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**CERTIFIED ACCOUNTING TECHNICIAN**  
**STAGE 2 EXAMINATIONS**  
**S2.2 MANAGING COSTS AND CASH FLOWS**  
**DATE: THURSDAY 28, NOVEMBER 2024**  
**MARKING GUIDE AND MODEL ANSWERS**

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## **SECTION A**

### **MARKING GUIDE**

<b>Qn</b>	<b>Answer</b>
1	C
2	D
3	C
4	D
5	C
6	A
7	C
8	C
9	D
10	A
11	B
12	C
13	C
14	D
15	A
16	D
17	B
18	A
19	A
20	C
21	D
22	B
23	A
24	C
25	D

<b>Qn</b>	<b>Answer</b>
26	C
27	D
28	A
29	B
30	C
31	B
32	C
33	A
34	D
35	B
36	A
37	C
38	D
39	B
40	D
41	D
42	A
43	C
44	A
45	B
46	D
47	B
48	B
49	A
50	C

**Note:** 2 Marks each correct answer

## QUESTION ONE

### Answer: B

Organization where minority of shares owned by the government are Private Sector Organizations and Public sector organizations are those where majority of shares owned by the government.

Others are not correct as: A, C and D are not correct answers as they are public sector organizations.

## QUESTION TWO

### Answer: D

All information given are key elements of cash plan control cycle.

Others are not correct as:

- A. it does not includes other key elements of cash plan control cycle given (ii), (iii) and (iv),
- B. it does not includes other key elements of cash plan control cycle given (ii) and (iv),
- C. it does not includes other key element of cash plan control cycle given (iv),

## QUESTION THREE

### Answer: C

A primary market is where new financial instruments are issued for cash where as a secondary market is where existing financial instruments are traded between participants in the market.

Other answers are not correct:

- A. is not correct because all statements 1 and 2 are wrongly stated,
- B. is not correct as the statement 1 is wrongly stated which makes it false instead of being true,
- D. the statement 2 is wrongly stated which makes it false instead of being true.

## QUESTION FOUR

### Answer: D

The real piecework budget per worker per month should have been FRW 1,125,000 per one worker which is not provided in the question,

The other options are not correct because:

- A. FRW 225,000 per month was calculated simply by taking number of all workers 25 workers times FRW 9,000 as piecework hour produced,
- B. FRW 585,000 per month was simply calculated using the total monthly output hours of 65 hours' times allowed piecework of FRW 9,000. (65\*9000)
- C. FRW 810,000 (FRW 9,000\*90) per month is the piecework budget for product Y only.

### Working:

Allowed piecework			9,000
	Unit	Hour	
Product Y	9	10	90*
Product Z	7	5	35*
Total			125

<b>Piecework Budget per employee per Month</b>	<b>125* 9,000</b>	<b>FRW 1,125,000</b>
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$$\mathbf{xx* = unit * hour}$$

### QUESTION FIVE

**Answer: C**

All elements provided are elements of time series: (i). Seasonal variation – due to timing, (ii). Random variation – due to unexpected events, (iii). Cyclical variation – due to general economic factors, and (iv) Trend – the way the figures are moving in general all are components of a time series.

Others are not correct:

- A. it does not includes other elements of time series given (iii),
- B. it does not includes other elements of time series given (i),
- D. it wrongly states that there was none of the elements of time series whereas all elements given time series elements.

### QUESTION SIX

**Answer: A**

The increase in inventory holding period will subsequently increase cash operating cycle period.

Others are not correct

- B. Inventory holding period – Decrease, C. Trade receivables' days – Decrease and D. Trade payables' days – Increase will help the management to reduce the cash operating cycle.

### QUESTION SEVEN

**Answer: C**

(i) International capital markets, (ii) Exchange rates and (iv) Characteristics of overseas markets are international factors while (iii) Interest rates, is a local or national factor.

- A. is not correct as it does not include exchange rate,
- B. is not correct as it includes interest rate which is a national factor,
- D. is not correct as it includes also an interest rate which is a national factor.

### QUESTION EIGHT

**Answer: C**

The predetermined overhead absorption rate per direct labor = Expected overheads over Planned direct labour hours which is equals to FRW 1,500,

- A. FRW1,750 is not correct as it was calculated using the current overheads costing instead of Expected overheads,
- B. FRW 2,000 is not correct as it is a planned costing per hour,
- D. is not true a the answer was FRW 1,500.

## QUESTION NINE

### Answer: D

The settlement discounts are essentially a reduction in the prices of the products, and so the business should consider the financial implications of offering these is a downside to offering early settlement discount.

