



CARIBBEAN EXAMINATIONS COUNCIL

CAPE[®] ACCOUNTING UNIT 1



Subject Report with Exemplars

June/July 2022

CARIBBEAN EXAMINATIONS COUNCIL

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN ADVANCED PROFICIENCY EXAMINATION[®]**

JUNE/JULY 2022

**ACCOUNTING
UNIT 1**

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INTRODUCTION

CAPE Accounting Unit 1 (Financial Accounting) comprises three modules.

Module 1: Accounting Theory Recording and Control Systems

Module 2: Preparation of Financial Statements

Module 3: Financial Reporting and Interpretation

Candidates' knowledge of this unit and the respective modules was examined through the following papers.

- Paper 01 — Multiple Choice
- Paper 02 — Essay and Computational questions
- Paper 031 — School-Based Assessment
 - This paper is marked by the class teacher and moderated by CXC.
- Paper 032 — Alternative to School-Based Assessment
 - This paper is taken by private candidates. It comprises six questions, consisting of two questions per module.

There were 1613 entries for Paper 02 and 14 entries for Paper 032. This represented a decline in the number of entries when compared with in 2021. Overall, candidates performed satisfactorily on the examination.

This report covers Paper 01 and Paper 02 only.

PAPER 01 — MULTIPLE CHOICE

Paper 01 comprised 45 multiple choice items which consisted of 15 items per module. Each item was worth one mark. Fifteen items were conceptual in nature and so candidates' understanding of accounting concepts and principles was tested. The remaining items were computational and so candidates were required to calculate the answers using the data provided. The paper was worth 30 per cent of the overall grade.

Overall, candidates performed well. The mean percentage was 73.79.

PAPER 02 — STRUCTURED ESSAY

Paper 02 comprised three compulsory questions, consisting of one question per module. Each question was worth 35 marks. The paper consisted of a mixture of computational and short essay questions and candidates were required to exhibit in-depth understanding of the syllabus objectives in order to provide adequate responses. The paper represented 50 per cent of the overall grade.

The mean mark was 30.50.

Question 1

This question tested candidates' knowledge of Syllabus Objectives 1.3, 1.5 and 1.6 from Module 1: Accounting Theory, Recording and Control Systems.

The mean mark was 33.54.

Candidate's Response to Part (a)

Write your answer to **Question 1 (a)** on the lines below.

- i) It provides one recognised standard for all small firms to follow.
 - ii) The standards are simplified and suited to meet the needs and requirements of small firms.
 - iii) IFRS provides guidance for firms in terms of preparing their financial statements so that it can be easily understood and interpreted by users.
- [3 marks]

Examiner's Comments

Candidates were required to list three advantages of IFRS to SMEs. In the exemplar, the candidate did so correctly.

Candidate's Response to Part (b) (i)-(iv) — Sample 1

Write your answer to Question 1 (b) (i) on the lines below.

proper documentation of records - documents such as cheques and invoice should be prenumbered so it can be easily traced.

[2 marks]

Write your answer to Question 1 (b) (ii) on the lines below.

establishment of responsibility - employ persons & employees are authorized by management to carry out delegated tasks.

[2 marks]

Write your answer to Question 1 (b) (iii) on the lines below.

physical control of assets - assets such as cash and blank cheques should be safeguarded either mechanically or electronically.

[2 marks]

Write your answer to Question 1 (b) (iv) on the lines below.

establishment of responsibility - designated persons in the work place is auth are authorized to carry out specific tasks

[2 marks]

Candidate's Response to Part (b) (i)-(iv) — Sample 2

Write your answer to Question 1 (b) (i) on the lines below.

Documentation Procedure → this control procedure states that all documents (receipts, invoices etc...) relating to ~~the~~ the company's assets (cash, inventory) should be properly documented or numbered as reference.

[2 marks]

Write your answer to Question 1 (b) (ii) on the lines below.

Internal verification → this is where supervisors, auditors and managers of a firm is expected to do regular checks to ensure all rules, regulations and guidelines of the ~~company~~ firm are being followed and assets are protected against fraud.

[2 marks]

Write your answer to Question 1 (b) (iii) on the lines below.

Physical, Mechanical and Electronic Controls → this is where physical (safes, vaults, security), mechanical and electronic (passwords, cameras) means of control are put in place to safeguard the company's assets (checks in this case)

[2 marks]

Write your answer to Question 1 (b) (iv) on the lines below.

Proper Authorization / Establishment of Responsibilities
This is where personnel must be competent, reliable and ethical in performing their duties. Duties must also be clearly stated by the organization.

