



CERTIFIED ACCOUNTINGTECHNICIAN (CAT)
STAGE 2 EXAMINATIONS
S2.2 MANAGING COSTS AND CASH FLOWS

DATE: THURSDAY, 02 DECEMBER 2021

1. **INSTRUCTIONS:**
2. Time allowed: **2 hours**.
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 is NOT a liquid asset?

- A Buildings
 - B Cash
 - C Trade receivables
 - D Six-month deposit with a bank
- (2 Marks)**

QUESTION TWO

Sinarinzi Ltd is a manufacturing company located in Gicumbi. The company has a trade receivables' collection period of 72 days and a trade payables' payment period of 82 days. The company's cash operating cycle is 66 days.

What is Sinarinzi Ltd.'s inventory holding period?

- A 88 days
 - B 56 days
 - C 76 days
 - D 220 days
- (2 Marks)**

QUESTION THREE

Which of the following is NOT a symptom of over-trading?

- A Customers often taking longer to pay
 - B Inventory increases
 - C Strained business cash flow
 - D Rapidly diminishing sales
- (2 Marks)**

QUESTION FOUR

The information in table 1 has been extracted from Muganza Ltd's purchase ledger control account for the year ended 31 March 2021:

Table 1: Muganza Ltd's purchase ledger control extract

Description	Amount (FRW'million')
Opening trade payables	36,540
Closing trade payables	18,540
Cash paid to suppliers in cash	325,100

How much in purchases would you include in the statement of profit or loss in FRW'million'?

- A FRW 325,100 million
 - B FRW 307,100 million
 - C FRW 343,100 million
 - D FRW 380,180 million
- (2 Marks)**

QUESTION FIVE

Consider the following statements:

1 Machine capacity is not a prime possible factor for budgeting.

2 Annual customer receipts from an agreement signed between a company and its customer is an example regular cash flow.

Which of the above statements is true/false?

- A Both statements are true
- 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 SIX

Consider the following sales estimates for a company in table 2, which relates to questions 6 and 7:

Table 2: Sales estimates for a company

Month	Amount (FRW '000')
July	645,000
August	685,000
September	672,000
October	638,000
November	616,000
December	646,000

Of these sales figures, 80% are credit sales and the rest are cash sales. The company's cost accountant has reported that in the past, 32% of the customers usually paid in month following the month of sale while others pay two months following the month of the sale. It has been estimated that 7% of total sales will not be recoverable, which will eventually negatively affect the cash previously collected two months after the sale.

What are the forecast cash receipts for October in FRW'000'?

- A FRW623,490
- B FRW671,440
- C FRW842,690
- D FRW1,133,890

(2 Marks)

QUESTION SEVEN

What are the forecast cash receipts for December in FRW'000'?

- A FRW 632,560
- B FRW 587,900
- C FRW792,060
- D FRW1,104,700

(2 Marks)

QUESTION EIGHT

Consider the following steps in preparing a cash budget:

- i. Determine cash receipts
- ii. Set up a proforma cash budget
- iii. Determine cash payments
- iv. Show net cash flow and closing position clearly at the bottom of the proforma

Which of the following represents the correct order of the steps in preparing a cash budget?

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

(2 Marks)

QUESTION NINE

You are an accountant with Bahizi Co and table 3 demonstrates an extract of the company's budget:

Table 3: BAHIZI Co's Budget

Particulars	Unit	September	October
Production units	Kgs	1,600	950
Fixed production overhead cost incurred	FRW	5,230,000	7,560,000

The company's budget extracts further indicate that the company's standard variable production overhead cost per kg is FRW1,000. Variable production overhead is paid 65% in the month incurred and 35% in the following month.

Fixed production overhead cost is paid in month following that in which it is incurred and includes monthly depreciation. In October, BAHIZI Co paid total production overhead costs amounting to FRW7,187,500.

What is the company's monthly depreciation charge?

- A FRW13,570,000
- B FRW1,550,000
- C FRW805,000
- D FRW15,925,000

(2 Marks)

QUESTION 10

Which of the following is NOT a valid reason for a company offering a settlement discount to its customers?