Others A. B. and C. are not correct as they are part of reasons that a business may offer a settlement discount to its customers.

## QUESTION 10

### Answer: A

FRW 432,000 is the present value of the FRW 500,000 receipt in three years' time,

Working:

NPV Calculation	FRW	
Receipt in three years' time	500,000	
Year 0	1	500,000
Year 1	0.952	476,000
Year 2	0.907	453,500
Year 3	0.864	432,000

B. FRW 453,500 is not correct as it is the PV for the Year 2,

C. FRW 476,000 is not correct as it is the PV for the Year 1,

D. FRW 500,000 is not correct as it is the current value without time value.

## QUESTION 11

### Answer: B

FRW 20,000 Adverse is the total sales revenue variance;

A. is not correct as this variance cannot be favorable as the actual revenues were reduced compared to the budgeted revenues.

C. and D. are not correct as the FRW 1,180,000 was wrongly calculated using the budgeted cost of production instead of the selling price.

Working:

	<i>Budget</i>	<i>Actual</i>	Variance
Selling price per unit	30,000	29,000	
Sales units	600	620	
<b>Sales revenue</b>	<b>18,000,000</b>	<b>17,980,000</b>	<b>(20,000) Adverse</b>

## QUESTION 12

### Answer: C

All information given (i) Variable costs, (ii) Fixed costs, (iii) Semi-variable costs, and (iv) Step-fixed costs is the main classifications of cost behaviors.

Others are not correct as:

- A. it does not includes other main cost classifications behaviour given (iii) and (iv),
- B. it does not includes other main cost classification behaviour given (iv),
- D. it wrongly states that there was none of the main cost classification behaviour whereas all cost behaviour given are main cost classification behaviour.

### QUESTION 13

**Answer: C**

The correct answer is C, the FRW 1,071,000 will not be included in the calculation of the cash flow budget for sales as it is an estimated cost of production for November, others should be included.

A. FRW1,021,650, B. FRW 992,250 and D. FRW 1,014,300 are not correct as they are sales estimates for September, November, December respectively.

**Workings:**

September	$13,900 \times 1.05 \times 70 =$	FRW 1,021,650
November	$13,500 \times 1.05 \times 70 =$	992,250
December	$13,800 \times 1.05 \times 70 =$	1,014,300

### QUESTION 14

**Answer: D**

Full costing sometimes is known as absorption costing and it is not necessary to distinguish variable costs from fixed costs.

Others are not correct as A. B. and C. are true statements by comparing marginal costing versus absorption costing.

### QUESTION 15

**Answer: A**

All of statements are true, Objectives are measurable steps towards achieving their goals while Action plans are detailed steps for achieving their objectives.

Others are not correct as

- B. all statements are true and not false,
- C. wrongly states the (ii) to be false,
- D. wrongly states the (i) to be false whereas they are both true.

### QUESTION 16

**Answer: D**

The appropriate overhead costs absorbed by the cost centre A should be FRW 145,455\*,  
 $(800,000/5,500) \times 1000$

Other options are not correct because:

- A The FRW 800,000 assumes all costs are allocated to the cost center A,
- B FRW 600,000 is overhead cost for depreciation of the factory,
- C FRW 200,000 assumes repairs/maintenance overhead costs to be equally absorbed.

\*Total space:  $(1,000+1,500+2,000+1,000) = 5,500$

\*Repairs/maintenance overhead costs to cost centre A:  $1,000/5,500 \times 800,000 = \text{FRW } 145,455$

### QUESTION 17

**Answer: B**

Option 1 and Option 2 will be giving return that is above the targeted return of 3.5%, Option 3 will give a return of 3.5% which is below the target.

A. is not correct as the option 1 also will be acceptable,

C. is not correct as it includes option 3 which makes return below the targeted return and it is not acceptable.

D. is not correct as it is the option 3 which makes return below the targeted return and it is not acceptable.

Working:

Option 1:

Bonus:  $1\% \times 40,000,000 = \text{FRW } 400,000$

Total return =  $\text{FRW } 12,000,000 + \text{FRW } 400,000 = \text{FRW } 16,000,000$

Rate of return =  $16,000,000/40,000,000 = 4\%$

Option 2:

Rate of return =  $16,000,000/40,000,000 = 4\%$

Option 3:

Total return:  $\text{FRW } 600,000 \times 2 = \text{FRW } 12,000,000$

Rate of return =  $12,000,000/40,000,000 = 3\%$

### QUESTION 18

**Answer: A**

Growth can be financed through sales rather than by injecting fresh external capital.

Others A, B and C are not correct as all of them are benefits of factoring for a business customer.

