

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
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®**

MAY/JUNE 2014

ACCOUNTING

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GENERAL COMMENTS

The CAPE Accounting examination consists of three papers. Paper 01 consists of 45 multiple-choice items, 15 items from each of the three which are all compulsory. Paper 02 consists of three questions (a mixture of computations and short essays). Each module is covered by a separate question. Paper 031, the School-Based Assessment is marked by the class teacher and moderated by CXC. Paper 032, the Alternative to the School-Based Assessment, is written by private candidates. It comprises six questions, two from each module.

There were 2,760 entries for Unit 1 Paper 02, 19 per cent more than in 2013; while for Unit 2 Paper 02 there were 1,981 entries, a reduction of 10 per cent over the number of entries in 2013. There were 138 entries for Paper 032, an increase of 81 papers over the entries in 2013.

Overall, candidates performed well on the examination.

DETAILED COMMENTS

UNIT 1

Paper 01 – Multiple Choice

Candidates' performance on the 45 multiple-choice items produced a mean of 70 per cent.

Paper 02 – Structured Essays

This paper comprised three compulsory questions. The mean mark for this paper was 48 per cent, an increase from 45 per cent in 2013.

Question 1

This question had four parts. Candidates were required to

- prepare journal entries to record transactions associated with the issue of shares, payment of dividends, acquisition of equipment for shares and the appropriation of retained earnings
- prepare journal entries to record the sale of shares
- explain why it became necessary to develop IFRS for SMEs
- name one of the Institutes of Chartered Accountants of the Caribbean
- identify the internal controls that are violated in the five situations presented
- suggest the ways in which the violations could be corrected and the reasons why the measures could be used.

For Part (a), candidates were able to prepare part of the journal entry to record the issue of shares and make the entry for the asset correctly. They were also able to record the payment of dividends; however, many either did not know the correct names of the accounts to use, or were not able to perform the calculations when the asset cost and the cost of the shares were different. The use of the Retained Earnings account presented difficulty for most candidates.

In Part (b), the performance of candidates in recording the sale of shares was satisfactory. Candidates were able to calculate the original cost of the shares as well as the current cost of the shares and many of them recognized that there was a loss. On the other hand, the procedure for accounting for the brokerage commission was a weakness; several candidates who calculated a loss, did not know how to journalize the loss. Some candidates also did not distinguish between an investment and common shares of a company. For Part (c), the reasons for the general introduction of the standards was widely known; however, the relevance to the SMEs (small and medium-sized entities) was not. Candidates also showed knowledge of the names of the professional bodies across the Caribbean. In Part (d), the internal controls were well known. The identification of the measures for corrective action and the reasons were not well articulated.

Recommendations

Teachers are reminded that topics such as journal entries, which are examinable at the CSEC level, should be revised at the start of the school term since the CAPE syllabus builds on these. Questions are often set requiring the use of journal entries as they are the building blocks of accounting. Teachers must ensure that students are familiar with the correct names of accounts. Students should be required to practise copious exercises of journal entries for company accounts with and without narratives that include issue of shares, acquisition of shares, sale and exchange of assets for shares, appropriations to reserves, selling of investments for amounts above and below cost, redemption of shares.

There should be more simulation exercises so that students can fully understand the importance of internal controls in the real business world. Members of the local accounting profession could be asked to explain the role of accounting standards and of the professional bodies both locally and regionally.

Question 2

This five-part question required candidates to

- prepare a Statement of Partners' Equity
- explain why one partner may receive the same profit even though he has not spent the same amount of time being involved in the business
- state three factors to be used when determining how the profits should be distributed
- distinguish between corporations and partnerships
- prepare a Multi-step Income Statement in accordance with IAS 1/Section 6 of IFRS for SMEs.

For Part (a), most candidates attempted the Statement of Partners' Equity; however, very few were awarded the maximum 10 marks — most earned on average 3–4 marks. Candidates were generally unfamiliar with the Statement of Partners' Equity but recognized the term *equity* and so drew up the Current Account, the Capital Account and/or the Appropriation Account.

