
CERTIFIED ACCOUNTING TECHNICIAN
STAGE 2 EXAMINATION
S2.2 MANAGING COSTS AND CASH FLOWS
THURSDAY: 03 DECEMBER 2020

Instructions

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

Section A

1. A company has reported RWF20.2m current assets and RWF13.6m current liabilities in their financial statements. Of the current assets, RWF8.8m is cash and RWF9.3m is inventory. Trade payables are RWF6.1m.

What is the company's acid test ratio?

- A 1.45
- B 1.49
- C 0.67
- D 2.69
- E None of the above

(2 marks)

2. Brigitte has identified that the advantages of her company's inventory valuation method include that it smooths out any fluctuations in price and is easy to administer as there is no need to identify each batch separately.

Which inventory valuation method does Brigitte's company adopt?

- A First-in-first-out
- B Last-in-first-out
- C Last-in-last-out
- D Weighted-average
- E None of the above

(2 marks)

3. Which of the following would be an appropriate security measure for an organisation to adopt as part of their liquidity management arrangements?

- (i) Notes and coins kept in a locked drawer
- (ii) Restricted access to the electronic payment system
- (iii) Restricted access to the inventory store room

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

(2 marks)

4. A manufacturing department budgeted they would use 60,000 machine hours in the year, but actually used 56,000 machine hours. Budgeted and actual production overheads were RWF138m. The department absorbs production overheads on a machine hour basis.

How much were the production overheads over or under absorbed by?

- A RWF9.2m over absorbed
- B RWF9.2m under absorbed
- C RWF2,300 over absorbed
- D RWF2,300 under absorbed
- E None of the above

(2 marks)

5. James is responsible for managing a company's investment. The company is keen to ensure they have a diversified investment portfolio, with a spread of risk and return. Currently, the company holds preference shares and company loan stocks.

Which of the following should James choose to offer the company a medium-risk investment to support their current portfolio?

- A Unsecured loan
- B Equity
- C Government securities
- D Public corporation stocks
- E None of the above

(2 marks)

6. Solange has calculated the overhead absorption rate for the manufacturing department as RWF110,000 per machine hour. Which of the following reasons would be valid for Solange's choice of overhead absorption base?

- (i) The manufacturing department is machine hour intensive.
- (ii) Labour hours are greater than machine hours in the manufacturing department.
- (iii) Machine hours are greater than labour hours in the manufacturing department.

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

(2 marks)

7. A new delivery vehicle is planned to be purchased by a company immediately at a cost of RWF91.6m. It is estimated that additional net cash flows for the next four years will be RWF25m, RWF28m, RWF35m and RWF30m. The discount factors at a 10% cost of capital are 0.909, 0.826, 0.751 and 0.683 for years 1, 2, 3 and 4, respectively.

Using a 10% cost of capital, what is the net present value for this investment?

- A RWF26.4m
- B RWF1.028m
- C RWF10.292m
- D RWF2.8086m
- E None of the above

(2 marks)

8. It is estimated that 70% of the work carried out by service department X is for service department Y, with the remaining proportion equally applied to serving production department L and production department M. Service department Y does 30% of its work for service department X, 50% for production department L and 20% for production department M.

The overheads for the four departments are:

Production Department L	Production Department M	Service Department X	Service Department Y
RWF26.4m	RWF32.3m	RWF18.6m	RWF16.5m

If the overheads of the service departments are apportioned using the direct method, how much are the total overheads for production department M?

- A RWF38.39

- B RWF37.44
- C RWF46.3
- D RWF47.5
- E None of the above

(2 marks)

9. There are only 12,000 labour hours available over the next quarter. The following information is available on the three products the company currently makes:

	<i>Product X</i>	<i>Product Y</i>	<i>Product Z</i>
Contribution per unit	RWF39,000	RWF62,000	RWF43,000
Labour hours used per unit	2	8	5
Demand per month	140	360	200

The company has decided to temporarily halt production of Product X. Which of the following statements is/are true?

