

**CARIBBEAN EXAMINATIONS COUNCIL**

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

**ACCOUNTING  
(TRINIDAD AND TOBAGO)**

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**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. .