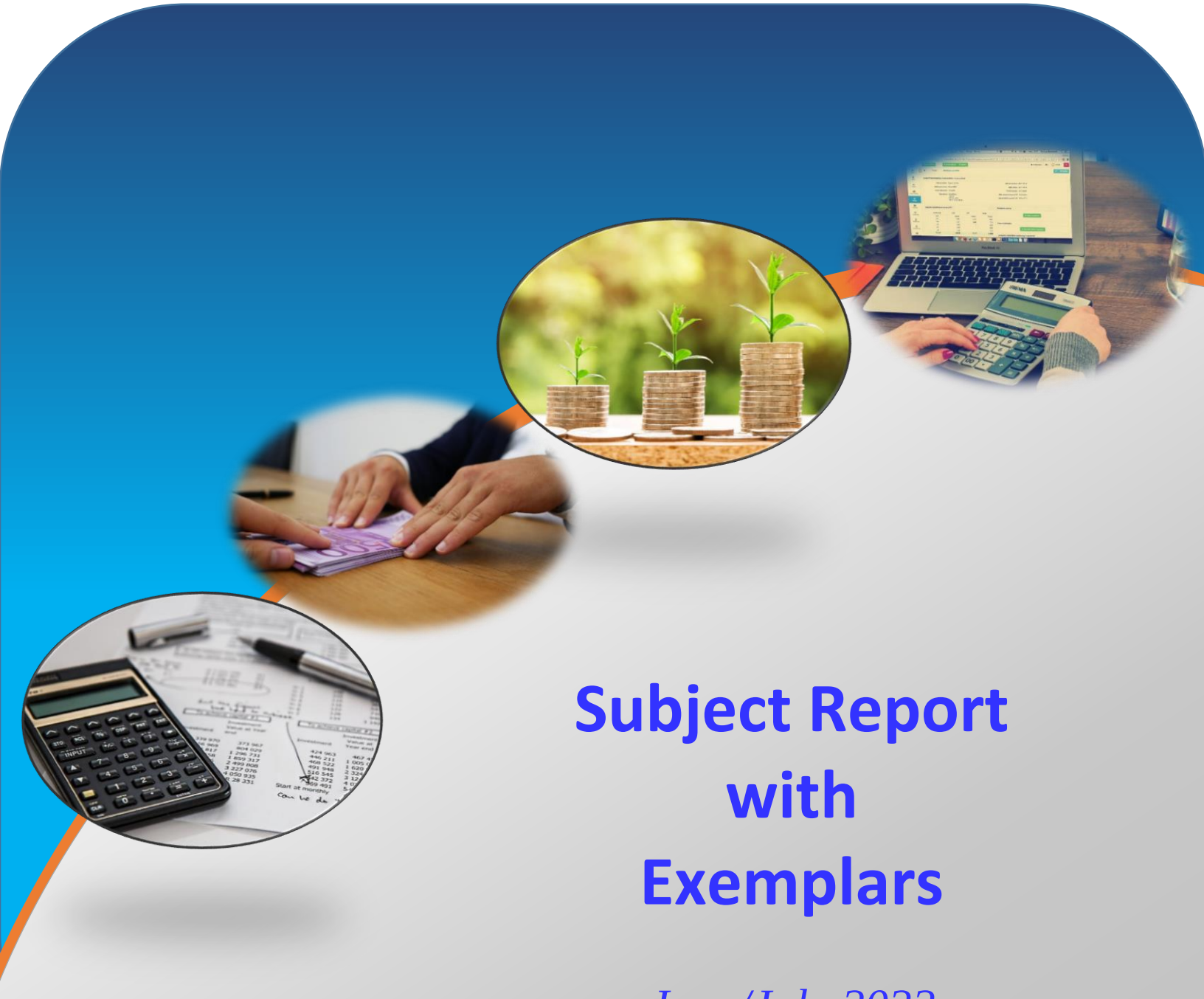
CARIBBEAN EXAMINATIONS COUNCIL

CAPE® ACCOUNTING UNIT 2



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 2

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INTRODUCTION

CAPE Accounting Unit 2 (Costing and Management Accounting) comprises three modules.