### QUESTION 19

**Answer: A**

An adverse variance is not always good or not always bad. Whether it is good or bad depends on the reasons for the variance. For example, recruiting extra staff may result in an adverse labour variance but may mean that increased demand required higher levels of production (and higher revenue).

B is not correct as all statement given are false,

C is not correct as the statement 1 is false and it is not true,

D is not correct as the statement 2 is false and it is not true,

## QUESTION 20

**Answer: C**

High output	22,000	2,100
Low output	15,000	900
Variable cost	7,000	1,200

Variable cost per unit  $\text{FRW } 7,000/1,200 = \text{FRW}6$  per unit

Fixed costs =  $\text{FRW } 22,000 - (\text{FRW } 6 * 2,100) = \text{FRW } 9,750$

The other options are not correct because:

Option A is the total cost for an activity of 900 units

Option B is the total variable cost for 2,100 units ( $2,100 * \text{FRW } 6$ )

Option D is the difference between the costs incurred at the two activity levels recorded.

## QUESTION 21

**Answer: D**

The present value of inflows is  $\text{FRW } 33,800,000$

$\text{FRW } 20,000,000 * (0.893 + 0.797) = \text{FRW } 33,800,000$

$\text{NPV} = \text{FRW } 45,000,000 - \text{FRW } 33,800,000 = \text{FRW } 11,200,000$

A  $\text{FRW } 40,000,000$  is not correct as it is a total inflow over two years without time value recognition,

B  $\text{FRW } 45,000,000$  is not correct as it is the cost of new machinery,

C  $\text{FRW } 15,940,000$  is not correct as it is Present Value of the inflows for year 2026 only.

## QUESTION 22

**Answer: B**

Both of statements are true,

A is not Correct as it states that (i) and (ii) are false whilst they are supposed to true stated,

C is not Correct as it states that (ii) is false whilst it supposed to true stated,

D is not Correct as it states that (i) is false whilst it supposed to true stated,

## QUESTION 23

**Answer: A**

The Cost of tool and machine breakages is a cost incurred as a result of hiring new employees.

Others B, C and D are not correct as they are costs to be incurred in order to prevent employees leaving their job.



## QUESTION 24

### Answer: C

The budgeted usage of 410 kgs should have cost  $(410 * \text{FRW}20,000) = \text{FRW } 8,200,000$

The actual cost of production:  $\text{FRW } 8,800,000$

Price/efficiency variance  $8,200,000 - 8,800,000 = 600,000$  (A) as the actual production cost is higher than the budgeted cost.  $\text{FRW } 8,200,000$  is the budget production cost for 410 Kgs.

Others are not correct

A and B are wrongly calculated as they budget usage cost and they not price/efficiency variance related.

D is not correct; the variance is adverse instead of being favorable as the actual production cost is higher than the budgeted cost.

## QUESTION 25

### Answer: D

Debt finance tends to be relatively low risk for the debt holder as it is interest-bearing and can be secured.

Others A, B and C are true as stated.

## QUESTION 26

### Answer: C

$\text{FRW } 9,750$  is the value of inventory by using FIFO method,

The other answers are not correct because:

A  $\text{FRW } 12,250$  inventory was valued using the unit cost of Day 1  $(35*350)$

B  $\text{FRW } 11,750$  inventory was valued using LIFO method,

D  $\text{FRW } 8,750$  inventory was valued using the unit cost of Day 3.  $(35*250)$

Working:

FIFO:  $(350*(30-20) + (250*25) = \text{FRW } 9,750$

LIFO:  $(350*30) + (250*25-20) = \text{FRW } 11,750$

## QUESTION 27

### Answer: D

Contribution of Department C is  $\text{FRW } 750,000$  which was not given in the question for selection

Others are not correct: A  $\text{FRW } 600,000$  is not correct as overhead cost was wrongly deducted from the contribution,

B.  $\text{FRW } 550,000$  is not correct as fixed administration cost was wrongly deducted from the contribution,

C.  $\text{FRW } 400,000$  is not correct as all cost was deducted from sales revenues.

## QUESTION 28

### Answer: A

The cash inflow from credit customers for the month of December is FRW253,000.