- A Improve liquidity by reducing the working capital cycle
- B Potentially reduce bad debts
- C It can deteriorate a business's competitiveness
- D Could potentially result in a reduction of the cost of other short-term finance

(2 Marks)

QUESTION 11

Which two of the following costs are direct costs of baking cakes?

- i. Labour costs for company employees
- ii. Flour used in baking
- iii. Sugar used in baking
- iv. Electricity used by the company

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

(2 Marks)

QUESTION 12

Which of the following best describes a profit centre?

- A A profit centre is an area of the business for which revenues can be ascertained and therefore a profit or loss for a period can be determined
- B A profit centre is an area of the business for which costs can be ascertained and therefore a profit or loss for a period can be determined
- C A profit centre is an area of the business for which revenues and costs cannot be ascertained and therefore a profit or loss for a period can be determined
- D None of the above

(2 Marks)

The data in table 4 relates to questions 13 and 14:

You have been requested to review the following inventory card for Kabanyana Ltd recorded for month of August in 2021:

Table 4: Inventory card for Kabanyana Ltd

Date	Remarks	Units	FRW/unit
01-August	Balance b/d	3,100	5,800
14-August	Received	3,800	5,900
20-August	Received	1,800	5,780
25-August	Issued	6,400	

(2 Marks)

QUESTION 13

What is the total value of the components remaining in inventory on 25 August 2021, using the weighted average price method of inventory valuation?

- A FRW13,430,943
- B FRW50,804,000
- C FRW37,373,057
- D FRW10,404,000

(2 Marks)

QUESTION 14

What is the total value of the components issued on 25 August 2021, using the FIFO method of inventory valuation?

- A FRW19,470,000
- B FRW37,450,000
- C FRW17,980,000
- D FRW55,740,000

(2 Marks)

QUESTION 15

Which of the following is a correct way of recording job time?

- A Daily time sheets
- B Weekly time sheets
- C Job cards
- D All the above

(2 Marks)

QUESTION 16

Which of the following is NOT a correct type of employee incentive scheme?

- A Piecework scheme
- B Time-saved bonus
- C Group bonus scheme
- D Cost-sharing scheme

(2 Marks)

QUESTION 17

Muneza Ltd is a company dealing in production of processed corn located in Rutsiro district. The company's cost accountant reports that Muneza Ltd has budgeted for 600 units, with FRW6,800,000 overheads recovered based on 420 direct labour hours for October. At the end of the month, the following were reported by the cost accountant as per table 5:

Table 5: Cost Accountant's Report

Overheads	FRW5,500,000
Achieved production	550 Units
Worked direct labour hours	360 Hours

Muneza Ltd has a policy of absorbing overheads based on labour hours.

What is the over- or under-absorption of overheads?

- A FRW657,000 over-absorption
- B FRW657,000 under-absorption
- C FRW329,000 over-absorption
- D FRW329,000 under-absorption

(2 Marks)

QUESTION 18

Which of the following is NOT a possible basis for absorption?

- A Rate per machinery
- B Rate per direct labour hour
- C Rate per unit
- D A percentage of direct labour cost

(2 Marks)

QUESTION 19

Kanyange Ltd is a company dealing in production of processed juices located in Nyabihu district. Table 6 below is an extract from the company's cost card for the past few months:

Table 6: Extract from Kanyange Ltd's cost card

Total costs of production	Volume of production
FRW'000'	Units
11,200	550
15,600	950

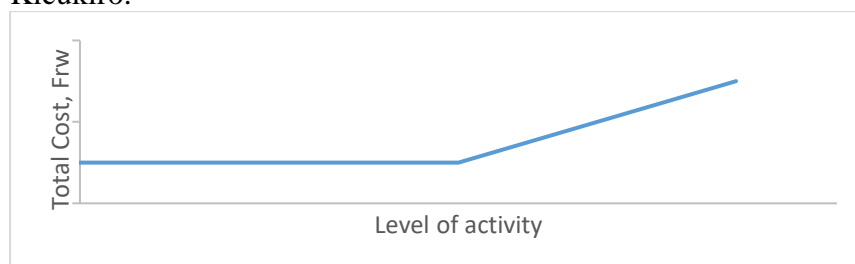
What is the best estimate of the company's fixed costs per period?

