



CARIBBEAN EXAMINATIONS COUNCIL

CAPE[®]

Accounting

**SYLLABUS
SPECIMEN PAPER
MARK SCHEME
SUBJECT REPORTS**

Macmillan Education Ltd.
4 Crinan Street, London, N1 9XW
A division of Macmillan Publishers Limited
Companies and representatives throughout the world

www.macmillan-caribbean.com

ISBN 978-0-230-48257-9
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www.cxc-store.com

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First published 2014
This amended edition published December 2022

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Accounting

Accounting is the financial information system that provides relevant information to anyone who owns, manages or uses economic resources or engages in economic activity. The syllabus provides opportunities for students to acquire relevant competencies, attitudes and values for the work environment and to develop an awareness of the social and ethical responsibilities of accountants and users of financial information. Additionally, the syllabus provides a foundation for further study of Accounting at pre-professional and professional levels.

This is a two-Unit syllabus. Each Unit is further subdivided into three (3) Modules.

Unit 1: Financial Accounting

- Module 1 Accounting Theory, Recording and Control Systems
- Module 2 Preparation of Financial Statements
- Module 3 Financial Reporting and Interpretation

Unit 2: Cost and Management Accounting

- Module 1 Costing Principles
- Module 2 Costing Systems
- Module 3 Planning and Decision Making



CARIBBEAN
EXAMINATIONS
COUNCIL

Caribbean Advanced
Proficiency Examination®

SYLLABUS

ACCOUNTING

CXC A8/U2/12

Effective for examinations from May–June 2013



CAPE®

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NOTE TO TEACHERS AND LEARNERS

This document CXC A8/U2/12 replaces CXC A8/U2/03 issued in 2003.

Please note that the syllabus has been revised and amendments are indicated by italics.

Revised 2003, 2010
Amended 2022

Please check the website www.cxc.org for updates on CXC®'s syllabuses.

Please access relevant curated resources to support teaching and learning of the syllabus at <https://learninghub.cxc.org/>

For access to short courses, training opportunities and teacher orientation webinars and workshops go to our Learning Institute at <https://cxclearninginstitute.org/>

PLEASE NOTE



This icon is used throughout the syllabus to represent key features which teachers and learners may find useful.

Introduction

The Caribbean Advanced Proficiency Examination® (**CAPE**®) is designed to provide certification of the academic, vocational and technical achievement of students in the Caribbean who, having completed a minimum of five years of secondary education, wish to further their studies. The examinations address the skills and knowledge acquired by students under a flexible and articulated system where subjects are organised in 1-Unit or 2-Unit courses with each Unit containing three Modules. Subjects examined under **CAPE**® may be studied concurrently or singly.

The Caribbean Examinations Council offers three types of certification at the **CAPE**® level. The first is the award of a certificate showing each **CAPE**® Unit completed. The second is the **CAPE**® Diploma, awarded to candidates who have satisfactorily completed at least six Units, including Caribbean Studies. The third is the **CXC**® Associate Degree, awarded for the satisfactory completion of a prescribed cluster of *ten* **CAPE**® Units including Caribbean Studies, Communication Studies *and Integrated Mathematics. Integrated Mathematics is not a requirement for the CXC® Associate Degree in Mathematics.* The complete list of Associate Degrees may be found in the **CXC**® Associate Degree Handbook.

For the **CAPE**® Diploma and the **CXC**® Associate Degree, candidates must complete the cluster of required Units within a maximum period of five years. *To be eligible for a CXC® Associate Degree, the educational institution presenting the candidates for the award, must select the Associate Degree of choice at the time of registration at the sitting (year) the candidates are expected to qualify for the award.* Candidates will not be awarded an Associate Degree for which they were not registered.

Accounting Syllabus

◆ RATIONALE

Accounting is the financial system that provides relevant information to anyone who owns, manages or uses economic resources or engages in economic activity. As an information system *catering to internal and external users*, several branches of accounting have emerged. The external users, *such as investors, creditors, legislators and customers* have particular interest in Financial Accounting *while managers, as internal users, have interest not only in Financial Accounting but also in Cost and Management Accounting.*

Financial Accounting deals with recording, summarising and communicating economic events of entities based on established principles, standards and legislation. The study of Financial Accounting will provide individuals with some of the prerequisites needed for careers in public accounting. In addition, the study of Financial Accounting will assist individuals in their roles as customers, employees or potential investors to evaluate the performance of businesses using published financial statements and other accounting information.

The study of Cost and Management Accounting will develop in individuals the appropriate attitudes in planning, controlling and decision making which are critical skills needed to effectively manage businesses in a dynamic environment. This branch of accounting draws on information from the accounting system as well as methods and techniques used in other disciplines in order to provide individuals with a set of tools which can be used not only in businesses but also in their personal lives.

The syllabus will not only provide a good foundation for further study of Accounting at pre-professional and professional levels, but will assist students in the development of the requisite skills, competencies, attitudes and values that are critical for success in today's business environment. Students are encouraged to develop ethical consciousness and moral integrity in financial undertakings.

Additionally, it will inculcate tenets of the Ideal Caribbean Person as articulated by the CARICOM Heads of Government. That is, "someone who demonstrates a positive work ethic" and "values and displays the creative imagination in its various manifestations and nurtures its development in the economic and entrepreneurial spheres." Moreover, in keeping with the UNESCO Pillars of Learning, on completion of this course of study students will learn to know, learn to do, learn to be, and learn to live together having been exposed to the values implicit within human rights, and democratic principles, among others.

◆ AIMS

The syllabus aims to:

1. foster an understanding and appreciation of the principles and practices of Accounting;
2. develop a capacity for systematic and critical thinking which would serve as a base for further study as well as for application in the working and social environment;

3. develop an awareness of the links between concepts in Accounting and those pertaining to other disciplines;
4. develop knowledge and skills for decision-making in accounting;
5. develop the capacity to *research and* communicate accounting information in written, numerical and diagrammatic forms appropriate to its purpose;
6. provide students with an understanding and appreciation of social, economic and technological aspects of Accounting in the dynamic Caribbean environment; and,
7. develop ethical consciousness and moral integrity in financial undertakings.

◆ SKILLS AND ABILITIES TO BE ASSESSED

The assessment will test candidates' skills and abilities to:

- (a) recall, select and use appropriate formulae, concepts and principles in a variety of contexts;
- (b) collect, classify, record and communicate accounting information to users of financial statements in a logical way;
- (c) use accounting standards and legislation to make interpretations, judgements and recommendations appropriate to their environment; and,
- (d) *plan, control and make decisions using relevant financial and non-financial data.*

◆ PREREQUISITES OF THE SYLLABUS

Any person with a good grasp of the Caribbean Secondary Education Certificate (CSEC) Principles of Accounts syllabus, or its equivalent, should be able to pursue the course of study defined by this syllabus. Successful participation in the course of study will also depend on the possession of *research* and written communication skills.

◆ STRUCTURE OF THE SYLLABUS

This is a two-Unit syllabus. The two Units are independent of each other and may be completed in any order. Each Unit is further subdivided into three (3) Modules as described below. In this syllabus, International Financial Reporting Standards for Small and Medium-sized entities (IFRS for SMEs) 2009 and International Accounting Standards (IAS) have been used as the basis for application of principles and the presentation of financial statements.

Unit 1: Financial Accounting

- | | | |
|----------|---|--|
| Module 1 | - | Accounting Theory, Recording and Control Systems |
| Module 2 | - | Preparation of Financial Statements |
| Module 3 | - | Financial Reporting and Interpretation |



Unit 2: Cost and Management Accounting

- Module 1 - Costing Principles
- Module 2 - Costing Systems
- Module 3 - Planning and Decision Making

Each Module requires at least 50 hours. These modules need not be accessed in the order presented in the syllabus. A thematic approach may be used for teaching and learning the material presented. Total time for each Unit is expected to be 150 hours.

◆ UNIT 1: FINANCIAL ACCOUNTING

MODULE 1: ACCOUNTING THEORY, RECORDING AND CONTROL SYSTEMS

GENERAL OBJECTIVES

This Unit seeks to enable students to:

1. develop an understanding and appreciation of the principles and concepts of Financial Accounting and their application to business situations;
2. understand the role of Financial Accounting as an information system which can be used as an aid to decision-making;
3. develop an understanding and appreciation of the existence and use of accounting standards and legislation for the preparation, analysis and reporting of financial information; and,
4. develop an appreciation of the *role* of Accounting in changing economic and social environments.

SPECIFIC OBJECTIVES

Students should be able to:

1. describe the nature and scope of Financial Accounting;
2. discuss accounting methods for recording financial information;
3. justify the use of standards in Accounting;
4. *discuss the conceptual framework of Accounting;*
5. prepare journal entries to record changes in assets, liabilities, capital, expenses and income *using Generally Accepted Accounting Principles (GAAP);*
6. justify the use of control systems in organisations; and,
7. assess the impact of technology on Financial Accounting.

UNIT 1

MODULE 1: ACCOUNTING THEORY, RECORDING AND CONTROL STSTEMS (cont'd)

CONTENT

1. The Nature and Scope of Financial Accounting

- (a) The development of Accounting.
- (b) The significance and limitations of accounting information.
- (c) The users of accounting information and their needs.
- (d) The accounting cycle.

2. Accounting Methods

- (a) Accrual basis.
- (b) *Cash* basis.

3. Accounting Standards

- (a) The standard-setting process and the development of standards.
- (b) The use of International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) 2009, and International Accounting Standards (IAS) in the preparation of financial statements.

4. Conceptual Framework of Accounting

- (a) Objectives of Financial Reporting.
- (b) Qualitative characteristics of accounting information – relevance, reliability, consistency, comparability, understandability, substance over form.
- (c) Elements of financial statements – components of the Statement of Financial Position (Balance Sheet), Statement of Comprehensive Income (Income Statement), Statement of Changes in Equity, Statement of Cash Flows and Notes to Financial Statements.
- (d) Accounting principles, concepts and conventions – historical cost, prudence, materiality, going concern, entity, monetary, revenue recognition, matching principles.

UNIT 1

MODULE 1: ACCOUNTING THEORY, RECORDING AND CONTROL STSTEMS (cont'd)

5. Recording Financial Information

- (a) The double-entry system of accounting as it relates to liabilities, assets, revenues, expenses, adjustments, capital and reserves.
- (i) Capital and reserves:
- issue of shares (par value and no par value) excluding forfeiture;
 - redemption of shares;
 - capital reserves - the uses of capital reserves; and,
 - revenue reserves - appropriation of corporate profits.
- (ii) Issue and redemption of long-term liabilities (at par only).
- (iii) Short-term and long-term investments - purchase and sale, excluding discounts and premiums.

6. Accounting and Administrative Control Systems

- (a) The internal control system.
- Internal controls as they relate to:
- (i) inventory;
- (ii) cash;
- (iii) accounts receivable; and,
- (iv) accounts payable.

- (b) The role of the auditor:
- Internal vs. *external auditor*

7. Technology and Financial Accounting

- (a) Theoretical assessment of manual vs. computerised accounting systems.
- (b) Controls *necessary in the electronic data-processing (EDP) environment.*

UNIT 1

MODULE 1: ACCOUNTING THEORY, RECORDING AND CONTROL STSTEMS (cont'd)

Suggested Teaching and Learning Activities

This Module requires 50 hours of work inclusive of time spent on the School-Based Assessment.

1. The Nature and Scope of Financial Accounting

This area attempts to familiarise students with the framework within which Financial Accounting takes place, highlighting the diverse users and their need for accounting information. This information can be found in an introductory chapter of most Financial Accounting texts.

2. Accounting Methods

Students should be encouraged to research businesses where the accrual or cash basis of accounting may be more appropriate.

3. Accounting Standards

- (a) Students should be encouraged to research the development of accounting standards.
- (b) A guest lecturer should be used, if possible, to discuss the role of the International Accounting Standard Committee (IASC) and its relevance to the particular territory. Discussion should also emphasize the role of the local institutes of chartered accountants where they exist.
- (c) Students should be encouraged to examine the notes of financial statements of public companies to identify the accounting policies used.

4. Conceptual Framework of Accounting

- (a) A chart should be used to depict the conceptual framework of accounting and illustrating the interrelationships among:
 - (i) objectives of Financial Reporting;
 - (ii) qualitative characteristics of accounting information – relevance, reliability, consistency, comparability, understandability and substance over form;
 - (iii) elements of financial statements – components of the Statement of Financial Position (Balance Sheet) and Statement of Comprehensive Income (Income Statement): Statement of Changes in Equity and Statement of Cash Flows; and,
 - (iv) accounting principles, concepts and conventions.

UNIT 1

MODULE 1: ACCOUNTING THEORY, RECORDING AND CONTROL STSTEMS (cont'd)

5. Recording Financial Information

- (a) Students should be practised in preparing journal entries as they relate to liabilities, assets, revenues, expenses, adjustments, capital and reserves.
- (b) Students should be encouraged to research:
 - (i) the issuance of shares (at par and no par value); and,
 - (ii) issue and redemption of long-term liabilities and investments.

6. Accounting and Administrative Control Systems

- (a) This area is designed to provide students with *in-depth* knowledge of internal control systems and related benefits. The controls in an EDP environment should be limited to security issues such as passwords and encryption, and disaster recovery.
- (b) *Candidates should be exposed to a storeroom of a local business to relate the theory of internal controls to the physical application.*
- (c) A guest lecturer from an auditing firm may be used to discuss the role of internal and external auditors.
- (d) Students should be encouraged to illustrate the linkages among control systems, recording financial information and accounting standards.

7. Technology and Financial Accounting

Students should be encouraged to assess the use of manual accounting systems, computers in accounting and computerized accounting systems.

UNIT 1

MODULE 2: PREPARATION OF FINANCIAL STATEMENTS

SPECIFIC OBJECTIVES

Students should be able to:

1. describe the various forms of business organisations;
2. assess critically the advantages and disadvantages of the various forms of organisations;
3. distinguish among private, public and statutory corporations;
4. prepare Statement of Comprehensive Income (Income Statements) for business entities, using established accounting guidelines;
5. prepare Statement of Changes in equity for business entities, using established accounting guidelines;
6. prepare Statement of Financial Position (Balance Sheets) for business entities, using established accounting guidelines;
7. prepare financial statements from incomplete records or where financial records are deficient or erroneous;
8. prepare income and expenditure accounts for non-commercial entities;
9. create accounts related to changes in partnerships with respect to admission, retirement and dissolution;
10. create accounts relating to the purchase of an unincorporated business by a limited company;
11. prepare a Statement of Financial Position (Balance Sheet) extract to illustrate the issue and repayment of capital; and,
12. apply a given corporation tax rate to net income.

1. Forms of Business Organisations

- (a) Sole traders or proprietorships.
- (b) General and limited partnerships.
- (c) Corporations.
- (d) Co-operatives.
- (e) Non-profit-making organisations, including non-governmental organisations (NGOs).



UNIT 1

MODULE 2: PREPARATION OF FINANCIAL STATEMENTS (cont'd)

2. Advantages and disadvantages of the various business organisations.

3. Corporations

- (a) Private.
- (b) Public.
- (c) Statutory, state, chartered.

4. Statement of Comprehensive Income (Income Statement) Preparation

Using International Accounting Standards (IAS) and *International Financial Reporting Standards for Small and Medium-sized entities (IFRS for SMEs) 2009* relating to Statement of Comprehensive Income (Income Statement):

Section in IFRS for SMEs	Source	Description
Section 3	IAS 1	Presentation of Financial Statements
Section 5	IAS 1	Statement of Comprehensive income (income statement)
Section 13	IAS 2	Inventories
Section 23	IAS 18	Revenue

5. Statement of Changes in Equity

Using International Accounting Standards (IAS) and *International Financial Reporting Standards for Small and Medium-sized entities (IFRS for SMEs) 2009* relating to Statement of Changes in Equity:

Section in IFRS for SMEs	Source	Description
Section 6	IAS 1	Statement of changes in equity and Statement of Comprehensive income and retained earnings

UNIT 1

MODULE 2: PREPARATION OF FINANCIAL STATEMENTS (cont'd)

6. Statement of Financial Position (Balance Sheet) Preparation

Using International Accounting Standards (IAS) and International Financial Reporting Standards for Small and Medium-sized entities (IFRS for SMEs) 2009 relating to Statement of Financial Position (Balance Sheets):

Section in IFRS for SMEs	Source	Description
Section 4	IAS 1	Statement of Financial Position
Section 13	IAS 2	Inventories
Section 17	IAS 16	Property, Plant and Equipment
Section 22	IAS 1	Liabilities and equity

7. Preparation of Financial Statement from Incomplete Records

- (a) Control Accounts.
- (b) Statement of Affairs.
- (c) Receipts and Payments.
- (d) Corrections of errors.

8. Income and Expenditure Accounts

- (a) Non-profit making Organisations.
- (b) Non-Governmental Organisations.

9. Accounting for Changes in Partnership

- (a) Admission.
- (b) Retirement.
- (c) Dissolution (including insolvent partners).

UNIT 1

MODULE 2: PREPARATION OF FINANCIAL STATEMENTS (cont'd)

10. *Incorporation of an Unincorporated Business*

- (a) *Purchase of an unincorporated business.*
- (b) *Conversion of an unincorporated business to an incorporated business.*

11. *Accounting for changes in corporations*

- (a) *Raising and repayment of capital.*
- (b) *Preparation of Statement of Financial Position (Balance Sheet) extract.*

12. *Corporation Tax*

Treatment of corporation tax in financial statements.

Suggested Teaching and Learning Activities

This Module requires 50 hours of work inclusive of time spent on the School-Based Assessment.

1. **Forms of Business Organisations**

- (a) Students should be encouraged to research the various forms of business organisations in their respective territories with special emphasis on companies, cooperatives and NGOs.
- (b) Role play can be used to highlight the advantages and disadvantages of the various forms of business organisations and, at the same time, assist in developing such skills as communication and negotiation.

2. **Financial Statement Preparation**

- (a) Students should be practised in the preparation of financial statements for the various forms of business entities using the International Accounting Standards *and International Financial Reporting Standards for Small and Medium-sized entities (IFRS for SMEs) 2009* identified.
- (b) Students should be encouraged to collect and examine financial statements of the various forms of business organisations in their respective countries.
- (c) Exposure to the relevant sections of local legislation relating to the preparation of financial statements for state enterprises, corporations and cooperatives could assist students in the School-Based Assessment.

UNIT 1

MODULE 2: PREPARATION OF FINANCIAL STATEMENTS (cont'd)

- (d) Should be practised in *computing* and reporting Corporation tax.
- (e) Students should be practised in the preparation of Financial Statements from financial information that is deficient or erroneous.

3. Accounting for Changes in Ownership Structure

- (a) Students should be practised in the preparation of journal entries and posting to ledger accounts relating to corporations:
 - (i) raising and repayment of capital (including bonus and rights issues);
 - (ii) purchasing of unincorporated businesses;
 - (iii) Statement of Financial Position (Balance Sheet) extracts could be used to illustrate the financial statement resulting from the above activities; and,
 - (iv) students should be practised in the preparation of accounts relating to changes in partnerships.

UNIT 1

MODULE 3: FINANCIAL REPORTING AND INTERPRETATION

SPECIFIC OBJECTIVES

Students should be able to:

1. discuss social and ethical issues in financial reporting;
2. explain the impact of inflation on financial statements;
3. describe the accounting treatment for contingencies and events after the end of the reporting period (post balance sheet events);
4. prepare financial statements in a form suitable for publication, using disclosure requirements and relevant legislation;
5. prepare statement of cash flow;
6. compute ratios to test solvency, liquidity, profitability and activity;
7. explain the significance and limitations of financial statements;
8. analyse the *financial* performance of an entity; and,
9. distinguish between liquidation and receivership.

CONTENT

1. ***Disclosure requirements relating to social and ethical issues in financial reporting***
2. ***Inflation and Accounting***
 - (a) *The impact of inflation on asset values in financial statements prepared under the historical basis.*
 - (b) *Alternatives to historical cost accounting:*
 - (i) *current cost accounting; and,*
 - (ii) *fair value.*

UNIT 1

MODULE 3: FINANCIAL REPORTING AND INTERPRETATION (cont'd)

3. *Contingencies and Events after the end of the reporting period*

Presentation in financial statements.

Section in IFRS for SMEs	Source	Description
Section 21	IAS 37	Provisions, Contingent Liabilities and Contingent Assets.
Section 32	IAS 10	Events after the Reporting Period.



4. *Published Financial Statement*

(a)

Section in IFRS for SMEs	Source	Description
Section 3	IAS 1	Financial Statement Presentation
Section 4	IAS 1	Statement of Financial Position
Section 5	IAS 1	Statement of Comprehensive Income and Income Statement
Section 6	IAS 1	Statement of Changes in Equity
Section 8	IAS 1	Notes to Financial Statements
Section 22	IAS 1	Liabilities and Equity



(b) *Legal requirements and consequences specific to various countries.*

5. *Preparation of Statements of Cash Flow (indirect method only)*

Section in IFRS for SMEs	Source	Description
Section 7	IAS 7	Statement of Cash Flows



UNIT 1

MODULE 3: FINANCIAL REPORTING AND INTERPRETATION (cont'd)

6. Ratio Analysis

- (a) Liquidity.
- (b) Solvency.
- (c) Activity.
- (d) Profitability.

7. Limitations of Financial Statements

- (a) Historical.
- (b) Use of estimates and aggregation.
- (c) Use of accounting policies.

8. Analysis of Performance

- (a) Ratio Analysis.
- (b) Limitations of Ratio analysis.
- (c) Vertical Analysis/Common size.
- (d) Horizontal *analysis/Comparative*.

9. Liquidation and Receivership

- (a) Definition; causes and steps in the receivership and liquidation processes.
- (b) Role of the liquidator and receiver.

Suggested Teaching and Learning Activities

This Module requires 50 hours of work inclusive of time spent on the School-Based Assessment.

1. Students should be encouraged to examine financial statements with special emphasis on the disclosure provided in the notes.
2. Students should be encouraged to discuss the limitations of financial statements. The discussion should also focus on the impact of inflation on the statements.



UNIT 1

MODULE 3: FINANCIAL REPORTING AND INTERPRETATION (cont'd)

3. Students should be encouraged to read newspapers, magazine articles and professional accounting journals which would expose them to the broad area of corporate social responsibility and its related social, environmental and ethical issues.

4. Preparation of Statement of Cash Flows (indirect method only)
 - (a) Students should be practised in the preparation of statement of cash flows as required by Section 7 IFRS for SMEs.

 - (b) Students should be encouraged to critically assess the usefulness of statements of cash flow.

5. Ratio Analysis and its Limitations
 - (a) Students should be practised in the calculation of the following ratios:
 - (i) liquidity: current ratio, acid test (quick ratio);

 - (ii) solvency: debt to total asset, debt to equity or gearing, time interest earned or interest cover;

 - (iii) activity: inventory turnover ratio, payables or payment period, receivables or collection period; and,

 - (iv) profitability: gross margin percentage, net income percentage, ROA, ROCE, price-earnings ratio, earnings per share, dividend pay-out ratio, dividend per share.

 - (b) Students should be practised in report writing highlighting the analysis of financial statements and their limitations.

6. Liquidation and Receivership
 - (a) Class discussion on the causes of and related issues in receivership and liquidation.

 - (b) Discussion and role play may be undertaken on the role of, and steps in, receivership and liquidation.

UNIT 1

MODULE 3: FINANCIAL REPORTING AND INTERPRETATION (cont'd)

RESOURCES

Caribbean Examinations Council	<i>CAPE Accounting Study Guide, Unit 1.</i> Nelson Thornes Publishers, 2011.
Meigs, R., Meigs, W., and Meigs, M.	<i>Introduction to Accounting.</i> London: McGraw Hill, 1996.
Meigs, A. F., Whittington, R. and Meigs, M.	<i>Financial Accounting, Meigo,</i> 9 th edition. The McGraw Hill Companies, 1997.
<i>Randall, H.</i>	<i>Accounting for CAPE.</i> London: Cambridge University Press, 2007.
Randall, M.	<i>Advanced Level Accounting.</i> London: Letts Educational, 1996.
Weygandt, J., Keiso, D., Kell, W.	<i>Accounting Principles.</i> New York: John Wiley and Sons, 7 th edition, 1990.
Weygandt, J., Keiso, D., and Kell, W.	<i>Principles of Financial Accounting.</i> New York: John Wiley and Sons Inc., 2007.

International Accounting Standards Board, International Financial Reporting Standards for Small and Medium-sized Entities (2009).

Companies Act of any Caribbean territory

Published Financial Statements

<http://www.ifrs.org/IFRS+for+SMEs/IFRS+and+related+material.htm>

◆ UNIT 2: COST AND MANAGEMENT ACCOUNTING

MODULE 1: COSTING PRINCIPLES

GENERAL OBJECTIVES

This Unit seeks to enable students to:

1. understand the principles and methods of Cost and Management Accounting and their application to practical business situations;
2. *select, order, analyse and present information in an appropriate accounting form;*
3. evaluate economic, legal, social and technological factors for decision-making;
4. *present reasoned explanations, understand their implications and communicate them in a clear and logical manner;*
5. *understand and appreciate the importance of qualitative characteristics in the decision-making process; and,*
6. develop the techniques of Cost and Management Accounting for planning activities, controlling operations and making decisions.

SPECIFIC OBJECTIVES

Students should be able to:

1. discuss the nature and scope of Cost Accounting and Management Accounting;
2. discuss the similarities and differences between Cost and Management Accounting and Financial Accounting;
3. prepare manufacturing accounts;
4. distinguish between direct and indirect labour;
5. apply methods of remuneration to situations where each may be appropriate;
6. classify costs in relation to inventory valuation, decision making, and planning and control;
7. construct various cost curves;
8. explain the principles of material control and inventory valuation;
9. distinguish among inventory valuation methods;
10. calculate economic order quantity (EOQ);

UNIT 2
MODULE 1: COSTING PRINCIPLES (cont'd)

11. allocate overhead and service department costs; and,
12. apply principles and methods of calculating costs for the production of goods and services.

CONTENT

1. Introduction to Cost and Management Accounting

- (a) *The importance and role of Management Accounting.*
- (b) *The role of Cost Accounting in manufacturing and service industries.*

2. Cost and Management Accounting Vs. Financial Accounting

Differentiation between Cost and Management Accounting and Financial Accounting.

3. Manufacturing Accounts

- (a) *Prime costs.*
- (b) *Overheads.*
- (c) *Work-in-Process.*
- (d) *Cost of goods manufactured.*
- (e) *Cost of goods sold.*

4. Labour Costs

- (a) *Direct and indirect labour.*
- (b) *Changes in labour cost in light of technological advances.*

5. Remuneration

- (a) *Piece rate.*
- (b) *Hourly rate.*

UNIT 2

MODULE 1: COSTING PRINCIPLES (cont'd)

- (c) *Commissions.*
- (d) *Fixed salary.*
- (e) *Combinations of these.*

6. **Cost Classification**

- (a) Inventory valuation (product and period cost).
- (b) Decision making (relevant and irrelevant cost).

Relevant costing:

- (i) *make or buy decisions;*
- (ii) *add or drop process; and,*
- (iii) *accept or reject special order.*
- (c) Planning and control (controllable and non-controllable costs; planned cost and actual costs).
- (d) Fixed, variable and mixed.

7. **Cost Curves**

- (a) *Variable Cost Curves.*
- (b) *Fixed Cost Curves (total and unit).*
- (c) *Total Cost Curve.*
- (d) *Step Fixed Cost Curve.*
- (e) *Step Variable Cost Curve.*
- (f) *Mixed Cost Curve.*

8. **Material Control**

- (a) Procurement function.
- (b) Implication of the use and disposal of hazardous materials.

UNIT 2

MODULE 1: COSTING PRINCIPLES (cont'd)

9. Inventory or Stock Valuation *Methods*

- (a) *Compute inventory using LIFO, FIFO, Weighted Average.*
- (b) *Assess inventory valuation methods.*

10. Economic Order Quantity

- (a) Economic order quantities (EOQ) formula.
- (b) Carrying cost.
- (c) Ordering cost.
- (d) Re-order point.
- (e) Safety stock.

11. Overhead Costs

- (a) Types of overhead expenses (fixed and semi-fixed).
- (b) Apportionment of overhead costs.
- (c) Basis for the apportionment of costs.
- (d) Calculation of predetermined overhead recovery rates, using machine hours, direct labour hours and direct labour costs.
- (e) Service cost allocation.
- (f) Direct and reciprocal (*step down and repeated distribution limited to two steps*).

12. Principles and Methods of Calculating Costs

Non-manufacturing vs. manufacturing entities

UNIT 2

MODULE 1: COSTING PRINCIPLES (cont'd)

Suggested Teaching and Learning Activities

This Module requires 50 hours of work inclusive of time spent on the School-Based Assessment.

1. Introduction to Cost and Management Accounting

This area attempts to familiarise the students with the nature and scope of Cost and Management Accounting. Students should be encouraged to prepare tables comparing and contrasting Cost and Management Accounting and Financial Accounting. This information can be found in the introductory chapters of most Cost and Management Accounting texts.

2. Accounting for Manufacturing Enterprises

Students should be practised in the preparation of the schedule of cost of goods manufactured as part of the Statement of Comprehensive Income (Income Statement) for manufacturing enterprises.

3. Elements of Cost

- (a) Students should be exposed to the concept of cost classification in relation to:
 - (i) inventory valuation (period vs. product);
 - (ii) decision making (relevant vs. irrelevant);
 - (iii) planning and control (controllable vs. non-controllable; actual vs. budgeted); and,
 - (iv) cost behaviour (fixed, variable, step fixed, step variable and mixed) and the sketching of those cost curves.
- (b) Students should be practised in identifying and classifying those costs. Students should also engage in problem solving using the concept of cost classification.
- (c) Students should be practised in the valuation of inventory and in the calculation of the EOQ. Students should be encouraged to discuss the usefulness of the EOQ model.
- (d) Students should be encouraged to research and discuss the procurement function and the implications, including cost, of using hazardous materials in manufacturing processes (for example paint factories), and in service industries (for example hotels).
- (e) Students discuss methods of remuneration appropriate to various situations.
- (f) Students should be practised in allocating service department costs and apportioning overhead cost. In the use of the repeated distribution method students should be practised in preparing the statements using two iterations.

UNIT 2

MODULE 2: COSTING SYSTEMS

SPECIFIC OBJECTIVES

Students should be able to:

1. *describe the use of various costing systems;*
2. allocate materials, labour and overhead costs to specific jobs;
3. prepare job-cost sheets;
4. calculate the value of work-in-progress;
5. compute over and under-absorbed overhead;
6. compare and contrast activity-based costing (ABC) techniques with traditional costing approaches;
7. compute unit cost, using activity-based costing (ABC);
8. compute equivalent units of production;
9. prepare process-costing worksheet, using FIFO and weighted average methods;
10. apply traditional costing methods to service sector costing;
11. describe the difficulties associated with service sector costing;
12. compare marginal (or variable) and absorption (or full) costing; and,
13. prepare Income Statements under marginal costing and absorption costing.

CONTENT

1. ***Costing Systems***
 - (a) *Job costing.*
 - (b) *Activity-based costing.*
 - (c) *Process costing.*

UNIT 2

MODULE 2: COSTING SYSTEMS (cont'd)

2. **Job Costing – (This content relates to Specific Objectives 2 – 5)**
 - (a) Characteristics of job costing, including batch production.
 - (b) Job-cost sheets.
 - (c) Flow of costs.
 - (d) Evaluation of work-in-progress.
 - (e) Prime costs, factory costs.
 - (f) Pre-determined overhead rates.
 - (g) Over and under-absorption of overhead.

3. **Activity-based Costing (This content relates to Specific Objectives 4, 6, and 7)**
 - (a) *Cost drivers.*
 - (b) *Activity levels.*
 - (c) *Activity rates.*

4. **Process Costing (This content relates to Specific Objectives 4, 8 and 9)**
 - (a) Nature of process costing.
 - (b) *Conversion costs.*
 - (c) *Equivalent units of production.*
 - (d) Process-costing procedures (*FIFO and Weighted Average*).
 - (e) *Process-costing worksheets (excluding transferred in costs and accounting for losses).*

UNIT 2

MODULE 2: COSTING SYSTEMS (cont'd)

5. ***The Application of Costing Systems to the Services Industry (This content relates to Objectives 10 and 11)***

Job Costing, Activity based Costing and Process Costing in:

- (a) *Hotels.*
- (b) *Financial services.*
- (c) *Legal firms, medical, beauty salons.*

6. ***Marginal Costing and Absorption Costing***

- (a) *Marginal costing techniques.*
- (b) *Absorption costing techniques.*

7. ***Income Statements***

- (a) *Marginal costing income statement.*
- (b) *Absorption costing income statement.*
- (c) *Reconciliation of net income.*

Suggested Teaching and Learning Activities

This Module requires 50 hours of work inclusive of time spent on the School-Based Assessment.

1. **Overview of Costing Systems**

Class discussion on the need for costing systems.

2. **Job Costing**

Students should be practised in the preparation of job cost sheets and accounts related to job costing.

3. **Activity Based Costing**

Students should be practised in calculating activity rates using a number of different cost drivers.

UNIT 2
MODULE 2: COSTING SYSTEMS (cont'd)

Students should be practised in the computation of equivalent units for direct materials and conversion costs.

4. Process Costing

Students should be practised in the preparation of Process Costing Worksheets (using the process costing work sheets format – found in most North American Texts).

5. Costing in the Service Sector

Students should be practised in preparing statements using the various costing systems in service sector entities.

Class discussion on the issues and difficulties associated with service sector costing.

6. Marginal Costing and Absorption Costing

Students should be practised in the preparation of Income Statements under marginal and absorption costing and a statement reconciling the net income computed under marginal and absorption costing.

UNIT 2

MODULE 3: PLANNING AND DECISION MAKING

SPECIFIC OBJECTIVES

Students should be able to:

1. explain the rationale for the use of budgets in planning, decision making and control;
2. prepare a *master budget and its related schedules and budgets*;
3. explain the concept of standard costing and the process of establishing standards;
4. compute material, labour, variable overhead and fixed overhead variances;
5. calculate break-even point and margin of safety;
6. *compute* and use net present value (NPV), payback, discounted payback, accounting rate of return and internal rate of return (IRR) to accept or reject projects; and,
7. use financial and non-financial factors to evaluate investment decisions.

CONTENT

1. **Budgeting**

- (a) The objectives of budgeting.
- (b) The role of the budget committee.
- (c) Budgetary control.

2. **Master Budget**

- (a) *The cash budget and supporting schedules; (schedule of collections, schedule of disbursements).*
- (b) *Purchases budget, sales budget, production budget (exclude forecasted income statement and balance sheet).*

3. **Standard Costing**

- (a) The concept of standard costing.
- (b) The standard-setting process.
- (c) Standard cost card.

UNIT 2

MODULE 3: PLANNING AND DECISION MAKING (cont'd)

4. **Variance Analysis**

- (a) Material variances (price and usage).
- (b) Labour variances (wage rate and efficiency).
- (c) Variable overhead variances (efficiency and expenditure).
- (d) Fixed overhead variances (expenditure and volume).

5. **Cost Volume Profit Analysis**

- (a) *Break-even formula.*
- (b) *Break-even point in units and dollars.*
- (c) *Contribution margin.*
- (d) *Margin of safety.*
- (e) *Target profit.*

6. **Capital Budgeting Techniques**

- (a) Time value of money applications using net present value (NPV), discounted payback and internal rate of return (IRR).
- (b) Non-discounting methods – payback and the accounting rate of return (ARR).

7. **Investment Decision Making**

- (a) *The use of qualitative issues in decision making.*
- (b) *The use of quantitative factors (NPV, Payback, IRR) in evaluating investment decisions.*

UNIT 2

MODULE 3: PLANNING AND DECISION MAKING (cont'd)

Suggested Teaching and Learning Activities

This Module requires 50 hours of work inclusive of time spent on the School-Based Assessment.

1. **Budgeting**

Class discussion on the objectives of budgeting as it relates to the planning function, as a mechanism for control and as a tool for decision making.

Students should be practised in the preparation of related schedules to support the preparation of a cash budget. These schedules should include a cash collection schedule for sales and a cash disbursement schedule for purchases among others.

2. **Standard Costing**

Students should be practised in calculating variances for Direct Materials, Direct Labour and Variable Overhead and Fixed Overhead.

Students should be practised in calculating the standard cost of a product.

3. **Cost Volume Profit Analysis**

Students should be practised in computing the contribution margin, break-even point, margin of safety and use of target profit in break-even formula.

4. **Capital Budgeting**

Engage students in discussion on the importance of ethical, environmental and other social concerns, which may influence long-term decision making.

Students should be practised in calculating cash flows.

Students should be practised in calculating the present value of single amounts and annuities using present value tables. The present value formula should be discussed when introducing students to the present value concept.

Students should be practised in using the acceptance criteria for payback, NPV, ARR in investment decisions.

UNIT 2
MODULE 3: PLANNING AND DECISION MAKING (cont'd)

RESOURCES

- | | |
|-----------------------------------|---|
| Caribbean Examinations Council | <i>CAPE Accounting Study Guide, Unit 2. Nelson Thornes Publishers, 2011.</i> |
| Garrison, R., and Noreen, E. | <i>Managerial Accounting Concepts for Planning, Control and Decision Making. New Jersey: McGraw Hill, 2000.</i> |
| Weygandt, J., Keiso, D., Kell, W. | <i>Accounting Principles. New York: John Wiley and Sons, 7th edition, 1990.</i> |

◆ OUTLINE OF ASSESSMENT

Each Unit of the syllabus will be assessed separately.

EXTERNAL ASSESSMENT

Written Papers: 4 hours 15 minutes

Paper 01 (1 hour 30 minutes) This paper will consist of *forty-five* multiple-choice questions with *fifteen questions* on each of the three Modules. (30 per cent)

Paper 02 (2 hours 45 minutes) This paper will consist of three compulsory questions with one *on* each of the three Modules. (50 per cent)

SCHOOL-BASED ASSESSMENT

The School-Based Assessment for each Unit is compulsory.

For Unit 1, it will be based on a project requiring the candidate to demonstrate skills in research, analysis, evaluation and presentation of information.

For Unit 2, it will be based on module tests, set and assessed internally by teachers. The duration of the test for each Module should be 1½ hours. For each Module, teachers have the option of administering one 1½ hour test or two 45 minute tests. The scores obtained on the Module test will be the candidate's score for that Module.

MODERATION OF SCHOOL-BASED ASSESSMENT

School-Based Assessment Record Sheets are available online via the CXC's website www.cxc.org. 

All School-Based Assessment Record of marks must be submitted Online using the SBA data capture module of the Online Registration System (ORS). A sample of assignments will be requested by CXC for moderation purposes. These assignments will be re-assessed by CXC Examiners who moderate the School-Based Assessment. Teachers' marks may be adjusted as a result of moderation. The Examiners' comments will be sent to schools. All samples must be delivered to the specified marking venues by the stipulated deadlines.

Copies of the students' assignment that are not submitted must be retained by the school until three months after publication of the examination results by CXC.

ASSESSMENT DETAILS

Assessment for each Unit

External Assessment by written papers (80 per cent of Total Assessment)

Paper 01 – (1 hour 30 minutes – 30 per cent of Total Assessment)

1. Composition of the Paper

The paper consists of *forty-five (45) multiple-choice questions, fifteen on each Module*. All questions are compulsory.

2. Syllabus Coverage

Knowledge of the entire syllabus is required.

3. Question Type

- (a) *At least fifteen of the multiple-choice questions will be conceptual. These questions will test students' understanding of accounting concepts and principles.*
- (b) *The remaining questions will be computational. Questions of this type will require calculations using the data provided.*

4. Mark Allocation

- (a) One mark will be assigned for each multiple-choice *question*.
- (b) The total number of marks available for this paper is *45 which will be weighted to 90*.
- (c) *Paper 01 contributes 30 per cent to the candidate's final grade.*

5. Use of Calculators

The use of silent non-programmable calculators is allowed.

Paper 02 – (2 hours 45 minutes – 50 per cent)

1. Composition of the Paper

This paper comprises three compulsory questions, one from each Module carrying equal weight.

2. Syllabus Coverage

The intention is to test candidates' knowledge of the syllabus in depth. Each question requires more depth of understanding than the questions in Paper 01.

3. Question Type

This paper will comprise essay questions and computational questions.

4. Mark Allocation

- (a) Each question is worth 35 marks. The total number of marks available for this paper is 105 *which will be weighted to 150*.
- (b) Marks will be awarded for evidence of:
 - (i) clear and logical reasoning;
 - (ii) the ability to analyse a problem step by step and to apply the necessary principles, conventions, knowledge and skills to reach a logical conclusion; and,
 - (iii) accuracy in computations and other problem-solving processes.
- (c) Full marks are awarded for correct answers and the presence of appropriate format and working.
- (d) Credit may be given for partially correct or incomplete answers.

5. Use of Calculators

The use of silent non-programmable calculators is allowed.

SCHOOL-BASED ASSESSMENT

School-Based Assessment (20 per cent)

School-Based Assessment is an integral part of student assessment in the course covered by this syllabus. It is intended to assist students in acquiring certain knowledge, skills, and attitudes that are associated with the subject. The activities for the School-Based Assessment are linked to the syllabus and should form part of the learning activities to enable the student to achieve the objectives of the syllabus.

During the course of study for the subject, students obtain marks for the competence they develop and demonstrate in undertaking their School-Based Assessment assignments. These marks contribute to the final marks and grades that are awarded to students for their performance in the examination.

The guidelines provided in this syllabus for selecting appropriate tasks are intended to assist teachers and students in selecting assignments that are valid for the purpose of School-Based Assessment. The guidelines provided for the assessment of these assignments are intended to assist teachers in awarding marks that are reliable estimates of the achievement of students in the School-Based Assessment component of the course. In order to ensure that the scores awarded by teachers are not out of line with the CXC standards, the Council undertakes the moderation of a sample of the School-Based Assessment assignments marked by each teacher.

School-Based Assessment provides an opportunity to individualise a part of the curriculum to meet the needs of students. It facilitates feedback to the student at various stages of the experience. This helps to build the self-confidence of students as they proceed with their studies. School-Based Assessment also facilitates the development of the critical skills and abilities emphasised by this CAPE subject and enhance the validity of the examination on which candidate performance is reported. School-Based Assessment, therefore, makes a significant and unique contribution to both the development of relevant skills and the testing and rewarding of students for the development of those skills.

The Caribbean Examinations Council seeks to ensure that the School-Based Assessment scores are valid and reliable estimates of accomplishment. The guidelines provided in this syllabus are intended to assist in doing so.

GENERAL GUIDELINES FOR TEACHERS

1. The School-Based Assessment is intended to assist in the development of the skills and abilities that are critical in Accounting.
2. Teachers are encouraged to provide ample opportunities for practicing the skills that will be developed through (tested in) the School-Based Assessment.
3. The provision of adequate and timely feedback is essential to the development of those skills.
4. Marks must be dispatched through the Local Registrar for submission to CXC by May 31 in the year of the examination.
5. CXC will require a sample of the projects and tests for external moderation. These assignments must be retained by the school for at least three months after publication of examination results.

6. Teachers should note that the reliability of marks awarded is a significant factor in School-Based Assessment, and has far-reaching implications for the candidate's final grade.
7. Candidates who do not fulfill the requirements of the School-Based Assessment will be considered absent from the whole examination.
8. **For Unit 1**, teachers are asked to note the following:
 - (a) the teacher is required to allocate one-third of the total score for the School-Based Assessment to each Module. Fractional marks should not be awarded. In cases where the mark is not divisible by three, then:
 - (i) when the remainder is 1 mark, the mark should be allocated to Module 3; and,
 - (ii) when the remainder is 2, then the mark should be allocated to Module 3, and the other mark to Module 2

for example, 35 marks would be allocated as follows:

$35/3 = 11$ remainder 2 so 11 marks to Module 1 and 12 marks to each of Modules 2 and 3.
 - (b) the standard of marking should conform to the guidelines prescribed in the syllabus; and,
 - (c) teachers are required to submit samples of the projects.
9. **For Unit 2**, teachers are asked to note the following:
 - (a) the total of the marks obtained on each test represents the candidate's mark for that Module.
 - (b) teachers are required to submit a sample of candidates' graded scripts, a copy of each test, the solutions and mark schemes used for the test.

UNIT 1

Paper 031: The Project – 20 per cent

Marks earned will be pro-rated over the three Modules.

The aims of the project are to:

1. allow students to ask their own questions and find appropriate answers;
2. allow teachers the opportunity to participate in the assessment of their students;
3. promote investigative skills;
4. ensure that assessment takes place in a more authentic environment;
5. explore more fully some areas of the Unit which cannot be assessed adequately under examination conditions; and,
6. enable students to experience the environment within which accounting and reporting activities occur in the Caribbean.

1. Guidelines for selecting task for School-Based Assessment

Candidates' performance will be reported by Unit and Module.

The syllabus lends itself to a range of accounting issues that are suitable for investigation. The topic selected for investigation should reflect legal, social, ethical and technological issues and their impact on accounting in business entities in the Caribbean. The following table provides a list of such topics, however, candidates may select a topic that is not included in the list provided that they can report on the impact of such on accounting.

- (a) Social and ethical issues in accounting
- (b) Liquidation and receivership
- (c) Internal controls
- (d) Accounting standards
- (e) Technology and accounting
- (f) Incomplete records
- (g) Performance analysis
- (h) Financial reporting and disclosure practices
- (i) Accounting and reporting practices in the various forms of business entities
Auditing

Candidates should study the specific objectives provided in the syllabus and select one or more than one objective that fit within their area of investigation. The specific objectives provide the context within which the selected topic will be investigated.

In presenting the results of your investigation whether you select one or more than one objective from one or more than one Module, your report should present a coherent investigation, rather than a disjointed piece of work.

- (a) An early start to planning project work is highly recommended. Each candidate should know the requirements of the project and its assessment procedures as part of the orientation to the unit.
- (b) Teachers should guide the candidate in choosing an appropriate topic that relates to the candidate's interest and the specific objectives identified.
- (c) A schedule of the dates for submitting project work (agreed by teachers and candidates) should be firmly established.
- (d) The teacher should offer guidance in the data collection process and the preparation of the report.
- (e) The following primary sources of data can be used by candidates in their research activities: newspapers published financial statements, magazines (such as News Week, Business Week, Times), trade and professional journals, accounting professionals, local legislation, accounting standards and the Internet.

3. Project Reports

Candidates are required to select a topic for investigation and write a project report *not exceeding 1500* words, preferably type written and double-spaced. This report should contain the following:

- (a) Title;
- (b) Table of contents;
- (c) Acknowledgements;
- (d) Introduction;
- (e) Report:
 - (i) Aims and objectives of your Project – (issues being explored);
 - (ii) Literature Review;
 - (iii) Data Collection;
 - (iv) Data Presentation and Analysis;
 - (v) Evaluation;
 - (vi) Recommendations; and,
 - (vii) Conclusion.
- (f) Appendices (such as questionnaires, diagrams, charts, statistical data); and,
- (g) Bibliography.

4. Description of terms used in the Project:

Aim and Objectives

- (a) *The aim of the Project refers to what the Project hopes to achieve.*
- (b) *An Objective of the Project refers to the specific research question you are seeking to answer.*

Literature Review

A literature review is an account of what has been published on a topic by researchers.

Data Collection

The method or methods used to collect the data/information for the project (including questionnaires, interviews and other methods).

Data Presentation and Analysis

Presentation of the results of the investigation using analysis tools.

Evaluation

An evaluation of research findings. Relating the findings of your investigation to the literature.

The following pages outline how the Project Report will be assessed.

MARK SCHEME FOR SCHOOL-BASED ASSESSMENT

	MARKS
1. AIMS AND OBJECTIVES	(6)
• Aim(s) and at least two objectives of the study clearly stated and relevant to the topic chosen.	6
• Aim(s) and one objective of the study clearly stated and relevant to the topic.	5
• Aim(s) and at least two objectives of the study bearing relevance to the topic stated but not clearly stated.	4
• Aim(s) and one objective of the study bearing relevance to the topic but not clearly stated.	3
• Aim(s) and two objectives of the study stated.	2
• Aim(s) and one objective of the study stated.	1
2. DATA COLLECTION	(8)
• The method(s) of investigation clearly stated.	1-2
• Justification for the method(s) adequate.	1-3
• A statement or explanation of limitations stated.	1-3
3. LITERATURE REVIEW	(6)
• Thorough treatment of literature related to topic.	5-6
• Fairly thorough treatment of literature related to topic.	3-4
• Partial treatment of literature related to the topic.	1-2
4. DATA PRESENTATION AND ANALYSIS	(11)
• Candidate correctly applies most principles, concepts and skills to problems/situations and uses analysis tools to analyse the most relevant issues in a very competent way.	9-11
• Candidate applies principles, concepts and skills to problems/situations and analyses issues in a fairly competent way.	6-8
• Candidate applies limited skills and principles and analyses few issues in a limited way.	3-5
• Candidate shows little or no skill in the application of principles/concepts and in analysing issues.	1-2
	(12)

5.	EVALUATION	
	<ul style="list-style-type: none"> • Candidate uses well-defined criteria, that is, accuracy, consistency, logical order to evaluate/make inferences from data collected in a very competent way, including reasons for judgement/decision. 9-12 • Candidate uses well defined criteria that is, to evaluate/make inferences from data collected in a fairly competent way. 6-8 • Candidate uses one or two criteria to evaluate data collected in a limited way. 3-5 • Candidate shows little or no skill in evaluating data collected. 1-2 	
6.	RECOMMENDATIONS	(4)
	<ul style="list-style-type: none"> • Candidate makes recommendations, logically deduced from data collected. 3-4 • Candidate makes recommendations that have limited relationship to data collected. 1-2 	
7.	CONCLUSION	(3)
	<ul style="list-style-type: none"> • Conclusion based on findings and related to the purposes of the project. 2-3 • Conclusion related to the purpose of the project but not based on findings. 1 	
8.	PRESENTATION OF PROJECT	(10)
	<ul style="list-style-type: none"> • Table of contents presented in an acceptable format. 1 • Candidate communicates information using correct grammar. 1-2 • Candidates use media other than text to present information (graph, tables, charts, diagrams). 1-2 • Bibliography presented in an acceptable manner. 1-2 • Candidate organises project report presenting the information logically and coherently. 1-3 	
	Total Marks	(60)

GUIDELINES FOR SCHOOL-BASED ASSESSMENT FOR UNIT 2

This paper comprises module tests. The duration of the test for each Module should be 1½ hours. For each Module teachers have the option of administering one 1½ hour test or two 45 minute tests. The scores obtained on the Module test will be the candidate’s score for that Module. The tests, designed and assessed by the teacher, are externally moderated by CXC.

1. Composition of the Tests

- (a) In testing each Module at least 60 per cent of the objectives in Module must be covered.
- (b) Items selected for each test should examine only specific objectives contained in the module.
- (c) Each question should be clearly linked to one (or more) specific objectives.

2. Question Type

- (a) The mix of questions could take the form of multiple choice, short answer, essay or computational.
- (b) The questions on the Specimen Paper 032 provided in the syllabus may be used as a prototype.

3. Mark Allocation

- (a) There is a maximum of 20 marks for each Module.
- (b) There is a maximum of 60 marks for the School-Based Assessment.
- (c) The tests in each Module may be marked out of a raw score of any total but this must be converted to a score out of twenty (20) for the Module.

4. Award of Marks

- (a) The mark scheme provided in the syllabus for Specimen Paper 032 may be used as a *prototype*.
- (b) Full marks *shall be* awarded for correct answer and the presence of appropriate format and working.
- (c) Credit should be given for partially correct or incomplete answers.
- (d) If a candidate uses an incorrect answer computed earlier in the question then marks may be awarded in the later part even though the original answer is incorrect. In this way, a candidate is not penalized twice for the same mistake.

