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**CERTIFIED ACCOUNTING TECHNICIAN**

**STAGE 1 EXAMINATIONS**

**S1.2: PRINCIPLES OF COSTING**

**DATE: MONDAY, 26 APRIL 2021**

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**INSTRUCTIONS:**

1. Time Allowed: **2 hours and 30 Minutes**.
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 Muhirwa and Mugisha completed their Bachelor's degree in Accounting in 2016 from MK University and they struggled for 3 years trying to get a well-paying job but they failed. In 2020 they decided to start a business of selling imported shoes from DRC to Rwanda. Which of the following best describes the type of their business?

A Limited liability  
B Unlimited liability  
C Partnership  
D Sole trader

**(2Marks)**

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- 2 Rwanda steps up measures to contain the Coronavirus pandemic, one of these measures is to encourage the use of electronic payments for goods and services. Mugisha, as a good citizen, has bought shoes for Frw 20,000 and paid for them immediately using Mobile Money. Choose from the following list the type of this transaction.

A Credit transaction  
B Online transaction  
C Payment transaction  
D Cash transaction

**(2Marks)**

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- 3 The management of Urwiwacu Ltd has been arguing on the purpose of spending money employing an accountant and it approached Umwari, a Certified Accounting Technician. She presented them with the purpose of accounting. Which of the following is the correct purpose of accounting?

A To record and classify the transactions of the business accurately  
B To monitor the business  
C To present available data to the accountant  
D To manipulate the transactions of the business

**(2Marks)**

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- 4 Which of the following is NOT a financial statement?

A Cost statement  
B Statement of profit or loss  
C Statement of financial position  
D Statement of cash flow

**(2Marks)**

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- 5 CAT Mugabe has stated that every business's accounting system comprises of three parts. Which of the following best defines the components of a business's accounting system?
- A Bookkeeping system, information system, and management accounting
  - B Management accounting, financial accounting, and bookkeeping system
  - C Bookkeeping system, inventory recording system, and management accounting
  - D Management accounting, financial accounting, and Cash control system
- 
- (2Marks)**

- 6 Managers are needed in every business organization for a variety of reasons. Which of the following are the roles of management in an organization?
- A Planning, controlling and reporting
  - B Planning, controlling and managing
  - C Decision making, reporting and controlling
  - D Planning, controlling and Decision making
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- (2Marks)**

**The following information relates to questions 7 and 8**

The accountant of Mulindi KG Ltd which manufactures bread has classified costs by function to help management in making decisions on controlling the expected increment in costs. As a CAT candidate, choose the costs which were incorrectly classified by the accountant.

- 7 Production costs
- A Materials used in making bread
  - B Wages of employees making bread
  - C Advertising
  - D Wages of employees supervising the production workforce
- 
- (2Marks)**

- 8 Selling and distribution costs
- A Delivery costs to customers
  - B Sales staff salaries
  - C Interest on loan or overdraft
  - D Advertising
- 
- (2Marks)**

- 9 Which of the following is NOT an element of costs?
- A Materials
  - B Labour
  - C Wages
  - D Expenses
- 
- (2Marks)**

10 Which of the following best defines Prime costs?

- A All costs incurred in manufacturing a product
- B The total of indirect costs
- C The total of direct costs
- D The material costs of a product

(2Marks)

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**The following Information relates to question 11 and 12**

Brand New Ltd has recorded the following total costs during the last three years

| Years | Output volume (Units) | Total costs (Frw) |
|-------|-----------------------|-------------------|
| 2017  | 15,000                | 320,000           |
| 2018  | 12,000                | 280,000           |
| 2019  | 18,000                | 340,000           |

11 What is the fixed cost for Brand New Ltd?

- A Frw 120,000
- B Frw 280,000
- C Frw 160,000
- D Frw 340,000

(2Marks)

12 What will be the total costs in 2020 at a production level of 17,500 units?

- A Frw 175,000
- B Frw 17,500
- C Frw 340,000
- D Frw 150,000

(2Marks)

13 Which of the following best defines fixed cost?

- A A non-recurrent cost
- B A cost that increases and decreases according to the level of production
- C Costs that cannot be estimated
- D A cost that remains constant throughout the production level

(2Marks)

14 The following is an Excel spreadsheet extracted from the cost statement of Mulindwa Ltd which produces wedding cakes for the year ended 2019.

| Particulars                         | Frw       |
|-------------------------------------|-----------|
| Direct materials used to make cakes | 1,250,000 |
| Wages of factory workers            | 350,000   |

|                    |         |
|--------------------|---------|
| Factory rent       | 200,000 |
| Indirect overheads | 150,000 |
| Direct expenses    | 850,000 |

What would be the total Prime costs?

