



CERTIFIED ACCOUNTING TECHNICIAN

STAGE 2 EXAMINATIONS

S2.2 MANAGING COSTS AND CASH FLOWS

DATE: THURSDAY, 31 MARCH 2022

MARKING GUIDE AND MODEL ANSWERS

SECTION A

Marking Guide

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

2 Marks for each correct answer

2

Total marks

100

Model Answer

QUESTION ONE

The correct answer is C

The cash received from selling inventory will be used to pay trade payables do not trade receivables. Trade receivables stand for amount owed by customers while trade payables represent what we owe suppliers.

On the other hand, it is true that inventory is turned into trade receivables when it is sold on credit and when inventory is purchased on credit, we have trade payables.

QUESTION TWO

The correct answer is D

REBERO industry's cash operating cycle is calculated as follows:

Inventory holding period	83
Trade receivables collection period	50
	133
<i>Less:</i> Trade payables payment period	(42)
Cash operating cycle	91 days

The answer in A, B and C are incorrect as they differ to the above computation.

QUESTION THREE

The correct answer is B

NYUNGWE Tea factory cash operating cycle can be shortened by offering early settlement discounts to customers as appear in B. The effect of this and other options provided can be noticed by looking at the formula of cash operating cycle shown below:

Inventory holding period	xx
Trade receivables collection period	xx
	xxx
<i>Less:</i> Trade payables payment period	(xx)
Cash operating cycle	xx days

It can be seen that lowering trade receivables collection period and inventory holding period has a good impact in decreasing the cash operating cycle.

Taking advantage of early settlement discounts offered by suppliers Increases our cash operating cycle as it decreases trade payables payment period. Increasing cash balance held in the business current account doesn't have effect on the cash operating cycle. Increasing credit terms offered to customers from 30 days to 60 days will lengthen the cash operating cycle as can be seen above.

QUESTION FOUR

The correct answer is A

The current ratio is the standard test of liquidity. It tells users of financial statements how much FRW of current assets available per FRW of current liabilities. The current ratio of less than one is undesirable as it implies insufficient current assets to meet short term obligations.

A current ratio in excess of one is comfortably expected as appear in (B), this implies that we have more current assets than current liabilities.

As written in (C), a Current ratio is a ratio of current assets over current liabilities. The answer in (D) saying that Acid test ratio considers current assets with inventories excluded is also correct. Inventory is excluded because it cannot be easily liquidated.

QUESTION FIVE

The correct answer is D

Overtrading is where a business expands more quickly than its funds will allow. Generally accepted signs of overtrading include rapidly increasing sales linked to rapidly increasing trade receivables, often when customers take longer to pay and increases irrecoverable debts. From our statements, the correct answer is (D). Effective debt management and credit control, improving inventory control and focusing on cash management are not linked to the above meaning of overtrading.

Effective debt management and credit control together with Focusing on cash management improve cashflow, improving inventory control is part of internal control system and affect cash operating cycle. Hence (D) is the correct answer is.

QUESTION SIX

The correct answer is A

Over-capitalization is where a business has surplus assets that are being under-utilized because of over investment in working capital. From our statements, the answer in (A) is correct. Other options in B, C and D are not relevant.

- Capital injections impacts cash inflows and reduction of dividends limit cash outflow and they affect the cash budget.
- Long inventory holding period is part of inventory management. Inventory is part of current assets and do not affect capital assets.
- Higher rate of return implies higher income from an investment expressed as a portion of original investment. the answer in B, C, D are not connected to over-capitalization.

QUESTION SEVEN

The correct answer is A

Prepaid expenses are part of balance sheet current assets and do not affect the current year profit even though the payment has been done currently. Purchase of non-current assets also affects cash balance but do not increase or decrease profit as they are capital items. Cash sales affect both cash and profit of an entity.

- Purchase of non-current assets implies an outflow of cash but has no effect on the profit while bank charges affect both the profit (decreases profit) and decreases cash at bank. Here (B) is incorrect.
- Cash Sales and cash payment for expenses affect both profit and cash balance, hence (C) is incorrect.
- Interest received and interest paid affect both profit and cash balance, (D) is incorrect

QUESTION EIGHT

The correct answer is B

The value of additions is calculated as follows:

$$\begin{aligned} \text{Additions} &= \text{Year end carrying amount} - (\text{Opening carrying amount} - \text{Depreciation charge}) \\ &= 320 - (280 - 20) \text{ in millions FRW} = 60 \text{ million FRW} \end{aligned}$$

	FRW(Millions)
Opening balance	280
Less: Depreciation Charge	20
	260
Add: Additions	60
The carrying amount at the end of the year	320

A figure of 260 FRW million in (A) can be obtained by taking opening balance less depreciation charge, the figure of 320 FRW million in (C) represents the total carrying amount at the end of the year while 400 FRW million in (D) totally differ from any of our computations. Hence A, C and D are incorrect.