◆ REGULATIONS FOR PRIVATE CANDIDATES

Private candidates will be required to write Papers 01, 02 and 032.

UNIT 1

Paper 032 – (20 per cent of Total Assessment)

1. Composition of the Paper

This paper comprises three compulsory questions, one from each Module carrying equal weight. Each question may require computational and free response answers.

2. Syllabus Coverage

Private candidates are expected to undertake an investigation on a specific topic in order to address the scenarios presented in the examination.

For Private Candidates sitting the CAPE® Accounting examination in May/June 2023, please note that for Paper 032 the focus will be on Financial Reporting in Partnerships:

- *characteristics, formation, financial reporting, and financial performance; and,*
- *conversion to other forms of business organizations.*

In investigating a topic, candidates should focus on the relevant specific objectives for each of the three Modules in the Unit.

3. Question Type

Questions in this paper may be short answer, extended essay and computational questions.

4. Mark Allocation

Each of the *three* modules would have TWO questions, *each* worth 20 marks. The total number of marks available for this paper is 60.

5. Award of Marks

- (a) Marks will be awarded for evidence of:
- (i) clear and logical reasoning;
 - (ii) the ability to analyse a problem step by step and to apply the necessary principles, conventions, knowledge and skills to reach a logical conclusion; and,
 - (iii) accuracy in computations and other problem-solving processes.
- (b) Full marks are awarded for correct answers and the presence of appropriate format and working.

6. Use of Calculators

The use of silent non-programmable calculators is allowed.

UNIT 2 – Paper 032

1. Composition of the Paper

This paper comprises nine short response questions, three from each Module.

2. Syllabus Coverage

The questions may require knowledge of at least 60 per cent of the objectives in each module.

3. Mark Allocation

The marks for each Module total 20 marks, though each question may not necessarily carry the same number of marks. The maximum number of marks for this paper is 60.

The total number of marks available for this paper is 60.

4. Award of Marks

- (a) Marks will be awarded for evidence of:
 - (i) clear and logical reasoning;
 - (ii) the ability to analyse a problem step by step and to apply the necessary principles, conventions, knowledge and skills to reach a logical conclusion; and,
 - (iii) accuracy in computations and other problem-solving processes.
- (b) Full marks are awarded for correct answers and the presence of appropriate format and working.
- (c) Credit may be given for partially correct or incomplete answers.

5. Use of Calculators

The use of silent non-programmable calculators is allowed.

◆ REGULATIONS FOR RESIT CANDIDATES



Resit candidates must *rewrite* Papers 01 and 02 of the examination for the year for which they re-register.

Resit candidates may elect not to repeat the School-Based Assessment component provided they rewrite the examination no later than two years following their first attempt. *A candidate who rewrites the examination in the same Unit within two years may reuse the moderated SBA score earned in the previous sitting within the preceding two years. Candidates reusing SBA scores in this way must register as “Resit candidates” and provide the previous candidate number.* Resit candidates must be entered through a school, approved educational institution or the Local Registrar’s office.

◆ ASSESSMENT GRID

The Assessment Grid for each Unit contains marks assigned to papers and to Modules and percentage contributions of each paper to total scores.

PAPER	Modules			Total	(%)
	Module 1	Module 2	Module 3		
External Assessment					
Paper 01	15 (30)	15 (30)	15 (30)	45 (90)	(30)
Paper 02	35 (50)	35 (50)	35 (50)	105 (150)	(50)
School-Based Assessment					
Papers 031 or 032	20	20	20	60	(20)
Total	100	100	100	300	(100)

N.B. Weighted marks are indicated in parenthesis.

Western Zone Office
29 August 2022

CARIBBEAN EXAMINATIONS COUNCIL

Caribbean Advanced Proficiency Examination® CAPE®



ACCOUNTING

Specimen Papers and Mark Schemes/Keys

Specimen Papers:

Unit 1 Paper 01
Unit 1 Paper 02
Unit 1 Paper 032
Unit 2 Paper 01
Unit 2 Paper 02
Unit 2 Paper 032

Mark Schemes and Key:

Unit 1 Paper 01
Unit 1 Paper 02
Unit 1 Paper 032
Unit 2 Paper 01
Unit 2 Paper 02
Unit 2 Paper 032



**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

**SPECIMEN PAPER
MULTIPLE CHOICE QUESTIONS
FOR**

ACCOUNTING - UNIT 1

Paper 01

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This test consists of 45 items. You will have 90 minutes to answer them.
2. Each item in this test has four suggested answers lettered (A), (B), (C), (D). Read each item you are about to answer and decide which choice is best.
3. Look at the sample item below.

Sample Item

The cost of an asset consumed in the generation of revenue is treated in the books as

Sample Answer

- (A) a gain
- (B) a liability
- (C) an expense
- (D) an allowance



The best answer to this item is “an expense”, so answer space (C) has been shaded.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

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1. Gablewoods Apartments Inc received six months' rent in advance on December 1, 2009. Under the accrual basis of accounting the income should be recognized
- (A) on December 31, 2009
 - (B) on December 1, 2009
 - (C) proportionately each month
 - (D) at the end of the six-month period
2. What is the MOST important element of an internal control system?
- (A) Publication of the internal controls
 - (B) Motivating staff to increase output
 - (C) Purchasing adequate insurance coverage
 - (D) Performing a cost-benefit analysis before each internal control is put into place
3. Which of the following activities is NOT an application of accrual accounting?
- (A) Adjusting the accounts at the end of a period
 - (B) Recognizing revenues when earned
 - (C) Recognizing expenses when incurred
 - (D) Recording expenses when paid
4. Financial accounting focuses on the specific needs of decision makers external to the organization. Which of the following is NOT an external user?
- (A) Stockholder
 - (B) Internal Revenue Service
 - (C) Vice President Marketing
 - (D) Bank
5. Which of the following statements does NOT express a feature of a computerized accounting system?
- (A) The recording of business transactions is more efficient
 - (B) Principles different from those in a manual accounting system are used
 - (C) Accounting information and reports are accessed much faster
 - (D) Arithmetic calculations are more accurate

-
6. Richardson Inc sold 2 000 ordinary shares which were held as a temporary investment. The shares were acquired six months ago at a cost of \$45 a share. Richardson Inc sold the shares for \$40 a share. The entry to record the sale is:

		\$	\$
(A)	Temporary stock investment	80 000	
	Loss on sale of temporary investment	10 000	
	Cash		90 000
(B)	Cash	90 000	
	Gain on sale of temporary investment		10 000
	Temporary stock investments		90 000
(C)	Cash	80 000	
	Temporary stock investments		80 000
(D)	Cash	80 000	
	Loss on sale of temporary investment	10 000	
	Temporary stock investments		90 000

GO ON TO THE NEXT PAGE

7. The principle that underlies an accountant's decision to make a provision for doubtful debts is the principle of

- (A) conservatism
- (B) revenue recognition
- (C) money measurement
- (D) double entry

8. Joylyn Inc paid \$9,000 for 1 500 common shares with a par value of \$5.00 each from Jackie Ltd. The journal entry to record this transaction in the books of Jackie Ltd is

		\$	\$
(A)	Investment in Jackie Ltd	9 000	
	Cash		9 000
(B)	Cash	9 000	
	Share Capital		7 500
	Share premium		1 500
(C)	Share Capital	7 500	
	Share premium	1 500	
	Cash		9 000
(D)	Share Capital	9 000	
	Cash		9 000

9. RXM Ltd. invested \$600 000 in marketable securities in 2009. During 2010 the market value of these securities fluctuated between \$300 000 and \$600 000. The market value at the end of 2010 was \$650 000. RXM Ltd. should record its marketable securities at December 31, 2010 as

- (A) \$ 50 000
- (B) \$ 300 000
- (C) \$ 600 000
- (D) \$ 650 000

11. Which of the following tasks is a function of International Accounting Standards?

- (A) Regulating the payment of income tax in Caribbean territories
- (B) Providing guidelines indicating how to report economic events
- (C) Providing rules for conducting business activities
- (D) Devising principles for conducting accounting research and practice

10. ABC Corporation issued 1 000 shares of \$10 par value at \$12 per share. Which of the following credits are made in order to record this transaction?

- (A) Share capital \$10 000 and share premium \$2 000
- (B) Share capital \$12 000 and cash \$2 000
- (C) Share capital \$10 000 and profit and loss \$2 000
- (D) Share capital \$10 000 and retained earnings \$2 000

12. Guyco. issued 750 000 shares of \$10 par value common stock in exchange for a building valued at \$800 000. The entry for this transaction includes a

- (A) debit to the Building account for \$800 000
- (B) debit to the Building account for \$750 000
- (C) credit to Common Stock for \$800 000
- (D) credit to the Building account for \$50 000

GO ON TO THE NEXT PAGE

13. A company received a \$300 dividend payment on a short-term investment. Which of the following is true?
- (A) Dividend Revenue is credited for \$300.
 - (B) Dividend Revenue is debited for \$300.
 - (C) Short-term Investment is debited for \$300.
 - (D) Short-term Investment is credited for \$300.
14. On January 1, 2012, RosMarie Inc. has machinery on the books that originally cost \$100 000. During 2012, the following expenditures were made:
- | | |
|---------------|--------|
| Minor repairs | 5 000 |
| Improvements | 20 000 |
| Additions | 9 000 |
- How much would be recorded in the machinery account on December 31, 2012?
- (A) \$105 000
 - (B) \$109 000
 - (C) \$120 000
 - (D) \$129 000
15. The declaration of a 10% stock dividend on 100 000 outstanding shares with a par value of \$1 and a market value of \$20 would include a debit to Retained Earnings of
- (A) \$ 0
 - (B) \$ 20 000
 - (C) \$ 200 000
 - (D) \$ 210 000
16. The Hodge Company estimated at January 1, 2009 that its income before taxes for the year ended December 31, 2009 would be \$5 500 000. The Hodge Company's tax rate for the year is 42%. The company made quarterly tax payments in April, June, September and December 15. The actual income for the year ended December 31, 2009 was \$5 700 000. The amount of income tax payable at December 31, 2009 is
- (A) \$ 0
 - (B) \$ 84 000
 - (C) \$ 100 000
 - (D) \$ 144 000
17. Which of the following is a feature of preferred shares?
- I. Convertible
 - II. Participating
 - III. Callable
- (A) I only
 - (B) I and II only
 - (C) II and III only
 - (D) I, II and III
18. The par value of a share is defined as
- (A) the minimum price for the stock when issued
 - (B) the maximum amount for which a share of stock may be sold
 - (C) an amount determined by the marketplace when shares of stock are sold
 - (D) the exact amount for which an individual share of stock must be sold
19. The Lara Company issued 10 000 000 no par shares at a stated value of \$5 on January 1, 2000. On December 31, 2010 the company declared and distributed a 5% stock dividend. The shareholders equity on the statement of financial position would increase by
- (A) \$ 0
 - (B) \$ 500 000
 - (C) \$ 2 000 000
 - (D) \$ 2 500 000

GO ON TO THE NEXT PAGE

Items 20–21 refer to the following information.

Able, Baker and Chapman partnership had assets with a book value of \$240 000 and a market value of \$195 000, liabilities of \$90 000, and capital balances for partners Able, Baker and Chapman of \$70 000, \$30 000 and \$50 000. The partners decide to incorporate the partnership. The new company ABC Inc. will issue 30 000 shares with a par value of \$2 each to the partners.

20. How much will be Able's share of the gain or loss on realization?
- (A) \$ 15 000
 - (B) \$ 21 000
 - (C) \$ 28 000
 - (D) \$ 50 000
21. Chapman will receive shares with a total value of
- (A) \$ 10 000
 - (B) \$ 20 000
 - (C) \$ 35 000
 - (D) \$ 50 000

Items 22–23 refer to the following information.

Will Smith, a new partner, is admitted to the Labell and Ross Partnership under the bonus method. He contributes cash of \$20 000 and equipment with a market value of \$30 000 in exchange for a 20% ownership interest in the new partnership. The capital of the existing partnership is \$130 000. Labell and Ross share profits and losses in the ratio 80:20, respectively.

22. Will Smith's capital balance is
- (A) \$ 30 000
 - (B) \$ 35 000
 - (C) \$ 36 000
 - (D) \$ 50 000

23. Which of the following bonus amounts would be recorded?
- (A) \$ 14 000 to Will Smith capital
 - (B) \$ 2 800 increase to Ross capital
 - (C) \$ 2 800 decrease to Ross capital
 - (D) \$ 7 000 increase to Labell capital
24. On January 1, 2010, Haynes Company issued \$75 000 of notes payable, of which \$15 000 is due on January 1 for each of the next five years. The company year end is December 31. The statement of financial position presentation on December 31, 2010, is:
- (A) Current Liabilities – \$ 75 000
 - (B) Long-Term Liabilities – \$ 75 000
 - (C) Current Liabilities – \$ 15 000
Long-Term Liabilities – \$ 60 000
 - (D) Current Liabilities – \$ 60 000
Long-Term Liabilities – \$ 15 000
25. A factor that distinguishes a company from a sole proprietorship or partnership is that the company is
- (A) an accounting entity
 - (B) organized to make a profit
 - (C) subject to statute and government regulations
 - (D) required to close its temporary accounts at the end of the fiscal period
26. Which of the following statements relating to societies is FALSE?
- (A) The surplus can be allocated in the form of patronage refund.
 - (B) Members can transfer their shares on the local securities exchange.
 - (C) They are controlled by members who have equal voting rights.
 - (D) They are based on values of self-help, equality and equity.

GO ON TO THE NEXT PAGE

27. The Georgetown Cricket Club has 75 members who pay an annual subscription of \$150 each. During the review of the records on April 1, 2009 it was discovered that 70 members had paid their annual subscriptions during the year and 15 members had prepaid their 2009 subscriptions in 2008. The club had a social event in 2009 which realized a total profit of \$12 500. The Georgetown Cricket Club should show income from subscriptions and social events in the amount of
- (A) \$ 11 250
(B) \$ 23 000
(C) \$ 23 750
(D) \$ 25 250
28. Alexander Inc. purchased a new truck in 2005 for \$27 000. On January 1, 2009, when accumulated depreciation was \$20 000, the truck was sold for \$7 000 cash. What amount of gain or loss should Alexander Inc. report for this sale?
- (A) \$ 0
(B) \$ 7 000
(C) \$ 10 000
(D) \$ 14 000
29. Which of the following would NOT be considered an intangible asset?
- (A) Leasehold
(B) Trademark
(C) Franchise
(D) Receivables
30. Which of the following is NOT a long-term investment?
- (A) Cash surrender value of a life insurance policy
(B) Land held for speculation
(C) Franchise under specified conditions
(D) Government debentures redeemable in 5 years
31. Ashdon Inc.'s cost of goods sold for 2010 was \$65 000. They had beginning and ending inventory of \$12 000 and \$14 000, respectively. What was Ashdon Inc.'s inventory turnover for 2010?
- (A) 4.6
(B) 5.0
(C) 5.4
(D) 5.6
32. A Caribbean company made credit sales last year for \$10 000 000. The company's average annual accounts receivable was \$1 000 000. Given 365 days in a year calculate the Average Collection period for the company.
- (A) 36.5 days
(B) 66.5 days
(C) 300 days
(D) 360 days

-
33. Information relating to Black River Company's shares is as follows:

	<u>Per share</u>
Book value at December 31, 2009	\$ 15.00
Market value on Caribbean Stock Exchange at December 31, 2009	\$ 10.00
Earnings for 2009	\$ 5.00
Par value	\$ 2.00
Dividend for 2009	\$ 1.00

What is the price-earnings ratio on common stock for 2009?

- (A) 1.5
(B) 2.0
(C) 3.0
(D) 5.0

GO ON TO THE NEXT PAGE

34. A common measure of long-term solvency is
- (A) the current ratio
 - (B) asset turnover
 - (C) the debt-to-equity ratio
 - (D) earnings per share

35. Trump Inc., reported net income of \$300 000 for 2009 and paid dividends to common and preferred stockholders of \$50 000 and \$80 000, respectively. Trump Inc. had 100 000 shares of common and 50 000 shares of preferred stock outstanding during the year. What was Trump Inc. EPS for 2009?
- (A) \$1.70
 - (B) \$2.20
 - (C) \$2.50
 - (D) \$3.00

36. Justin Inc., had the following balances at June 30, 2010:

Total Liabilities	\$ 80 000
Total Shareholders' Equity	\$ 20 000
Total Assets	\$100 000
Pretax Income	\$ 10 000

What is Justin Inc.'s debt-to-equity ratio?

- (A) 3:1
 - (B) 4:1
 - (C) 5:1
 - (D) 10:1
37. The financial statements of Pryce Inc showed a net loss of \$10 000, depreciation expense of \$15 000, and an increase in accounts receivable of \$6 000. The amount of cash provided by (used in) operating activities, assuming no other charges in the accounts is
- (A) \$ (1 000)
 - (B) \$ (4 000)
 - (C) \$ 5 000
 - (D) \$ 11 000

38. For the year ended December 31, 2012, a company had cash payments for dividends on stock of \$40 000, cash paid for interest of \$7 000, cash paid to suppliers of \$8 000 and cash payments for equipment of \$9 000. Cash used by investing activities for 2012 is

- (A) \$ 9 000
- (B) \$ 17 000
- (C) \$ 24 000
- (D) \$ 49 000

39. ACE Builders Inc. has three items in inventory at December 31. The cost and net selling price of each is as follows:

Item	Cost	Net selling price
A	\$10	\$ 8
B	\$12	\$14
C	\$15	\$16

Using the lower-of-cost-or-market method on units basis of valuing inventory, what is the value reported for inventory in the statement of financial position?

- (A) \$34
 - (B) \$35
 - (C) \$37
 - (D) \$38
40. Which of the following events occurring after the reporting period would generally require adjustment of the financial statements?
- (A) Retirement of the General Manager
 - (B) Issue of a large amount of capital stock
 - (C) Employee strikes that shut down the company for one month
 - (D) Settlement of a law suit when the event that gave rise to the matter occurred prior to the balance sheet date

41. In the process of a liquidation the receiver must
- (A) dispose of assets in a commercially reasonable manner
 - (B) dispose of the business assets as soon as possible
 - (C) pay the creditors the full amount of their claims
 - (D) pay liquidation expenses after all other claims
42. Which of the following is a/are limitation(s) of the statement of financial position
- I. Many items are omitted
 - II. Judgement may be used
 - III. Current values are not reflected
- (A) I only
 - (B) III only
 - (C) II and III only
 - (D) I, II and III
43. Niger Inc. secured a \$540 000, 12 percent loan on March 1, 2011. The loan is payable in three annual installments of \$180 000, plus interest. The company's year-end is June 30. The first payment is to be made on March 1, 2012. The statement of financial position as at June 30, 2011 would indicate a current liability of
- (A) \$ 180 000
 - (B) \$ 201 600
 - (C) \$ 228 600
 - (D) \$ 244 800
44. During periods of inflation or deflation, the historical cost model for financial reporting is deficient because
- (A) comparative financial statements are published only for the three years prior
 - (B) the historical cost model uses numerous estimates for revenue and expense
 - (C) the historical cost model recognizes revenues and expenses before they are actually realized
 - (D) it adds and subtracts dollars with different purchasing power without adjusting for those differences
45. Creditors with liens against assets whose realisable value is more than the amount of the claim are called
- (A) priority creditors
 - (B) fully secured creditors
 - (C) partially secured creditors
 - (D) unsecured creditors

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

**CARIBBEAN ADVANCED PROFICIENCY
EXAMINATION**

ACCOUNTING - UNIT 1

SPECIMEN PAPER 2011

Question	SO	Key
1	1.2.2	C
2	1.6.6	B
3	1.2.2	D
4	1.1.1	C
5	1.7.7	B
6	1.5.5	D
7	1.4.4	A
8	1.5.5	B
9	1.5.5	D
10	1.5.5	A
11	1.3.3	B
12	1.5.5	A
13	1.5.5	A
14	1.5.5	D
15	1.5.5	C
16	2.12.12	B
17	2.1.1	D
18	2.1.1	A
19	2.11.11	D
20	2.10.10	B
21	2.10.10	C
22	2.9.9	C
23	2.9.9	B

Question	SO	Key
24	2.6.6	C
25	2.1.1	C
26	2.1.1	B
27	2.8.8	C
28	2.4.4	A
29	2.6.6	D
30	2.6.6	C
31	3.6.6	B
32	3.6.6	A
33	3.6.6	B
34	3.8.8	C
35	3.6.6	B
36	3.6.6	B
37	3.5.5	A
38	3.5.5	A
39	3.4.4	B
40	3.3.3	D
41	3.9.9	A
42	3.7.7	C
43	3.4.4	B
44	3.2.2	D
45	3.9.9	B

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

SPECIMEN PAPER

UNIT 1

PAPER 02

2 ¾ hours

INSTRUCTIONS TO CANDIDATES

1. This paper consists of THREE questions.
2. EACH question is worth 35 marks.
3. ALL questions are COMPULSORY.
4. Begin EACH answer on a new page.
5. Silent non-programmable calculators may be used, but ALL necessary working should be clearly shown.

1 (a) The Five Seasons Hotel has the following internal control procedures over cash disbursements. Explain the internal control PRINCIPLE that is applicable to each procedure.

- (i) Company cheques are pre-numbered.
- (ii) The bank statement is reconciled monthly by an internal auditor.
- (iii) Cheques must be signed by the Financial Controller and an Operations assistant.
- (iv) Blank cheques are stored in a fire-proof safe in the Financial Controller's Office.
- (v) Persons who sign cheques are not allowed to record cash disbursement transactions.

[10 marks]

(b) The table below presents a number of accounting procedures and practices in Red Sea Corporation. Each item listed violates an accounting assumption, principle, information characteristic or modifying convention.

Item Number	Item Description
1	An officer of Red Sea Corporation charges the cost of his life insurance premium as an administrative expense.
2	A machine, which cost \$180 000 is reported at its current market value of \$200 000.
3	Red Sea Corporation recognised all its sales revenue on a cash basis.
4	Red Sea Corporation wishes to change from FIFO method of stock valuation to LIFO method because the company is paying too much tax.
5	Red Sea Corporation's lawyers advised the company that it was possible that Red Sea would be awarded \$2 000 000 in damages and Red Sea recorded the amount as a receivable.

For EACH item, identify the assumption, principle, information characteristic or modifying convention that is being violated and state the purpose of that assumption, principle, information characteristic or modifying convention.

[15 marks]

- (c) The Charter of Bogata Corporation authorizes the issuance of 10 000 shares of Class A preferred stock, 2 000 shares of Class B preferred stock and 20 000 shares of common stock. During a two-month period, the following stock issuance occurred.

Nov 17	Issued 4 000 shares of \$2 per common stock at \$12.50.
Dec 4	Sold 600 no par Class A preferred stock at \$5.00, for \$3 000 cash.
Dec 15	Received inventory valued at \$15 000 and equipment with market value of \$25 000 for 6500 shares of \$1 par common stock.
Dec 29	Issued 2 000 shares of \$1 shares of 5% no par preferred stock with stated value of \$50 per share. The issue price was cash of \$60 per share.

Prepare the journal entries for the transactions above.

[10 marks]

Total 35 marks

2. Carnival Company is involved in the wholesaling and retailing of office supplies. The accountant resigned immediately after the following trial balance was extracted from the books of the company as at December 31, 2009, the end of the company's fiscal year.

Account Titles	Debit (\$)	Credit (\$)
Cash	50 100	
Accounts Receivable	128 100	
Allowance for doubtful debts		27 000
Merchandise inventory	114 000	
Store supplies	16 500	
Investments	285 000	
Store equipment	255 000	
Accumulated Depreciation - Store equipment		54 000
Delivery Equipment	144 000	
Accumulated Depreciation - Delivery Equipment		27 000
Accounts Payable		145 500
Utilities payable		8 400
Notes payable		180 000
Issued ordinary share capital		120 000
Share premium		210 000
Retained earnings		102 750
Sales		2 273 400
Sales returns and allowances	12 600	
Purchases	1 384 800	
Purchases returns, allowances and discounts		44 400
Rent and utilities expense	114 000	
Freight-in	32 400	
Salaries expense	420 000	
Advertising expense	39 600	
Delivery expense	72 000	
General expense	64 350	
Interest expense	48 600	
Loss due to flood	11 400	
Total	3 192 450	3 192 450

An accounts clerk prepared the following additional information that should be considered in preparing the financial statements:

1. Store supplies on hand totalled \$8 000 at the end of the period
2. Depreciation is charged on all fixed assets at the rate of 20 per cent per annum using the reducing balance basis.
3. Merchandise inventory on hand at December 31, 2009 is \$120 000.
4. Bad debts expense is estimated at 2 per cent of net sales.
5. Salaries expense is 60 per cent selling and 40 percent administrative.
6. Rent and utilities expense is 70 per cent selling and 30 percent administrative.
7. \$100 000 of the notes payable is due for payment the following year.
8. General expense is 100 percent administrative.
9. The corporation tax rate is 30 per cent.
10. Accounts receivable includes \$5 500 due from a customer who went into liquidation on December 15, 2009.
11. The company suffered minor losses due to seasonal flooding.
12. The investments are government bonds that will mature on December 1, 2020. The bonds pay 8 percent interest annually and were acquired in 2006.

You have just been hired and given the trial balance and additional information above. The directors of the company need a set of financial statements for their board meeting.

Prepare a **Statement of Comprehensive Income** and **Statement of Financial Position** for Carnival Company for the year ending December 31, 2009. The statements should comply with the requirements of the International Accounting Standards and International Financial Reporting Standards.

Total 35 marks

3. The financial statements of M J M Ltd. for the financial year 2008 are presented below.

M J M Ltd.
Statement of Comprehensive Income
For the year ended December 31, 2008

	\$	\$
Sales		245 000
Less: Cost of goods sold		<u>(105 000)</u>
Gross profit		140 000
Less: Selling and administrative expenses	97 500	
Depreciation expense	7 500	
Interest expense	500	
		<u>(105 500)</u>
		34 500
Less: Loss on sale of machinery		<u>(1 500)</u>
Income before taxes		33 000
Less: income tax expense		<u>(11 000)</u>
Net income		<u><u>22 000</u></u>

M J M Ltd.
Statement of Financial Position
For the year ended December 31, 2008

Assets

	\$	\$
	2008	2007
Cash	2 500	22 500
Accounts receivable (net)	26 000	18 500
Inventory	20 500	12 500
Machinery (net)	<u>30 000</u>	<u>30 000</u>
Total Assets	<u>79 000</u>	<u>83 500</u>

Liabilities & Stockholders' Equity

	\$	\$
Accounts payable	13 500	32 000
Long-term note payable	2 500	10 000
Common stock, \$5 par value	2 500	2 000
Paid in capital in excess of par value	10 000	8 000
Retained earnings	<u>50 500</u>	<u>31 500</u>
Total liabilities and stockholders' equity	<u>79 000</u>	<u>83 500</u>

The following additional information also applies to M J M Ltd.

1. Common stock (100 shares) were sold for \$25 per share in the middle of 2008
2. Dividends of \$6 per share were declared and paid late in 2008.
3. Machinery that cost \$10 000 but has a book value of \$6 500 was sold for \$5 000 cash. New machinery was purchased for \$14 000 cash.
4. The note payable relates to a borrowing transaction.

(a) Using the indirect method, prepare a Statement of Cash Flow for M J M Ltd for the year ended December 31, 2008. **[20 marks]**

(b) Calculate the following for M J M Ltd for 2008.

- | | | |
|-------|------------------------|------------------|
| (i) | Current ratio | [1 mark] |
| (ii) | Acid test Ratio | [1 mark] |
| (iii) | Net Income Percentage | [2 marks] |
| (iv) | Return on Total Assets | [2 marks] |
| (v) | Debt to Equity | [2 marks] |
| (vi) | Times Interest Earned | [2 marks] |

(c) Discuss the liquidity & solvency of M J M Ltd. **[5 marks]**

Total 35 marks

/CAPE/SPEC/MS/2010

C A R I B B E A N E X A M I N A T I O N S C O U N C I L

ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

SPECIMEN PAPER

UNIT 1
PAPER 02

MARK SCHEME

**ACCOUNTING
UNIT 1 PAPER 02
MARK SCHEME**

Question 1

1 (a)

- (i) The use of the company's pre-numbered cheques ensures documentation procedures, since all cheques are in a series and therefore can be accounted for in the records. **2 marks**

- (ii) The monthly reconciliation of the bank statement by an internal auditor allows for independent internal verification since bank and cash book balances are compared. **2 marks**

- (iii) Cheques being signed by the Financial Controller and Operations Assistant establishes responsibility. Only two persons are specified individuals who have authorization to ensure that the information is valid and accurate. **2 marks**

- (iv) Blank cheques are stored in a fire proof safe in the Financial Controller's office is the physical control in safeguarding the assets. **2marks**

- (v) Cheque signers are not allowed to record cash disbursements this ensures that the recording of the transaction and custody are separate. **2 marks**

1(b)

ITEM

- 1. Separate Legal Entity** **1 mark**

The business is seen as separate and distinct from its owners, so that finances of the firm should not be comingled with that of the officer's or owners of the company. **2 marks**

- 2. Historical Cost Concept** **1 mark**

Assets should be reported and presented at their original cost. **2 marks**

- 3. Revenue Recognition** **1 mark**

Revenue should be recognized when it is earned or received i.e. credit sales should be recognized as revenue **2 marks**

**ACCOUNTING
UNIT 1 PAPER 02
MARK SCHEME**

1(b) cont'd **ITEM**

4. Consistency Principle **1 mark**

The business should apply the same accounting methods over subsequent periods. The business should not change the accounting methods. **2 marks**

5. Prudence Concept **1 mark**

Expenses and liabilities should be recognized as soon as possible. Revenues should be recognized when they are realized or assured. The contingent gain is not virtually certain, it should not be recognized. **2 marks**

1 (c)

Nov 17	Cash		50 000	
	Common Stock	8 000		
	Share Premium	42 000		2 marks

Dec 4	Cash		3 000	
	Preference Stock- Class A		3 000	2 marks

Dec 15	Inventory		15 000	
	Equipment		25 000	
	Common Stock	6 500		
	Share Premium	33 500		3 marks

Dec 29	Cash		120 000	
	Preference Stock – Class B	100 000		
	Paid in excess of stated value	20 000		3 marks

TOTAL 35 marks

**ACCOUNTING
UNIT 1 PAPER 02
MARK SCHEME**

Question 2

**Carnival
Statement of Comprehensive Income
For Y/E Dec 31, 2009**

	\$	\$	\$
Sales			2 273 400
Sales Returns			<u>12 600</u>
Net Sales			2 260 800 (1)
<u>Cost of Goods Sold</u>			
Opening Inventory		114 000	
Purchases	1 384 800		
Freight	32 400		
Purchase Returns	<u>(44 400)</u>		
Net Purchases		<u>1 372 800 (2)</u>	
		1 486 800	
Closing Inventory		<u>120 000</u>	
Cost of Goods Sold			<u>1 366 800 (1)</u>
Gross Profit			894 000 (1)
<u>Distribution and Selling</u>			
Delivery equipment depreciation 20% (144 000-27 000)		23 400 (1)	
Advertising		39 600 *	
Delivery expense		72 000 *	
Rent and Utilities(70% x 114 000)		79 800 (1)	
Bad debt [2% x (2 260 800-55000)] + 5500		50 606 (2)	
Salaries (60% x 420 000)		<u>252 000 (1)</u>	
			(517 406)
<u>Administrative expenses</u>			
General expense		64 350 *	
Salaries (40% x 420 000)		168 000 (1)	
Store supplies		8 500 (1)	
Loss due to Flood		11 400 *	
Rent and Utilities(30% x 114 000)		34 200 (1)	
Depreciation- Store Equipment 20% (255 000 -54 000)		<u>40 200 (1)</u>	
			(326 650)
<u>Finance Cost</u>			
Interest on Loans			<u>(48 600) (1)</u>
Profit before Tax			1 344 (1)
Corporation Tax			<u>(403) (1)</u>
Net Income			<u>941 (1)</u>

**ACCOUNTING
UNIT 1 PAPER 02
MARK SCHEME**

Question 2 Cont'd

Carnival
Statement of Financial Position
As at Dec 31, 2009

	\$	\$	\$
ASSETS			
<u>Non Current Assets</u>			
Property, Plant and Equipment			
Store equipment: Cost			
Accumulated depreciation	255 000		
	<u>(94 200)</u>		
		160 800	(1)
Delivery Equipment: Cost			
Accumulated depreciation	144 000		
	<u>41 400</u>		
		<u>93 600</u>	(1)
Investment in Government Bonds			254 400
			<u>285 000</u>
			(1)
			539 400
Current Assets			
Store Supplies			
Merchandise Inventory		8 000	(1)
Accounts Receivable		120 000	*
(128 100 - 45106 -5500 -27000)			
Cash		50 494	(1)
		<u>50 100</u>	*
Total Assets			<u>228 594</u>
			<u>767 994</u>
			(1)
EQUITY AND LIABILITIES			
Equity			
Ordinary Share Capital			
Share Premium		120 000	*
Retained Earnings (102 750 + 941)		210 000	*
		<u>103 691</u>	(1)
Non Current Liabilities			433 691
Note Payable			
Current Liabilities			80 000
Note Payable			
Corporation Tax Payable		100 000	(1)
Utilities Payable		403	(1)
Accounts Payable		8 400	*
		<u>145 500</u>	*
Total Equity and Liabilities			<u>254303</u>
			<u>767 994</u>
			(1)
Account Title - 1 mark			<u>767 994</u>
10 stars at 1 mark for 2 stars (5 marks)			(1)

TOTAL 35 Marks

**ACCOUNTING
UNIT 1 PAPER 02
MARK SCHEME**

**Question 3
(a)**

**MJM Inc
Statement of Cash Flows
For Y/E 31 December 2008**

	\$		\$
Operating Activities			
Profit before interest and income taxes		33 500	(2)
Add depreciation		7 500	(1)
Add Loss on Sale of Machinery		<u>1 500</u>	(1)
Operating Income before Working Capital Changes			
Increase in Accounts Receivable		(7500)	(1)
Increase in Inventory		(8000)	(1)
Decrease in Accounts Payable		<u>(18 500)</u>	(1)
		8 500	
Interest Paid		(500)	(1)
Tax Paid		<u>(11 000)</u>	(1)
Net Cash from Operating Activities		(3 000)	(1)
Investing Activities			
Sale of Machinery	5 000		(1)
Purchase of Machinery	<u>(14 000)</u>		(1)
			(9 000) (1)
Financing Activities			
Repayment of long term loans	(7 500)		(1)
Issue of Shares	2 500		(1)
Dividends Paid	<u>(3 000)</u>		(1)
Net Cash used in Financing Activities		<u>(8 000)</u>	(1)
Decrease in Cash and Cash Equivalents	-	(20 000)	(1) <u>22 500</u>
Opening Cash and Cash Equivalents			<u>2500(1)</u>
Closing Cash and Cash Equivalents			

Account Title - 1 mark

ACCOUNTING
UNIT 1 PAPER 02
MARK SCHEME

3 (b) MJM Ratios

(i) Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

$$= \frac{2500 + 26\,000 + 20\,500}{13\,500}$$
$$= 3.62:1 \quad \text{(1 mark)}$$

(ii) Acid Test Ratio = $\frac{\text{Current Assets} - \text{Closing Inventory}}{\text{Current Liabilities}}$

$$= \frac{2500 + 26\,000}{13\,500}$$
$$= 2.1: 1 \quad \text{(1 mark)}$$

(iii) Net Income Percentage = $\frac{\text{Net Income}}{\text{Sales}} \times 100$

$$= \frac{22\,000}{245\,000} \times 100$$
$$= 8.98\% \quad \text{(2 marks)}$$

iii) Return on Assets = $\frac{\text{Net Income}}{\text{Average Total Assets}}$

$$\text{Average Total Assets} = \frac{(79\,000 + 83\,500)}{2}$$
$$= 81\,250$$
$$\text{Return on Total assets} = \frac{22\,000}{81\,250} \times 100$$
$$= 27\% \quad \text{(2 marks)}$$

iv) Debt to equity = $\frac{\text{Total Debt}}{\text{Total Equity}}$

$$= \frac{13\,500 + 2\,500}{2500 + 10\,000 + 50\,500}$$
$$= 25\% \quad \text{(2 marks)}$$

v) Times Interest Earned = $\frac{\text{Income before Tax and Interest}}{\text{Interest Expense}}$

$$= \frac{33\,000 + 500}{500}$$
$$= 67 \text{ times} \quad \text{(2 marks)}$$

**ACCOUNTING
UNIT 1 PAPER 02
MARK SCHEME**

3 (c) MJM appears to be quite liquid, as for both Current ratio and Acid Test ratio the company can comfortably cover their short term obligations. However, both Current ratio and Acid Test ratio are above the benchmark of 2:1 and 1:1, this indicates that the current assets may be idle. **(3 marks)**

Both debt to equity and times interest earned ratios indicate that MJM is quite solvent, i.e. they can meet their long term liabilities. The company is lowly geared and covers their interest expense comfortably. **(2 marks)**

Total 35 marks



TEST CODE **02101032**

SPEC 2016/ 02101032

C A R I B B E A N E X A M I N A T I O N S C O U N C I L
C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N[®]

ACCOUNTING

UNIT 1 – PAPER 032

1 hour 30 minutes

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises SIX questions. Answer ALL questions.
2. Write your answers in the spaces provided in this booklet.
3. DO NOT write in the margins.
4. If you need to rewrite any answer and there is not enough space to do so on the original page, you must use the extra lined page(s) provided at the back of this booklet. **Remember to draw a line through your original answer.**
5. **If you use the extra page(s) you MUST write the question number clearly in the box provided at the top of the extra page(s) and, where relevant, include the question part beside the answer.**
6. Silent non-programmable calculators may be used, but ALL necessary working should be clearly shown.

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CASE STUDY

Accounting and Reporting Practices of Business Organizations

INSTRUCTIONS: Read the case study and answer the questions that follow.

The main branch of Tina's Variety Store in Clarendon employs Margaret Taitt, the branch manager; a sales assistant, Julie Morgan; and a store attendant, Mr Smiley. The branch uses a bank account in Clarendon to deposit cash and pay expenses. The account is kept in the name of the business. To pay expenses, cheques must be signed by Margaret Taitt or the treasurer of Tina's Variety, Don Burns. Julie Morgan, the sales assistant, operates the front office store including the cash register. Mr Smiley receives the goods and stacks the shelves. He also functions as the security guard.

On investigating the internal control systems at Tina's Variety Store you have discovered the following.

Assets Register

The business acquired its building four years ago together with store fixtures and fittings. This was secured by a mortgage from the local bank in Clarendon. The cash register and a small computer were acquired about five months ago. None of the assets was recorded in the books and no depreciation was taken on any asset to date. The branch manager keeps the documents pertaining to these assets in a safety deposit box in the bank.

Sales and Cash Collection

The company makes both credit and cash sales. The sales assistant, Julie Morgan, records the credit sales in a notebook while cash sales are entered through the cash register. The manager stores the notebook containing the record of credit sales, the duplicate cash register tape and any notes relating to customer returns in a large box kept at the back of the store.

A section of the ground floor of the business has been sublet to Mr Raga whose lease requires that he pays the rent quarterly in advance. He rented the premises on 1 November and the business' fiscal year end is 31 December.

Purchases and Cash Disbursements

The company purchases goods on credit from most suppliers. Small cash purchases are made with cash from the cash register. On some occasions the owner withdraws cash for personal use and documents this in a notebook which is kept beside the cash register. The suppliers are paid when the invoice is received. The sales assistant records the cheque number on the invoice, stamps 'paid' on the invoice, clips the invoice on to a wire hanger in the corner of the store and mails the cheque to the supplier. The supplier returns a receipt to Tina's Variety together with any discrepancies noted on the account. The company sometimes returns faulty merchandise to the suppliers who issue the company with a credit note. These notes are also filed on the wire hanger but no attempt is made to determine the amount owed to the supplier by reconciling these notes with the invoices. The company maintains a cheque register to record all payments made by cheque. The bank statement and returned cheques are stored in the box at the back of the store. Business cheques are used to pay the various utilities and other expense bills for both the business and the owner's home. No attempt is made to match the bills to any particular accounting period. These bills are placed in the box and the corresponding cheque number is written on them when they were paid. The shop attendants are paid every two weeks while the manager is paid monthly.

3. Using the information provided, identify SIX accounts that Tina's Variety Store should have in its chart of accounts that can be used as the basis for the preparation of the financial statements.

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[6 marks]

On completion of the financial statements for Tina's Variety Store, you have received a copy of the financial statements for Rogers Trading Inc., a business that is quite similar to Tina's Variety Store. Your friend Bridget asserted that you can use ratio analysis to assess the performance of the two entities. She further added that in making the comparison using ratio analysis the ratios can be classified into four distinct categories.

5. (a) Identify the FOUR categories that are used in ratio analysis to assess performance.

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[2 marks]

- (b) Provide a definition for EACH category identified in (a), provide a definition of the categories and give two ratios that are classified within the category.

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[8 marks]



02101032/CAPE/MS 2016 SPEC

C A R I B B E A N E X A M I N A T I O N S C O U N C I L

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M A R K S C H E M E

**ACCOUNTING
UNIT 1 - PAPER 03/2
MARK SCHEME**

Question 1

1. THREE objectives of internal control are to provide reasonable assurance to management and to external auditors that:

- Operations are managed to achieve the desired goals of the business.
- Financial reports are accurate.
- Laws and regulations are complied with.
- Assets are safe

(1 mark each for 3 correct)

Max 3 marks

THREE elements of internal control are:

- Control procedures to ensure competent personnel are on the job, responsibilities are clearly defined
- The separation of duties for related functions
- The separation of accounting from custody of assets and from the operations of the business
- Having security measures for safeguarding assets

(1 mark each for 3 correct)

Max 3 marks

Total 6 marks

**ACCOUNTING
UNIT 1 - PAPER 03/2
MARK SCHEME**

Question 2

Obtain a copy of the business' mission and goals as well as its organizational chart and operations procedures to assess the effectiveness of the formal organization and management structure of the business

Use these documents as the basis for observing whether employees follow or ignore stated business policies.

Also use documents to assess whether employees are competent to perform the functions assigned to them e.g. is Ms Morgan trained to operate the cash register.

Assess the level of controls based on the separation of duties. For example, if Ms Taitt signs the cheques and Ms Morgan operates the cash register, find out who reconciles the business' bank account and who makes deposits.

Assess security measures by observing what happens if Ms Morgan goes to lunch, or moves away from the cash register: is it locked, does someone else operate the register?

Interview staff to determine what they actually do on a daily basis and check this against the procedures documents for consistency.

Use interviews to determine if there is an internal and/or external assessment of the business internal controls, and if managers receive a report on such assessment on a regular basis for decision-making.

Use relevant national laws and accounting standards to determine whether the business is in compliance with these. Look particularly at the financial statements, and determine whether they are in accordance with international accounting standards.

**2 marks each for any 7 correct
Total 14 marks**

**ACCOUNTING
UNIT 1 - PAPER 03/2
MARK SCHEME**

Question 3

The accounts included in the chart of accounts should include the following:

Cash account, buildings, fixtures and fittings, depreciation expense, accumulated depreciation, bank charges, utilities expenses, rent revenue, sales, purchases, purchase returns, sales returns, wages and salaries, expense, drawings, other expenses, mortgage and mortgage interest.

**1 mark for any 6 correct
Total 6 marks**

Question 4

Analyse transactions and journalize - this ensures that only items related to the business are kept separate from items related to the owner.

Post journal entries into the general ledger accounts.

Prepare a trial balance.

Prepare adjusting journal entries to ensure that revenues and expenses are appropriately recognized and assets and liabilities are properly valued.

This may require discussion with management about the terms of sales, expenses that may be incurred that are not documented, and the depreciation policy. Also the bank statement should be checked for bank charges and these entered in the appropriate account.

Prepare an adjusted trial balance.

Prepare income statement, balance sheet, statement of cash flows and statement of owner's equity.

Prepare and post-closing entries.

Prepare a post-closing trial balance.

**2 marks each for 7 correct
Max 14 marks**

Total 14 marks

**ACCOUNTING
UNIT 1 - PAPER 03/2
MARK SCHEME**

Question 5

- (a) The four areas that can be used to assess the performance of an entity are **liquidity, solvency, activity and profitability**.

**2 marks for all 4
1 mark for any 2**

- (b) Liquidity ratios are designed to measure a company's ability to meet its short-term obligations.

1 mark

Liquidity ratios:

- Current ratio
- Acid test/quick ratio

1 mark for 2

Profitability ratios measure the company's control of its expenses and the return on invested funds.

1 mark

Profitability ratios:

- Gross profit ratio
- Net profit ratio
- Operating ratio
- Expense ratio
- Return on shareholders' investment or net worth
- Return on equity capital
- Return on capital employed (ROCE) ratio
- Dividend yield ratio
- Dividend payout ratio
- Earnings per share ratio
- Price earning ratio

1 mark for any 2

Solvency ratios measure the company's ability to meet its long-term obligation.

Solvency ratios:

- Debt equity ratio
- Fixed assets to shareholders' funds
- Current assets to shareholders' funds
- Capital gearing ratio

1 mark

ACCOUNTING
UNIT 1 - PAPER 03/2
MARK SCHEME

Activity ratios measure the company's asset management.

Activity ratios:

- Inventory/stock turnover ratio
- Debtors/receivables turnover ratio
- Average collection period
- Creditors/payable turnover ratio
- Working capital turnover ratio
- Fixed assets turnover ratio

1 mark for any 2
Total 8 marks

**ACCOUNTING
UNIT 1 - PAPER 03/2
MARK SCHEME**

Question 6

- (a) Compute a set of ratios to assess the liquidity, solvency, activity and profitability of the two businesses **(1)** and then compare the ratios under each category to analyse the performance of each business **(1)**.

2 marks

Identify appropriate benchmarks for the selected ratios or criteria for interpreting ratios **(1)** (e.g. obtain ratios for leading companies in this area of business and make a comparison to these two businesses). **(1)**

2 marks

- (b) Limitations of ratio analysis

- Financial statements present a limited picture of the business and do not include all facets of the business.
- Financial statements are prepared using the historical cost concept.
- Consolidated financial statements contain financial information from many different sectors and industries and this can make comparison difficult if the financial information is aggregated and cannot be easily split up.
- External analysis of financial statements can be misleading because these are prepared at a particular date and may not be representative of the whole year.
- Comparing two firms may result in misleading conclusions since the accounting policies used by one company may not be those used by the other company.
- Horizontal analysis can be used to assess the performance over the years.
- Common sized statements can be used to assess the performance of the entity.

**1 mark each for 6
Max 6 marks**

Total 10 marks



**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

**SPECIMEN PAPER
MULTIPLE CHOICE QUESTIONS
FOR**

ACCOUNTING - UNIT 2

Paper 01

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This test consists of 45 items. You will have 90 minutes to answer them.
2. Each item in this test has four suggested answers lettered (A), (B), (C), (D). Read each item you are about to answer and decide which choice is best.
3. Look at the sample item below.

Sample Item

Overhead absorption rates are used to determine the

- (A) service department's overhead cost
- (B) estimated overhead cost for products
- (C) allocation of overhead costs to products
- (D) actual overhead cost for finished product

Sample Answer



The best answer to this item is “allocation of overhead costs to product”, so answer space (C) has been shaded.

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1. What type of cost is straight-line depreciation on a sewing machine in a garment factory?
 - (A) Variable
 - (B) Fixed
 - (C) Mixed
 - (D) Relevant

2. Which of the following may be classified as carrying costs?
 - (A) Transportation costs of items purchased
 - (B) Clerical and administrative costs of purchasing, accounting and good reception
 - (C) Warehouse staff, equipment, maintenance and running costs
 - (D) Loss of future sales because customers may go elsewhere

3. Guyco's demand for plastic bottles is 2 000 units per month; the ordering costs are \$700 per order; and the carrying costs are \$3.20 per unit. What is the economic order quantity (EOQ)?
 - (A) 935 units
 - (B) 1 620 units
 - (C) 2 646 units
 - (D) 3 240 units

5. What is the value of existing inventory on May 20, using FIFO?
 - (A) \$2 063.33
 - (B) \$2 200.00
 - (C) \$2 640.00
 - (D) \$3 730.00

6. The budgeted indirect cost allocation rate can be determined by the budgeted manufacturing overhead
 - (A) multiplied by the budgeted quantity of the cost driver
 - (B) divided by the actual quantity of the cost driver
 - (C) plus budgeted quantity of the cost driver
 - (D) divided by the budgeted quantity of the cost driver

7. The Aron Company requires 40 000 units of product Q for the year. The units will be used evenly throughout the year. It costs \$60 to place an order. It costs \$10 to carry a unit in inventory for the year. The economic order quantity (EOQ) rounded to the **nearest** whole unit is
 - (A) 400
 - (B) 490
 - (C) 693
 - (D) 793

Items 4–5 refer to the following information which was extracted from a company's raw material stores ledger.

May	Received		Quantity issued in Units
	Quantity purchased in units	Total value \$	
1	240	4 800	
4			120
8	160	4 000	
11			190
14	90	1 980	
17			160
20	100	2 200	

4. What is the value of existing inventory on May 13, using LIFO?
 - (A) \$ 1 800.00
 - (B) \$ 2 400.00
 - (C) \$ 4 200.00
 - (D) \$ 4 600.00

8. Which one of the following MOST closely coincides with the manufacturing costs incurred by a company?
 - (A) Factory overheads incurred during the period.
 - (B) The sum of direct materials used and direct labour.
 - (C) The sum of raw materials used, work in process and finished goods.
 - (D) The sum of direct materials used, direct labour and factory overhead.

GO ON TO THE NEXT PAGE

9. Mico garment factory produces item Q using a labour intensive process. The following cost were incurred for the month of March 2010:

Salary expenses:

Cleaning and maid staff	15 000
Sewing machine operators	5 000
Administrative staff	25 000
Packers	2 000
Designers	19 500
Machine maintenance staff	4 600
Factory floor supervisors	30 000
Temporary machine operators	2 800

The total amount that should be charged as direct labour for the month of March is

- (A) \$ 29 300
- (B) \$ 59 300
- (C) \$ 63 900
- (D) \$ 103 900

Items **10–12** refer to the following information reported by Lewis Manufacturing for last year.

Revenue	\$420 000
Beginning inventory of direct materials, January 1	22 000
Purchases of direct materials	146 000
Ending inventory of direct materials, December 31	16 000
Direct manufacturing labour	18 000
Indirect manufacturing costs	40 000
Beginning inventory of finished goods, January 1	35 000
Cost of goods manufactured	104 000
Ending inventory of finished goods, December 31	36 000
Operating costs	140 000

10. How much of the above would be considered period costs for Lewis Manufacturing?
- (A) \$ 104 000
 - (B) \$ 140 000
 - (C) \$ 246 000
 - (D) \$ 390 000
11. The prime cost for the year is
- (A) \$ 104 000
 - (B) \$ 164 000
 - (C) \$ 170 000
 - (D) \$ 210 000
12. The TOTAL conversion cost for the year is
- (A) \$ 40 000
 - (B) \$ 58 000
 - (C) \$ 198 000
 - (D) \$ 244 000

GO ON TO THE NEXT PAGE

13. Factory supervisors are paid a commission once they exceed their budget. The commission is calculated at 10% of the excess over the budget. One supervisor who's budget is set at 1 000 units sold 1 200 units at a unit price of \$100. The amount paid as commission is
- (A) \$ 1 000
 - (B) \$ 2 000
 - (C) \$ 10 000
 - (D) \$ 12 000
14. The support department allocation method that is the MOST widely used because of its simplicity is the
- (A) step-down method
 - (B) reciprocal allocation method
 - (C) direct allocation method
 - (D) sequential allocation method
15. Gibson Manufacturing used machine hours to allocate manufacturing overhead to ALL jobs. The budgeted manufacturing overhead cost is \$30 000 and the budgeted labour hours and machine hours were 60 000 and 100 000 respectively. The pre-determined overhead rate is
- (A) \$ 0.30 per machine hour
 - (B) \$ 0.50 per machine hour
 - (C) \$ 0.60 per machine hour
 - (D) \$ 3.33 per machine hour
16. The method of costing that includes all direct costs and overheads is known as
- (A) absorption costing
 - (B) fixed overhead costing
 - (C) manufacturing overhead costing
 - (D) variable costing

Items **17–18** refer to the following information.