Module 1: Costing Principles
Module 2: Costing Systems
Module 3: Planning and Decision Making

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 nine questions, consisting of three questions per module.

For Unit 2, Paper 02, there were 1464 entries. This number represented a reduction in entries when compared with 2021. For Unit 2, Paper 032, there were 10 entries, which also represented a decline when compared with 2021.

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 75.38 per cent.

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.

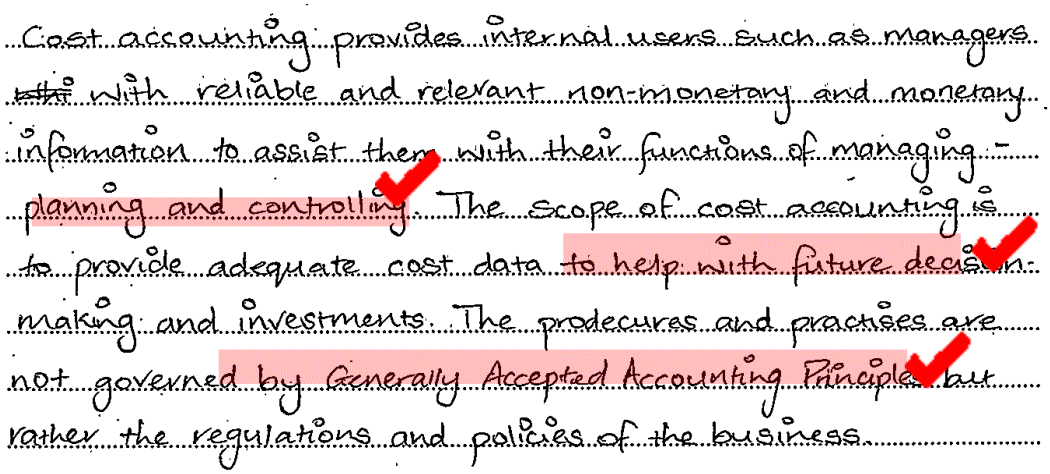
The mean mark was 47.39 per cent.

Question 1

This question tested candidates' knowledge of Syllabus Objectives 1.2 and 1.7 from Module 1: Costing Principles.

The mean mark was 50.14 per cent.

Candidate's Response to Part (a)


Cost accounting provides internal users such as managers ~~the~~ with reliable and relevant non-monetary and monetary information to assist them with their functions of managing - planning and controlling. The scope of cost accounting is to provide adequate cost data to help with future decision-making and investments. The prodecures and practises are not governed by Generally Accepted Accounting Principles but rather the regulations and policies of the business.

Examiner's Comments

Candidates were required to define cost accounting in relation to purpose, scope, and procedures and practices. In the exemplar, the candidate was able to define the three significant characteristics of cost accounting.

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

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

A 200 (1800 - 600)

B 1350 (1950 - 600)