- A Frw 2,800,000
- B Frw 2,450,000
- C Frw 2,650,00
- D Frw 1,950,000

(2Marks)

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15 Jimmy and Emmy are debating on whether the following statements are true or false Help them to settle the debate.

- i. Variable costs are only fixed over a certain range of output
- ii. Variable cost per unit remains constant regardless of the output

- A Both statements are true
- B Both statements are false
- C Statement (i) is true and Statement (ii) is false
- D Statement (i) is false and Statement (ii) is true

(2Marks)

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**The following information relates to questions 16,17 and 18**

M&N Ltd produces motorcycles for local users from a factory which costs Frw 20 Million per annum to rent. The production line is highly mechanized and the depreciation of the machinery is Frw 9 Million per annum, both rent and depreciation are fixed over the range of output levels under consideration.

The variable cost per dozens of motorcycles are:

|                             |                |
|-----------------------------|----------------|
| Raw materials and packaging | Frw 20,400,000 |
| Labor                       | Frw 3,600,000  |
| Expenses                    | Frw 200,000    |

M&N Ltd produced 4 dozens of motorcycles in 2019

16 Which of the following would be the total variable costs of M&N Ltd for the year 2019.

- A Frw 81,600,000
- B Frw 14,400,000
- C Frw 96,000,000
- D Frw 96,800,000

(2Marks)

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17 What would be the total Production costs of M&N Ltd for the year 2019?

- A Frw 125,000,000
- B Frw 29,000,000
- C Frw 125,800,000
- D Frw 111,400,000

(2Marks)

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18 Which of the following best indicates the production costs per one motorcycle?

- A Frw 2,016,667
- B Frw 1,700,000
- C Frw 2,620,833
- D Frw 2,252,000

(2Marks)

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19 Which of the following best defines a cost center?

- A Area or department which incurs costs and revenues
- B Area or department which incurs costs only
- C Area or department where production takes place
- D Area or department which incurs costs but also earns income

(2Marks)

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20 The managers of Ibyacu Ltd have responsibility for both costs incurred and revenues earned by their area of the business. Which responsibility center best describes the managers of Ibyacu Ltd?

- A A cost center
- B A revenue center
- C A profit center
- D An investment center

(2Marks)

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21 Which of the following best defines the term Inventory?

- A Items that are ready to be used in production
- B Items that have been completed and ready for sale
- C Items that are partly completed
- D All items that are held by the business

(2Marks)

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22 Which of the following is the correct effect of a material return note on the inventory card's balance?

- A No effect at all
- B It increases the balance on the Inventory card
- C It reduces the balance on the Inventory card
- D It increases the quantity issued to production

(2Marks)

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- 23 Muzigirwa is a trader who deals in perishable goods, which of the following would be the best Inventory valuation method for Muzigirwa?
- A FIFO (First in First Out)
  - B LIFO (Last in First Out)
  - C Weighted average pricing
  - D LILO (Last In Last Out)

(2Marks)

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**The following information relates to questions 24, 25, and 26**

The following transactions were extracted from the inventory records of Ganza Ltd, a manufacturer of Lala Salama mattresses for the month of August 2020

| Date      | Transaction     | Quantity | Unit purchase Price (Frw) |
|-----------|-----------------|----------|---------------------------|
| 01 August | Opening balance | 1,000    | 150,000                   |
| 10 August | Receipt         | 500      | 120,000                   |
| 20 August | Sales           | 1,200    | -                         |
| 25 August | Receipt         | 700      | 160,000                   |
| 30 August | Sales           | 400      | -                         |

- 24 What is the cost of sales using LIFO?

- A Frw 105,000,000
- B Frw 229,000,000
- C Frw 165,000,000
- D Frw 169,000,000

(2Marks)

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- 25 What would be the value of closing Inventory in Frw using LIFO?

- A Frw 48,000,000
- B Frw 45,000,000
- C Frw 93,000,000
- D Frw 60,000,000

(2Marks)

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- 26 What would be the value of closing Inventory in Frw if FIFO was used?

- A Frw 96,000,000
- B Frw 150,000,000
- C Frw 90,000,000
- D Frw 60,000,000

(2Marks)

27 Which of the following statements is true?

- A LIFO issues the oldest inventory first
- B In a time of rising prices, FIFO values inventory at the highest amounts
- C LIFO is the best inventory valuation method for a trader who sells foodstuffs
- D Inventory on hand is valued at an average price when using LIFO

(2Marks)

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28 Which of the following statements is false?