Marie's Deserts and Pastries produces and sells a chocolate cake for \$100 per unit. In 2010, 100 000 cakes were produced and 80 000 were sold. Other information for the year includes:

Direct materials	\$ 30.00 per unit
Direct manufacturing labour	\$ 2.00 per unit
Variable manufacturing costs	\$ 3.00 per unit
Sales commissions	\$ 5.00 per part
Fixed manufacturing costs	\$ 25.00 per unit
Administrative expenses, all fixed	\$ 15.00 per unit

17. What is the inventoriable cost per unit using variable costing?
- (A) \$ 32
 - (B) \$ 35
 - (C) \$ 40
 - (D) \$ 60
18. What is the inventoriable cost per unit using absorption costing?
- (A) \$ 32
 - (B) \$ 35
 - (C) \$ 60
 - (D) \$ 80

GO ON TO THE NEXT PAGE

19. Smith and Jones Company uses job costing. The records at Smith and Jones Company show Job No. 110 charged with \$11 000 of direct materials and \$12 500 of direct labour. Smith and Jones Company allocates manufacturing overhead at 85% of direct labor cost. What is the TOTAL cost of Job No. 110?
- (A) \$ 20 625
(B) \$ 21 625
(C) \$ 22 500
(D) \$ 34 125

Items 20–21 refer to the following information.

The Haynes Corporation uses a process costing system. In the Mixing department, 4 000 units were started and by the end of the period, all but 400 units had been completed. The 400 units were 80% complete regarding direct materials and 40% complete regarding conversion costs. Costs added during the current period include \$66 300 for direct materials and \$70 000 for conversion costs.

20. What is the number of equivalent units for direct materials?
- (A) 3 540
(B) 3 760
(C) 3 900
(D) 3 920
21. What is the number of equivalent units for conversion costs?
- (A) 3 700
(B) 3 760
(C) 3 900
(D) 3 920
22. The basic difference between marginal and absorption costing is the treatment of
- (A) direct expenses
(B) direct labour costs
(C) fixed selling and administrative cost
(D) fixed manufacturing overhead cost

23. Which of the following statements about activity-based costing is NOT true?
- (A) Activity-based costing is useful for allocating marketing and distribution costs.
(B) Activity-based costing is more likely to result in major differences from traditional costing systems if the firm manufactures only one product rather than multiple products.
(C) Activity-based costing seeks to distinguish batch-level, product-sustaining, and facility-sustaining costs, especially when they are not proportionate to one another.
(D) Activity-based costing differs from traditional costing systems in that products are not cross-subsidized.
24. Marginal costing will produce a larger net income than absorption costing if
- (A) fixed overhead decreases
(B) production exceeds sales
(C) fixed overhead increases
(D) sales exceeds production
25. Harmony Company uses a job costing system. Harmony Company estimated manufacturing overhead costs for 2011 at \$378 000. The company allocates overhead at a rate of \$2.10 per direct labour hours. Actual direct labour hours for 2011 totaled 195 000. The actual manufacturing overhead for 2011 was \$391 500. What was the balance in manufacturing overhead at December 31, 2011, and was it over-allocated or under-allocated?
- (A) \$ 18 000 over-allocated
(B) \$ 18 000 under-allocated
(C) \$ 31 500 over-allocated
(D) \$ 31 500 under-allocated

GO ON TO THE NEXT PAGE

26. Which of the following distinguishes activity based costing from traditional costing?
- (A) In activity based costing multiple cost drivers are utilized within a department.
 - (B) In activity based costing each department is a different activity.
 - (C) In activity based costing yearly estimates are used.
 - (D) In traditional costing systems overheads application rates can be based on direct labour.

Items 27–28 refer to the following information.

Southend Motors is a wholesale distributor that uses activity-based costing for all its overhead costs. The company has provided the following data concerning its annual overhead costs and its activity-based costing system:

Overhead Costs

Wages and salaries	\$380 000
Other expenses	\$100 000
Total	\$480 000

Distribution of resource consumption

	Activity cost pools			Total
	Filling orders	Customer support	Other	
Wages and salaries	30%	60%	10%	100%
Other expenses	35%	45%	20%	100%

The ‘Other’ activity cost pool consists of the costs of idle capacity and organizational sustaining costs. The activity measures for the activity cost pools for the year are as follows:

<u>Activity cost pool</u>	<u>Activity</u>
Filling orders	3 000 orders
Customer support	20 customers

27. The TOTAL overhead cost per order using activity-based costing is
- (A) \$ 48.00
 - (B) \$ 49.67
 - (C) \$ 52.00
 - (D) \$ 56.00
28. The TOTAL overhead cost per customer using activity-based costing is
- (A) \$ 10 800
 - (B) \$ 12 600
 - (C) \$ 13 650
 - (D) \$ 14 400

29. Costing systems that are used for the costing of like or similar units of products in mass production are called
- (A) job-costing systems
 - (B) process-costing systems
 - (C) inventory-costing systems
 - (D) weighted-average costing systems
30. Peter wants to identify the total cost for computing the personal tax return he prepared for his client. Labour is the only direct cost at \$150 per hour. Indirect costs are \$80 per labour hour. What is the TOTAL direct cost, indirect cost, and job cost respectively if 8 hours are spent preparing the tax return?

	Direct cost	Indirect cost	Job cost
(A)	\$ 640	\$ 1 200	\$ 1 840
(B)	\$ 1 100	\$ 900	\$ 2 000
(C)	\$ 1 200	\$ 640	\$ 1 840
(D)	\$ 1 240	\$ 1 200	\$ 2 480

GO ON TO THE NEXT PAGE

31. Roberts' company has a single product. The selling price is \$50 and the variable cost is \$30 per unit. The company fixed expenses are \$200 000 per month. What is the break even sales in dollars?
- (A) \$ 20 000
(B) \$ 33 333
(C) \$ 400 000
(D) \$ 500 000
32. The following figures are taken from the financial statements of Rudder company. Net Income \$30 000; Fixed cost \$90 000; Sales \$200 000 and contribution margin ratio 60%. The company's margin of safety in dollars is
- (A) \$ 30 000
(B) \$ 50 000
(C) \$ 80 000
(D) \$ 150 000
- Items 33–34 refer to the following information.
- During June, Able Company produced 4 000 units of a product. The standard cost card indicates that the cost per unit of output is 3.5 hours at \$6 per hour. During the month, production staff worked 15 000 hours.
33. How many standard hours should be allowed for the month?
- (A) 14 000 hours
(B) 15 000 hours
(C) 18 000 hours
(D) 24 000 hours
34. What is the labour efficiency variance for June?
- (A) \$ 1 000F
(B) \$ 1 000U
(C) \$ 6 000F
(D) \$ 6 000U
35. During July the Tin Can Company produced 3 000 units of a product. The standard cost card indicates that the cost per unit of output is 2 kilograms at \$0.50. During July 8 000 kilograms of material were purchased at a cost of \$3 900. What is the materials price variance for July?
- (A) \$ 100F
(B) \$ 100U
(C) \$ 4 100F
(D) \$ 4 100U
36. In which of the following ways are 'standards' expressed?
- (A) On a per unit basis
(B) By a management team
(C) Through the organization goals
(D) Through the organization's policies and procedures
37. Which of the following statements about budget and budgeting is NOT true?
- (A) Budgets promote communication and coordination between departments.
(B) Budgeting is an aid to planning and control.
(C) Budgets help to coordinate the activities of the entire organization.
(D) Budgeting is an activity that is best carried out by top management only.
38. What is the practice of directing executive attention to important deviations from budgeted amounts called?
- (A) Management by exception
(B) Management by objective
(C) Management by control
(D) Management by analysis

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39. If a company's beginning cash balance is \$15 000; the required ending cash balance is \$12 000; cash disbursement total \$125 000; and cash collections from customers total \$90 000, the company must borrow
- (A) \$ 8 000
 - (B) \$ 20 000
 - (C) \$ 32 000
 - (D) \$ 38 000
40. Caricom Company had actual sales of \$30 000 in June, \$50 000 in July and \$70 000 in August. Sales in September are expected to be \$60 000. If 30% of a month's sales is collected in the month of sale, 50% in the first month after sale and 15% in the second month after sale, then cash receipts for September are budgeted to be
- (A) \$ 57 000
 - (B) \$ 60 500
 - (C) \$ 62 000
 - (D) \$ 70 000
41. The accounting rate of return on this investment would be
- (A) 10%
 - (B) 15%
 - (C) 25%
 - (D) 35%
42. Which of the following variances is MOST controllable by a production supervisor?
- (A) Materials price variance
 - (B) Materials quantity variance
 - (C) Fixed overhead volume variance
 - (D) Variable overhead spending variance
43. Which capital budgeting method uses accrual accounting, rather than net cash flows, as a basis for calculations?
- (A) Payback
 - (B) IRR
 - (C) NPV
 - (D) ARR

Items 41–42 refer to the following information.

Jackies' Company has gathered the following data on a proposed investment project

Initial cost of Investment	\$ 800 000
Annual net cash flows	\$ 200 000
Salvage value	0
Life of the investment	10 years
Discount rate	12%

The company uses straight-line depreciation on all projects.

41. The payback period for this investment project would be
- (A) 0.25 years
 - (B) 2.41 years
 - (C) 4 years
 - (D) 10 years
45. Advance Engineering makes payments on its inventory purchases as follows: 30% in the month of purchase, 50% in the following month, and 20% in the second month following purchase. Budgeted inventory purchases for June, July, and August are \$50 000, \$43 000 and \$56 000, respectively. At what amount are cash payments for inventory in August budgeted?
- (A) \$ 56 000
 - (B) \$ 51 900
 - (C) \$ 48 300
 - (D) \$ 47 500

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

**CARIBBEAN ADVANCED PROFICIENCY
EXAMINATION**

ACCOUNTING - UNIT 2

SPECIMEN PAPER 2011

Question	SO	Key
1	1.6.6	B
2	1.10.10	C
3	1.10.10	A
4	1.9.9	A
5	1.9.9	C
6	1.11.11	D
7	1.3.6	C
8	1.3.3	D
9	1.4.4	A
10	1.6.6	B
11	1.3.3	C
12	1.3.3	B
13	1.5.5	B
14	1.11.11	C
15	1.11.11	A
16	2.12.6	A
17	2.12.6	B
18	2.12.6	C
19	2.3.2	D
20	2.8.4	D
21	2.8.4	B
22	2.8.4	D
23	2.6.3	B

Question	SO	Key
24	2.13.7	D
25	2.5.2	A
26	2.6.3	A
27	2.7.3	B
28	2.7.3	C
29	2.1.1	B
30	2.10.5	C
31	3.5.5	D
32	3.5.5	B
33	3.4.3	A
34	3.4.4	D
35	3.4.4	A
36	3.3.3	A
37	3.1.1	D
38	3.1.1	A
39	3.2.2	C
40	3.2.2	B
41	3.6.6	C
42	3.6.6	B
43	3.3.3	B
44	3.6.6	D
45	3.2.2	C

C A R I B B E A N E X A M I N A T I O N S C O U N C I L

ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

SPECIMEN PAPER

UNIT 2

PAPER 02

2 ¾ hours

INSTRUCTIONS TO CANDIDATES

1. This paper consists of THREE questions.
2. Each question is worth 35 marks.
3. ALL questions are COMPULSORY
4. Begin EACH answer on a new page.
5. Silent non-programmable calculators may be used, but ALL necessary working should be clearly shown.

1 (a) Hodge Tec Manufacturing company (HTMC) had the following cost and expense data for the year ending December 31, 2009:

Direct materials, January 1, 2009	60 000
Direct materials, December 31, 2009	40 000
Direct materials purchases	410 000
Indirect materials purchases/ used	30 000
Work in Progress, January 1, 2009	160 000
Work in Progress, December 31, 2009	100 000
Finished Goods, January 1, 2009	220 000
Finished Goods, December 31, 2009	240 000
Direct Labour	700 000
Factory manager's salary	70 000
Insurance, factory	28 000
Property taxes, factory building	12 000
Sales (net)	3 000 000
Delivery expenses	200 000
Sales Commission	300 000
Indirect labour	180 000
Factory machine rent	80 000
Factory utilities	130 000
Depreciation, factory building	48 000
Administrative expenses	600 000

- (i) Prepare a cost of goods manufactured schedule for Hodge Tec Manufacturing Company for the period ending December 31, 2009.
[11 marks]
- (ii) Prepare a statement of comprehensive income for Hodge Tec Manufacturing Company for the period ending December 31, 2009.
[7 marks]

- (b) Roseau Medical Clinic has two service departments, Accounting Services and Catering and three operating departments, Obstetrics, Oncology and Minor surgery. The central administration allocates the cost of accounting services on the basis of invoices processed and catering based on the number of patient days. No distinction is made between variables and fixed cost. The budgeted operating data for the year ended January 31, 2009 is as follows:

	Accounting Services	Catering	Obstetrics	Oncology	Minor Surgery
Budgeted costs before allocation	625 000	2 500 000	3 750 000	11 250 000	7 500 000
Invoices processed	25 000	100 000	150 000	450 000	300 000
Patient days			137 500	192 500	220 000

Prepare a schedule to allocate service department costs to operating departments by the step down method, allocating the cost of accounting services first.

[17 marks]

Total 35 marks

- 2 (a) Longly associates, a manufacturer of precision parts, has three categories of overhead costs: machine operating, engineering and inspecting. The company usually uses a job order costing system and applies overhead using machine hours and expected capacity. The total overhead cost expected for the coming year is 2 700 000 and the plant expected capacity is 300 000 machine hours.

Marya Smith; the plant manager, has been asked to submit a bid on a potential job and has assembled the following data relating to the job.

Direct materials	24 000
Direct labour	36 000
Overhead	\$?
Number of inspections	3
Number of setups	2
Number of machine hours	6 000
Engineering hours	30

Marya has been advised that many competitors use activity based costing to assign overheads to jobs. Before submitting her bid, she wants to assess the effects of this alternative approach. She has collected additional information on the overhead costs for the plant, and the costs expected for these categories for the coming year as follows:

Activity	Expected Cost \$	Activity driver	Activity capacity
Machining	880 000	Machine hours	200 000
Setup equipment	120 000	Number of setups	300
Engineering	440 000	Engineering hours	20 000
Inspecting	360 000	Number of inspections	12 000
Total	1 800 000		

- (i) Calculate the overhead rate per machine hour. **[2 marks]**
- (ii) Assuming that Marya uses the traditional job order costing system, calculate the total cost of the proposed job. **[4 Marks]**

- (iii) Calculate the activity-cost driver rate for EACH of the four activities, machining, setup, engineering and inspecting.

[4 marks]

- (iv) Using the activity rates obtained in (iii) above, calculate the cost of the job using the activity based costing system.

[10 marks]

Total 20 Marks

- (b) Freeze It Inc. manufactures local ice-cream. Materials are added at the beginning of the process and conversion costs are uniformly incurred. At the beginning of January, Work-in-progress is 40% complete and at the end of the month it is 60% complete. Other data for the month include:

Beginning Work-in-progress inventory	1 600 units
Units started	2 000 units
Units placed in finished goods	3 200 units

Conversion costs	\$ 200 000
Cost of direct materials	\$ 260 000

Beginning work in progress costs:	
Materials	\$ 154 000
Conversion	\$ 82 080

Prepare a production cost work sheet with supporting schedules using the weighted-average method of process costing.

[15 Marks]

Total 35 marks

Question 3

Kevin, an enterprising engineering graduate joined the Reba Company. As part of his 'best students' award, the Company was asked to introduce his new creation, the solar heater widget. To facilitate the production of this product, the firm would have to make the following special investments:

1. Equipment for the production of the widgets cost \$200 000. It would have a useful life of 12 years and salvage value of \$ 20 000.
2. A working capital of \$80 000 would be required to finance day to day expenses necessary to facilitate production and sales of the widget.
3. The projected selling price is \$90 each with variable production, administrative and sales cost estimated at \$50 per unit.

4. The projected sales based on market surveys is:

Year 1	4 000 units
Year 2	7 000 units
Year 3	10 000 units
Years 4 – 12	12 000 units

5. He has been advised that in order to capture and maintain market share, advertising would be necessary. Estimates are as follows:

Years 1 – 2	\$140 000 each year
Year 3	100 000
Year 4 – 12	80 000

6. Other costs identified to cover insurance, salaries, maintenance and depreciation will be \$255 000. (Depreciation is calculated using the straight line method).

7. The widget is perceived as a high-risk venture; therefore the company is required to have a 20% rate of return in order for this product to be acceptable.

- (a) State THREE arguments why budgeting is not always effective as an accounting tool. **(3 marks)**
- (b) List FOUR reasons why you would recommend the use of a standard costing system. **(4 marks)**
- (c) Using the information given on expected cash inflows and operating expenses, compute the net cash flows from the sale of the widgets for each year over the next 12 years. **(13 marks)**
- (d) Using the data computed in (iii) above and other data provided, determine the net present value of the proposed investment. **(9 marks)**
- (e) Advise the Reba Company whether it should or should not accept the widget as a new product line. **(1 mark)**
- (f) List FIVE qualitative factors which the Reba Company may consider in deciding whether or not to accept the investment proposal. This decision may be taken despite the evidence in (iv) and your answer to (v) above. **(5 marks)**

Total 35 marks

END OF TEST

/CAPE/SPEC/MS/2010

C A R I B B E A N E X A M I N A T I O N S C O U N C I L

ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

SPECIMEN PAPER

UNIT 2
PAPER 02

MARK SCHEME

ACCOUNTING
UNIT 2 - PAPER 02
MARK SCHEME

QUESTION 1 (a) (i)

Hodge Tec Manufacturing Company
Schedule of Cost of Goods Manufactured
For the period ended December 31, 2009

	\$	\$
Direct material inventory Jan 1 2009		60 000 [1]
Add: Purchases of direct material		<u>410 000 *</u>
Direct materials available for use		470 000 *
Less: Direct material inventory Dec 31, 2009		<u>(40 000) [1]</u>
Direct materials used in production		430 000 [1]
Add: Direct labour		700 000 *
Add: Manufacturing overheads		
Factory utilities	130 000*	
Depreciation on factory equipment	48 000*	
Indirect materials	30 000*	
Indirect labour	180 000*	
Factory Machine rent	80 000*	
Factory managers salary	70 000*	
Property taxes on Factory building	12 000*	
Insurance, factory	<u>28 000*</u>	
Total manufacturing overheads		<u>578 000</u>
Total manufacturing costs		1 708 000 [1]
Add WIP Jan 1 2009		<u>160 000 [1]</u>
Total WIP during the period		1 868 000 *
Less WIP Dec 31 2009-11-19		<u>(100 000) [1]</u>
Cost of goods manufactured		<u>1 768 000 [1]</u> OF

* 1 mark for Every THREE items, MAX 4 marks

Question 1 (a) (ii)

Hodge Tec Manufacturing Company
Statement of Comprehensive Income
For the period ended December 31, 2009

Sales		3 000 000	[1]
Less cost of goods sold			
Finished goods inventory Jan1	220 000 *		
Add: Cost of goods manufactured	<u>1 768 000 *</u>		
Cost of goods available	1 988 000		
Less: Finished goods Dec 31	<u>(240 000) *</u>		
Cost of goods sold		<u>(1 748 000)</u>	[1]
Gross Profit		1 252 000	[1]
Less: Operating expenses			
Administrative expenses	600 000 *		
Delivery expenses	200 000 *		
Sales commission	<u>300 000 *</u>		
Total expenses		<u>(1 100 000)</u>	
Net income		<u>152 000</u>	[1]

* 1 mark for Every TWO items, MAX 3 marks

Total 18 marks

**ACCOUNTING
UNIT 2 - PAPER 02
MARK SCHEME**

QUESTION 1 (b)

		Accounting Services	Catering	Obstetrics	Oncology	Minor Surgery	Marks
		A	B	C	D	E	
Accounting Services	Budgeted costs before allocation	625 000	2 500 000	3 750 000	11 250 000	7 500 000	1
	Allocation of Accounting Services	-625 000					
	Catering 100000/1000000##*\$625 000		62 500				2
	Obstetrics 150000/1000000*\$625 000			93 750			2
	Oncology 450000/1000000*\$625 000				281 250		2
	Minor Surgery 300000/1000000*\$625 000					187 500	2
	Adjusted Balances	0	2 562 500	3 843 750	11 531 250	7 687 500	1
Catering	Allocation of catering		-2 562 500				
	Obstetrics 137500/550000##*\$25 625 000			640 625			2
	Oncology 192500/550000*\$25 625 000				896 875		2
	Minor Surgery 220000/550000*\$25 625 000					1 025 000	2
	Costs after allocation	0	0	4 484 375	12 428 125	8 712 500	1
	# = Invoices processed in A + B + C + D						
	## = Patient Days in B + C + D						

KEY

Opening balances – **max 1 marks**

1 mark for all opening balances posted correctly

Accounting services – **max 8 marks**

2 marks each for allocation of accounting services to operating departments

total 8 marks

(**1 mark** for posting an allocation of accounting services to operation departments)

(**1 mark** each for computation)

Adjusted balances **1 mark** for all correct totals

Catering – **max 6 marks**

2 marks each for allocation of Catering to operating departments – **total 6 marks**

(**1 mark** for posting an allocation of Catering to operation departments)

(**1 mark each** for the computation)

Costs after allocation – **1 mark** for all correct totals

Total 17 marks

ACCOUNTING

UNIT 2 PAPER 02

MARK SCHEME

Question 2 (a) (20 Marks)

Longly Associates

(i) Overhead rate per machine hour

<u>Estimated manufacturing overhead costs</u>	=	<u>\$2,700,000</u>	=	\$9.00 per	Marks
Estimated machine hours		300,000 machine hours		machine hour	2

(ii) Total cost of proposed job: assuming traditional job-order costing system

Direct material	\$ 24,000		1
Direct labor	36,000		1
overhead (\$9.00 * 6,000 machine hours)	54,000		2
Total cost of proposed job	<u>\$ 114,000</u>		OR 4 marks for correct total

(iii) Activity -cost driver rates for EACH of FOUR activities

Activity	Expected Cost \$ A	Activity Capacity B	Units	Activity Rates A / B	
Machining	880,000	200,000	Machine hours	\$ 4.40 per machine hr	1
Setup equipment	120,000	300	Setups	400 per setup	1
Engineering	440,000	20,000	Engineering hrs	22 per Engineering hr	1
Inspecting	360,000	12,000	Inspections	30 per inspection	1

(iv) Total cost of proposed job: activity-based costing system

Direct material	24,000		1
Direct labor	36,000		1
Inspections (3 inspections * \$30)	90		2 OF
Setups (2 setups * \$400)	800		2 OF
Engineering (\$22 * 30 engineering hours)	660		2 OF
Machining (\$4.40 * 6,000 machine hours)	26,400		2 OF
Total cost of proposed job	<u>\$ 87,950</u>		OR 10 for correct total cost

**ACCOUNTING
UNIT 2 - PAPER 02
MARK SCHEME**

Question 2 (b) (15 Marks)						
FREEZE IT INC.						
Production Cost Worksheet: Weighted-Average						
For the Period Ending January 31 --						
Equivalents Units of ice-cream completed in current period	Physical Units	% Completed	Equivalent Units	% Completed	Equivalent Units	MARKS
			Material		Conversion	
Units completed and transferred out	3,200	100%	3,200	100%	3,200	1
Ending WIP	400	100%	400	60%	240	1
Total Equivalent Units			3,600		3,440	1
Cost per Equivalent Unit of ice-cream completed			Material	Conversion	Total	
Cost of beginning WIP inventory			\$ 154,000	\$ 82,080		1
Cost added during the current period			260,000	200,000		1
Total cost			\$ 414,000	\$ 282,080		1
Number of Equivalent units produced in period			3,600	3,440		1 OF
Cost per equivalent unit			\$ 115.00	\$ 82.00	\$ 197.00	1 OF
Cost of Ending WIP Inventory of ice-cream			Material	Conversion	Total	
(a) Number of equivalent units			400	240		1 OF
(b) Cost per equivalent unit			\$ 115.00	\$ 82.00		1 OF
(a) multiplied by (b) = cost of ending inventory			\$ 46,000	\$ 19,680	\$ 65,680	1 OF
Cost of ice-cream completed and transferred out			Material	Conversion	Total	
(a) Number of equivalent units			3,200	3,200		1 OF
(b) Cost per equivalent unit			\$ 115.00	\$ 82.00		1 OF
(a) multiplied by (b) = cost of units started and completed			\$ 368,000	\$ 262,400	\$ 630,400	1 OF
Total cost of units completed during current period						
Reconciliation of costs flowing through the department during the period						
Costs to be accounted for:			Material	Conversion	Total	
Beginning WIP			\$ 154,000	\$ 82,080	\$ 236,080	1
Costs added during current period			\$ 260,000	\$ 200,000	\$ 460,000	
Total costs to be accounted for			\$ 414,000	\$ 282,080	\$ 696,080	
Costs accounted for:						
Ending WIP			\$ 46,000	\$ 19,680	\$ 65,680	
Units completed and transferred out			\$ 368,000	\$ 262,400	\$ 630,400	
Total costs accounted for			\$ 414,000	\$ 282,080	\$ 696,080	

**ACCOUNTING
UNIT 2 - PAPER 02
MARK SCHEME**

QUESTION 3

- (a)
- unwillingness of line management to participate in budget preparation
 - budget staff is usually left with the task of budget preparation with little input from line personnel
 - there tends to be a lack of co-ordination between budget staff
 - prepared budgets may not be implemented as set out in the plans

1 mark EACH for any 3 = 3 marks

- (b) Four reasons for using standard costs:

- standard costs can greatly simplify book-keeping
- standard costs fit naturally in an integrated system of 'responsibility accounting'.
- Standard costs that are viewed as reasonable by employees can promote economy and efficiency.
- it is good for price determination and price control.
- it is effective for financial statement preparation.
- it can be used for budgetary planning and control.

1 mark EACH for any 4 = 4 marks

- (c) The net cash inflow from sales of the widgets for each year would be:

	YEAR				MARKS
	1	2	3	4 - 12	
Sales in units	4 000	7 000	10 000	12 000	
Sales in dollars (\$90 each)	360 000	630 000	900 000	1 080 000	1 mark for 2 correct boxes 2
Less variable expenses					
(\$50 each)	200 000	350 000	500 000	600 000	1 mark for 2 correct boxes 2
Contribution margin	160 000	280 000	400 000	480 000	
Less: Advertising	140 000	140 000	100 000	80 000	1 mark for 2 correct boxes 2
Less: fixed expenses - depreciation	240 000	240 000	240 000	240 000	1 mark for 2 correct boxes 2
Total fixed expenses	380 000	380 000	340 000	320 000	
Net cash inflow/outflow	(220 000)	(100 000)	60 000	160 000	1 mark for EACH correct box 4 OF

(12 marks)

ACCOUNTING
UNIT 2 - PAPER 02
MARK SCHEME

Depreciation must be eliminated from the fixed expenses, since it is not a cash outflow.

Cost of equipment	200 000
Less salvage value	<u>(20 000)</u>
Depreciable cost	180 000
Annual depreciation	180,000 ÷ 12 =\$15 000 per year

\$255 000 – 15 000 depreciation = 240 000 cash fixed expenses **(1 mark)**

(d) Net Present value of the proposed investment

Item	Year(s)	Amount of Cash Flows	20% Factor	Present value of Cash flows	MARKS
Investment in equipment	Now	200 000	1.000	(200 000)	1
Working capital investment	Now	80 000	1.000	(80 000)	1
Yearly cash flows	1	220 000	0.833	(183 260)	1
Yearly cash flows	2	100 000	0.694	69 400	1
Yearly cash flows	3	60 000	0.579	35 740	1
Yearly cash flows	4 - 12	160 000	2.333*	373 280	1
Salvage value of equipment	12	20 000	0.112	2 240	1
Release of working	12	80 000	0.112	8 960	1
Net present value				(112 440)	1

(9 marks)

Present value factor for 12 periods	4.439
Present value factor for 3 periods	<u>2.106</u>
Present value factor for 9 periods	<u>2.333 *</u>

**ACCOUNTING
UNIT 2 - PAPER 02
MARK SCHEME**

(e) The widgets should not be accepted as a new product line.

(1 mark)

(f) Qualitative factors with safety factors to encourage investment

- complies with safety regulations
- environmentally friendly
- enhances use of natural source energy
- reduces effect of carbon emissions
- use of reliable natural resource
- can positively impact on global warming

1 mark EACH for ANY 5 factors

(5 marks)

Total 35 marks



TEST CODE **02201032**

SPEC 2016/ 02201032

C A R I B B E A N E X A M I N A T I O N S C O U N C I L

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U N I T 2 – P A P E R 0 3 2

1 h o u r 3 0 m i n u t e s

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises SIX questions. Answer ALL questions.
2. Write your answers in the spaces provided in this booklet.
3. DO NOT write in the margins.
4. If you need to rewrite any answer and there is not enough space to do so on the original page, you must use the extra lined page(s) provided at the back of this booklet. **Remember to draw a line through your original answer.**
5. **If you use the extra page(s) you MUST write the question number clearly in the box provided at the top of the extra page(s) and, where relevant, include the question part beside the answer.**
6. Silent non-programmable calculators may be used, but ALL necessary working should be clearly shown.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

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ANSWER ALL QUESTIONS

Write your answers in the space provided in this booklet

1. The Nonika Read Manufacturing Company located in Silver Lane, Jamaica, had the following activities during the month of June 2009.

	\$
Beginning inventory of direct material	12 000
Purchases of direct material	36 960
Ending inventory of direct materials	6 240
Direct manufacturing labour	9 600
Manufacturing overhead	7 200
Beginning work in process inventory	480
Ending work in process inventory	2 400
Beginning finished goods inventory	14 400
Ending finished goods inventory	9 600

Calculate:

- (a) The cost of direct material used during the month
- (b) The cost of goods manufactured for the month
- (c) The cost of goods sold for the month
- (d) The amount of prime cost that was added to production during the month
- (e) The amount of conversion costs that was added to production during the month

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2. For supply, XYZ Anguilla Company has been ordering 375 units based on the recommendation of the salesperson that calls the company monthly.

Jane Adams has been hired by the Company and wants to start using the economic order quantity method and its' supporting decision elements. She has gathered the following information:

Annual demand in units	750
Days used per year	250
Lead time in days	30
Ordering costs	300
Carrying costs	60

Calculate the following:

- (a) The EOQ

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[2 marks]

- (b) The annual ordering costs

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[2 marks]

- (c) The annual carrying costs

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[2 marks]

3. Complete the following table to distinguish between 'financial accounting' and 'management accounting'

	Criterion	Financial Accounting	Management Accounting
(a)	Users of the information		
(b)	Scope of the reports		
(c)	Period covered by the information		
(d)	Frequency of reporting		

[4 marks]

4. Joyeth Bakery is located in the Sun Valley. During 2009 it had sales of 75 000 units. The company started with 10 000 units and produced 100 000 units during the year. Other information relevant to the year include:

	\$
Direct manufacturing labour	187 500
Variable manufacturing overhead	100 000
Direct materials	150 000
Variable selling expenses	100 000
Fixed administrative expenses	100 000
Fixed manufacturing overhead	200 000

- (a) Compute the number of units in ending finished goods inventory.
- (b) Compute the per unit product cost under absorption costing.
- (c) Compute the value of beginning finished goods inventory under absorption costing.
- (d) Compute the value of ending finished goods inventory under absorption costing.
- (e) Compute the cost of goods sold under absorption costing.

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5. Marigold Manufacturing Company produces high-quality office furniture on a job order basis. In November, there were only TWO jobs, Job 43 and Job 44. These jobs were started and completed during the month. Manufacturing overhead was applied at a rate of \$16 per direct labour hour.

The following cost data were recorded for the month:

	Job 43 \$	Job 44 \$
Direct materials	40 250	32 100
Direct labour cost	88 000	39 200
Hours	6 000	2 700
Selling price	386 326	194 500

Actual manufacturing overhead for the month was \$137 400

- (a) Calculate the amount by which the manufacturing overhead cost was over-applied or under-applied during the month.

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[2 marks]

- (b) Compute the gross profit for Job 43.

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[4 marks]

6. Haynes Ltd has two products X and Y. The company uses an activity-based costing system.

Activity Cost Pool	Estimated Cost \$	Expected Activity		
		Product X	Product Y	Total
Moulding	13 200	600	225	825
Waxing	9 000	375	150	525
Finishing	19 500	600	300	900

- (a) Calculate the activity rates using the activity-based costing system.

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[3 marks]

- (b) Calculate the cost to be allocated to Product Y.

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[4 marks]

7. The Blackberry Company sells phones for \$1 500. The unit variable cost per phone is \$500, plus a selling commission of 10%. Fixed manufacturing costs total \$ 50 000, while fixed selling and administrative costs total \$ 25 500.

(a) Calculate the contribution margin per phone.

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[2 marks]

(b) Calculate the breakeven point in number of phones.

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[2 marks]

(c) Calculate the margin of safety in dollars if the company sells 115 phones.

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[1 mark]

(d) Calculate the number of phones which must be sold to earn a profit of \$90 000.

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[2 marks]

8. The following are forecasts of sales and purchases for a company

	Sales \$	Purchases \$
January	120 000	45 000
February	135 000	60 000
March	127 500	45 000

All sales are on credit. Records show that 70% of the customers pay during the month of the sale, 20% pay the month after the sale and the remaining 10% pay the second month after the sale. Purchases are all paid for during the month following at a 2% discount. Cash disbursements for operating expenses in March were \$ 5 000.

Required: Prepare a schedule for cash receipts and disbursements for March.

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[5 marks]

9. The Sunshine Company produces a perfume called Fantasy. The direct materials and direct labour standards for one bottle of Fantasy are given below

	Standard Quantity or Hours	Standard Price or Rate	Standard Cost
Direct materials	7.2 ounces	\$2.50 per ounce	\$18
Direct labour	0.4 hours	\$10.00 per hour	\$4

During the month of September, the following activities were recorded.

1. 20 000 ounces of material were purchased at a cost of \$ 2.40 per ounce.
2. All of the material was used to produce 2500 bottles of Fantasy.
3. 900 hours of direct labour time were recorded at a total labour cost of \$10 800.

Required:

- (a) Compute the direct materials price and quantity variances for the month.

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[4 marks]

- (b) Compute the direct labour rate and efficiency variances for the month.

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[4 marks]



02201032/CAPE/MS 2016 SPEC

C A R I B B E A N E X A M I N A T I O N S C O U N C I L

C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N [®]

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M A R K S C H E M E

**ACCOUNTING
UNIT 2 PAPER 03/2
MARK SCHEME**

Question 1

[2 marks each]

- (a) 12 000 + 36 960 - 6 240 = \$ 42 720
- (b) 42 720 + 9 600 + 7 200 + 2400 - 480 = \$ 57 600
- (c) 57 600 + 14 400 - 9 600 = \$ 62 400
- (d) 42 720 + 9 600 = \$ 52 320
- (e) 9 600 + 7 200 = \$ 16 800

[1 mark for calculation]
[1 mark for answer]

(10 marks)

Question 2

[2 marks each]

(a) $\sqrt{\frac{2 \times C_c \times D}{C_c}} = \sqrt{\frac{2 \times 300 \times 750}{2}} = 86.60$

[1 mark for calculation]
[1 mark for answer]

(b) $300 \times \frac{750}{86.60} = 2\ 598$

(c) $60 \times \frac{86.60}{2} = 2\ 598$

(6 marks)

Question 3

	Criterion	Financial Accounting	Management Accounting
(a)	Users of the information	External	Internal (Manager)
(b)	Scope of the reports	Highly aggregated	Segments
(c)	Period covered by the information	Historical	Futuristic
(d)	Frequency of reporting	Annual, Semi-annual	Whenever required by management

[1 mark each for any pair]
(4 marks)

**ACCOUNTING
UNIT 2 PAPER 03/2
MARK SCHEME**

Question 4

- (a) $10\ 000 + 100\ 000 - 75\ 000 = 35\ 000$ units [1]
Absorption
- (b) Direct materials * 150 000 [1]
Direct manufacturing labour* 187 500
Variable manufacturing overhead *100 000 [1]
Fixed manufacturing overhead * 200 000
637 500
- *1 mark for 2 entries**
- Unit cost:
 $\$637\ 500^* \div 100\ 000^* = \$ 6.375$ [1]
- (c) Ending inventory:
 $35\ 000\ \text{units} \times \$6.375 = \$ 223\ 125$ [1]
- (d) Beginning inventory
 $10\ 000\ \text{units} \times \$ 6.375 = \$ 63\ 750$ [1]
- (e) Cost of goods sold
 $75\ 000 \times 6.375 = \$478\ 125$ [1]
- (7 marks)**

Question 5

Marigold Manufacturing Company Ltd produces

Mfg O/H for Job 43

$6000\ \text{hours} \times \$16\ \text{per hour} = \$96\ 000$

Mfg OH for job 44

$2700\ \text{hours} \times \$16\ \text{per hour} = \$43\ 200$

- (a) Actual Overhead \$137 400
Applied Overhead \$139 200 [1]
- Over-Applied Overhead \$ 1 800 [1]
- (2 marks)**

ACCOUNTING
UNIT 2 PAPER 03/2
MARK SCHEME

Question 5 cont'd

(b) Gross Profit for Job 43

	\$		
Sales		386 326	
<u>Cost of sales</u>			
D - M	40 250		[1]
D - L	88 000		[1]
O/Heads	<u>96 000</u>	224 250	[1]
Gross Profit		<u>162 076</u>	[1]
			(4 marks)

Question 6

(a) Activity Rates:

Moulding =	<u>13 200</u>		
	825		
	= \$16		[1]
Waxing =	<u>9 000</u>		
	525		
	\$17.14		[1]
Finishing	<u>19 500</u>		
	900		
	= \$21.67		[1]

(b) Cost to be allocated to Product Y:

Moulding	\$16 x 225	3 600	[1]
Waxing	\$17.14 x 150	2 571	[1]
Finishing	\$21.67 x 300	<u>6 501</u>	[1]
		<u>12 672</u>	[1]
			(7 marks)

**ACCOUNTING
UNIT 2 PAPER 03/2
MARK SCHEME**

Question 7

(a) Contribution margin ratio = $1\ 500 - 500 - (10\% \times 1\ 500)$ [1]
 = \$ 850 [1]

(b) Breakeven point = $\frac{\text{Fixed cost}}{\text{Cost per unit}}$
 $\frac{75\ 500^*}{850} = 88.82$ [1]
 = 89 phones [1]

(c) Margin of safety = Target sales - Breakeven sales
 = 115 - 89
 = 26 phones [1]

(d) Target profit
 Sales unit = $\frac{\text{fixed cost} + \text{profit}}{\text{For target profit per unit}}$
 Profit = $\frac{75\ 500 + 90\ 000}{850}$ [1]
 = 194.7
 = 195 phones [1]

(7 marks)

Question 8

Schedule for cash receipts and Disbursements for March

Cash Receipts:

From current month sale (March)	.7 x 127 500	89 250	[1]
From 1 month prior sale (February)	.2 x 135 000	27 000	[1]
From 2 months prior sale (January)	.1 x 160 000	<u>16 000</u>	[1]
Total Cash Receipts		132 250	

Cash disbursements:

February purchases @ 98% (less discount)	.98 x 60 000	58 800	[1]
Operating expenses		<u>5 000</u>	[1]
Total cash disbursements		<u>63 800</u>	
Net increase in cash for March		\$68 450	

(5 marks)

**ACCOUNTING
UNIT 2 PAPER 03/2
MARK SCHEME**

Question 9

(a) Direct Materials Price Variance

$$\begin{aligned} &AQ (AP - SP) \\ &20\ 000 (2.40 - 2.50) \\ &=20\ 000 (.10) \\ &=\$2000\ F \end{aligned}$$

Direct Materials Quantity Variance

$$\begin{aligned} &SP (AQ - SQ) \\ &2.5 (20\ 000 - 18\ 000) \\ &=2.5(2\ 000) \\ &=\$5000\ U \end{aligned}$$

(b) Direct Labour Rate Variance

$$\begin{aligned} &AH (AR - SR) \\ &900 (12.00 - 10.00) \\ &=900 (2) \\ &=\$18\ 000\ U \end{aligned}$$

Direct Labour Efficiency Variance

$$\begin{aligned} &SR (AH - SH) \\ &10 (900 - 1\ 000) \\ &=10 (100) \\ &=\$1\ 000\ F \end{aligned}$$

[1 mark for working]
[1 mark for answer]
2 marks each

(8 marks)



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CARIBBEAN EXAMINATIONS COUNCIL

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION
MAY/JUNE 2006**

ACCOUNTING

ACCOUNTING
CARRIBEAN ADVANCED PROFICIENCY EXAMINATION

MAY/JUNE 2006

GENERAL COMMENTS

UNIT 1

The CAPE Accounting Unit 1 - Financial Accounting - comprised three papers. Paper 01 consisted of 27 multiple-choice items (nine per Module) and six short-answer questions (two per Module) all of which were compulsory. The time allocated to this paper was 90 minutes. Paper 02 was an extended answer paper comprising three questions (one per Module). The time allocated to this paper was 2 ¾ hours. Paper 03A was the Internal Assessment or school-based component. This paper was assessed by the class teacher and moderated by CXC. Paper 03B was an alternative to the Internal Assessment for non-school based candidates. This Paper 03B comprised three questions, one per Module.

DETAILED COMMENTS

PAPER 01

The overall performance on Paper 01 represented a good standard with a mean of 31.68, standard deviation of 10.27, and the range of scores were between 55 and 3 out of 60. The performance on the twenty-seven (27) multiple-choice items represented a satisfactory standard of performance. Candidates' performance in the multiple-choice items was consistent with performance over the years. The mean on the multiple-choice items was 13.04 with a standard deviation of 4.01. The short-answer section of the paper comprised six questions, two per Module, worth a maximum of six marks each. The overall performance on these questions represented a good standard of performance with a mean of 19.00 and a standard deviation of 7.29.

Question 28

Candidates were required to prepare the operating activities section of the cash flow statement.

The response to this question represented a very good standard of performance with a mean of 4.18 out of 6 and a standard deviation of 1.36. Candidates were able to differentiate between cash inflows and outflows, but a common weakness was not treating the gain on sale of fixed assets as a non-cash expense in the operating activities section. Candidates need to be familiar with the preparation of the cash flow statement using IAS7.

Question 29

Candidates were required to prepare journal entries to record the purchase of shares as an investment, the receipt of dividends from the investment and the sale of the investment.

The responses to this question were satisfactory with a mean of 3.33 out of 6 and a standard deviation of 1.97. Candidates were able to perform satisfactorily in the calculation of the correct values for the investment, dividend and gain from sale of the investment. They were also able to identify from the sale of an investment an outflow of cash. Common weaknesses in the candidates' solutions were: the inability to distinguish between share capital, bonds payable and short-term investment; inability to distinguish between the purchase of shares as an investment and sale of shares; and many produced incorrect double-entry but with correct figures for the receipt of dividends and the sale of the investment.

It is emphasized that teachers give students practice in the preparation of journal entries for the purchase and sale of shares as an investment, as well as the payment and receipt of dividends from such investments.

Question 30

Candidates were provided with the results of nine ratios for three consecutive years and required to write a report on the performance of the entity in terms of liquidity, solvency, activity and profitability over the three years.

The responses to this question were acceptable with a mean of 2.63 out of 6 and a standard deviation of 1.83. Students knew about liquidity ratios and were also able to quote the benchmarks for the liquidity ratios, identify trends over the years and were able to classify the ratios under the appropriate headings. However, students had difficulty explaining the trends in relationship to the firm and some of them reversed the trends. Many candidates wrote extended responses to this question but did not focus on the requirement of the questions. More planning of the response is required.

Teachers are reminded to give students practice in evaluation ratios and writing reports on the results.

Question 31

Candidates were provided with information relating to incomplete records of a sole proprietorship and required to prepare an income statement for the entity.

The responses to this question were acceptable with a mean of 2.85 out of 6 and a standard deviation of 1.31. Most candidates recognized that the expenses figure was to be adjusted and they calculated the depreciation figure correctly. However, common weaknesses included the candidates' inability to calculate the adjusted sales, purchases and other expenses figures. Candidates should be exposed to incomplete records and related accounting necessary to convert single entry to double entry.

Question 32

Candidates were provided with information relating to the equity of a corporation. The company issued additional shares, reported a net income and declared dividends. The candidates were required to take the additional information into consideration and prepare the equity section of the balance sheet.

The response to this question was satisfactory with a mean of 3.47 out of 6 and a standard deviation of 1.52. Candidates were able to correctly classify balance sheet items. Common weaknesses in their responses were the inability to differentiate between par value of shares and share premium, and adjusting the beginning retained earnings to reflect the changes as a result of net income and declaration of dividends.

Question 33

This question required candidates to match six listed accounting terms in the conceptual framework to six phrases by inserting the letter associated with each listed item next to the appropriate phrase.

The response to this question was good with a mean of 4.01 out of 6 and a standard deviation of 1.53. Candidates were able to identify correctly the terms relevance, recognition, verifiability and consistency but they experienced some difficulty in correctly identifying the concept of conservatism.

PAPER 02

This paper consisted of three compulsory questions. The mean for this paper was 43.36 out of a maximum possible of 105, the standard deviation was 17.35 and the scores ranged from 94 to 0, representing a satisfactory level of performance.

Question 1

This question was divided into three parts and candidates were required to answer all the parts.

Candidates were required to write short notes on the process involved in recording adjusting entries, list and briefly describe five internal control principles relating to cash in a small business, and briefly describe three ways in which accounting standards benefit users and preparers of financial statements.

The response to this question was satisfactory with a mean of 14.28 out of 35, a standard deviation of 6.14 and scores ranged from 33 to 0.

Candidates were able to identify and explain the treatment of adjusting entries in the income statement and balance sheet and to state the portion of the adjustment necessary for the balance sheet. However, some candidates experienced difficulties in explaining how the expired portion of the adjustment would be handled in the income statement and balance sheet. Additionally, many candidates did not focus on explaining the process but on defining adjusting entries.

On the section of internal controls candidates performed creditably in defining and explaining internal controls in a general sense. They experienced difficulty in applying the concepts identified to the management of cash.

Candidates demonstrated a good knowledge of the role of accounting standards in organisations but were unable to apply the benefits of standards to the preparation of financial statements.

Question 2

This question required candidates to prepare an income statement together with the appropriation of profits section for a partnership. In addition, candidates were required to account for the admission of a partner under the bonus method and prepare a balance sheet for the partnership after the admission of the partner. Finally, candidates were required to discuss two advantages and two disadvantages that would accrue to a company by changing from a partnership to a public company.

The response to this question was satisfactory with a mean of 15.64 out of 35, a standard deviation of 6.92 and the range of scores was 35 to 0.

The candidates performed well on the preparation of the income statement and the appropriation of the residue among the partners.

Common weaknesses in the candidates' solutions were: the calculation and treatment of the bonus upon entry of the new partner; excluding the share of income in the calculation of capital for the existing partners; and linking the information from the income statement and other accounts prepared earlier to the preparation of the balance sheet after admission.

Question 3

Candidates were provided with a list of account balances for a corporation together with additional information and were required to prepare a multiple step income statement, a statement of appropriation of profits and the shareholders equity section of the balance sheet. The question contained a qualitative section which required candidates to briefly describe the purpose of the financial statements and their limitations.

The response to this question was satisfactory with a mean of 14.01 out of 35, a standard deviation of 7.11 and the range of scores was 33 to 0.

Candidates were able to answer well the sections of the question that related to the preparation of appropriation account and the equity section of the balance sheet. Candidates gave appropriate examples of the limitations of the financial statement. On the other hand, common weaknesses in the candidates' solutions related to the format for the presentation of the income statement. Some candidates included extraneous items in the appropriation account and used inappropriate labels for some items in the equity section of the balance sheet.

Teachers are encouraged to provide students with a template for the preparation of financial statements as provided for in the International Accounting Standards 1.

PAPER 03A

The quality of project reports received continues to be of a high standard demonstrating candidates' ability to do investigative research. The projects were well-presented using different types of media, with well-prepared questionnaires, and a wide range of content areas. Some areas of concern were: some candidates failed to relate the aims and objectives of the project to the rest of the project; some candidates showed a general weakness in integrating all the sections of the project; and some candidates failed to satisfy certain requirements of the project such as data collection, recommendations and aims and objectives.

There are still a number of teachers submitting project reports using the old format for the presentation of projects. Teacher guidance is essential in the preparation of projects. Teachers must also check the current syllabus for the requirements of the internal assessment.

PAPER 03B

This paper took the form of a mini-case, and consisted of three compulsory questions. The mean for this paper was 13.87 out of a maximum possible of 42, the standard deviation was 8.97 and the scores ranged from 37 to 2. Candidates were required to report on the accounting and reporting practices of different forms of business organisations.

Question 1

Candidates were required to discuss the differences in recording transactions relating to equity accounts in different forms of business entities.

The responses to this question revealed that candidates had a limited grasp of the principles and concepts in this Module. The mean of the question was 3.05 out of 14, a standard deviation of 2.85 and a range of 10 – 0.

Question 2

Candidates were required to discuss the differences and similarities in the presentation of the financial statements among different forms of business entities.

The responses to this question were acceptable with a mean of 5.30 out of 14, a standard deviation of 3.94 and range of 14 – 0.

Question 3

Candidates were required to identify and discuss five financial ratios that an investor or creditor would use in different types of business entities.

UNIT 2

GENERAL COMMENTS

The CAPE Accounting Unit 2 – Cost and Management Accounting - consisted of three papers. Paper 01 consisted of 27 multiple-choice items (nine per Module) and six short-answer questions (two per Module) all of which were compulsory. The time allocated to this paper was 90 minutes. Paper 02 was an extended answer paper comprising three questions (one per Module). The time allocated to this paper was 2 ¾ hours. Paper 03A was the Internal Assessment or school-based component. This paper was assessed by the class teacher and moderated by CXC. Paper 03B was an alternative to the Internal Assessment for non-school based candidates, and comprised three questions, one per Module.

DETAILED COMMENTS

Multiple-choice items

The performance on the twenty-seven (27) multiple-choice items represented a satisfactory standard of performance. Candidates showed an improved performance in the multiple-choice items over 2005. The mean on this paper was 15.41 with a standard deviation of 4.53 and the range was 5 – 24.

Short answer questions

The short-answer section of the paper comprised six questions, two per Module, worth a maximum of six marks each. The performance on these questions represented an acceptable standard of performance.

Question 28

Candidates were required to use NPV and the payback period to evaluate a capital budgeting problem.