C 30

D 20

E 15

F 20

G 15

H 20

I 27

J 30

K 35

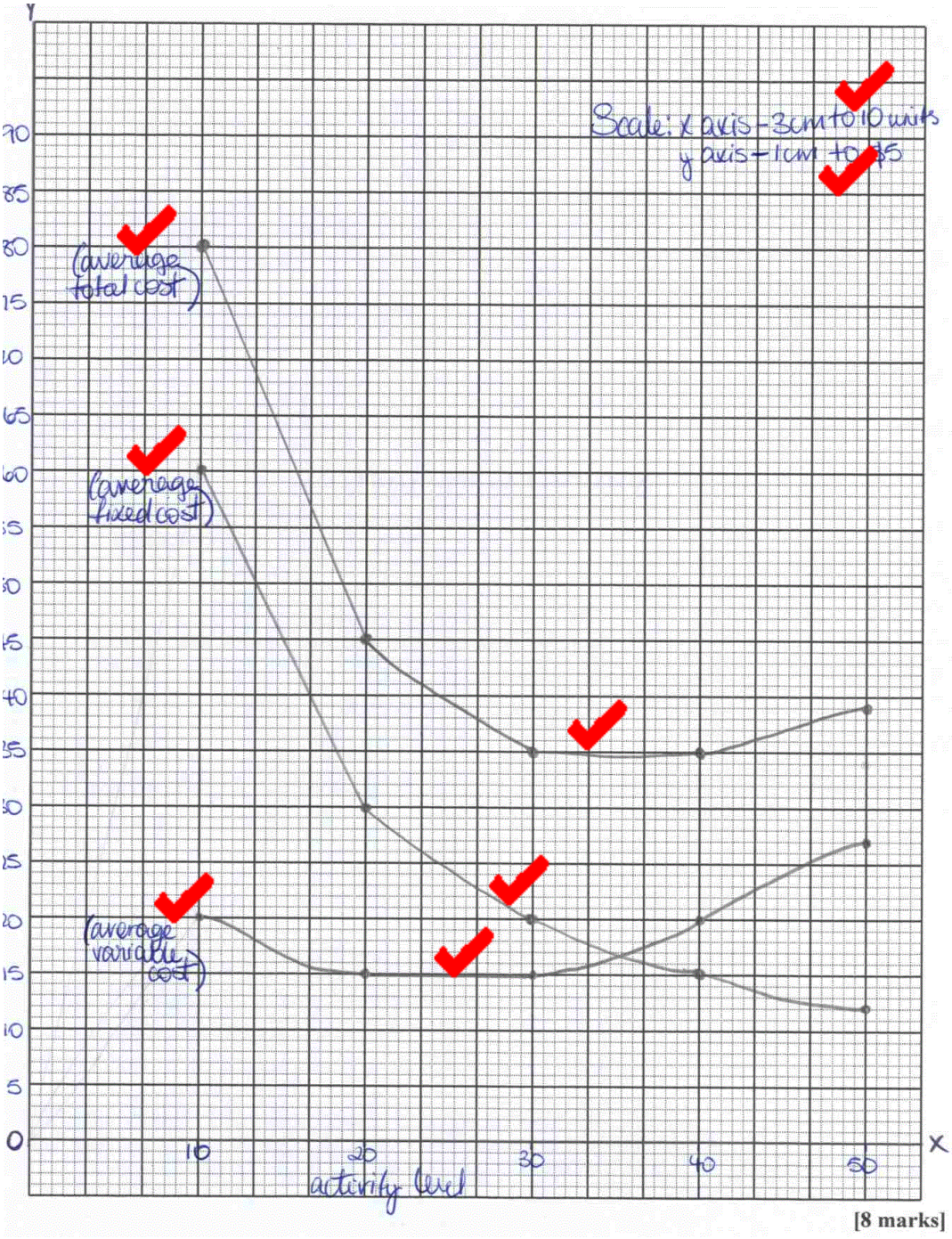
L 35

[6 marks]

Examiner's Comments

Candidates were required to insert the correct data for the information labelled A–L in the table. In the exemplar, the candidate demonstrated a clear understanding of how to calculate average fixed cost, average variable cost and average total cost. The candidate's response was thorough.

