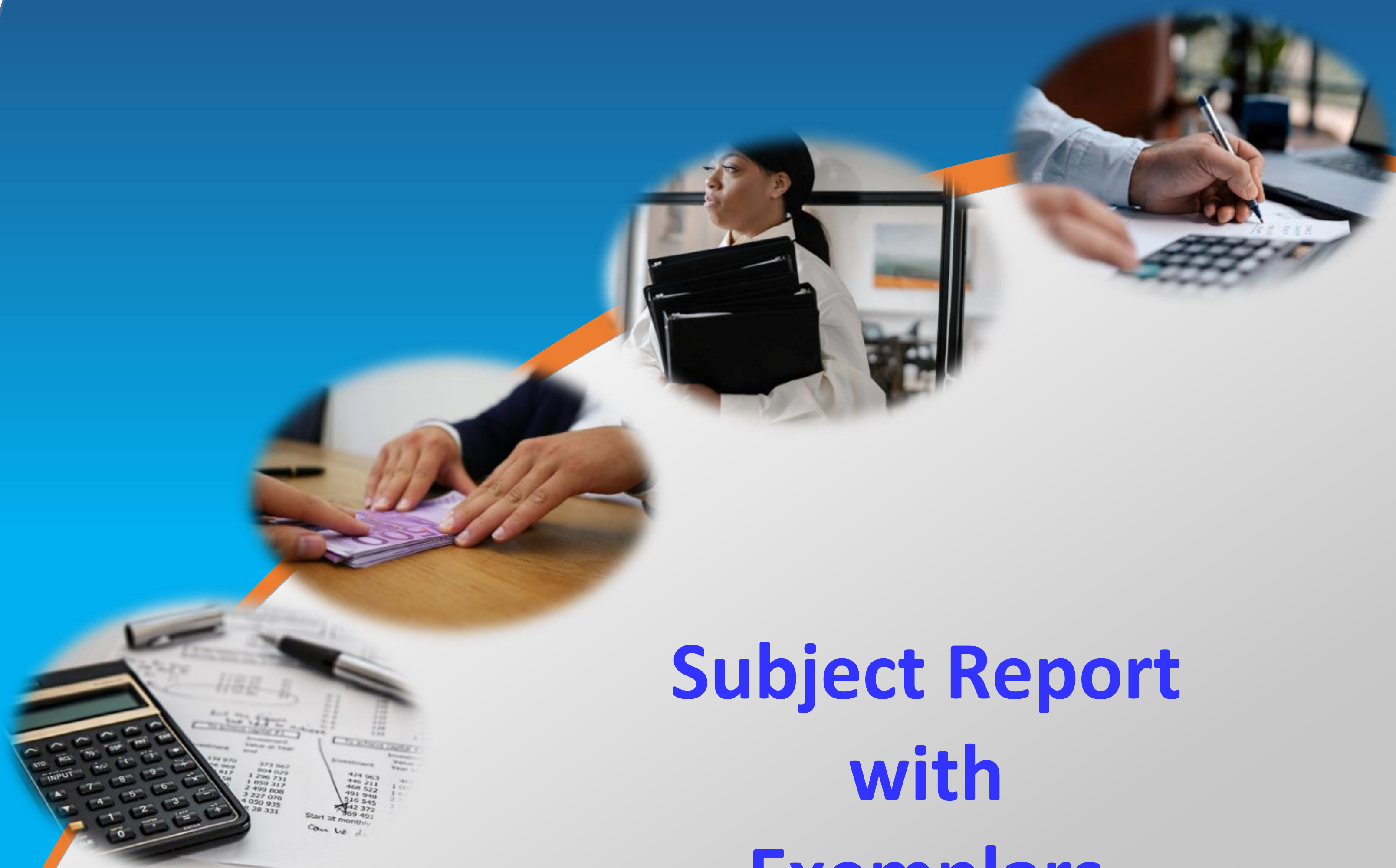
CARIBBEAN EXAMINATIONS COUNCIL

CAPE® ACCOUNTING UNIT 1



Subject Report with Exemplars

May/June 2024

CARIBBEAN EXAMINATIONS COUNCIL

REPORT ON CANDIDATES' WORK IN THE CARIBBEAN ADVANCED PROFICIENCY EXAMINATION

MAY/JUNE 2024

ACCOUNTING
UNIT 1

Table of Contents

INTRODUCTION

The CAPE Accounting examination comprises the following papers.