The responses to this question were acceptable with a mean of 2.81 out of 6 and a standard deviation of 4.53. The areas on which candidates performed well were the use of the formula for the calculation of the payback period and the calculation of NPV. However, there was a general weakness in the calculation of the annual net cash flow by the incorrect treatment of depreciation and the incorrect use of the annuity factor. Some candidates were unaware of the formula to calculate the payback period when annual cash flows are constant. They preferred to use the cumulative cash flow schedule.

Question 29

Candidates were required to prepare an income statement using absorption costing and an income statement using variable costing.

Candidates performed satisfactorily on this question resulting in a mean of 3.08 and a standard deviation of 1.71. Candidates performed well on the preparation of the variable costing income statement. The absorption costing income statement presented challenges for candidates as some of them treated selling costs as product costs and ignored closing inventory or valued it using variable cost. Some candidates displayed limited knowledge of the fundamental difference between variable costing and absorption costing. Some candidates also demonstrated an inability to distinguish between product costs and period costs.

Question 30

Candidates were asked to allocate service department overhead costs to production departments using the step-down method.

Candidates performed satisfactorily on this question resulting in a mean of 3.35 and a standard deviation of 2.05. Many candidates were able to calculate the overhead costs to be allocated to the production department in the first apportionment. However, many candidates experienced difficulty in the second apportionment of the costs. Some candidates used alternative methods for the allocation of service department overhead costs demonstrating unfamiliarity with the step-down method:

Question 31

Candidates were required to calculate the value of inventory on hand using FIFO, LIFO and weighted average methods.

Candidates performed satisfactorily on this question which had a mean of 3.20 and a standard deviation of 2.08. Candidates were able to calculate the value of the ending inventory using the LIFO and FIFO methods. Some candidates were unable to calculate the value using the weighted average method.

Question 32

Candidates were required to calculate the cost of two jobs using job order costing.

Candidates performed satisfactorily on this question which had a mean of 3.14 and a standard deviation of 1.82.

A common weakness in this question was that candidates treated the service revenue as a service cost.

Question 33

Candidates were required to calculate the break-even point in units and in dollars, and the projected profit given the volume, unit selling price, fixed costs and contribution margin.

The response to this question was acceptable with a mean of 2.40 and a standard deviation of 1.82. Candidates performed satisfactorily on the calculation of the fixed costs and the break-even revenue. However, a common weakness in the candidates' solutions was the misappropriation of the fixed cost in calculation of the break-even units where a change in production had taken place.

PAPER 02

This paper consisted of three compulsory questions. The mean for this paper was 52.9 out of a maximum possible of 105, the standard deviation was 22.53 and the scores ranged from 5 – 104.

Question 1

Candidates were required to compute a number of cost items – total variable costs, total fixed costs, total product costs, direct materials used, total manufacturing overhead, cost of goods manufactured and cost of goods sold. In addition, they were required to use the information provided to decide whether to accept a special order or not and to list three qualitative factors in making the decision.

Candidates performed satisfactorily on this question which had a mean of 18.53, a standard deviation of 6.76 and scores ranging from 0 to 34. Candidates were able to present a schedule of manufacturing costs but were unfamiliar with the cost terms that they were required to calculate. Teachers should ensure that candidates understand cost terms and concepts used in the preparation of the schedule.

Question 2

Candidates were required to use Activity-Based costing to allocate overhead costs to two types of products. The second part of the question required candidates to prepare a process costing worksheet using the weighted-average method.

Candidates performed satisfactorily on this question which had a mean of 18.09, a standard deviation of 11.39 and scores ranging from 0 to 35. Candidates prepared the process costing worksheets well. A common weakness in the candidates' solutions was the assignment of total overhead costs to each product using Activity-Based costing.

Question 3

Candidates were required to prepare a cash budget together with some related schedules. The second part of the question required candidates to use capital budgeting (NPV) to evaluate an investment decision.

Candidates performed satisfactorily on this question which had a mean of 17.28, a standard deviation of 8.40 and scores ranging from 0 to 35. In the first part of the question, which related to the preparation of a budget and supporting schedules candidates were able to prepare the schedule of cash collections from sales well. The schedule of required purchases created some difficulty since many candidates used the sales figure instead of the cost of sales. Another common weakness in candidates' solutions was the use of depreciation in some schedules. Some candidates presented a separate budget for each month instead of using a columnar format for the three months. The second part of the question relating to NPV was very well done. However, some candidates had some problems with the selection and use of the discount factors.

The internal assessment comprised of three tests constructed, administered and marked by the teacher. These tests, along with the keys and mark schemes submitted for moderation were well constructed, with the objectives being clearly identified. The test items selected were of a level of difficulty, type and mix of questions appropriate to the level being assessed. The sample scripts submitted were marked consistently with the keys and mark scheme.

PAPER 03A

The internal assessment comprised three tests constructed, administered and marked by the teacher. These tests, along with the keys and mark schemes submitted for moderation, were well constructed, with the objectives being clearly identified. The test items selected were of a level of difficulty, type and mix appropriate to the level being assessed. The sample scripts submitted were marked consistently with the keys and mark schemes.

Some teachers submitted sample scripts but did not provide keys and mark schemes or tests. Teachers must be reminded that failure to follow the guidelines as provided for in the syllabus could affect the moderation process and the final grade of their students.

PAPER 03B

This paper consisted of nine compulsory questions, three per Module. The mean for this paper was 18.75 out of a maximum possible of 42, the standard deviation was 7.82 and the scores ranged from 8 to 33. The performance on this paper was at an acceptable level.

GENERAL COMMENTS

Many candidates did not respond to all the questions on the examination paper. No response to questions significantly affects the grades earned by candidates. Teachers must inform candidates that in order to be successful in the examination they must perform satisfactorily on all Modules, which requires them to attempt all questions. A no-response on a question decreases the candidates' ability to obtain a satisfactory grade in a Module and this will affect their composite score, as success or failure depends upon performance in all Modules. Teachers must try to complete the syllabus and should assign research topics that lend themselves to self-directed learning.

CARIBBEAN EXAMINATIONS COUNCIL

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION
MAY/JUNE 2007**

ACCOUNTING

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CARRIBEAN ADVANCED PROFICIENCY EXAMINATION

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UNIT 1
GENERAL COMMENTS

The CAPE Accounting Unit 1 - Financial Accounting - consisted of three papers. Paper 01 consisted of 54 multiple-choice items eighteen per Module. Paper 02 was an extended answer paper comprising three questions (one per Module). Paper 03/1 was the Internal Assessment. This paper was assessed by the class teacher and moderated by CXC. Paper 03/2 was an alternative to the Internal Assessment for non-school candidates. This paper 03/2 comprised three questions - one per Module.

DETAILED COMMENTS

PAPER 01

The performance on the fifty four (54) multiple choice items on Paper 01 represented a satisfactory level of performance with a mean of 30.92 out of 63, and scores ranging between 0 and 53. This was the first year that Paper 01 consisted of multiple choice items only hence comparison to 2006 would be inappropriate.

The eighteen items drawn from Module 1 represented a good standard of performance. The mean was 11.87 out of 21, and a number of candidates scored full marks on the multiple-choice items drawn from this Module. The eighteen items drawn from Module 2 represented a satisfactory standard of performance with a mean of 9.69 out of 21. The eighteen items drawn from Module 3 represented a satisfactory standard of performance with a mean of 9.34, out of 21.

PAPER 02

This paper consisted of three compulsory questions. The mean for this paper was 41.44 out of a maximum possible of 105, and the scores ranged from 0 to 91, representing a satisfactory standard of performance.

Question 1

This compulsory question was divided into three parts.

- a) Distinguish between the criteria for recognizing revenues and expenses under the cash-basis and the accrual-basis of accounting.
- b) The International Accounting Standards Board's conceptual framework of accounting sets forth relevance, reliability, comparability and consistency as important qualitative characteristics of accounting information. Explain each of these four qualitative characteristics of accounting information.
- c) Briefly contrast the role of internal auditors and external auditors with reference to: what or who determines the scope of their work; the period for which they are usually appointed; what or whom they are usually required to be independent of; whether they are usually responsible for the prevention and detection of fraud; and, the standards which generally guide their work.

The response to this question was weak with a mean of 11.36 out of 35, and a range of scores of 0 – 31.

Candidates were able to distinguish between revenues and expenses. They were also able to explain the cash basis of accounting and the accrual basis. One major weakness in candidates' responses related to their discussion of revenues and expenses in the context of the double entry system and providing relevant examples. However, they did not discuss revenue and expense recognition as it relates to the cash basis and accrual basis of accounting as required by the question.

In the second part of the question, candidates demonstrated some knowledge of the qualitative characteristics of accounting information. However, a notable weakness in candidates' responses was their inability to distinguish between the concepts of reliability and relevance. Several candidates reversed the definitions of reliability and relevance.

In the third part of the question, candidates responded more favorably. However, some of the candidates were unable to distinguish between the roles of the internal and external auditor as they relate to detection and prevention of fraud, auditor independence, and the nature and scope of their work.

Question 2

The theoretical part of this question required candidates to briefly outline two similarities and three differences between a public company and a private company. In the major part of the question, candidates were presented with a set of poorly prepared financial statements with supporting notes and they were required to prepare an income statement together with a balance sheet using International Accounting Standards.

The response to this question was satisfactory with a mean of 16.48 out of 35, and a range of scores from 0 – 34.

Most of the candidates responded well to the first part of the question. Notable weaknesses in the candidates' responses to the differences between private and public companies related to their understanding of limited liability and the ownership structure. Some candidates stated that public companies were state-owned whilst private companies were owned by private individuals. Several candidates used size to distinguish between private companies and public companies asserting that private companies were small companies whilst public companies were large. Some candidates argued that one difference between private and public companies was derived from their business motivation, asserting that private companies were formed to make profits while public companies were formed to serve people and provide necessary goods and services. Additionally, several candidates identified characteristics as similarities in private and public companies. However these characteristics were not peculiar to companies, for example, they stated that both had members of the private sector on their boards, or both aimed to make a profit.

The second part of the question which related to the preparation of an income statement and balance sheet using the IAS, was fairly well done. The strengths identified in candidates' responses related to their ability to identify and correctly place most expenses and revenues in the income statement and correctly identify and place the assets in the current and non-current section of the balance sheet.

Most candidates correctly calculated the net sales figure, but failed to correctly calculate the cost of goods sold figure. They failed to make the necessary adjustments for freight in and purchase discount. Some candidates failed to distinguish between freight in and freight out and included both items in the operating expenses section of the income statement. Most candidates failed to adjust the bad debts figure and treated the bad debt recovered as revenue. The extraordinary item was placed in the income

statement before corporation tax, and several candidates failed to recognize that the amount for obsolete stock should not have been included as an extraordinary item.

In the preparation of the balance sheet, several candidates failed to use an accepted format of listing assets either using the order of permanency or liquidity but proceeded to list items randomly. The candidates prepared the current assets section of the balance sheet satisfactorily and treated the long-term investment and bonds payable appropriately. Several candidates failed to correctly calculate and place the current portion of mortgage payable. The dividends payable were incorrectly placed in the equity section of the balance sheet by some candidates. Several candidates failed to recognize the liability relating to taxes payable, and failed to account for the accumulated depreciation in the balance sheet.

Question 3

This question consisted of two parts; the first part required candidates to prepare a statement of cash flows. In the second part, candidates were provided with data consisting of selected ratios for three consecutive years and were required to prepare a report analyzing the performance of the entity in terms of liquidity, activity, solvency and profitability.

The response to this question was acceptable with a mean of 13.61 out of 35 and a range of scores from 0 – 35.

Candidates performed well on the cash flow statement part of the question. There were some candidates who misclassified the issuance of long-term debt. A number of candidates had some difficulty in correctly treating the inflows and outflows in the operating activities section. Some candidates treated retained earnings as a financing activity. A number of candidates did not follow the IAS1 based on the 2000 standards and used a more recent standard.

In the second part of the question relating to interpreting financial ratios, most candidates were able to identify and explain the liquidity and profitability ratios. The candidates identified appropriate benchmarks when discussing the ratios and were able to discuss the trends in the ratios over the years. However, a common weakness in this part of the question related to candidates' inability to identify and explain solvency ratios. Some candidates had difficulty in explaining the price earnings ratio and the dividend payout ratio.

PAPER 03/1

The quality of the project reports continues to be of a high standard demonstrating candidates' ability to do investigative research. The projects were well presented using different types of media, with well prepared questionnaires covering a wide range of content areas. The more popular areas included Accounting Standards, Ratio Analysis, and Business Organisation Structure. One major area of concern that must be highlighted was that some candidates lacked analytical and evaluation skills. Another area of concern was that some candidates provided aims and objectives for their projects that were either vague, or of a personal nature, or failed to relate the aims and objectives of the project to the rest of the project. A major concern was candidates' inability to integrate all the sections of the project.

This year a large number of candidates improved on the presentation of their projects by including graphs and charts. However, a notable weakness in the use of the charts was that candidates used these mainly as appendices and failed to reference or discuss them in the analysis section of the document.

A continuing problem with the internal assessment is that some teachers are not using the current syllabus and requiring candidates to prepare projects that are quite burdensome. More care needs to be taken in selecting topics and teachers need to provide the relevant guidance to students and use the correct syllabus.

The mean of this paper was 30.33 out of 42 and the range of scores was 0 – 42.

PAPER 03/2

This paper took the form of a mini-case, and consisted of three compulsory questions. The mean for this paper was 13.94 out of a maximum of 42 and the scores ranged from 6 to 27. The paper sought to investigate the impact of computerization on accounting.

Question 1

Candidates were required to identify seven ways in which a computerized accounting system could improve the efficiency of recording accounting information, and to discuss how the objectives of good internal control are achieved in a computerized accounting environment. The response to this question revealed that candidates had a limited grasp of the principles and concepts in this Module. The mean of the question was 5.78 out of 14 and the range was 3 to 9.

Question 2

Candidates were required to identify four types of ownership structures and briefly describe one; discuss how the computerization of the accounting system is affected firstly by the type of ownership structure and secondly the type of business in terms of accounts and financial statements prepared. The mean of the question was 3.61 out of 14; and the range of scores was 0 to 11.

Question 3

Candidates were required to identify six ratios that could be easily incorporated into an accounting software package to assess the performance of the business; define comparative financial statements; explain why they are important; and, explain how a computerized accounting system would assist the management of Steward Corporation in interpreting and analyzing the performance of the business. The mean of the question was 4.56 out of 14, and the range of scores was 1 to 10.

UNIT 2

COST AND MANAGEMENT ACCOUNTING

GENERAL COMMENTS

The CAPE Accounting Unit 2 – Cost and Management Accounting - consisted of three papers. Paper 01 consisted of 54 multiple-choice items, eighteen per Module. Paper 02 was an extended answer paper comprising three questions (one per Module). Paper 03/1 was the Internal Assessment. This paper was assessed by the class teacher and moderated by CXC. Paper 03/2 was an alternative to the Internal Assessment for non-school candidates. This paper comprised three questions, one per Module.

DETAILED COMMENTS

PAPER 01

The performance on the fifty four (54) multiple-choice items on Paper 01 represented a good standard performance with a mean of 37.81 out of 63, and the scores ranged between 0 and 61. This was the first year that Paper 01 consisted of multiple-choice items only hence comparison to 2006 would be inappropriate.

The eighteen items drawn from Module 1 represented a good standard of performance as the mean was 12.7, and the range of scores was 0 – 21 out of a maximum of 21. The eighteen items drawn from Module 2 represented good performance with a mean of 12.47, and again in this Module some candidates scored full marks. The eighteen items drawn from Module 3 represented a good standard of performance with a mean of 12.63, and the range of scores was 0 – 21 out of 21.

PAPER 02

This paper consisted of three compulsory questions. The mean for this paper was 56.64 out of a maximum possible of 105, and the scores ranged from 0 to 105. The candidates' performance on this paper represented a satisfactory standard.

Question 1

Candidates were provided with a list of accounts balances and were required to prepare a cost of goods manufactured schedule and an income statement. In addition they were required to prepare schedules to calculate the value of the Belmopan Company's inventory on December 31, 2006 under the LIFO and FIFO inventory cost-flow methods. The final part of the question required candidates to make a decision relating to the elimination of an unprofitable division.

Candidates' performance on this question was good resulting in a mean of 23.62, and scores ranging from 0 to 35. In the first part of the question candidates were able to classify direct cost correctly, calculate the total manufacturing costs, and were able to treat overhead costs correctly. However, some candidates included the finished goods inventory in their manufacturing schedule and confused overheads with operating expenses. In the second part of the question, candidates were able to correctly calculate the cost of sales, gross margin and net income. A weakness in some candidates' responses related to the incorrect treatment of sales commission. The part of the question relating to inventory valuation was handled correctly by most students. The only notable weakness was that some candidates confused the two methods. The final section of the question which related to candidates using cost information for decision making was not well done. Some candidates were able to identify the incremental profits as well as the contribution to cover fixed costs. However, a large percentage of the candidates responded to the question without any supporting calculations.

Question 2

The first part of the question required candidates to calculate the manufacturing cost per unit under absorption costing and variable costing; prepare income statements under both methods; and, reconcile the difference between the two net incomes. The second part of the question required candidates to prepare job cost sheets and calculate the over- or under- applied overhead.

Candidates performed satisfactorily on this question resulting in a mean of 19.56, and scores ranging from 0 - 35.

The candidates performed fairly well on the job-costing section of the question. The candidates were able to correctly calculate the predetermined overhead rates and determine the cost of each job. However, there were some candidates who ignored the overheads in calculating the cost of the jobs. Another weakness in some responses was that candidates listed the cost of the jobs but did not identify the jobs that were completed. Some candidates interpreted the question as requiring an overhead account, but placed the actual and applied overhead on the incorrect sides of the account. Most of these candidates failed to identify the balance as representing under-applied or over-applied overhead. A number of the candidates did not realize that the over/under-applied overhead represented the difference between actual and applied overhead. Many reported over- or under-applied overhead as the difference between estimated and applied overhead.

The variable and absorption part of question proved more challenging. The typical errors included preparing the income statement rather than schedules when calculating unit costs. Candidates also included non-production cost when they were calculating unit manufacturing cost, thus reporting a total cost instead. Some students also found total cost but were confused as to whether to use production volume or sales volume. Most candidates could not successfully reconcile the net income computed under the variable costing with that of absorption costing. Several identified the difference that related to the inventory but could not demonstrate an understanding of the reason for the difference. Some candidates attributed the difference to manufacturing overhead as opposed to fixed manufacturing overhead.

Question 3

This question tested candidates' competencies in the calculation of direct materials, direct labour and overhead variances. The second part of the question required candidates to use cost volume profit analysis in answering the question. Candidates performed satisfactorily on this question resulting in a mean of 13.89 and scores ranging from 0 to 35.

The formulae for the calculation of the direct materials and direct labour variance were widely known. However, a large number of candidates were unable to apply this knowledge in answering the question. Candidates seem unaware of how to calculate the overhead variances and a large number did not respond to this part of the question.

In the second part of the question, most candidates seemed familiar with CVP but a number of them failed to distinguish between unit contribution and contribution margin ratio. Candidates were able to identify and apply the formula for the calculation of the break-even sales in dollars, but were unable to calculate the margin of safety as a percentage.

PAPER 03/1

The Internal Assessment comprised three tests constructed, administered and marked by the teacher. These tests, along with the keys and mark schemes submitted for moderation were well constructed, with the objectives being clearly identified. The test items selected were of a level of difficulty, type and mix of questions appropriate to the level being assessed. The tests in general conformed to the objectives of the Modules and the quality of these tests were of a high standard. Most of the mark schemes presented, complimented the tests, but there were a number of mark schemes where the mark allocation was unclear. The tests which contained excellent mark schemes were marked consistently with those keys and mark schemes.

A problem that surfaces year after year is that some teachers compile tests that do not adhere to the guidelines provided in the syllabus. One example is that the tests are not covering 60 percent of the objectives of a Module. There were a few cases where teachers submitted tests that contained questions not relating to the syllabus; care must be taken in this regard. Finally, some teachers submitted sample scripts but did not provide keys and mark schemes or tests. Teachers must be reminded that failure to follow the guidelines as provided in the syllabus could affect the moderation process and the final grade of the candidates.

PAPER 03/2

This paper consisted of nine compulsory questions, three per Module. The mean for this paper was 13.2 out of a maximum possible of 42, and the scores ranged from 3 to 28.

Performance on this paper was generally weak, though a few candidates were able to provide satisfactory responses for most of the questions.

General Comments

The problem of non-response continues in this examination. Candidates are not completing all the questions as required and this affects their overall performance. A non-response on a question decreases candidates' ability to obtain a satisfactory grade in a Module and this will affect their composite score. Success or failure in a Unit depends upon performance across Modules. Teachers must try to complete the syllabus and should assign research topics that lend themselves to self-directed learning.

CARIBBEAN EXAMINATIONS COUNCIL

**REPORT ON CANDIDATES' WORK IN THE
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MAY/JUNE 2008**

**ACCOUNTING
(TRINIDAD AND TOBAGO)**

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**ACCOUNTING
(TRINIDAD AND TOBAGO)**

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION

MAY/JUNE 2008

UNIT 1

GENERAL COMMENTS

The CAPE Accounting Unit 1 examination consisted of three papers. Paper 01 comprised fifty-four multiple-choice items, eighteen per Module, all of which were compulsory. Paper 02 is an extended answer paper comprising three questions (one per Module). Question 1 was an essay question divided into three parts, all related to Module 1. Parts (a), (b) and (c) examined Specific Objectives 1, 7 and 6, respectively; Question 2, a mini case, was related to Module 2, Specific Objectives 4 and 5; and Question 3, which relates to Module 3, Specific Objectives 5, 6 and 9, was an extended problem with computational aspects as well as report writing. Paper 03/1 is the Internal Assessment. This paper was assessed by the class teacher and moderated by CXC. Paper 03/2 was an alternate paper to the Internal Assessment for non-school candidates. Paper 03/2 comprised three questions (one per Module).

DETAILED COMMENTS

PAPER 01

The performance on the fifty four (54) multiple-choice items on Paper 01 was satisfactory with a mean of 38 out of 63, and scores ranging between 0 and 58.

PAPER 02

This paper consisted of three compulsory questions. The mean for this paper was 54 out of a maximum possible of 105, and the scores ranged from 0 to 92.

Question 1

This compulsory question was divided into three parts as follows:

- (a) Identify FIVE groups who use financial accounting information and state ONE purpose for which each group uses this information.
- (b) Explain why a business should have an internal control system. Include FIVE reasons in your response.
- (c) For each of the SIX cash disbursement procedures specified:
 - (i) Identify the weakness in internal control.
 - (ii) Suggest a change in the procedures that are currently in place at Balandra Clothing Store.
 - (iii) Identify FOUR internal control principles that have been violated by the procedures that are currently in place at Balandra Clothing Store.

The response to this question was satisfactory with a mean score of 20 out of 35, but variable as seen in the range of scores, 0 to 35.

Part (a)

The overall performance on this part of the question was very good. Many candidates earned more than seven marks on this item. However, a minority of candidates identified the different forms of business organizations instead of types of users of financial accounting information. Several candidates had difficulty specifying the purpose for which different groups use financial information and merely gave the same generic purpose, that is, assessing the financial performance (profitability) and financial position, for all or most user groups. Generally, candidates did not write at the standard expected at this level.

It is recommended that teachers provide students with opportunities to prepare concise responses in line with the marks allocated. Teachers should also encourage students to use the correct accounting terminology in the classroom.

Part (b)

The performance on this part of the question was satisfactory. Most candidates correctly identified the reasons for having an internal control system. On the other hand, several candidates used the same reason with minor restatement more than once.

Part (c)

The performance on this part of the question was satisfactory. Candidates were generally able to identify the principles of internal control that were violated by the firm's current cash disbursement procedures. Also several candidates did not recognize the company's accountant preparing the bank reconciliation, and three persons having to access to the petty cash fund as control problems. Many candidates correctly identified the underlying internal control principles but did not link them to the control weaknesses.

It is recommended that candidates (and teachers) pay more attention to the theoretical aspect of financial accounting. Teachers should also provide students with opportunities to assess accounting and control systems and make recommendations to improve any weaknesses identified.

Question 2

This question examined Module 2, Specific Objectives 4 and 5. Candidates were required to prepare a multiple-step income statement and classified balance sheet for a corporation. The statements needed to comply with the requirements of the International Accounting Standards.

Overall the responses to this question were satisfactory with a mean of 18 out of 35 and a range of scores between 0 and 32.

Multiple-Step Income Statement

The performance on this item was satisfactory as most candidates correctly calculated the net sales and gross profit amounts and clearly understood the components of income from primary operations.

However, several weaknesses were observed in the responses to this question. First, many candidates were unable to calculate the amount of Store Supplied consumed during the period. Second, many candidates were unable to correctly classify Other Income and Expenses. Third, candidates who calculated a loss before taxation did not recognize that this amount should be taxed. Fourth, many

candidates seemed unfamiliar with the Income Statement/Percentage of Sales method of estimating bad debt expenses. As a result, the amount calculated base on sales was added to the amount of \$5 500 which relates to the customer who went into liquidation, and the total taken to the income statement. Some candidates calculated bad debt on gross sales instead of net sales. Also, some candidates correctly interpreted the estimated bad debt as a provision for bad debt and treated it as such based on the Balance Sheet method. That is, they determined the difference between the provisions calculated for the current period and that shown in the income statement. Fifth, a significant number of candidates treated the “lost due to flood damage” as an extraordinary item even though the problem stated that the item was seasonal. Sixth, most candidates either incorrectly calculated the depreciation amounts using the straight line method, or omitted them.

Classified Balance Sheet

The performance on this item was good but variable. Candidates correctly classified the current asset and most of the shareholders’ equity items.

Several weaknesses were noted in candidates’ responses. First, many candidates had difficulty classifying non-current asset and liability as a non-current asset and liability item. Second, some candidates did not correctly classify Investments as a non-current asset although the question clearly indicated that it would mature in 2020. Third, many candidates completely ignored the Corporation Tax Liability and the Interest Receivable account. Fourth, some candidates did not adjust the Retained Earnings amount for the current period’s net income.

It is recommended that teachers reinforce key concepts such as the treatment of accumulated depreciation and provision for bad debts in the balance sheet. Candidates may also need more exposure to problems and mini cases requiring the preparation of multiple-step income statements and classified balance sheets.

Question 3

In this question selected financial information for one business was provided and candidates were required to:

- (a) Prepare the statement of cash flows (SCF) using the indirect method
- (b) Calculate the following ratios for the company:
 - (i) Current ratio
 - (ii) Acid test ratio
 - (iii) Net income per cent
 - (iv) Return on total assets
 - (v) Debt to equity
- (c) Describe the financial situation of another company (Gordon Limited) based on information provided.

Overall the performance on this question was satisfactory with a mean of 17 out of 35 and scores ranging between 0 and 33

Part (a)

Most candidates performed satisfactorily on this part of the question. Candidates were generally able to present the statement using the appropriate format and headings. Most candidates computed the changes in balance sheet items correctly, with the exception of the depreciation and purchase of fixed assets.

Several weaknesses were observed in the responses to this part of the question. First, many candidates did not label the subtotals for the operating, investing and financing sections of the Statement of Cash Flows. Second, some candidates used a format similar to that used for a trial balance with columns labelled “inflows” and “outflows” to present the statement. Third, many candidates misclassified the “Amortization of Premium on Bonds”. Fourth, some candidates included the change in “dividends payable” as a cash item instead of “dividend paid”, and others included “retained earnings” as a cash flow item. Fifth, some candidates elected to begin the statement of cash flows using the “Income before tax and interest” figure. Invariably these candidates did not make the appropriate adjustments for “taxes” of “interest” paid.

It is recommended that teachers provide candidates with sufficient opportunities to prepare comprehensive Cash Flow Statements in good form. Teachers also need to provide adequate feedback on candidates’ assignments. Additionally, teachers should review the techniques used to account for the acquisition and disposal of fixed assets so that candidates get a good understanding of the factors that cause the fixed asset accounts to change.

Part (b)

The performance on this part of the question was good. Most candidates correctly stated the formula for the required ratios and computed the current ratio and the net profit percent. However, most candidates were unable to calculate the return on assets and debt to equity ratios.

It is recommended that teachers provide candidates with sufficient opportunities to calculate and interpret financial ratios using published financial statements. This must involve exercises which require candidates to identify the specific financial statement items that comprise the components of each ratio. For example, candidates must be able to identify the account balances that comprise current assets, quick assets, current liabilities and other ratio components.

Part (c)

The performance on this part of the question was poor. Most candidates demonstrated some knowledge of the link between working capital problems and the ability of the company to meet its current obligations as they fall due. However, most candidates did not recognize that the firm was insolvent. Also, several of the candidates that recognized that the firm’s prospects of survival.

It is recommended that teachers provide candidates with opportunities to evaluate financial performance and positions of various types of organizations using financial ratios, trend analysis and common-sized statements.

PAPER 03/1

For Unit 1, Internal Assessment samples were received from 136 centres. The quality of the project reports continues to be of a high standard demonstrating candidates’ ability to do investigative research. The mean score was 32 out of 42. The projects were generally well presented using a variety of media, with well prepared questionnaires covering a wide range of content areas. The more popular areas included International Accounting Standards, Internal Controls, and Ratio Analysis.

Conversely, many candidates still appear to be using the old format for the presentation of projects. Many candidates failed to relate the aims and objectives of the project to the rest of the project; some candidates showed a general weakness in integrating all the sections of the project, and failed to fulfil certain requirements of the project such as data collection, recommendations and the specification of aims and objectives. Some candidates did not relate the analysis, evaluation and recommendations to the business being investigated. Overall, the data analysis and evaluation sections were the weakest elements of the projects.

As in 2007, many candidates provided aims and objectives for their projects that were either vague, or of a personal nature. Another area of concern is the number of candidates preparing three distinct projects, one for each Module of the syllabus. Additionally, many candidates continue to present the tables, charts, figures and other media for their projects in the appendices with no cross-referencing or discussion in the body of the project.

Many of the weaknesses identified in the projects appeared to be related to the quality of guidance provided to candidates on the requirements. Teachers are reminded to consult the syllabus effective for examination from 2002 for the current requirements of the Internal Assessment.

PAPER 03/2

Paper 03/2 comprised three questions, one per Module. The mean score for this paper was 18 out of a maximum of 42 and the scores ranged from 12 to 21. The paper sought to investigate the use of International Accounting Standards in the Caribbean.

Question 1

Candidates were required to:

- (a) Define the term “Accounting Standards”.
- (b) Name an organization in the Caribbean region that can relate directly to the work of the International Accounting Standards Committee.
- (c) Describe the role of the International Accounting Standards Committee.
- (d) Outline SIX reasons why International Accounting Standards are necessary.

The responses to this question were less than satisfactory with a mean score of 6.8 and scores ranging from 2 to 10.

Question 2

Candidates were required to prepare balance sheet extracts for the following items for 2006 and or 2007 using information provided and based on the requirements of International Accounting Standards:

- (a) Inventory
- (b) Property, Plant and Equipment, and Depreciation
- (c) Accounts receivable, provision for doubtful accounts and bad debt expense (income statement)

The responses to this question revealed that candidates had a less than satisfactory grasp of the IAS requirements for the preparation of a Balance Sheet. The mean of this question was 8.5 and the score ranged from 4 to 11.

Question 3

Candidates were provided with a brief narrative for Half Moon Beach Hotel a company that was a takeover candidate for Cable and Associates. They were instructed to:

- a) State TWO ways in which events that occurred after the balance sheet date can affect the financial statements of Half Moon Beach Hotel.
- b) Explain how Half Moon Beach Hotel should account for the events which occurred after March 31, 2007, in its financial statements.
- c) Justify the accounting treatments given in (b) above.

The responses to this question were unsatisfactory with a mean score of 3.6 and scores ranging between 0 and 8. Candidates generally displayed a very limited understanding of accounting for post-Balance Sheet events.

UNIT 2

GENERAL COMMENTS

The CAPE Accounting Unit 2 examination consisted of three papers. Paper 01 comprised 54 multiple-choice items, 18 per Module, all of which were compulsory. Paper 02 is an extended answer paper comprising three questions (one per Module). Question 1 was an extended problem with mainly computational aspects. This question was divided into three parts, all related to Module 1. Parts (a), (b) and (c) examined Specific Objectives 3, 8 and 12, respectively. Question 2, which comprised three parts, was an extended problem with mainly computational aspects and focused on Module 2. Part (a) examined Specific Objectives 4, 5 and 7, Part (b) examined Specific Objective 3 and Part (c) examined Specific Objective 10. Question 3 which comprised three Parts, was an extended problem with both computational and conceptual requirements, and focused on Module 3. Part (a), examined Specific Objectives 1 and 3, while Parts (b) and (c) examined Specific Objectives 5 and 6, respectively. Paper 03/1 is the Internal Assessment. This paper was assessed by the class teacher and moderated by CXC. Paper 03/2 was an alternate paper to the Internal Assessment for non-school candidates. The paper 03/2 comprised nine questions, three per Module.

DETAILED COMMENTS

PAPER 01

The performance on the fifty-four (54) multiple-choice items on Paper 01 was good with a mean of 42 out of 63, and scores ranging between 0 and 60.

PAPER 02

This paper consisted of three compulsory questions (one per Module). The mean for this paper was 44 out of a maximum possible of 105, and the scores ranged from 2 to 98.

Question 1

This question comprised three parts. In Part (a), candidates were provided with a list of account balances and were required to calculate several items related to the Cost of Goods Manufactured Schedule. In Part (b), candidates were required to list the categories of costs that are relevant to a special order decision and to calculate the minimum price that a Company should charge for the special order if its objective was to be no worse off financially by accepting the order. In Part (c), candidates were provided with cost and activity information for a Company which had three service departments and two operating departments and used the direct method to allocate service department costs. Candidates were required to calculate the allocation rate for each service department and the amount of overhead costs that would be assigned to each operating department.

Candidates' performance on this part of the question was satisfactory with a mean score of 16, and scores ranging from 0 to 33.

Part (a)

The performance on this part of the question was satisfactory and it was attempted by most candidates. Most candidates calculated the amounts for total direct material used, total indirect labour and total product costs correctly. However, a few weaknesses were noted among the responses. First, many candidates did not calculate total variable manufacturing costs and total factory overheads correctly.

Teachers should emphasize the various bases used to classify cost, for example, behaviour (fixed and variable), business function (cost of goods sold, selling expenses, and distribution expenses), financial reporting (product and period), decision making (relevant, non-relevant). Teachers should also instruct candidates to calculate the various components of costs under each classification basis.

Part (b)

The performance on this part of the question was poor. Many candidates were able to calculate the minimum Price that should be charged for the special order and the unit variable cost of the seatbelt. However, most candidates did not correctly identify the categories of cost that were relevant to the special order decision. Several candidates also calculated the total variable cost of the seatbelts incorrectly.

It is recommended that teachers provide candidates with opportunities to understand the conceptual aspects of Cost and Management Accounting and specifically those related to short-term decision making.

Part (c)

The performance on this part of the question was good. Most candidates correctly allocated the service department overhead costs to the two productive departments. Conversely, many candidates incorrectly used the total activity of both productive and service department, rather than only that of the productive departments when calculating the overhead application rate. Also, several candidates used an inappropriate method, the step method or the reciprocal method, to allocate the service department costs.

It is recommended that teachers provide candidates with sufficient opportunities to answer questions involving the allocation of service department costs.

Question 2

This question, a mini case, comprised three parts. In Part (a), candidates were provided with costing information for Williams and Associates and required to:

- (i) Calculate the firm's pre-determined overhead application rate.
- (ii) Prepare a job cost sheet for a specified job showing clearly the traceable and non-traceable costs for the job.
- (iii) Calculate the amount of over- or under-applied overhead (non-traceable) cost for Williams and Associates for 2007.

In Part (b) of this question, candidates were provided with cost information for Eldon Company and required to:

- (i) Compute the unit product cost assuming that the company uses (a) absorption costing and (b) variable costing.
- (ii) Prepare a variable costing income statement for the company.
- iii. Prepare an absorption costing income statement for the company.
- iv. Reconcile the difference between the net operating income computed under variable costing and that computed under absorption costing.

In Part (c) of this question, candidates were required to outline one way in which activity-based costing differs from traditional costing methods.

The performance on this question was satisfactory with a mean score of 18 out of 42 and scores ranging between 0 and 35.

Part (a)

The performance on this part of the question was good. Candidates were generally able to correctly classify cost as traceable and non-traceable and to calculate the predetermined overhead application rate.

However, two weaknesses were noted among the responses. Firstly, many candidates did not correctly apply the pre-determined overhead application rate to the actual non-traceable costs to determine the amount of applied overheads. Secondly, several candidates did not correctly compute the amount of over- under-applied overheads.

It is recommended that candidates be given adequate opportunities to use a variety of bases other than direct labour hours and machine hours to allocate overhead costs to jobs, products and services. Candidates should also have opportunities to calculate and interpret overhead variances. Teachers should also remind candidates that when completing questions all relevant working must be shown.

Part (b)

The performance on this part of the question was good. Candidates generally used the appropriate formats for both variable and absorption costing. Conversely, many candidates calculated the ending inventory amount incorrectly under variable costing with that computed under absorption costing.

It is recommended that teachers provide candidates with sufficient opportunities to (a) understand the differences between variable costing and absorption costing and (b) apply both methods for manufacturing, merchandising and service organizations.

Part (c)

The performance on this part of the question was good. Most candidates correctly identified one difference between activity-based and traditional costing. However, candidates may benefit from additional exposure to the conceptual aspects of activity-based costing.

Question 3

This question was divided into three parts. In Part (a) of the question candidates were required to:

- (i) Describe FOUR benefits that a business may gain from budgeting.
- (ii) Distinguish between “ideal” and “practical” standards.
- (iii) Identify the factors that should be considered in setting the standard cost for a product of service.

Part (b) of this question provided candidates with information relating to a proposed day care and required them to:

- (i) Compute the contribution margin.
- (ii) Calculate the number of children who must be enrolled in order for the centre to break even.
- (iii) Calculate the margin of safety in DOLLARS and as a PERCENTAGE of budgeted revenue, if the budgeted enrolment of the day care centre was 135 children.

In Part (c) of the question candidates were provided with unit cost, unit selling price and demand information for a firm that was faced with a limiting factor of production. They were required to:

- (i) Determine the amount of raw materials (in kg) needed to produce ONE unit of EACH product.
- (ii) Determine the contribution margin per kg of material used in EACH product.
- (iii) Prepare a schedule showing the total direct materials that would be required to produce the units estimated to be sold during the following month.
- (iv) State the criteria that should be used by the company to allocate the 5000 kg of raw materials among the three products.
- (v) Determine the amount of EACH product that the company should produce during the following month.

Candidates’ performance on this question was fair with a mean score of 11 out of 35 and scores ranging between 0 to 33.

Part (a)

The performance on this part of the question was good. Candidates were generally able to describe the benefits of budgeting and to identify one factor that should be considered in determining the standard cost of a product or service.

However, several weaknesses were noted among the responses. Firstly, many candidates provided characteristics of budgets instead of the benefits of budgeting. Secondly, most candidates appeared unaware of the types of standards, ideal and practical. Thirdly, most candidates did not identify three factors that should be considered in setting the standard cost of a product or service.

It is recommended that teachers provide candidates with sufficient opportunities to understand the conceptual aspects of budgeting and standard costing, and more generally of management accounting.

Part (b)

The performance on this part of the question was good. Most candidates calculated the contribution margin correctly. However, most candidates were unable to define and calculate the contribution margin and the margin of safety correctly. A small number of candidates also had difficulty classifying costs as fixed or variable.

It is recommended that teachers provide opportunities for candidates to work comprehensive problems involving cost-volume-profit analysis and provide detailed and timely feedback to candidates.

Part (c)

The performance on this part of the question was poor. A small number of candidates received marks of eight and above out of a maximum of 13. Most candidates had difficulty with all aspects of this limiting factor analysis, including specifying the criterion (contribution margin per unit of limiting factor) that is used to evaluate the limiting factor and applying the criterion to a specific decision to determine the mix of products that should be manufactured or sold.

It is recommended that teachers provide candidates with sufficient opportunities to develop their competencies in all aspects of the syllabus including limiting factor analysis.

PAPER 03/1

For Unit 2, Internal Assessment samples were received from 14 centres. The Internal Assessment comprised three tests constructed, administered and marked by the teacher. These tests, along with the keys and mark schemes submitted for moderation were generally well constructed, with the objectives being clearly identified. The test items selected were of a level of difficulty, type and mix of questions appropriate to the level being assessed. The sample scripts submitted were generally marked consistently with the keys and mark scheme. However, some samples contained neither test papers, nor mark schemes. Also, the allocation of marks on some mark schemes was unclear.

PAPER 03/2

This paper comprised nine questions, three questions per Module. Fourteen marks were awarded per Module for a total of 42 marks. The mean score on this paper was 22.1 out of a possible maximum of 42, and the scores ranged from 9 to 31.

The performance on this paper was generally satisfactory.

Module 1 (Questions 1 – 3)

Candidates were required to answer the following items based on information provided in the paper:

1. (a) (i) Give ONE example of a time-based remuneration system.
- (ii) State TWO conditions under which a time-based remuneration system may be appropriate.
- (b) Contrast financial accounting with cost and management accounting by stating TWO differences between these areas.
- (c) Describe the flow of product costs in a metal fabrication firm such as the one owned by Derrick Lewis, from the point at which the costs were incurred to the point where they become expenses on the Income Statement.
2. (a) Calculate the cost of goods sold using the last-in-first-out (LIFO) method.
- (b) Calculate the cost of ending inventory.
3. (a) Identify the remuneration method that is used to pay an employee.
- (b) Suggest an alternative remuneration method that could be used to pay the employee.
- (c) Calculate the amount of wages paid to the employee.

The responses to the questions in this Module were less than satisfactory with a mean score of 7.9 out of a maximum score of 14 and scores ranging from 3 to 11.

Module 2 (Questions 4 – 6)

Candidates were required to answer the following questions based on information provided:

4. Determine the cost of Costume Manufacturing Company's work-in-process on January 31, 2008. The company uses a job order costing system.
5. Calculate the equivalent units for conversion costs incurred by Mason Hall Company.
6. Tabernacle Development Company is considering implementing an activity-based costing system.
 - (a) Calculate the amount of purchasing department cost that should be assigned to product.
 - (b) Explain how activity-based costing systems can provide more accurate product costs than traditional costing systems.

The responses to the questions in this Module were generally satisfactory with a mean score of 8.5 out of a maximum score of 14 marks and scores ranging from 5 to 12.

Module 3 (Questions 7 – 9)

Candidates were provided with three brief narratives, one for each question, and were asked to complete the following requirements:

7. Prepare the cash budget for the quarter April to June 2007.
8. (a) Compute EACH of the following:
 - (i) Material quantity variance and
 - (ii) labour rate variance
- (b) Prepare a possible explanation for ONE unfavourable variance calculated in (a) above.
9. (a) Compute the payback period.
- (b) Compute the accrual accounting rate of return based on net initial investment. Assume straight-line depreciation.

The responses to this question were poor with a mean score of 5.8 out of 14 and scores ranging between 2 and 10. Candidates generally displayed a very limited understanding of Cash Variance Analysis and Capital Budgeting.

GENERAL COMMENTS

Once again a significant number of students did not attempt all the questions in the examination. This was especially true for questions testing topics that appear later in the syllabus, suggesting that teachers may be experiencing difficulty completing the entire syllabus. Teachers may need to provide candidates with exposure to self-directed learning techniques and then assign them certain aspects of the syllabus as research projects in order to ensure coverage of the entire syllabus. This strategy must be supported by the provision of comprehensive feedback to candidates on their research assignments.

Also, many candidates did not respond to questions involving conceptual topics, suggesting that additional attention needs to be directed to these aspects of the syllabus. Candidates need to be reminded that in order to perform well on the examination they need to perform well on all three Modules of each Unit. As such all questions on the examination should be attempted. .

CARIBBEAN EXAMINATIONS COUNCIL

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION
MAY/JUNE 2008**

**ACCOUNTING
(REGION EXCLUDING TRINIDAD AND TOBAGO)**

ACCOUNTING
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION

JUNE – JULY 2008

UNIT 1

GENERAL COMMENTS

The CAPE Accounting Unit 1 examination consisted of three papers. Paper 01 consisted of 54 multiple-choice items, 18 per module, all of which were compulsory. The time allocated to this paper was 90 minutes. Paper 02 was an extended answer paper comprising of three questions (one per Module). Paper 02, Question 1 was an essay Question divided into three parts, all related to Module 1. Parts (a), (b) and (c) examined Specific Objectives 1, 7 and 6, respectively; Question 2, a mini case, was related to Module 2, Specific Objectives 4 and 5; and question 3, which related to Module 3, Specific Objectives 5, 6 and 9, was an extended problem with computational aspects as well as report writing. Paper 03/1 was the internal assessment. This paper was assessed by the class teacher and moderated by CXC. Paper 03/2 was an alternate paper to the Internal Assessment for non-school candidates. The Paper 03/2 comprised three questions (one per Module).

DETAILED COMMENTS

PAPER 01

The performance on the fifty four (54) multiple choice items on paper 01 represented awith a mean of --- out of 63, and scores ranging between 0 and ---.

Candidates' performance on the eighteen (18) items drawn from Module 1 represented The mean was --- out of 21, and a number of candidates scored --- marks. The performance on the eighteen (18) items drawn from Module 2 represented a --- level with a mean of ---- out of 21. The performance on the eighteen (18) items drawn from Module 3 was ---- with a mean of --- out of 21.

PAPER 02

This paper consisted of three compulsory questions. The mean for this paper was --- out of a maximum possible score of 105, and the scores ranged from – to ---, representing a --- standard of performance.

Question 1

This compulsory question was divided into three parts as follows:

- a) Identify FIVE groups who use financial accounting information and state ONE purpose for which each group uses this information.
- b) Explain why a business should have an internal control system. Include FIVE reasons in your response.
- c) For each of the SIX cash disbursement procedures specified above:
 - i. Identify the weakness in internal control.
 - ii. Suggest a change in the procedure that will result in good internal control.
 - iii. Identify FOUR internal control principles that have been violated by the procedures that are currently in place at Balandra Clothing Store.

The response to this question was satisfactory with a mean score of --- out of 35, but variable as seen in the range of scores, – to ---.

In Part (a) the overall performance was good, with a mean of ... and scores ranging between ---- and ---. Several candidates seemed to possess substantial knowledge and were able to answer the question sufficiently well to gain full marks. However, based on the responses, it was obvious that some candidates did not understand the requirements as they used the different types of businesses as the groups and went on to explain what each group used it for. Also, some students repeated the users (e.g., creditors/ suppliers; shareholders/ investors) and provided the same purpose for the groups. Generally, candidates did not write at the standard expected at this level and so a lot of inferences had to be made by markers.

It is recommended that teachers walk students through the process of essay writing which may help to alleviate this problem.

In Part (b) on average the responses were very good. Most candidates scored between 3 and 5 marks out of a maximum of five. There was one major weakness with the responses to Part (b) of Question 1. Several candidates provided information about the control procedures that should be employed for internal controls to work successfully rather than providing reasons for having an internal control system.

In Part (c) most candidates were able to identify the principles of internal control that were violated by the firm's current cash disbursement procedures. The major weakness was that many candidates were unable to describe the four internal control principles. Also, some candidates offered no recommendations to rectify the internal control weaknesses.

It is recommended that candidates (and teachers) pay more attention to the theoretical aspect of financial accounting. Teachers should also provide candidates with opportunities to assess accounting and control systems and make recommendations to improve any weaknesses identified.

Question 2

This question examined Module 2, Specific Objectives 4 and 5. Candidates were required to prepare a multiple-step income statement and classified balance sheet for a corporation. The statements needed to comply with the requirements of the International Accounting Standards.

Overall the responses to this question were weak with a mean of --- out of 35 and a range of scores between --- and ---.

Multiple-Step Income Statement

The performance on this question was ---, and (variability) ---. Few candidates earned in excess of --- out of the 10 of the 15 marks available.

Most candidates used the correct format for the trading section of the Income Statement.

Several weaknesses were observed in the responses to this question. Firstly, many candidates did not correctly identify the elements comprising Cost of Goods Sold and "Freight in" was frequently treated as an operating expense. Secondly, most candidates seemed unfamiliar with the Income Statement/Percentage of Sales method of estimating Bad Debt Expense. As a result, the amount calculated based on sales was added to the amount of \$5 500 which relates to the customer who went into liquidation and the total taken to the income statement. Some candidates calculated bad debt on gross sales instead of net sales.

Also, some candidates correctly interpreted the estimated bad debt as a provision for bad debt and treated it as such based on the Balance Sheet method. That is, they determined the difference between the provision calculated for the current period and that shown in the trial balance and reported it as the estimated bad debt expense in the Income Statement. Thirdly, many candidates did not differentiate between selling and administrative expenses. Fourthly, most candidates treated the "loss due to flood damage" as an extraordinary item even though the problem stated that the item was seasonal. Fifthly, most candidates either incorrectly calculated the depreciation amounts using the straight line method, or omitted them.

Sixthly, most candidates did not adjust the "store supplies" items to reflect the portion that was expensed during the period. Many candidates also added this item to the merchandise inventory in computing the cost of goods sold. Seventhly, many candidates did not calculate or recognize the interest on government bonds. Finally, many candidates did not adhere to the multi-step format in preparing the Income Statement.

Classified Balance Sheet

The performance on this item was weak to fair, and very variable. Few candidates earned in excess of --- of the 15 of the 20 marks available.

Several weaknesses were noted in candidates' responses. Firstly, many candidates had difficulty classifying items as assets, liabilities and Shareholders equity. They also had difficulty classifying items as current and non-current within the asset and liability categories. Secondly, some candidates did not correctly classify Investments as a non-current asset although the question clearly indicated that it would mature in 2020.

Thirdly, many candidates either completely ignored the Interest Revenue Accrued on the investment, or treated it as a liability rather than an asset. Fourthly, many candidates did not include the Corporation Tax Payable item in the Balance Sheet, even when it was properly calculated and reported in the Income Statement. Fifth, some Candidates did not adjust the Retained Earnings amount for the net income of the current period. Sixthly, many students did not adjust the Accounts Receivable items for the \$5 500 due from the customer that went into liquidation. Seventhly, many candidates did not separate the Note Payable into current and non-current portions.

It is recommended that teachers reinforce key concepts such as the treatment of accumulated depreciation and provision for bad debts in the Balance Sheet. Candidates may also need more exposure to problems and mini cases requiring the preparation of multiple-step Income Statements and classified Balance Sheet.

Question 3

In this question, selected financial information for one business was provided and candidates were required to:

- a) Prepare the statement of cash flows (SCF) using the indirect method
- b) Calculate the following ratios for the company:
 - i. Current ratio
 - ii. Acid test ratio
 - iii. Net income per cent
 - iv. Return on total assets
 - v. Debt to equity
- c) Describe the financial situation of another company (Gordon Limited) based on information provided.

In Part (a) most candidates performed well on the "Operating Activities" section of the SCF.

Several weaknesses were observed in the responses to this question. Firstly, many candidates did not properly determine whether the changes in current asset and current liability items computed represented a cash inflow or cash outflow. Second, many candidates misclassified the "Amortization of Premium on Bonds". Thirdly, many candidates did not calculate the payment for the purchase of equipment and plant correctly as they seemed unaware of the factors that cause the balance of equipment and plant to change from one period to the other.

Fourthly, some candidates included the change in "dividend payable" as a cash flow item instead of "dividend paid", and others included "retained earnings" as a cash flow. Fifthly, some candidates elected to begin the statement of cash flow using the Income before tax and interest" figure. Invariably these candidates did not make the appropriate adjustments for "taxes" or "interest" paid.