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

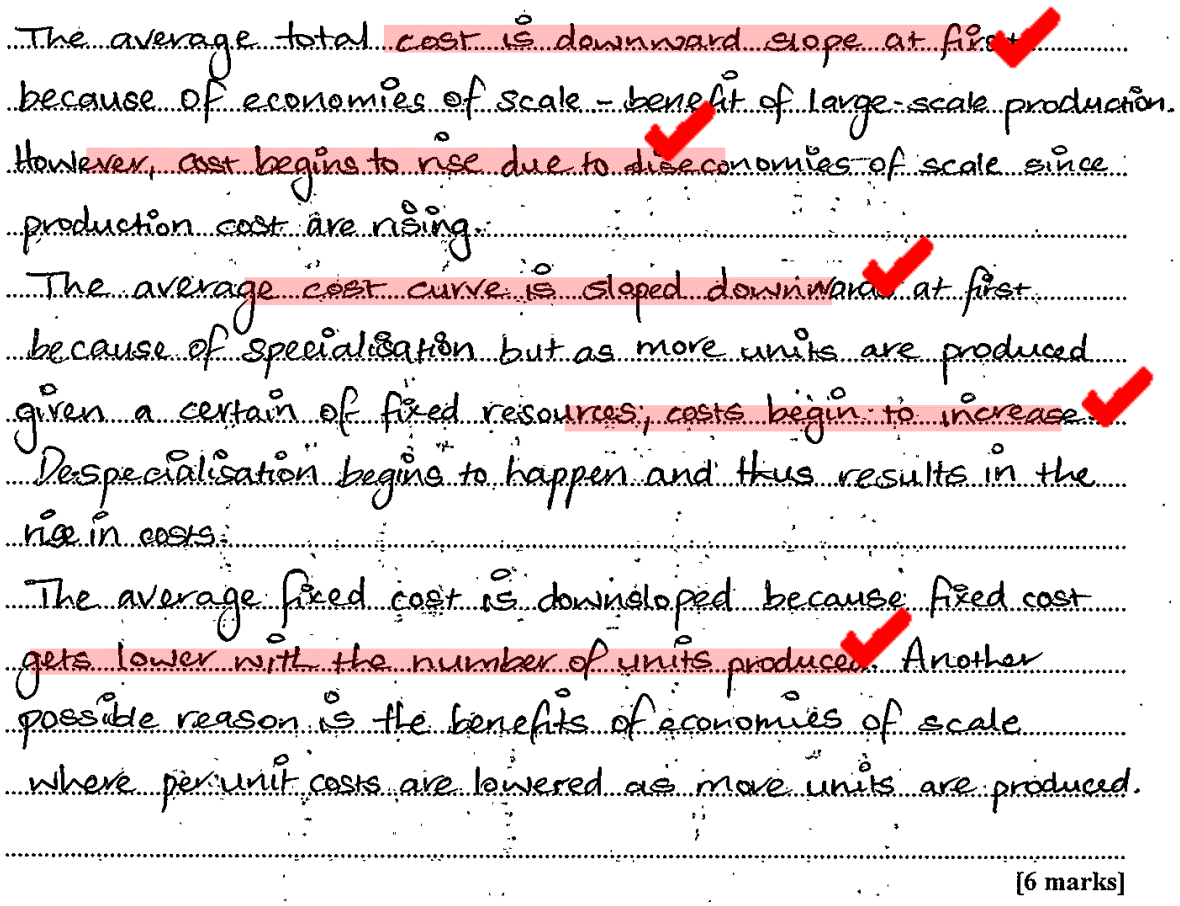


[8 marks]

Examiner's Comments

Candidates were required to sketch a graph of average variable cost, average fixed cost and average total cost using the information calculated in Part (b) (i). In the exemplar, the candidate drew the graphs satisfactorily, scaled them appropriately and labelled them correctly.

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



The average total cost is downward slope at first because of economies of scale - benefit of large-scale production. However, cost begins to rise due to diseconomies of scale since production cost are rising.

The average cost curve is sloped downward at first because of specialisation but as more units are produced given a certain of fixed resources, costs begin to increase. Despecialisation begins to happen and thus results in the rise in costs.

The average fixed cost is downsloped because fixed cost gets lower with the number of units produced. Another possible reason is the benefits of economies of scale where per unit costs are lowered as more units are produced.

[6 marks]

Examiner's Comments

Candidates were required to outline one reason for the shape of each curve that they drew in Part (b) (ii). In the exemplar, the explanation given by the candidate for the shape of the curves was accurate for the most part. The candidate also used the correct terminologies.

Candidate's Response to Part (c)

Write your answer to Question 1 (c) in the table below.

