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CERTIFIED ACCOUNTING TECHNICIAN
STAGE 2 EXAMINATIONS
S2.2: MANAGING COST AND CASHFLOWS
DATE: THURSDAY, 29 APRIL 2021

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 Which of the following is NOT a symptom of Over-trading in a business environment?

- A. Reducing current and quick ratios
- B. Current Liabilities are less than Current Assets
- C. Rapidly increasing sales as a result of rapidly increasing trade receivables
- D. Inventory increases often linked to an anticipation of sales increases which strains cash flows.

(2Marks)

The following information relates to questions 2 to 3.

KAGABO Ltd, a company located in Kigali Special Economic Zone, has presented the following financial statement extracts to you:

Statement of profit or loss for the year ended 31 December 2020

Particulars	Frw '000'
Revenue	1,500,000
Cost of sales	900,000
Gross Profit	
Less Expenses	300,000
Profit before tax	

Statement of financial position as at 31 December 2020

Particulars	Frw '000'	Frw '000'
Non-current Assets		2,500,000
Current Assets:		
Inventory	160,000	
Trade receivables	250,000	
Cash and cash equivalents	150,000	
Trade payables	170,000	
Net current assets		
Equity		220,000
Retained earnings		

2 What is the inventory holding period?

- A. 60 Days
- B. 68 Days
- C. 65 Days
- D. None of the above

(2Marks)

3 What is the trade payables' period?

- A 70 Days
- B 69 Days
- C 65 Days
- D None of the above

(2Marks)

- 4 Which three of the following factors account for the difference between a company's cash and profit balance?
- i. Prepayment of electricity
 - ii. Purchase of non-current assets
 - iii. Depreciation
 - iv. Purchases of inventory for cash
 - v. Cash sales
- A i, ii, and iv
B ii, iii, and iv
C i, iii, and iv
D i, ii, and iii

(2Marks)

- 5 You are a cost accountant and your CFO has provided an extract of the company's reports which suggests that the opening non-current assets have a carrying value of Frw 500 million. The statement of profit or loss indicates a depreciation charge of Frw 25 million and the non-current assets have a carrying value of Frw 550 million at the end of the year. The CFO suggests that there were new non-current assets purchased during the year but she is too busy to compute it. She asks for your help. What was the cash paid to acquire non-current assets during the year (in Frw)?
- A 75 million
B 1,075 million
C 1,025 million
D 50 million

(2Marks)

- 6 Which of the following is NOT a type of cash flow?
- A Exceptional cash flows
B Irregular cash flows
C Viable cash flows
D Regular cash flows

(2Marks)

- 7 Nyirangango Ltd is a company that produces and sells fresh juices in Musanze District. However, due to the effects of COVID-19, it is falling short on funds to remain in operation and has approached a Commercial Bank of Musanze (CBM) for a loan facility of Frw 40,000,000. The loan agreement stipulates that the loan facility will be paid in 48 equal monthly instalments of Frw 1,800,000. Assuming a simple flat-rate interest, what is the annual interest rate paid by Nyirangango Ltd.
- A 80%
 - B 18%
 - C 9%
 - D 20%

(2Marks)

- 8 There are normally three different ways of paying loans. Which of the following is NOT one of them?
- A Interest repayments
 - B Amortizing repayments
 - C Balloon repayments
 - D Bullet repayments

(2Marks)

- 9 Which of the following is a factor usually considered by investors when choosing between investments?
- A Investment security
 - B Liquidity associated with the investment
 - C The prospects of investment growth
 - D All of the above

(2Marks)

- 10 Kanogo Investments Ltd is a local company that manages investments from mostly local investors. It has Frw 50 billion available to invest in a deposit for 12 months. The company's management wishes to achieve a return of 5% per annum as a lower rate would not be financially beneficial to the company's investors. Which of the following investments would Kanogo Investments Ltd accept?
- i. Investment with a lump sum return of Frw 1 billion at the end of one year
 - ii. Investment paying interest of 900 million every 6 months
 - iii. Investment paying annual interest of Frw 800 million plus a bonus of 2% of capital invested if the deposit is retained for 1 year
- A i, and iii only
 - B iii only
 - C i, and ii
 - D None of the above

(2Marks)

11 What is meant by the term Diversification?

- A A process of reducing risk by increasing the number of separate investments in a portfolio
- B A process of reducing risk by decreasing the number of separate investments in a portfolio
- C A process of increasing return by increasing a single investment in a portfolio
- D A process of increasing risk by decreasing the number of separate investments in a portfolio

(2Marks)

12 Provided below are the cash budgets for the quarter ending 30 March 2021 for Nyagahene Ltd. The company has an agreed overdraft facility of Frw 21 million.

