the budget position

- A Statement (i) is incorrect but the statement (ii) is correct
- B Both statements are incorrect
- C Statement (i) is correct but the statement (ii) is incorrect
- D Both statements are correct

(2 Marks)

QUESTION 41

A business had sales of FRW 1,350,400 during the year and a cost of sales of FRW 837,200. Inventory at the year-end was valued at FRW 156,300; trade receivables were FRW 225,000 and trade payables were FRW 169,800. What is the cash operating cycle of the business?

- A 55 days
- B 40 days
- C 54 days
- D 50 days

(2 Marks)

QUESTION 42

A business has a cash operating cycle of 65 days. Its inventory period is 38 days and its trade payables' payment period is 45 days.

What is the trade receivables' collection period in days?

- A 7 days
- B 20 days
- C 27 days
- D 72 days

(2 Marks)

QUESTION 43

A Company has reported in their financial statements the inventory of FRW 156,300; trade receivables of FRW 225,000; cash and cash equivalents of FRW 10,200 and trade payables of FRW 169,800.

What is the company's current ratio and quick/acid test ratio (rounded to two decimal places)?

- A 2.55 and 0.89
- B 2.75 and 0.76
- C 2.31 and 0.98
- D 2.21 and 0.65

(2 Marks)

QUESTION 44

Which of the following is the most likely to be a symptom of overtrading?

- A Static levels of inventory
- B Rapid increase in profits
- C Increase in the level of the current ratio
- D Rapid increase in sales

(2 Marks)

QUESTION 45

Which of the following would be an action to reduce the risk of overtrading?

- i. Rapid increase in sales
- ii. Giving more credit to customers
- iii. Leasing non-current assets

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

(2 Marks)

QUESTION 46

Which of the following describes the disadvantage of overdraft finance?

- i. Short term form of finance
- ii. Available as long as required
- iii. Repayable on demand

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

(2 Marks)

QUESTION 47

A bank charges overdraft interest at the rate of 24% per annum. What is the appropriate interest rate if simple interest rate is to be applied daily on the overdrawn balance?

- A 0.054795%
- B 0.06575%
- C 0.11506%
- D 0.46153%

(2 Marks)

QUESTION 48

Which of the following are money market instruments?

- i. Certificate of deposit
- ii. Corporate bond
- iii. Treasury bill

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

(2 Marks)

QUESTION 49

Which of the following is the best description of a direct cost?

- A Cost which is directly shared by one or more cost centres
- B Cost that can be directly traced to a cost unit
- C Cost that is paid for in cash
- D Cost that is incurred by factory

(2 Marks)

QUESTION 50

Variable costs are conventionally deemed to:

- A Be constant per unit of output
- B Vary per unit of output as production volume changes
- C Be constant in total when production volume changes
- D Vary in total from period to period when production is constant

(2 Marks)

End of Question Paper

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