In Part (b) most candidates performed well, especially the current ratio, the acid test ratio and the net income per cent.

Some candidates were able to provide the formulae for the ratios but did not identify the appropriate values when computing the ratios.

It is recommended that teachers provide candidates with sufficient opportunities to calculate and interpret financial ratios using published financial statements.

In Part (c) most candidates performed satisfactorily. Candidates generally seemed to recognize that the company was having difficulty paying its current and long-term obligations as they became due. However, they did not recognize that this meant that the solvency of the company was questionable. A few candidates seemed not to have understood the requirements and provided ratio analysis for Maraval Company.

It is recommended that teachers encourage their students to use the accepted accounting terminology in their responses. Also, this topic, preparation of the SCF, should be taught early in the academic year and students should be provided with sufficient opportunities to apply the principles by solving problems and receiving feedback from teachers.

PAPER 03/1

For Unit 1, Internal Assessment samples were received from 136 out of ... centres. The quality of the project reports continues to be of a high standard demonstrating candidates' ability to do investigative research. The mean score for this paper was --- out of 42 and the range of scores was XX – 42. The projects were generally well presented using a variety of media, with well prepared questionnaires covering a wide range of content areas. The more popular areas included International Accounting Standards, Internal Controls, and Ratio Analysis.

Conversely, many candidates still appear to be using the old format for the presentation of projects. Many candidates failed to relate the aims and objectives of the project to the rest of the project; some candidates showed a general weakness in integrating all the sections of the project, some candidates fail to comply with certain requirements of the project such as data collection, recommendations and the specification of aims and objectives. Some candidates did not relate the analysis, evaluation and recommendations to the business being investigated. Overall, the data analysis and evaluation sections were the weakest elements of the projects.

Just as in 2007, many candidates provided aims and objectives for their projects that were either vague, or of a personal nature. Another area of concern, is the number of candidates preparing three distinct projects, one for each module of the syllabus. Additionally, many candidates continue to present the tables, charts, figures and other media for their projects in the appendices with no cross-referencing or discussion in the body of the project.

Many of the weaknesses identified in the projects appeared to be related to the quality of guidance provided to teachers and candidates on the requirements. Teachers are reminded to consult the syllabus effective for examination after 200X for the current requirements of the internal assessment. Additionally, it may be necessary for CXC to issue more detailed guidance on the requirements of the project, including a description of what is the nature of the various components of the projects, e.g., what constitutes data analysis, what is an aim/objective and what constitutes evaluation.

PAPER 3/2

This paper 3/2 comprised three questions (one per Module). The mean score for this paper was --- out of a maximum of 42 and the scores ranged from XX – XX. The paper sought to investigate the use on International Accounting Standards in the Caribbean. Twenty three (23) scripts were marked.

Question 1

Candidates were required to:

- a) Describe the conceptual framework of accounting.
- b) Explain why there is a need for a conceptual framework.
- c) Outline the importance of using International Accounting Standards.

The responses to this question revealed that candidates had a very limited grasp of the both nature and purpose of a conceptual framework of accounting and the importance of using International Accounting Standards. The mean score for this question was --- and the scores ranged from --- to ----.

Question 2

Candidates were required to identify FOURTEEN elements of a balance sheet that were not consistent with the requirements of the International Accounting Standards. They were instructed to focus on deficiencies in formatting, classification and terminology. Candidates were also instructed NOT to prepare a revised balance sheet. The responses to this question revealed that candidates had a less than satisfactory grasp of the IAS requirements for the preparation of a balance sheet. The mean of this question was --- and the scores ranged from --- to ----.

Question 3

Candidates were provided with a brief narrative for Charlestown Company and instructed to:

- a) Describe THREE ways in which contingencies can be treated in the financial statements.
- b) Explain how Charlestown Company should account for this lawsuit in its 2007 financial statements.
- c) Justify the accounting treatment recommended in Part (b) above.
- d) Outline the effects of the accounting treatment for the lawsuit on Charlestown Company's 2007 income statement and balance sheet.

The responses to this question revealed that most candidates had a limited grasp of the principles and procedures for accounting for contingent liabilities. The mean score was --- and the scores ranged from --- to ----.

UNIT 2**GENERAL COMMENTS**

The CAPE Accounting Unit 2 examination consisted of three papers. Paper 01 consisted of 54 multiple-choice items, 18 per Module, all of which were compulsory. Paper 02 is an Extended Answer Paper comprising of three questions (one per Module). Question 1 was an extended problem with mainly computational aspects. This question, divided into three parts, all related to Module 1. Parts (a), (b) and (c) examined Specific Objectives 8 and 9, 8 and 9 and 3, and 8, respectively; Question 2, a mini case, was related to Module 2 and comprised two parts. Part (a) focused on Specific Objectives 4, 5, 10, and 11; while Part (b) focused on Specific Objectives 11 and 12; Question 3 an extended problem with computational aspects as well as report preparation, related to Module 3 and comprised two parts, both of which examined Specific Objectives 2. Paper 03/1 was the internal assessment. This Paper was assessed by the class teacher and moderated by CXC. Paper 03/2 was an Alternate Paper to the Internal Assessment for non-school candidates. The Paper 03/2 comprised three questions (one per Module).

DETAILED COMMENTS**PAPER 01**

The performance on the fifty four (54) multiple choice items on Paper 01 was good with a mean score of --- out of 63, and the scores ranged between --- and ---, both of which compare --- with performance on the 2007 paper.

Candidates' performance on the eighteen (18) items drawn from Module 1 represented The mean was --- out of 21, and a number of candidates scored --- marks. The performance on the eighteen (18) items drawn from Module 2 represented a --- level with a mean of ---- out of 21. The performance on the eighteen (18) items drawn from Module 3 was ---- with a mean of --- out of 21.

PAPER 02

This paper consisted of three compulsory questions (one per Module). The mean for this paper was --- out of a maximum possible of 105, and the scores ranged from – to ---, representing a --- standard of performance.

Question 1

This question comprised three parts. In Part (a) candidates were provided with a list of account balances and were required to prepare a cost of goods manufactured schedule. In Part (b), candidates were required to prepare a cost of goods sold schedule. In Part (c) candidates were provided with cost information for a component manufactured by Hendry manufacturing and a potential supplier. They were required to advise the management of Hendry Manufacturing on whether the component should continue to be manufactured internally or be outsourced, Candidates were required to provide calculations to support their recommendation.

Candidates' performance on this question was --- resulting in a mean of ---, and scores ranging from --- to ---.

In Part (a) the performance was very good. Candidates were generally able to determine prime cost, adjust for beginning and ending work in process and format the schedule correctly. Most candidates also treated the manufacturing overheads correctly.

However, a few weaknesses were noted among the responses. Firstly, some candidates did not label the schedule properly, headings were either missing or incorrectly worded. Secondly, some candidates incorrectly labeled "prime cost" as "gross profit". Thirdly, some candidates deducted manufacturing overheads from prime cost to determine cost of goods manufactured. Fourth, some candidates did not properly differentiate among the three types of inventories, placing finished goods inventory in the cost of goods manufactured schedule.

It is recommended that teachers insist that their students use full, properly constructed headings when preparing all schedules and statements. Teachers should also emphasize the three distinct components of the cost of goods manufactured schedule – prime cost, manufacturing overheads and the adjustment for work in process. Teachers should also instruct their students to calculate and properly label key figures in the schedules and statements.

In Part (b) the performance was very good. Candidates were generally able to transfer the cost of good manufactured figure correctly and used the appropriate format for the schedule, correctly applying opening and closing inventory of finished goods.

However, a few weaknesses were noted among the responses. Firstly, some candidates prepared a full income statement. Secondly, a few candidates only included the net amount of opening and closing finished goods inventory in the schedule. Also, some candidates combined both schedules and omitted key subtotals such as Cost of Goods Manufactured.

It is recommended that teachers highlight the fact that the schedule of Cost of Goods Sold is a components of, but not identical to the Income Statement. Teachers should also instruct their students to calculate and properly label key figures in the schedules and statements.

In Part (c) the performance was very good. Candidates generally correctly identified the costs that were relevant to the decision, i.e., all costs that differed between the two options (direct materials, direct labour, variable manufacturing overheads, the avoidable fixed manufacturing cost and the purchase price).

However, a few weaknesses were noted among the responses. Many candidates apparently misunderstood the requirement for Part (c) (ii) and provided very general comments that were not related to the stimulus information provided.

It is recommended that teachers provide their students with sufficient opportunities to answer short-term decision making questions.

Question 2

This question comprised two parts. In Part (a) candidates were provided with product costing information for Wickham Associates and required to:

- i. Calculate the overhead rate per machine hour.
- ii. Assuming that Marcella uses the traditional job order costing system, calculate the total cost of the proposed job.
- iii. Calculate the activity-cost driver rate for each of the four activities, machining, setup, engineering and inspecting.
- iv. Using the rates obtained in (iii) above, calculate the cost of the job using the activity-based costing system.
- v. Explain how activity-based costing systems can provide more accurate product cost than traditional costing systems.

In Part (b) of this question, candidates were provided with cost and activity information for Portsmore General Hospital and required to:

- i. Calculate the budgeted overhead rate for EACH department, for March 2008.
- ii. Compute the total charges to Ms. Gardner if she spent the entire month in the facility.

Candidates' performance on this question was good resulting in a mean of ---, and scores ranging from --- to ---.

In Part (a) the performance was good. Candidates were generally able to correctly calculate predetermined overhead application rate and the activity rates.

However, a few weaknesses were noted among the responses. Firstly, many candidates did not correctly differentiate between activity-based and traditional costing when calculating the total cost of the product. Second, many candidates were unable to explain why activity-based costing produces more accurate information than traditional costing.

It is recommended that teachers devote sufficient attention to the theoretical aspects of cost and management accounting, such as the advantages and disadvantages of activity-based costing and traditional costing systems, and when it is appropriate to use each.

It is recommended that teachers highlight the fact that the schedule of cost of goods sold is a components of, but not identical to the income statement. Teachers should also instruct their students to calculate and properly label key figures in the schedules and statements. Teachers should all pay more attention to the mechanics of activity-based costing, especially the calculation of cost driver rates and total product cost.

In Part (b) the performance was very good. Candidates generally calculated both the predetermined overhead application rate and total cost charged correctly.

Question 3

This question was divided into two parts. Part (a) of this question provided cost, revenues and operating information for a company, and required candidates to prepare a:

- i. Cash collection schedule for January, February and March
- ii. Purchases budget
- iii. Cash disbursement schedule for purchases
- iv. Cash disbursement schedule for expenses
- v. Prepare a cash budget using the schedules prepared in Parts (i) to (iv).

Part (b) of this question provided candidates with information relating to a capital investment being considered by a company and required them to:

- i. Calculate the payback period for the investment.
- ii. Calculate the Net Present Value (NPV) of the proposed product line investment using a discount rate of 16 per cent. (The present value interest factors were also provided).

Candidates' performance on this question was --- resulting in a mean score of ---, and scores ranging from --- to ---.

In Parts (a) (i) to (iv) the performance was good. Candidates were generally able to correctly prepare the cash collection schedule and the cash disbursement schedule for expenses.

However, several weaknesses were noted among the responses. Firstly, many candidates did not prepare the purchases budget and the cash disbursement schedule for purchases correctly. While many of these candidates presented the correct formula for the purchases budget, they did not include the correct amounts. Also, many candidates did not provide the correct formula for the schedule of cash disbursement for purchases.

It is recommended that teachers provide candidates with sufficient opportunities to prepare comprehensive master budgets involving credit sales and purchases with collections spread over a multiple period, and provide detailed feedback on their performance in a timely manner.

In Parts (a) to (v) the performance was satisfactory. Candidates correctly identified and recorded items in the appropriate section of the cash budget, i.e., receipts, payments and financing.

However, a number of weaknesses were observed in the responses. Some candidates presented T-accounts rather than a cash budget. Additionally, several candidates did not attempt this question.

It is recommended that teachers provide their students with sufficient opportunities to prepare comprehensive master budgets involving credit sales and purchases with collections spread over a multiple period, and provide detailed feedback on their performance in a timely manner. It may be useful to display charts illustrating completed components of the master budget on the walls of the classroom.

In Part (b) the performance was very good. Candidates generally identified the cash flows and discount factors correctly. Most candidates also applied the discount factors correctly to determine the discounted cash flows.

There was one major weakness with the responses to this part of the question. Several candidates did not pick up the working capital cash inflow in the final year of the project. Also, a few candidates picked it up but did not discount it. Additionally, a few candidates used an incorrect formula (approach) to calculate the payback period. The most popular such approach was to divide the total cash inflows for the project by the initial investment. Finally, several candidates added depreciation to the cash flows and used the total in their NPV calculations.

It is recommended that teachers instruct candidates on the use of both the formula and tables to compute the NPV. Candidates should also be given sufficient opportunities to work capital budgeting problems.

PAPER 3/1

For Unit 2, Internal Assessment samples were received from 14 out of - centres. The internal assessment comprised of three tests constructed, administered and marked by the teacher. These tests, along with the keys and mark schemes submitted for moderation were generally well constructed, with the objectives being clearly identified. The test items selected were of a level of difficulty, type and mix of questions appropriate to the level being assessed. The sample scripts submitted were generally marked consistently with the keys and mark schemes. However, some samples contained no test papers, and or mark schemes. Also, the allocation of marks on some mark schemes was unclear.

Paper 3/2

This Paper 3/2 comprised nine questions, three questions per Module. Fourteen marks were awarded per Module for a total of 42 marks. They were ----- candidates who wrote this paper. The mean for this paper was – out of a possible maximum of 42, and the scores ranged from --- to -.

The performance on this paper was generally weak.

GENERAL COMMENTS

C A R I B B E A N E X A M I N A T I O N S C O U N C I L

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION
MAY/JUNE 2009**

ACCOUNTING

ACCOUNTING**CARIBBEAN ADVANCED PROFICIENCY EXAMINATION****MAY/JUNE 2009****UNIT 1****GENERAL COMMENTS**

The CAPE Accounting Unit 1 examination consisted of three papers each based on three modules.

Paper 01 consisted of 54 multiple-choice items, 18 per Module, all of which were compulsory. The time allocated to this paper was 90 minutes.

Paper 02 was an extended response paper comprising three questions (one per Module). Question 1 was an essay question divided into three parts, all related to Module 1. Parts (a), (b) and (c) examined Specific Objectives 1, 7 and 6, respectively; Question 2, a mini case, was related to Module 2, Specific Objectives 4 and 5; and Question 3, which related to Module 3, Specific Objectives 5, 6 and 9, was an extended problem with computational aspects as well as report writing.

Paper 03/1 was the Internal Assessment. This paper was assessed by the class teacher and moderated by CXC.

Paper 03/2 was an alternate paper to the Internal Assessment for non-school candidates. This comprised three questions (one per Module).

DETAILED COMMENTS**Paper 01**

The performance on the fifty-four (54) multiple-choice items on Paper 01 produced a mean of 37 out of 63, and scores ranging between 0 and 61.

Paper 02

This paper consisted of three compulsory questions. The mean for this paper was 49 out of a maximum possible of 105, and the scores ranged from 2 to 97.

Question 1

This compulsory question was divided into four parts as follows:

- (a) List the FIVE characteristics of financial information and match EACH with the appropriate definition by selecting the correct letter from the table provided.
- (b) Define the term 'due process' as it relates to the development of accounting standards.
- (c) You have just begun an assignment with a new company and you are discussing with the owner of the company her need for a good 'internal control' system.

Answer the following questions which were posed to you during the discussion:

- (i) What is the meaning of the term 'internal control'?
- (ii) What is the role of internal control in a business organization?
- (iii) Why are internal controls necessary for inventory (stock)?
- (iv) Identify two internal controls that should be put in place for accounts receivable (debtors).

Part (d) provided information about the draft financial statements of a public company, Caribbean Biscuits, and listed several errors which had been discovered subsequent to preparation of the draft financial statements. Candidates were required to prepare:

- (i) Journal entries with narratives to correct the errors above
- (ii) A statement showing the necessary adjustments to the profit.

Part (a)

The overall performance on this part of the question was very good.

Part (b)

The performance on this part of the question was satisfactory.

Many candidates defined the term 'due process' in relation to the time taken to prepare financial statements. It is recommended that teachers provide students with the opportunity to develop a greater understanding of the standard-setting process.

Part (c)

Performance on this part of the question was satisfactory. Candidates could define the term 'internal control' and state the role of internal controls. However, in explaining the role of internal controls, many candidates merely repeated the definition. The major weakness was that many candidates were unable to explain why internal controls were necessary for inventory, but instead listed specific controls. Some listed principles of control without relating them to inventory. Most candidates were unable to identify specific controls for accounts receivable.

Teachers should increase their emphasis on the distinctions between internal control principles and the role of controls. Opportunities to develop an understanding of specific controls relevant to particular types of assets, with emphasis on accounts receivable, should be increased in quantity and variety.

Part (d)

Performance on this part of the question was satisfactory. Most candidates included correct narratives for journal entries. Most of them correctly prepared journal entries to record the write-off of the bad debt and treated depreciation expense and bad debt expense as a reduction of net profit. Major weaknesses included:

- The failure of candidates to recognize adjustments that would affect the suspense account. Candidates ability to calculate the \$16 000 change in depreciation charge;
- The use of ledger accounts to show adjustments, instead of journal entries as required;
- Provision of a narrative statement explaining the impact of the errors on net profit, rather than preparation of a statement of adjusted net profit.

- Most candidates could not make the correct entry to adjust for the omission of the opening accrual for motor repairs.
- Many treated the motor expenses payable as a reduction in net profit, while others reversed the entry to adjust the discount reverse and discount received accounts.

Candidates should be provided with more practice in the correction of errors.

Question 2

This question examined Module 2, Specific Objectives 4 and 5. Candidates were required to prepare an income statement and classified balance sheet for a corporation. The statements needed to comply with the requirements of the International Accounting Standards (IAS).

Overall the responses to this question were good.

Part (a)

The performance on this part of the question was satisfactory. A majority of candidates were able to prepare the income statement in the IAS format.

Several weaknesses were observed in the candidates' responses to this question:

- Many candidates omitted Opening Inventory, while others confused Opening and Closing Inventory. Some candidates did not adjust Operating Expenses to reflect the \$10 000 owing at December 31.
- A large number of candidates used the straight-line method to calculate Depreciation on all non-current assets, although Note 3 stated that the reducing balance method should be used for Furniture and Fittings.
- Some candidates showed depreciation figures with no supporting calculations.
- Many candidates treated the Salaries Payable incorrectly as an adjustment to the Salaries Expense. Prepaid Insurance and the Bank Overdraft were also treated as expenses.
- Some candidates showed the dividends in the Income Statement, treating this item as 'Other Revenues' or 'Finance Cost'.
- A number of candidates incorporated the Retained Earnings into the Cost of Sales calculation.
- Many candidates did not use the appropriate format, and therefore calculated corporation tax on total expenses rather than Net Income before Taxation. Others calculated the tax before deducting loan interest.
- The figure for Net Income was designated as Net Profit or had no description.

Part (b)

The performance on this item was good. Many candidates demonstrated familiarity with the principles of balance sheet preparation. However, several weaknesses were noted in candidates' responses:

- Many candidates could not correctly state the time period to which the balance sheet related.
- Some candidates also had difficulty identifying Closing Inventory: either they used the Opening Inventory or they totalled opening and Closing Inventory.

- Some candidates generally reduced the Accounts Receivable by the amount of the bad debt although the question stated that the debt had been written off.
- Many candidates did not adjust the Retained Earnings amount for the current period's net income, while others made the adjustment but did not include Retained Earnings in the Balance Sheet. Many candidates did not adjust the Accumulated Depreciation amount for the current period's depreciation expense. Some deducted the current period's charge from the Accumulated Depreciation.
- Most candidates could not correctly adjust the Bank account.
- A few candidates prepared two Balance Sheets and Income Statements.

Continuous reinforcement of key concepts such as the treatment of accumulated depreciation and retained earnings is recommended. Candidates should be made aware of the importance of showing clear supporting workings.

Question 3

This question was divided into two parts. In the first part selected financial information for Cheryl's Curl Up and Dye Beauty Salon was provided and candidates were required to:

- a) Prepare the Statement of Cash Flows for 2008 showing clearly cash flows from operating activities, investing activities and financing activities.

Part (b) provided information about the Third Nevis Bank and required candidates to:

- (i) State two uses and two limitations of financial ratios.
- (ii) Discuss the performance of Cheryl's Salon over 2007 and 2008 in terms of liquidity and profitability using the industry averages as benchmarks.

Part (a)

Most candidates performed well on this part of the question. They correctly prepared the "Operating Activities" section of the Statement of Cash Flows.

However, several weaknesses were observed in candidates' responses to this part of the question:

- Many candidates did not properly determine whether the changes in current asset and current liability items computed represented a cash inflow or cash outflow.
- Many candidates did not calculate the proceeds from the sale of equipment and plant correctly.
- Many identified the gain on sale or the net book value as the proceeds.
- Many candidates misclassified the change in Short Term Bank Loan as an operating activity or an investing activity.
- Some candidates incorrectly treated the increases in Bonds Payable and Notes Payable as outflows. Others included Retained Earnings as a cash flow item, including it in investing activities. Some candidates could not correctly state the time period to which the cash flow statement related. Variations included "as at March 31, 2008", "for March 2008", "for March 31, 2008" and "for 2008".

Candidates should be provided with sufficient opportunities to prepare comprehensive cash flow statements in good form, paying careful attention to correct labelling of sections, sub-totals and totals.

Part (b) (i), (ii)

Most candidates performed fairly well on this part of the question, especially identifying the uses of ratios. Candidates could also correctly interpret the quick ratio and net income as a percentage of sales.

Still, some weaknesses were observed. These include:

- Candidates' inability to correctly interpret the operating expense ratio or interpreting the decrease in this ratio as a negative. In identifying the trend, some candidates moved from 2008 to 2007.
- Many candidates incorrectly selected the 2007 ratios for comparison to the industry average. Other candidates treated the industry average as the company average.

It is recommended that candidates be provided with greater opportunities to interpret financial ratios. Candidates must receive increased practice in analyzing ratios on the basis of trends within the business and in comparison with industry benchmarks.

Paper 03/1

For Unit 1, Internal Assessment samples were received from 169 centres. The quality of the project reports continues to be of a high standard demonstrating candidates' ability to do investigative research. The mean score for this paper was 31 out of 42 (73.8 per cent). The projects were generally well presented using a variety of media, with well prepared questionnaires covering a wide range of content areas. The more popular areas included Internal Controls, and Ratio Analysis.

The following weaknesses were observed:

- A number of candidates had no project title.
- Some candidates prepared three distinct projects, one for each module of the syllabus.
- Many candidates stated vague aims and objectives; some candidates stated aims and objectives which bore little relationship to the rest of the project.
- Many candidates showed a general weakness in integrating all the sections of the project, while others failed to perform certain requirements of the project such as data collection, recommendations and the specification of aims and objectives.
- Some candidates did not relate the analysis, evaluation and recommendations to the business being investigated.
- Many candidates continue to present the questionnaires, tables, charts, figures and other media for their projects in the appendices with no cross-referencing or discussion in the body of the project.

Overall, the data analysis and evaluation sections were the weakest elements of the projects. In many cases, the data analysis merely described the data collected; candidates did not use the theory to establish relationships among the data collected and relate it to the aims and objectives. Secondly, the evaluation often did not assess the data analyzed and make inferences based on that assessment.

Paper 03/2

This paper comprised three questions, one per module. The mean score for this paper was 12 (28.6 per cent) out of a maximum of 42 and the scores ranged from 06 to 29.

Question 1

Candidates were required to:

- a) Explain four ways in which the internal controls have been weakened at the Rice Factory.
- b) For three of the weakened internal controls identified in (a) above, indicate a change that could be made to correct each weakness.

The responses to this question revealed that most candidates had a very limited grasp of internal control systems.

Question 2

Candidates were required to:

- a) Outline the potential effects of the weak internal controls to the Rice Factory on four of the accounts in the financial statements.
- b) List six factors that should be considered in determining the internal controls that are appropriate for a small company such as the Rice Factory.

The responses to this question were less than satisfactory. Candidates showed little understanding of the effects of weak controls on the accounts in the financial statements, and the factors to be considered when designing an internal control system.

Question 3

Candidates were instructed to:

- a) Briefly describe two types of Subsequent (Post Balance-Sheet) Events.
- b) Indicate the appropriate accounting treatment in the Rice Company's 2008 financial statements for each of the five Subsequent (Post Balance-Sheet) Events listed by Mr. Manners in Issue 2 above.

The responses to this question revealed that most candidates had a limited grasp of the principles and procedures for accounting for events after the balance sheet date.

UNIT 2**GENERAL COMMENTS**

The CAPE Accounting Unit 2 examination consisted of three papers each based on three modules.

Paper 01 consisted of 54 multiple-choice items, 18 per module, all of which were compulsory.

Paper 02 was an extended response paper comprising of three questions (one per Module). Question 1 was an extended problem with mainly computational aspects. This question was sub-divided into three parts, all related to Module 1. Parts (a), (b) and (c) examined Specific Objectives 8 and 9, 8 and 9 and 3, and 8, respectively; Question 2, a mini case, was related to Module 2 and comprised two parts. Part (a) focused on Specific Objectives 4, 5, 10, and 11; while Part (b) focused on Specific Objectives 11 and 12. Question 3, an extended problem with computational aspects, as well as report preparation, was referenced to Module 3 and comprised three parts, both of which examined Specific Objectives 2.

Paper 03/1 was the Internal Assessment. This paper was assessed by the class teacher and moderated by CXC.

Paper 03/2 was an alternate paper to the Internal Assessment for non-school candidates. The paper 03/2 comprised three questions (one per Module).

DETAILED COMMENTS

Paper 01

The performance on the fifty-four (54) multiple choice items on paper 01 was good with a mean of 42 out of 63, and the scores ranged between 0 and 62.

Paper 02

This paper consisted of three compulsory questions, one per Module. The mean for this paper was 56 out of a maximum possible of 105, and the scores ranged from 3 to 100.

Question 1

This question comprised three parts. In Part (a), candidates were provided with a list of costs and were required to classify each cost as either a product (inventoriable) cost, or a period (non-inventoriable) cost.

In Part (b), candidates were provided with a list of purchases and sales for Ajani Sports Company and required to:

- (i) Calculate ending inventory, cost of goods sold and gross profit under each of the following inventory valuation methods:
 - a) First-in-First-Out (FIFO)
 - b) Last-in-First-Out (LIFO)
 - c) Weighted average
- (ii) Indicate which of the above is the most appropriate inventory valuation method if the management's goal is to produce the most "up to date" inventory valuation on the Balance Sheet.

In Part (c), candidates were provided with a list of balances for Marwick Company and required to:

- (i) Prepare a Cost of Goods Manufactured Statement for 2008.
- (ii) Prepare an Income Statement for 2008.

Candidates' performance on this question was good resulting in a mean of 24, and scores ranging from 0 to 35.

Part (a)

The performance on this part of the question was satisfactory and attempted by the majority of candidates. Most candidates were able to classify costs correctly.

Part (b)

The performance on this part of the question was satisfactory. Generally, candidates could correctly calculate sales, and use the FIFO method and LIFO method to calculate ending inventory and cost of goods sold. Most candidates correctly identified FIFO as the method that would produce the most "up-to-date" inventory valuation.

However, some weaknesses were noted among the responses:

- Some candidates used one method (for example, FIFO) to value inventory and cost of sales, while identifying it as another method (for example, LIFO).
- Some candidates deducted ending inventory from purchases in calculating gross profit.
- Many candidates were unable to apply the weighted average method under a periodic inventory system. Consequently, they were unable to calculate the average cost per unit of ending inventory and the total cost of ending inventory and the cost of sales. Many candidates created an opening inventory, based on the January purchases and other candidates incorrectly identified LIFO as the method likely to produce the most "up-to-date" valuation, while some identified weighted average.

Candidates should be provided with practice in valuing stock and preparing income statements using FIFO, LIFO and weighted average. Emphasis should be placed on the effect of various stock valuation methods on inventory value, cost of sales and profit. Candidates should also be provided with practice in valuing stock under perpetual inventory systems and periodic inventory systems.

Part (c)

The performance on this part of the question was generally very good. However, a few weaknesses were noted in the candidates' responses:

- Some candidates did not include sub-totals for raw materials available.
- A number included selling and administration costs in the manufacturing account. Some included manufacturing overheads in the Income Statement, where a few deducted factory overheads from prime cost, or were unable to correctly transfer the cost of finished goods manufactured to the Income Statement.

Question 2

This question comprised two parts. In Part (a), candidates were provided with product costing information for Dominica Company and required to:

- (i) Determine the cost of a single unit of the product under each of the following:
 - a) Absorption Costing
 - b) Variable Costing
- (ii) Prepare an Income Statement for August using the contribution format and variable costing.
- (iii) Reconcile the variable costing net income figures computed in (ii) above and the absorption costing net income figure provided.
- (iv) Briefly explain the main difference between variable costing and absorption costing in terms of the treatment of costs in the financial statements.
- (v) Indicate the primary purposes for which variable costing and absorption costing are used.
- (vi) Explain why the variable costing income statement approach would be attractive to a manager who is interested in projected her firm's future profit performance.

In Part (b) of this question, candidates were provided with cost information and information on units produced for St. Michael Company and required to prepare a production cost report for the Mixing Department for June 2008.

Candidates' performance on this question was satisfactory resulting in a mean of 18 (51.4 per cent), and scores ranging from 0 to 35.

Part (a) (i) to (iii)

The performance on this part of the question was good. Candidates were generally able to correctly calculate unit costs for both absorption and variable costing. Most candidates could correctly prepare the Income Statement using variable costing.

However, some weaknesses were noted in candidates' responses:

- Many candidates could not correctly reconcile variable costing net income and absorption costing net income. Candidates merely calculated the difference between the two net incomes, but could not show that the difference resulted from the method of inventory valuation used in variable and absorption costing.

It is recommended that candidates be given much more intense practice in reconciling absorption costing net income and variable costing net income. Students should be exposed to the theory in order to develop a better understanding of the reason for the difference in net profit.

Part (a) (iv) to (vi)

The performance on this part of the question was poor. Several weaknesses were observed. These include:

- The inability to correctly explain the main difference between variable and absorption costing. Incorrect integration of the difference as being the way in which fixed costs or overheads are treated in the two methods - few candidates specifically referred to fixed production overheads. General inability to correctly state the purposes for which variable costing and absorption costing are used.
- Inability to explain why the variable costing income statement approach would be attractive to a manager who is interested in projecting her firm's future profit performance, most respondents stating that the variable costing approach would be preferable, as it would result in higher profit.

It is recommended that candidates spend more time on the theory and practice in answering questions which require explanation and analysis.

Part (b)

The performance on this part of the question was good. Most candidates could correctly calculate the equivalent units and the cost per equivalent unit. They could also format the production report. However, some weaknesses were observed:

- Some candidates prepared the report on a FIFO basis instead of using the average cost method as instructed.
- Many candidates could not calculate the equivalent units of ending inventory for conversion cost, but assumed 75 per cent or 100 per cent completion. Some candidates calculated total equivalent units by adding the percentage of completion of ending work in process to the units completed and transferred out. Some candidates omitted the reconciliation section of the report.

It is recommended that students engage more in the preparation of production cost reports using both the FIFO and the average cost methods, with special emphasis on the calculation of equivalent units in work in process.

Question 3

This question was divided into three parts. Part (a) of this question provided material and labour cost and input information for the manufacture of bookends by Castries Co-operative Limited and required candidates to:

- Calculate the total standard cost of materials (including packaging) for a pair of bookends.
- List two parties that would typically participate in the development of material standards.
- For any one of the parties listed in (ii) above, indicate their role in the development of material standards.

Part (b) of this question provided candidates with information relating to standard quantities and standard costs for the production of Right Lube. Candidates were required to perform the following tasks:

- Compute the price and efficiency variances of the materials used in the production of right Lube.
- The materials were purchased from a new supplier who is anxious to enter into a long-term purchase contract. Would you recommend that the company sign the contract? Support your response with an appropriate explanation.

- (iii) Compute the rate and efficiency variances for direct labour employed in the production of Right Lube.
- (iv) In the past, the 35 technicians employed in the production of Right Lube consisted of 20 senior technicians and 15 assistants. During November, the company experimented in order to save costs and used only 15 senior technicians and 20 assistants. Would you recommend that the new labour mix be continued? Support your response with an appropriate explanation.

Candidates' performance on this question was less than satisfactory resulting in a mean of 14 (40 per cent), and scores ranging from 0 to 33.

Part c

This question provided candidates with information relating to Expected annual sales volume, Selling price per box, Fixed costs, and Variable cost. Candidates were requested to respond to the following:-

- (i) What is the current contribution margin per box of gourmet chocolate.
- (ii) Compute the current break-even point, in dollars, before the cost increase.
- (iii) Compute the company's expected net income for next year.
- (iv) After accumulating the above data, the president was informed that in the coming year the manufacturers of the gourmet chocolate planned to increase the cost per box by 20 per cent. This increase was as a result in an increase in sugar. Assume that the cost of the chocolate increased by 20 per cent. Calculate the new selling price if the company wants to maintain the current contribution margin rate.

Part (a)

The performance on this part of the question was not very good. Candidates were generally able to correctly calculate the packaging cost, and the ideal standard for lumber. Many candidates were aware of the parties involved in the setting of standards. However, some weaknesses were noted among the responses:

- Many candidates included direct labour cost in their calculation of standard material cost.
- Many candidates were unable to calculate the total cost of felt pads per pair of bookends. They were often unable to establish the number of pads required. Additionally, while most could calculate the increase per felt pad, they could not translate this to an increase per pair of bookends.
- Many candidates could not correctly calculate the amount of lumber required to construct a pair of bookends, and did not adjust for the fact that 104 bookends were to be processed for every 100 satisfactory pairs. Consequently, they calculated a cost of \$3.52 per pair as opposed to \$3.64 per pair.
- In calculating the new standard cost of packaging, many candidates increased actual cost by 10 per cent instead of adjusting the previous standard cost. A few candidates applied variance analysis to the problem. Most candidates could not explain the role of the parties selected in the development of material standards.

Candidates need more opportunities to practice the extracting of relevant data from worded problems. The standards setting process should also be treated in greater depth.

Part (b)

The performance on this part of the question was good. Candidates were generally able to calculate the material price variance. However, some weaknesses were observed:

- Many candidates did not indicate whether the variances calculated were favorable or adverse.
- Some candidates confused material and price variances. Many candidates used the material purchased to calculate the efficiency variance, rather than the material used.
- In calculating the actual hours worked, candidates used the average of 160 hours per worker and did not multiply by the 35 workers to arrive at total hours.
- Some candidates made recommendations in Parts (ii) and (iv) that directly contradicted the results of their calculation in other parts of the question.
- Some performed no calculations but nonetheless made recommendations.

Practice in calculating and analyzing variances need to be increased.

Part (c)

The performance on this part of the question was satisfactory. Candidates correctly calculated the contribution margin and could calculate the net income for next year. However, a number of weaknesses were observed in the candidates' responses:

- Many candidates did not calculate contribution margin per box, instead they calculated total contribution or contribution margin ratio.
- In calculating contribution margin, a number of candidates understated total variable cost, as they did not include variable selling and administration cost.
- Many candidates had difficulty calculating the dollar value for breakeven sales, as required by Part (ii).
- While they could calculate break-even in units, they could not make the conversion to sales dollars. In Part 3 (iii), most candidates who chose to use the target profit formula could not successfully calculate net income as they could not use the information presented to establish the required revenue. In Part (iv), most candidates could not correctly calculate the selling price required to maintain the current contribution margin rate. Many increased selling price by 20 per cent, rather than increasing the cost of chocolate.
- Additionally, most candidates could not use the relationship between selling price and the contribution margin rate to calculate the new selling price required.

More opportunities to apply cost volume profit analysis to more complex situations are required by candidates.

Paper 03/1

For Unit 2, Internal Assessment samples were received from 157 centres. The internal assessment comprised of three tests constructed, administered and marked by the teacher. These tests, along with the keys and mark schemes submitted for moderation were generally well constructed, with the

objectives being clearly identified. The test items selected were of a level of difficulty, type and mix of questions appropriate to the level being assessed. The sample scripts submitted were generally marked consistently with the keys and mark scheme. However, some samples contained no test papers, and or mark schemes. Also, the allocation of marks on some mark schemes was unclear. In a few cases, the tests were very narrow and did not adequately cover the relevant modules. Finally, many tests were very long, and could not have been completed within the time stipulated by the syllabus.

It is recommended that teachers refer to the guidelines provided in the syllabus, paying special attention to the required scope and duration of the tests.

Paper 03/2

This paper comprised nine questions, three questions per module. Fourteen marks were awarded per module for a total of 42 marks. The mean for this paper was 18 (42.9 per cent) out of a possible maximum of 42, and the scores ranged from 8 to 28.

The performance on this paper was generally weak.

Module 1

Questions 1 - 3

Candidates were required to answer the following items based on information provided in the paper:

1. Distinguish between 'financial accounting' and 'management accounting' in relation to each of the following:
 - (a) Users of the information
 - (b) Scope of the reports
 - (c) Period covered by the information
 - (d) Frequency of reporting
2. Prepare a Schedule of Cost of Finished Goods Manufactured for the year ended December 31, 2008.
3. Allocate Peter's wages for the past week between direct labour cost and indirect labour cost.

Responses to these questions were weak: Most candidates could correctly prepare a schedule of cost of goods manufactured. However, some weaknesses were observed:

- Candidates could not correctly distinguish between financial and management accounting using the criteria provided.
- Most candidates did not use the cost of direct materials which was provided; instead they incorrectly used the opening and closing materials inventory to calculate cost of material used.
- Candidates could not correctly calculate direct and indirect labour cost, as they incorrectly classified idle time and overtime premium as direct labour cost.

Module 2Questions 4 – 6

Candidates were required to answer the following items based on information provided in the paper:

4. (a) List the source documents for the direct materials and direct labour costs that are assigned to this job.
- (b) Calculate the predetermined manufacturing overhead rate and indicate how this rate was determined.
5. Using the information presented above and your answers to Question 4, determine the total cost and the unit cost of the completed job.
6. (a) Calculate the amount by which the manufacturing overhead cost was over-applied or under-applied during the month.
- (b) Compute the gross profit for Job 65.

Responses to these questions were satisfactory. Generally, candidates were able to correctly identify the material requisition note as a source document, and could correctly calculate the total cost of the job. Most candidates showed the correct formula for the calculation of overhead absorption rate. However, the following weaknesses were observed:

- Many candidates were unable to identify the time ticket as a source document.
- Candidates were unable to correctly apply the formula to calculate the overhead absorption rate.
- A few candidates did not calculate the unit cost.

Generally, candidates could not correctly calculate the overhead applied, and most could not correctly distinguish between over- and under- applied overhead.

Module 3Questions 7 to 9

Candidates were required to answer the following items based on information provided in the paper:

7. (a) Define the term 'standard costs'.
- (b) State one condition under which previously established standard costs could be revised. Include an appropriate example for the condition stated.
8. Each of the following statements defines ONE of these technical terms. List the EIGHT technical accounting terms and match EACH with its definition by indicating the correct number (1 – 8) of the matching statement. Each definition should be used only once.
9. List TWO factors that should be taken into consideration when assessing the adequacy of the rate of return of a capital investment proposal.

The responses to questions in this module were generally very weak:

- Most candidates could not correctly define the term 'standards', relating it to fixed costs, and did not know the conditions under which previously established standard costs could be revised.
- Most candidates could not correctly match technical accounting terms related to the evaluation of long-term investments with their definitions.
- A majority of candidates were not able to give factors to be considered when assessing the adequacy of the rate of return; instead, candidates listed capital appraisal methods.

GENERAL COMMENTS

Teachers are encouraged to provide candidates with exposure to self directed learning techniques and to assign them certain aspects of the syllabus as research projects in order to ensure coverage of the entire syllabus. This strategy must be supported by the provision of comprehensive feedback to candidates on their research assignments.

C A R I B B E A N E X A M I N A T I O N S C O U N C I L

**REPORT ON CANDIDATES' WORK IN THE
ADVANCED PROFICIENCY EXAMINATION
MAY/JUNE 2010**

ACCOUNTING

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UNIT 1

GENERAL COMMENTS

The CAPE Accounting Unit 1 examination consisted of three papers. Paper 01 contained of 54 multiple-choice items, 18 per module. Paper 02 was an extended answer paper comprising three questions. Question one, which related to Module 1.1, was an essay question divided into three parts; question two, which related to Module 1.2, and question three, which related to Module 1.3, were both extended problems. Paper 03/1 was the Internal Assessment component and was school based. This paper was assessed by the class teacher and moderated by CXC. Paper 03/2, the alternate to the school-based assessment, was a mini-case in which candidates were required to answer questions relating to Modules 1, 2 and 3.

DETAILED COMMENTS

Paper 01 – Multiple Choice

The performance on this paper as a whole was good. The mean was 39 out of a maximum of 63 marks, and the standard deviation was 9.35.

Paper 02 – Essay Type Questions

This paper consisted of three compulsory questions. The mean was 52 out of a maximum of 105 marks, the standard deviation was 16.95 and the scores ranged from 0 to 98.

Question 1

This question was divided into three parts and candidates were required to answer all the parts. Candidates were required to

- (a) complete a worksheet provided by recording a D for the appropriate debit and a C for credit entries for the ten given transactions.
- (b) outline five reasons in support of their agreement or disagreement with the statement that “a country should develop its own accounting standards”.
- (c) assess three given situations, outline the weakness in the internal control and explain the changes required to strengthen the internal control.

Some candidates performed well on the question but a large percentage did not respond to all parts of the question and this affected their overall performance.

Part (a)

A common weakness in this question was that candidates did not recognize the compound entry required for Part (iii) which required both a debit and a credit entry for assets and a credit entry for liabilities. Candidates did not recognize that “expenses incurred on credit” in Part (vii) should carry a credit entry to the liabilities. In Part (viii), in which the journal entry stated that dividends were declared and paid, candidates made a credit entry to the liability account.

Part (b)

Candidates demonstrated a general understanding of the importance of accounting standards but several candidates were unable to answer the question in terms of comparing and contrasting international standards with national standards.

Part (c)

Candidates were quite competent in recommending changes to rectify the weaknesses of internal controls identified. However, a notable weakness in candidates’ responses was the inability to distinguish between segregation of duties and assignment of responsibility. In addition, several candidates confused the concept of segregation of duties with division of labour.

Question 2

This question provided candidates with a balance sheet and an income statement that were improperly presented. Candidates were required to prepare the corrected income statement and balance sheet in good form. In addition, they were to define the concepts of public company, statutory company and private company. Performance on this section was good.

Preparation of the Corrected Balance Sheet

A common weakness in this question related to candidates’ improper classification of items and omission of totals at the end of each section of the balance sheet. Candidates had problems with the classification of unearned revenue and some were confused about the treatment of accounts receivable and accounts payable. The correct calculation of the retained earnings also presented a major challenge to candidates in that a large number of them did not use the net income figure to adjust the opening balance of the retained earnings. Some candidates, in their attempt to balance the balance sheet, misclassified some items.

Preparation of the Corrected Income Statement

Candidates performed quite well on this section of the question demonstrating a level of competence in the presentation of the statement. Some notable weaknesses in some candidates’ responses were:

- (i) The inclusion of unearned revenue as income
- (ii) Treating rental fees as an expense

- (iii) Classifying the resulting net loss as net income
- (iv) Treating property tax as corporation tax
- (v) Treating bank interest listed in the expenses as a revenue item in the revised statement

In Part (c), some candidates confused public company with public sector company. A number of candidates were unable to define a statutory company and confused it with a charitable organization.

Question 3

In this question, candidates were provided with comparative balance sheets for 2007 and 2008 together with an income statement for 2008. They were required to prepare a statement of cash flows for 2008, calculate two liquidity ratios and three profitability ratios, and comment on the performance of the company. In addition, they were required to list five limitations of financial statement analysis.

Performance on this question was quite varied. Some candidates obtained marks of approximately 35 out of 35 while others obtained marks less than five.

Preparation of the Cash Flow Statement

Candidates performed quite well on this part of the question. Most candidates performed competently in the operating activities section. They correctly identified the net income, changes in the non-cash items and working capital changes required to adjust the net income to net cash from operating activities. However, some notable weaknesses in their presentation included the misclassification of some items among the operating, financing and investing activities section. Some candidates treated the sale of machinery as an outflow rather than an inflow. They omitted the sale of investment in shares and some treated the retained earnings as a cash inflow in the financing activities section. The debt repayment was not linked to the note payable and was therefore entered twice by many candidates. Some candidates treated the issue of shares as a cash outflow and treated the dividend payment as a cash inflow rather than a cash outflow.

Part (b)

This question required the identification, calculation and evaluation of limitation of ratios. The candidates provided the correct formulae for the ratios identified, however, errors in calculation occurred in that some candidates incorrectly calculated the current liabilities and/or the quick assets. A number of candidates used the incorrect figure for sales in their calculation of some of the profitability ratios. Some candidates used activity or solvency ratios as profitability ratios. Several candidates were unable to explain the limitations of ratio analysis.

Paper 03/1 – Internal Assessment

There was a general improvement in the quality of project reports received this year. Teachers and students must be complimented on the issues they raised in these projects. The mean on this paper was 32 out of 42 per cent, with a standard deviation of 6.41.

The following weaknesses were observed:

- (i) A number of students had no project title.
- (ii) Some students prepared three distinct projects, one for each module of the syllabus. It would appear that some teachers are still using the syllabus prior to 2002 and as such were assessing the students using different guidelines. Teachers should ensure that the syllabus is current and should make note of the changes with reference to Internal Assessment.
- (iii) Many students showed a general weakness in integrating all sections of their project, while others failed to perform certain requirements such as data collection, recommendations and the specification of aims and objectives.
- (iv) Some students did not relate the analysis, evaluation and recommendations to the topic being investigated
- (v) The objectives and aims provided in some cases were quite vague and in other cases bore little relationship to the project
- (vi) Students still continue to present the questionnaires, tables, charts and other media in their appendices and fail to reference such in their analysis.

Paper 03/2 – Alternative to Internal Assessment

This paper provided candidates with comparative financial statements for the years, 2006, 2007 and 2008. Candidates were required to answer three questions, one per module.

Performance on this paper as a whole was satisfactory. The mean was 20.92 out of 42, 49.82 per cent, with a standard deviation of 7.19.

Question 1

This question related to the objectives of financial reporting, and candidates were required to

- (a) list three reasons why financial statements are important to owners.

- (b) state one primary objective that must be met for a business to survive and outline the importance of this objective.
- (c) state the purpose for which each of the following persons or institutions uses the financial statement of a company: potential investor, labour union, creditor, bank, government agency.
- (d) list four factors that contribute to the reliability of financial statements.

Candidates' performance on this question was less than satisfactory resulting in a mean of 6.62 (47 per cent). The answers to all four sub-parts are very simple and basic and, except for part (d), did not require any complex reasoning. For example, it is common knowledge that if a business cannot pay its employees, it cannot survive.

Question 2

In this question, related to issues in the presentation of financial statements, candidates were required to

- (a) name two other types of business organizations that the owners could have set up
- (b) compute dividends
- (c) state the difference between operating income and net income
- (d) list three items that may have been combined to form compensation expenses
- (e) calculate each of the three categories of expenses given as a percentage of net sales
- (f) comment on the trend of the expenses calculated above.

Candidates' performance on this question was less than satisfactory resulting in a mean of 7.03 (50 per cent). Candidates were unable to do simple arithmetic calculations and recall straightforward facts.

Question 3

This question required candidates to assess the performance of the entity. Candidates' performance on this question was less than satisfactory resulting in a mean of 7.28 (52 per cent). Accounting ratios and their interpretation are very fundamental to financial accounting and this is what was required of candidates. Unfortunately many candidates still do not recognize this fact.

UNIT 2

GENERAL COMMENTS

The Unit 2 examination consisted of three papers. Paper 01 consisted of 54 multiple-choice items, 18 per module, all of which were compulsory. Paper 02 was an extended response paper comprising three questions, one per module. Paper 03A was the Internal Assessment component and was school based. This paper was assessed by the class teacher and moderated by CXC. Paper 03/2, the alternative to the internal assessment, comprised nine questions, three per module

DETAILED COMMENTS

Paper 01 - Multiple Choice

Performance on this paper as a whole was good. The mean was 40.49 out of a maximum of 63 marks; the standard deviation was 10.89.

Paper 02 - Essay Type Questions

This paper consisted of three questions, one per module. The mean performance on this paper was 55.34 compared to 55.54 in 2009. Question 1 had a mean of 18.62 and a standard deviation of 6.22. The mean for Question 2 was 16.42 with a standard deviation 8.32. Question 3 had a mean of 19.87, and a standard deviation of 8.37.

Question 1

Candidates were provided with a table to classify a number of given costs as either variable or fixed, selling and administrative cost or product. The first two columns of the table were deleted and candidates were only graded on their classification of selling and administrative costs and product cost. Candidates were able to differentiate between selling and administrative cost (period costs) and product cost.

Part (b)

Candidates were given data relating to the hours worked by an employee and the resulting wage rate. In Part (b) (i), five hours of idle time were identified and candidates were required to calculate and allocate the wages between direct labour cost and manufacturing cost. In Part b (ii), the employee worked for 48 hours with no idle time and candidates were required to allocate the cost between direct labour cost and manufacturing overhead cost. For Part (b) (iii), candidates were asked to explain two ways that the company could classify the cost of fringe benefits for direct labour workers in its cost records.

In Part (b) (ii), candidates were not able to differentiate between direct labour and manufacturing overhead costs. Candidates correctly calculated regular wages and overtime wages but failed to classify them appropriately. For Part (b) (iii), several candidates were unable to correctly define

the term fringe benefit. Some typical responses to this question included ‘transfer payment’, ‘short-term investment’, ‘age and experience’ ‘and’ health and safety’.

Part (c)

Candidates were required to calculate the total service department costs that should be allocated to each production department using the direct method. Candidates had difficulty in matching the various cost ratios with the relevant department and hence arrived at wrong answers in many cases.

Question 2

Part (a)

This question was a job costing one and candidates were required to

- i) calculate the total shop overhead applied to jobs in August
- ii) calculate the amount of over- or under-applied overhead
- iii) compute the costs of the completed jobs for the month
- iv) compute the total costs of jobs in process on August 31.

Candidates were able to identify overhead costs but some had difficulty distinguishing between overhead applied and actual overhead. This resulted in candidates giving responses to Part (a) (i) with the answer for Part (a) (ii) and vice versa.

Part (b)

Part (b) (i) required candidates to describe the main difference between traditional costing systems and activity-based costing systems. Generally, candidates were able to respond to the question but only at the periphery, in that they identified overhead as the issue but did not go on to state that the difference lay in how the overhead was allocated. Candidates showed a great deal of understanding as it related to ABC but some were unable to explain the traditional costing system in a theoretical way.

Part (b) (ii) related to activity-based costing and candidates were required to

- (a) compute the activity application rate for each activity for 2009
- (b) compute the total overhead cost assigned to each product in 2009 using activity-based costing
- (c) compute the total cost to manufacture one unit of each product in 2009 using activity-based costing
- (d) explain why the company’s profitability has been declining since the introduction of the premium product based on their responses to (a) – (c).

Part (b) (ii) (a) of the question was widely known with several candidates being able to accurately calculate activity rates. The major weakness in candidates' responses was in Part (b) (ii) (d) where some candidates provided responses that were irrelevant and not of an accounting nature.

