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CERTIFIED ACCOUNTINGTECHNICIAN (CAT)
STAGE 2 EXAMINATIONS
S2.2 MANAGING COSTS AND CASH FLOWS
DATE: THURSDAY, 31 MARCH 2022

- 1. INSTRUCTIONS:**
- 2. Time allowed: 2 hours and 30 minutes.**
- 3. This examination has one section only: Section A.**
- 4. Section A has 50 compulsory multiple-choice questions equal to 2 marks each.**
- 5. The question paper should not be taken out of the examination room.**

SECTION A

QUESTION ONE

Which of the following statements is NOT correct?

- A Inventory is turned into trade receivables when it is sold
- B When inventory is purchased on credit, we have trade payables
- C Cash collected by selling inventory will be used to pay trade receivables
- D Trade payables are part of a business's current liabilities

(2 Marks)

QUESTION TWO

The finance manager of Rebero Industry Ltd Mr. Nemeye usually computes the cash operating cycle to analyse the period of time between cash being paid for raw materials and cash being received from customers for goods sold. In 2021, it was observed that the inventory holding period was 83 days, a trade receivables collection period was 50 days while trade payables payment period was 42 days.

What was Rebero industry's cash operating cycle in days?

- A 98 days
- B 66 days
- C 96 days
- D 91 days

(2 Marks)

QUESTION THREE

Nyungwe Tea factory has a cash operating cycle of 76 days, inventory holding period of 65 days, trade receivables' collection period of 55 days and trade payables' payment period of 44 days. Mr. Alphonse, the Director of Finance and Administration wants to improve this.

Which of the following will have the effect of shortening the cash operating cycle of Nyungwe Tea factory?

- A Taking advantage of early settlement discounts offered by suppliers
- B Offering early settlement discount to customers
- C Increasing cash balance held in the business current account
- D Increasing credit terms offered to customers from 30 days to 60 days

(2 Marks)

QUESTION FOUR

The current ratio is the standard test of liquidity. It tells the users of financial statements how much FRW of current assets available per FRW of current liabilities.

Which of the following statements is NOT correct?

- A A current ratio less than one should be comfortably expected
- B A current ratio in excess of one is comfortably expected
- C Current ratio is a ratio of current assets over current liabilities
- D Acid test ratio considers current assets with inventories excluded

(2 Marks)

QUESTION FIVE

Which of the following statements is a symptom of overtrading?

- A Effective debt management and credit control
- B Improving inventory control
- C Focusing on cash management
- D A business expands more quickly than its funds will allow

(2 Marks)

QUESTION SIX

Which of the following statements explains over-capitalization?

- A Availability of surplus assets that are being under-utilized
- B Capital injections and reduction of dividends
- C Long inventory holding period
- D Higher rate of return

(2 Marks)

QUESTION SEVEN

RAMEK&SONS LTD was registered in Rwanda to deal in distribution of Rwandan Brewery companies' products. In the recent annual general meeting SECAM auditors presented an annual external audit report portraying a net profit of two hundred million Rwandan Francs despite having a cash balance of ten million Rwandan francs on company's account as reflected on the certified balance sheet.

What are the two factors that account for the difference between the amount of profit the company made and cash balance?

- A Prepaid expenses and purchase of non-current assets
- B Purchase of non-current assets and bank charges

- C Cash Sales and cash payment for expenses
- D Interest received and interest paid

(2 Marks)

QUESTION EIGHT

The books of accounts for MUHANGA Investment Ltd at the beginning of the year showed a carrying value of FRW 280 million for opening non-current assets. During the year a depreciation expense of FRW 20 million was charged to the statement of profit and loss. At the end of the year, the carrying value of non-current assets was FRW 320 million.

What was the cash paid to acquire non-current assets during the year assuming that the acquisition was done by cash?