- A AVCO is an inventory valuation method that calculates a weighted average cost each time there is a receipt of inventory
- B AVCO is most appropriate if inventories received at different times are mixed when they are stored
- C AVCO uses the latest price when issuing an inventory
- D AVCO uses average price when issuing an Inventory

(2Marks)

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**The following information relates to questions 29 and 30**

Mulindwa Ltd produces Meraneza yoghurt product which uses 50 kgs of sugar at Frw 500 each and 700 liters of Milk at Frw 300 each per 50 bottles of Meraneza yoghurt, Mulindwa Ltd is planning to produce 1,200 bottles of Meraneza yoghurt.

29 What would be the Material costs for making one bottle of Meraneza yoghurt?

- A Frw 2,100
- B Frw 2,500
- C Frw 4,700
- D Frw 10,084

(2Marks)

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30 What is the material cost of producing 1,200 bottles?

- A Frw 2,520,000
- B Frw 5,640,000
- C Frw 3,000,000
- D Frw 12,100,800

(2Marks)

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- 31 Mugisha manufactures and sells one product Uburanga which requires 8 kgs of honey as raw materials. The budgeted Units relating to the next year 2022 period are as follows:

|                                    | Units     |
|------------------------------------|-----------|
| Sales                              | 19,000    |
| Opening inventory of Uburanga      | 4,000     |
| Closing inventory of Uburanga      | 3,000     |
| Opening inventory of raw materials | Kg 50,000 |
| Closing inventory of raw materials | Kg 53,000 |

What will be the budgeted raw material purchases for the next year 2022 period?

- A Frw 144,000
- B Frw 147,000
- C Frw 197,000
- D Frw 94,000

(2Marks)

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- 32 Rutamu factory consists of two production cost centers (Muti and Bwiza) and two service cost centers (Ireme and Irebe). The total allocated and apportioned overhead for each is as follows:

| Muti        | Bwiza       | Ireme       | Irebe       |
|-------------|-------------|-------------|-------------|
| Frw 950,000 | Frw 820,000 | Frw 460,000 | Frw 300,000 |

It has been estimated that each service cost center works for other cost centers in the following proportions:

|  | Muti | Bwiza | Ireme | Irebe |
|--|------|-------|-------|-------|
| Percentage of service cost centre Ireme to | 50   | 50    | -     | -     |
| Percentage of service cost center Irebe to | 30   | 60    | 10    | -     |

The reapportionment of service cost center costs to other cost centers fully reflects the above proportions.

After the reapportionment of service cost center costs, what is the total overhead for production cost center Muti?

- A Frw 1,270,000
- B Frw 1,261,000
- C Frw 1,285,000
- D Frw 1,245,000

(2Marks)

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- 33 Murundi Ltd uses marginal costing. The following variances occurred in the last period when the actual net profit was FRW 4,000,000.

|                           |                       |
|---------------------------|-----------------------|
| Materials                 | Frw 90,000 adverse    |
| Labour                    | Frw 100,000 favorable |
| Overheads                 | Frw 70,000 adverse    |
| Sales price               | Frw 50,000 favorable  |
| Sales volume contribution | Frw 90,000 favorable  |

What was the budgeted net profit for the last period?

- A Frw 3,920,000
- B Frw 3,780,000
- C Frw 4,120,000
- D Frw 4,020,000

(2Marks)

- 34 Under which of the following labour remuneration methods will direct labour cost always be a variable cost?

- A Group bonus scheme
- B Day rate
- C Piece rate
- D Differential piece rate

(2Marks)

- 35 Kaberuka is an employee of Mulindi Ltd. He worked 200 hours in December 2020 at a rate of Frw 1,400 per hour and the normal working hours per month is 180. The overtime is paid at an extra rate of 50% above the normal pay rate and Pay As You Earn was deducted at the rate of 10% of the gross wage. Kaberuka had taken an advance of Frw 15,000.

What would be the net take-home salary for Kaberuka for the month of December 2020?

- A Frw 249,600
- B Frw 294,000
- C Frw 264,600
- D Frw 279,000

(2Marks)

- 36 A company's operating costs are 60% variable and 40% fixed. Which of the following variance values would change if the company switched from standard marginal costing to standard absorption costing?

- A Variable overhead efficiency variance
- B Sales volume variance
- C Fixed overhead expenditure variance
- D Direct material efficiency variance

(2Marks)

- 37 A company operates a standard marginal costing system. Last month actual fixed overhead expenditure was 2% below budget and the fixed overhead expenditure variance was Frw125,000. What was the actual fixed overhead expenditure for last month?