- Paper 01 consists of 45 multiple-choice items, 15 items from each of the three modules.
- Paper 02 consists of three questions, a mixture of computations and short essays. Each module is covered by a separate question.
- Paper 031 is a school-Based Assessment (SBA), marked by the class teacher and moderated by CXC.

After four consecutive years of decline, candidate entries for Unit 1 increased slightly from 1549 in 2023 to 1689 in 2024. However, overall candidate performance declined significantly; only 77.05 per cent of candidates achieved Grades I-V compared with 91.14 per cent in 2023 and 87.52 per cent in 2022.

PAPER 01 — MULTIPLE CHOICE

Candidates' performance on the multiple-choice items produced a mean score of 68.18 per cent, compared with 79.25 per cent in 2023. This reflects a noticeable decline in performance.

PAPER 02 — STRUCTURED ESSAY

This paper comprises three compulsory questions which assessed content from all three modules.

- Module 1 — Accounting Theory, Recording and Control Systems
- Module 2 — Preparation of Financial Statements
- Module 3 — Financial Reporting and Interpretation

The mean mark for this paper was 21.54 per cent.

Question 1

Candidate's Response to Parts (a) (i) – (ii)

(a) State the meaning of the following accounting constructs.

(i) Concept of realization

(ii) Prudence concept

[2 marks]

1a (i) The concept of realization is that revenues are recorded when realized and expenses are recorded when incurred and not only when cash is received or paid.

(ii) The prudence concept states that when the business is given a choice they should always overstate expenses and understate revenues or assets so that they won't run into financial trouble later on

Examiner's Comments

The two concepts in Part (a) (i) and Part (a) (ii) were defined adequately. This response was succinct and points were clearly stated.

Candidate's Response to Parts (b) (i) – (ii)

(b) On the day of an inventory count, the following observations were made.

I. The prenumbered count sheets being used included the inventory ledger balances which needed to be checked against the physical inventory.

II. Staff had to remember which inventory had been counted.

III. Count sheets were filled out in pencil.

IV. The staff counting the inventory were inventory warehouse staff and all of them were friends.

V. Count sheets were collected at the end of the count; however, they were not signed.

For EACH of the observed activities I–V,

(i) identify ONE weakness **[5 marks]**

(ii) state how the weakness identified can be overcome. **[5 marks]**

i. I : This inclusion of the ledger balances may confuse employees; ~~and~~ the numbers may mislead employees and influence the accuracy of the physical inventory check.

II : Humans are ~~so~~ prone to mistakes and errors. Solely relying on human memory when counting inventory can lead to duplication or redundancies which will affect the accuracy of the check

III : Pencil is easily smudged or erased which can lead to numbers being misinterpreted or having to perform the check again, which is not efficient.

IV. With all the same personnel performing the same task, it leaves room for fraud or theft. The fact that they are all well aquainted with each other adds to the risk.

' V. The ~~ever~~ count sheets being left unsigned leaves room for the possibility of error and fraud going unnoticed.

ii. I: Allow inventory to be checked on a template with zero additional information that is not ~~pertinent~~ relative to the task to ensure accuracy.

II: Create tags or stickers to place on counted stock so that the count is not reliant on human memory alone.

III: Ensure that count sheets are filled out in a permanent medium, such as pen, to ensure legibility.

IV: Ensure that ~~task~~ similar tasks are segregated, and assigned to different individuals with impersonal relationships.

V: Allow count sheets to be signed by managers or other authorized personnel that were independent of the task to minimize the risk of error or fraud.

Examiner's Comments

A full explanation using the correct terminology was provided.

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

(c) (i) On 01 January 2020, Grant Limited purchased a truck for $13 000 with a useful life of five years and a residual value of $1 000. The company uses the straight-line method to calculate depreciation on the truck. On 01 January 2023, Grant Limited decided to extend the useful life of the truck to six years and to list the residual value as $2 200.