- A 260 FRW million
- B 60 FRW million
- C 320 FRW million
- D 400 FRW million

(2 Marks)

QUESTION NINE

The Chief Accountant of Uzima Farm Ltd prepared the following sales estimates:

Table 1: UZIMA Farm Sales estimates in FRW

October	November	December	January	February	March
1,580,000	1,500,000	1,440,000	1,400,000	1,460,000	1,520,000

Of these total sales figures, 10% are expected to be cash sales and the balance is likely to be credit sales. The past experience indicates that 40% of credit sales are paid in a month after the sale while the remainder net of irrecoverable debts is paid two months following the sale. Irrecoverable debts are expected to be 5% of sales.

What are the forecast cash receipts for January?

- A FRW140,000
- B FRW1,265,000
- C FRW805,000
- D FRW1,500,000

(2 Marks)

QUESTION 10

Which of the following should not be included in a cashflow report?

- A Interest payment
- B Receipts from a share issue
- C Depreciation expense
- D Dividend payment

(2 Marks)

QUESTION 11

Which of the following should not be considered as irregular cash receipt?

- A Cash sales
- B Receipt of dividends from investment
- C Additional capital raised
- D Receipt from sale of non-current asset

(2 Marks)

QUESTION 12

Which of the following is considered to be irregular payments?

- A Drawing by a sole trader or a partner in a partnership
- B Cash payment for purchases
- C Payment of employees' salaries
- D Payment for corporation tax

(2 Marks)

QUESTION 13

Which of the following statement correctly describes capital items?

- A Items relating to the day to day running of the business
- B Items relating to the long-term running of the business
- C Items which are part of the working capital
- D Share capital deposited

(2 Marks)

QUESTION 14

The following information was extracted from the purchase ledger control account of Quinqueliteral Lagrolietta Ltd for the year ended 31 December 2021.

	FRW
Opening trade payable	29,600,000
Closing trade payables	30,000,000
Purchases per statement of profit or loss	300,400,000

How much of cash was paid to suppliers during the year?

- A FRW300,000,000
- B FRW320,000,000
- C FRW330,000,000
- D FRW 902,000,000

(2 Marks)

QUESTION 15

Which of the following statements is not part of steps of preparing a cash budget?

- A Determining cash receipts
- B Computing annual depreciation expense
- C Determining cash payments
- D Setting up a proforma cash budget

(2 Marks)

QUESTION 16

What causes the difference between the sales and production budgets and the cash budgets?

- A Payment for purchases
- B Non-cash flow items and timing differences
- C Timing differences only
- D Non cashflow items only

(2 Marks)

QUESTION 17

Which of the following is correct regarding the source of information while preparing a cash budget?

- A Sales staff are needed to provide information about forecasted future level of sales
- B Production staff are needed to provide information about expected level of profitability
- C Accounting personnel to provide information about amortization
- D Senior personnel provide information about number of employees

(2 Marks)

QUESTION 18

Which of the following is a correct definition of a cash budget?

- A A cash budget is a budget that shows the estimated cash inflows of the business
- B A cash budget is a statement that shows the amount considered irrecoverable
- C A cash flow is a statement that shows annual cash inflows and depreciation expense
- D A cash budget is a budget that shows the estimated cash inflows and outflows for a specified period.

(2 Marks)

QUESTION 19

Below is an extract from GATSATA Garage Company's budget:

Details	August	September
Production units	13,000	9,000
Fixed production overhead cost incurred (FRW)	9,000,000	6,000,000

The standard variable production overhead cost per unit is FRW 7,000. Variable production overhead is paid 70% in the month incurred and 30% in the following month. Fixed overhead cost is paid in the month following that in which it is incurred and includes depreciation of RWF 3,000,000 per month.

What is the payment for total production overhead cost shown in the cash budget for September?

- A FRW 44,100,000
- B FRW 71,100,400
- C FRW 77,400,000
- D No correct answer

(2 Marks)

QUESTION 20

Which of the following is not part of a cash budget?