QUESTION NINE

The correct answer is B

The forecasted cash receipts for January are FRW 1,265,000 as computed below. The answer in (B) is correct.

Details	January Forecasted cash receipts (FRW)
Cash sales (10% of monthly sales)	140,000
December sales payable in one-month time (40%*(1440000-144,000) 144,000 is 10% cash sales	518,400
November sales payable in two months' time 45%*(1500,000-150,000) 150,000 FRW is 10 cash sales	607,500
Total	1,265,900

The figure in (A) FRW140,000, in (C) FRW805,000, in (D) D FRW1500,000 are far different from our computation hence A, C and D are incorrect.

QUESTION 10

The correct answer is C

Depreciation expense is a non-cash item should not be included in a cashflow report. The answer in (C) is correct.

Interest payment and dividend payment are part of cash outflow while a receipt from a share issue is a cash inflow all forming part of a cashflow report. The Answer in A, B and D are incorrect.

QUESTION 11

The correct answer is A

Cash sales are regular cash receipts, however, Receipt of dividends from investment, Additional capital raised, Receipt from sale of non-current asset is considered irregular cash receipts because they occur occasionally. Hence B, C and D are incorrect.

QUESTION 12

The correct answer is A

Drawing by a sole trader or a partner in a partnership do not occur regularly but cash payment for purchases, payment of employees' salaries and payment for corporation tax are regular payments. Hence B, C and D are incorrect.

QUESTION 13

The correct number is B

Items relating to the long-term running of the business are capital items while items relating to the day to day running of the business and items which are part of the working capital are part of revenue items. Share capital is not an asset, it is was we received from shareholders for the shares sold and it is used to acquire capital items. Hence A, C and D are incorrect.

QUESTION 14

The correct number is A

The correct answer is in (A). The amount payable to suppliers is calculated below:

Opening trade payable	29,600,000	
Add: Purchases	300,400,000	
	330,000,000	(i)
Less: Cash paid	XXXX	
Closing balance of trade payables	30,000,000	(ii)

(i) – (ii) = Amount of cash paid to supplier = 330,000,000-30,000,000=300,000,000 FRW
Basing on the above computation, option B, C, D are far from the answer and hence they are incorrect.

QUESTION 15

The correct number is B

Determining cash receipts, determining cash payments and setting up a proforma cash budget are part of the steps of cash budget preparation. Depreciation is a non-cash item, hence computing annual depreciation is not part of the steps involved in preparing a cash budget.

A, C, D are part of the steps involved in preparing a cash budget.

QUESTION 16

The correct number is B

Non-cash flow items and timing differences are causes of the difference between the sales and production budgets and the cash budgets. Hence (A) is correct.

Timing differences are the intervals between when revenues and expenses are reported for financial statements and tax reporting purposes. The answer in (A) payment for purchases is not correct while C and D together form the answer.

QUESTION 17

The correct answer is A

Sales staff are needed to provide information about forecasted future level of sales. This will be provided in terms of sales volume and anticipated unit price.

Production staff provides information about expected levels of production and associated purchasing and other costs-purchase information. This justifies why (B) is incorrect.

Accounting personnel provide information regarding prices, costs, wages, and overheads. etc. While senior personnel provide information about capital expenditure. Hence (C) and (D) are incorrect.

QUESTION 18

The correct answer is D

A cash budget is a budget that shows the estimated cash **inflows** and **outflows** of the business for a **specified period**.

The answer in (A) that defines a cash budget as a budget that shows the estimated cash inflows of the business is not correct because it ignores cash outflows. The answer in (B) tends to define a cash budget as bad debts which is wrong. The answer in (C) substitute cash outflows with depreciation expense. Hence A, B and C are incorrect.

QUESTION 19

The correct answer is C

Calculation of cash payments for September:

Details	FRW
Variable production overhead payment	
For August production (13,000*7000) *30%	27,300,000
For September production (9000*7000*70%)	44,100,000
Total variable production overhead payment	71,400,000
Fixed overhead cash payment (9,000,000-3,000,000)	6,000,000
Total cash payment for September	77,400,000

The answer in (A), (B) and (D) are far from the above computation and hence they are incorrect.

QUESTION 20

The correct answer is D

Dividend payments, Loan and interests' repayments together with Payments for acquisition of non-current assets are part of cash outflows. Hence A, B and C are incorrect. Output volume is forecasted in a production budget. This makes (D) The correct answer is.

QUESTION 21

The correct answer is C

Tagging money safe is part of physical assets management (safeguard). this makes (C) a **correct answer**. Keeping cash received in money safe, employment of Watchmen and Installation of security camera are part of controls for company's assets including cash in hand. Hence A, B and D are incorrect.