- A FRW 4,400,000
- B FRW 5,150,000
- C FRW 11,200,000
- D FRW 11,000

(2 Marks)

QUESTION 20

The following is a graph demonstrating total cost against level of activity for a company in Kicukiro.



Which of the following costs does the graph illustrate?

- A A temporary staff costs, where one temporary staff is needed for every 50 kgs in stock
- B Equipment rental costs, where a fixed rental is payable for a certain number of rounds consumed; beyond which a constant charge per usage is made for all subsequent usages
- C Bottled water costs, where a constant fee is charged per carton of water consumed, up to a maximum payment regardless of water consumed
- D Costs payable to materials where the rate payable per unit purchased decreases when orders made reach a certain level

(2 Marks)

The following data relates to questions 21 and 22:

Rubyogo Investments is a company located in Kiyovu. The company is considering an investment in an equipment worth FRW440 million on 1 September 2011. Rubyogo is expecting to earn net cash flows in table 7 over a period of five years from the usage of the equipment:

Table 7: Rubyogo's expected net cash flows for five years

Period	FRW '000'
30 September 2012	100,000
30 September 2013	120,000
30 September 2014	95,000
30 September 2015	150,000
30 September 2016	75,000

The equipment is depreciated at 10% per annum on cost. The discount factors to use are 0.9091, 0.8265, 0.7513, 0.6830, and 0.6209 for years 1 to 5 respectively.

QUESTION 21

What is the Net Present Value (NPV) of RUBYOGO's project in FRW'000'?

- A 410,481
- B 29,519
- C (440,000)
- D (29,519)

(2 Marks)

QUESTION 22

Assuming that cash flows are spread evenly over the year, what is the project Payback Period?

- A 3 years and 8 months
- B 3 years and 10 months
- C 2 years and 10 months
- D 2 years and 8 months

(2 Marks)

QUESTION 23

Which of the following is NOT a valid initial charge incurred on investments?

- A Advice charges
- B Dealing charges
- C Entry fee
- D None of the above

(2 Marks)

QUESTION 24

Which of the following is NOT correct about Certificates of Deposit?

- A They are issued by a bank or building society
- B Their term ranges from seven days to five years
- C They cannot be sold on the money market
- D They are negotiable instruments

(2 Marks)

QUESTION 25

KANYAGA Ltd, a company located in Rwamagana district, has a product with the costs as indicated in table 8:

Total costs	FRW/Unit	12,000
Total variable costs	FRW/Unit	7,300
Total production costs	FRW/Unit	9,600
Variable production costs	FRW/Unit	6,400
Tables Produced	Units	13,300
Tables sold	Units	12,900

If absorption costing was used rather than marginal costing, what is the profit difference?

- A The profit is FRW360,000 higher
- B The profit is FRW2,240,000 lower
- C The profit is FRW1,280,000 higher
- D The profit is FRW1,280,000 lower

(2 Marks)

QUESTION 26

Which of the following is NOT a correct principle of marginal costing?

- A When a unit of product is made, the extra costs incurred in its manufacture are the fixed production costs
- B Period fixed costs are the same for any volume of sales and production with a relevant range of activity level
- C When a unit of product is made, the extra costs incurred in its manufacture are the variable production costs
- D Profit measurement should be based on an analysis of total contribution

(2 Marks)

QUESTION 27

DUKUNDE Co, a company located in Kamashashi, has published the following statement of financial position as at 31 December 2010:

DUKUNDE Co

Statement of financial position as at December 31, 2010

Particulars	FRW 'million'
Assets	
Current assets	
Cash	1,700
Accounts receivable	1,500
Inventory	1,100
Total	4,300
Non-Current Assets	
Net plant and equipment	3,900
Total assets	8,200
Liabilities and Owners' Equity	
Current liabilities	
Accounts payable	1,100
Notes payable	1,900
Total	3,000
Long-term debt	1,000
Owners' equity	
Common stock and paid-in surplus	1,150
Retained earnings	3,050
Total	4,200
Total liabilities and owners' equity	8,200

What is the DUKUNDE's financial gearing ratio?

