

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

**REPORT ON CANDIDATES' WORK IN THE
ADVANCED PROFICIENCY EXAMINATION
MAY/JUNE 2010**

ACCOUNTING

**Copyright © 2010 Caribbean Examinations Council
St Michael, Barbados
All rights reserved.**

UNIT 1

GENERAL COMMENTS

The CAPE Accounting Unit 1 examination consisted of three papers. Paper 01 contained of 54 multiple-choice items, 18 per module. Paper 02 was an extended answer paper comprising three questions. Question one, which related to Module 1.1, was an essay question divided into three parts; question two, which related to Module 1.2, and question three, which related to Module 1.3, were both extended problems. Paper 03/1 was the Internal Assessment component and was school based. This paper was assessed by the class teacher and moderated by CXC. Paper 03/2, the alternate to the school-based assessment, was a mini-case in which candidates were required to answer questions relating to Modules 1, 2 and 3.

DETAILED COMMENTS

Paper 01 – Multiple Choice

The performance on this paper as a whole was good. The mean was 39 out of a maximum of 63 marks, and the standard deviation was 9.35.

Paper 02 – Essay Type Questions

This paper consisted of three compulsory questions. The mean was 52 out of a maximum of 105 marks, the standard deviation was 16.95 and the scores ranged from 0 to 98.

Question 1

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

- (a) complete a worksheet provided by recording a D for the appropriate debit and a C for credit entries for the ten given transactions.
- (b) outline five reasons in support of their agreement or disagreement with the statement that “a country should develop its own accounting standards”.
- (c) assess three given situations, outline the weakness in the internal control and explain the changes required to strengthen the internal control.

Some candidates performed well on the question but a large percentage did not respond to all parts of the question and this affected their overall performance.

Part (a)

A common weakness in this question was that candidates did not recognize the compound entry required for Part (iii) which required both a debit and a credit entry for assets and a credit entry for liabilities. Candidates did not recognize that “expenses incurred on credit” in Part (vii) should carry a credit entry to the liabilities. In Part (viii), in which the journal entry stated that dividends were declared and paid, candidates made a credit entry to the liability account.

Part (b)

Candidates demonstrated a general understanding of the importance of accounting standards but several candidates were unable to answer the question in terms of comparing and contrasting international standards with national standards.

Part (c)

Candidates were quite competent in recommending changes to rectify the weaknesses of internal controls identified. However, a notable weakness in candidates’ responses was the inability to distinguish between segregation of duties and assignment of responsibility. In addition, several candidates confused the concept of segregation of duties with division of labour.

Question 2

This question provided candidates with a balance sheet and an income statement that were improperly presented. Candidates were required to prepare the corrected income statement and balance sheet in good form. In addition, they were to define the concepts of public company, statutory company and private company. Performance on this section was good.

Preparation of the Corrected Balance Sheet

A common weakness in this question related to candidates’ improper classification of items and omission of totals at the end of each section of the balance sheet. Candidates had problems with the classification of unearned revenue and some were confused about the treatment of accounts receivable and accounts payable. The correct calculation of the retained earnings also presented a major challenge to candidates in that a large number of them did not use the net income figure to adjust the opening balance of the retained earnings. Some candidates, in their attempt to balance the balance sheet, misclassified some items.

Preparation of the Corrected Income Statement

Candidates performed quite well on this section of the question demonstrating a level of competence in the presentation of the statement. Some notable weaknesses in some candidates’ responses were:

- (i) The inclusion of unearned revenue as income
- (ii) Treating rental fees as an expense

- (iii) Classifying the resulting net loss as net income
- (iv) Treating property tax as corporation tax
- (v) Treating bank interest listed in the expenses as a revenue item in the revised statement

In Part (c), some candidates confused public company with public sector company. A number of candidates were unable to define a statutory company and confused it with a charitable organization.

Question 3

In this question, candidates were provided with comparative balance sheets for 2007 and 2008 together with an income statement for 2008. They were required to prepare a statement of cash flows for 2008, calculate two liquidity ratios and three profitability ratios, and comment on the performance of the company. In addition, they were required to list five limitations of financial statement analysis.

Performance on this question was quite varied. Some candidates obtained marks of approximately 35 out of 35 while others obtained marks less than five.

