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## **CERTIFIED ACCOUNTING TECHNICIAN**

### **STAGE 2 EXAMINATIONS**

#### **S2.2: MANAGING COST AND CASHFLOWS**

**DATE: THURSDAY, 26 AUGUST 2021**

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#### **INSTRUCTIONS:**

1. Time Allowed: **2 hours and 30 Minute.**
2. This examination has one section only: **Section A**
3. **Section A** has **50 compulsory** multiple-choice questions equal to **2 marks each.**

- 1 Phoenix Mobility Solutions runs a tax hailing business in Kigali with a company owned fleet of Vehicles. On average, one vehicle moves 200km per day and makes about Frw 50,000 per day. **Which of the following costs incurred on a vehicle is not a fixed cost?**

A Comprehensive insurance paid annually but expensed monthly  
B Depreciation of the vehicle, straight line over 4 years with 25% residual value.  
C Fuel cost, with consumption rate of 20L / 100KM  
D Driver's salary of Frw 150,000 per month.

(2 Marks)

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- 2 Kigali Integrated Rental Solutions owns a large fleet of Vehicles for rent. During 2020, the company was affected by Covid-19 and decided to defleet some of its older vehicles. A Volkswagen Touareg that cost Frw 43.5 Million some years back was one of the vehicles sold. The Vehicle had accumulated depreciation of Frw 17.2 Million at the time of sale and the sale resulted in a loss of Frw 7.5 Million. **What cash proceeds were received from the sale of the Vehicle?**

A Frw 20 Million  
B Frw 21.5 Million  
C Frw 18.8 Million  
D Frw 28.3 Million

(2 Marks)

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- 3 Bradley Ltd used a high-low method of estimating costs. The company had total costs of Frw 50 Million at its lowest level of activity, when 5,000 units were sold. At the company's highest level of activity, when sales were Frw 78 Million sales units equalled to 12,000. **What would be the estimated fixed costs?**

A Frw 40 Million  
B Frw 30 Million  
C Frw 45 Million  
D Frw 10 Million

(2 Marks)

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- 4 The following statements relate to reconciling profit figures given by marginal and absorption costing.
- If inventory levels increase between beginning and end of a period, absorption costing will report higher profit compared to marginal costing.
  - If Inventory levels decrease, fixed production overhead which had been carried forward in opening inventory is released in current period cost of sales, causing profit under absorption costing lower than under marginal costing.
  - Difference in profit = Change in inventory levels x fixed production overhead absorption rate per unit.

**From the above statements, which ones are correct?**

- A (i) is correct
- B (i) and (ii) are correct
- C (i), (ii) and (iii) are all correct
- D Only (iii) is correct.

**(2 Marks)**

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- 5 If investment A has a payback period of 3-years and investment B has a payback period of 4 years, what does that mean?

- A A has a higher net present value than B
- B A has a lower net present value than B
- C A and B have the same net present value
- D None of the above

**(2 Marks)**

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**The following information relates to questions 6 to 8.**

Gerard and Sons trading Ltd Income Statement for the year ended 31 October 2020 is as follows:

	<b>Frw '000'</b>
Revenue	9,003
Cost of sales	5,581
Gross profit	<b>3,421</b>
Expenses	1,827
Operating profit	<b>1,595</b>

The following were extracts from the Company's Balance sheet as at 31 October 2020.

- Inventory: Frw 1,042,000
- Trade Receivable: Frw 1,500,000
- Cash and cash equivalent: Frw 68,000
- Trade payables: Frw 1,132,000

- 6 **Using the information above, calculate the company's trade receivables' collection period?**

- A 65 days
- B 89 days
- C 61 days
- D 28 days

**(2 Marks)**

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7 Using the information above, calculate the company's inventory holding period?

- A 68 days
- B 70 days
- C 45 days
- D None of the above

(2 Marks)

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8 If the company's trade payables' payment period is 74 days, calculate the company's cash operating cycle?