	January	February	March
	<i>Frw 000</i>	<i>Frw 000</i>	<i>Frw 000</i>
<i>Receipts:</i>			
Cash sales	65,000	76,000	79,000
Receipts from credit customers	490,000	471,000	450,000
Proceeds from sale of non-current assets	-	11,000	-
<i>Total Receipts</i>	<i>555,000</i>	<i>558,000</i>	<i>529,000</i>
<i>Payments:</i>			
Payments to credit suppliers	427,000	438,000	426,000
Wages	85,000	85,000	85,000
Rent	9,000	9,000	9,000
Capital Expenditure	7,000	29,000	-
VAT	-	13,200	-
Training costs	21,000	-	-
Repairs	11,400	-	-
<i>Total Payments</i>	<i>580,400</i>	<i>574,200</i>	<i>520,000</i>
Net cash flow	(25,400)	(16,200)	9,000
Opening cash balance	3,600	(19,800)	(34,000)
Closing cash balance	(21,800)	(36,000)	(25,000)

Which of the following courses of action is likely to improve the cash forecast position and keep the company within its agreed overdraft limit?

- i. Improve credit collection measures
- ii. Allow credit customers to pay later
- iii. Postpone scheduled capital expenditure in January and February
- iv. Delay training
- v. Use alternative sources of funding for capital expenditures
- vi. Negotiate credit terms for repairs
- vii. Dispose of non-current assets to receive cash earlier

- A i, ii, iii, v, vii
- B i, ii, iii, iv, v, vi
- C i, ii, iii, iv, v, vi, vii
- D i, iii, iv, v, vi, vii

(2Marks)

13 Imena is a cost accountant of Nyarugunga Ltd. Imena prepares daily reports of resource deployment and submits them to the Chief Planning Officer (CPO) of the company as an organizational wide daily planning exercise. What type of planning does Nyarugunga Ltd do?

- A Budgetary Planning
- B Daily Planning
- C Corporate Planning
- D Operational Planning

(2Marks)

14 Busyete is a Finance Manager at Rwema Ltd. He has requested to assist him with an exercise involving budgeting. Rwema Ltd's budgeted cost for materials is Frw 85 million. The company reported an adverse materials variance of Frw 10 million. What is Rwema Ltd's actual payments for materials in Frw?

- A. 90 million
- B. 75 million
- C. 80 million
- D. 95 million

(2Marks)

15 Variance analysis is a process by which:

- A. The total difference between cash and actual results is analyzed
- B. The total difference between standard and budgeted results is analyzed
- C. The total difference between standard and actual results is analyzed
- D. The total difference between favorable and actual results is analyzed

(2Marks)

16 In February 2021, Mpambala Ltd paid Frw 500 million for the purchase of an office building. Mpambala Ltd's payment gave rise to an adverse variance of Frw 35 million. How much had Mpambala Ltd budgeted for the office building in Frw?

- A 570 million
- B 535 million
- C 500 million
- D 465 million

(2Marks)

17 Cash budgeting is an important part of managing cash flow in a business. It involves a control cycle to keep track of the cash flow to avoid surprises.

Which of the following is a correct order of the elements constituting a typical control cycle?

- i. Plans and targets are set for the future
- ii. Actual results are recorded and analysed
- iii. Information about actual results is fed back
- iv. Plans are put into operation
- v. The feedback is used by management to compare actual results with the budget

- A i, iv, ii, iii, v
B i, ii, iii, iv, v
C i, ii, iii, v, iv
D i, iii, iv, v, ii

(2Marks)

18 Which of the following is NOT a possible cause of cash deficit in a company?

- A The company making losses that it becomes harder to cover costs
B The company making a one-off capital expenditure
C The company's Chief Executive Officer spending more of her funds on vacation than expected
D High inflation

(2Marks)

19 Mbalaga Ltd has identified a temporary cash surplus in its cash budget. The company will need the surplus in four months to fund its expansionary plans. However, the company's investment analyst has identified the following investment options in the meantime:

- i. Option 1 – Invest in a 5% Treasury stock, redeemable in five years' time, currently quoted at Frw 200,000
- ii. Option 2 – Purchase shares in Bank of Kigali plc that are perceived by analysts to be undervalued and could increase next year by 15%
- iii. Option 3 – Invest in a bank deposit account that pays an interest at 2% over bank base rate, which is currently 1%
- iv. Option 4 – Invest in a cooperative account that pays a fixed interest rate of 7% per annum provided six months' notice is given for withdrawals of funds.

Which of the above investment options would you recommend to Mbalaga Ltd based -on the fact that the company was interested in less risk, more return, and more liquidity?