[2 marks]

Examiner's Comments

Candidates were required to outline the internal control principle that was applicable to each procedure mentioned. In the exemplars, the candidates demonstrated a good understanding of the principles of internal control and how they applied to business. In accordance with the requirements, the candidates did not include unnecessary details.

Candidate's Response to Part (c) (i)

Write your answer to Question 1 (c) (i) on the lines below.

Two primary users of general purpose financial
accounting are investors and creators of the business

[2 marks]

Examiner's Comments

Candidates were required to state two primary users of general purpose financial reporting, according to the IASB framework. In the exemplar, the candidate did so correctly.

Candidate's Response to Part (c) (ii)

Write your answer to **Question 1 (c) (ii)** on the lines below.

Comparability refers to the ability of financial statements to be compared over the years or among other companies in the same year and industry. Thus, financial information should be reported in a consistent manner, i.e. using the same principles and rules among firms ^{and} financial years. For this to occur, comparability allows users to assess how a firm has been performing when looking at other financial statements. Understandability, ~~and~~ on the other hand refers to the users of financial information (given that they have a good grasp of the firm and accounting information) are able to ~~decipher~~ what is being displayed in the financial statements clearly.

[4 marks]

Examiner's Comments

Candidates were required to explain the difference between understandability and comparability of useful financial information. In the exemplar, the candidate did so adequately.

Candidate's Response to Part (d) — Sample 1

Write your answer to Question 1 (d) on the lines below.

Date	Details	DR	CR
30 January 2020	Investment xxxxx stock	105,000 ✓	
	✓ Brokerage Fee	157.5 ✓	
	Cash		106,575
4 April 2020	✓ Retained earnings	640,000 ✓	
	Common Stock		640,000
13 May 2020	✓ Investment	175,000 ✓	
	✓ Brokerage Fee	1,750 ✓	
	Cash		176,750
30 June 2020	✓ Interest expense	72,000 ✓	
	Cash		72,000
	Debtors	900,000 ✓	
	Cash		900,000

Date	Details	DR	CR
30 June 2020	Dividend Payable	5750 ✓	
	✓ Cash		5750
	Retained Earnings	192,000 ✓	
	Dividend Payable		192,000
	Dividend Payable	192,000 ✓	
	✓ Cash		192,000

Workings

$$\text{Dividend on ordinary} = 16000 \text{ shares} + \frac{3000}{2000} \text{ bonus} = 19200$$

SEEN $\text{Dividend} = 19200 \div 10 = 192,000$

$$\text{Dividend on Preference} = 115000 \div \frac{5}{100} =$$

Candidate's Response to Part (d) — Sample 2

Write your answer to Question 1 (d) on the lines below.

	Dr	Cr
i) Share Investment Bank To record purchase of 600 shares at \$175	106,575	106,575
ii) Retained Earnings Common Share Capital To record bonus issue of common shares	640,000	640,000
iii) Share Investment Bank	176,750	176,750
iv) 8% Debenture Interest expense Bank Reedemable debenture Bank	72,000 900,000	72,000 900,000
v) Preference dividends Bank Common Share Dividend payable Bank	11,500 160,000	11,500 160,000

Examiner's Comments

Candidates were required to prepare journal entries for the given transactions. Both candidates provided thorough responses. First, they prepared journal entries to record the issue of investments and the payment of dividends. Second, they also used correct terminologies for the accounts and the journal entries. Additionally, the information was well formatted. Finally, the candidates presented the following information correctly.

- The debit and credit columns were clearly identified.
- The debit entry preceded the credit entry.
- The credit entry was indented.

Question 2

This question tested candidates' knowledge of Syllabus Objectives 2.1, 2.2, 2.7, 2.8 and 2.11 from Module 2: Preparation of Financial Statements.

The mean mark was 25 per cent.

Candidate's Response to Part (a)

Write your answer to **Question 2 (a)** on the lines below.



1) A cooperative is democratic. All members are allowed one vote no matter how much is invested by them in the cooperative. They all have a share in decision making.



2) Co-operatives have continuous training and education where members old and new can learn new things and skills that are necessary and in turn, they can train the newer members.

Examiner's Comments

Candidates were required to outline two operating principles of a co-operative. In the exemplar, the candidate did so correctly. Additionally, each principle was clearly explained.

Candidate's Response to Part (b) (i)

Write your answer to Question 2 (b) (i) on the lines below.

