

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 a ...with 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 Portsmouth 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