- (i) Halting production of Product X is the best decision for the company as it has the lowest contribution per unit.
- (ii) Halting production of Product Y would be the best decision for the company as it has the lowest contribution per limiting factor.
- (iii) There would be sufficient labour hours available to meet the demand for Products Y and Z for the quarter.

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

(2 marks)

10. Which of the following should be classed as revenue expenditure?

- (i) Purchase of chairs for resale
- (ii) Repairs to delivery van
- (iii) Salaries of delivery drivers

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

(2 marks)

11. Dative has been asked to determine how many units of Product P need to be produced in April to meet sales demand and respond to inventory requirements. At the end of March it is expected the company will hold 8 units of Product P as inventory, which is 17 units less than the planned level. Sales demand of Product P for April is estimated to be 280 units.

How many units of Product P should Dative recommend the company makes in April to meet demands and maintain inventory at the budgeted level at month end?

- A 289
- B 271
- C 305

- D 297
E None of the above (2 marks)
-

12. Cash receipts for February are expected to total RWF38.2m, with cash payments in the month estimated to be RWF18.6m for wages and RWF12.9m for other payments. Monthly depreciation is RWF2.8m.

How much is the net cash flow for February?

- A RWF3.9m
B RWF6.7m
C RWF19.6m
D (RWF3.9m)
E None of the above (2 marks)
-

13. What would the impact of an inflationary period be on the real value of fixed interest income?

- A Reduces
B Increases
C No change
D Fluctuates
E None of the above (2 marks)
-

14. Kevin works in the treasury management department and believes that bank overdrafts are faultless. Kevin's colleague, Evelyne, is more cautious.

What disadvantage(s) does a bank overdraft have?

- (i) Interest rates higher than an equivalent loan
(ii) Repayable on demand
(iii) Only short term finance
A (i) only
B (iii) only
C (ii) and (iii)
D (i), (ii) and (iii)
E None of the above (2 marks)
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15. Rose is responsible for the expenditure and income within the marketing department.

What type of centre is Rose responsible for?

- A Cost
B Revenue
C Profit
D Investment
E None of the above (2 marks)
-

16. A drinks manufacturer makes smoothies and cocktails which comprise a mixture of drinks. The Sun Smoothie Delight should comprise 40% orange juice and 60% carrot juice but sometimes these proportions change slightly. The carrot juice costs RWF2,000 per litre.

What type of cost is carrot juice in the Sun Smoothie Delight?

- A Variable
- B Semi-variable
- C Stepped
- D Fixed
- E None of the above

(2 marks)

17. A window company holds 23 glass panes as inventory at the end of April which were purchased for RWF116,000 each. A further 12 glass panels were purchased on 3 May and 6 glass panels were purchased on 21 May for RWF112,000 and RWF110,000 per pane, respectively. On 8 May, 10 panes were issued and on 28 May, a further 9 panes were issued. The company applies Last-In-First-Out.

What is the cost of issues for May?

- A RWF2,204,000
- B RWF2,120,000
- C RWF2,128,000
- D RWF2,165,000
- E None of the above

(2 marks)

18. Charles runs his own business as a sole trader and is confused about the different types of cash receipts and payments that need to be recorded. In the last month, Charles has taken out RWF2m from his business as his salary.

How should this RWF2m be recorded?

- A Capital payment
- B Exceptional payment
- C Revenue payment
- D Drawings
- E None of the above

(2 marks)

19. Costs per unit for Product X have been identified as being RWF43,200 for direct labour and RWF31,600 for direct materials. Non-production overheads are RWF102,500 per unit, with production overheads RWF76,000 per unit.

What is the production cost per unit?

- A RWF74,800
- B RWF150,800
- C RWF177,300
- D RWF253,300
- E None of the above

(2 marks)

20. A budget holder has been told that there was an adverse variance of RWF1.26m on the cash payments made in the last quarter. Budgeted cash payments were RWF33.1m for the quarter.