- A Dividend Payments
- B Loan and interest repayments
- C Payment for acquisition of non-current assets
- D Expected units to be produced

(2 Marks)

QUESTION 21

Which of the following is not part of physical safeguards for cash payments received?

- A Keeping cash received in money safe
- B Employment of Watchmen
- C Money safe tagging
- D Installation of security camera

(2 Marks)

QUESTION 22

At the end of each day, a list of all receipts taken in forms of cheques, cash and credit card should be reconciled against cash in the till, cash box or safe and for security purposes this exercise should be done by the person making sales.

Which of the following statement is correct?

- A It is true the above reconciliation is done by the sales agent
- B It can be done by any other personnel on monthly basis
- C It can be done by the chief accountant only
- D It can be done by other responsible officials other than a person who make sales

(2 Marks)

QUESTION 23

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.

Which one of the following is a sufficient to minimize electronic payments fraud on daily basis?

- A Serving customer after confirming their payments on account
- B Requesting customers to show only the messages proving the payment
- C Performing bank reconciliation on monthly basis
- D Retaining customers copies of identity cards

(2 Marks)

QUESTION 24

Nyangezi Factory Ltd agreed with Bank of Nyabugogo (BN) to borrow FRW 36,000,000 to buy a Chinese tiles making machine. The loan is to be repaid in 36 equal monthly instalments of 1,270,000 FRW assuming simple flat rate interest.

Which of the following represents 23.7% of the total interest cost?

- A FRW 2,303,640
- B FRW 9,723,000
- C FRW 3,600,000
- D FRW 4,000,000

(2 Marks)

QUESTION 25

Which of the following is not part of cost of capital?

- A Risk free rate of return
- B Premium for business risk
- C Premium for financial risk
- D Internal rate of return

(2 Marks)

QUESTION 26

Which of the following is correct for variable costs?

- A Variable costs are conventionally constant per unit of output
- B Variable costs vary per unit of output as production volume changes
- C Variable costs are constant in total when production volume changes
- D Variable costs vary per unit of output as production remains constant

(2 Marks)

QUESTION 27

Which of the following is NOT a classification of costs according to function?

- A Production cost
- B Selling and distribution costs
- C Bank loan interests
- D Financing cost

(2 Marks)

QUESTION 28

MUSANZE industries Ltd wishes to minimize its inventory costs. Order costs are FRW 10,000 per order and the holding costs are FRW 100 per unit per month. Annual demand is estimated to be 5400 units. How much is fifteen times of the economic order quantity.

How much is fifteen times of the economic order quantity?

- A 4500 Units
- B 4800 Units
- C 1700 Units
- D 7800 Units

(2 Marks)

QUESTION 29

Which of the following is one of the methods of stocktaking?

- A Random stocktaking
- B Periodic stocktaking
- C Warehouse transfer
- D Factory stock taking

(2 Marks)

QUESTION 30

Which of the following is part of holding cost?

- A Clerical and administrative costs
- B Production run costs
- C Costs of storage and operations
- D Transport cost

(2 Marks)

QUESTION 31

Which of the following is not part of the stockout costs?

- A Lost contribution from lost sales
- B Cost of production stoppage
- C Costs of storage and stores operations
- D Extra ordering costs for urgent orders

(2 Marks)

QUESTION 32

Which of the following is correct?

Overheads apportionment is used:

- A Charge whole items of costs to cost centres
- B Charge cost units with an appropriate share of overheads
- C Spread common costs over cost centres
- D Charge whole items of costs to cost units

(2 Marks)

QUESTION 33

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

- A Machine-intensive
- B Labour-intensive
- C When all units produced are identical
- D Stockout situation

(2 Marks)

QUESTION 34

Which of the following is a correct explanation of work in progress item?

- A Materials purchased for incorporation into products for sale
- B Products ready for sale or dispatch
- C The cost of unfinished product in a manufacturing process
- D Materials being produced simultaneously

(2 Marks)

QUESTION 35

Which of the following is a correct explanation of finished goods?