In Part (b), candidates were required to state why one partner might be given the same portion of profits even though he does not spend the same amount of time in the business. The majority of candidates lost the mark awarded to this section of the question. Part (c) required that candidates state how profit-sharing decisions are made in a partnership. Some candidates did not respond to the question and those who attempted it referred to a missing partnership deed/contract/agreement and suggested that the Partnership Act was in force, which required an equal share of profits where there is no partnership agreement. Candidates generally did not supply any valid factors relevant to profit-sharing decisions in partnerships.

Where candidates were required to provide additional factors to be considered in profit-sharing decisions, candidates only provided one valid factor, that is, the proportion of capital invested.

In Part (d), candidates were required to distinguish between partnerships and companies. The majority of candidates attempted Part (d); however, some were not awarded the maximum six marks for the following reasons:

- They did not know the difference between partnerships and companies.
- They did not know the difference between limited and unlimited liability.
- They attempted to explain the terms by using the stem of the question instead of outlining the differences.
- They were unable to keep their answers simple and precise. Some responses were pages long and revealed much confusion in their understanding of the differences.

Part (e) required that candidates prepare a Multi-step Income Statement in accordance with IAS 1 (Section 6 of IFRS for SMEs). Most candidates seemed to have been familiar with some sections of the Multi-step Income Statement; however, making corrections to the Income

Statement presented many challenges. Most candidates attempted Part (e) many times, providing several variations of answers for the Multi-step Income Statement.

The items which were mistreated in completing the Income Statement included:

- The words *for the year ending* in the heading, which were omitted.
- *Sales Discounts* which was either missing or put in the wrong position.
- *Sales Returns* and *Allowances* as well as *Sales Discount*, which were added to the Sales figure.
- *Freight In* which was subtracted in order to arrive at Net Purchase.
- *Cost of Goods available for Sale* and *Cost of Sales* that were not clearly highlighted by showing them in a separate line.
- *Other Income and Expenses* which was not shown as a heading and the items that rightly belong under this heading correctly included.
- adding both interest income to interest expenses and/or reducing or increasing the Operating Profit figure; *Interest income* which was added to *interest expense* and/or reducing or increasing the *Operating Profit* figure.
- *Finance cost* which was used as a heading.
- *Interest income* which was added to Gross Profit.
- The figure for tax which was calculated based on *operating expenses* rather than *Profits from Operations*.
- Tax which was calculated on losses obtained.
- Tax which was calculated on *interest income*.

Recommendations

Partnerships are a very common form of business structure generally and in the Caribbean in particular.

Candidates should therefore be encouraged to practise completing the Statement of Partners' Equity.

It is suggested that more emphasis be placed on the theory of partnerships. The introduction of role play may assist in the retention of the concepts, more practice in expressing theoretical concepts in their own words and the use of tables for comparisons will help to improve the quality of students' responses.

Students should be given varying examples in preparing final financial statements in accordance with IAS 1 (Section 6 of IFRS for SMEs). An important and effective way to test students' knowledge and understanding of this section of the syllabus is to allow them to correct errors in statements already prepared.

The horizontal format is not an acceptable format for final financial statements. Candidates should not use pencil in preparing accounting statements.

Question 3

The question had five parts. Candidates were required to

- state two users of the Statement of Cash Flows
- state one reason why each of the two users would need a Statement of Cash Flow
- classify certain items under the key headings in the Statement of Cash Flows
- prepare the *operating activities* section of the Statement of Cash Flows in accordance with IAS (Section 7 of IFRS for SMEs)
- state three limitations of accounting ratios
- use given information (including the ratio formula) to calculate and interpret certain ratios.

Part (b) which required the classification of the items was the most widely known aspect of the question.

For Part (c), most candidates scored six or seven of the possible eight marks for the preparation of the *operating activities* section.