Which of the following statements support the above?

- (i) Cash payments made in the quarter were RWF1.26m less than planned
- (ii) Actual cash payments in the quarter were RWF34.36m
- (iii) The adverse variance was caused by cash receipts being less than planned

- A (i) only

- B (iii) only
 - C (i) and (ii)
 - D (ii) and (iii)
 - E None of the above
- (2 marks)**
-

21. Bella provides a tailored career advice service, charging each customer RWF100,000 plus an additional RWF50,000 per hour.

How would the total cost for each customer's career advice service from Bella be classed?

- A Variable
 - B Fixed
 - C Semi-variable
 - D Stepped
 - E None of the above
- (2 marks)**
-

22. Philomene normally works 35 hours a week at RWF6,600 per hour. She was asked to work an extra three hours last week as overtime. The company pays overtime at time and a quarter.

How much is the overtime premium for Philomene's work this week for costing purposes?

- A RWF250,800
 - B RWF255,750
 - C RWF4,950
 - D RWF24,750
 - E None of the above
- (2 marks)**
-

23. Thomas has calculated his company's cash operating cycle as 70 days. The company's inventory holding period is 63 days and the trade payables period is 39 days.

How long is the company's trade receivables collection period?

- A 46 days
 - B 94 days
 - C 32 days
 - D 102 days
 - E None of the above
- (2 marks)**
-

24. A new electronic tablet is planned to be manufactured and sold. The variable costs for the new tablet are estimated as RWF202,000 per tablet, with fixed costs of RWF15.6m. It is planned that each tablet will be sold for RWF300,000. The company hopes to sell 400 tablets in the first year.

How many tablets will need to be sold in the first year for the company to breakeven for this new product?

- A 16
 - B 31
 - C 240
 - D 160
 - E None of the above
- (2 marks)**
-

25. A department has budgeted RWF185.6m annual overheads.

If the department plans to use 58,000 machine hours and 100,000 labour hours, what overhead absorption rate should they adopt?

- A RWF3,200 per machine hour
- B RWF1,856 per labour hour
- C RWF312.5 per machine hour
- D RWF538.8 per labour hour
- E None of the above

(2 marks)

26. Budgeted sales volume was 1,200 units, but actual sales were 1,340 units. The selling price was budgeted to be RWF32,000 but actually was RWF29,600.

How much is the favourable sales revenue activity variance?

- A RWF3.216m
- B RWF4.144m
- C RWF4.48m
- D RWF1.264m
- E None of the above

(2 marks)

27. A budget holder has just received the following budget monitoring report:

	<i>Original budget</i>	<i>Actual</i>	<i>Variance</i>
Production (units)	20,000	22,000	
Direct materials costs (RWF)	68,000	72,300	4,300 (A)
Direct labour costs (RWF)	72,000	76,400	4,400 (A)
Total costs (RWF)	140,000	148,700	8,700 (A)

If the budget monitoring report was revised to be based on a flexed budget, which of the following statements would be true?

- (i) There is a RWF2,500 favourable variance on direct material costs.
- (ii) There is a RWF2,800 adverse variance on direct labour costs.
- (iii) Total costs has a RWF8,700 adverse variance.

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

(2 marks)

28. A company is looking to purchase a new machine and is choosing between three possible options:

Machine option	Capital cost of machine (RWFm)	Annual net cash inflow (RWFm)
1	66	12
2	78	20
3	30	5

The company has a strict 4 year payback period limit for all investments.

Which machine(s) should the company purchase?

- A Machine 1 only
- B Machine 2 only
- C Machines 1 and 3
- D Machines 2 and 3
- E None of the above

(2 marks)

29. Leoncie records the payments relating to the purchase of the company's non-current assets.

What type of payments is Leoncie dealing with?