Overhead	Basis of Apportionment/ Allocation	Manufacturing $	Assembly $	Maintenance $	Recreational $
Rent	Area (sq metres) $75 000	40000	20000	10000	5000
Electricity	kW hours consumed $20 000	10800	5000	3000	1200
Machine depreciation	Machine value ($) $16500	9000	5250	1650	600
Indirect labour	Indirect Labour Budget $18 100	2400	11200	3000	1500

Examiner's Comments

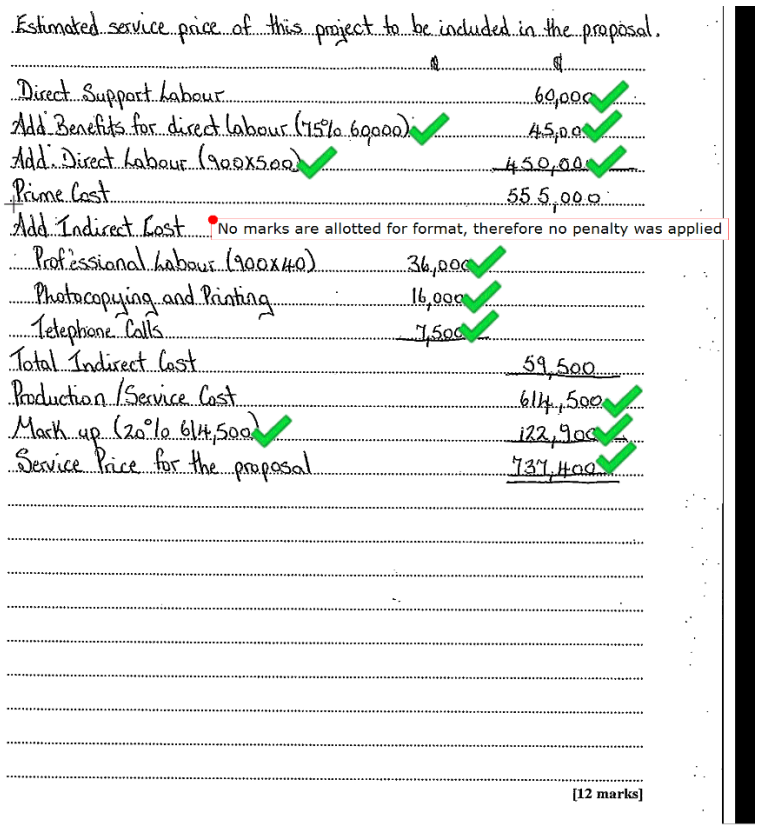
Candidates were required to determine the basis on which the given categories of costs would be allocated and to use the appropriate overhead allocation base to complete the table. In the exemplar, the candidate's response was thorough. The candidate also demonstrated a clear understanding of the overhead's allocation and apportionment.

Question 2

This question tested candidates' knowledge of Syllabus Objectives 2.5, 2.6, 2.10 and 2.11 from Module 2: Costing Systems.

The mean mark was 58.14 per cent.

Candidate's Response to Part (a)



Estimated service price of this project to be included in the proposal.

	$	$
Direct Support Labour		60,000
Add Benefits for direct labour (75% 60000)		45,000
Add. Direct Labour (900x500)		450,000
Prime Cost		555,000
Add Indirect Cost		
Professional Labour (900x40)	36,000	
Photocopying and Printing	16,000	
Telephone Calls	7,500	
Total Indirect Cost		59,500
Production /Service Cost		614,500
Mark up (20% 614,500)		122,900
Service Price for the proposal		737,400

No marks are allotted for format, therefore no penalty was applied

[12 marks]

Examiner's Comments

Candidates were required to compute the estimated service price of the project. In the exemplar, the candidate included all direct costs in the calculation. Direct labour cost and benefits for direct labour were correctly calculated by the candidate. The correct principle was used in the calculation of the overhead rate and the application of overhead to the job and the total cost was clearly identified. The candidate correctly calculated and identified the markup. The total service price was correctly calculated and clearly identified. All supporting working was shown.