Many candidates obtained no marks for Part (d) which required them to state the limitations of accounting ratios as well as to interpret the ratios. In Part (e), most candidates were able to calculate gross profit margin and dividend payout ratio, but were unable to calculate EPS. In the case of EPS, candidates multiplied the number of shares outstanding by the market price to obtain the denominator.

Overall, the conceptual parts of the questions were poorly done.

Recommendations

Students must be prepared holistically, so that they can differentiate between different Cash Flow items as well as apply knowledge about the limitations associated with ratios and interpret ratios once they have been calculated.

The IAS/IFRS should be taught so that students understand how to draft/prepare the Statement of Cash Flows. The standard is readily available on the internet on the IFAC website and contains examples of Statements of Cash Flows.

Paper 03 – School-Based Assessment (SBA)

Strengths

- The majority of projects was done to specification, that is, one topic which covered the three modules.
- In general, projects were neatly presented.
- A significant number of projects were complete with Aims and Objectives which were relevant to the topic being studied.
- The majority of teachers used the assessment rubric to assign scores.

Weaknesses

- A few schools continue to present projects on three modules.
- Some projects were too lengthy.
- In a number of cases, the Literature Review was completed without references.
- Citations within the text were not properly done in a number of cases; in addition, some citations were not referenced in the bibliography and the bibliography was not properly presented.
- In the Methodology, the method for collecting data was identified as questionnaires; however, the questionnaire was not included in the Appendix.
- Some projects included Analysis and Evaluation which was ratio analysis, but no financial statements were presented and there was no working for the respective ratios.
- In some cases, there was no connection between the Analysis and the Aims and Objectives of the project.
- In a few cases, the font size used for the project was too small.
- Conclusions, in a number of cases, were too general and bore no relevance to the topic being discussed.

Recommendations

Teachers should ensure that they provide guidance during the preparation of SBAs and should recommend websites to students that provide support for the preparation of citations and references.

Teachers should also ensure that the analysis bears relevance to the Aims and Objectives of the project.

Students should not include personal aims in the project.

Paper 032 – Alternative to School-Based Assessment (SBA)

The questions on this paper were all based on the International Accounting Standards, the topic for the year. There were six questions, two based on each module. Sixty-six candidates wrote this paper.

Question 1

This question was not well answered. Candidates were generally unaware of the reasons why countries adopt the International Accounting Standards (IAS) and the challenges faced by the smaller territories in relation to the implementation of the IAS. The mean mark for this question was 2 out of 10.

Question 2

Candidates were required to explain five principles of accounting. A significant number of candidates were able to explain the meaning of most of the accounting principles. Some explanations bore no relevance to the context of the accounting framework as covered under IFRS for SMEs, for example, “materiality is the material needed to complete cost of goods”.

The mean mark was 3.5 out of 10.

Question 3

This question was very poorly completed. Eighty per cent of the candidates received no marks. Many candidates wrote a figure for the terms, for example, net realizable value (NRV) without showing any calculation, and therefore no marks were awarded.

Question 4

Candidates were generally aware of the concept of revenue recognition, although some had difficulty explaining why revenue should or should not be recognized. About 50 per cent of the candidates only answered *Yes* or *No* and, therefore, they were only awarded one mark.

Question 5

Candidates were required to

- give two reasons why disclosures are required by the International Accounting Standards Board (IASB)
- give four uses of the Statement of Cash Flow
- Identify four items that are normally included in the Statement of Cash Flows.

There was a serious misconception stated by at least 27 per cent of the candidates that the Statement of Cash Flows is used to determine whether the business is making a profit or loss. Most candidates were also unable to give the reasons why disclosures are required by the IASB. A few candidates accurately stated four items that are normally included in the Statement of Cash Flows.

The mean mark for this question was close to 4 out of 10.

Question 6

This question required that candidates describe the events that need to take place before a situation can be considered a post balance sheet event to be adjusted or not adjusted. About 60 per cent of the candidates were able to give at least one example of a post balance sheet event. Nonetheless, overall performance on this question was very weak.