- A 51%
- B 49%
- C 45%
- D 56%

(2 Marks)

QUESTION 28

Which of the following is NOT an element of cost of capital?

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

(2 Marks)

QUESTION 29

Ryoherwa Hotels is a four-star hotel located in a prime location in Kigali with 80 beds. During June, a month with 30 days, average bed occupancy was 90%. The cost of operating Ryoherwa Hotels in June was FRW960 million.

What was the cost per occupant day for RYOHERWA Hotels during June?

- A FRW400,000
- B FRW13,333,333
- C FRW444,444
- D FRW12,000,000

(2 Marks)

QUESTION 30

Consider the following statements about batch costing:

1 Batch costing is used where common equipment is used to produce batches of different products for inventory.

2 The batch is treated as a separate cost unit during production and the costs are collected.

- A Both statements are true
- 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 31

A company has paid FRW85 million for materials for July. The company's management had anticipated that they will spend FRW90 million for materials for the same month. The company paid FRW88 million for labour for the same month.

What is the variance for the purchase of materials?

- A FRW5 million adverse
- B FRW5 million favorable
- C FRW3 million adverse
- D FRW3 million favorable

(2 Marks)

QUESTION 32

Consider the below possible reasons for material usage variance and answer the following question:

- i. Using higher quality material
- ii. Defective material
- iii. Using material more effectively
- iv. Requirement to use higher quality control

Which of the following is correct?

- A ii and iv are both causes of adverse material variance
- B ii and iii are both causes of adverse material variance
- C i and ii are both causes of favorable material variance
- D ii and iv are both causes of favorable material variance

(2 Marks)

QUESTION 33

KORA Ltd is a private insurance company located in prime Kigali. The company's commercial director has periodic sales targets for their sales personnel to ensure they deliver on company objectives.

Table 9 illustrates an extract from KORA's sales report for May for selected staff:

Table 8: KORA's sales report for May

Sales staff	Actual FRW'000'	Budgeted FRW'000'
Hakizimana	100,000	96,000
Akaniwabo	85,000	96,000

Akaniwabo is responsible for small and medium enterprises which are not as profitable as corporate clients for which Hakizimana is responsible. **What is Akaniwabo's variance?**

- A FRW11 million favourable and uncontrollable
 - B FRW11 million adverse and uncontrollable
 - C FRW11 million favourable and controllable
 - D FRW11 million adverse and controllable
- (2 Marks)**
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QUESTION 34

Which of the following is Not a correct type of cost variance?

- A Activity variance
 - B Purchase price variance
 - C Sales price variance
 - D Total direct cost variance
- (2 Marks)**
-

The following information relates to questions 35 and 36:

Rangira Ltd is a commercial bank located in central Rusizi. The company's total non-performing loans were FRW100 million for August 20X1. It is anticipated that non-performing loans will rise by 2% per month after August.

QUESTION 35

What is the value of non-performing loans for November 2011?

- A FRW104 million
 - B FRW106 million
 - C FRW102 million
 - D FRW100 million
- (2 Marks)**
-

QUESTION 36

What is the 5-month moving average for October 2021?

- A FRW502.4 million
- B FRW104.08 million
- C FRW102 million
- D FRW104 million

(2 Marks)

QUESTION 37

Which of the following is a correct model for finding seasonal variation?

- A Multiplicative model
- B Subtractive model
- C Divisional model
- D Trend model

(2 Marks)

QUESTION 38

Korona Ltd has budgeted for sales of 65,000 kgs of its Kawunga product. Kawunga sells for FRW32,000 per kg and KORONA's variable production cost for each kg of Kawunga is FRW24,000. Korona incurs FRW440,000,000 in fixed costs.

What is Korona Ltd's margin of safety for its Kawunga product (to the nearest whole per cent)?