- A. Option 1
B. Option 2
C. Option 3
D. Option 4

(2Marks)

20 Which of the following types of investment is perceived to be the riskiest?

- A Government securities
- B Company loan stocks
- C Preference shares
- D Unsecured loans

(2Marks)

21 Which of the following is not a classification of cost by behavior?

- A Semi-variable costs
- B Fixed costs
- C Semi-fixed costs
- D Variable costs

(2Marks)

22 Which of the following would NOT be a cost unit in an academic University?

- A Projector
- B Academic Department
- C Lecturers' meal
- D Whiteboard

(2Marks)

23 Mr. Karambizi is a manager of Gasabo Ltd, a manufacturing company located in Prime Economic Zone. He is in charge of manufacturing costs used for the valuation of inventory in Gasabo Ltd's financial statements. Which of the following costs is Mr. Karambizi responsible for?

- A Direct Costs
- B Total Costs
- C Prime Costs
- D Production Costs

(2Marks)

24 You have been presented with the following cost card:

Description	Amount (Frw 'million')
Direct materials	120
Production overheads	87
Direct expenses	95
Direct labor	100

What is the production cost in Frw 'million'?

- A 402
- B 420
- C 315
- D 228

(2Marks)

25 Your manager has presented you with a cost card with the following costs:

- i. Direct expenses
- ii. Production overheads
- iii. Direct labor
- iv. Direct materials

v. Administration expenses

Which of the above comprise Prime Costs?

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

(2Marks)

26 Which of the following is NOT a method of calculating a cost per unit that a business may use?

- A Absorption costing
- B Cost-based costing
- C Activity-based costing
- D Marginal costing

(2Marks)

27 A company pays its production manager Frw 2 million per month for every 5,000 units produced, Frw 2.5 million for 7,000 units, and Frw 3 million for additional 2,000 units produced. Which of the following types of costs best describes the company's labor costs to its production manager?

- A Step costs
- B Variable costs
- C Fixed costs
- D Semi-variable costs

(2Marks)

28 Which of the following terms is defined as 'the way in which costs are affected by changes in the volume of output'?

- A Cost center
- B Variable costs
- C Cost behavior
- D Cost unit

(2Marks)

29 Consider the following statements.

- 1 Semi-variable costs are not affected by the level of activity.
- 2 Variable cost per unit is the same amount for each unit produced.

- 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

(2Marks)

30 A company has products A and B. Product A has the following costs:

Cost	Amount (Frw '000'/unit)
Variable production costs	5.70
Total production costs	8.40
Total variable costs	6.80
Total costs	12.0

12,600 units of the product were manufactured in a period during which 12,300 units were sold.

If the company adopted absorption costing, what is the difference in profit using absorption costing instead of marginal costing?

- A The profit for the period is Frw 810,000 lower
- B The profit for the period is Frw 810,000 higher
- C The profit for the period is Frw 540,000 lower
- D The profit for the period is Frw 540,000 higher

(2Marks)

31 You are presented with the following two statements. Examine if they are true.

1 If the total contribution exceeds fixed costs, a loss is made.

2 In absorption costing, it is necessary to distinguish variable costs from fixed costs.

- 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

(2Marks)

32 You are a new recruit in the accounting department and the cost accountant has presented the following information relating to the company's product to you:

Cost	Amount (Frw)
Variable production costs (Frw/unit)	6,000
Sales price (Frw/unit)	8,000
Fixed costs (Frw)	2,400,000
Fixed production costs (Frw) – out of the Frw 2.4 million	1,800,000

The company's sales and production units were 1,500 units and 1,800 units respectively. Assume no variable non-production costs and no opening inventory. The output is 1,800 units. What is the company's profit using absorption costing?

- A Frw 900,000
- B Frw 11,100,000
- C Frw 12,000,000
- D Frw 12,600,000

(2Marks)

33 Which of the following is NOT necessary to identify when using marginal costing method?

- A Variable costs
- B Semi-fixed costs
- C Fixed costs
- D Contribution

(2Marks)

34 Which of the following is NOT true about absorption costing?

- A Closing inventories are valued at full production cost
- B Fixed costs are absorbed into unit costs
- C Production cost of sales does exclude a share of fixed overheads
- D Production cost of sales does include a share of fixed overheads

(2Marks)

35 Which of the following statements best describes contribution in marginal costing?

- A Contribution means contribution towards covering contribution overheads and making a profit
- B Contribution means contribution towards covering variable overheads and making a profit
- C Contribution means contribution towards covering fixed overheads and making a profit
- D None of the above

(2Marks)

36 A company has budgeted for sales of 43,000 units for its product. The selling price per unit is Frw 73,000 and the variable costs of production are Frw 53,000. The product's breakeven point is 26,000 units. What are fixed costs for the business?