Recommendations

The overall performance on Paper 032 for this unit reflects inadequate preparation by candidates and the need for more support for private candidates. Candidates are required to know the topic that is examinable for the year. The topics change from year to year as documented in the syllabus, which is now available on the CXC website.

It is recommended that private candidates be aligned to an institution/tutor to obtain guidance and assistance in the subject and that these candidates have practice in writing a mock exam prior to sitting the examination.

UNIT 2

Paper 01 – Multiple Choice

Performance on the 44 multiple-choice items produced a mean of out of a maximum of 63.

Paper 02 – Structured Essay

This paper comprised three compulsory questions.

Question 1

This question had three parts, a, b and c. Part (a) was based on economic order quantity (EOQ) and was worth 15 marks. In this part, candidates were required to

- list three components of *carrying cost*
- state two components of *ordering cost*
- calculate recommender order quantity for the item produced
- calculate the number of times the orders should be placed
- calculate the reorder point in units.

Approximately 90 per cent of the candidates misunderstood the first two sections. From the responses provided it could be inferred that the word *component* was the basis of the misunderstanding. Some candidates restructured the question to give the answer, for example, “Ordering cost is the cost of an order”; “Carrying cost is the cost to carry one unit”. Some candidates went further to state that carrying

cost was the cost to transport the goods. Overall, candidates performed poorly on this part of the question.

Approximately 60–70 per cent of the candidates responded accurately to the third section of part (a). The formula appeared to be a very good stimulus in guiding candidates to the correct response. However, about 30 per cent of the candidates were unable to score full marks. The areas of difficulty were:

- Applying the 1.5% to calculate the carrying cost (It may be a difficulty with percentages.)
- Applying the square root (It may be a difficulty with using the square root button on the calculator.)
- Selecting the correct figures for ordering and carrying costs to be plugged into the formula
- Calculating the annual demand

Candidates performed reasonably well on the fourth and fifth sections of Part (a). They were able to calculate the number of orders using the correct formula. However, about 90 per cent of the candidates found it difficult to calculate the maximum usage that was required for the formula. They were nevertheless able to supply the maximum lead point.

In Part (b), candidates were required to state whether the company should continue to purchase monitors given certain circumstances. For Part (b) (i), candidates were able to identify the relevant purchasing price of the monitors. Approximately 30 per cent of the candidates knew that in calculating the relevant manufacturing unit cost, they should include the *avoidable* fixed overhead of \$1875. They were able to obtain the correct figure for the relevant manufacturing unit cost. Another 30 per cent of candidates used the *unavoidable* fixed manufacturing overhead of \$2625 to calculate the relevant manufacturing cost. The remaining candidates used the estimated total unit cost of \$18750 to make their decision.

In Part (b) (ii), most candidates converted the rent to the yearly/annual figure, but did not use it to make the costing decision. Instead, candidates explained that it could be used to offset the cost of purchasing

the monitors. Some candidates did the calculations based on unit calculations and did not make unit calculations for the rent. Some candidates made the decisions for Parts (b) (i) and (ii) based on the relevant purchase price and total unit cost given.

In Part (c), candidates were required to calculate the direct labour cost and production overhead chargeable to each job

- where overtime is worked to meet production targets of the company itself
- where overtime is worked at the customer's request.

Overall, performance on this section was poor. Some candidates did not respond to this section of the question.

Recommendations

- Teachers are encouraged to ensure that students are fully knowledgeable about decimals, fractions and the use of the calculator to perform applications such as square roots.
- Students should be given practice in applying information to formulae.
- Payroll computations are required in the business world and this is a topic that should be thoroughly taught, with all its variations.

Question 2

The question was divided into two parts. Part (a) was an activity-based costing section, which required candidates to

- compute the activity application rate for each activity centre of the company
- compute the total overhead cost assigned to each product produced by the company
- compute the total cost per unit to manufacture each product
- compute the total overhead cost assigned to each product if direct labour cost had been used to allocate overhead

- compute the total cost per unit to manufacture each product if direct labour cost had been used to allocate overhead.

