

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 revalued 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.