Preparation of the Cash Flow Statement

Candidates performed quite well on this part of the question. Most candidates performed competently in the operating activities section. They correctly identified the net income, changes in the non-cash items and working capital changes required to adjust the net income to net cash from operating activities. However, some notable weaknesses in their presentation included the misclassification of some items among the operating, financing and investing activities section. Some candidates treated the sale of machinery as an outflow rather than an inflow. They omitted the sale of investment in shares and some treated the retained earnings as a cash inflow in the financing activities section. The debt repayment was not linked to the note payable and was therefore entered twice by many candidates. Some candidates treated the issue of shares as a cash outflow and treated the dividend payment as a cash inflow rather than a cash outflow.

Part (b)

This question required the identification, calculation and evaluation of limitation of ratios. The candidates provided the correct formulae for the ratios identified, however, errors in calculation occurred in that some candidates incorrectly calculated the current liabilities and/or the quick assets. A number of candidates used the incorrect figure for sales in their calculation of some of the profitability ratios. Some candidates used activity or solvency ratios as profitability ratios. Several candidates were unable to explain the limitations of ratio analysis.

Paper 03/1 – Internal Assessment

There was a general improvement in the quality of project reports received this year. Teachers and students must be complimented on the issues they raised in these projects. The mean on this paper was 32 out of 42 per cent, with a standard deviation of 6.41.

The following weaknesses were observed:

- (i) A number of students had no project title.
- (ii) Some students prepared three distinct projects, one for each module of the syllabus. It would appear that some teachers are still using the syllabus prior to 2002 and as such were assessing the students using different guidelines. Teachers should ensure that the syllabus is current and should make note of the changes with reference to Internal Assessment.
- (iii) Many students showed a general weakness in integrating all sections of their project, while others failed to perform certain requirements such as data collection, recommendations and the specification of aims and objectives.
- (iv) Some students did not relate the analysis, evaluation and recommendations to the topic being investigated
- (v) The objectives and aims provided in some cases were quite vague and in other cases bore little relationship to the project
- (vi) Students still continue to present the questionnaires, tables, charts and other media in their appendices and fail to reference such in their analysis.

Paper 03/2 – Alternative to Internal Assessment

This paper provided candidates with comparative financial statements for the years, 2006, 2007 and 2008. Candidates were required to answer three questions, one per module.

Performance on this paper as a whole was satisfactory. The mean was 20.92 out of 42, 49.82 per cent, with a standard deviation of 7.19.

Question 1

This question related to the objectives of financial reporting, and candidates were required to

- (a) list three reasons why financial statements are important to owners.

- (b) state one primary objective that must be met for a business to survive and outline the importance of this objective.
- (c) state the purpose for which each of the following persons or institutions uses the financial statement of a company: potential investor, labour union, creditor, bank, government agency.
- (d) list four factors that contribute to the reliability of financial statements.

Candidates' performance on this question was less than satisfactory resulting in a mean of 6.62 (47 per cent). The answers to all four sub-parts are very simple and basic and, except for part (d), did not require any complex reasoning. For example, it is common knowledge that if a business cannot pay its employees, it cannot survive.

Question 2

In this question, related to issues in the presentation of financial statements, candidates were required to

- (a) name two other types of business organizations that the owners could have set up
- (b) compute dividends
- (c) state the difference between operating income and net income
- (d) list three items that may have been combined to form compensation expenses
- (e) calculate each of the three categories of expenses given as a percentage of net sales
- (f) comment on the trend of the expenses calculated above.

Candidates' performance on this question was less than satisfactory resulting in a mean of 7.03 (50 per cent). Candidates were unable to do simple arithmetic calculations and recall straightforward facts.

Question 3

This question required candidates to assess the performance of the entity. Candidates' performance on this question was less than satisfactory resulting in a mean of 7.28 (52 per cent). Accounting ratios and their interpretation are very fundamental to financial accounting and this is what was required of candidates. Unfortunately many candidates still do not recognize this fact.

UNIT 2

GENERAL COMMENTS

The Unit 2 examination consisted of three papers. Paper 01 consisted of 54 multiple-choice items, 18 per module, all of which were compulsory. Paper 02 was an extended response paper comprising three questions, one per module. Paper 03A was the Internal Assessment component and was school based. This paper was assessed by the class teacher and moderated by CXC. Paper 03/2, the alternative to the internal assessment, comprised nine questions, three per module

DETAILED COMMENTS

Paper 01 - Multiple Choice

Performance on this paper as a whole was good. The mean was 40.49 out of a maximum of 63 marks; the standard deviation was 10.89.