Question 3

Candidates were required to compute each of the following:

- (a) Payback period for each investment project
- (b) Net present value for each investment project

Candidates were also required to

- (a) Rank the investment projects based on the measures
- (b) Briefly describe four non-financial benefits that may accrue to a company if it decides to proceed with the investment in project 'B'.

Candidates were able to accurately compute the payback period and the net present value. The section which dealt with non-financial factors was also fairly well done. The area where candidates showed weakness was in the ranking of the projects based on their calculation of the payback and Net Present Value (NPV).

In terms of the NPV section of the question some candidates

- used the initial investment figure as the cashflow thus the NPV was not calculated correctly
- used the discount factor and a percentage to calculate the present value of cash flows
- recognized that the question involved an annuity and proceeded to solve the problem as such but used the present value interest factor for the respective cash flow as if it was the present value factor of an annuity
- included year zero as a discount factor and thus the NPV was one year short
- added back depreciation to the cash flow
- applied different discount factors from various percentages e.g. Project A 10 per cent, Project B 11 per cent and Project C 12 per cent
- used the present value of the discounted cash flow as their NPV.

A notable weakness in candidates' responses was the inability to distinguish between negative and positive NPV in their ranking of projects. In ranking, some candidates failed to identify the basis of their ranking.

Paper 03/1 – Internal Assessment

The Internal Assessment comprised three tests constructed, administered and marked by the teacher. These tests, along with the keys and mark schemes submitted for moderation, were well constructed, with the objectives being clearly identified. The test items selected were of a level of difficulty, type and mix of questions appropriate to the level being assessed. The sample scripts submitted were marked consistently with the keys and mark schemes.

The mean for this paper was 28.96 out of 42 (68.95 per cent), with a standard deviation of 7.92.

Paper 03/2 – Alternative to Internal Assessment

This paper comprised nine questions, three per module. Fourteen marks were awarded per module for a total of 42 marks. The mean for this paper was 13.38 out of a possible 42. The Performance on this paper was weak.

Module 1

Questions 1 – 3

In these questions, candidates were required to

- (a) calculate the total manufacturing costs charged to work-in-process during 200
- (b) calculate the cost of finished goods manufactured
- (c) compute economic order quantity
- (d) explain the classification of salary cost.

All the candidates writing this paper attempted question 1, with a resulting mean of 2.86 out of 6 and a standard deviation of 2.01. There were 14.29 per cent of the candidates who scored full marks for this question. Nineteen of the 21 candidates who wrote the paper attempted Question 2. The mean was 1.68 out of 4, the standard deviation was 0.85 with 31.58 per cent of the candidates receiving full marks. Question 3 was not well done. The mean was 1.14 out of 4 with a standard deviation of 0.85. Candidates were required to demonstrate their understanding of the difference between product cost and period cost. They found this task difficult.

Module 2

Questions 4 – 6

In these questions, candidates were asked to

- (a) Prepare a contribution margin income statement using variable costing
- (b) compute the company's overhead application rate
- (c) determine the balance in the work-in-process account in relation to the jobs above at the end of 2009
- (d) determine the amounts of finished goods inventory in relation to the specific jobs at the end of 2009
- (e) determine the amount of over- or under-applied overhead for 2009

Twenty of the 21 candidates who wrote this paper attempted Question 4, with a resulting mean of 1.35 out of 4, and a standard deviation of 1.63. Question 5 was attempted by 20 of the 21 candidates who wrote this paper. The mean was 1.90 out of 7, the standard deviation was 2.22 with 10 per cent of the candidates receiving full marks. Question 6 was attempted by 19 candidates; the mean was 0.21 out of 3, the standard deviation was 0.71, with 5.26 per cent of the candidates receiving full marks.

This performance indicates clearly that candidates have still not come to grips with costing systems especially application of overheads. Teachers need to devote more attention to this aspect of the syllabus.

Module 3

Questions 7 – 9

For these three questions, candidates were asked to

- (a) compute the amount of cash expected to be collected from customers in January 2010
- (b) determine the mix of products that Royal Corporation should produce in order to maximize its operating income for the coming period
- (c) identify the project(s) that will be short listed if the company has a hurdle of four years
- (d) identify the project that should be selected if the company has a capital budget of \$2,500,000

- (e) give an example of a situation that may motivate a firm that is committed to profit maximization to invest in a project such as A which has a negative NPV.

All the candidates writing this paper attempted question 7, with a resulting mean of 1.62 out of 4 and a standard deviation of 1.63. There were 19.05 per cent of the candidates who scored full marks for this question. Nineteen of the 21 candidates attempted Question 8. The mean was 0.95 out of 4, the standard deviation was 1.39 with 10.53 per cent of the candidates receiving full marks. Question 8 was on limiting factor concept and the performance shows that the majority of candidates did not recognize it as such; private candidates must pay attention to this area of the syllabus.

RECOMMENDATIONS

Students need to be given practice in answering essay questions. They need to be able to address the specific issues raised in questions and not provide general information on the topic. In terms of Unit 1, teachers need to use the current syllabus which provides guidance on the Internal Assessment. It appears that candidates are still using the guidelines issued prior to the 2002 amendments. The Unit 2 Internal Assessment still continues to be of a high standard.

Finally, teachers are encouraged to complete the syllabus in order for candidates to be well-prepared for this criterion-based examination.

CARIBBEAN EXAMINATIONS COUNCIL

**REPORT ON CANDIDATES' WORK IN THE
ADVANCED PROFICIENCY EXAMINATION**

MAY/JUNE 2011

ACCOUNTING

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GENERAL COMMENTS

For the CAPE Accounting examinations, candidates were required to write three papers each in the two units. Paper 01 contained 54 multiple choice items, 18 per module. Paper 02, the extended response paper comprised three questions, one per module. Paper 031 (written by school candidates) was school based and consisted of a project report for Unit 1 and a series of tests administered by class teachers and moderated by CXC for Unit 2. For Paper 032, written by private candidates as an alternative to the school-based assessment, Unit 1 had a mini-case requiring candidates to use theoretical accounting knowledge to offer practical solutions to business problems. For Unit 2, this comprised nine questions, three per module.

In terms of entries and results, 2779 candidates were entered for Unit 1 and 96 per cent obtained acceptable grades. For Unit 2, 2328 candidates were entered and 88 per cent obtained acceptable grades.

DETAILED COMMENTS

UNIT 1

Paper 01 – Multiple Choice

Performance on this paper as a whole was good. The mean was 39 (same as 2010) out of a maximum of 63 marks, and the standard deviation was 9.90.

Paper 02 – Essay-Type Questions

This paper consisted of three compulsory questions. The mean was 36 out of a maximum of 105 marks, the standard deviation was 15.49 and the scores ranged from 1 to 88.

Question 1

This question was divided into three parts and candidates were required to answer all the parts. Candidates were required to

- prepare journal entries to record a number of occurrences
- establish the need for accounting standards for the group of representatives on the International Accounting Standards (IAS) Board
- show the ways in which the Electronic Data Processing (EDP) environment can be controlled.

Performance on this question was good for a few candidates but the majority could not provide the needed responses.

The main demand of Part (a) was for candidates to show they understood the basic principles of journal entries and how to actually analyze transactions that have to be entered as debit or credit in the journal. Most candidates demonstrated that they understood the principle and were able to make entries as debit or credit. However, they got the analysis wrong; the figures entered in the two columns were also wrong.

Part (b) required candidates to demonstrate that they knew the purposes of accounting standards which are very fundamental to financial accounting practices. Many candidates did not know these. Candidates also did not know who sat on the IAS Board.

Part (c) required candidates to show that they understood how accounting information in an EDP environment can be controlled. Many candidates knew how information generally can be controlled in an EDP environment but did not satisfy the demands of the question because they failed to focus their responses on accounting information.

Question 2

Performance on this question was quite encouraging. The mean was 16 out of a maximum of 35.

In Part (a), candidates were required to use new information to adjust account balances on an already prepared balance sheet and to prepare a corrected classified balance sheet. Candidates' main weakness here was that they failed to give a narrative on the total current liabilities; some of them also wrongly included the mortgage interest payable in the current liabilities.

Part (b) required candidates to show that they knew at least one benefit of each of the various types of business entities that operate in the Caribbean. Many candidates could not give all four required. The benefits of operating as a non-governmental organization (NGO), which was also part of the question, proved particularly challenging. They include:

- *not liable to pay taxes*
- *receive government grants*
- *do not publish financial statements so do not pay those expenses*

For Part (c), candidates were required to demonstrate their ability to prepare multi-step income statements in good form. The question was well answered by most candidates with some scoring close to full marks. However, some candidates put extraneous items in the statement for which no marks were scored.

Question 3

In this question, candidates were required to demonstrate their knowledge of various accounting ratios, to calculate such ratios from information given on a balance sheet, which was provided, and to prepare a report. Other parts of the question required candidates to demonstrate their knowledge of proper accounting treatment of disclosures and the different accounting records arising from them.

Performance on this question was the weakest of the three questions with the mean performance as low as 10 out of 35.

For Part (a), candidates were required to use their knowledge of accounting ratios to make computations from a combined balance sheet for two companies. Candidates' responses showed that most of them only limited themselves to a few simple ratios and ignored other types which the syllabus required them to know and be able to compute from given data. Another weakness was that while candidates knew some of the ratios, they failed to identify the correct items from the balance sheet to use in computing them.

Part (b) required candidates to prepare a report on the performance of each of two companies in terms of liquidity and solvency. Candidates were not comfortable with this question at all. Those who knew the ratios and were able to calculate them could not separate them into liquidity and solvency groupings. Candidates lost credit for wrong classification.

From the question, the liquidity ratios were:

Acid test, Accounts Receivable collection period, Inventory turnover

The solvency ratios were:

Debt to Total Assets, Debt to Equity, Times Interest Earned

For Part (c), candidates were required to make a decision on one of the two companies whose ratios had been computed and to give justification. Candidates performed poorly. Candidates had difficulty using the result of the various ratios computed to make a decision.

It must be emphasized that Module 3 of the Unit 1 Accounting syllabus requires candidates to be able to interpret financial statements. An important part of this interpretation hinges on computing ratios using the data from company financial statements. This is a skill which candidates at this level need to acquire.

Part (d) gave three scenarios and required candidates to use their knowledge of disclosures to discuss the proper accounting treatment of these situations. A very high proportion of candidates could not address the requirements of the situation properly. What was expected of candidates on this part of the question is as follows:

- (i) *Montego Company should disclose in the notes to the financial statements the existence of a possible contingent liability related to the lawsuit. The note should indicate the range of the possible loss. The contingent liability should not be accrued because the loss is not probable.*
- (ii) *Montego Company should recognize the liability by an accrual. The probable award should be accrued by a charge to an estimated loss and a credit to an estimated liability of \$600,000. Montego Company should disclose in the notes to the financial statements: the amount of the suit, the nature of the contingency, the reason for the accrual and the range of the possible loss.*
- (iii) *Montego Company should not record the gain contingency until it is realized. Usually, gain contingencies are neither accrued nor disclosed. The \$1,000,000 gain contingency should be disclosed only if the probability that it will be realized is very high.*

Paper 031 – School-Based Assessment (SBA)

The quality of the projects received this year appeared to have dropped a little when compared with 2010. The mean score on this paper was 31 out of 42, with a standard deviation of 6.53.

The following weaknesses which have been observed and reported on over the years were also present in the projects for this year:

- Some students presented three separate reports on a module basis. This approach was officially discontinued from the 2002 examinations. Since then, students were expected to submit one report which integrated all three modules.
- Even when students presented one project report, they were still unable to integrate the various sections through clear linkage of objectives with method and data collection, and then with analysis, and analysis with findings, and findings with evaluation, and back to the topic of investigation.
- Some objectives were vaguely stated, and, in some cases, had no relationship with the actual project carried out.
- Students presented questionnaires, tables, charts and other documentation in the appendix but made no reference to them in the report.

Paper 032 – Alternative to School-Based Assessment

This paper provided candidates with the operations of sole proprietorship business and the options of changing it into a partnership or an incorporated body. Candidates were required to answer three questions, one per module.

Performance on this paper showed a decline compared with previous years. The mean was 14.98 out of 42, with a standard deviation of 7.20.

Question 1

This question required candidates to demonstrate their knowledge of the entity concept of business and to apply it to the given scenario to determine if the principles were violated. Candidates were also required to explain what control measures could be applied to the business and what benefits could be derived.

Performance on this question was less than satisfactory. The mean score was less than half of the total mark for the question.

Part (a) required a transfer of knowledge from general business to accounting. The entity concept in accounting is the same as the concept of separate legal entity of any incorporated business. This topic is common to Economics and Principles of Business but it appears that candidates are yet to develop the skill of transferring knowledge from one subject area to another.

In Part (b) also, candidates showed weaknesses that followed from Part (a); since candidates could not explain the entity concept, they also could not advise on what the owner of the business should do to implement the concept in a revised arrangement.

Candidates were particularly weak in (c) (i). For this part, some of the benefits of implementing an effective internal control system are as follows:

- *Safeguarding of assets*
- *Checking the reliability and accuracy of the information produced by the accounting system*
- *Ensuring compliance with management policies, applicable laws and regulations*
- *Facilitating the evaluation of operating performance efficiency and effectiveness*
- *Reducing the probability of errors*
- *Increasing the probability that errors will be detected in a timely manner*

Question 2

Parts (a) and (b) required candidates to show that they knew the distinct advantages and disadvantages of Partnership and Limited Liability company and could explain how the accounting procedures for the admission of a new partner under the bonus and goodwill methods differ.

Part (c) required candidates to contrast the equity sections of the balance sheet for a sole proprietorship, partnership and limited liability company.

Candidates did well on Part (a) but weaknesses in Parts (b) and (c) led to the lowering of the mean performance on the whole question to 5.33.

The responses expected for Parts (b) and (c) of the question are as follows:

- (b) *In admitting a new partner, the accounting procedure can either be by the goodwill or bonus method.*
- *In the goodwill method, the net assets of the partnership are re-valued and the excess can be distributed to the existing partners.*
 - *If the partnership assets are not revalued then the excess in the form of a bonus can be distributed to the existing partners or to the incoming partner.*
- (c) *Sole Proprietor — a capital account is maintained to which net income is added and drawings deducted*

Partnership — a fixed capital account may be maintained as well as current accounts

Private and public company — share capital — different classes of shares and their stated par/value, additional paid in capital/share premium, capital reserves and revenue reserves.

Question 3

This question required candidates to demonstrate their knowledge of the preparation of the equity section of an incorporated business from given data and then to show their understanding of the concept of contingent liability.

This question had the lowest mean score in the paper — 5 out of 14. This shows clearly that candidates may have neglected this aspect of the syllabus. The responses required for Parts (b) and (c) of the question are:

- (b) *A contingent liability is a potential liability which depends on a future event occurring or not occurring.*

In accounting, a contingent liability and the related contingent loss are recorded with a journal entry only if the contingency is probable and the amount can be estimated.

If a contingent liability is only possible (not probable), or if the amount cannot be estimated, a journal entry is not required. However, a disclosure is required.

When a contingent liability is remote (such as a nuisance suit), then neither a journal entry nor a disclosure is required.

- (c) *The company was sued by a client and the attorney has advised that the company accepts liability. The attorney further advised that in similar cases the amount awarded for damages may exceed \$10,000.*

UNIT 2

Paper 01 – Multiple Choice

Performance on this paper as a whole was good. The mean was 40.65 out of a maximum of 63 marks; the standard deviation was 11.23.

Paper 02 – Essay-Type Questions

This paper consisted of three questions, one per module. The mean performance on this paper was 52.61 compared with 55.34 in 2010. Question 1 had a mean of 23.42 and a standard deviation of 6.30. The mean for Question 2 was 15.72 with a standard deviation 9.20. Question 3 had a mean of 13.88 and a standard deviation of 8.69.

Question 1

Candidates were required to demonstrate their ability to calculate cost of goods manufactured and cost of goods sold and to distinguish between different types of costs as well as to compute manufacturing overheads from given data.

Part (a) was very well done with some candidates scoring full marks. Part (b) was generally well done. Maximum marks were also scored on this part.

Part (c) required candidates to demonstrate their ability to compute pre-determined overhead and the amount of manufacturing overhead applied. It did not appear to have posed much difficulty to candidates and some candidates were able to score full marks.

Question 2

Part (a) required candidates to show their understanding of absorption and marginal costing. Candidates' performance on this section was encouraging.

Part (b) was about manufacturing accounts and required candidates to prepare a Production Report for Belmopan Company. Many candidates attempted this question using the weighted average method, as required. Most candidates were unable to show the main column headings, which were necessary for presenting such reports very clearly. The two major column headings required for this question were Flow of Production — where a description of the movement of completed and uncompleted units would be clearly stated — and the Equivalent Units which should be subdivided into Physical Units, Direct Materials and Conversion. When the accounts are laid out this way, then it becomes easy to slot in the required figures. Midway on the table, Total Production, Direct Materials and Conversion costs were required to complete the report.

Part (c) was a straightforward question requiring candidates to state three differences between activity-based costing and traditional costing systems such as process costing. Most candidates could not handle this question even though it keeps appearing in the examination from year to year.

The response required is reproduced as follows.

Three fundamental differences between activity-based costing and traditional costing systems such as process costing are:

<i>Criteria</i>	<i>Activity-based Costing system</i>	<i>Traditional Costing System</i>
<i>Cost objective</i>	<i>Activity</i>	<i>Product, service or department</i>
<i>Cost pools</i>	<i>Many (each having homogeneous items)</i>	<i>One or very few with heterogeneous items</i>
<i>Allocation base</i>	<i>Cost drivers</i>	<i>Arbitrary items</i>

In an activity-based costing system, cost drivers are selected based on their underlying relationship to organizational costs. Ideally, a casual relationship exists between the cost driver and a cost pool.

Question 3

Part (a) asked for the definition of a budget and an outline of four benefits of budgeting. Candidates presented varied definitions but the essential ingredient of ‘quantity’ was missing in some answers and made answers very vague. The benefits of budgeting were well spelt out by many candidates.

Part (b) required candidates to demonstrate their ability to prepare a cash collection schedule, purchases schedule and cash disbursements schedule. Performance here was good as many candidates were able to analyse the information given and did the calculations correctly.

Part (c) was very well done by some candidates who earned full marks for their answers. Other candidates appeared not to have realized that a cash budget is simply a statement of estimated cash receipts and disbursements for a given period. Once this was missed, candidates could not get the required arrangements and calculations correct leading to low marks being obtained.

Paper 031 – School-Based Assessment (SBA)

The SBA comprised three tests constructed, administered and marked by the teacher. These tests, along with the keys and mark schemes were submitted for moderation, as required by CXC. From the samples submitted, the standard of these school tests remain high.

The mean for this paper was 29 out of 42 (69.05 per cent), with a standard deviation of 8.85.

Paper 032 – Alternative to School-Based Assessment

This paper comprised nine questions, three per module. Fourteen marks were awarded per module for a total of 42 marks. The mean for this paper was 21.45. Performance on this paper showed marked improvement over 2010.

Module 1

Questions 1–3

In these questions, candidates were required to

- (a) demonstrate their ability to calculate the cost of goods sold and ending work-in-progress inventory
- (b) differentiate between period costs and product costs
- (c) calculate Economic Order Quantity (EOQ) and re-order point

Almost all candidates writing this paper attempted Question 1, with a resulting mean of 1.68 out of 6 and a standard deviation of 1.59. Six out of the 28 candidates who attempted this question scored the maximum mark of 4. Clearly, manufacturing accounts is still a problem for candidates.

All candidates who took the paper attempted Question 2. The mean was 3.72 with a standard deviation of 1.25. Two out of the 29 candidates who attempted this question scored full marks.

Question 3 required the use of existing formulae to perform accounting computations and Economic Order Quantity (EOQ). It was well done as the mean mark of 3.41 was close to the maximum mark of 4 available for the question. This performance means that candidates are able to perform well when set formulas are available. The ultimate, however, is for candidates to try and apply such knowledge to new situations.

Module 2

Questions 4–6

In these questions, candidates were asked to

- (a) prepare a variable costing income statement using a contribution format. This was similar to the question in 2010 and was used again in 2011 to demonstrate emphasis.
- (b) determine the cost of ending work-in-progress inventory
- (c) determine the activity-cost-driver for four activities.

Twenty-seven of the 29 candidates who wrote this paper attempted Question 4, with a resulting mean of 3.41 out of 7, and a standard deviation of 1.58. Question 5 was attempted by 28 of the 29 candidates who wrote this paper. The mean was 1.46 out of 3, the standard deviation was 1.23, with 7 of the candidates receiving full marks. Question 6 was attempted by 27 candidates; the mean was 3.27 out of 4, the standard deviation was 1.29, with 17 of the candidates receiving full marks.

This performance is a fair indication that some private candidates appear to be coming to grips with activity-based costing.

Module 3

Questions 7–9

For these three questions, candidates were expected to demonstrate their knowledge and understanding in the areas of

- (a) cash budgeting
- (b) variance analysis
- (c) quantitative techniques in long-term decision making as they relate to net present value of capital investments.

All the candidates writing this paper attempted Question 7, with a resulting mean of 3.54 out of 6 and a standard deviation of 2.06. Eight candidates scored full marks for this question. Twenty-nine candidates attempted Question 8. The mean was 1.48 out of 4, the standard deviation was 1.30, with 3 candidates receiving full marks. The mean mark falling below half of the maximum mark available means candidates have a lot more work to do on variance analysis.

Twenty-eight out of 29 candidates attempted Question 9. The mean mark was 1.82 with a standard deviation of 1.31. Three candidates scored full marks.

RECOMMENDATIONS

This year's performance indicates that, for Unit 1, candidates were weak in financial ratio calculations and their interpretation. In Paper 02, candidates showed weakness in the area of manufacturing overheads. For Unit 1, Paper 031, it was observed that some teachers are still deviating from the rubrics and this is likely to cost students some marks. These areas need special attention before performance on these two papers can show appreciable improvements.

Candidates are also strongly advised to familiarise themselves with the provisions of the International Accounting Standards (IAS) as there was evidence from the scripts that candidates have little or no knowledge of these provisions.

For Unit 2, candidates are advised to spend more time on Activity-Based Costing (ABC). This was one key area of weakness which came out clearly in the scripts.

CARIBBEAN EXAMINATIONS COUNCIL

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®**

MAY/JUNE 2012

ACCOUNTING

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GENERAL COMMENTS

Overall performance on this examination was fairly good.

However, in many areas, candidates wrote down figures with no working; there was no description of what the figures stood for or how the figures were arrived at. Another area of concern was where candidates did not answer the question set, particularly the written part of the question; it appears that candidates engaged in ‘question spotting’ so they answered the question they had prepared before coming to the examination. This practice should be discouraged. Candidates should prepare for all parts of the syllabus.

There are three papers each for the CAPE Accounting Units 1 and 2 examinations.

Paper 01 consisted of 54 multiple-choice items, 18 from each of the three modules. They were all compulsory. Paper 02 contained three questions (a mixture of computations and short essay type). Each module was covered by a separate question.

Paper 031, the School-Based Assessment, was marked by class teachers and moderated by CXC. Paper 032, the Alternative to the School-Based Assessment for non-school candidates, comprised three questions, one taken from each module based on a topic made available to candidates in the syllabus for Unit 1. For Unit 2, Paper 032 comprised nine short-answer questions, three from each module.

DETAILED COMMENTS**UNIT 1****Paper 01 – Multiple Choice**

Performance on the 54 multiple-choice items produced a mean of 41 out of a total weighted score of 63. Scores ranged between 15 and 63.

Paper 02 – Essay-Type Questions

The paper comprised three compulsory questions. The mean was 47 out of maximum of 105 marks. The scores ranged between 2 and 97.

Teachers are reminded that all topics in the syllabus are examinable; topics which are optional (companies, co-operatives) at the CSEC level should be revised since the CAPE syllabus presumes the basic knowledge of accounting principles. All working should be shown.

Question 1

The question was divided into three parts which were all compulsory. Candidates were required to:

- identify the differences in scope and work between the internal auditor and the external auditor as well as to explain the responsibility for detecting fraud by the two groups
- prepare journal entries to record a number of transactions which included the issue of shares, the purchase of an investment and the payment of stock dividends
- explain three terms from IAS 1.

For Part (a), the table which was provided gave the beginning of sentences to prompt candidates to give the difference between internal and external auditors.

Several candidates responded that the internal auditor reports to management while the correct answer is the *audit committee* or the *board of directors*. There would be a conflict of interest if the internal auditor reported to management. It is suggested that teachers invite an external auditor (a firm of chartered accountants) or a member of the accounting profession to a class session and allow him/her to highlight the similarities and differences between internal and external auditors and explain the responsibility of each group for fraud.

For Part (b), candidates were required to prepare journal entries to record the issue of shares in exchange for land and buildings for amounts which would require raising a share premium account. This was fairly well handled by most candidates. However, several candidates did not differentiate the previous entry from the purchase of an investment through shares. The recording of dividend received and dividend paid were significantly different; this was not clearly shown. The third journal entry required the calculation of interest on a note payable for part of the year. Many candidates missed that. The fourth journal entry related to the issue of a stock dividend using common shares. This was well done by candidates.

Part (c) required candidates to explain three terms as used in IAS 1 — consistency was attempted by most candidates, there were many non-responses for *materiality*. Several candidates had vague notions about *going concern*. The most common mistake was that the word or phrase being defined was included in the definition. This is unacceptable.

The mean score on this question was 14 out of 35.

Question 2

The question was divided into three parts.

Part (a) examined candidates' understanding of the characteristics of a corporation and a partnership. Some characteristics were identified and candidates were asked to select the ones relevant to the respective business entity. Only three candidates did not attempt this question.

On the whole, this question was satisfactorily done. At least 70 per cent of the candidates scored between three and five marks out of a maximum of five marks. The characteristic that posed a major challenge was the one that dealt with the ease of transfer of ownership. Candidates indicated that it was easier to transfer ownership in a partnership than a corporation. This means that candidates were not aware of the concept that the life of a partnership is terminated in the event that there is a change in the partnership structure.

Part (b) required candidates to prepare the capital adjustment account and the balance sheet upon the admission of a partner.

In Part (b) (i), candidates were required to use the capital adjustment account to show the changes in the non-current assets, goodwill and capital balances prior to the entry of a new partner. This question posed a major challenge to candidates. The responses given were wide and varied. The average score was three to six marks out of a maximum of ten marks.

Approximately ten per cent of the candidates received the maximum score. The major weaknesses discovered were:

- Candidates were unsure as to what a capital adjustment account is. A majority of candidates adjusted the capital account. Others created a revaluation account which was then followed up with an adjusted capital account.
- Some candidates presented all the asset accounts that were stated in the question while others gave journal entries, balance sheet statements, and individual ledger accounts.
- Many candidates did not know how to treat the gain on revaluation; it was not reflected in the capital adjustment account.
- Some candidates who attempted the capital adjustment account reversed the double entries.
- Some candidates did not consider goodwill as part of the revaluation and therefore omitted it from the capital adjustment account.

On the revaluation of the assets, the journal entry should have been

DR: Goodwill	18000		
DR: Buildings (the increase)	20000		
		CR: Plant & Machinery (the decrease)	4000
		CR: Kwame Capital	17000
		CR: Kendal	17000

This is the entry that must be posted to the capital adjustment account.

In Part (b) (ii), candidates were required to prepare the balance sheet to reflect the admission of the new partner. Most candidates attempted this part of the question but none scored maximum marks. Approximately 20 per cent of the candidates scored between eight and ten marks. Candidates demonstrated that they have an understanding of the balance sheet and were able to correctly classify the balance sheet items.

Some of the notable weaknesses were:

- Incorrect classification of goodwill; for most candidates this was treated as a current asset.
- Some candidates made the assumption that goodwill was not to be kept in the books and eliminated it.
- Some candidates failed to adjust the cash balance for the investment made by the new partner, Janet. This item was treated by some as a long-term investment and by others as ‘expansion’ or totally ignored in other cases.
- The total net assets was divided by three to obtain each partner’s capital balance.
- Some candidates adjusted the capital account balance but failed to transfer the new balance to the balance sheet.
- Some candidates added the new values for the non-current assets to the previous balances to give a higher value for these items.

Partnerships have not been examined in recent times and so it appears that the topic had not been covered in great detail. It is a common form of business activity and is therefore examinable. The treatment of *goodwill* on the admission of a new partner is not a new concept, but many candidates had difficulty recording it.

Part (c) required the preparation of the shareholders equity section of the balance sheet. This section of the question presented candidates with more difficulties than expected, although in general most candidates attempted the question. The difficulties encountered included:

- Difference in presentation between authorized share and issued share capital classification
- Inability to distinguish between shares at par and shares with a share premium
- Understanding that bonus shares are generally issued from retained earnings or from share premium if it exists; it is capitalization of the retained earnings
- Rights issues have to be paid for
- Retained earnings means profits accumulated over the years.

It is recommended that the description and presentation of Shareholders equity be reinforced.

The mean score on this question was 13 out of 35.

Question 3

This question required candidates to prepare the income statement and balance sheet of a company in accordance with IAS 1. The question builds on CSEC skills such as adjusting entries.

The question required double entries to be made for all adjustments. Candidates should be aware of correct headings which are *as at* for the balance sheet and *for the year ending* for the income statement. With this information, the IAS 1 format would be the multiple steps income statement.

The following errors were observed:

- Allowance for bad debts was included in the income statement as an expense
- Discounts received was shown as an expense rather than as a deduction from purchases
- Inability to calculate depreciation using the reducing balance method
- Failure to carry forward adjustments from the income statement to the balance sheet
- Difficulty in the preparation of the statement of retained earnings.

Candidates should be aware that at this level simple recall questions such as calculating depreciation on an asset for a year or calculating the amount for prepayment are discouraged; more challenging calculations are expected.

The mean score on this question was 16 out of 35.

Paper 032 – Alternative to School-Based Assessment

The paper consisted of three compulsory questions, one from each module. The mean score was 10 out of a total of 42.

Question 1

This question required candidates to prepare a report describing how a sum of money could be invested using different business entities. Guidance was given for the report, indicating that the names of the respective accounts which are normally associated with the entities should be explained. Candidates however were unable to put into words information which is generally displayed in journal entries.

Question 2

In this question candidates were required to identify the similarities and differences in the four types of business entities identified in Question 1 (sole trader, partnership, company and co-operative) by outlining the presentation of assets and liabilities, and items on the income statement. The communication skills of candidates were not evident in the answers submitted.

Question 3

This question involved the calculation of four ratios which could be used to analyse the performance of two companies. The formulae for the ratios were often incorrectly stated. Many candidates were unable to state the importance of each ratio which was the requirement for four marks.

Candidates are reminded that accounting is not restricted to calculations and every effort should be made to practise report writing which allows them to interpret figures which have been calculated.

Candidates found this paper very challenging.

Paper 031 – School Based Assessment (SBA)

For the SBA, the mean score was 30 out of a total of 42.

The following were highlighted as key strengths of the projects that were submitted:

- Most reports were type-written, double spaced and neatly presented.
- In situations where there was obvious group work, there was clear evidence of teachers' guidance.
- In most cases candidates incorporated graphs, tables and charts in their presentations.
- Generally, where candidates did ratio analysis, the ratios were properly calculated and comparisons were evident in evaluations.

Weaknesses identified:

- Candidates had difficulty distinguishing aims from objectives.
- Projects were submitted without topics/titles.
- Aims were found to be too general, for example, ‘to develop an understanding of accounting for my own development’ is unacceptable.
- Students did projects on three modules instead of selecting a single topic from one module.
- Page numbers did not match with table of contents, projects exceeded word limit and candidates made grammatical errors.
- Data analysis and evaluation lacked focus and failed to help the reader to draw conclusions. Evaluations should include judgments and not just restatement of facts.
- Methodology lacked justification of methods since only definitions were given for methods used.
- Candidates presented a literature review for analysis of data; this is not acceptable.
- Pictures and other references belonging to books, websites etc. were used without proper citations being given.
- Conclusions were not based on evaluation.
- Recommendations were too general and the link to the analysis and evaluation could not be detected.

UNIT 2

Paper 01 – Multiple Choice

The performance on the 54 multiple-choice items produced a mean of 41 out of the total weighted score of 63. Scores ranged between 10 and 63.

Paper 02 – Essay-Type Questions

The paper comprised three compulsory questions. The mean was 46 out of the maximum of 105 marks. The scores ranged between 0 and 90.

All working should be clearly shown. The questions usually consist of part computation and part theory. Candidates should be able to explain definitions, observations, and suggest recommendations or put decisions in their own words.

Question 1

This question had four parts. In Part (a), candidates were required to show the difference between cost and management accounting and financial accounting. For Part (b), candidates were asked to classify certain costs in the production and sale of educational CDs while in Part (c) they had to calculate the cost of finished goods and the cost of goods sold from manufacturing information given. In Part (d), candidates were required to calculate the cost for different aspects of a sandwich-making operation.

Candidates were for the most part, quite capable of distinguishing between fixed and variable costs. They displayed much interest in the manufacturing accounts segment of the question. However, the Caribbean is a service-based environment, therefore emphasis should be placed on this sector for examination purposes and to prepare candidates for the world of work.

The following weaknesses were observed:

- Candidates ignored the clues provided in Part (a) to assist them with answering the question.
- Candidates failed to pay careful attention to the dates of inventory (rather than how they appear in the question) to help them to determine whether they were opening or closing inventory.
- In Part d (ii), there was difficulty in the calculation of overtime hours.
- In Part d (iv), there was difficulty applying overtime hours to the given rate.

The mean score on this question was 20 out of 35.

Question 2

Part (a) required candidates to demonstrate their understanding of marginal and absorption costing. Most candidates were able to distinguish between the two. The marginal costing aspect was the most popular part of the question.

Candidates however had challenges preparing the reconciliation. They were

- unable to differentiate between units and dollar amounts
- unable to calculate closing stock in units and on a per unit basis
- unable to calculate the overheads absorbed applicable to absorption costing.

In the marginal costing statement some candidates used '*margin*' rather than '*contribution*', indicating that they were unaware of the difference.

In Part (b) (i), candidates were required to prepare a job cost sheet; this was relatively well handled.

Part (b) (ii) required the calculation of a quotation price for the job. Here, candidates had difficulty with using the given profit margin.

Candidates incorrectly calculated the quotation price using 'gross profit' instead of *gross margin*; candidates were unable to convert from one to the other.

In Part (c), candidates were asked to list the benefits to be gained from using the activity-based costing approach instead of the traditional approach. Many of them did a comparison of the two costing approaches rather than list the benefits.

The mean score on this question was 16 out of 35.

Question 3

This question had a mixture of calculations and theory. Parts (a)–(c) dealt with the calculation of payback period, accounting rate of return and net present value. These sections were attempted by most candidates.

Common mistakes were:

- The use of cash flow figures to calculate payback
- The use of income to calculate net present value.

In both cases, net cash flow or net income per year should have been used but this was not done by most candidates.

Parts (d)–(g) dealt with theory. This section was poorly attempted and there were many non-responses. Candidates were not able to express themselves to explain their observations from Parts (a)–(c). It appeared that candidates could only explain variance by using a formula. Most candidates were unable to identify the limitations of variance analysis.

In Part (f), candidates expressed the formula to calculate IRR but no clear explanation was given even though the question clearly stated that this was required. The term *cost of capital* was not familiar.

It is strongly recommended that candidates be adequately prepared to tackle theory questions.

The mean score on this question was 11 out of 35.

Paper 032 – Alternative to School-Based Assessment

This paper had nine questions, a mixture of computation and theory, three from each module.

The first two questions required calculations using costing information. The third question required two costing terms to be defined and examples given.

Question 4 dealt with job costing. Part (b) required candidates to price a job based on a given profit margin. Both computations proved challenging.

Question 5 was a theory question. Here, candidates were asked to list factors that affect process losses (normal and abnormal).

Question 6 dealt with computation based on the frequently examined topic Activity-Based Costing. Candidates failed to recognize that they would have to spread the overhead costs over both products, X and Y, in order to calculate the activity based cost for set ups, ordering and machine activity.

The collection schedule for a two-month period was required in Question 7. This is one of the schedules normally prepared in the budgeting cycle. Candidates who had practised this topic received full marks, but these candidates were in the minority.

Question 8 required candidates to state three objectives of standard costing. This answer would be readily available from any book on costing.

Question 9 was a break-even calculation. Many candidates attempted this question, but they were unable to convert the break-even point from units to sales value, that is, into dollars.

Overall, there was a high level of non-responses which tends to indicate that candidates were not adequately prepared for this aspect of the examination.

Paper 031 – School Based Assessment (SBA)

The SBA requires teachers to administer module tests covering at least 60 per cent of the objectives for each module.

Strengths observed:

- A few packages were neatly arranged with mark schemes, table of specifications and question papers.
- Clearly annotated mark schemes were submitted and this was evident on candidates' answer sheets.
- Samples selected were neat and well done.

The following weaknesses were noted:

- Some tests were too lengthy; they could not have been completed in one and a half hours.
- Untidy mark schemes and packages were submitted.
- Tests were completed using pencil.
- Focus was placed on answers and not the method, so candidates were penalized twice.
- CXC past papers were used without proper citation .
- Moderation sheets were incorrectly completed.

RECOMMENDATIONS

- Teachers should familiarize themselves with the syllabus and mark schemes and aim to avoid the weaknesses identified above.
- Teachers are reminded that it is a requirement that tests, table of specifications and mark schemes be submitted for each module test.

CARIBBEAN EXAMINATIONS COUNCIL

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CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®**

MAY/JUNE 2013

ACCOUNTING

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GENERAL COMMENTS

This was the first time that the revised syllabus was being examined. Three papers were examined — Paper 01 consisted of 45 compulsory, multiple-choice items, 15 from each of the three modules; Paper 02 contained three questions (a mixture of computations and short essay type), each module covered by a separate question; Paper 031 was the School-Based Assessment (SBA), which was marked by the class teacher and moderated by CXC; and Paper 032 was the Alternate to the SBA for non-school candidates. It comprised six questions, two from each module.

Overall, performance was good.

There were fewer candidates who did not respond to any question when compared with 2012. However, the written or theory part of questions remains a concern; it appears that many candidates are unable to express themselves in writing.

DETAILED COMMENTS

UNIT 1

Paper 01 – Multiple Choice

Performance on this paper was quite good with an overall mean score of 33 out of a maximum of 45.

Candidate performance on Module 1 (Accounting Theory, Recording and Control Systems) was very good with the mean mark as high as 12 out of 15.

Performance on Module 2 (Preparation of Financial Statements) was also encouraging with the mean mark of 11 out of a maximum of 15.

Performance on Module 3 (Financial reporting and Interpretation) also had a mean mark of 10 out of a maximum of 15.

Paper 02 – Structured Essay

The paper comprised three compulsory questions.

Question 1

This question was divided into six parts. Candidates were required to

- outline the structure of the conceptual framework of accounting, with the option of using a diagram
- state three reasons why the conceptual framework was developed by the IASB
- outline in their own words, three of the five selected qualitative characteristics of accounting information
- state any four steps leading to the establishment and issuance of an accounting standard
- state any four ways in which internal controls can be achieved in an organization to enhance the accuracy and reliability of accounting records
- journalize three transactions, along with narratives, about purchasing equipment partly for cash and on credit.

The question generally was not well done.

- In Part (a), some candidates listed all the elements of the conceptual framework and were totally unaware of the hierarchical structure. For Part (b), the reasons why the conceptual framework was developed appeared to be known and understood; the weakness was that candidates had difficulty communicating their knowledge.
- In Part (c) candidates satisfactorily stated the meaning of the qualitative characteristics of accounting information they selected. Candidates did not in all cases follow the instructions. They were required to write on three characteristics but many candidates wrote on all five terms. *Consistency* and *comparability* were well done, but not *relevance*.
- For Part (d) the steps that lead to the establishment and issuance of an accounting standard were not done very well. Candidates confused the development of accounting standards with the conceptual framework. Several did not state the steps logically. Candidates continue to have difficulty communicating their ideas.
- In Part (e), internal controls were generally well known; this section of the question was well answered. Many candidates were able to state the controls and explain why they worked.
- The journal entries in Part (f) were not well done. Some candidates prepared T-accounts when they were asked for journal entries. Candidates incorrectly named accounts. For example *Accrual* was used instead of *Accounts Payable*; this was not acceptable. Teachers need to ensure that students know the acceptable names of accounts that can be used for a liability. Candidates appear to think that everything that is purchased must pass through the Purchases Account; this is an error of principle. This part of the question dealt with Fixed Assets (Non-current assets), not stock (inventory). Candidates need to

understand the difference between stock (inventory) and common stock (share capital). The narration part of the answer was also weak.

Question 2

The question was divided into two parts and was fairly well done overall.

Part (a) (i) required the preparation of a Multiple-Step Statement of Comprehensive Income in accordance with IAS 1 (Section 3 of IFRS for SMEs). While many candidates were able to present the correct format generally, the order or the section in which line items appeared showed some basic weaknesses. Most candidates recognized the expenses and could calculate the common stock dividends. There were a number of candidates who used 'as at' in the heading instead of *for the year ended*. Subheadings such as *selling expenses* and *administration expenses* were accepted in place of operating expenses. However, teachers are expected to introduce the correct format. The weakest area was the calculation of the bad debt Expense. There were many candidates who did not know how to treat the figure for bad debts in the given trial balance. This is what was required:

$$[500\,000 + 2\% (300\,050 - 50\,000)] = 55\,001$$

Other areas of weakness were:

- Inability to treat *freight in* and *purchase discount*
- Interest income was subtracted and treated as an expense
- Bond interest and taxation were not calculated
- The necessary adjustments were not done
- Taxation was calculated on total expenses
- Stock (inventory) was confused with share capital

Part (a) (ii) was poorly done. The main weakness was in the format; a Balance Sheet was presented in some cases instead of a Statement of Retained Earnings. Some candidates included organization costs in the Retained Earnings Statement. Candidates did not realize that Paid-in Capital in Excess of Stated Value (US terminology) is the same as Share Premium (UK terminology). It is important that teachers expose students to different terminology since the globalization of businesses means that many financial statements will appear with varying terms.

Part (b) was very well done. Many candidates scored full marks. The weakness here was the calculation of interest on salaries. Many candidates started with net profit instead of using the balance of profit for distribution in the profit and loss ratio. Some candidates added *interest on capital* to Net Profit before making the deduction and allocation. This is wrong.

Question 3

The question was fairly well done. First, candidates were required to prepare a Statement of Cash Flows in accordance with IAS 7 (Section 7 IFRS for SMEs). The second part examined candidates' ability to perform ratio calculation and interpretation.

Part (a) was not well done. The formats presented were wrong; some candidates used a columnar format which is not in accordance with the standard. The new method of presenting the Statement of Cash Flows appears not to have been covered in some cases; some candidates were not sure which items appear under the respective headings of operating, investing and financing. It is suggested that teachers review the standard and ensure that students are competent in the presentation.

Part (b) was fairly well done. The response rate was high. Most candidates knew how to compute the Income/Assets ratio. In some cases, candidates subtracted Inventory from Current Assets in the Current Ratio calculation. The weakest part of the question was the interpretation. Candidates confused *liquidity* with *liquidation* in their discussion. Many did not know how to interpret the Debt/Equity ratio.

Recommendations

- Teachers are reminded that all topics on the syllabus are examinable.
- Topics which are optional (companies, co-operatives) at the CSEC level should be revised since the CAPE syllabus presumes basic knowledge of such topics.
- All working should be clearly shown.

Paper 03 – School-Based Assessment (SBA)

SBA samples displayed the following weaknesses.

- Sources were not properly cited.
- Students had difficulty distinguishing what was required for the Aims, Titles and Objectives sections of their reports.
- The Methodology did not include justification and limitations.
- Too many students reported on the same topic without variation.
- Students who did sampling did not show data.
- No financial documents were included in the appendix.

- Ratios were incorrectly calculated.
- No working was shown for calculations.
- Bibliographies were not properly done.
- Reports were done on three modules instead of one.
- Students did not report on current standards as outlined by the revised syllabus (IFRS).
- Some projects exceeded the word limit of 2500.
- Many students did not number the pages of their projects.
- Teachers awarded marks where there were no submissions.
- Many of the graphs presented were independent of the project.

The following were key strengths of the samples.

- Better supervision of projects was evident; Aims and Objectives were better written and the number of instances where reports were done on three modules was reduced.
- The majority of schools followed the new syllabus.
- Projects were neatly packaged and presented and media was creatively used.
- It was evident that students paid more attention to their research.
- Students gave details about the timelines in which the data collection process took place.

Recommendations

- Teachers are reminded to use the revised syllabus.
- Students need to show working for the various calculations in ratio analysis.
- Teachers need to supervise students keenly on Data Analysis and Evaluation.
- APA (or any format) is to be used when preparing bibliographies and for citing references within the report.
- Data Analysis and Evaluation must be separated.
- Recommendations and Conclusion must be separated.
- The Table of Contents must be written in the correct format.
- Projects should be typed using Times New Roman, font size 12.

Paper 032 – Alternative to School-Based Assessment (SBA)

With effect from June 2013, this paper had six compulsory questions, two from each module and the total mark increased to 60 (compared with three compulsory questions, one from each module, and a maximum of 42 marks previously).

Question 1

This question was well done. Candidates demonstrated good knowledge of the advantages and disadvantages of computerizing the accounting functions of a company.

The mean mark was 13 out of 16.

Question 2

Since this question was linked to the first one, candidates were expected to perform well on it. Most candidates were able to explain why it is necessary to have controls in a computerized accounting environment. One such reason is to prevent unauthorized access to the computer equipment.

The mean mark was 2 out of 4.

Question 3

This question proved challenging for candidates.

In Part (a), candidates were unable to name two commonly used accounting software packages. The majority of candidates wrongly mentioned 'Excel' instead of *QuickBooks, NetSuite, Pastel Accounting, Microsoft Dynamics GP, Traverse, Quicken, Peachtree Accounting* and *Zero Accounting software*.

Part (b) required candidates to identify accounting reports that are currently produced manually but which can be generated by a computer. Candidates mentioned documents such as 'receipts' and 'invoices' instead of *payroll, debtors' summary, trial balance, sales analyses, fixed assets register, stock valuation, aged debtors' summary* and *accounts receivable and payable listings*.

The mean mark was 3 out of 10.

Question 4

This question was well done by the majority of candidates. Many were able to outline five steps that may be taken to convert a manual accounting system to a computerized one.

The mean mark was 5 out of 10.

Question 5

Part (a), which required candidates to explain the term *ethical issues*, proved to be a challenge. Many candidates did not write any response. The following statement was acceptable.

Ethical issues are situations that call for persons to apply the principles of right and wrong that they, acting as free moral agents, use to make choices to guide their behaviours.

Part (b) was very well done. The majority of candidates was able to explain four given computer threats/risks.

The mean mark was 6 out of 10.

Question 6

This was a simple and practical question which required candidates to state five activities to be undertaken in a computerized accounting environment in preparation for an expected hurricane. The question proved to be a challenge, with some candidates stating that computers must be plugged into a surge protector whereas it is expected that in expectation of a natural disaster such as a hurricane, all electrical appliances must be unplugged.

The mean mark was 5 out of 10.

Candidates are advised to use internet sources to research topics that are not easily accessible in textbooks.

UNIT 2

Paper 01 – Multiple Choice

Performance on this component was generally fair with the mean mark being 30 out of a maximum of 45.

Performance on Module 1 (Costing Principles) was fairly good with a mean mark of 11.

Candidates appeared to have had some challenges with items on Module 2 (Costing Systems), Activity-Based Costing in particular needs more attention.

Performance on Module 3 (Planning and Decision Making) was fair with a mean mark of 11.

Paper 02 – Structured Essay

Question 1

In Part (a), candidates were required to prepare a schedule to allocate service department costs using the step-down method and to compute predetermined overhead rates. A table was provided to assist candidates with the calculations; many candidates could not use the table but provided their own answer. They used their initiative to do the allocations but found it difficult to calculate overhead absorption rates. Where they used the correct bases, they were awarded marks.

For Part (b), candidates were required to allocate wages between direct labour cost and manufacturing overhead cost and to identify two other methods of payment that could be used by the company. The responses were good and many candidates were able to score more than half of the marks. The challenge some candidates had was that they calculated the wage instead of allocating it between direct labour and manufacturing overhead. There was also some difficulty calculating the premium for overtime.

In Part (c), candidates were required to use a diagram and an example to explain three cost terms. The question was attempted by most candidates. While the graphs were good, the interpretation proved challenging. It was difficult to understand some of the explanations; candidates continue to struggle with expression. Some candidates used pictures for the example. It must also be pointed out that fixed cost (FC) on the graph is a function of time rather than output.

Question 2

This question had three parts; it was not very well done. Candidates were required in Part (a) to determine the overhead rate for three activities, assign the manufacturing overhead costs for two products, calculate the total assigned costs and calculate the overhead cost per product. The assignment of costs was not done in the required format. The activity-based costing section of the question was well done. Many candidates however, did not know how to calculate overhead absorption rate (OAR); when asked to calculate total cost, they used 80 000 instead of using the specific amount for each cost driver. Some candidates calculated one total cost for the two different products. They did not differentiate between total cost and overhead cost.

In Part (b), candidates were asked to state differences between job order costing and process costing. Most candidates could not differentiate between job costing and process costing. Some explanations were given but the comparisons were blurred and examples were not concrete.

In Part (c), candidates were required to identify four types of organizations in which service costing can be used and outline two of the difficulties associated with service sector costing. Candidates confused service sector with service organizations. 'Government organizations', 'multinational organizations' and the 'public sector' were incorrectly given as examples instead of *taxi operations*, *beauty salons* and *hospitals*. Candidates should be given examples of services which they use in every-day life. The problems associated with service sector costing were not well known.

Question 3

This question had a mixture of calculations and theory.

Part (a) dealt with the calculation of contribution margin ratio and associated issues.

Candidates major challenges here were their inability to

- differentiate between contribution margin and contribution ratio
- recognize that .25% is not the same as 25%
- calculate break-even in both dollars and units
- recognize \$900 000 as fixed cost
- differentiate between material efficiency and material quantity
- understand the importance of material purchased and material used, and when to use the different figures

Part (b) asked candidates to identify four non-financial factors. Most candidates scored good marks. However, in an attempt to explain, some candidates compressed their responses and were therefore unable to communicate the meanings clearly.

Part (c) dealt with the theory and application of payback period, internal rate of return (IRR) and net present value (NPV). These sections were attempted by most candidates. This part was the most challenging; those who understood the function and were able to communicate scored full marks. *Payback* was often wrongly explained as 'paying back a loan' or 'paying back the businesses'. This topic is at the end of the syllabus but it should not be ignored.

Recommendations

Candidates should endeavour to explain definitions, observations, and make recommendations or decisions using their own words.

Candidates should prepare adequately to respond to theory questions.

Paper 031 – School-Based Assessment (SBA)

The following major weaknesses were observed in the SBA samples.

- Some teachers submitted test papers with no answer keys.
- Some answer keys were submitted without clearly identifying how marks were awarded.
- Some tests were too long for the time allotted in the syllabus.
- Tables of specifications were not submitted with question papers and mark schemes.
- Some moderation sheets/forms were not properly filled.
- Materials from past papers and textbooks (including a CXC Distance Learning Study Guide) were used but without proper citations.

The following key strengths of the samples were noted.

- Marks were clearly allocated in the majority of samples.
- Some tables of specifications were submitted with question papers and mark schemes.
- Answer keys and question papers were packaged properly.
- Students' names and numbers were on most question papers submitted.
- Samples were neat and well done.

Paper 032 – Alternative to the School-Based Assessment

This paper consisted of nine compulsory questions, three from each module.