- A Drawings
- B Capital
- C Revenue
- D Disbursements
- E None of the above

(2 marks)

30. David is responsible for placing orders for inventory at a printing company, when inventory levels reach a pre-determined re-order level. When re-ordering, David orders 320 printer toners. For these printer toner cartridges, David has identified the following information:

Minimum, maximum and average usage of toners per day are 20, 32 and 28, respectively.

Lead time 2-5 days with an average of 3 days.

At what inventory level of printer toners should David re-order?

- A 84
- B 40
- C 76
- D 440
- E None of the above

(2 marks)

31. A RWF18.43m adverse variance for January to March has been identified for cash payments on purchasing wood for the manufacturing department to make garden benches.

Which of the following reasons would explain the cause of this variance?

- (i) Wood is in short supply so prices have increased
- (ii) A discount for buying in bulk was offered for the wood purchases
- (iii) A higher quality of wood costing more than budgeted was purchased

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

(2 marks)

32. Identical toy cars are manufactured with a group of blue painted cars produced, before the paint colour is changed and a group of red cars are painted.

What type of costing system is being adopted?

- A Job
- B Unit

- C Process
- D Batch
- E None of the above

(2 marks)

33. Costs in a manufacturing company are classified by function. The company has recently spent RWF230,000 on a marketing campaign to promote the release of their new mobile telephone.

Which category should these advertising costs be classed in?

- A Selling and Distribution
- B Administration
- C Production
- D Financing
- E None of the above

(2 marks)

34. The number of sales (units) for the last six months have been recorded as:

January	February	March	April	May	June
48m	39m	43m	45m	38m	46m

Which of the following statements is/are true?

- (i) The three-month moving average for April is 43m units.
- (ii) The five-month moving average for March is 42.6m units.
- (iii) The three-month moving average for May is 43m units.

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

(2 marks)

35. Net present value (NPV) and payback period are both methods of project appraisal.

Which of the following statements is/are true?

- (i) An advantage of the payback period is that it takes account of the time value of money
- (ii) The longer the payback period, the more risky the project
- (iii) An advantage of the NPV is that it takes account of the time value of money

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

(2 marks)

36. Which of the following statements regarding absorption costing is/are true?

- (i) The choice of absorption base is scientific and accurate
- (ii) Once chosen the absorption base should never change
- (iii) Changes in working conditions may lead to a change in the absorption base

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

(2 marks)

37. A company has applied to the bank to take out a loan. The bank has sent through a legal document setting out formal terms and conditions under which the bank is prepared to offer a loan to the company. This legal document aims to protect the rights of both the bank and borrowing company, setting out their details, loan amount and repayment terms.

What is this legal document referred to as?

- A Overdraft agreement
- B Facility letter
- C Covenant
- D Commitment letter
- E None of the above

(2 marks)

38. Time series analysis is used to aid cash budgeting forecasts. Actual sales for January were RWF78.6m and the trend has been calculated as being RWF82.4m.

Using the multiplicative model, what is the seasonal variation for January?

- A -3.8m
- B 3.8m
- C 0.954%
- D 1.048%
- E None of the above

(2 marks)

39. Wooden fences are made by a manufacturing company and sold to garden centres or directly to members of the public.

Which of the following costs should be classed as overheads?

- (i) Salaries of supervisors
- (ii) Wood used to make fences
- (iii) Wages for carpenters who make fences

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

(2 marks)

40. The management accounting department has informed Rene, as the budget holder, that expenditure on wood to make picture frames has an adverse material usage variance over the last six months, and a favourable material price variance.

Which of the following would explain either of these variances?

- (i) Higher quality of wood purchased and used
- (ii) Higher grade of labourer used
- (iii) Unexpected discount received on wood purchased

- A (i) and (ii)
 - B (ii) only
 - C (i) and (iii)
 - D (iii) only
 - E None of the above
- (2 marks)**
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41. An ethical or legal duty of care and trust which one person or entity owes to another.
What is this referred to as?