A Frw 6,250,000  
B Frw 6,247,500  
C Frw 6,375,000  
D Frw 6,125,000

(2Marks)

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**The following information relates to questions 38 and 39**

Mucyo Ltd had 80 direct production workers at the beginning of last year and 60 direct production workers at the end of last year. During the year, a total of 45 employees had left the company.

- 38 What was the number of workers replaced for the year?

A 25  
B 45  
C 60  
D 35

(2Marks)

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- 39 What was the labour turnover rate for last year?

A 86%  
B 35.7%  
C 50%  
D 64.3%

(2Marks)

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- 40 The audit fee paid by a manufacturing company would be classified by that company as:

A A production overhead cost  
B A selling and distribution cost  
C A research and development cost  
D An administration cost

(2Marks)

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**The following information relates to question 41 and 42**

Urwuho Ltd is a company based in Rulindo District that produces and sells bricks and they have divided their production into three ranges to remunerate their employees as follows:

1 to 500 bricks at Frw50 per brick

501 to 1000 bricks at Frw75 per brick

1001 to 1500 bricks at Frw100 per brick

Only the additional bricks qualify for the higher rates, and rejected bricks do not qualify for payment. During one day Mukiza, an employee at the company, produced 1,200 bricks of which 32 were rejected.

(2Marks)

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41 How much did the employee earn for the day?

- A Frw 62,500
- B Frw 41,800
- C Frw 58,400
- D Frw 79,300

(2Marks)

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42 Which among the following is NOT a disadvantage of piece-rate system of remuneration

- A The employer can know easily labour cost per unit produced
- B The quality of work may be reduced
- C Increased waste of materials
- D As the workers put maximum efforts to earn more, their healthy may reduce

(2Marks)

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43 Which One of the following statements is true?

- A The total variable cost varies with the level of activity.
- B A variable cost is an unavoidable cost.
- C A variable cost is not relevant for decision-making.
- D A variable cost becomes fixed in the long run.

(2Marks)

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44 Fixed costs are conventionally deemed to be:

- A Constant per unit of output
- B Constant in total when production volume changes
- C Outside the control of management
- D Those unaffected by inflation

(2Marks)

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45 The following details have been extracted from the receivable's records of Diva Boutique: Invoices paid at 60%, 20%, and 15% for one month, second month, and third month after sale respectively. Bad debts is 5% Credit sales for June to August 2020 are budgeted as follows:

| June (Frw) | July (Frw) | August (Frw) |
|------------|------------|--------------|
| 1,000,000  | 1,500,000  | 1,300,000    |

Customers paying in the month after sale are entitled to deduct a 2% settlement discount. Invoices are issued on the last day of the month.

The amount budgeted to be received in September 2020 from credit sales is:

- A Frw 1,230,000
- B Frw 1,064,400
- C Frw 1,214,400
- D Frw 450,000

(2Marks)

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46 The following extract is taken from the overhead budget of Peter and Sons Ltd:

|                   |              |             |
|-------------------|--------------|-------------|
| Budgeted activity | 50%          | 75%         |
| Budgeted overhead | Frw 100, 000 | Frw 112,500 |

The overhead budget for an activity level of 80% would be:

- A Frw 115,000
- B Frw 120,000
- C Frw 136,000
- D Frw 160,000

(2Marks)

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47 What is overtime premium?

- A The additional amount paid for hours worked over the basic working week.
- B The additional amount paid over and above the normal hourly rate for hours worked over the basic working week.
- C The additional amount paid over and above the overtime rate for hours worked over the basic working week.
- D The overtime rates.

(2Marks)

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48 Which of the following best defines a standard cost?

- A The planned unit cost of a product, component or service in a period.
- B The budgeted cost attributed to the level of activity achieved in a budget center in a control period.
- C The budgeted production cost attributed to the level of activity in a budget period.
- D The budgeted non-production cost for a product, component or service in a period.

(2Marks)

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49 Which of the following factors explains a favorable direct material usage variance?

- A More staff were recruited to inspect for quality, resulting in a higher rejection rate.
- B When estimating the standard product cost, usage of material had been set using ideal standards.
- C The company had reduced training of production workers as part of a cost reduction exercise.
- D The material price variance was adverse.

(2Marks)

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50 The term “budget slack” refers to the

- A Extended lead time between the preparation of the functional budgets and the master budget.
- B Difference between the budgeted output and the breakeven output.
- C Additional capacity available which can be budgeted for.
- D Deliberate over-estimation of costs and under-estimation of revenues in a budget.

**(2Marks)**

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