Question 1

This question required candidates to complete a stock ledger with given information. An example of an entry was given for candidates to follow yet the question proved quite challenging. The majority of candidates left the balance on hand (units and \$) column blank on the ledger card.

The mean mark was 4 out of 9.

Question 2

This question required candidates to differentiate between financial and cost accounting under three given headings. This was a guided question and the differences required were very elementary yet candidates were unable to respond appropriately. The answers expected were that, under 'purpose', financial accounting provides information for all stakeholders while management accounting provides information for internal decision making.

Under 'frequency of reports' financial accounting, it is annual, whilst management accounting, it is irregular. Under 'external audit role', for financial accounting, she certifies reports while report certification is not required for cost accounting.

The mean mark was 1 out of 3.

Question 3

This question dealt with the graphical presentation of cost curves. Performance was quite good. Majority of candidates were able to identify the type of curves correctly and were also able to make readings from them correctly.

The mean mark was 5 out of 8.

Question 4

This question required candidates to prepare a marginal costing income statement from given information and then differentiate between two approaches. This question proved rather challenging to most candidates.

Candidates had major problems with Part (a). The expected format was as follows:

Sales		XXXX
<u>Less Variable Cost</u>		
Variable Manufacturing Cost	XXXX	
Less: Closing Inventory	XXXX	
Add: Variable Selling Expenses	XXXX	
Contribution		XXXX
<u>Less: Fixed Cost</u>		
Manufacturing	XXXX	
Administration	XXXX	
Net Profit		<u>XXXX</u>

It was evident from the responses that candidates did not prepare well for this topic.

The mean mark was 1 out of 9.

Question 5

This question required candidates to calculate equivalent production units using the weighted average method from given information. The majority of candidates found the question challenging.

For Part (a), candidates were expected to determine the ‘units to be accounted for’ and the units ‘accounted for’ separately.

For Part (b), candidates were expected to show the output to process 2 under materials as well as under conversion cost. The closing work in progress ($\frac{100\%}{50\%}$) must also be shown under both headings. The total equivalent units would then be found by simply adding up the figures.

For Part (c), ‘Costs, equivalent units, and cost per equivalent unit were also to be shown under materials and conversion costs separately.

The mean mark was 2 out of 7.

Question 6

This question required candidates to compute and complete a job cost sheet using given information. Performance was very good. Candidates were able to demonstrate their competence in this area by properly presenting their work very clearly in tabular form

The mean mark was 3 out of 4.

Question 7

This question required candidates to compute and complete a production budget table using given information. The majority of candidates performed well on this question although many were unable to show that they understood the relationships among production, inventory and sales. Some candidates even added the opening inventory and deducted the closing inventory when it should have been the reverse, in preparing a budget.

The mean mark was 4 out of 8.

Question 8

This question required candidates to calculate the closing stock for materials, finished goods and standard cost of sales using information given on a standard cost card. The question was the most challenging of all nine questions on the paper.

For Part (a), candidates were expected to deduct the 'used' from the 'purchased' to get the 'unused' taking account of the \$5 cost per unit.

For Part (b), candidates were expected to deduct the 'sold' from the 'produced' to get the 'unsold', taking account of the costs.

For Part (c), candidates were expected to multiply the units sold by the standard cost of sales per unit to get the total standard cost of sales.

The mean mark was 0.30 out of 5.

Question 9

This question simply required candidates to read off given parameters from a clearly labelled break-even chart. These parameters included break-even points in units and sales revenue, margin of safety in units, budgeted revenue and budgeted total cost. In the graph, the y-axis was the revenue and the x-axis was the output in units.

Candidates should have noted the following from the graph:

- The break-even point in units was the point of intersection of the sales revenue and the total cost curve; this point corresponds to 80 units on the x-axis.
- The break-even point in sales revenue was the same point mentioned above but which corresponded to \$40 000 on the y-axis.
- The margin of safety is the maximum output level less the break-even output (200 minus 80) = 120 units.
- Budgeted revenue was the maximum revenue that corresponded to the maximum output which was \$100 000 on the graph.
- The budgeted total cost was easily read off from the end point of the total cost curve which corresponded to \$55 000 on the y-axis.

The break-even points in units and sales volume when calculated showed clearly that these were 80 units and \$40 000, obtained merely by reading from the given graph. The mean mark was 2 out of 7.

Overall, candidates need to place more work emphasis on cost accounting principles and practices.

C A R I B B E A N E X A M I N A T I O N S C O U N C I L

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®**

MAY/JUNE 2014

ACCOUNTING

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GENERAL COMMENTS

The CAPE Accounting examination consists of three papers. Paper 01 consists of 45 multiple-choice items, 15 items from each of the three which are all compulsory. Paper 02 consists of three questions (a mixture of computations and short essays). Each module is covered by a separate question. Paper 031, the School-Based Assessment is marked by the class teacher and moderated by CXC. Paper 032, the Alternative to the School-Based Assessment, is written by private candidates. It comprises six questions, two from each module.

There were 2,760 entries for Unit 1 Paper 02, 19 per cent more than in 2013; while for Unit 2 Paper 02 there were 1,981 entries, a reduction of 10 per cent over the number of entries in 2013. There were 138 entries for Paper 032, an increase of 81 papers over the entries in 2013.

Overall, candidates performed well on the examination.

DETAILED COMMENTS

UNIT 1

Paper 01 – Multiple Choice

Candidates' performance on the 45 multiple-choice items produced a mean of 70 per cent.

Paper 02 – Structured Essays

This paper comprised three compulsory questions. The mean mark for this paper was 48 per cent, an increase from 45 per cent in 2013.

Question 1

This question had four parts. Candidates were required to

- prepare journal entries to record transactions associated with the issue of shares, payment of dividends, acquisition of equipment for shares and the appropriation of retained earnings
- prepare journal entries to record the sale of shares
- explain why it became necessary to develop IFRS for SMEs
- name one of the Institutes of Chartered Accountants of the Caribbean
- identify the internal controls that are violated in the five situations presented
- suggest the ways in which the violations could be corrected and the reasons why the measures could be used.

For Part (a), candidates were able to prepare part of the journal entry to record the issue of shares and make the entry for the asset correctly. They were also able to record the payment of dividends; however, many either did not know the correct names of the accounts to use, or were not able to perform the calculations when the asset cost and the cost of the shares were different. The use of the Retained Earnings account presented difficulty for most candidates.

In Part (b), the performance of candidates in recording the sale of shares was satisfactory. Candidates were able to calculate the original cost of the shares as well as the current cost of the shares and many of them recognized that there was a loss. On the other hand, the procedure for accounting for the brokerage commission was a weakness; several candidates who calculated a loss, did not know how to journalize the loss. Some candidates also did not distinguish between an investment and common shares of a company. For Part (c), the reasons for the general introduction of the standards was widely known; however, the relevance to the SMEs (small and medium-sized entities) was not. Candidates also showed knowledge of the names of the professional bodies across the Caribbean. In Part (d), the internal controls were well known. The identification of the measures for corrective action and the reasons were not well articulated.

Recommendations

Teachers are reminded that topics such as journal entries, which are examinable at the CSEC level, should be revised at the start of the school term since the CAPE syllabus builds on these. Questions are often set requiring the use of journal entries as they are the building blocks of accounting. Teachers must ensure that students are familiar with the correct names of accounts. Students should be required to practise copious exercises of journal entries for company accounts with and without narratives that include issue of shares, acquisition of shares, sale and exchange of assets for shares, appropriations to reserves, selling of investments for amounts above and below cost, redemption of shares.

There should be more simulation exercises so that students can fully understand the importance of internal controls in the real business world. Members of the local accounting profession could be asked to explain the role of accounting standards and of the professional bodies both locally and regionally.

Question 2

This five-part question required candidates to

- prepare a Statement of Partners' Equity
- explain why one partner may receive the same profit even though he has not spent the same amount of time being involved in the business
- state three factors to be used when determining how the profits should be distributed
- distinguish between corporations and partnerships
- prepare a Multi-step Income Statement in accordance with IAS 1/Section 6 of IFRS for SMEs.

For Part (a), most candidates attempted the Statement of Partners' Equity; however, very few were awarded the maximum 10 marks — most earned on average 3–4 marks. Candidates were generally unfamiliar with the Statement of Partners' Equity but recognized the term *equity* and so drew up the Current Account, the Capital Account and/or the Appropriation Account.

In Part (b), candidates were required to state why one partner might be given the same portion of profits even though he does not spend the same amount of time in the business. The majority of candidates lost the mark awarded to this section of the question. Part (c) required that candidates state how profit-sharing decisions are made in a partnership. Some candidates did not respond to the question and those who attempted it referred to a missing partnership deed/contract/agreement and suggested that the Partnership Act was in force, which required an equal share of profits where there is no partnership agreement. Candidates generally did not supply any valid factors relevant to profit-sharing decisions in partnerships.

Where candidates were required to provide additional factors to be considered in profit-sharing decisions, candidates only provided one valid factor, that is, the proportion of capital invested.

In Part (d), candidates were required to distinguish between partnerships and companies. The majority of candidates attempted Part (d); however, some were not awarded the maximum six marks for the following reasons:

- They did not know the difference between partnerships and companies.
- They did not know the difference between limited and unlimited liability.
- They attempted to explain the terms by using the stem of the question instead of outlining the differences.
- They were unable to keep their answers simple and precise. Some responses were pages long and revealed much confusion in their understanding of the differences.

Part (e) required that candidates prepare a Multi-step Income Statement in accordance with IAS 1 (Section 6 of IFRS for SMEs). Most candidates seemed to have been familiar with some sections of the Multi-step Income Statement; however, making corrections to the Income

Statement presented many challenges. Most candidates attempted Part (e) many times, providing several variations of answers for the Multi-step Income Statement.

The items which were mistreated in completing the Income Statement included:

- The words *for the year ending* in the heading, which were omitted.
- *Sales Discounts* which was either missing or put in the wrong position.
- *Sales Returns* and *Allowances* as well as *Sales Discount*, which were added to the Sales figure.
- *Freight In* which was subtracted in order to arrive at Net Purchase.
- *Cost of Goods available for Sale* and *Cost of Sales* that were not clearly highlighted by showing them in a separate line.
- *Other Income and Expenses* which was not shown as a heading and the items that rightly belong under this heading correctly included.
- adding both interest income to interest expenses and/or reducing or increasing the Operating Profit figure; *Interest income* which was added to *interest expense* and/or reducing or increasing the *Operating Profit* figure.
- *Finance cost* which was used as a heading.
- *Interest income* which was added to Gross Profit.
- The figure for tax which was calculated based on *operating expenses* rather than *Profits from Operations*.
- Tax which was calculated on losses obtained.
- Tax which was calculated on *interest income*.

Recommendations

Partnerships are a very common form of business structure generally and in the Caribbean in particular.

Candidates should therefore be encouraged to practise completing the Statement of Partners' Equity.

It is suggested that more emphasis be placed on the theory of partnerships. The introduction of role play may assist in the retention of the concepts, more practice in expressing theoretical concepts in their own words and the use of tables for comparisons will help to improve the quality of students' responses.

Students should be given varying examples in preparing final financial statements in accordance with IAS 1 (Section 6 of IFRS for SMEs). An important and effective way to test students' knowledge and understanding of this section of the syllabus is to allow them to correct errors in statements already prepared.

The horizontal format is not an acceptable format for final financial statements. Candidates should not use pencil in preparing accounting statements.

Question 3

The question had five parts. Candidates were required to

- state two users of the Statement of Cash Flows
- state one reason why each of the two users would need a Statement of Cash Flow
- classify certain items under the key headings in the Statement of Cash Flows
- prepare the *operating activities* section of the Statement of Cash Flows in accordance with IAS (Section 7 of IFRS for SMEs)
- state three limitations of accounting ratios
- use given information (including the ratio formula) to calculate and interpret certain ratios.

Part (b) which required the classification of the items was the most widely known aspect of the question. For Part (c), most candidates scored six or seven of the possible eight marks for the preparation of the *operating activities* section.

Many candidates obtained no marks for Part (d) which required them to state the limitations of accounting ratios as well as to interpret the ratios. In Part (e), most candidates were able to calculate gross profit margin and dividend payout ratio, but were unable to calculate EPS. In the case of EPS, candidates multiplied the number of shares outstanding by the market price to obtain the denominator.

Overall, the conceptual parts of the questions were poorly done.

Recommendations

Students must be prepared holistically, so that they can differentiate between different Cash Flow items as well as apply knowledge about the limitations associated with ratios and interpret ratios once they have been calculated.

The IAS/IFRS should be taught so that students understand how to draft/prepare the Statement of Cash Flows. The standard is readily available on the internet on the IFAC website and contains examples of Statements of Cash Flows.

Paper 03 – School-Based Assessment (SBA)

Strengths

- The majority of projects was done to specification, that is, one topic which covered the three modules.
- In general, projects were neatly presented.
- A significant number of projects were complete with Aims and Objectives which were relevant to the topic being studied.
- The majority of teachers used the assessment rubric to assign scores.

Weaknesses

- A few schools continue to present projects on three modules.
- Some projects were too lengthy.
- In a number of cases, the Literature Review was completed without references.
- Citations within the text were not properly done in a number of cases; in addition, some citations were not referenced in the bibliography and the bibliography was not properly presented.
- In the Methodology, the method for collecting data was identified as questionnaires; however, the questionnaire was not included in the Appendix.
- Some projects included Analysis and Evaluation which was ratio analysis, but no financial statements were presented and there was no working for the respective ratios.
- In some cases, there was no connection between the Analysis and the Aims and Objectives of the project.
- In a few cases, the font size used for the project was too small.
- Conclusions, in a number of cases, were too general and bore no relevance to the topic being discussed.

Recommendations

Teachers should ensure that they provide guidance during the preparation of SBAs and should recommend websites to students that provide support for the preparation of citations and references.

Teachers should also ensure that the analysis bears relevance to the Aims and Objectives of the project.

Students should not include personal aims in the project.

Paper 032 – Alternative to School-Based Assessment (SBA)

The questions on this paper were all based on the International Accounting Standards, the topic for the year. There were six questions, two based on each module. Sixty-six candidates wrote this paper.

Question 1

This question was not well answered. Candidates were generally unaware of the reasons why countries adopt the International Accounting Standards (IAS) and the challenges faced by the smaller territories in relation to the implementation of the IAS. The mean mark for this question was 2 out of 10.

Question 2

Candidates were required to explain five principles of accounting. A significant number of candidates were able to explain the meaning of most of the accounting principles. Some explanations bore no relevance to the context of the accounting framework as covered under IFRS for SMEs, for example, “materiality is the material needed to complete cost of goods”.

The mean mark was 3.5 out of 10.

Question 3

This question was very poorly completed. Eighty per cent of the candidates received no marks. Many candidates wrote a figure for the terms, for example, net realizable value (NRV) without showing any calculation, and therefore no marks were awarded.

Question 4

Candidates were generally aware of the concept of revenue recognition, although some had difficulty explaining why revenue should or should not be recognized. About 50 per cent of the candidates only answered *Yes* or *No* and, therefore, they were only awarded one mark.

Question 5

Candidates were required to

- give two reasons why disclosures are required by the International Accounting Standards Board (IASB)
- give four uses of the Statement of Cash Flow
- Identify four items that are normally included in the Statement of Cash Flows.

There was a serious misconception stated by at least 27 per cent of the candidates that the Statement of Cash Flows is used to determine whether the business is making a profit or loss. Most candidates were also unable to give the reasons why disclosures are required by the IASB. A few candidates accurately stated four items that are normally included in the Statement of Cash Flows.

The mean mark for this question was close to 4 out of 10.

Question 6

This question required that candidates describe the events that need to take place before a situation can be considered a post balance sheet event to be adjusted or not adjusted. About 60 per cent of the candidates were able to give at least one example of a post balance sheet event. Nonetheless, overall performance on this question was very weak.

Recommendations

The overall performance on Paper 032 for this unit reflects inadequate preparation by candidates and the need for more support for private candidates. Candidates are required to know the topic that is examinable for the year. The topics change from year to year as documented in the syllabus, which is now available on the CXC website.

It is recommended that private candidates be aligned to an institution/tutor to obtain guidance and assistance in the subject and that these candidates have practice in writing a mock exam prior to sitting the examination.

UNIT 2

Paper 01 – Multiple Choice

Performance on the 44 multiple-choice items produced a mean of out of a maximum of 63.

Paper 02 – Structured Essay

This paper comprised three compulsory questions.

Question 1

This question had three parts, a, b and c. Part (a) was based on economic order quantity (EOQ) and was worth 15 marks. In this part, candidates were required to

- list three components of *carrying cost*
- state two components of *ordering cost*
- calculate recommender order quantity for the item produced
- calculate the number of times the orders should be placed
- calculate the reorder point in units.

Approximately 90 per cent of the candidates misunderstood the first two sections. From the responses provided it could be inferred that the word *component* was the basis of the misunderstanding. Some candidates restructured the question to give the answer, for example, “Ordering cost is the cost of an order”; “Carrying cost is the cost to carry one unit”. Some candidates went further to state that carrying

cost was the cost to transport the goods. Overall, candidates performed poorly on this part of the question.

Approximately 60–70 per cent of the candidates responded accurately to the third section of part (a). The formula appeared to be a very good stimulus in guiding candidates to the correct response. However, about 30 per cent of the candidates were unable to score full marks. The areas of difficulty were:

- Applying the 1.5% to calculate the carrying cost (It may be a difficulty with percentages.)
- Applying the square root (It may be a difficulty with using the square root button on the calculator.)
- Selecting the correct figures for ordering and carrying costs to be plugged into the formula
- Calculating the annual demand

Candidates performed reasonably well on the fourth and fifth sections of Part (a). They were able to calculate the number of orders using the correct formula. However, about 90 per cent of the candidates found it difficult to calculate the maximum usage that was required for the formula. They were nevertheless able to supply the maximum lead point.

In Part (b), candidates were required to state whether the company should continue to purchase monitors given certain circumstances. For Part (b) (i), candidates were able to identify the relevant purchasing price of the monitors. Approximately 30 per cent of the candidates knew that in calculating the relevant manufacturing unit cost, they should include the *avoidable* fixed overhead of \$1875. They were able to obtain the correct figure for the relevant manufacturing unit cost. Another 30 per cent of candidates used the *unavoidable* fixed manufacturing overhead of \$2625 to calculate the relevant manufacturing cost. The remaining candidates used the estimated total unit cost of \$18750 to make their decision.

In Part (b) (ii), most candidates converted the rent to the yearly/annual figure, but did not use it to make the costing decision. Instead, candidates explained that it could be used to offset the cost of purchasing

the monitors. Some candidates did the calculations based on unit calculations and did not make unit calculations for the rent. Some candidates made the decisions for Parts (b) (i) and (ii) based on the relevant purchase price and total unit cost given.

In Part (c), candidates were required to calculate the direct labour cost and production overhead chargeable to each job

- where overtime is worked to meet production targets of the company itself
- where overtime is worked at the customer's request.

Overall, performance on this section was poor. Some candidates did not respond to this section of the question.

Recommendations

- Teachers are encouraged to ensure that students are fully knowledgeable about decimals, fractions and the use of the calculator to perform applications such as square roots.
- Students should be given practice in applying information to formulae.
- Payroll computations are required in the business world and this is a topic that should be thoroughly taught, with all its variations.

Question 2

The question was divided into two parts. Part (a) was an activity-based costing section, which required candidates to

- compute the activity application rate for each activity centre of the company
- compute the total overhead cost assigned to each product produced by the company
- compute the total cost per unit to manufacture each product
- compute the total overhead cost assigned to each product if direct labour cost had been used to allocate overhead

- compute the total cost per unit to manufacture each product if direct labour cost had been used to allocate overhead.

For Part (a), most candidates scored between 13 and 17 marks out of a maximum of 17 marks. Weaker candidates scored between 7 and 10 marks. There were some candidates who did not respond or who scored no marks due to a lack of knowledge or poor interpretation. Most candidates who Part (a) (i) were able to score full marks. Some candidates chose a percentage approach and were awarded partial marks.

Part (a) (iii) was answered by about 50 per cent of the candidates. The others did not use the correct number of units; therefore, they calculated an incorrect cost per unit. Some candidates chose to use the cost drivers as the base or denominator to compute the cost per unit. Some candidates used a per unit approach in the final requirement. This was acceptable.

Part (a) (iv) was the least popular part of the question as some candidates could not distinguish between traditional costing and an activity-based costing approach. There were candidates who did not read the question completely and did not use the direct labour cost to allocate the overheads as required. They also did not appear to know which overhead to use. Here too, candidates chose a percentage approach and applied it to the overheads. This approach was correct and candidates earned full marks.

Part (b) required candidates to prepare a production report for the moulding department.

Most candidates were able to account for the total units and were therefore awarded the marks.

The majority of candidates scored 29–35 marks on the entire question. There were several candidates who earned full marks.

Recommendations

- Students must be encouraged to read questions carefully.

- Activity-based costing is a question on which students can score marks easily if it is well taught and understood by students.
- The main weakness in the production schedule was that candidates did not total the cost schedule. Candidates should ensure that this is done.

Question 3

This question had three parts. Parts (a) and (b) covered breakeven analysis; Part (c) dealt with budgeting.

For Part (a), candidates were required to

- list assumptions of breakeven analysis
- state why each of the assumptions stated may not always be true.

Part (a) (i) was more widely known than Part (a) (ii). Candidates who answered well clearly understood what was required and were able to full marks. Candidates who were unfamiliar with the assumptions attempted the question by writing the formulae for breakeven or tried to do an analysis of breakeven point.

In Part (a) (ii), candidates gave incomplete and incorrect explanations of why the assumptions were not always true. There were also candidates who attempted to answer Part (a) (ii) without reference to Part (a) (i). The majority of candidates scored between 0 and 5, and a significant number did not respond. Even though Part (a) was at the level of the candidates, it is possible that they were unprepared for theory.

Part (b) required calculations for different items connected with the topic of breakeven including

- breakeven point in units
- breakeven point in dollars
- margin of safety in units
- margin of safety in dollars.

Most candidates were able to present the correct formulae prior to doing the calculations. Many of them displayed knowledge and understanding of the breakeven principles; they were able to derive partial responses even if portions of the calculations were incorrect. Of the total candidates who attempted to use the equation method to determine breakeven (in units and dollars), most of them were able to do so correctly.

Several different formulae were presented for calculating *margin of safety*. The difficulties arose where candidates used 'contribution', 'contribution per unit' in an attempt to derive breakeven in units.

There were problems with identifying cost figures accurately despite the clear labelling of the figures in budgeted Income Statement. Candidates had difficulty distinguishing between actual production units versus capacity.

Part (c) required theoretical knowledge of budgeting. Candidates were required to

- state three objectives of budgeting
- outline two features of the imposed, participative, and negotiated budget styles
- state the role of the budget committee
- name two sections of a cash budget.

Most candidates attempted Part (c). The mean mark was 6 out of 13. The responses indicated that candidates had a general knowledge of budgeting. Candidates scored most of the marks for the *objectives of budgeting* and naming the sections of the cash budget. Many candidates were able to correctly use the accounting terms associated with budget objectives such as *planning*, *controlling* and *motivating*.

On the other hand, responses to the budget styles and the role of the budget committee were poor. Candidates generally were not clear about the differences between the styles and so used a literal interpretation. In addition, instead of stating the role of the budget committee, they restated the objectives of budgeting, for example, allocation of resources.

Recommendations

- The topics in this question are based on Module 3. Teachers should pace themselves throughout the year so that the full syllabus, including this topic, can be covered.
- Students should be taught to express themselves in writing through tests which require this skill. Class work should include theory questions. Emphasis should be placed on writing using accounting terminology.
- The use of the internet along with other textbooks will expose students to different types of questions and teachers should encourage this.
- There can be discussions in class where students are encouraged to express themselves.
- Accountants need to be able to communicate on accounting terms and concepts at this level.

Paper 031 – School-Based Assessment (SBA)

Strengths

- Some mark schemes were neatly presented and submitted with the table of specifications.
- Test items matched syllabus specifications and weighting.
- Some teachers submitted thorough mark schemes with the complete breakdown of marks.

Weaknesses

- In several cases, mark schemes were presented but no proper allocation of marks displayed; there were many cases where the mark schemes were not neat.
- Handwritten mark schemes were submitted.
- Some tests were too long for the time allotted to the exam.
- Some test items were photocopied from textbooks and CAPE past papers; this is a copyright issue.

- In some cases, mark schemes reflected different totals from those presented on students' test papers and their justification.
- There were too many calculation errors on teachers' mark schemes.
- There were typographical errors on question papers and teachers' mark schemes.
- Typed student scripts were presented without being marked.
- Some samples of students' scripts were received without teachers' answer key/mark schemes.
- Totals on teachers' mark scheme did not match totals on students' question papers.
- Test items reflected limiting factors though this topic was removed from the syllabus.
- Questions on mark schemes did not reflect clear and thorough workings of structured items.
- Moderation sheets were not prepared to reflect totals for each module starting from lowest to highest.
- Test/question papers showed three module tests given reflecting one hour for each module.
- Grades were submitted for students without proper documentation of students' scores and test scripts.
- Teachers signed the examiners' initials section on the moderation sheet.

Recommendations

- Test and mark schemes should be typed.
- Proper allocation of marks on mark schemes and students' scripts should be shown.
- Moderation sheets should be properly filled out to reflect scores on the right hand side for each module, divided by three, to show scores from lowest to highest.
- Time allotted for exams should match the amount of work given.

Paper 032 – Alternative to the School-Based Assessment

Paper 032 comprised of nine compulsory questions, three from each module. Twenty-four candidates wrote this paper.

Question 1

This question required candidates to sketch two cost curves — fixed cost per unit curve and total fixed cost curve. Most candidates were able to handle this question.

Question 2

This question required the apportioning/allocation of overhead costs in a given production setting. Performance on this question was below average, with the mean mark being 3 out of 9.

Question 3

Candidates were asked to calculate the costs of a specified job and to use the information to make an *accept or reject* decision. The mean mark was 3 out of 7.

Question 4

Candidates were asked to calculate absorption rate and determine under or over-absorption of costs. The mean mark was 3 out of 9.

Question 5

This question required candidates to produce an Income Statement for a given manufacturing company using the absorption costing format. The mean mark was 2 out of 7.

Question 6

This question required that candidates state examples of work that may be done using *job costing* and *process costing*. Candidates displayed a good knowledge of the content as evidenced by the mean mark of 3 out of 4.

Question 7

Candidates were provided with a particular scenario and asked to compute material and labour variances. The mean mark was 2 out of 8, indicating a weak grasp of concepts.

Question 8

This question required candidates to identify three techniques for investment appraisal and to give two advantages and three disadvantages of one technique. The mean mark was 3 out of 8.

Question 9

Candidates were required to list two advantages and two limitations of cash budgets. The mean mark was less than 1.

Recommendations

The overall performance on this paper reflects inadequate preparation by private candidates and the need for additional support. Candidates are required to know the topics that are examinable for the year as these change from year to year. Candidates must refer to the syllabus, which is now available on the CXC website (www.cxc.org), for these topics.

Private candidates should be aligned to an institution/tutor to obtain guidance and assistance in the subject and have practice in writing a mock exam prior to sitting the examination.

C A R I B B E A N E X A M I N A T I O N S C O U N C I L

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®**

MAY/JUNE 2015

ACCOUNTING

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GENERAL COMMENTS

The CAPE Accounting examination consists of three papers. Paper 01 consists of 45 multiple-choice items, 15 items from each of the three modules, which are all compulsory. Paper 02 consists of three questions (a mixture of computations and short essays). Each module is covered by a separate question. Paper 031, the School-Based Assessment is marked by the class teacher and moderated by CXC. Paper 032, the Alternative to School-Based Assessment, is written by private candidates. It comprises six questions, two from each module.

In 2015, there were 2581 entries for Unit 1 and 2343 entries for Unit 2; private candidate entries were 53 for Unit 1 and 29 for Unit 2.

DETAILED COMMENTS

UNIT 1

Paper 01 – Multiple Choice

Candidates' performance on the 45 multiple-choice items produced a mean of 70 per cent.

Paper 02 – Structured Essays

This paper comprised three compulsory questions. The mean mark for this paper was 34 per cent, a decrease from 48 per cent in 2014.

Question 1

This question had six parts. Candidates were required to

- state the meaning of two accounting concepts
- identify the cost at which a fixed asset should be recorded in the books of a business
- explain the accounting concept which allows a motor car to be treated as a non-current asset
- show journal entries to record the formation of a business
- show closing entries to record the drawings and loss for the period
- outline controls that management can implement to ensure the integrity of the accounting records, in the situation presented
- show the effect on the Cash Book and Statement of Comprehensive Income of the five transactions presented.

For Part (a) (i), candidates were unable to give comprehensive definitions of the historical cost and prudence concepts. This inability was especially evident in relation to the prudence concept. Many candidates were able to calculate the amount at which the car should be recorded in the books of the business, as required by Part (b). However, a significant number recorded the vehicle at original cost less three years' depreciation. In their responses to Part (c), most candidates could not identify the concept that allowed the business to treat a motor vehicle as a non-current asset; many referred to the historical cost concept or the prudence concept, which they had been asked to define in a previous section. Most candidates who correctly identified the going concern concept were unable to provide any explanation. A significant number of candidates presented their responses to Parts (d) and (e) as ledger accounts rather than journal entries, as required by the question. Many candidates were unable to prepare opening or closing entries. Many made partial entries.

In Part (f), candidates were able to satisfactorily outline internal controls to be used in maintaining integrity of the firm's records. Many candidates presented their responses in general terms, rather than

making them specific to a paperless EDP environment. Part (g) listed five transactions and required candidates to show the effect of each on the Cash Book and Statement of Comprehensive Income. Some candidates were able to state the effect of the rental payment on the cashbook but did not account for the prepayment of three month's rental expense when recording the effect on the Statement of Comprehensive Income. Many candidates correctly identified the effect of the bad debt write off and the depreciation charge on the Cash Book and Statement of Comprehensive Income. However, some candidates, incorrectly, identified both items as affecting the Cash Book.

Recommendations

Students should be given opportunities to discuss accounting concepts. Simulations should be used to give practice in applying accounting concepts in various scenarios, and in justifying their decisions.

Teachers are reminded that topics such as journal entries, which are examinable at the CSEC level, should be revised at the start of the school term since the CAPE syllabus builds on these. Questions are often set requiring the use of journal entries as they are the building blocks of accounting. Teachers must ensure that students are familiar with the correct names of accounts. Students should be given extensive practice in the preparation of journal entries with and without narratives that include entries to record the formation of a business, adjusting entries and closing entries.

There should be more simulation exercises so that students can fully understand the importance and application of internal controls in real-world situations, including in EDP environments.

Students should be given practice in identifying the effects of various types of transactions on cash and expenses under the accruals basis of accounting.

Question 2

This three-part question required candidates to

- prepare the capital accounts of a partnership after the admission of a new partner.
- distinguish between *corporations* and *co-operatives*
- prepare a Statement of Comprehensive Income
- identify figures to be included in the Current Assets and Current Liabilities sections of the Statement of Financial Position.

For Part (a), most candidates attempted the preparation of partners' capital accounts; however, a significant number were unable to account for goodwill correctly. Many candidates either credited the goodwill to the old partnership, or wrote off the goodwill in the accounts of the new partnership. These candidates seemed unaware that both entries were required. When preparing the capital accounts, a significant number of candidates treated Lee's cash injection as a balance brought forward.

Many candidates were unable to distinguish between *corporations* and *co-operatives*, as required by Part (b). Most candidates did not state that members of a co-operative each had one vote, while shareholders' votes were based on the number of shares held. Similarly, most seemed unaware that a member of a co-operative cannot transfer his/her ownership interest. Many could differentiate between the business forms based on purpose, but not show knowledge of the legislation governing co-operatives.

Part (c) required that candidates prepare a Statement of Comprehensive Income, using information presented in an adjusted trial balance. The following items were mistreated in completing the Income Statement:

- *Returns outwards* and *freight charges* were omitted from the calculation of cost of sales.
- *Returns outwards* and/or *retained earnings* were added to *the sale figure* to arrive at *net sales*.

- *Cost of goods available for sale* and *cost of sales* were not clearly highlighted by showing them in a separate line.
- *Other income and expenses* was not shown as a heading and the items that rightly belong under this heading correctly included.
- *Research costs* were treated as part of *cost of sales*, included in the *other income and expenses* or omitted entirely.
- Tax was calculated on losses obtained.
- Items such as *accumulated depreciation* and *allowance for doubtful accounts*, which should appear in the Statement of Financial Position were included.
- Many candidates ignored the *depreciation charge* presented in the question and chose instead to calculate the charge. While, in many cases, this was done correctly, it indicated that candidates did not understand that this adjustment would have already taken place in an adjusted Trial Balance.

Most candidates were able to identify the current assets and current liabilities as required by Part (d).

Overall, performance on this question was poor.

Recommendations

More emphasis should be placed on accounting for partnerships. Students should be encouraged to practise preparing partners' capital accounts to reflect various changes in the partnership. Emphasis should be placed on the treatment of goodwill.

Students should be given practice in preparing final financial statements in accordance with IAS 1 (Section 6 of IRS for SMEs), from adjusted and non-adjusted Trial Balances. Students' knowledge and understanding would be enhanced by practice in correcting errors in sample statements.

Question 3

This question had three parts. Part (a) required candidates to

- prepare a common-size statement
- calculate specified liquidity and profitability ratios
-

Responses to this part indicated a lack of exposure to common-size statements. Almost all candidates ignored this requirement and focussed instead on the calculation and analysis of the prescribed ratios. Most candidates were able to apply the formulas provided in the calculations of ratios; however, a significant number were unable to identify operating profit to be used in calculation of return on capital employed.

Most candidates were able to list three limitations of ratio analysis, as required by Part (b). Part (c) required candidates to give examples of events that would be disclosed in the financial statements as required by Section 32 of the IFRS for SMEs. Candidates were also required to explain the meaning of *conditions that existed at the end of the reporting period*. Performance on this part was poor. Candidates' responses related to *adjusting entries* rather than *adjusting events* and consequently, they cited accruals and prepayments as examples. Candidates also frequently referred to events such as flood and fire as conditions that existed at the end of the reporting period.

Most candidates were unable to state the duties of the receiver in a bankruptcy situation, as required by Part (d). Most candidates were also unable to classify claims on an insolvent business as secured, partly secured or unsecured.

Overall, the question was poorly done.

Recommendations

Students must be taught to prepare and analyse common size statements; students should also be made aware that the term *vertical analysis* may also be used. Information is readily available from textbooks and online sources. Students should be taught all areas of the module, including insolvency and liquidation. Students should also be given practice in discussing and analysing IFRSs, as well as applying these IFRSs to specific situations. Case studies would be useful in this regard.

Paper 031 – School-Based Assessment (SBA)

There was a two per cent improvement in SBA performance when compared with 2014; however, this was consistent with performance for 2013.

Strengths

- The majority of projects was done to specification, that is, one topic that covered the three modules.
- In general, projects were neatly presented.
- A significant number of projects were complete with Aims and Objectives, which were relevant to the topic being studied.
- The majority of teachers used the assessment rubric to assign scores.
- Projects showed significant improvement in the presentation of the literature review and bibliography.
- In a significant number of projects, instruments stated as being used in data collection were evidenced in the appendix.

Weaknesses

- A few schools continue to present projects on three modules.
- Some projects were too lengthy.
- In some cases, students confused aims and objectives
- In some projects, there was little connection between the analysis and the literature review.
- In some cases, the aims and objectives had no relationship to the topic of the project.

Recommendations

Teachers should ensure that they provide guidance during the preparation of SBAs and should refer students to websites that provide support for the preparation of citations and references. Teachers should also ensure that the analysis bears relevance to the Aims and Objectives of the project. Aims should be directly related to the topic; they should not be personal.

Paper 032 – Alternative to School-Based Assessment (SBA)

The questions on this paper were based on internal control systems, the topic for the year. There were six questions, two based on each module.

Question 1

Candidates were required to identify specific internal principles being violated and suggest measures to correct the violations identified. Performance on this question was good.

Question 2

Candidates were required to outline five internal control procedures to be implemented in order to protect computerized information. A significant number of candidates identified general control procedures rather than procedures specific to computerized systems.

Question 3

Candidates were required to prepare a Statement of Comprehensive Income. Many candidates could calculate gross profit, corporation tax and net income. However, a significant number could not present the statement in a format compliant with the IFRS for SMEs.

Question 4

Performance on this question was weak. Although candidates were generally aware of the principles of internal control, most could not explain the ways in which a good internal control system can contribute to the truth and fairness of the financial statements.

Question 5

Candidates were required to evaluate the operations of a company based on five ratios. Some candidates gave fairly good evaluations but a significant number were unable to interpret the ratios presented.

Question 6

This question required that candidates identify five internal control mechanisms that can be used in the management of accounts receivable. This area was not well known, and only a small percentage of the candidates responded to this question. While some candidates outlined the general principles of internal control, they were unable to relate these principles to receivables management. Overall performance on this question was very weak.

Recommendations

The overall performance on Paper 032 for this unit reflects inadequate preparation by candidates and the need for more support for private candidates. Candidates are required to know the topic that is examinable for the year. The topics change from year to year as documented in the syllabus, which is now available on the CXC website.

It is again being recommended that private candidates be aligned to an institution/tutor to obtain guidance and assistance in the subject and that these candidates have practice in writing a mock exam prior to sitting the examination.

UNIT 2

Paper 01 – Multiple Choice

Performance on the 45 multiple-choice items produced a mean mark of 70 per cent.

Paper 02 – Structured Essay

This paper comprised three compulsory questions. The mean mark for this paper was 55 per cent, an increase from 36 per cent in 2014.

Question 1

This question had two parts. In Part (a), candidates were required to

- prepare a schedule of cost of goods manufactured
- calculate cost of goods sold
- prepare a schedule of selling and distribution costs

Most candidates were able to prepare the schedule of cost of goods manufactured, correctly calculating and identifying the cost of raw materials consumed, prime costs, factory overheads and the appropriate treatment of work in process inventories. However, a significant number of candidates classified costs incorrectly. In many cases, candidates treated direct labour cost as a factory overhead, or treated depreciation of the delivery vehicle as a factory expense. Many candidates included carriage on sales in the schedule of cost of goods manufactured. When preparing the schedule of selling and distribution costs, a significant number of candidates included administrative costs such as the audit fee.

In Part (b), candidates were required to explain the effect of the FIFO method on the value of materials issued and closing inventories. Performance on this section was poor. Most students could not explain the relationship between changes in the price level and inventory valuation. Most of the candidates who attempted this part made general statements such as ‘the value of materials issued would be lower’ or ‘the value of closing inventories would increase’.

Recommendations

- Teachers are encouraged to ensure that students are given practice in cost classification exercises in manufacturing and non-manufacturing situations. Students should be able to classify non-manufacturing costs as selling and distributions costs or administrative costs.
- Students should be encouraged to discuss the effect of changes in the price level on inventory valuation under FIFO, LIFO and the average cost basis.

Question 2

The question was divided into four parts. Part (a) required candidates to calculate the total cost of two jobs, given a specified overhead application rate. Most candidates were able to identify the cost elements in a traditional job costing system and to treat these elements correctly when costing the jobs in question. A significant number of candidates included direct material cost and direct labour cost but did not include direct expenses in the cost of the job. Some candidates calculated the total cost of the job, and then divided that cost by the overhead rate. Some candidates included the information given about cost drivers, such as number of machine hours and number of setups, in their calculation.

Part (b) required candidates to

- calculate activity rates
- state two benefits of activity-based costing.

Most candidates were able to calculate activity rates. A significant number did not express the rate in terms of the appropriate unit of cost. Rather than a rate *per machine hour* or *per order*, these candidates expressed all rates as percentages. Most candidates were able to identify at least one benefit of activity-based costing. A significant number of candidates indicated that activity-based costing resulted in absolute accuracy when costing a job, rather than a higher degree of accuracy in comparison to traditional absorption costing.

Part (c) required candidates to identify the units of cost to be applied to various items on the job cost card for services delivered. Candidates were, for the most part, unable to suggest appropriate cost drivers. Many used the cost drivers presented in Part (b), even though these drivers were not appropriate for the costs in Part (c).

Part (d) required candidates to explain the difficulties with costing a haircut, as opposed to costing a good, based on four factors. Many candidates who attempted this part explained or attempted to define the terms 'perishable', 'intangible', 'heterogeneous' and 'produced and consumed simultaneously' rather than employing them to distinguish between the costing of goods and service costing. Some candidates went into detail about hair types and lengths.

Recommendations

- Students should be given the opportunity to express themselves in writing.
- Students should be taught the principles of service costing, including appropriate cost drivers and the difficulties of costing services as opposed to costing goods.

Question 3

This question had three parts. Part (a) concerned the proposed replacement of a piece of equipment. Candidates were required to

- calculate net book value of the equipment currently owned by the business
- compute the initial investment associated with the proposed equipment
- compute the payback period
- compute the net present value of the proposed equipment
- make a recommendation, with reasons, as to the purchase of the new equipment.

In their responses to Part (a) (i), many candidates did not treat the installation costs as a capital expenditure. This affected the annual depreciation charge and the resulting net book value. A significant number of candidates seem to have misread the question and calculated the net present value of the proposed replacement as their response to Part (a) (i); this response was duplicated in Part (a) (iv).

In Part (a) (ii), many candidates did not include installation costs and failed to account for the proceeds of the sale of old equipment when calculating initial investment for the proposed replacement. Many candidates were able to calculate the payback period as required by Part (a) (iii); however, a significant number used the formula appropriate for calculating payback when annual cash flows are identical, even though annual cash flows were non-identical in this situation.

Part (a) (iv) was done well by most candidates, who were able to calculate the net present value. A significant number of candidates treated the cash flows given as though they represented net income. Those candidates calculated annual depreciation added this to the cash flows and used the resulting figure in the calculation of payback period and net present value. In their responses to Part (a) (v), most

candidates were also able to make appropriate decisions as to whether the equipment should be purchased.

Part (b) required candidates to list six reasons why they would recommend the use of a standard costing system. Most candidates were unable to list more than two reasons. Many chose to elaborate on a few reasons, rather than listing six.

Part (c) required theoretical knowledge of budgeting. Most candidates were unable to identify four valid arguments against the use of budgeting. The most common reasons presented were that the budgeting process was time consuming and costly. Many candidates identified the advantages of budgeting.

Recommendations

- Students should be taught to read the question thoroughly.
- Students should be exposed to capital budgeting situations that involve installation costs and the disposal of assets being replaced.
- Students should be taught to express themselves in writing through tests and classwork which require this skill.
- Class work should include theory questions. Emphasis should be placed on writing using accounting terminology.
- Students should be exposed to different types of questions. Teachers should use a variety of texts and internet sources to get ideas as to possible variations.

Paper 031 – School-Based Assessment (SBA)

The SBA performance was consistent with 2014 at 42 per cent; however, this represents a decline in comparison to 2013.

Strengths

- A majority of the mark schemes were clear and showed the allocation of marks.
- Fifty per cent of the teachers presented a Table of Specifications.
- A majority of the tests presented covered at least 60 per cent of the relevant module.
- Most teachers presented typed mark schemes with their submissions.

Weaknesses

- In several cases, mark schemes presented showed no indication as to how marks were to be allocated.
- In some cases, handwritten tests and mark schemes were submitted.
- In some cases, tests submitted covered less than 60 per cent of the relevant module
- Some tests were too long for the time allotted.
- Some test items were again photocopied from textbooks and CAPE past papers; this is an intellectual property issue.
- In some cases, mark schemes reflected different totals from those presented on students' test papers.
- In several cases, students' work was presented without sufficient indication as to how marks were awarded.
- Some samples of students' scripts were received without teachers' answer key/mark schemes.
- Scores entered on the moderation sheet were not always rounded to the nearest whole number.
- Samples were submitted in which students' responses were written in pencil.

Recommendations

- Tests and mark schemes should be typed.
- Proper allocation of marks on mark schemes and students' scripts should be shown.
- Time allotted for exams should be appropriate for the amount of work given.
- A Table of Specifications should be submitted for each rest.
- Teachers should encourage students not to work in pencil.
- Tests should cover 60 per cent of content of the relevant module. If two tests are used to assess a module, teachers should ensure that the combined coverage of these tests is at least 60 per cent.
- Sources of test items should be cited.
- Items should not be photocopied directly from sources and presented as tests.

Paper 032 – Alternative to School-Based Assessment (SBA)

Paper 032 comprised nine compulsory questions, three from each module.

Question 1

This question required candidates to compute ending inventory, using the FIFO and LIFO methods, for a company using the periodic inventory system. Most candidates were able to handle this question; however, a significant number attempted to prepare Stores Ledger Cards, which could not be completed as issue dates were not provided.

Question 2

This question required candidates to calculate the economic order quantity. Most candidates were able to apply the formula provided and to obtain the correct answer. A significant number of candidates did not use all variables, while some could not arrive at the final answer, as they could not apply the square root.

Question 3

This question required candidates to prepare a schedule of cost of goods manufactured. Performance on this question was satisfactory; however, many candidates included selling and administrative expenses when preparing the schedule.

Question 4

Candidates were provided with information about a company that used a job costing system. Candidates were then asked to compute the overhead application rate, the firm's estimated income and the total cost for a specific job. Many candidates were unable to calculate the overhead application rate; instead, they divided total cost by operating income. When computing estimated income as a percentage of cost traceable to client's work, a significant number of candidates inverted the fraction, dividing traceable cost by net income.

Question 5

This question required candidates to calculate cost per unit using variable and absorption costing. Candidates were also asked to distinguish between *variable costing* and *absorption costing*. Many candidates were able to compute the variable cost per unit. Most candidates could not correctly compute

absorption cost per unit, and they included sales commissions and administrative costs. Candidates were unable to make an effective distinction between variable and absorption costing. Many stated that the difference lay in the treatment of fixed costs, rather than fixed manufacturing costs.

Question 6

This question required candidates to produce job cost sheet for a given service enterprise. Candidates could calculate the direct labour cost of the job; however, most were unable to compute the overhead rate, and consequently unable to establish the overheads to be charged to the job.

Question 7

Candidates were provided with information on three projects and were asked to compute each project's payback period and net present value. Candidates were also asked to identify the least desirable project, using the payback and net present value as the criteria. Many candidates were able to calculate the payback period and to identify the most and least desirable. Some candidates did not attempt Part (b). Several candidates were able to calculate the present value of the projects, but did not subtract the initial investment to arrive at net present value.

Question 8

Candidates were provided with a particular scenario and required to prepare a cash budget. Most candidates were able to calculate the total available cash. Many candidates were not able to correctly format the budget.

Question 9

Candidates were required to compute the contribution margin per unit and breakeven point in units. Many candidates were able to calculate the contribution and variable costs; however, several calculated the total contribution, rather than the contribution per unit. A significant number of candidates did not know the breakeven formula.

Recommendations

The overall performance on this paper reflects inadequate preparation by private candidates and the need for additional support. Candidates are required to know the topics that are examinable for the year as these change from year to year. Candidates must refer to the syllabus, which is now available on the CXC website (www.cxc.org), for these topics.

Private candidates should be aligned to an institution/tutor to obtain guidance and assistance in the subject and have practice in writing a mock exam prior to sitting the examination.

C A R I B B E A N E X A M I N A T I O N S C O U N C I L

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®**

MAY/JUNE 2017

ACCOUNTING

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GENERAL COMMENTS

The CAPE® Accounting examination comprises three papers. Paper 01 consists of 45 multiple-choice items, 15 items from each of the three modules, which are all compulsory. Paper 02 consists of three questions (a mixture of computations and short essays). Each module is assessed by a separate question. Paper 031, the School-Based Assessment, is marked by the class teacher and moderated by CXC. Private candidates write Paper 032, the Alternative to the School-Based Assessment. Unit 1 comprises six questions, two from each module while Unit 2 comprises nine questions, three from each module.

There were 2226 entries for Unit 1 Paper 02, which represents a 7 per cent decline over the number of entries in 2016 and a 6.7 per cent decline over the number of entries in 2015. For Unit 2 Paper 02, there were 1876 entries, a reduction of 10 per cent over the number of entries in 2016, and 17 per cent less than entries in 2015. There were 36 entries for Unit 1 Paper 032, a decrease of 35 over the entries in 2016; while for Unit 2 Paper 032, there were 22 entries, a decrease of 46 over entries in 2016.

Overall, candidates performed satisfactorily on the examination.

DETAILED COMMENTS

UNIT 1

Paper 01 — Multiple Choice

Candidates' performance on the 45 multiple-choice items produced a mean of 66.64 per cent. This performance was fairly good.

Paper 02 — Structured Essays

This paper comprised three compulsory questions. The mean mark for this paper was 29 per cent, a decrease from 30 per cent in 2016.

Question 1

This question consisted of three parts. In Part (a), candidates were required to (i) explain the accounting terms *verifiability* and *prudence* and in subsection (ii) explain two characteristics of relevant information. Responses by the candidates to Part (a) were generally satisfactory, as most candidates were able to explain the terms. However, in subsection (ii), some candidates could not correctly identify the characteristics of relevant information. Most candidates instead gave other characteristics of accounting information such as consistency, reliability and understandability.

Part (b) consisted of three subsections. In subsection (i), the candidates were provided with a short scenario and then asked to recommend two principles of internal controls concerning the management of cash, other than those given of physical, mechanical and electronic

controls and segregation of duties. Responses to this subsection showed that candidates were generally aware of the principles of internal controls.

In subsection (ii), candidates were required to describe two procedures to be implemented for the four principles arising from subsection (i). Responses to this subsection were generally satisfactory. However, a number of candidates were unable to relate those internal control procedures that directly involve the management of cash. A number of responses to internal controls related to inventory management instead of cash management. A general observation was that some candidates had a challenge in distinguishing between a principle and a procedure.

In subsection (iii), candidates were required to outline three differences between an 'internal auditor' and an 'external auditor'. Most candidates satisfactorily answered this question.

For Part (c), an extract of the equity section of the statement of financial position for an entity, along with information on additional transactions were provided for candidates. They were required to prepare the journal entries to record the transactions. This question was satisfactorily answered; however, some candidates were unable to provide the correct journal entries for a) the repurchase of own shares, b) the payment of the interim dividend and c) the payment of interest on the debenture.

The mean mark for Question 1 was 40 per cent.

It is recommended that students be given practice in explaining the accounting concepts and where possible, use practical examples. In addition to knowledge of internal controls, teachers should engage students in how internal controls relate to specific items such as inventory, cash management, receivables and payables. Students should also practise journal entries relating to equity items.

Question 2

This question required candidates to

- (a) Use information presented to prepare
 - (i) the partnership revaluation account
 - (ii) partners' capital accounts immediately after the revaluation and after the withdrawal of a partner.

- (b) To distinguish between corporations and partnerships in terms of
 - (i) owners' liability for debts of the business
 - (ii) transferability of ownership interest and
 - (iii) continuity of existence and
 - (iv) use of information provided about a corporation to prepare a statement of comprehensive income for the year, in accordance with International Financial Reporting Standards

For Part (a), most candidates were able to prepare the revaluation account and to apportion the revaluation surplus among the former partners. Common errors included

- (i) Showing the revalued assets at cost or the revalued amount, rather than the increase or decrease in value.
- (ii) Inclusion of trade creditors in the revaluation account even though the question stated that creditors would be taken over by the new partnership at book value.
- (iii) Carrying the revaluation surplus as a balance on the account, rather than closing the account to the partners' capital accounts.
- (iv) Apportioning the balance on revaluation only among the partners in the new partnership.