Journalize depreciation for EACH of the years ended

- 31 December 2021 **[2 marks]**
- 31 December 2023. **[4 marks]**

1c(i) Grant Limited

GENERAL JOURNAL

Date	Details	Debit	Credit
2021		$	$
Dec 31	Profit and Loss A/c	2,400	
	Depreciation	calculation done	
(ii)			
2023	~~Deprecia~~ Profit and Loss A/c	1,200	
Dec 31	Depreciation		1,200

(ii) Working:

Net Book value at Dec 2022 = 13,000 − 7,200

= ~~58,00~~ 5,800

No. of years useful life left = 6 − 3 = 3 years

~~Debr~~ Depreciation = $\frac{5,800 - 2,200}{3}$

= $\frac{3,600}{3}$

= 1,200

Examiner's Comments

The journal entry was completed correctly, with adequate calculations.

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

(ii) Grant Limited reported the following balances on its equity accounts at the beginning of the financial year.

	$
Share capital — Redeemable preference (6% $50 par, cumulative 10 000 shares authorized)	400 000
Share capital — Ordinary ($1 stated value, 2 000 000 shares authorized)	1 000 000
Share premium — Preference	100 000
Share premium — Ordinary	1 450 000
Retained earnings	181 000

During the financial year, the company had the following transactions and events.

1. Issued 30 000 ordinary shares for $120 000.
2. Issued 7 000 ordinary shares for a patent valued at $32 000.
3. Issued 5 000 ordinary shares in settlement of consultancy fees for the restructuring of business operations overseas. The consultancy fees amounted to $25 000.
4. Redeemed 1 000 6% redeemable preference shares at a premium of $5 per share. No new shares are to be issued to fund this redemption.
5. Determined that net income for the year was $400 000.

Required

Prepare the journal entries to record the transactions above **[Narratives are not required]**. **[17 marks]**

(1) c ii) GENERAL JOURNALS

DATE	DETAILS	$	$
(1)	DR CASH	120,000	
	CR ~~Ord.~~ 30,000 Ordinary Shares		30,000
	CR Share Premium		90,000
(2)	DR PATENT	32,000	
	CR 7,000 Ord. Shares		7000
	CR Capital Paid in Excess of Par		25,000
(3)	DR CONSULTANCY FEES exp	25,000	
	CR 5000 Ord. shares		5,000
	CR ~~Capital Paid~~ Capital paid in excess of par		20,000
(4)	DR Redemption of 6% 1000 Pref Shares	50,000	
	DR Share ~~CR~~ Premium	5,000	
	CR CASH		55,000
(5)	DR Income Summary	400,000	
	CR Ret. Earnings		400,000

Examiner's Comments

This candidate completed most of the journal entry and correctly calculated all the relevant figures required.

Question 2

Candidate's Response to Part (a)

(a) Outline ONE advantage and ONE disadvantage of public limited companies when compared with private limited companies. **[4 marks]**

In public limited companies shares are sold on the stock market. This helps the company to acquire a large amount of capital to operate the business. Private limited companies however only can sell shares to limited amount of private individuals hence not as much capital is acquired. Public limited companies however, have to disclose financial information to the general public. This causes lack of privacy and increased scuiting. On the other hand private limited companies are not required to do this.

Examiner's Comments

The candidate demonstrated knowledge of the advantages and disadvantages of public companies compared with private limited, correctly providing one advantage and one disadvantage. The response includes the following.

- Transfer of ownership is easier for shareholders of public companies as shares can be traded on the stock exchange; private companies often restrict shareholders' ability to sell shares because they cannot be traded on the stock exchange.
- Public companies have greater access to capital as shares can be sold to the public; private companies cannot issue shares to the public; therefore, they are restricted in their access to capital.
- Public companies are required to publish their audited financial statements; private companies are not required to do so, or there is a higher cost of compliance for public companies/high regulation and scrutiny.
- When forming a public company, a minimum capital requirement must be met before a certificate of incorporation is issued; there is no minimum requirement for private companies.