The Fairfield Sports Club

Statement of Profit & Loss for the year ended 31 Dec 2019

Sales		124 500	
Less: Cost of Goods Sold			
Opening Stock	8 500		
Add: Purchases	47 700		
Cost of Goods Sold	56 200		
Less: Closing Stock	4 500		
		<u>51 700</u>	
Gross Profit		72 800	

$$\begin{aligned} \text{Sales} &= \text{Cash Sales} + \text{Receipt from customers} + \text{Owing} \\ &= \$97000 + \$27000 + \$2300 - \$1800 \\ &= \$124500 \end{aligned}$$

$$\begin{aligned} \text{Purchases} &= \$22000 + \$27000 + \$1200 - \$2500 \\ &= \$47700 \end{aligned}$$

$$\begin{aligned} \text{Dep on motor van} &= 20\% \times \$73000 \\ &= \$14600 \end{aligned}$$

Examiner's Comments

Candidates were required to prepare a statement of profit and loss based on the given information. In the exemplar, the candidate laid out the statement well and included only the items relevant to the fund-raising activity. The candidate also clearly identified net profit from cake sales. All supporting working was shown.

Overall, candidates were able to prepare sales ledger and purchases ledger control accounts using the relevant items from the lists of balances and from the receipts and payments accounts. Candidates added cash purchases to the credit purchases obtained from the control account to arrive at total purchases. The amount for total sales was calculated using the same principle.

Candidate's Response to Part (b) (ii)

Write your answer to Question 2 (b) (ii) on the lines below.

Fairfield Sports Club
Income and Expenditure Account
for the year ended 31 December 2019

	£	£
INCOME:		
Surplus from cake sales		72800
Membership fees	✓	134600
Proceeds from sale of motor van	✗	10000
		217400
LESS EXPENDITURE:		
Office staff wages	66000	✓
Rent and rates	28000	✓
Motor expenses	12000	✓
Loss on sale of motor van	15600	✓
Purchase of motor van (25000-10000)	15000	✓
Depreciation: sport equipment	8000	✓
motor van	14600	(144200)
Net surplus		13200

Membership Fees Acc		Motor Van Depreciation	
£	£	2017	NBV
Bal b/d	14400	2016	40000
Bal c/d	7200	2019	20600
∴ 13200	134600		
	156700		

[8 marks]

Examiner's Comments

Candidates were required to prepare the income and expenditure account based on the given information. In the exemplar, the candidate formatted the statement well, clearly identifying the income and expenditure sections. The net profit from the cake sale was brought forward from the previous part. Additionally, the candidate correctly calculated the total membership fees and showed the supporting working. The loss on disposal of the motor van and the depreciation on the motor van were correctly calculated and treated appropriately.

It must be noted that the candidate treated the proceeds of sale of the motor van as income, which is incorrect in principle.

Candidate's Response to Part (c)

Write your answer to Question 2 (c) on the lines below.

(i) Liability of owners

Generally, in a partnership, partners tend to have unlimited liability (unless they are limited partners). This means that the partnership is not a separate legal entity from the partners and they incur any losses of the partnership. Whereas in a private company, shareholders tend to have limited liability as the company exists as a separate legal entity from them. Each shareholder is liable to the amounts that they have invested.

(ii) Taxation at ownership level

As long as shares are bought within a company, shareholders are subject to pay taxes. ~~The tax is paid~~ The tax paid is levied of the dividends received. Whereas in a partnership, tax is also paid but is levied of the income/net profit of both partners.

(iii) Continuity of Existence

In a partnership there is no continuity of existence because the partnership can be dissolved in accordance with the partnership deed whenever partners die or decide to leave. In a private company however there is continuity of existence since the company is a legal entity in its own right. Transfer of ownership would have no effect on its existence.

[6 marks]

Examiner's Comments

Candidates were required to distinguish between a partnership and a private company using three features. The distinguishing characteristics given by the candidate for each feature are as follows.

Liability of owners — the candidate indicated that, generally, partners have unlimited liability whereas shareholders have limited liability. However, the candidate did not clearly state that even in a limited partnership, at least one partner must have unlimited liability.

Taxation at the ownership level — The candidate stated that the partners pay taxes on their share of the net profit of the partnership whereas shareholders are taxed based on dividends received.

Continuity of existence — In a partnership, continuity of existence is affected by several factors whereas in a private company, continuity is not affected by changes in ownership.

The candidate highlighted that the differences between a private company and a partnership exist because in a private company, the company is seen as a separate legal entity from the shareholders whereas in a partnership, the company and the owners are considered one legal entity.

Candidate's Response to Part (d)

Write your answer to Question 2 (d) on the lines below.