Paper 02 - Essay Type Questions

This paper consisted of three questions, one per module. The mean performance on this paper was 55.34 compared to 55.54 in 2009. Question 1 had a mean of 18.62 and a standard deviation of 6.22. The mean for Question 2 was 16.42 with a standard deviation 8.32. Question 3 had a mean of 19.87, and a standard deviation of 8.37.

Question 1

Candidates were provided with a table to classify a number of given costs as either variable or fixed, selling and administrative cost or product. The first two columns of the table were deleted and candidates were only graded on their classification of selling and administrative costs and product cost. Candidates were able to differentiate between selling and administrative cost (period costs) and product cost.

Part (b)

Candidates were given data relating to the hours worked by an employee and the resulting wage rate. In Part (b) (i), five hours of idle time were identified and candidates were required to calculate and allocate the wages between direct labour cost and manufacturing cost. In Part b (ii), the employee worked for 48 hours with no idle time and candidates were required to allocate the cost between direct labour cost and manufacturing overhead cost. For Part (b) (iii), candidates were asked to explain two ways that the company could classify the cost of fringe benefits for direct labour workers in its cost records.

In Part (b) (ii), candidates were not able to differentiate between direct labour and manufacturing overhead costs. Candidates correctly calculated regular wages and overtime wages but failed to classify them appropriately. For Part (b) (iii), several candidates were unable to correctly define

the term fringe benefit. Some typical responses to this question included ‘transfer payment’, ‘short-term investment’, ‘age and experience’ ‘and’ health and safety’.

Part (c)

Candidates were required to calculate the total service department costs that should be allocated to each production department using the direct method. Candidates had difficulty in matching the various cost ratios with the relevant department and hence arrived at wrong answers in many cases.

Question 2

Part (a)

This question was a job costing one and candidates were required to

- i) calculate the total shop overhead applied to jobs in August
- ii) calculate the amount of over- or under-applied overhead
- iii) compute the costs of the completed jobs for the month
- iv) compute the total costs of jobs in process on August 31.

Candidates were able to identify overhead costs but some had difficulty distinguishing between overhead applied and actual overhead. This resulted in candidates giving responses to Part (a) (i) with the answer for Part (a) (ii) and vice versa.

Part (b)

Part (b) (i) required candidates to describe the main difference between traditional costing systems and activity-based costing systems. Generally, candidates were able to respond to the question but only at the periphery, in that they identified overhead as the issue but did not go on to state that the difference lay in how the overhead was allocated. Candidates showed a great deal of understanding as it related to ABC but some were unable to explain the traditional costing system in a theoretical way.

Part (b) (ii) related to activity-based costing and candidates were required to

- (a) compute the activity application rate for each activity for 2009
- (b) compute the total overhead cost assigned to each product in 2009 using activity-based costing
- (c) compute the total cost to manufacture one unit of each product in 2009 using activity-based costing
- (d) explain why the company’s profitability has been declining since the introduction of the premium product based on their responses to (a) – (c).

Part (b) (ii) (a) of the question was widely known with several candidates being able to accurately calculate activity rates. The major weakness in candidates' responses was in Part (b) (ii) (d) where some candidates provided responses that were irrelevant and not of an accounting nature.

Question 3

Candidates were required to compute each of the following:

- (a) Payback period for each investment project
- (b) Net present value for each investment project

Candidates were also required to

- (a) Rank the investment projects based on the measures
- (b) Briefly describe four non-financial benefits that may accrue to a company if it decides to proceed with the investment in project 'B'.

Candidates were able to accurately compute the payback period and the net present value. The section which dealt with non-financial factors was also fairly well done. The area where candidates showed weakness was in the ranking of the projects based on their calculation of the payback and Net Present Value (NPV).