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

(b) Compare partnerships, public limited companies and non-governmental organizations in terms of EACH of the following.

(i) Elements of equity **[3 marks]**

The equity of partnerships contain the capital, salaries, interest on capital, and the share of profit for each partner. In public limited companies equity is the total shares issued and the retained earnings. In a non governmental organization equity consists of income received such as donation and subscriptions received by members.

Examiner's Comments

This candidate demonstrated knowledge of the elements of equity for partnerships, public companies, and non-government organizations. The response includes the following.

- Partnership business elements of equity are current accounts, the share of profit, salaries, interest on capital, and capital invested.
- Public company's elements of equity are ordinary shares, preference shares, retained earnings, and reserves.
- Non-government elements of equity are donations, fundraising, surplus from income and expenditure, and accumulated funds.

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

(ii) Liability of owners **[3 marks]**

ii) In partnerships ~~members~~ owners have unlimited liability meaning that their personal assets are at risk in the case of bankruptcy.
In public limited companies owners have limited liability meaning that their personal assets are not at risk and their loss is limited to the amount invested in the company.
In non-governmental organizations members have limited liability

Examiner's Comments

The candidates demonstrated knowledge of the liabilities of the partnership, public company, and non-government organization.

- Partnership — Unlimited liability
- Public Company — Limited liability
- Non-government — Limited Liability

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

(iii) Transfer of ownership **[3 marks]**

Partnership: ~~A ktth #~~ Ownership interest may be challenging to transfer as their are requirements and procedures for the admission of new partners ~~How~~ It is usually a challenging process as the ~~app~~ concessus of other partners is needed. Public Companies: It can be easily done as shares can be traded, inherited or sold by partners without the consess of other shareholders. Ngo:- Ownership cannot be transferred unless stated by a legislative Act of Parliment / Government Body.

Examiner's Comments

This candidate demonstrated knowledge of the transfer of ownership for partnerships, public companies, and non–governmental organizations.

- Partnership — Transfer is difficult as the partnership must be dissolved, and/or the original partners would need to agree to the admission of the new partner.
- Public company — Ease of transfer of ownership as shares can be sold to others or sold on the stock on the exchange.
- Non-government — No transfer of ownership.

Candidate's Response to Part (c)

(c) Barry, Frodo and Sam have been in partnership for several years, sharing profit in the ratio of their fixed capital. Barry wishes to retire at the end of 2022. The balance sheet of the partnership at that date is as follows.

	Book Value $	Valuation $
Assets		
Cash	120 000	
Accounts receivable	110 000	
Inventory	175 000	
Vehicle	230 000	
Land and buildings	860 000	900 000
Goodwill	0	120 000
	$1 495 000	
Liabilities and capital		
Accounts payable	60 000	
Loan payable	375 000	
Capital		
Barry	300 000	
Frodo	500 000	
Sam	200 000	
Current accounts		
Barry	40 000	
Frodo	20 000	
	$1 495 000	

Barry has agreed to take $50 000 in cash and to leave the balance remaining from his capital as a loan to the partnership.

Required

Prepare the journal entries to show the revaluation of partnership assets and Barry's withdrawal from the company. **[10 marks]**

c) Barry, Frodo and Sam
General Journal

Date	Detail	Debit $	Credit $
2022 Dec. 31	Land and Buildings	40000	
	Valuation Reserve		40000
	To record ~~valuation~~ increase in value of land and buildings.		
Dec. 31	Goodwill	120000	
	Valuation Reserve		120000
	To record increase in Goodwill		
Dec. 31	Valuation Reserve	160000	
	Barry's ~~Capital~~ Current Account		48000
	Frodo's ~~Capital~~ Current Account		80000
	Sam's ~~Capit~~ Current Account		32000
	To record share of profit on valuation		
Dec. 31	Barry's Current Account	88000	
	Barry's Capital Account		88000
	To record transfer of current account to capital account.		