QUESTION 22

The correct answer is D

The reconciliation of cash received is done on daily basis by other responsible officials other than a person who make sales. To assess if there is any theft, allowing a responsible person to evaluate himself/herself can limit the probability to detect errors and frauds. Hence (D) is correct and (A), (B) and (C) are incorrect because they limit the possibility of detecting errors and frauds.

QUESTION 23

The correct answer is A

During the lockdown as a result of COVID-19 pandemic, businesses were urged to introduce electronic means of payment. Some of those means included MOMO Pay and inter-bank transfers. Serving customer after confirming their payments on account (A) is the only sufficient way to limit electronic payments fraud. Requesting customers to show only the messages proving the payment as appear in (B) is not accurate since customers easily duplicate messages.

Performing bank reconciliation on monthly basis(B) cannot prevent a fraud in due time. Retaining customers copies of identity cards(D) also is not a direct control to fraud.

QUESTION 24

The correct answer is A

The following represents 23.7% of the total interest cost?

$$\begin{aligned}\text{Total repayments} &= 36 * 1,270,000 \\ &= 45,720,000\end{aligned}$$

$$\begin{aligned}\text{Total Interest cost} &= (\text{Total Repayment} - \text{Total Amount of principal}) \\ &= 45,720,000 - 36,000,000 \\ &= 9,720,000\end{aligned}$$

$$23.7\% * 9,720,000 = \mathbf{2,303,640 \text{ FRW} ***}$$

The answer in (B), (C) and (D) are higher than 2,303,640 FRW, hence they are incorrect.

QUESTION 25

The correct answer is D

The cost of capital is made of the three elements namely; Risk free rate of return, Premium for business risk and Premium for financial risk. The internal rate of return is the discount rate that makes net present value of a project zero, this is not part of cost of capital. Hence A, B and C are incorrect.

QUESTION 26

The correct answer is A

Variable costs are conventionally deemed to increase or decrease in direct proportion to changes in output.

Variable costs vary per unit of output as production volume changes, this makes (B) incorrect. Variable costs are constant in total when production volume changes as appear in (C) also is wrong, the total variable costs change as the level of output changes. Variable costs vary per unit of output as production remains constant (D) this contradicts the correct meaning of variable cost as given in (A) above.

QUESTION 27

The correct answer is C

Production cost, Selling and distribution costs and finance costs are all part of category of costs according to the main functions in a manufacturing business, this makes A, B and D incorrect answers. Bank loan interests are part of financing costs, hence (C) is the correct answer is.

QUESTION 28

The correct answer is A

Economic order quantity is calculated as follows:

$$EOQ = \sqrt{(2cd)/h}^{0.5}$$

$$C = 10,000$$

$$d = 5400/12 \quad d = 450 \text{ per month}$$

$$EOQ = \sqrt{(2 * 10,000 * 450) / 100}^{0.5}$$
$$= 300 \text{ units}$$

$$15 * EOQ = 300 * 15$$

$$= 4500 \text{ units}$$

The answers in B, C and D are far different from our correct response, hence they are incorrect.

QUESTION 29

The correct answer is B

Methods of stock taking are Periodic stocktaking and continuous stocktaking. The answer in (B) is correct. Warehouse transfer refers to the transfer of items from one warehouse to the other whereas factory stock taking refers to the inventory count done at the factory. The answers in (B), (C) and (D) are not part of our correct answer.

QUESTION 30

The correct answer is C

The holding cost is the cost of holding inventory until it is used. It is made of costs of storage and store operations, interest charges and insurance costs. The costs in A, B and D are part of ordering costs. Hence, they are incorrect.

QUESTION 31

The correct answer is C

Costs of storage and stores operations in (C) are part of inventory holding costs. Lost contribution from lost sales(A), Cost of production stoppage(B), Extra ordering costs for urgent orders(D) are part of stockout costs.

QUESTION 32

The correct answer is C

Overhead apportionment involves sharing overheads costs as fairly as possible over a number of costs centres. The answer in A, B and D are deviations to the original meaning of overhead apportionment.

QUESTION 33

The correct answer is B

A direct labour hour basis of overhead absorption is most appropriate in labour intensive environment. The correct answer is B. In a machine intensive (A) environment, Machines are used dominantly than labour and hence machine hour basis is more appropriate. The above clarification makes A, C and D incorrect answers.

QUESTION 34

The correct answer is C

A work in progress item is the cost of unfinished product in a manufacturing process. Work in progress simply is a term used to represent an intermediate stage between the manufacturer purchasing the materials that go to make up the finished product and the finished product.

Materials purchased for incorporation into products for sale(A) are called raw materials. Products ready for sale or dispatch(B) are finished goods while Materials being produced simultaneously(D) are not closely related to finished goods, hence A, B and D are incorrect.

