CERTIFIED ACCOUNTANING TECHNICIAN
STAGE 2 EXAMINATIONS
S2.2 MANAGING COSTS AND CASH FLOWS
DATE: 02 DECEMBER 2021
MODEL ANSWER AND MARKING GUIDE

MARKING GUIDE

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

2 Marks for each correct answer 2

Total marks **100**

Detailed Answers

QUESTION	REMARKS
1	Buildings are a non-current non-liquid asset. All other options a re relatively liquid.
2	Inventory holding period + trade receivables' collection period - trade payables' payment period = cash operating cycle. To obtain Inventory holding period, make it the subject of the formula which is 66+82-72=76 days. All other options are fictitious and incorrect. For instance, D is obtained by adding all numbers and B is obtained by subtracting 82 instead of 72.
3	A correct sign of over-trading should be rapidly increasing sales not diminishing as D states. All other options would result in different outcomes.

4

Purchases Ledger

Particulars	Dr (FRW 'million')	Particulars	Cr (FRW 'million')
		Balance b/d	36,540
Cash paid	325,100		
		Purchases	*307,100*
Balance c/d	18,540		
	343,640		343,640

5 Sales demand is the prime possible factor for budgeting.
Regular cash flows take place according to a known pattern eg weekly, monthly, quarterly, and annually.

So both statements are correct

6

Particulars	Working	October Amount (FRW '000')	November Amount (FRW '000')	December Amount (FRW '000')
Cash sales	20%	127,600	123,200	129,200
Credit sales	September	215,040		
	October		204,160	
	November			197,120
	August	280,850		

	September		275,520	
	October			261,580
	Totals	**623,490**	**602,880**	**587,900**

Payment in month of sale	32%
Payment 2 months later	(80-32%)*7%=41%

7 See the above computation.

8 All other steps are not in a correct order

9 Depreciation = Fixed production overhead cost - Total production overhead cost + Variable production overhead

Particulars	**FRW**
Variable production overhead payment:	
for Sept	560,000
for Oct	617,500
Total variable production overheads	1,177,500
Total cash payment	7,187,500
Fixed overhead cash payment	7,560,000
Depreciation	**1,550,000**

10 It can rather improve a business's competitiveness

11 Electricity and labour costs are hard to directly trace to baking only. They could be incurred on wider activities in a factory.

12 A profit centre is an area of the business for which revenues and costs can be ascertained and therefore a profit or loss for a period can be determined.

Each of the options provided miss a key component. A and B miss costs and revenues respectively. C uses negative form, which is incorrect.

13

Units	**FRW/unit**	**FRW**
3,100	5,800	17,980,000
3,800	5,900	22,420,000
1,800	5,780	10,404,000
8,700		**50,804,000**
Average price		5,840
Units on the date		6,400
Value of inventory		**13,430,943**

14

Units	**FRW/unit**	**FRW**
3,100	5,800	17,980,000
3,300	5,900	19,470,000
6,400		**37,450,000**

15 All listed ways can be used depending on circumstances.

16 D is a fictious type and hence not correct.

17

			FRW '000'
Actual Overheads			5,500
Absorbed overheads:			
Direct labour hours		360	
Overhead absorption rate (see working 1)		16,190	5,829
Over-absorption			**329**

Working 1:

Overhead absorption rate		
Overheads recovered	FRW	6,800,000
Direct labour hours	Hrs	420
	FRW/Hr	16,190

18 A is fictitious and not correct

19

	Units	**FRW'000'**
High Output	950	15,600
Low output	550	11,200
Variable cost	**400**	**4,400**
Variable cost/unit		11
Variable cost		10,450
Total cost		15,600
Fixed cost		**5,150**

20 Other options can be illustrated differently

21

Period Year		**Cash Flows FRW '000'**	**Discount Factor** 10%	**Present Value FRW '000'**
	0	- 440,000	1.0000	- 440,000
	1	100,000	0.9091	90,910
	2	120,000	0.8265	99,180
	3	95,000	0.7513	71,374
	4	150,000	0.6830	102,450
	5	75,000	0.6209	46,568
		NPV		**(29,519)**

22

Period	**Cash Flows**	**Cummulative cash flows**

		FRW '000'	FRW '000'
	30 September 20X2	100,000	100,000
	30 September 20X3	120,000	220,000
	30 September 20X4	95,000	315,000
	30 September 20X5	150,000	465,000
	30 September 20X6	75,000	
	Difference	440,000-315,000=125,000	
		=(125,000/150,000)*12 months	
	Months	=10 months	
	PBP	**3 years and 10 months**	

23 All options are valid charges, so the answer is D

24 CDs can actually be sold on the money market. All other options are correct.

25 Difference:

Tables Produced	Units	13,300	
Tables sold	Units	12,900	400
Cost:			
	FRW	9,600	
	FRW	6,400	3,200
Profit Difference	**FRW**		**1,280,000**

26 When a unit of product is made, the extra costs incurred in its manufacture are the variable production costs NOT fixed

27

Total debt	4,000	
Total equity	4,200	
Gearing ratio	**49% (Total debt/(Total debt + total equity))*100%**	

28 D is a fictitious option

29 Average No of occupants per day:

Average occupancy	90%	
Hotel beds	80	72
Occupant days in June (30)	a	2,160
Cost for operating the hotel	b	960,000,000
Cost per occupant day	b/a	**444,444**

30 Batch costing is like job costing. All statements are correct.

31

	FRW'million'	
Actual expenditure		85
Expected expenditure		90
Variance		**5**
		Favourable

32 ii and iv will both potentially make the company spend more, which could result in an adverse variance. The other two are possible causes of favourable variance.

33 Akaniwabo's sales were FRW11,000 less than budgeted for, which is adverse. From the information provided, the reasons for this performance are in the control of managers at KORA Ltd and both staff were given the same target.

34 C is a fictious and incorrect answer

35

Month	**Loans FRW 'million'**
8	100
9	102
10	104
11	**106**

36 Adding all loans = 502.4 million. Average is 502.4/5=104.08 million

37 Options B to D are all fictious and incorrect

38 First compute break-even point = 440m/(32,000-24,000) = 55,000 units

Margin of safety = (65,000-55,000)/65,000 = 15%

39 Statement 1: The breakeven point is the level of sales whereby sales revenue is equal to total costs
Statement 2: The margin of safety is excess of budgeted or actual sales over the breakeven point sales

So, both statements are false

40 D is incorrect because sunk cost are past costs. Relevant costs are rather future costs

41 Option 1 of repaying loan = 28%/52 = 0.5%

Since 0.5% is less than 0.7%, it makes more financial sense to invested in a government treasury bills.

42 D is a fictious and incorrect answer

43 ii and iv are fictious and incorrect answers

44

	FRW 'million'
Revenues	150
Gross profit	65
Cost of sales	85
Trade payables' payment period (Trade payables/Cost of sales)*365	**670**

45 All options from A to C are possible reasons. So, D is correct.

46

Days cut:		
Normal terms	30	
Early terms	10	20
Daily Interest rate:		
Interest rate	25%	
Days in a year	365	0.07%
Interest rate for 20 days		1.37%
Maximum interest should be		**1.37%**

47 All other options are fictious.

48 Other options either have one incorrect aspect are entirely incorrect

49

	FRW 'million'
Cost	35
Accumulate depreciation	13.5
Carrying amount	21.5
Loss from sale	5.55
Sale price	**15.95**

50 Other options either have one incorrect aspect are entirely incorrect