Workings:

Valuation Reserve

2022	$	2022	$
Dec 31 Transfer to Partners:		Dec 31 Land and Buildings	40000
Barry (3/10)	48000	Dec 31 Goodwill	120000
Frodo (1/2)	80000		
Sam (1/5)	32000		
	160000		160000

Ratio of Sharing

Barry : Frodo : Sam

300000 : 500000 : 200000

3 : 5 : 2

Total in Barry's Current a/c

= $40000 + $48000 = $88000

Barry, Frodo and Sam
General Journal

Date	Details	Debit	Credit
Dec 31	Barry's Capital Account	388000	
	Cash		50000
	Loan - Barry		338000
	To record withdrawal of Barry from company and loan from Barry		

Working

Total in Barry's Capital Account = \$300000 + \$88000

= \$388000

Amount of loan from Barry = \$388000 − \$50000

= \$338000

Examiner's Comments

The required journal entries were accurately presented. The goodwill, revaluation amount of the land and building, and the closing of Barry's current account to the respective capital accounts were correctly applied.

The journal entries were well-formatted with the

- debit and credit columns clearly identified
- debit entry preceding the credit entry
- credit entry indented
- appropriate narrations stated.

Candidate's Response to Part (d)

(d) The following is the trial balance for Green Acres Ltd.

Trial Balance
As at 31 December 2021

	$	$
Common stock (par value $2)		380 000
Paid-in capital in excess of par		142 500
Retained earnings		499 575
8% Bonds payable		380 000
Property, plant and equipment	1 425 000	
Accumulated depreciation		304 000
Short-term investments	52 250	
Purchases and sales	1 392 225	3 040 475
Returns	47 975	68 780
Dividends received		6 935
General administrative expenses	738 170	
General selling and distribution costs	421 680	
Freight inwards	31 255	
Inventory — 01 January 2021	489 820	
Dividend paid	33 250	
Trade receivables and payables	475 760	323 880
Interest paid	15 200	
Bank	23 560	
	5 146 145	5 146 145

Additional information

- Inventory at 31 December 2021 amounted to $654 000. The corporation tax rate is 25%.
- The 8% bonds were issued on 01 January 2018.

- Depreciation on property, plant and equipment is charged on the reducing balance basis at a rate of 10% per annum. It should be allocated as 20% selling and administration costs: 80% administrative costs.

- Utilities expense was included in general administrative expenses. On 31 December, unpaid utilities amounted to $3 500.

- Directors declared a 1 for 10 stock dividend to preserve the company's liquidity position and so did not pay cash dividends.

Required

Prepare the statement of comprehensive income for the period ended 31 December 2022, in accordance with the provisions of the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs). **[12 marks]**

Candidate's Response to Part (d)

Green Acres Ltd.

Statement of Comprehensive Income for the period ended 31 December, 2022

	$	$	$
Sales			3040475 ~~1392225~~
Less: Sales returns			(47975)
Net Sales			2,992,500
Less: Cost of Sales			
Opening Inventory		489, 820	
Add purchases	1,392,225		
Add Freight Inwards	31, 255		
Less: Purchases returns	(68,780)		
ADD ~~Net~~ net purchases		1,354,700	
Cost of goods available for sale		1,844,520	
less closing inventory		(654,000)	
Cost of Sales			(1,190520)
Gross Profit			1,801,980
Less: Operating Expenses			
Selling and Distribution Expenses			
General Selling & Distribution costs	421,680		
Depreciation - 20%	22420	444,100	
Administrative Expense			
General	741670		
Depreciation - 80%	89680	831,350	
Total Operating Expenses			(1,275450)

	₵	₵	₵
Income from Primary Operations			526,530 ~~526,580~~
Other Revenues and expenses:			533465
Dividend revenue			6935
			533465
Less: Interest expense			(30400)
Income before tax			503065
Taxation expense (25%) ~~Income after tax~~			(125766)
Income after tax			377299

12-3=9

	₵
Net Income	377,299
Add Retained Earnings b/f	499575
Less: Stock dividend	(19,000)
Retained Earnings c/f	857874

Stock Dividend:

$\rightarrow \left[\frac{190000}{10} \times 1\right]$

Selling: ~~selling~~

Depreciation $= \frac{20}{100}\left[\frac{10}{100}(1142500 - 304000)\right]$

$= ₵\ 22420$

Admin:

Depreciation $= \frac{80}{100}\left[\frac{10}{100}\left[1142500 - 304000\right]\right]$

39680

$= ₵\ 89680$

General Expense $= 738170 + 3500 = ₵\ 741670$

Examiner's Comments

The candidate did not present a comprehensive income statement; however, the information was accurately presented in the traditional income statement format, demonstrating knowledge of the income statement.