- A 55 days
- B 73 days
- C 82 days
- D 35 days

(2 Marks)

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9 Which of the following would not be included in factory overheads?

- A Transport cost of raw materials from the suppliers to the plant
- B Electricity used by the boiler during the production process
- C Salaries for factory shift leaders
- D Depreciation of factory equipment.

(2 Marks)

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10 Consider the following statements regarding overhead absorption;

- i. If actual overheads are greater than absorbed overheads, Overheads are under absorbed.
  - ii. If actual overheads are less than absorbed overheads, overheads are over absorbed.
  - iii. If absorbed overheads are greater than actual overheads, Overheads are under absorbed.
- A (i) and (ii)
  - B (i) and (iii)
  - C (i) only
  - D (ii) and (iii)

(2Marks)

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11 Which of the following statements best describes a flexed budget?

- A A budget that is adjusted for anticipated inflation
- B A budget that is flexible for change on a need basis by Management
- C A budget that is adjusted to the actual level of activity achieved
- D None of the above

(2Marks)

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12 The following statements relate to variances analysis.

- i. Controllable variances are variances can be managed and rectified by management
- ii. Uncontrollable variances can be due to major suppliers increasing the prices for materials.

- iii. World price rise for copper for a manufacturing company is an example of uncontrollable variance.
- iv. Uncontrollable variances are due to external factors beyond manager's control.

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

**(2 Marks)**

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**13 Which of the following statements are true about absorption costing?**

- i. Closing inventory is valued in accordance with International Financial Reporting Standards?
- ii. Closing inventory is valued at full production cost.
- iii. Production cost of sales includes a share of fixed overheads.

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

**(2 Marks)**

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**14 Which of the following formulae can be used to calculate labour efficiency?**

- A  $\text{Standard hours for actual output} \div \text{Actual hours for actual output}$
- B  $\text{Budgeted hours} \div \text{actual hours for budgeted output}$
- C  $\text{Expected hours for standard output} \div \text{expected hours}$
- D  $\text{Budgeted hours} \div \text{Actual hours}$

**(2 Marks)**

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**15 What does labour turnover mean?**

- A Employees contribution to company annual turnover (Revenue)
- B The rate of change in composition of Company's labour force during a specified period of time.
- C The number of employees leaving the company in a specified period of time.
- D None of the above.

**(2 Marks)**

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**16 The following information has been extracted from the purchase's ledger control account for the year ended 31 October 2020.**

	Frw Million
Opening trade payables	31,890
Closing trade payables	233,571
Purchases during the year	3,293,732

**How much cash was paid to the suppliers during the year in million Frw?**

- A Frw 3,379,051
- B Frw 1,689,525.5
- C Frw 1,702,000
- D Frw 892.5.

**(2 Marks)**

**17 Which of the following is a way of improving operational cash flows for a business?**

- A Taking more credit purchases from suppliers
- B Paying suppliers before set due date to take advantage of early settlement discounts
- C Increasing inventory levels by buying more goods for future sales
- D Selling more goods on credit to credit customers.

**(2 Marks)**

**18 The budgeted direct materials for product X was Frw 10,000 per unit. During the month of December 2020, production details were as follows;**

Budget 79,500 units

Actual 75,000 units

The total material costs for the month was Frw 900 Million

**What is the direct materials variance comparing actual with flexed budget in million Frw?**

- A 150 Adverse
- B 150 Favourable
- C 300 Adverse
- D 0.5 Favourable

**(2 Marks)**

**The following information relates to Questions 19 and 20**

The inventory record for small unit but large volume components of MLK Ltd for the month of December showed the following:

	<b>Receipts</b>	<b>Price</b>	<b>Value</b>	<b>Issues</b>
	<b>Units</b>	<b>(Frw)</b>	<b>(Frw Million)</b>	<b>Units</b>
Opening Inventory	80,000	2,500	200	
4 December	150,000	2,600	390	
11 December	300,000	2,800	840	
18 December	250,000	3,000	750	
20 December	-	-	-	350,000

Closing Inventory on 31 December was 430,000 units.