Others are not correct:

B. FRW 290,000 is not correct as it assumes not discount has been taken and no irrecoverable debts incurred,

C. FRW 281,000 is not correct as the total receipt included irrecoverable debts has been received,

D. FRW 262,000 is not correct as it wrongly assumes that no discount has been guaranteed.

### Workings:

Cash received in December relates to sales in:  $\text{FRW } 7,000 + \text{FRW } 75,000 + \text{FRW } 171,000 = \text{FRW } 253,000$

October  $10\% - 8\% * \text{FRW}350,000 = \text{FRW}7,000$

November  $30\% * \text{FRW}250,000 = \text{FRW}75,000$

December  $60\% * (100\% - 5\% ) * \text{FRW}3000 = \text{FRW}171,000$  (after taking discount)

## QUESTION 29

### Answer: B

The cash operating cycle is  $50+45-30 = 65$  days,

Other options are not correct as they wrongly calculated as follows:

B 45 days is Trade receivables' collection period,

C. 75 days the inventory 50 days was deducted from the total of all 125 days,

D. 125 days is a summation of all days.

## QUESTION 30

### Answer: C

Indirect materials are often referred to as 'consumables' and include such things as cleaning products, oil and grease for machines, protective clothing, disposable tools and stationary supplies whereas in the question this statement was wrongly assigned to the direct material.

Others statements A, B and D are not correct answers as the statements are correct.

## QUESTION 31

### Answer: B

Both information provided is true.

Others are not correct:

A is not correct as it states that all information is false whereas they are both true.

C. is not true as it states the (ii) to be false and

D is not correct as it states that the (i) is false whereas both are correct.

## QUESTION 32

### Answer: C

(i) Differential costs are the difference in total costs between alternatives and they are therefore affected by a decision taken now and they are associated with relevant costs. (ii) If a cost is unavoidable then any decision taken about the future will not affect the cost, therefore unavoidable costs are not relevant costs. (iii). Incremental costs are extra costs which will be incurred in the future therefore relevant costs are incremental costs. (iv) A decision is about the future; therefore, relevant costs are future costs.

Others are not correct as:

A. it includes characteristic (ii) which is not associated with relevant costs,

B. it does not includes other characteristic associated with relevant costs given (iv),

D. it wrongly states that all given characteristics are associated with relevant costs whereas characteristic (ii) is not associated with relevant costs.

## QUESTION 33

### Answer: A

A corporate bond is a long-term source of finance, hence is a capital market instrument while Money markets focus on short-term financial instruments;

Others are not correct as; B. treasury bill, C. Certificate of deposit, and D. commercial paper are Money Market instruments.

## QUESTION 34

### Answer: D

Payment of the monthly electricity bill at the end of the month: affects profit in the same way as the cash of the business as the electricity bills are charged to profit and paid in the same period;

others are not correct as, A. Sale of a business Motor car and B. Purchase of a new vehicle for the business affect the cash balance only, C. Accrual of the water bill affect profit only.

## QUESTION 35

### Answer: B

Clerical and administrative costs associated with purchasing, accounting for and receiving goods are ordering costs.

The other answers are not correct because they are holding costs;

(A) Costs of storage and stores operations. Holding inventories requires storage space and staff and equipment to control and handle them while they are being stored. The larger the level of inventories, the higher the costs associated with storing and managing them will be.

(C) Interest charges. Holding inventories involves the tying up of capital (cash) on which interest must be paid.

(D) Insurance costs. The larger the value of inventories held; the greater insurance premiums are likely to be.

### QUESTION 36

**Answer: A**

The closing balance for October is FRW 668,800,

Others are not correct as:

B. FRW 623,800 is the net cash flow for October,

C. FRW 825,000 is the net cash flow for November and

D. FRW 658,800 is the closing balance for October wrongly calculated considering the depreciation as cash transaction.

### QUESTION 37

**Answer: C**

Net Cash flow for November is FRW 825,000,

Other options are not correct because:

A. FRW 975,000, is the net cash flow wrongly calculated consider the income tax to be payable each month,

B. the FRW 1,493,800 is the closing balance for November,

D. FRW 815,000 is the net cash flow wrongly calculated taking into consideration depreciation as cash transaction.

Workings:

**Below are workings for Question 36 & 37:**

	October	November
<i>Cash receipts:</i>		
Cash from credit sales	1,056,000	1,128,000
<i>Cash payments:</i>		
Payments to suppliers	118,000	126,000
Wages	15,000	17,000
Production expenses	31,000	34,000
Selling costs	103,200	111,000
Rental payments	15,000	15,000
Income tax	150,000	
<i>Total payments</i>	432,200	303,000
Net cash flow	623,800	825,000
Opening cash balance	45,000	668,800
Closing cash balance	668,800	1,493,800

Selling cost

**October: FRW 24,000 + FRW 79,200 = FRW 103,200**

From September  $(10\% * (12,000 * \text{FRW}80) * 25\%) = 24,000$

$(10\% * (13,200 * \text{FRW}80) * 75\%) = 79,200$

**November = FRW 26,400 + FRW 84,600 = FRW 111,000**

From October:  $(10\% \times (13,200 \times \text{FRW } 80) \times 25\%) = \text{FRW } 26,400$

$(10\% \times (14,100 \times \text{FRW } 80) \times 75\%) = \text{FRW } 84,600$

### **QUESTION 38**

**Answer: D**

(i) The repayment schedule, (ii) Any covenants stipulated, (iii) The term of the loan, (iv) The way in which interest is charged, (v) Any security required and (vi) The interest rate are the main types of conditions to be included in a loan agreement with a bank.

