

**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.