**19 Using the FIFO method of pricing issues, what is the value of the issues on 20 December?**

- A Frw 926 Million
- B Frw 800 Million
- C Frw 726 Million
- D Frw 221 Million

**(2 Marks)**

20 Using the cumulated weighted average method of costing, **at what price would the closing inventory be valued at?**

- A Frw 2,731
- B Frw2,800
- C Frw 3,456
- D Frw 680

(2 Marks)

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21 In Inventory level management practices, **which of the following is true about buffer stock?**

- A Half of the reorder quantity
- B Minimum stock below which actual stock level should not fall
- C Level of inventory at which the company should start order process of new stock
- D Maximum level of inventory that the company should not exceed.

(2 Marks)

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22 During lockdown, Francis worked from home after having bought Canal box internet. The arrangement with the provider is a once-off Frw 40,000 cost of a router and monthly fee of Frw 25,000 to Frw 45,000 Depending on usage. **How would this cost be classified?**

- A Variable cost
- B Semi-Variable cost
- C Stepped cost
- D Semi-fixed cost

(2 Marks)

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The following information was extracted from the internal reports of a manufacturing company:

Budget labour hours	1,700
Budget overheads	Frw 29,750,000
Actual labour hours	1,586
Actual overheads	Frw 29,240,000

23 Based on the information above, what is the overhead absorption rate?

- A Frw 18,000 per hour
- B Frw 17,500 per hour
- C Frw 35,000 per hour
- D None of the above

(2 Marks)

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24 Based on the information above, **what is the amount of under / over absorbed overheads?**

- A Frw 1,492,000 Under absorbed overhead
- B Frw 2,500,000 Over absorbed overhead
- C Frw 3,200,000 Over absorbed overhead
- D Frw 3,000,000 Under absorbed overhead

**(2 Marks)**

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25 Both payback period and net present value are methods of project appraisal and they have their advantages, **which of the following statements are true?**

- i. The main advantage of the Net Present Value is that it takes into account the time value of money.
- ii. Payback period can be used to measure risk. The sooner the payback, the less risky the project.
- iii. Both payback period and Net Present Value take into account the time value of money, but Net Present Value is more advantageous with measuring risk.

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

**(2 Marks)**

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26 **Which of the following best describes production overheads?**

- A Indirect labour, indirect material and indirect expenses related to production
- B Variable overheads only
- C Indirect expenses only
- D Indirect labour, indirect material for non-production departments.

**(2 Marks)**

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**The following information is for Questions 27 to 29**

Julia Ltd estimated the following sales figures:

	Frw Million
August 2020	100
September 2020	200
October 2020	150

Of these sales, normally 20% is likely to be cash sales and the remainder on credit. Of the credit sales, the payment terms are 50% settled in the subsequent month after the month in which the sale is made and the remaining amount paid in 2 months period.



**27 What are the October 2020 forecast sales in million Frw ?**

- A 150
- B 160
- C 120
- D 80

**(2 Marks)**

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**28 What are the November 2020 forecast sales in million Frw?**

- A 135
- B 100
- C 98
- D 72

**(2 Marks)**

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**29 What are the December 2020 forecast sales in million Frw?**

- A 100
- B 23
- C 45
- D 78

**(2 Marks)**

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**30 Which of the following statements best explains the accrual concept of accounting?**

- A Revenues and expenditures are accounted for in the period during which corresponding cash is received or paid.
- B Accrued Income and Accrued expenses have the same effect in Income Statement
- C Revenues and expenses are accounted for in the period in which they are incurred rather than the period in which the corresponding cash is received or paid.
- D Accruals should be disclosed in the notes to annual financial statements.