As prescribed by the standard for the income statement, net sales, cost of goods sold, administrative expense and selling expenses, other revenue and expenses, and net income were clearly and correctly identified. The depreciation expense for both categories of expense was also calculated correctly using the reducing balance method. Additionally, the bond interest and corporation tax were calculated and treated correctly.

Question 3

Candidate's Response to Part (a)

Method 1: Current Cost Accounting (CCA)

This alternative combats and provides for the true value of money during inflationary periods by utilizing the market value of assets rather than ~~the~~ its cost price. It disregards the historical cost concept that uses the value of the asset at cost price and utilizes the current market value of what the asset is expected to be worth.

Method 2: Current Purchasing Power (CPP)

Another method that can be used is the CPP which converts the historical cost i.e. the cost price of an asset to its current market value by using a general price index (GPI). This GPI is multiplied by the cost value of the asset to recognise its present value and reflect current market conditions.

Examiner's Comments
The methods were identified and the values used for each were explained.

Candidate's Response to Parts (b) (i) – (viii)

(b) Mustaf Ltd supplies local hotels with plumbing and electrical equipment. The following relates to the financial statements for the year 2021.

Condensed Statement of Comprehensive Income for the Year Ended 31 December 2021

	$	$
Revenue:		
Cash sales	300 000	
Credit sales	450 000	750 000
Gross profit		530 000
Profit before interest and tax		300 000
Finance cost		30 000
Net profit before tax		270 000
Tax		67 500
Profit after tax		202 500

Statement of Financial Position as at 31 December 2021

	$	$
Non-Current Assets		
Property, plant and equipment		1 137 500
Current Assets		
Inventory	42 000	
Trade receivables	72 000	
Cash and bank	543 000	657 000
		1 794 500
Capital and Reserves		
Ordinary shares @ $0.25	225 000	
7% Preference shares @ $1 each	100 000	
General reserves	92 000	
Retained earnings	407 500	824 500
Non-Current Liabilities		
3% Mortgage	600 000	
6% Loan	200 000	800 000
Current Liabilities		
Payables	85 000	
Interest	20 000	
Tax	65 000	170 000
		1 794 500

Additional information

- Opening inventory on 01 January 2021 was $36 000.
- Preference share dividend for 2021 was paid in full and ordinary share dividend of 8% was paid.

Required

Calculate EACH of the following ratios for 2021.

(i)	Gearing ratio	**[2 marks]**
(ii)	Times interest earned	**[2 marks]**
(iii)	Inventory turnover	**[3 marks]**
(iv)	Collection period	**[2 marks]**
(v)	Accounts receivable collection period	**[2 marks]**
(vi)	Accounts payable payment period	**[2 marks]**
(vii)	Earnings per share	**[2 marks]**
(viii)	Dividend payout ratio	**[2 marks]**

i) Gearing ratio = $\frac{\text{Total long term liabilities} \times 100}{\text{Total shareholder's Equity}}$

$= \frac{\$800,000 \times 100}{\$824,500}$

$= 97.03\%$

ii) Times interest earned / Interest cover = $\frac{\text{Income before tax and interest}}{\text{Interest expense}}$

$= \frac{\$300000}{\$30000}$

$= 10$ times

iii) Inventory turnover = $\frac{\text{Cost of Goods Sold}}{\text{Average Inventory*}}$

Revenue − Gross Profit

$= \cancel{\text{Gross Profit} - \text{Revenue}} = \frac{750000 - 530000}{39000}$

$39000

$= 5.64$ times

* Average inventory = $\frac{\text{opening inventory} + \text{closing inventory}}{2}$