- A Treasury
 - B Fiduciary
 - C Security
 - D Governance
 - E None of the above
- (2 marks)**
-

42. A car company buys in parts, such as metal and engine components, to manufacture cars which are then sold.

Which of the following would be classed as raw materials for the car company?

- A Windows which have been cut to size and are waiting to be fitted in a car.
 - B A vehicle waiting to be painted.
 - C A car waiting to be sold to a customer.
 - D Leather to be cut and made into car seats.
 - E None of the above
- (2 marks)**
-

43. A curtain manufacturer makes 680 pairs of curtains each month. Each pair of curtains uses 6 metres of material, costing RWF3,000 per metre, and uses 5 labour hours at a cost of RWF14,000 per hour.

What is the direct cost of curtains for one month?

- A RWF88,000
 - B RWF12.24m
 - C RWF59.84m
 - D RWF47.6m
 - E None of the above
- (2 marks)**
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44. Using marginal costing, a company reported a July monthly profit of RWF6.8m. Inventory increased by 15 units during July.

If the company adopts absorption costing and an overhead absorption rate of RWF240,000, what would be the profit for July?

- A RWF10.4m
 - B RWF3.6m
 - C RWF3.2m
 - D RWF6.56m
 - E None of the above
- (2 marks)**
-

45. Factory workers are paid 80% of their wages in the month of production and 20% the following month. The hourly rate is RWF9,000. A total of 6,200 labour hours are budgeted

to be worked in October compared to 5,800 hours in September and 6,300 hours in November.

How much should the cash payment for wages included in the cash budget be for October?

- A RWF55.8m
- B RWF52.92m
- C RWF55.08m
- D RWF55.98m
- E None of the above

(2 marks)

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46. The contract for office cleaning costs RWF9.6m per year, with cash payments made in April, July, October and January in four equal amounts.

How much should the cash budget be for the period 1 March to 31 July?

- A RWF4m
- B RWF4.8m
- C RWF9.6m
- D RWF7.2m
- E None of the above

(2 marks)

-
47. A bank has provided a five-year loan to a company where the loan principal is gradually repaid over the term of the loan until there is no principal outstanding at the end of the loan period. The repayments will be made monthly and consist of some for the loan principal and some for the interest on the loan amount that remains outstanding.

What type of repayment terms has the bank offered on this loan?

- A Bullet
- B Balloon
- C Annual interest
- D Amortising
- E None of the above

(2 marks)

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48. Francis has been asked to report variances to budget holders and has been provided with the following information:

	<i>Budget (RWF)</i>	<i>Actual (RWF)</i>
Stationery costs	63m	54m
Telephone costs	38m	46m
Printing costs	72m	74m
Fuel costs	97m	96m

Which of the following variances is/are correct?

- (i) RWF9m adverse for stationery costs
 - (ii) RWF8m favourable for telephone costs
 - (iii) RWF2m adverse for printing costs
 - (iv) RWF1m favourable for fuel costs
- A (iii) and (iv)
 - B (i) only
 - C (i) and (ii)
 - D (iv) only

E None of the above

(2 marks)

49. A company is planning to make and sell a new lawnmower. It is estimated that making the new lawnmower will lead to RWF38m annual fixed costs and variable costs of RWF185,000 per lawnmower. They are estimating that sales will be 1,400 in the first year at a selling price of RWF230,000 per lawnmower.

If that company wants to make a profit of RWF10m in the first year, how many lawnmowers would they need to sell?

- A 845
- B 1,067
- C 555
- D 333

E None of the above

(2 marks)

50. Which of the following is/are one of the three main reasons why it is preferred to receive money now than in two years' time?

- (i) There is no risk the money will not be received in the future
- (ii) We can invest it now and start earning interest on it
- (iii) We can spend it now when it is worth more in real terms

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

(2 marks)

Total (100 marks)

End of question paper