**(2 Marks)**

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**31 Which of the following is an example of exceptional cash flows?**

- A Cash flows that occur fairly frequently but with no set pattern
- B Cash receipts from the owners of the business.
- C Cash payments for the purchase of non-current assets for the business.
- D Cash flows that are not expected to reoccur on a regular basis.

**(2 Marks)**

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- 32 In a manufacturing plant in Special Economic Zone in Kigali, there are two production cost centres and two service centres. Production overheads have been allocated and apportioned to service cost centres, now you are required to re-apportion them from service cost centres to production cost centres. Consider the details below:

	<b>Service Cost centre X</b>	<b>Service Cost centre Y</b>
	<b>Frw'000</b>	<b>Frw'000</b>
Total Overhead	42,000	57,600
% to production cost centre A	40	55
% to production cost centre B	60	45

**What is the total reapportionment to production cost centre A in million Frw?**

- A 51,120
- B 42,720
- C 48,480
- D 56,880

**(2 Marks)**

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- 33 **The guiding principle of Net Present Value (NPV) investment appraisal method is that a project should be undertaken if its NPV is:**

- A Zero
- B Positive
- C In range with net present value of similar but already existing projects
- D Negative.

**(2 Marks)**

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- 34 Jean Pierre had the following information for the year 2019.

	<b>Budget</b>	<b>Actual</b>
Sales units	620	600
Selling price per unit (Frw)	30,000	29,000

**What is the selling price variance in thousand Frw?**

- A 700 Adverse
- B 890 Favourable
- C 600 Adverse
- D 620 Adverse

**(2 Marks)**

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- 35 **What is the most suitable basis when apportioning insurance cost of an equipment?**

- A Floor area
- B Number operators of the equipment
- C Book value of the equipment
- D Physical count of the individual equipment the company owns.

**(2 Marks)**

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36 YLM Ltd produces a range of fast-moving consumer goods in Kigali. You have been provided with the following regarding one of the products. Fixed production overhead absorption rate is Frw 1,500 per direct labour, with each unit requiring 2 direct labour hours to produce. The opening inventory for the product was 14,600 units and the closing inventory was 18,250 units.

**What is the difference in profits reported for the month using absorption costing compared with marginal costing in '000" Frw?**

- A Absorption costing profit would be 10,950 greater
- B Absorption costing profit would be 10,950 less
- C Absorption costing profit would be 20,212 less
- D Absorption costing profit would be 100,100 greater

**(2 Marks)**

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37 **Which of the following cost items are included in a cash flow report?**

- i. Depreciation
- ii. Foreign exchange losses on USD denominated liabilities
- iii. Interest on overdraft
- iv. Motor Insurance prepayment

- A (i) and (iv)
- B All of them
- C (iii) and (iv)
- D (ii) and (iii) and (iv)

**(2 Marks)**

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38 **Which of the following statements best describes financial gearing?**

- A Financial gearing is the amount of debt a company uses relative to its equity finance.
- B The amount of loans the company has relative to credit extended to credit customers
- C A company with more equity than debt is less geared
- D None of the above is correct.

**(2 Marks)**

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39 F&S Ltd, is a company dealing in trading of many vehicle spare parts in large volumes. The company ordered 3,500 worth of merchandize in 2020. No safety stock is held by the company, the average holding cost per unit per year is Frw 1,200. **With an annual demand of 35,000 units, what is the annual holding cost?**

- A Frw 3 Million
- B Frw 2.5Million
- C Frw 0.9 Million
- D Frw 2.1 Million

**(2 Marks)**

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40 HS Ltd's treasury manager presented to the company's Board a cash collection cycle of 65 days registered in Quarter 4 of 2020. **Which of the following statements is true with regard to the 65 days cash collection cycle?**

- A 65 days elapsed between HS Ltd paying for its raw materials and then cash in from the customer who had purchased the goods that the purchased materials have been made into.
- B The company takes 65 days to collect money from financiers to pay for materials.
- C Credit customers take 65 days to pay for the finished goods purchased on credit.
- D None of the above