For Part (a), most candidates scored between 13 and 17 marks out of a maximum of 17 marks. Weaker candidates scored between 7 and 10 marks. There were some candidates who did not respond or who scored no marks due to a lack of knowledge or poor interpretation. Most candidates who Part (a) (i) were able to score full marks. Some candidates chose a percentage approach and were awarded partial marks.

Part (a) (iii) was answered by about 50 per cent of the candidates. The others did not use the correct number of units; therefore, they calculated an incorrect cost per unit. Some candidates chose to use the cost drivers as the base or denominator to compute the cost per unit. Some candidates used a per unit approach in the final requirement. This was acceptable.

Part (a) (iv) was the least popular part of the question as some candidates could not distinguish between traditional costing and an activity-based costing approach. There were candidates who did not read the question completely and did not use the direct labour cost to allocate the overheads as required. They also did not appear to know which overhead to use. Here too, candidates chose a percentage approach and applied it to the overheads. This approach was correct and candidates earned full marks.

Part (b) required candidates to prepare a production report for the moulding department.

Most candidates were able to account for the total units and were therefore awarded the marks.

The majority of candidates scored 29–35 marks on the entire question. There were several candidates who earned full marks.

Recommendations

- Students must be encouraged to read questions carefully.

- Activity-based costing is a question on which students can score marks easily if it is well taught and understood by students.
- The main weakness in the production schedule was that candidates did not total the cost schedule. Candidates should ensure that this is done.

Question 3

This question had three parts. Parts (a) and (b) covered breakeven analysis; Part (c) dealt with budgeting.

For Part (a), candidates were required to

- list assumptions of breakeven analysis
- state why each of the assumptions stated may not always be true.

Part (a) (i) was more widely known than Part (a) (ii). Candidates who answered well clearly understood what was required and were able to full marks. Candidates who were unfamiliar with the assumptions attempted the question by writing the formulae for breakeven or tried to do an analysis of breakeven point.

In Part (a) (ii), candidates gave incomplete and incorrect explanations of why the assumptions were not always true. There were also candidates who attempted to answer Part (a) (ii) without reference to Part (a) (i). The majority of candidates scored between 0 and 5, and a significant number did not respond. Even though Part (a) was at the level of the candidates, it is possible that they were unprepared for theory.

Part (b) required calculations for different items connected with the topic of breakeven including

- breakeven point in units
- breakeven point in dollars
- margin of safety in units
- margin of safety in dollars.

Most candidates were able to present the correct formulae prior to doing the calculations. Many of them displayed knowledge and understanding of the breakeven principles; they were able to derive partial responses even if portions of the calculations were incorrect. Of the total candidates who attempted to use the equation method to determine breakeven (in units and dollars), most of them were able to do so correctly.

Several different formulae were presented for calculating *margin of safety*. The difficulties arose where candidates used 'contribution', 'contribution per unit' in an attempt to derive breakeven in units.

There were problems with identifying cost figures accurately despite the clear labelling of the figures in budgeted Income Statement. Candidates had difficulty distinguishing between actual production units versus capacity.

Part (c) required theoretical knowledge of budgeting. Candidates were required to

- state three objectives of budgeting
- outline two features of the imposed, participative, and negotiated budget styles
- state the role of the budget committee
- name two sections of a cash budget.

Most candidates attempted Part (c). The mean mark was 6 out of 13. The responses indicated that candidates had a general knowledge of budgeting. Candidates scored most of the marks for the *objectives of budgeting* and naming the sections of the cash budget. Many candidates were able to correctly use the accounting terms associated with budget objectives such as *planning*, *controlling* and *motivating*.

On the other hand, responses to the budget styles and the role of the budget committee were poor. Candidates generally were not clear about the differences between the styles and so used a literal interpretation. In addition, instead of stating the role of the budget committee, they restated the objectives of budgeting, for example, allocation of resources.