QUESTION 35

The correct answer is C

A finished good is a product ready for sale or dispatch, the answer in C is correct

Materials whose stock is at zero balance(A), Expired products not to be sold anymore(B) and Construction Materials (D) are not closely related to finished goods.

QUESTION 36

The correct answer is C

Raw materials are goods purchased for incorporation into products for sale. The answer in C is correct. Paper for making books are raw materials for those books.

On the other hand, fuel is a final product ready for being consumed by factory machines, a delivery van has no further manufacturing process remaining for it to be used and wines as well are ready for consumption. This makes A, B and D incorrect answers.

QUESTION 37

The correct answer is D

Among the ways of classifying materials include classification according to substances that make them(A), classification according to how they are measured(B) and classification according to physical properties (C).

Classification according to warehouses(D) is not part of the above general ways, Warehouses in which materials are kept differ from time to time and hence this cannot be a criterion for classifying materials.

QUESTION 38

The correct answer is C

Statement 1 is true and statement 2 is false. Variable cost per unit remains the same regardless the level of output.

QUESTION 39

The correct answer is D

A cost involving a fixed component and a variable component is called semi variable cost(D). The answer in (A), (B) and (C) are incorrect because our salary has a fixed and a variable component.

QUESTION 40

The correct answer is C

The payback period is the time it takes for the cash inflows from a project to repay the initial investment cost. The answer in A, B and D are not closely related to this correct answer, hence they are incorrect.

QUESTION 41

The correct answer is D

The present value (PV) of FRW 44,000 is calculated as follows:

$$PV = (44,000 * 0.873) = \text{FRW } 38,412$$

The answer in (A) is obtained by dividing 44,000 FRW by 0.873 which is incorrect, while B and C are far from our correct figure computed. Hence A, B and C are incorrect.

QUESTION 42

The correct answer is C

The main classification of costs is: variable costs, fixed costs, semi-variable costs and step-fixed costs. The answer in (A), (B) and D are incorrect, however, marketing costs is part of classification of costs according to functions.

QUESTION 43

The correct answer is D

A **cost unit** is the individual product or service for which costs are to be gathered. A cost object is any Activity for which a separate measurement of costs is desired. Any Activity for which a separate measurement of costs is desired(C) is called a cost object. Purchase price variance(B) is the difference between actual price paid to the vendor versus the standard cost of such material, times the quantity received. Activity variance(A) is the difference between a revenue or cost item in the flexible budget and the same item in the static planning budget. A, B and C are incorrect.

QUESTION 44

The correct answer is A

A Direct labour costs are Specific costs of the workforce used to make a unit of a product or provide a service. Salaries and wages paid directly once they become due(B) are not always the salaries directly connected to a unit of a product produced or a service provided. Costs not directly attributable to the product(C) is the contradiction of the correct definition of direct

labour costs. Accrued salaries (D) refers to the amount of liability remaining at the end of reporting period for salaries that have been earned by employees but not yet paid to them. The answer in B, C and D are not correct.

QUESTION 45

The correct answer is D

Materials issued from inventory can be valued using First in First out (FIFO), Last in first out (LIFO) and weighted average methods.as appear in (D). The net present value method (NPV) is a method used in capital budgeting and investment planning to analyze the profitability of a projected investment or project while the payback period is a method used to measure the length of time required to measure an initial outlay. The answer in A, B and C are incorrect.

QUESTION 46

The correct answer is C

The steps involved in calculating the cost of overheads to be charged to cost units include allocation, absorption and apportionment. Step down reapportionment is one of the two methods of apportionment as appear in (C). A, B and D are incorrect answers as explained above.

QUESTION 47

The correct answer is A

Overhead absorption rates are determined in advance, therefore the statement in (i) is correct. and statement in (iii) incorrect. Overheads absorption rate are used in the final stage of overhead analysis to absorb overheads into products, therefore the statement in (ii) is correct. Overheads are controlled using budget and other management information, therefore (iv) is incorrect.

QUESTION 48

The correct answer is C

Comparisons made in financial terms are financial comparisons.

A Number of units produced compared to last year-**Not a financial comparison**

B Number of units sold compared to last year-**Not a financial comparison**

C Profit compared to last month-**A financial comparison**

D Customer satisfaction compared to last month-**Not a financial comparison**

QUESTION 49

The correct answer is B

Activity variance looks at the difference in the quantity produced. The answer in (B) is correct. The actual efficiency in which resources are used being different to budgeted efficiency(A) concerns resources while the actual cost pricing being different to budgeted cost price concerns the price not activity, hence A, C and D are incorrect.

QUESTION 50**The correct answer is 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 an extra staff may result in an adverse labour variance but may mean that increased demand required higher levels of production (and leads to higher revenue). Hence B, C and D are not correct.

END OF MARKING GUIDE AND MODEL ANSWERS