- A Materials whose stock is at zero balance
- B Expired products not to be sold anymore
- C A product ready for sale or dispatch
- D Construction Materials

(2 Marks)

QUESTION 36

Which of the following is an example of raw materials?

- A A delivery van for transporting breads to the market
- B Fuel for using in factory machines
- C Paper for making books
- D Wines for consumption

(2 Marks)

QUESTION 37

Which of the following is NOT an example of ways of classifying materials?

- A Classification according to substances that make them
- B Classification according to how they are measured
- C Classification according to physical properties
- D Classification according to warehouses location

(2 Marks)

QUESTION 38

Show the following statements as either true or false

1. Many fixed costs are only fixed over a certain range of output
2. Variable cost per unit falls as output rise

- A Both statements are correct
- 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 39

The sales and marketing manager of VIVA Beverages (R) Ltd is paid a salary of FRW 2,000,000 per month, plus an extra FRW 30,000 for each unit of wine sold during the month.

This labour cost is best described as:

- A A variable cost
- B A fixed cost
- C A step cost
- D Semi variable cost

(2 Marks)

QUESTION 40

Which of the following best describes the payback period?

- A The payback period is the discounted value of a future cashflow
- B The payback period is the time value for money
- C The period it takes to recover initial investment on a project
- D The payback period is the time it takes the company to maximize profit

(2 Marks)

QUESTION 41

The Chief executive officer of Kalisimbi Oil Ltd would like to know the present value of a payment of FRW 44,000 to be made on 31st December 2024 considering that we are on 1st January 2022.the discount factor to be considered is 0.873.

Which of the following is correct?

- A FRW 50,400
- B FRW 38,400
- C FRW 40,000
- D FRW 38,412

(2 Marks)

QUESTION 42

Which of the following is not among the main classification of costs?

- A Variable costs
- B Fixed costs
- C Marketing costs
- D Step-fixed cost

(2 Marks)

QUESTION 43

Which of the following best describes a cost unit?

- A Activity variance
- B Purchase price variance
- C Any Activity for which a separate measurement of costs is desired
- D Individual product or service for which costs are to be gathered

(2 Marks)

QUESTION 44

Which of the following best describes direct labour costs?

- A Specific costs of the workforce used to make a unit of a product or provide a service
- B Salaries and wages paid directly once they become due
- C Costs not directly attributable to the product
- D All accrued salaries

(2 Marks)

QUESTION 45

Which of the following best describes the methods used to value materials issued from inventory?

- A FIFO and LIFO only
- B NPV and LIFO only
- C FIFO, LIFO and Payback Period only
- D FIFO, LIFO and weighted average

(2 Marks)

QUESTION 46

Which of the following is NOT among the steps involved in calculating the cost of overheads to be charged to cost units?

- A Allocation
- B Absorption
- C Step down reapportionment
- D Apportionment

(2 Marks)

QUESTION 47

Which of the following statements about overheads absorption rates are true?

- i. They are determined in advance for each period
- ii. They are used to charge overheads to products
- iii. They are based on actual data for each period
- iv. They are used to control overhead costs

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

(2 Marks)

QUESTION 48

Which of the following options is a financial comparison?

- A. Number of units produced compared to last year
- B. Number of units sold compared to last year
- C. Profit compared to last month
- D. Customer satisfaction compared to last month

(2 Marks)

QUESTION 49

Which of the following best describes an activity variance?

- A. The actual efficiency in which resources are used being different to budgeted efficiency
- B. The actual quantity produced being different to budgeted production volume
- C. The actual cost pricing being different to budgeted cost price
- D. No correct answer

(2 Marks)

QUESTION 50

Statement 1: An adverse variance is always good for the business

Statement 2: An adverse variance is always bad for the business

- A. Both statements are false
- B. Both statements are true
- C. Statement 1 is true but statement 2 is false
- D. Statement 1 is false but statement 2 is true

(2 Marks)

End of question paper