$\frac{36000 + 42000}{2} = \$39000$

iv) Collection period = $\frac{\cancel{\text{Average}}\ \text{Trade Accounts receivables} \times 365}{\text{Credit sales}}$

$= \frac{\$72000 \times 365}{\$450000} = 58.4$ days or 59 days

v) Accounts receivables collection period = 58.4 days

vi) Accounts payable payment period = $\frac{\cancel{\text{Average}}\ \text{Account payable} \times 365}{\text{Cost of Goods Sold (Revenue − Gross Profit)}}$

$= \frac{\$85000 \times 365}{\$750,000 - 530000} = \$141$ days

vii) Earnings per share = Net Income after tax / ordinary shares in issue   # 225000 / $0.25 per share = 900000

= 202500 / 900000 shares#

= $0.225 per ordinary share

viii) Dividend payout ratio = ordinary share dividends / ~~Common~~ Net Income – Preferred dividends x 100

= 8% of 202500   16200 x 100 / 188,325 = 8.6%

202500 – 14175

Examiner's Comments
Formulas were correctly stated in Part (b) (i) and Part (b) (vi), and all workings were clearly shown. However, the candidate did not treat the dividends correctly in Part (b) (vii) and Part (b) (viii).

Candidate's Response to Part (c)

(c) Mustaf Ltd is a family-owned business. A board member is preparing to attend her first board of directors meeting and was presented with the financial ratios that will be discussed. She has no knowledge of ratio analysis and needs your assistance in preparing for the meeting.

Ratios	2022	2023	Industry Average
Gearing	45%	48%	42%
Times interest earned	12 times	11 times	15 times
Inventory turnover	6.22 times	8 times	7 times
Collection period	95 days	97 days	92 days

Discuss EACH of the ratios above and analyse the performance of the company for 2023.
[12 marks]

Gearing ratio measure how much of the financing of a business comes from debt. A highly geared company is closer to 50% and up, the higher the gearing ratio percentage the more of the funds come from debt financing. The lower the gearing percentage means that financing of the business comes from equity meaning from savings, dividends received, etc. Mustaf Ltd gearing ratio percentage in 2022 was 4[illegible]% and in 2023 increased to 48%. This means that Mustaf Ltd borrowed more in 2023. These percentages shows that Mustaf Ltd is highly geared meaning more of their financing comes from debt. This may be a bad thing as they would be paying alot interest from loans etc to avoid this they can try to increase revenue to avoid debt financing so that the money earned can be reinvested in the business.

Times interest earned measures the ability of the firm to be able to pay the interest of the firm from debt financing. In 2022 interest cover was 12 times and in 2023 it decreased to 11 times. It shows as Mustaf borrows more; engage in debt financing it becomes harder to repay, to avoid not be able to pay interest the firm can borrow less and source finances elsewhere like from sales; reinvest in the business.

Inventory turnover measures the amount of times a firm replenishes stock. This ratio shows how fast stock is sold and replaced in a firm. In Mustaf Ltd it shows that stock was sold and replaced 6.22 times in 2022 and increased in 2023 to 8 times. ~~It~~ It shows there was an improvement ~~by~~ by 1.78 times. This might have been able because of sales maybe sales increase or they bought less supplies at ~~a~~ a time. However the more times a firm restocks show the ability to efficiently manage stock by buying enough and disposing through sales efficiently. So the performance in inventory turnover may have improved.

The collection period is the amount of time Mustaf gives their customers to pay their debt It is seen in 2022 they are given 96 days and it increased in 2023 to 97 days. The shorter the collection period is better for businesses, so ~~the~~ Mustaf needs to give shorter periods to collect payment in order to maximise profits. So the shorter the time period the better for Mustaf Ltd.

Examiner's Comments

This response provided clear definitions of ratios. Also, implications or recommendations were made. Correct trends between the two years were identified; however, a comparison with the industry average should have been included.

PAPER 031 — SCHOOL BASED ASSESSMENT

The School-Based Assessment comprised three module tests of 90 minutes each constructed, administered and marked by the teacher. Teachers may opt to administer two 45-minute tests for a module instead of one 90-minute test.