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

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

Absorbtion costing is a process that derives the cost of units ~~goods sold~~ by taking into consideration fixed manufacturing cost. It treats it as a product cost along with direct material, direct labour and variable manufacturing cost. Period cost however are non manufacturing costs. Marginal costing on the other hand determines the cost of units by not taking fixed ~~co~~ manufacturing cost into account. It is treated as a period cost as an expense. Therefore with marginal costing, the product cost are only made up of direct materials, direct labour and variable manufacturing costs.

[4 marks]

Examiner's Comments

Candidates were required to explain the difference between absorption costing and marginal costing. In the exemplar, the candidate correctly identified the difference in how fixed production overhead is treated under each type of costing. The candidate clearly stated that these costs are treated as a product cost under absorption costing and as a period cost under marginal costing.

The candidate distinguished between the costing methods based on the user perspective. Marginal costing was identified as being used for internal reporting, while absorption costing is used for external reporting.

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

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

A cost centre refers to the areas in which activities that incur costs as they are carried out occur.

A profit centre is the opposite in that instead of incurring costs, activities are taking place to generate revenue, and thus a profit.

Examiner's Comments

Candidates were required to explain the difference between cost centre and profit centre. In the exemplar, the candidate did so correctly.

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

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

Setup	650 000 / 800	$812.50 per set up
Maintenance	800 000 / 20 000	$40 per machine hour
Inspection	500 000 / 25 000	$20 per inspection

Examiner's Comments

Candidates were required to calculate the activity cost driver rates for three areas — setup, maintenance and inspection. In the exemplar, the candidate identified the correct cost driver to be used to calculate the activity rate and also used the correct method to calculate the rate (*estimated cost/activity driver*). The candidate also clearly identified the rate per unit of the activity driver. The supporting working was clearly shown.

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

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

Job QP3514	Allen and Smith	
	$	$
Direct materials	15 00	
Direct labour	6000	
Prime cost		21 000
Overhead:		
Set-up		3 250
Maintenance		4 800
Inspection		140
Total cost		29 190

[9 marks]

Examiner's Comments

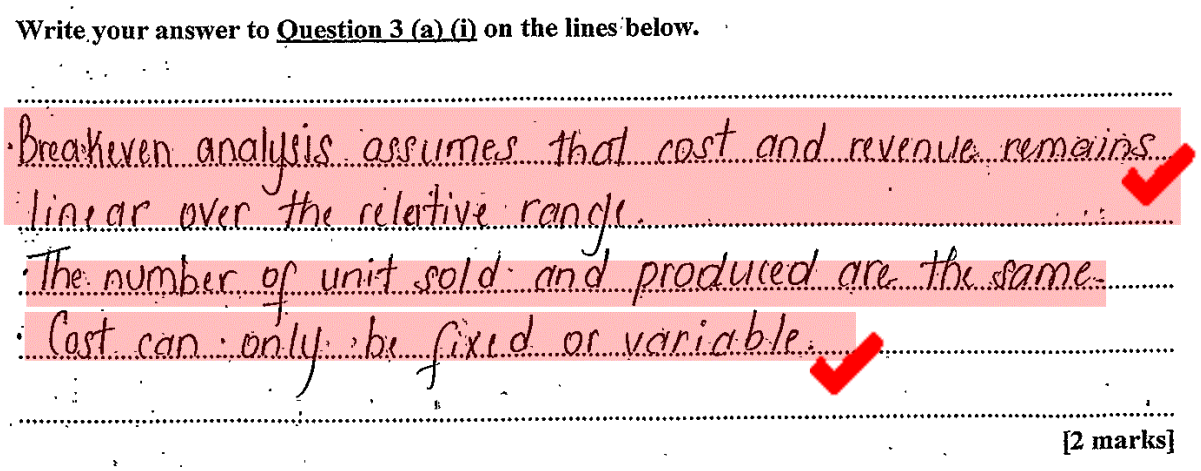
Candidates were required to calculate the total cost of the job mentioned in the case using activity costing. In the exemplar, the candidate identified all direct costs associated with the job. The candidate also applied the activity rates to the activity levels of the job correctly to calculate each overhead element. The response was well presented. The candidate clearly distinguished between direct (prime) cost and overhead cost. The supporting working was clearly shown.