- A 85%
- B 16%
- C 15%
- D (15%)

(2 Marks)

QUESTION 39

Consider the following statements about breakeven point:

- 1 The breakeven point is the level of sales whereby sales revenue is greater than total costs.
- 2 The margin of safety is excess of budgeted or actual sales over total sales.

- A Both statements are true
- 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 40

Which of the following is NOT true about relevant costs?

- A Relevant costs are future costs
- B Relevant costs are cash flows
- C Relevant costs are incremental costs
- D Relevant costs are sunk costs

(2 Marks)

QUESTION 41

PAGASA Ltd is a company dealing in construction materials. The company's management recently discussed two possibilities of investing their surplus funds. One section of management argues that the funds should be used to repay a loan secured from the government COVID-19 relief funds through Kanda commercial bank with a simple interest rate of 28% per annum. Another section suggests that the funds should be invested in government treasury bills earning 0.7% per week.

Which of the following options would make more financial sense to PAGASA Ltd?

- A Hire an expert to help analyze the options
 - B Repay loan
 - C Invest in government treasury bills
 - D Keep their funds in a current account earning 0% in interests
- (2 Marks)**
-

QUESTION 42

Which of the following is not a correct way of repayment of loans?

- A Balloon repayments
 - B Bullet repayments
 - C Amortising repayments
 - D Interest repayments
- (2 Marks)**
-

QUESTION 43

Consider the following possible features of overdraft finance:

- i. Repayment on demand
- ii. Balloon repayments
- iii. Commitment fee
- iv. Repayment on a set date

Which of the above options are correct features?

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

QUESTION 44

Singiza Ltd is a manufacturing company located in Ngoma. The company has revenues of FRW150 million and gross profit of FRW65 million. The company owes FRW156 million to its suppliers. Assume a 365-days year.

What is Singiza Ltd's trade payables' payment period (rounded to the nearest whole day)?

- A 365 days
 - B 670 days
 - C 760 days
 - D 876 days
- (2 Marks)**
-

QUESTION 45

Which of the following is NOT a possible reason for cash deficit?

- A The business is unable to cover its costs because it has become loss making
- B The business failing to generate sufficient funds to replace its assets due to inflation
- C Temporary cash shortage for investment due to a one-off large expenditure
- D None of the above

(2 Marks)

QUESTION 46

Batsinda Co has recently secured an overdraft of FRW700 million from a commercial bank to finance its operations. The company pays an annual simple interest rate of 25%. The company, however, would like to reduce this overdraft and is considering offering early settlement discounts to its customers who pay in ten days, instead of normal 30 days.

What is the maximum discount that should be offered by the company to customers to encourage them to pay early?

- A 25%
- B 0.68%
- C 2.05%
- D 1.37%

(2 Marks)

QUESTION 47

Which of the following terms is defined as ‘payments of cash that take place sometime after the corresponding transaction’?

- A Delayed payments
- B Special payments
- C Lagged payments
- D Corresponding payments

(2 Marks)

QUESTION 48

Which of the following best differentiates cyclical variations and random variations?

- A Cyclical variations are long-term while random variations are short-term
- B Cyclical variations are due to general economic conditions while random variations are due to unexplained events
- C Cyclical variations are cyclical while random variations are random
- D Cyclical variations are considered in time series analysis while random variations are ignored

(2 Marks)

QUESTION 49

GISOPE Ltd owns a vehicle which originally cost FRW55 million with accumulated depreciation of FRW13.5 million. GISOPE Ltd recently sold the vehicle at a loss of FRW5.55 million. GISOPE Ltd’s policy is not to charge depreciation during the year of disposal.

How much did GISOPE Ltd sale the vehicle for?

- A FRW21.5 million
- B FRW27.05 million
- C FRW29.45 million
- D FRW15.95 million

(2 Marks)

QUESTION 50

Which of the following best describes a discount factor?

- A A discount factor is a factor applied to a future cash flow to find its present value
- B A discount factor is a factor used to offer discounts to customers
- C A discount factor is a factor applied to a past cash flow to find its present value
- D A discount factor is a factor used to monitor cash flows in a business

(2 Marks)

End of question paper