Recommendations

- The topics in this question are based on Module 3. Teachers should pace themselves throughout the year so that the full syllabus, including this topic, can be covered.
- Students should be taught to express themselves in writing through tests which require this skill. Class work should include theory questions. Emphasis should be placed on writing using accounting terminology.
- The use of the internet along with other textbooks will expose students to different types of questions and teachers should encourage this.
- There can be discussions in class where students are encouraged to express themselves.
- Accountants need to be able to communicate on accounting terms and concepts at this level.

Paper 031 – School-Based Assessment (SBA)

Strengths

- Some mark schemes were neatly presented and submitted with the table of specifications.
- Test items matched syllabus specifications and weighting.
- Some teachers submitted thorough mark schemes with the complete breakdown of marks.

Weaknesses

- In several cases, mark schemes were presented but no proper allocation of marks displayed; there were many cases where the mark schemes were not neat.
- Handwritten mark schemes were submitted.
- Some tests were too long for the time allotted to the exam.
- Some test items were photocopied from textbooks and CAPE past papers; this is a copyright issue.

- In some cases, mark schemes reflected different totals from those presented on students' test papers and their justification.
- There were too many calculation errors on teachers' mark schemes.
- There were typographical errors on question papers and teachers' mark schemes.
- Typed student scripts were presented without being marked.
- Some samples of students' scripts were received without teachers' answer key/mark schemes.
- Totals on teachers' mark scheme did not match totals on students' question papers.
- Test items reflected limiting factors though this topic was removed from the syllabus.
- Questions on mark schemes did not reflect clear and thorough workings of structured items.
- Moderation sheets were not prepared to reflect totals for each module starting from lowest to highest.
- Test/question papers showed three module tests given reflecting one hour for each module.
- Grades were submitted for students without proper documentation of students' scores and test scripts.
- Teachers signed the examiners' initials section on the moderation sheet.

Recommendations

- Test and mark schemes should be typed.
- Proper allocation of marks on mark schemes and students' scripts should be shown.
- Moderation sheets should be properly filled out to reflect scores on the right hand side for each module, divided by three, to show scores from lowest to highest.
- Time allotted for exams should match the amount of work given.

Paper 032 – Alternative to the School-Based Assessment

Paper 032 comprised of nine compulsory questions, three from each module. Twenty-four candidates wrote this paper.

Question 1

This question required candidates to sketch two cost curves — fixed cost per unit curve and total fixed cost curve. Most candidates were able to handle this question.

Question 2

This question required the apportioning/allocation of overhead costs in a given production setting. Performance on this question was below average, with the mean mark being 3 out of 9.

Question 3

Candidates were asked to calculate the costs of a specified job and to use the information to make an *accept or reject* decision. The mean mark was 3 out of 7.

Question 4

Candidates were asked to calculate absorption rate and determine under or over-absorption of costs. The mean mark was 3 out of 9.

Question 5

This question required candidates to produce an Income Statement for a given manufacturing company using the absorption costing format. The mean mark was 2 out of 7.

Question 6

This question required that candidates state examples of work that may be done using *job costing* and *process costing*. Candidates displayed a good knowledge of the content as evidenced by the mean mark of 3 out of 4.

Question 7

Candidates were provided with a particular scenario and asked to compute material and labour variances. The mean mark was 2 out of 8, indicating a weak grasp of concepts.

Question 8

This question required candidates to identify three techniques for investment appraisal and to give two advantages and three disadvantages of one technique. The mean mark was 3 out of 8.

Question 9

Candidates were required to list two advantages and two limitations of cash budgets. The mean mark was less than 1.

Recommendations

The overall performance on this paper reflects inadequate preparation by private candidates and the need for additional support. Candidates are required to know the topics that are examinable for the year as these change from year to year. Candidates must refer to the syllabus, which is now available on the CXC website (www.cxc.org), for these topics.

Private candidates should be aligned to an institution/tutor to obtain guidance and assistance in the subject and have practice in writing a mock exam prior to sitting the examination.