In preparing the partners' capital accounts, most candidates were able to account for the opening balances, revaluation surplus, goodwill, and the assets taken over by Audrey, the departing partner. Weaknesses included the treatment of the pre-existing loan to the partnership by Audrey and the conversion of the amount owing to Audrey upon her leaving the partnership, to a loan. Many responses showed a continuing balance on Audrey's account after her departure. A few candidates showed the pre-existing loan in the capital account and then calculated a closing balance, which they carried forward. Goodwill presented a challenge for some candidates who:

- (i) apportioned it among the original partners in the old ratio but did not write it down in the books of the new partnership or
- (ii) apportioned it among the remaining partners in the new ratio, ignoring the departing partner and failing to eliminate the goodwill in the books of the new partners.

In several instances, candidate opted to prepare individual capital accounts for each partner, rather than use the columnar presentation.

In Parts (b) (i – iii), candidates were able to distinguish between corporations and partnership in terms of owners' liability for debts of the business and continuity of existence. However, while most could state that transferability of ownership interest was easy in the case of a corporation, many failed to state definitively that transfer of ownership was impossible in the case of a partnership as any change in the terms or composition of the partnership would terminate it. Instead, candidates typically stated that transfer was 'difficult' or 'less easy', implying that it could be possible under some circumstances.

While some candidates were able to prepare the statement of comprehensive income as required by Part (b) (iv), the question presented many challenges. Common errors included:

- (i) The use of purchases returns to calculate net sales. The information presented in the question did not identify sales returns and purchases returns separately and candidates did not identify sales returns as having a debit balance.
- (ii) The treatment of discounts allowed as an operating expense (selling), rather than as a deduction from sales.
- (iii) Omission of freight inwards in the calculation of cost of sales.
- (iv) The use of sales returns to calculate net purchases.

- (v) Failure to apply the *lower of cost or net realizable value* rule to the valuation of ending inventory.
- (vi) Incorrect placement of commission revenue in the statement. This item should have been included as *other income* immediately after Gross Profit. However, many candidates placed it in an 'other gains and losses' section that appeared after 'profit from continuing operations before interest and taxes'. Some candidates treated the commissions as selling expense.
- (vii) Failure to adjust general administrative expenses for roof repairs.
- (viii) Use of the straight-line method to calculate depreciation on furniture, rather than the reducing balance method as required by the question.
- (ix) Incorrect placement of mortgage interest in the statement. This item should be treated as a finance charge, and appear immediately after the *profit from continuing operations before interest and taxes*. Additionally, some candidates used the mortgage interest paid (shown in the trial balance) rather than the interest expense (10% of \$600 000).
- (x) Inappropriate treatment of roof repairs. Some candidates realized that this exceptional item should be disclosed separately, however, it was variously treated as a selling expense, and administrative expense or as an extraordinary item, net of tax. Students should be reminded that IAS 1 stipulates "*...an entity should not present any items of income or expense as extraordinary items*". The roof repairs should have been treated as a line item appearing below distribution and administrative expenses and included in the calculation of *profit from continuing operations before interest and taxes*.
- (xi) Incorrect treatment of revaluation gain. Most candidates ignored this item. Those who did not, treated it as 'other gains' and included it in the calculation of pre-tax profit. The revaluation gain should have been treated as *other comprehensive income*, appearing below the after-tax profit.
- (xii) Poor format. In many cases, candidates did not classify expenses as selling, administrative or finance costs but merely listed them in any order. Extraneous items such as dividends, land and building and retained earnings were included in the statement.

The mean mark for this question was 22 per cent.

Teachers should ensure that students receive practice in the preparation of financial statements in accordance with International Financial Accounting Standards.

Question 3

The question had three parts. Candidates were required to:

- Calculate financial ratios
- Define and comment on ratios calculated in Part (i) as well as list limitations of ratios in Part (ii)
- Compute missing figures from a partially completed cash flow statement
- Distinguish between the role of a liquidator and a receiver

In Part (a), most candidates knew the formula for net profit percentage but had difficulty identifying the net income from the information given. The inventory turnover ratio was done satisfactorily although most candidates incorrectly calculated the average inventory and only used the closing inventory figure in their calculation. Some candidates confused current ratio and quick ratio formulae. For the calculation of the Earnings per Share (EPS), a number of candidates used the profit after tax in their calculation instead of profit after tax and preference dividends. A number of candidates did not attempt the debt to equity ratio, and some students used only long-term debt for their debt figure.

In Part (b) (i), candidates were able to define net income percentage and inventory turnover adequately. However, in explaining the quick ratio, some candidates did not indicate that it is the ability of a firm to cover its current liabilities with its current assets less inventory. The effect of inventory on the quick ratio was omitted from the explanation. Liabilities were used instead of current liabilities and assets instead of current assets in the explanation. There was an inability to explain earnings per share and debt to equity. Some students stated that debt to equity showed the ability of the firm to use its equity to repay its debt.

In general, students need to be reminded that when commenting on ratios there should be an identification of the trend and correct inference(s) from that trend.

In Part (b) (ii), candidates' performance was commendable. They were able to give plausible limitations of ratios.

Candidates performed poorly on Part (c). There was an inability to use the 'T' accounts to calculate depreciation, interest expense, and purchase of tangible assets. Most students grasped the concept of changes in inventory and payables. They were also able to calculate the issue of shares and redemption of debentures. When calculating the net cash from investing activities, students did not treat the purchase of tangible assets as an outflow and lost the mark for the total.

When finding the net increase in cash and cash equivalents, there were sign errors, as candidates did not recognize that it was closing cash and cash equivalents, minus the opening cash and cash equivalents. Alternately, most candidates who used the total net cash flows from the three activities were able to calculate the total accurately.

In Part (d), candidates confused the roles of the liquidator and receiver. They were not able to distinguish between the two roles and the fact that the liquidator and receiver were acting on behalf of different persons.

It is recommended that students be provided with more extensive practice sessions in calculating and interpreting ratios. Additionally, students should also be provided with opportunities to prepare cash flow statements using the indirect method. Intensive practice is necessary to allow students to become proficient using 'T' accounts to find the items included in the cash flow statement.

The mean mark for this question was 27 per cent.

Paper 031 — School-Based Assessment (SBA)

The following represented the strengths of the samples submitted.

- Projects were neat and typed.
- Cover sheets were attached with each project.
- Aims and objectives were evident in project.
- Most candidates displayed the topic of the project on their cover page.
- Most candidates presented their SBA on one topic from the module.
- Most candidates separated their aims from the objectives.
- In most cases, all areas of the project were complete.
- Most candidates completed their project using media other than text.
- Most candidates' projects included a bibliography to depict sources used.

Weaknesses observed were:

- A few candidates presented their SBAs on one topic from each module.
- Aims and objectives were not clearly stated.
- Aims should be separated from objectives.
- Though projects included a bibliography, it was not done according to APA style.
- Sources stated as being used were not depicted in the bibliography.
- Objectives were not thoroughly explored in the literature review.
- Students did not adequately discuss their objectives in the evaluation.
- In some cases, recommendations were made without reference to information from the findings.
- The completed interview schedules and questionnaires were placed in the body of the project.
- Candidates failed to complete the Table of Contents.
- Candidates did not include any limitations in their data collection.

Recommendations

In order to improve performance, students should undertake the following:

- start preparing SBAs early to prevent rush and inefficiencies at the end
- ensure aims used are not general but relate to the topic
- objectives should be specific and relevant to the topic
- research verbs used for specific objectives
- ensure that answered interview schedules and questionnaires are placed in the Appendix section, and not in the body of the project.

Paper 032 — Alternative to School-Based Assessment (SBA)

The questions on this paper were based on a non-governmental organization (NGO), the topic for the year. There were six questions, two based on each module. Thirty-six (36) candidates wrote this paper.

Question 1

Candidates were required to identify two objectives of financial reporting in Part (a) of the question. Some candidates identified at least one objective, but very few could identify two.

Part (b) of the question consisted of three parts. Candidates were required to explain the qualitative characteristics of timeliness, consistency and comparability in Parts (i), (ii) and (iii) respectively. Candidates were generally unable to give a basic definition of timeliness and consistency, or include an example to demonstrate understanding. Few candidates were able to explain comparability. Performance on this question was poor, as indicated by the mean mark of 34 per cent.

Question 2

In Part (a), candidates were required to identify three users of the financial reports required for non-governmental organizations, and give one reason why each user requires the financial reports. Most candidates were able to identify the users, but not the reason they require the financial report.

In Part (b), three transactions were given, assessing the receipt of funds from different sources. Candidates were required to prepare the journal entries to record the receipt of funds. Most candidates were unable to identify the correct account to be credited for each transaction. Additionally, the narrative required after each entry was not included.

The mean mark for this question was 38 per cent. It is recommended that candidates review the users of financial reports and their needs. There is need to practice recording journal transactions, including the corresponding narratives.

Question 3

This question contained two (2) parts. In Part (a), candidates were required to define the term 'non-governmental organization' (NGO) and state the major role of a NGO. Candidates were able to respond to this question satisfactorily. In Part (b), candidates were asked to give the name of one NGO in his/her country, and state two major activities and sources of funding. Candidates were able to identify the NGO, but were not able to state the major activities and sources of funding adequately. It is recommended that candidates research existing NGOs in their country to determine purpose, major activities and sources of funding.

Performance on this question was satisfactory. The mean mark was 57 per cent.

Question 4

This question required that candidates state two documents that would be required by the government to enable the registration of a NGO and prepare the cash basis income and expenditure statement for the NGO.

In Part (a), most candidates were able to identify required documents for registration. In attempting Part (b), most candidates were able to account for the income from activities, the cost of activities, and the general and administrative expenses. They were, however, unable to accurately classify the contributions into restricted and unrestricted.

Overall performance on this question was good with a mean mark of 61 per cent.

Question 5

Candidates were required to explain what is meant by 'ethical issues'; outline two examples of nonfinancial, unethical practices that organizations should seek to avoid, and list six impacts that unethical financial reporting could have on the NGO.

Candidates were generally unable to explain ethical issues. Most candidates outlined financial unethical practices instead of nonfinancial unethical practices. Although candidates could identify unethical financial reporting, they were not able to list its impact on the NGO adequately.

Overall, this question was poorly done with a mean mark of 35 per cent.

Question 6

Candidates were required to calculate current ratio and debt to asset ratio for a two-year period and explain the difference between solvency and liquidity ratios, then determine what the ratios calculated indicated about the financial status of the NGO.

Many candidates were able to calculate the current ratio but not the debt to asset ratio. A similar situation occurred with the explanation of solvency and liquidity. Most candidates were unable to explain solvency. Candidates were able to analyse the current ratios but not the solvency ratio.

Overall this question was poorly done. The mean mark was 29 per cent.

Recommendations

The overall performance on Paper 032 for this unit reflects inadequate preparation by candidates. Candidates should familiarize themselves with the syllabus and the topic to be assessed each year. There continue to be the need for greater support, whether in the form of tuition, seminars, workshops or online material, for private candidates to assist them to prepare effectively for this paper.

UNIT 2**Paper 01 — Multiple Choice**

Performance on the 45 multiple-choice items produced a mean of 66.11 per cent. This performance was fairly good.

Paper 02 — Structured Essay

This paper comprised three compulsory questions. The mean for this paper was 50.19 per cent. This represented a 2 per cent increase over the performance in 2016.

Question 1

This question was based on Module 1 and comprised four parts.

In Part (a), an extract of the financial statements, along with additional information, was provided and candidates were required to prepare a schedule of the cost of the goods manufactured. Most candidates who attempted the question gave satisfactory answers. Of note was the fact that a number of candidates did not attempt this question. The main challenges seem to be in the determination of the direct raw material cost component, the direct labour cost component, and indirect wages.

In Part (b) of this question, candidates were provided with a particular costing scenario in order to make a decision using relevant cost. Subsection (i) required that candidates identify unit cost, which would be relevant to an organization in making a decision about whether or not to accept a special order. Candidates who attempted this question, answered reasonably well. Candidates were also required to correctly apportion costs related to production. The inability of candidates to correctly classify costs into manufacturing and non-manufacturing costs, including the apportionment of non-manufacturing administrative costs was the main issue observed. Subsection (ii) required that candidates decide if the special order should be taken, and provide justification for the decision. Candidates were able to use their calculations from subsection (ii) to make the decision and offer a justification.

In Part (c), candidates were provided with the inventory record for an entity and were required to calculate the closing inventory of raw materials using both First-in, First-out (FIFO) and Average Cost (AvCo) methodologies. Responses to this question were generally good and showed that candidates understood the different bases for calculation of inventory.

In this Part (d), candidates were required to list two principles of material control and give an example of each. Most candidates were able to identify physical control of materials with an example, but very few identified control of investing in materials, documentary controls and establishment of responsibility/authority with corresponding examples. This question was not well answered.

It is recommended that students be given practice in explaining the accounting concepts and where possible, using practical examples. Instructors should ensure that students are given

practice in cost classification exercises in manufacturing and non-manufacturing situations. This should include practice in classification of non-manufacturing costs as selling and distribution costs, or administrative costs. Principles of material control should be discussed and practical examples explored.

Question 2

This question was based on Module 2. Candidates were required to

- name and describe a cost system that could be used to cost the job for which information was provided and calculate the unit cost for the job, using activity-based costing
- prepare income statements using marginal and absorption costing
- distinguish between *absorption costing* and *marginal costing*.

In responding to Part (a), most candidates correctly identified job costing as an appropriate system for costing the job presented. Many presented variants on this response, such as 'traditional job costing' and 'traditional costing'. Most candidates were able to correctly calculate activity rates, use the results to compute the overhead applied to the job described, and obtain the total cost of the job. However, a majority did not go on to calculate the cost per unit. Some candidates converted each total cost (direct material, direct labour, setup, maintenance and inspection) to a cost per unit and summed the result to obtain the total cost per unit.

A minority of candidates calculated the cost per unit for direct materials and labour, and then added them to the total overhead costs computed. Others ignored the direct costs and used only the overheads calculated.

Performance on Part (b) (i) was good. Candidates were able to compute the marginal cost per unit and demonstrated knowledge of the format of the statement. However, it was observed that some candidates prepared the statement based on the planned production level, as opposed to the actual activity level for the year. This applied in both sections of Part (b).

Some candidates correctly prepared the absorption statement required by Part (b) (ii). However, the following errors were observed:

- (i) In many responses, calculation of the predetermined overhead absorption rate was based on the actual output of 200 000 units as opposed to the planned production level of 275 000. This resulted in a total cost per unit of \$51, as opposed to the correct figure of \$48.
- (ii) Many candidates did not calculate the overhead absorbed ($200\,000 \times \$8$). Instead, they used the fixed factory overhead stated in the question.
- (iii) Most candidates ignored the overhead under-absorbed. They did not make the assumption that, in the absence of information to the contrary, actual overhead was identical to planned overhead and were therefore unable to calculate the under-absorbed overhead ($\$1\,600\,000 - \$2\,000\,000$).

- (iv) Some candidates made format errors such as presenting 'contribution' in the absorption costing statement and 'gross profit' in the marginal costing statement.

In responding to Part (c), most candidates partially explained the difference between marginal and absorption costing. However, many failed to identify the distinguishing feature as the treatment of fixed production overheads as a period cost under marginal costing, and a product cost under absorption costing. Instead, their responses referred to 'fixed overheads', which can be taken to include fixed selling and administrative costs. Some candidates correctly made a distinction based on cost classification, stating that absorption costing uses a functional classification, while marginal costing classifies costs based on behaviour.

Question 3

This question was based on Module 3 and consisted of five parts. Candidates were required to:

- Calculate break-even point in units and dollars
- Calculate direct materials price variance, direct materials quantity variance, total direct material cost variance, direct labour rate variance, direct labour efficiency variance and total labour cost variance
- Outline five roles of a budget committee
- Compute the net present value (NPV) of an investment then based on the NPV state whether the purchase of the machine is recommended and why.

In responding to Part (a) (i) and (ii), a few students did not include the variable selling cost in the total variable cost. Others did not seem to recall the formula for contribution margin and breakeven point in units. The majority of students accurately calculated the breakeven in units and the breakeven in dollars.

There was a mixed performance for Part (b). Some candidates were not able to recall the formulae for the variances. They had difficulty calculating standard quantity and standard hours. They also manipulated some of the actual figures that were given in the problem. There was a weakness in how to interpret whether the variance is favourable or unfavourable. When finding the total material variance and total labour variance, some candidates were unable to add the sub variances correctly.

Part (c) of the question was poorly done. Candidates had misconceptions about the roles of the budget committee. They thought that the committee did the actual preparation of the budget. In answering, most candidates listed the functions of a budget instead of the role of a budget committee. Teachers are encouraged to teach this topic more extensively.

In Part (d) (i), candidates did well; however, a few converted the cash flows to net income by adding the depreciation charge to each year. Others seemed to have confused NPV with payback. There were also problems with calculation of NPV as a number of students subtracted the total discounted cash flows from the initial outlay. Therefore, the sign of the resulting NPV was correct.

In Part (d) (ii), the majority of candidates understood how to make decisions using the NPV result. A few gave a reason for accepting based on the payback period. The use of more practice questions involving at least two capital appraisal methods and the acceptance of the project based on calculation should be utilized.

It is recommended that teachers emphasize the correct identification of all variable costs when calculating break-even point. There is also a need for students to practise calculating material and labour variances and know how to interpret each variance.

Paper 031 — School-Based Assessment (SBA)

Paper 031 comprised three module tests of 90 minutes each, constructed, administered and marked by the teacher. Teachers may opt to administer two 45-minute tests for a module instead of one 90-minute test.

Strengths

- Each module test was typed and submitted by most schools.
- Tests generally covered the required percentage of the syllabus.
- Moderation sheets were accurately prepared, displaying students' names, registration numbers and scores.
- Most teachers' names were legibly written on the moderation forms.
- Students' scripts were accurately marked and grades were accurately tabulated.
- Solutions were submitted with most tests.
- Most teachers gave a thorough breakdown of marks both on solution submitted and on students' scripts.
- Some teachers submitted a Table of Specifications along with their tests.
- Questions submitted matched the module being tested.
- In most cases, tests were allotted the appropriate length of time.

Weaknesses

- A few schools did not submit moderation sheets to support other documents.
- In a few instances, moderation sheets were not completely filled out.
- Some teachers' names were not legibly printed on moderation sheets.
- Some teachers did not submit a Table of Specifications along with tests submitted.
- Some teachers did not give a thorough breakdown of the allocation of marks on answer keys and for students' scripts.
- Some teachers failed to record students' overall scores on each module test submitted.
- In a few cases, tests were too lengthy for the time allotted.
- Moderation sheets and solutions were not submitted with documents.
- In a few instances, information was not legibly written on moderation sheets.
- There were cases of incorrect adding of total score in each module, among questions and parts of questions in teacher-provided solutions.
- In a few cases, full marks were awarded to either missing or incorrect answers.

- There were instances of a lack of use of authentic questions for SBA Modular tests.
- In some folders, the quality of the scans of student work was poor.
- In some folders, the students' test papers were not labelled.
- Teachers' names were missing from coversheets.
- Some teachers did not divide the marks correctly and information was placed in the same order just as students did the test.

Recommendations

- Teachers should use a fillable copy of moderation sheet to facilitate typing in students' information rather than writing.
- Prepare module tests in advance to eliminate rush and hence inconsistencies in giving a proper breakdown of marks on mark schemes and students' scripts.
- Check documents for inconsistencies before submitted them.
- Send copies of each module test given along with the solution.
- Prepare and include Table of Specifications for tests given.
- Identify the strategic objective of the Module being tested.
- Ensure that students' response pages are numbered so as to ensure that none are left out on submission.
- Make sure that students' work is scanned properly.
- Files be saved as **pdf** as the system better responds to this format.

Paper 032 — Alternative to the School-Based Assessment

Paper 032 comprised nine compulsory questions, three from each module. Twenty-two candidates wrote this paper.

Question 1

This question required candidates to distinguish between controllable and uncontrollable costs, and then give one example of each. Candidates were largely able to adequately distinguish between both classifications of cost and give examples of each. The mean score for this question was 56 per cent.

Question 2

Candidates were given cost data and required to

- (a) Calculate the economic order quantity (EOQ), given the formula
- (b) Calculate the annual carrying cost
- (c) Calculate annual order cost
- (d) Calculate the total cost
- (e) Calculate the number of orders the company would have to place during the year.

In Part (a), most candidates were able to calculate the EOQ. The candidates who did not answer this question correctly were generally unable to identify the items in the formula.

Parts (b), (c) and (e) of the question were not well done. Most candidates did not know the formulae to be used. In Part (d), most candidates were able to calculate total cost. Performance on this question was satisfactory. The mean score was 52 per cent.

Question 3

This question had two parts. Part (a) required candidates to calculate total overhead cost for two production and two service departments, using different bases of apportionment. Part (b) required candidates to state two methods that may be used to apportion service department costs to production departments.

Identifying the appropriate basis of cost apportionment to be applied to each department proved challenging for most candidates. This question was poorly done. A mean score of 36 per cent was achieved.

Question 4

This question provided data on actual and budgeted activities. Candidates were required to:

- (a) Calculate the fixed overhead absorption rate per unit
- (b) Calculate the fixed overhead absorbed
- (c) Calculate the under/over-absorbed overhead and
- (d) State how the under/over-absorbed overhead would affect profit.

Candidates were generally unable to deal with this topic. They were challenged in calculating the overhead absorption rate per unit. There was no response from 14 per cent of candidates while 41 per cent of candidates who attempted the questions got it incorrect. Based on the challenges encountered with calculating the fixed overhead absorption rate per unit, candidates were unable to calculate the fixed overhead absorbed and the under/over-absorbed overhead. In Part (d), the majority of the candidates did not know the impact of under/over-absorption on profits even when interpreting their own figures from Part (c). Performance on this question was very poor with a mean score of 25 per cent.

Question 5

In this question, candidates were given data for an organization, which uses activity-based costing to assign cost to jobs, and then required to:

- (a) Calculate the recovery rate for each of the four activities — machining, assembly, setup and processing
- (b) Outline three reasons why a company may choose activity-based costing over the traditional costing methods.

Part (a) of the question was done well by candidates. In Part (b), candidates were able to outline better control of cost or more accurate product costing as reasons. Candidates did not identify other reasons, such as improved management decisions, improved business

processes, and better product/customer profitability analysis. The mean score for this question was 55 per cent.

Question 6

This question required candidates to prepare a job cost sheet for an order. Candidates performed well on this question with a mean score of 58 per cent.

Question 7

Candidates were required to

- (a) Calculate payback period
- (b) Calculate net present value (NPV)
- (c) Interpret payback period and NPV.

Most candidates were able to calculate the payback period correctly, but unable to correctly calculate the NPV. Some candidates identified the estimated annual revenue but did not apply the present value interest factor for an annuity to it. A few candidates did not attempt Part (b). Most candidates interpreted the payback period correctly but few interpreted the NPV. Overall performance on this question was poor with a mean score of 36 per cent.

Question 8

Candidates were required to distinguish between 'ideal standard' and 'practical standard'. Only one candidate was able to distinguish between the two while four candidates partially distinguished the terms. All other candidates did not attempt the question or answered incorrectly.

Question 9

Candidates were given standard costing data and required to calculate:

- (a) Variable overhead expenditure variance
- (b) Variable overhead efficiency variance
- (c) Variable overhead total variance.

Most candidates did not know the formula to calculate any of the variances. Of all candidates, 18 per cent did not attempt Parts (a) and (b) while 36 per cent did not attempt Part (c).

Performance on this question was poor with a mean score of 30 per cent.

Recommendations

The overall performance on this paper reflects inadequate preparation by private candidates and the need for additional support. Candidates are required to know the topics that are examinable for the year as these change from year to year. Private candidates should be aligned to an institution or tutor to obtain guidance and assistance in the subject and practise writing a 'mock exam' prior to sitting the examination.

C A R I B B E A N E X A M I N A T I O N S C O U N C I L

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®**

MAY/JUNE 2018

ACCOUNTING

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GENERAL COMMENTS

The CAPE Accounting examination consists of three papers. Paper 01 consists of 45 multiple-choice items, 15 items from each of the three modules, which are all compulsory. Paper 02 consists of three questions (a mixture of computations and short essays). Each module is covered by a separate question. Paper 031, the School-Based Assessment, is marked by the class teacher and moderated by CXC. Private candidates write Paper 032, the Alternative to School-Based Assessment. Unit 1 comprises six questions, two from each module, while Unit 2 comprises nine questions, three from each module.

There were 2363 entries for Unit 1, Paper 02, which represents a six per cent decline over the number entries in 2017. For Unit 2, Paper 02, there were 1741 entries, a reduction of seven per cent over the number of entries in 2017. There were 25 entries for Unit 1, Paper 032, a decrease of 31 per cent over 2017; while for Unit 2, Paper 032, there were 23 entries, an increase of one per cent over entries in 2017.

Overall, candidates performed satisfactorily on the examination.

DETAILED COMMENTS

UNIT 1

Paper 01 – Multiple Choice

Candidates' performance on the 45 multiple choice items produced a mean of 65.56 per cent.

Paper 02 – Structured Essays

This paper comprised three compulsory questions. The mean mark for this paper was 25.42 per cent, compared with 29 per cent in 2017.

Question 1

This question comprised four parts

In Part (a) (i) candidates were required to explain the main objective of general purpose financial Reporting and in Part (a) (ii), they were asked to explain the limitations of financial statements.

Responses by the candidates to Part (a) were generally satisfactory; however, a number of candidates had difficulty identifying the main objective of general purpose financial reporting. Several candidates failed to clearly outline the reasons why the provision of accounting information is necessary to various users for economic decision - making. They also experienced challenges in explaining the limitations of financial statements with regard to the use of accounting policies and estimates, and aggregation. Candidates were also unable to offer good arguments to link the limitations to the point of comparability. It was evident that candidates were not entirely familiar with the current changes taking place within the conceptual framework of financial reporting.

Part (b) comprised of two subsections. In Part (b) (i), candidates were asked to distinguish between accrual basis accounting and cash basis accounting. Responses to this part of the question were generally satisfactory.

In Part (b) (ii), candidates were asked to identify reasons why an organization would use accrual basis accounting instead of cash basis accounting. Responses to this part showed that candidates were generally aware of the reasons why an organization would use accrual basis accounting instead of cash basis accounting.

In Part (c), candidates were provided with an extract of the equity section of the statement of financial position for an entity along with information on additional transactions and were required to prepare the journal entries to record the transactions. This question was generally answered satisfactorily; however, it was observed that some candidates experienced challenges related to preparing the journal entries for the bonus issue of shares and the redemption of the preference shares.

For Part (d), candidates were asked to describe how the introduction of an integrated computerized accounting system will impact the company in terms of (i) recording information, (ii) access to records and (iii) independent internal verification. This question was generally answered satisfactorily; however, there were instances where candidates experienced. Some difficulty in explaining the impact of computerized accounting on the independent internal verification function. Several candidates alluded to the control function of internal verification but failed to establish how computerized accounting could benefit this function.

The mean mark for this question was 32 per cent.

Recommendation

Students should be given practice in explaining the accounting concepts and where possible practical examples, especially in preparing journal entries.

Question 2

This question was divided into two parts. In Part (a), candidates were required to distinguish among public, private and statutory companies.

Many candidates were able to successfully distinguish among the three types of companies. However, some candidates erroneously stated that public companies were part of the public sector and a significant minority were not able to identify two distinguishing features of statutory companies. Many incorrectly assumed that all private companies were small businesses.

In Part (b), candidates were presented with a trial balance and additional information, and required to

- calculate the revised profit
- prepare a statement of retained earnings
- prepare a statement of financial position
- explain the accounting treatment of goods ordered in the reporting period but received after the end of that period and
- briefly explain the purpose of the statement of financial position.

Candidates' responses to Part (b) (i) were generally poor. In most cases, the treatment of grant income posed difficulty. While many candidates were able to successfully calculate the relevant amount for the reporting period (\$200 000), most did not treat the amount correctly by including it in the revised profit. Most candidates were able to use the straight-line method to calculate the depreciation on property and motor vehicles; however, many applied the same method to the depreciation on furniture and fittings, even though the question stipulated that the reducing balance method was

applicable to that asset. In most cases, candidates were able to calculate the amount of provision for doubtful debt; but many treated it as an increase in net profit, rather than a decrease and some omitted it completely. Many candidates also (incorrectly) adjusted net profit to reflect the \$120 000 of goods ordered in the reporting period but received in the following accounting period.

In their responses to Part (b) (ii), some candidates were able to use the par value of \$0.50 per share to calculate the number of ordinary shares in issue and then calculate the annual dividend of \$225 000. However, many candidates multiplied the dividend per share by the ordinary share capital of \$1 500 000, resulting in a dividend of \$112 500. Some candidates included the grant income in the Statement of Retained Earnings.

For Part (b) (iii), most candidates were able to present the Statement of Financial Position using the correct format and headings. Several weaknesses were observed in this part of the question. First, some candidates used the heading 'for the year ended ...' rather than '... as at ...'. Second, a minority did not include the current period's depreciation and the accumulated depreciation figure presented in the statement. Next, many candidates adjusted the inventory to reflect the goods ordered in December despite the fact that the purchase was effective when the goods were received in January of the following year, and therefore was a non-adjusting event. Further, in many responses, candidates included grant income as a current liability even though this deferred income would have been completely amortized at the reporting date. Other candidates treated the grant income as a part of capital. Proposed dividend was treated similarly in many cases. Several candidates did not bring forward the balance on retained earnings as calculated in Part (b) (ii). Instead they included the elements of that statement. Finally, many candidates used the working capital presentation rather than the IAS 1 format.

In responding to Part (b) (iv), most candidates were unable to use the accounting standards to justify their treatment of goods ordered in the reporting period but received in the following accounting period. Few identified the transaction as an event arising after the reporting period, and further, as a non-adjusting event.

For Part (b) (v), most candidates were able to state at least one purpose of the Statement of Financial Position. Many candidates listed the elements of the statement as being assets and liabilities, excluding owners' equity.

The mean mark for this question was 34 per cent.

Recommendations

To improve performance, teachers should provide opportunities for students to research various forms of business in their territories.

Students should be given practice in preparing final financial statements in accordance with IAS 1 (Section 6 of IRS for SMEs), from adjusted and non-adjusted Trial Balances. This should include complex scenarios that require students to involve deferred income, events occurring after the reporting period, the calculation of depreciation using a variety of methods and the calculation of dividends when par value is other than \$1.

Question 3

The question had three parts. Candidates were required to

- identify how a post-balance sheet event should be reflected in a financial statement
- outline the effect of inflation on depreciation and profit, and describe two alternative methodologies to historical cost accounting during periods of inflation
- calculate various ratios.

In Part (a), candidates had difficulty organizing their responses. Some of them failed to identify whether the scenarios were adjusting or non-adjusting events. Some candidates simply described the scenarios given without determining the type of event and how it is reflected in the financial statement. There were students who prepared journal entries for the scenarios and did not explain the accounting treatment. There were others who described the incorrect adjustments for the adjusting events.

In Part (b) (i), candidates were unable to indicate whether inflation causes an overstatement or understatement of depreciation and profit and instead referred to increases and/or decreases. They were not able to see the relationship between the use of historical accounting and its impact on depreciation and profits in the inflationary periods.

In their response to Part (b) (ii), most candidates were unfamiliar with the alternative methods to historical cost accounting. In some cases, they were able to recall current cost accounting, but were not able to give a comprehensive description. Some candidates gave fair value as an alternative method to historical cost accounting. There were very few candidates who offered current purchasing power as a response.

Candidates performed poorly on Part (c). Many candidates did not know the correct formula for the ratios.

- Dividend Pay-out ratios. Most candidates used total dividend instead of ordinary share dividends in their calculations. Additionally, net income was not adjusted to reflect net income available to ordinary shareholders. In some instances, the formula was inverted.
- Price earnings ratio. Candidates generally knew the formula; however, they used the incorrect net income figure by not deducting the preference dividend. Some candidates used the dollar value of ordinary shares instead of the number of ordinary shares in the denominator.
- Average collection and average payment periods. Candidates often used the trade payable and account receivable figures for the current period even though data for the previous period was provided to find the average figures. Some candidates did not adjust the sales figure to find credit sales. When finding the payment period some candidates used the cost of goods sold figure instead of the credit purchases figure which was available. Candidates are reminded that the cost of goods is used only in cases where the credit purchases cannot be ascertained.
- Debt to equity. This aspect of the question was satisfactorily answered.

The mean mark for this question was 12 per cent.

Recommendations

Teachers should emphasize the need for students to organize their responses for restricted essay-type questions. Students should be provided with the opportunity to describe the accounting treatment for several post balance sheet events.

Greater emphasis needs to be placed on the theoretical aspects of the syllabus as most students seemed unaware of the effects of inflation on depreciation and profit, and alternative methods to historical accounting.

Teachers are encouraged to allocate more time to teaching ratios. Students need to be encouraged to remember formulae for ratios, especially those that they were not introduced to them in the CSEC syllabus. There needs to be a thorough explanation of the components of the ratios and students need to have sufficient practice in calculating the less commonly calculated ratios.

Paper 031 – School-Based Assessment (SBA)

The following represented the strengths of the samples submitted.

- Teachers' marking were mainly accurate, rarely varying from the examiner's moderated mark.
- Most students Table of contents agreed with the page numbers in the project.
- Most students clearly identified the data collection methods used and generally provided a sample of the questionnaire used in the survey.
- Most students presented data very well with the use of tables, graphs along with text in the Data Presentation and Analysis area.
- Recommendations and the Conclusion were generally drawn from the project and in line with its objectives.
- Most projects were within the word limit.
- In some cases, students' use of citations/referencing was correctly done.
- The projects were properly presented.
- Some students cited sources properly in the literature review and these sources were reflected in the bibliography section of the project.
- Some students made reference to the literature review along with the data analysis in the evaluation section of the project.
- Most students clearly stated the topic, aims and objectives.
- Some students separated the justification and limitations for each method of data collection used.
- Most students completed their project using media other than text

The following weaknesses were observed:

- The literature review seemed to be more of an attempt to provide information rather than an analysis of the literature related to the objectives of the project.
- In-text citations were frequently done incorrectly and in some cases not referenced in the bibliography.
- Data analysis, generally, was a regurgitation of what was already stated in the tables and graphs provided and not the use of the media as a reference to analysing the data.
- Students doing surveys had challenges combining/compressing data and, as such, did a graph for each question even though this did not enhance the body of the report.
- In doing ratio calculations, some students transposed figures incorrectly, had incorrect calculations or made incorrect conclusions.

- Many students also had a challenge differentiating between data analysis and evaluation. This was the cause even for some SBAs which were awarded high marks.
- Most students' evaluation section consisted of a summary or full data analysis.
- In some cases, the cover sheet was not included.
- In some cases, the word limit (of 1500 words) was not followed, and centres were marked down because of this.
- Some teachers' marking was too lenient.
- Some projects included teachers' comments for students to make corrections.
- Some projects were missing key parts and were not marked accordingly.
- Some students' citations and referencing were not done correctly.
- In the literature review some students used many definitions that were not needed, and therefore exceeded the word limit.
- Some students' recommendations were not linked to the aims or objectives of the project.
- A few students presented their SBAs on one topic from each module.
- Some students did not include any limitations in their data collection.
- Some students did not present the bibliography in an acceptable manner especially when different websites were used in the project.

Recommendations for Enhancing the Reports

- Students should seek to access the requirements of the SBA on the CXC website.
- Recommendations should be drawn from the evaluations made.
- Students should practise the correct use of grammar. Reports are generally written in the past tense except for recommendations and some aspect of the conclusion.
- Teachers should consider setting strict deadlines for when each stage of the project is required for review and submission before meeting with students. At the first meeting with the students to discuss the SBA and how it should be approached, a document should be prepared and presented to apprise students and their parents/guardians of the requirements and deadline dates.
- Timely feedback to students is vital.
- Samples of previous work may be useful to students.
- Research verbs should be used for specific objectives.
- Students should ensure that the interview schedule and questionnaires are placed in the appendix section of the project and not in the body of the project.
- Students should get practice in the use of citations/referencing using the APA style.
- Insist that students include page numbers and the table of contents in the project.
- Students are reminded to keep projects within the word limit.
- Students should ensure that recommendations are linked to the aim and objectives of the project.

Paper 032 – Alternative to School-Based Assessment (SBA)

The questions on this paper were based on accounting and reporting by co-operatives, the topic for the year. There were six questions, two based on each module. Twenty-five candidates wrote this paper.

Question 1

This question had three parts. In Part (a), candidates were required to distinguish between the terms *operational audit* and *compliance audit*. Responses from many candidates erroneously centred around operational audits being done internally and compliance audits being done externally. Some

candidates were able to give a basic distinction but unable to give a full response to earn maximum marks.

Part (b) required that candidates outline three principles of internal control. Most candidates were able to state at least one principle but not able to elaborate further. There were candidates who stated reliability and accountability as principles of internal control. Those who correctly identified two or more principles were generally able to earn maximum marks for each. Part (c) required that candidates recommend four internal controls over inventory. Less than 50 per cent of candidates were able to identify one or more internal controls over inventory. Candidates were generally unable to provide suitable responses. Performance on this question was poor, as indicated by the mean mark of 27 per cent.

Question 2

This question required that candidates outline the process used to develop an International Financial Reporting Standard (IFRS). Many candidates did not know the standard-setting process. Only three candidates were able to achieve marks on this question. The mean mark for this question was seven per cent.

Question 3

This question contained two parts. In Part (a), candidates were required to outline four operating principles of co-operatives. Very few candidates were able to respond to this question satisfactorily. Democratic control was the most widely cited principle by candidates who responded correctly. In Part (b), candidates were asked to state two advantages and two disadvantages of establishing a co-operative. Candidates were generally able to state at least one advantage or one disadvantage. Performance on this question was unsatisfactory. The mean mark was 25.67 per cent.

Question 4

This question consisted of two parts. Part (a) required that candidates prepare a statement of affairs to show the members' equity at the beginning and end of the financial year. Candidates were not familiar with how to prepare a statement of affairs and some prepared a statement of profit and loss. Part (b) required that candidates calculate the surplus for the year. In order to calculate the surplus, results from Part (a) were needed. Based on the poor performance in Part (a), candidates were unable to calculate the surplus.

Overall, performance on this question was poor, with a mean mark of 19.50 per cent.

Question 5

In this question, candidates were required to prepare the operating activities section of the cash flow statement for the co-operative.

Most candidates who attempted this question were not able to make the necessary adjustments to determine the net cash flow from operating activities. Cash in hand and at bank were erroneous in determining the cash flow in this section. Increase/decrease in taxes and interest expenses were used in the preparation, by some candidates, instead of interest paid and taxes paid.

Overall, this question was poorly done, with a mean mark of 20.73 per cent.

Question 6

This question provided additional data and required that candidates prepare a statement of changes in equity. Thirty-six per cent of candidates did not respond to this question. Candidates who attempted this question were unfamiliar with the presentation format of a statement of changes in equity. Additionally, they were unable to identify and include the relevant items in the statement.

Overall, this question was poorly done. The mean mark was 20 per cent.

Recommendations

The overall performance on Paper 032 for this unit reflects inadequate preparation by candidates. Candidates should familiarize themselves with the syllabus and the topic to be assessed each year. Additionally, candidates should practise applying general concepts to specific issues raised. There continues to be the need for greater support, whether in the form of tuition, seminars, workshops or online material, for private candidates, to assist them to prepare effectively for this paper.

UNIT 2**Paper 01 – Multiple Choice**

Performance on the 45 multiple-choice items produced a mean of 68.66 per cent.

Paper 02 – Structured Essays

This paper comprised three compulsory questions. The mean mark for this paper was 43.49 per cent, a decrease from 46.59 per cent in 2017.

Question 1

This question comprised four parts.

In Part (a), candidates were provided with a particular costing scenario and were required to (i) determine the number of employees who would be required to meet a certain production target and (ii) calculate the weekly pay for two employees. Some candidates were able to calculate the number of employees required to meet a certain production target. In their response some candidates did not multiply the target units by the minutes required to produce each unit, then convert their resulting answer to hours and apply the number of hours each employee works per week.

Candidates satisfactorily calculated the weekly pay of one employee who received an overtime payment but very few candidates were able to calculate the weekly pay for another employee based on a premium bonus of a quarter of the time saved in production.

In Part (b), candidates were provided with a particular costing scenario in order to make the decision of whether to manufacture a component or to purchase from a supplier. This question was generally answered well by those candidates who attempted it. In Part (c), candidates were expected to understand the elements of the economic order quantity (EOQ) inventory model. This question was unsatisfactorily answered. Candidates struggled with defining the term *EOQ inventory model*. They stated assumptions of the model but were unable to apply the model.

In Part (d), candidates were required to outline an importance of chemical waste disposal and state guidelines which must be followed when disposing of solid chemical waste. This question was generally well answered although some candidates only dealt with general waste disposal and did not specifically address solid chemical waste.

The mean mark for this question was 50 per cent

Recommendations

- Candidates should practise calculating pay using the different methods of remuneration including the proper classification of pay and use of accounting jargons.
- Further emphasis must be placed on knowledge and application of theory. Mental modelling and concept development may be effective methods to help students in how to sequence steps and put information to work in solving a problem and understand concepts.
- Teachers should encourage students to know the theory underlying each topic so that in addition to calculating figures they are able to explain what they represent.

Question 2

This question presented a job-costing scenario for a manufacturing company. Part (a) required candidates to calculate the overhead absorption rates for two departments, one labour-intensive and one predominantly automated. Most candidates correctly interpreted the information provided to calculate Department X's overhead rate using direct labour cost and the rate for Department Y using machine hours. However, some candidates used machine hours to calculate the overhead rate for Department X.

Part (b) required candidates to calculate the total overhead cost of a job as well as the cost per unit. Candidates were generally able to calculate the total overhead by applying the overhead rates calculated to the appropriate cost driver in the job. Some candidates were not consistent in their application of overhead rates, having incorrectly calculated a rate per machine hour for Department X. They applied that rate to the direct labour cost of Job 748 in calculating the overhead for that department.

In responding to Part (b) (ii), most candidates used the direct costs of the job and the overhead calculated in the previous section to arrive at the total cost, which was divided by the number of units in the job, to arrive at a cost per unit.

Part (c) required candidates to calculate the unit cost of the company's inventory using marginal costing and to prepare an income statement using absorption costing. Responses to Part (c) (i) indicated that most candidates recognized that all variable production costs are inventoriable and should be included in the calculation of marginal cost per unit. Some candidates found the calculation of the cost per unit challenging, and used the planned production level of 80 000 units rather than the actual production of 70 000 units in calculating the unit cost of indirect materials, indirect labour and factory overheads. In a few responses, candidates included variable selling and administrative overheads in the cost of inventory. A small minority of candidates ignored the requirement of the question and prepared a marginal costing statement.

Candidates found aspects of Part (c) (ii) challenging. Responses indicated that most candidates understood that full absorption cost consists of variable production cost plus an element of fixed production overhead. Most candidates used the marginal cost per unit computed in the previous period and added an amount representing fixed production overhead per unit. Some were able to

correctly calculate the predetermined overhead rate per unit, but many chose to use the actual production as the denominator rather than the budgeted output. Similarly, in applying the rate, many candidates calculated overhead applied based on planned and not actual output. Most candidates were able to derive the units of closing inventory from the information provided about units produced and sold. A major weakness of most responses was the incorrect treatment of under-absorbed overhead, which was largely ignored.

The mean mark for this question was 54 per cent.

Recommendations

Students should be presented with scenarios that require them to identify the appropriate drivers for various costs. Also, teachers should provide extensive practice in the preparation of absorption costing statements, including the calculation and treatment of over- or under-absorbed overhead.

Question 3

This question was based on Module 3 and consisted of three parts. Candidates were required to

- outline three objectives of budgeting
- prepare a production budget and schedule of direct materials required
- explain the concept of *standard costing* and state two types of standard costing and explain one type.

In Part (a), candidates performed creditably. Most of them were able to identify objectives but fewer were able to fully outline each objective.

In Part (b) most candidates correctly prepared the production budget. Candidates failed to realize that the number of units to be produced from the production budget should be used in preparing the schedule of direct materials. Candidates' failure to recognize the link between the production budget and the direct materials budget is of major concern. Some candidates used the merchandising purchasing budget format to prepare the schedule of direct material. Candidates were adding and subtracting units to dollar values. There were instances where the quantity of direct material needed for the period was used as the beginning inventory of direct material materials for the subsequent period.

In Part (c), instead of explaining the concept of standard costing, several candidates interpreted the question as asking to define the term *standard costing*. Most candidates were also unable to gain marks for types of standard costing in Part (c) (ii), because they indicated types of costing systems instead of types of standard costing. Candidates who responded correctly to this part of the question generally only identified ideal standards. There were many instances where candidates did not attempt Part (c) in its entirety.

The mean mark for this question was 26 per cent.

Recommendations

Teachers and students should cover all aspects of the syllabus. There needs to be greater emphasis on the theoretical and practical aspects of budgeting and standard costing when these topics are introduced to students. Additional practice in preparing budgets should be encouraged. The link between each budget should be emphasized.

More time should be spent guiding students on how to answer restricted essay responses, that is, using the marks allotted as a guide, and planning their responses. Explanations for concepts should be given followed by an example, where applicable, to support the response.

Paper 031 – School-Based Assessment (SBA)

The School-Based Assessment comprised three module tests of 90 minutes each constructed, administered and marked by the teacher. Teachers may opt to administer two 45-minute tests for a module instead of one 90-minute test.

Strengths

- Each module test covered at least 60 per cent of each module.
- Most module tests were typed and submitted by most schools.
- Moderation sheets were accurately prepared displaying students' names, registration numbers and scores.
- Most teachers' names were legibly written on the moderation forms.
- Students' scripts were accurately marked and grades accurately tabulated.
- Solutions were submitted with most tests.
- Most teachers gave a thorough breakdown of marks both on solutions submitted and on students' scripts.
- Some teachers submitted a table of specifications along with their tests.
- Questions submitted matched the module being tested.
- In most cases tests were awarded the appropriate length of time to be completed.
- Items on tests coincided with the objectives on each module being tested.
- In most cases module tests, students' scripts and mark schemes were submitted.
- In some instances, documents were properly scanned and uploaded.

Weaknesses

- In a few cases the solutions to some of the questions in the module test were incorrect.
- In some cases the award of marks to students was inaccurate or the total raw scores or module scores were incorrectly calculated.
- In a few cases multiple choice questions consisted of more than one accurate answer.
- In some cases the use of CAPE past examination questions were used for the module tests.
- In some cases questions given for some modular tests were not in line with the requirements of the syllabus.
- A few centres did not submit moderation sheets to support other documents
- Some cover sheets were not included in the package.
- Mark schemes were not included in some submissions.
- Some teachers failed to record students' overall scores on each module test submitted.
- In a few cases tests were too lengthy for the time allotted.
- In a few instances the wrong SBA was submitted for marking (or the SBA submitted was not consistent with the one being marked).
- Though a fillable moderation feedback form was used, it was not properly completed and in some instances vital information was missing.
- In a few instances information was not legibly written on moderation sheets.
- In some cases documents were not properly scanned and uploaded.
- Most of the centres did not include a table of specifications for each module test.

Recommendations for Enhancing the Module Tests

- Students should seek to access the CXC's website to gain awareness of the requirements of the SBA.
- Teachers should seek to inform both students and parents/guardians of the dates of the module tests and the importance of them.
- Timely feedback to students is vital.
- Samples of previous Unit 2 Module tests may be useful to students.
- Teachers should check to ensure that the moderation feedback sheet is thoroughly completed.
- Teachers should verify that everything is included before uploading SBAs.
- Teachers are encouraged to check documents for inconsistencies before submission.
- Teachers should submit copies of each module test given along with the corresponding solution.
- Teachers should include the table of specifications for tests.
- Teachers should ensure that the documents are properly scanned.
- Teachers should check to ensure that SBAs submitted are consistent with the one being requested for marking.

Paper 032 – Alternative to School-Based Assessment

Paper 032 comprised nine compulsory questions, three from each module. Twenty-three candidates wrote this paper.

Question 1

This question required candidates to distinguish between relevant cost and sunk cost. Most candidates did not know what was relevant cost and sunk cost, which meant they were generally unable to make a distinction between the two. The mean score for this question was 18.50 per cent.

Question 2

Candidates were given data and required to prepare the manufacturing account for an entity. Performance on this question was satisfactory. The mean score was 60 per cent.

Question 3

In this question, candidates were required to construct a cost curve for rental cost over a specific production range. Very few candidates recognized that this was step cost and were able to construct and label the graph accurately. Some candidates did not attempt this question. The question was poorly done. A mean score of 16 per cent was achieved.

Question 4

This question provided cost and sales data related to the production of two products. Part (a) required candidates to determine the cost of one product using the traditional costing system.

Candidates who attempted this question were able to accurately include direct materials and direct labour in their calculation but they were generally unable to calculate the overhead absorption rate to determine the overheads allocated to the product.

In Part (b), candidates were required to compute the estimated unit cost of a product using activity-based costing. Some candidates did not attempt this question. Candidates who attempted this

question recognized the need to calculate the activity cost driver rates and apply those rates to determine the factory overheads. Performance on this question was poor with a mean score of 34 per cent.

Question 5

In this question, candidates were required to differentiate between marginal costing and absorption costing. In differentiating between the two, candidates consistently referred to fixed cost but did not specify that its fixed manufacturing cost. Performance on this question was poor. The mean score achieved was 19.50 per cent.

Question 6

This question was based on process costing and had two parts. In Part (a), candidates were required to use the weighted average method to calculate direct material equivalent units. Twenty-six per cent of candidates did not attempt this question. Most candidates who attempted this question were only able to correctly calculate the ending work-in-progress. They were not able to calculate the units produced for the period.

Part (b) required candidates to use the weighted average method to determine the equivalent units of conversion cost in ending work-in-progress. Most candidates were able to answer this section accurately.

The mean score for this question was 38 per cent.

Question 7

This question had three parts requiring candidates to

- compute projected profit or loss given a specific sales level
- compute sales level required to earn a specific target profit
- list two advantages of breakeven analysis.

For Part (a), candidates were familiar with calculating the projected profit. However, a common error was that the total variable cost was calculated by multiplying variable cost per unit by the selling price per unit. Some candidates calculated the breakeven point for this requirement.

For Part (b), candidates struggled to use the formula to find sales revenue for targeted profit. Some candidates did not convert units to sales in dollars. A few candidates attempted to use the statement of profit and loss to work backwards to calculate the sales figure; however, they were unsuccessful because they used total variable cost from Part (a).

For Part (c), most candidates gave scenarios of using breakeven analysis for decision - making but failed to find a second advantage.

The mean score for this question was 35 per cent

Question 8

Candidates were given data relating to an investment in equipment that would expand a business and required to calculate the accounting rate of return.

A few candidates recalled the correct formulae to calculate the accounting rate of return. Most candidates seemed unaware of the need to calculate the depreciation figure and to convert the net cash flows to profits. Those who attempted to calculate a depreciation figure failed to take into account the salvage value. In most instances where the question was attempted, candidates calculated an average cash flow. In the calculation of the average investment, candidates did not include the salvage value. There were candidates whose responses were similar to that of the payback method.

Performance on this question was very poor, with a mean score of six per cent.

Question 9

Candidates were required to

- distinguish between cost centres and profit centres
- state one example of a cost centre.

The responses for both parts of the question were poor. Many candidates could not differentiate between cost centre and profit centre and were unable to give an example of a cost centre.

Performance on this question was very poor, with a mean score of 3 per cent.

Recommendations

The overall performance on this paper reflects inadequate preparation by private candidates and the need for additional support. Candidates should study the theoretical components of each topic and practise their application thoroughly. Private candidates should be aligned to an institution/tutor to obtain guidance and assistance in the subject and have practice in writing a mock exam prior to sitting the examination.