1 March → "\$2 for 4" @ par \$2.

$$800,000 \div \$2 = 400,000 \text{ shares. } \text{BOD} \quad \text{so: } \frac{400,000}{4} \times \frac{1}{1} = 100,000 \text{ Bonus shares.}$$

$$\text{Value at par } \$100,000 \times \$2 = \$200,000$$

$$\text{Reduce share premium by } 200,000 \text{ so } (300,000 - 200,000) = 100,000 \text{ BOD}$$

$$\text{15 Dec } \rightarrow \$0.15 \times \text{ordinary shares} = \$0.15 \times 500,000 \text{ shares} = \$75,000 \text{ (Reduce Retain Earnings)}$$

$$\text{15 Dec } \text{BOD } 8\% \times 200,000 = \text{pref dividends due} = 16,000 \text{ (deduct from retained earnings).}$$

$$\bullet \text{ Ordinary share capital} = \$2 @ 500,000 \text{ shares} \times \$2 = 1,000,000.$$

$$\bullet \text{ Share Premium} = 300,000 - 200,000 = \$100,000$$

$$\bullet \text{ Retained earnings: } \$380,000 + \text{net profit } \$120,000 = \$500,000$$

$$\text{less pref div } \$ (16,000)$$

$$\text{less ordinary div } \$ (75,000)$$

$$\underline{\$ 409,000}$$

Nazarene Ltd

Shareholder's equity section of the statement of financial position as at 31 Dec 2019

Equity:

Share Capital:

Ordinary share capital @ \$2 1,000,000 ✓+

8% Preference shares capital @ \$1 200,000 ✓

Reserves

Share Premium 100,000 ✓+

Retained earnings 409,000 ✓+ ✓+

Shareholder's Funds 1,709,000

[9 marks]

Examiner's Comments

Candidates were required to prepare the shareholders equity section of the financial position as at 31 December 2019. In the exemplar, the information was well presented and the working was clearly shown. The share capital and reserves were presented separately and the extract was correctly labelled.

It must be noted that the ordinary share capital and the share premium reflect the effects of the bonus issue whereas the retained earnings reflect the effects of dividends and net profit for the period. The candidate correctly applied the convention that, as far as possible, bonus shares should be funded by capital reserves. The total calculated for shareholders' funds was clearly identified by the candidate.

Question 3

This question tested candidates' knowledge of Syllabus Objectives 3.4, 3.7 and 3.8 from Module 3: Financial Reporting and Interpretation.

The mean mark was 11.52 per cent.

Candidate's Response to Part (a)

Write your answer to **Question 3 (a)** on the lines below.

Johns Hall

2019

	\$	\$	\$
Statement of Comprehensive Income for the year ended 31 December			
Sales			3,000,000
Cost of sales:			
Inventory	78,000		
Purchases	1,200,000		
cost of goods available for sale	1,278,000		
closing inventory	(65,000)		
cost of goods sold			1,213,000
Gross profit			1,787,000
other revenue			
Selling and distribution expenses	(170,000)		
Investment revenue			67,000
Selling and distribution cost	170,000		
depreciation expense - equipment	15,750		
depreciation - Buildings	8,000		
Wages and salaries	21,600		
Total selling and distribution			(197,750)
Administrative expenses			
General administrative	290,000		
Wages and salaries	86,400		
depreciation equipment	36,150		
depreciation - buildings	78,750		
Finance costs	6,000		
Total administrative			(49,150)
finance costs			(50,000)

Candidate's Response to Part (c) (i)–(iii)

Write your answer to **Question 3 (c) (i)** on the lines below.

The acid test ratio shows the rate at which liquid assets can be used to pay off debts. Over the years the company's acid test ratio is decreasing meaning that they have less and less assets to pay debts. Their acid test ratio is always under the industry average. In order to rectify this the business can try decreasing their current liabilities the amount of stock they are holding since it takes away from the liquidity of the assets available.

[3 marks]

Write your answer to **Question 3 (c) (ii)** on the lines below.

The debt to equity ratio shows the level of current liabilities to the level of equity that John Hall Ltd has. Over the years there is a steady increase in the debt to equity ratio. The company ratio is also above industry average. This is negative as it implies that the business' debt is increasing each year. The business can improve their debt to equity ratio by decreasing their current liabilities or selling more shares to increase equity.

[3 marks]

Write your answer to **Question 3 (c) (iii)** on the lines below.

The times interest earned ratio looks at how much times the business can earn back its interest expense from its net income. The ratio for Johns Hall Ltd declines each year suggesting that either their interest has increased or their income has decreased. This suggests that the performance of the business is declining and the business should try to improve their income. The ratio is also below the industry average.

[3 marks]

Examiner's Comments

Candidates were required to analyse the performance of the relevant company using three given ratios over a three-year period and to give one recommendation to improve negative performance. In the exemplar, the candidate identified the trend, stated the implication and gave appropriate recommendations.