In terms of the NPV section of the question some candidates

- used the initial investment figure as the cashflow thus the NPV was not calculated correctly
- used the discount factor and a percentage to calculate the present value of cash flows
- recognized that the question involved an annuity and proceeded to solve the problem as such but used the present value interest factor for the respective cash flow as if it was the present value factor of an annuity
- included year zero as a discount factor and thus the NPV was one year short
- added back depreciation to the cash flow
- applied different discount factors from various percentages e.g. Project A 10 per cent, Project B 11 per cent and Project C 12 per cent
- used the present value of the discounted cash flow as their NPV.

A notable weakness in candidates' responses was the inability to distinguish between negative and positive NPV in their ranking of projects. In ranking, some candidates failed to identify the basis of their ranking.

Paper 03/1 – Internal Assessment

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

The mean for this paper was 28.96 out of 42 (68.95 per cent), with a standard deviation of 7.92.

Paper 03/2 – Alternative to Internal Assessment

This paper comprised nine questions, three per module. Fourteen marks were awarded per module for a total of 42 marks. The mean for this paper was 13.38 out of a possible 42. The Performance on this paper was weak.

Module 1

Questions 1 – 3

In these questions, candidates were required to

- (a) calculate the total manufacturing costs charged to work-in-process during 200
- (b) calculate the cost of finished goods manufactured
- (c) compute economic order quantity
- (d) explain the classification of salary cost.

All the candidates writing this paper attempted question 1, with a resulting mean of 2.86 out of 6 and a standard deviation of 2.01. There were 14.29 per cent of the candidates who scored full marks for this question. Nineteen of the 21 candidates who wrote the paper attempted Question 2. The mean was 1.68 out of 4, the standard deviation was 0.85 with 31.58 per cent of the candidates receiving full marks. Question 3 was not well done. The mean was 1.14 out of 4 with a standard deviation of 0.85. Candidates were required to demonstrate their understanding of the difference between product cost and period cost. They found this task difficult.

Module 2

Questions 4 – 6

In these questions, candidates were asked to

- (a) Prepare a contribution margin income statement using variable costing
- (b) compute the company's overhead application rate
- (c) determine the balance in the work-in-process account in relation to the jobs above at the end of 2009
- (d) determine the amounts of finished goods inventory in relation to the specific jobs at the end of 2009
- (e) determine the amount of over- or under-applied overhead for 2009

Twenty of the 21 candidates who wrote this paper attempted Question 4, with a resulting mean of 1.35 out of 4, and a standard deviation of 1.63. Question 5 was attempted by 20 of the 21 candidates who wrote this paper. The mean was 1.90 out of 7, the standard deviation was 2.22 with 10 per cent of the candidates receiving full marks. Question 6 was attempted by 19 candidates; the mean was 0.21 out of 3, the standard deviation was 0.71, with 5.26 per cent of the candidates receiving full marks.

This performance indicates clearly that candidates have still not come to grips with costing systems especially application of overheads. Teachers need to devote more attention to this aspect of the syllabus.

Module 3

Questions 7 – 9

For these three questions, candidates were asked to

- (a) compute the amount of cash expected to be collected from customers in January 2010
- (b) determine the mix of products that Royal Corporation should produce in order to maximize its operating income for the coming period
- (c) identify the project(s) that will be short listed if the company has a hurdle of four years
- (d) identify the project that should be selected if the company has a capital budget of \$2,500,000

- (e) give an example of a situation that may motivate a firm that is committed to profit maximization to invest in a project such as A which has a negative NPV.

All the candidates writing this paper attempted question 7, with a resulting mean of 1.62 out of 4 and a standard deviation of 1.63. There were 19.05 per cent of the candidates who scored full marks for this question. Nineteen of the 21 candidates attempted Question 8. The mean was 0.95 out of 4, the standard deviation was 1.39 with 10.53 per cent of the candidates receiving full marks. Question 8 was on limiting factor concept and the performance shows that the majority of candidates did not recognize it as such; private candidates must pay attention to this area of the syllabus.

RECOMMENDATIONS

Students need to be given practice in answering essay questions. They need to be able to address the specific issues raised in questions and not provide general information on the topic. In terms of Unit 1, teachers need to use the current syllabus which provides guidance on the Internal Assessment. It appears that candidates are still using the guidelines issued prior to the 2002 amendments. The Unit 2 Internal Assessment still continues to be of a high standard.

Finally, teachers are encouraged to complete the syllabus in order for candidates to be well-prepared for this criterion-based examination.