- A Frw 1.9 billion
- B Frw 3.8 billion
- C Frw 500 million
- D Frw 520 million

(2Marks)

37 Which of the following costs is defined as 'Costs that have been incurred in the past and do not affect future decision making?'

- A Sunk cost
- B Fixed cost
- C Incurred cost
- D Future cost

(2Marks)

38 A company has budgeted for sales of 42,000 units for its product. The selling price per unit is Frw 70,000 and the variable costs of production are Frw 47,000. The company's fixed costs are Frw 460 million. What is the margin of safety (to the nearest whole percentage)?

- A 71%
- B 57%
- C 52%
- D 31%

(2Marks)

39 Which of the following statements best describes a '*limiting factor*' in short-term decision making?

- A A factor of production or sales that limits the amount of a product that can be stored
- B A factor of production or sales that limits the amount of a product that can be produced or sold
- C A factor of production or sales that boosts the amount of a product that can be produced or sold
- D A factor of production or sales that has no impact on the amount of a product that can be produced or sold.

(2Marks)

40 Decision-making is often based on relevant costs. Your Chief Finance Officer has presented you with a list of cost characteristics and wants you to indicate those that are associated with relevant costs:

- i. Future costs
- ii. Unavoidable costs
- iii. Incremental costs
- iv. Differential costs

- A. i and ii only
- B. i and iii only
- C. i, iii, and iv only
- D. All of the above

(2Marks)

41 Which of the following statements best describes a '*time series*' in forecasting?

- A A record of figures or values that have occurred on day one of operations
- B A record of figures or values that have occurred over a period of time
- C Fluctuations due to circumstances that affect results at different times of the year
- D The general movement in a time series over time.

(2Marks)

42 A company's salaries for its staff for March 2021 amount to Frw 20 million. However, due to the effects of COVID-19 pandemic to the company's operations, the company has announced an imminent cut in staff salaries to manage cash flow. The company further announced that salaries will be reduced by 1.5% per month with effect from April until economic activities recover. Assuming that economic activities will have recovered by July 2021, how much will the company payout in salaries (rounded to the nearest millions)?

- A Frw 19.1 million
- B Frw 19.4 million
- C Frw 19.7 million
- D Frw 18.8 million

(2Marks)

43 Which of the following is defined as 'a time series model where the actual figure is made up of the trend plus the seasonal variation'?

- A Additive Model
- B Multiplicative Model
- C Actual Model
- D Seasonal Model

(2Marks)

44 The National Institute of Statics of Rwanda recorded an unemployment of 50,000 people in Kigali during the last quarter of 2020. The institute also indicated that the underlying trend at this point was 45,000 people. The seasonal factor is 0.80. Using the multiplicative model for seasonal adjustment, what is the seasonally adjusted figure for quarter four of 2020?

- A 62,500
- B 62,050
- C 56,250
- D 56,520

(2Marks)

45 A company has an overhead absorption rate of Frw 4,000 per unit with expected production levels of 700 units. The company's actual overheads and actual productions are Frw 2.3 million and 900 units respectively. What is the over/under-absorption of overheads?

- A Frw 500,000 over-heads
- B Frw 500,000 under-heads
- C Frw 1.3 million over-heads
- D Frw 1.3 million under-heads

(2Marks)

46 Which of the following is a method of reapportionment of service cost center costs?

- A Absorption method
- B Multiplicative method
- C Step-down method
- D Reapportionment method

(2Marks)

47 Over or under-absorption of overheads occurs because:

- A The predetermined direct absorption is based on forecasts
- B The predetermined overhead absorption is based on forecasts
- C The predetermined overhead absorption is based on actuals
- D The forecasted overhead absorption is based on actuals

(2Marks)

48 A manufacturer of sugar had budgeted for an expenditure of Frw 60 million on sugar canes in January 2021. The manufacturer actually spent Frw 75 million. Which of the following is NOT a likely reason for the variance?

- A Price increases by sugar cane suppliers
- B Unfavorable weather conditions
- C Increased transport costs due to COVID-19 restrictions
- D Price reductions by sugar cane suppliers

(2Marks)

49 A company's job cost estimate indicates 750 productive labor hours and a wage rate of Frw 10,000 per hour. It is anticipated that 8% of the total hours paid for will be idle time. What is the total estimated labor cost for the job (in Frw '000')?

- A Frw 93,570
- B Frw 8,512
- C Frw 93,750
- D Frw 8,152

(2Marks)

50 Which of the following is not an example of revenue expenditure?

- A Purchase of stock for resale
- B Salaries and wages
- C Improvement for the earning capacity of buildings
- D Maintenance of the existing earning capacity of buildings

(2Marks)