Question 3

This question tested candidates' knowledge of Syllabus Objectives 3.1, 3.2 and 3.5 from Module 3: Planning and Decision Making.

The mean mark was 33.86 per cent.

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



Examiner's Comments

Candidates were required to state two assumptions of breakeven analysis. In the exemplar, the candidate was able to do so using a concise but thorough response.

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

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

Product A CM = $450 / 5 = $90 per m/hr

Product B CM = $300 / 2 = $150 per m/hr

* Product B produced first because higher contribution margin

Schedule showing production qty

Product	m/hrs used	No. to produce
B	12500 x 2 = 25 000 hrs	12 500
A	(40000 - 25000) 15 000 hrs	3 000 (15000/5)
	40 000 hrs	

CM = CM of B + CM of A

= (12 500 x $300) + ($450 x 3000)

= $5 100 000

Optimum CM = $5 100 000

Examiner's Comments

Candidates were required to use limiting factor analysis to calculate the optimum total contribution margin for the company. In the exemplar, the candidate was able to do so accurately.

Candidate's Response to Part (b)

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

Two functions of the budget committee:

1) To Co-ordinate departmental budgets with the master budget

2) To review the budget reports from the various departments, ~~taking corrective action~~.

[2 marks]

Examiner's Comments

Candidates were required to state two functions of the budget committee in an organization. In the exemplar, the candidate demonstrated knowledge of the functions of the budget committee within an organization. The response was concise and succinct.

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

Write your answer to Question 3 (c) (i) on the lines below. period not specified

Lagoon Ltd.

Cash Collections Schedule for the 5 months ending February, 2020

	Month of collection				
Month of Sale:	Oct.	Nov.	Dec.	Jan.	Feb.
October (1,000,000)	360,000	240,000			
November (700,000)		420,000	280,000		
December (800,000)			480,000	320,000 465,000	
January (775,000)				465,000	310,000
February (850,000)					510,000
Total collected	360,000	660,000	760,000	785,000	820,000

[4 marks]

Examiner's Comments

Candidates were required to prepare a cash collections schedule. In the exemplar, the candidate demonstrated an understanding of preparing a cash receipts schedule. The components of cash collections and collections from credit sales were distinct. The periods of collection were also correct.

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

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

Direct Materials - $15,000

Direct Labour - $6,000

Setup Cost = 812.5 x 4 = $3250

Maintenance - 40 x 120 = $4800

Inspection - 20 x 7 = $140

Total Cost of Job = $29,190

Examiner's Comments

Candidates were required to prepare a cash disbursement schedule for purchases. In the exemplar, the candidate demonstrated an understanding of how to do so correctly. There were no extraneous items and the periods for payments were correct.

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

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

Cash Budget:

	January	February	Total $
Balance B/F	$75 000	[illegible] 000	145 000
Cash Collections	[illegible] 5 000	$820 000	1605 000
Total Cash	$860 000	890 000	1750 000
Purchases	$286 000	$354 000	640 000
Expenses	[illegible] 30 000	$300 000	530 000
Equipment	$[illegible] 00 000		450 000
Disbursements	$(966 000)	$(654 000)	(1620 000)
Excess	$(106 000)	$236 000	1 300 000
Finance			
Borrowing	$[illegible]76 000	~~$30 000~~	(176 000)
Interest		12% x $176 000/12 ($1760)	1760
Repayment		~~($5 [illegible])~~ ($164 240)	164 240
Closing Balance	$70 000	$70 000	

[9 marks]

Examiner's Comments

Candidates were required to prepare a cash budget. In the exemplar, the candidate applied the correct format in preparing the cash budget. The interest was prorated and the repayment was correctly calculated to maintain the minimum balance.