**(2 Marks)**

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41 **Which of the following ratios best describes how efficiently companies can use their assets to generate Revenue?**

- A Capital employed ratio
- B Asset turnover ratio
- C Revenue to asset ratio
- D Receivable turnover ratio

**(2 Marks)**

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42 **Calculate the labour turnover for the XYZ Ltd given the following information.** The company had 500 permanent employees at the start of 2020 and 600 at the end of the year. During the year, 5 employees resigned while 20 were laid off by force majeure due to the Covid-19 pandemic effects on the business. During the second half of the year though, the company expanded and recruited 75 new employees, of these 75 new staff 10 were recruited to fill the vacancies of those that left while the rest were used for the expansion scheme.

- A 1.82%
- B 6%
- C 3.5%
- D 8%

**(2 Marks)**

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43 Loans can be repaid in different ways, **which of the following is (are) correct?**

- i. Bullet repayments
- ii. Perpetual repayments
- iii. Balloon repayments
- iv. Amortising repayments

- A (i) and (iv)
- B (i) and (ii) and (iii)
- C (i) and (iii) and (iv)
- D All of them are correct.

**(2 Marks)**

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44 Which of the following statements best describes margin of safety?

- A The difference in units between sales volume and variable costs
- B The difference in units between the expected sales volume and the breakeven sales volume
- C The ratio of breakeven sales to total sales
- D The difference between variable cost per unit and selling price that gives a breakeven level.

(2 Marks)

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**Use the following information to answer questions 45 to 46**

Below summary was extracted from the books of MRB breweries.

Selling price / unit (Frw)	17,000
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Variable costs per unit (Frw)	7,000
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**Fixed costs (Frw Million):**

- Selling and distribution	130
- Finance costs	10

45 What is the breakeven point in units?

- A 10,000
- B 9,000
- C 25,000
- D 14,000

(2 Marks)

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46 If the company wants to earn a profit of Frw 42 Million instead of breaking even, **what is the number of units the company must sale in order to achieve this profit target?**

- A 18,200
- B 20,000
- C 25,000
- D 3,500

(2 Marks)

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47 John worked 47.5 hours this week. He was paid Frw 15,000 per hour for the first 40 hours and then got paid at a time-and-a-half for the rest of the time worked. **What is the overtime premium John was paid in the week?**

- A RWF 80,000
- B RWF 101,000
- C RWF 56,250
- D None of the above.

(2 Marks)

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**Use the following information to answer Questions 48 to 49.**

Ingrid Ltd is considering investment in project Alpha, you have been given the information below regarding the project.

<b>Years</b>	<b>Capital cost</b> Frw Million	<b>Net cash flow</b> Frw Million	<b>Discounted factor @ 8%</b>
0	300		
1		75	0.926
2		125	0.857
3		125	0.794
4		100	0.735
5		75	0.681

**48 What is the payback period for the project?**

- A 2.8 years or 2 years 10 months
- B 2.5 years or 2 years 6 months
- C 3 years
- D 3.5 years or 3 years 6 months

**(2 Marks)**

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**49 What is the Net Present Value of project Alpha?**

- A Frw 120.5 Million
- B Frw 100.4 Million
- C Frw 50 Million
- D Frw (100) Million

**(2 Marks)**

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50 From the following Balance sheet information, **calculate the company's financial gearing ratio?**

	Frw Million	Frw Million
Non current assets	48,061	
Current assets	6,500	
<b><i>Total assets</i></b>		<b><i>54,561</i></b>
Equity components		
Shareholders' equity	63,440	
Accumulated loss	(31,096)	
		32,344
Loan term Loans		18,044
<b>Current Liabilities:</b>		
Trade and other payable		2,639
Related party payable		1,300
Current portion of lease liability		234
<b><i>Total Equity and Liabilities</i></b>		<b><i>54,561</i></b>

- A 41%
- B 25%
- C 10%
- D 32%

**(2 Marks)**

**End of question paper**

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