Others are not correct as:

A. it does not includes other main types of conditions to be included in a loan agreement with a bank given (iii) and (v),

B. it does not include other main types of conditions to be included in a loan agreement with a bank given (ii) and (iv),

C. it does not include other are the main types of conditions to be included in a loan agreement with a bank given (i) and (vi).

### **QUESTION 39**

**Answer: B**

Predictable dates for payments, such as rent, business rates, staff salaries not latest date instead of historical payment dates for payment,

Others A, C and D are not correct as they are assumptions to be taken into account of about payments to suppliers of goods and services.

### **QUESTION 40**

**Answer: D**

Managing Director's salary is the only Administration costs given,

Others are not correct as

A. Sales Director's salary is part of Selling and Distribution cost.

B. Factory heating and lighting and Factory rent are Production costs.

C. Combines Selling and Distribution cost and Production costs.

### **QUESTION 41**

**Answer: D**

It also helps the organization plan its financial transactions to be more efficient so that it can minimize the costs of borrowings and maximize the return from investing surplus funds.

Other A, B and C statements are correct.

## QUESTION 42

### Answer: A

When payments are received in the form of cash, cheques, debit or credit cards, then a list of all receipts taken during the day must be kept. This list must then be reconciled at the end of each day to the amount of cash in the till, cash box or safe.

Others B, C and D are not correct as they should not necessary be carried each day.

## QUESTION 43

### Answer: C

All of them are marginal costing principals. A is not correct as all statement are true instead of being false. B is not correct as it assumes the (ii) to be false instead of being true, C is not correct as it assumes the (i) to be false instead of being true.

## QUESTION 44

### Answer: A

FRW 300,000 is the Over - absorption of overhead to the XWZ Ltd, as absorbed overheads are greater than the actual overheads.

Others are not correct as B. as absorbed overheads are greater than the actual overheads and should not be an under absorption, whereas C and D FRW 500,000 have been calculated wrongly using the expected production levels.

### Working:

Actual overheads FRW 4,500,000

Absorbed overheads: 600 units \* FRW 8,000 per unit 4,800,000

Over absorption 4,800,000 – 4,500,000 = FRW 300,000

## QUESTION 45

### Answer: B

Marginal costing is a costing method that includes only variable costs within the cost of the cost units whereas fixed costs are written off as period costs.

Others A, C and D are correct.

## QUESTION 46

### Answer: D

The total direct costs for the business BBD Ltd is FRW 207,000,

Others are not correct because:

A. FRW 240,000 is the total cost including direct and indirect costs,

B. FRW 216 is total direct cost plus the overtime shift premium of FRW 9,000 and

C. FRW 171,000 is only the Basic pay for normal hours.

Workings:

Basic Pay:	$38 \times 4500 =$	FRW 171,000
Overtime:	$8 \times 4500 =$	FRW 36,000
Overtime Shift		FRW 9,000
Incentive		FRW 24,000
Total direct cost = 171,000 + 36,000 = 207,000		

#### **QUESTION 47**

**Answer: B**

The cost per unit manufactured in a batch is the total batch cost divided by the number of units in the batch instead of the total batch cost multiplied by the number of units in the batch.

Others are not correct as A does not consider (ii) which should be included,

C includes the wrong statement (iii) and

D also it includes statement (iii) which is not true.

#### **QUESTION 48**

**Answer: B**

Change in depreciation rate is not needed to be incorporated into a cash budget as it is a non-cash related transaction which does not have effect on preparation of a cash budget.

Others A, C and D are types of changes that may need to be incorporated into a cash budget.

#### **QUESTION 49**

**Answer: A**

The loan is for a long time period is the factor that will cause the interest rate to be higher not for the short time period.

Others B, C and D are factors that will cause the interest rate to be higher.

#### **QUESTION 50**

**Answer: C**

Both information provided is true.

Others are not correct as:

A. states that both information are false instead of being true,

B. states that (ii) is false instead of being true,

C. states that the (i) is false instead of being true.

**End of marking guide and model answers**