



CARIBBEAN EXAMINATIONS COUNCIL

Caribbean Advanced Proficiency Examination[®]

CAPE[®]

ACCOUNTING SYLLABUS

Effective for examinations from May-June 2013

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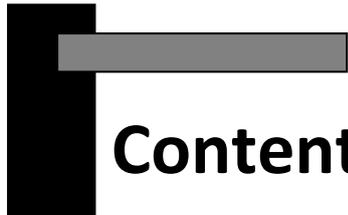
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Please note that the syllabus has been revised and amendments are indicated by italics.

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Introduction

The Caribbean Advanced Proficiency Examination (CAPE) is designed to provide certification of the academic, vocational and technical achievement of students in the Caribbean who, having completed a minimum of five years of secondary education, wish to further their studies. The examinations address the skills and knowledge acquired by students under a flexible and articulated system where subjects are organised in 1-Unit or 2-Unit courses with each Unit containing three Modules. Subjects examined under CAPE, may be studied concurrently or singly.

The Caribbean Examinations Council offers three types of certification at the CAPE level. The first is the award of a certificate showing each CAPE Unit completed. The second is the CAPE Diploma, awarded to candidates who have satisfactorily completed at least six Units including Caribbean Studies. The third is the CXC Associate Degree, awarded for the satisfactory completion of a prescribed cluster of seven CAPE Units including Caribbean Studies and Communication Studies. For the CAPE Diploma and the CXC Associate Degree, candidates must complete the cluster of required Units within a maximum period of five years.

Recognised educational institutions presenting candidates for CXC Associate Degree in one of the nine categories must, on registering these candidates at the start of the qualifying year, have them confirm in the required form, the Associate Degree they wish to be awarded. Candidates will not be awarded any possible alternatives for which they did not apply.



Accounting Syllabus

◆ RATIONALE

Accounting is the financial system that provides relevant information to anyone who owns, manages or uses economic resources or engages in economic activity. As an information system catering to internal and external users, several branches of accounting have emerged. The external users, such as investors, creditors, legislators and customers have particular interest in Financial Accounting while managers, as internal users, have interest not only in Financial Accounting but also in Cost and Management Accounting.

Financial Accounting deals with recording, summarising and communicating economic events of entities based on established principles, standards and legislation. The study of Financial Accounting will provide individuals with some of the prerequisites needed for careers in public accounting. In addition, the study of Financial Accounting will assist individuals in their roles as customers, employees or potential investors to evaluate the performance of businesses using published financial statements and other accounting information.

The study of Cost and Management Accounting will develop in individuals the appropriate attitudes in planning, controlling and decision making which are critical skills needed to effectively manage businesses in a dynamic environment. This branch of accounting draws on information from the accounting system as well as methods and techniques used in other disciplines in order to provide individuals with a set of tools which can be used not only in businesses but also in their personal lives.

The syllabus will not only provide a good foundation for further study of Accounting at pre-professional and professional levels, but will assist students in the development of the requisite skills, competencies, attitudes and values that are critical for success in today's business environment.

Additionally, it will inculcate tenets of the Ideal Caribbean Person as articulated by the CARICOM Heads of Government. That is, "someone who demonstrates a positive work ethic" and "values and displays the creative imagination in its various manifestations and nurtures its development in the economic and entrepreneurial spheres." In addition, in keeping with the UNESCO Pillars of Learning, on completion of this course of study students will learn to know, learn to do, learn to be, and learn to live together having been exposed to the values implicit within human rights, and democratic principles, among others.

◆ AIMS

The syllabus aims to:

1. foster an understanding and appreciation of the principles and practices of Accounting;
2. develop a capacity for systematic and critical thinking which would serve as a base for further study as well as for application in the working and social environment;
3. develop an awareness of the links between concepts in Accounting and those pertaining to other disciplines;
4. develop knowledge and skills for decision-making in accounting;
5. develop the capacity to *research and* communicate accounting information in written, numerical and diagrammatic form appropriate to its purpose;
6. provide students with an understanding and appreciation of social, economic and technological aspects of Accounting in the dynamic Caribbean environment;
7. develop ethical consciousness and moral integrity in financial undertakings.

◆ SKILLS AND ABILITIES TO BE ASSESSED

The assessment will test candidates' skills and abilities to:

- (a) recall, select and use appropriate formulae, concepts and principles in a variety of contexts;
- (b) collect, classify, record and communicate accounting information to users of financial statements in a logical way;
- (c) use accounting standards and legislation to make interpretations, judgements and recommendations appropriate to their environment;
- (d) *plan, control and make decisions using relevant financial and non-financial data.*

◆ PRE-REQUISITES OF THE SYLLABUS

Any person with a good grasp of the Caribbean Secondary Education Certificate (CSEC) Principles of Accounts syllabus, or its equivalent, should be able to pursue the course of study defined by this syllabus. Successful participation in the course of study will also depend on the possession of *research* and written communication skills.

◆ STRUCTURE OF THE SYLLABUS

This is a two-Unit syllabus. The two Units are independent of each other and may be completed in any order. Each Unit is further subdivided into three (3) Modules as described below. In this syllabus, International Financial Reporting Standards for Small and Medium-sized entities (IFRS for SMEs) 2009 and International Accounting Standards (IAS) have been used as the basis for application of principles and the presentation of financial statements.

Unit 1: Financial Accounting

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

Unit 2: Cost and Management Accounting

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

Each Module requires at least 50 hours. These modules need not be accessed in the order presented in the syllabus. A thematic approach may be used for teaching and learning the material presented. Total time for each Unit is expected to be 150 hours.

◆ UNIT 1: FINANCIAL ACCOUNTING

MODULE 1: ACCOUNTING THEORY, RECORDING AND CONTROL SYSTEMS

GENERAL OBJECTIVES

This Unit seeks to enable students to:

1. develop an understanding and appreciation of the principles and concepts of Financial Accounting and their application to business situations;
2. understand the role of Financial Accounting as an information system which can be used as an aid to decision-making;
3. develop an understanding and appreciation of the existence and use of accounting standards and legislation for the preparation, analysis and reporting of financial information;
4. develop an appreciation of the *role* of Accounting in changing economic and social environments.

SPECIFIC OBJECTIVES

Students should be able to:

1. describe the nature and scope of Financial Accounting;
2. discuss accounting methods for recording financial information;
3. justify the use of standards in Accounting;
4. *discuss the conceptual framework of Accounting;*
5. prepare journal entries to record changes in assets, liabilities, capital, expenses and income *using Generally Accepted Accounting Principles (GAAP);*
6. justify the use of control systems in organisations;
7. assess the impact of technology on Financial Accounting.

UNIT 1

MODULE 1: ACCOUNTING THEORY, RECORDING AND CONTROL STSTEMS (cont'd)

CONTENT

1. The Nature and Scope of Financial Accounting

- (a) The development of Accounting.
- (b) The significance and limitations of accounting information.
- (c) The users of accounting information and their needs.
- (d) The accounting cycle.

2. Accounting Methods

- (a) Accrual basis.
- (b) *Cash* basis.

3. Accounting Standards

- (a) The standard-setting process and the development of standards.
- (b) The use of International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs) 2009, and International Accounting Standards (IAS) in the preparation of financial statements.

4. Conceptual Framework of Accounting

- (a) Objectives of Financial Reporting.
- (b) Qualitative characteristics of accounting information – relevance, reliability, consistency, comparability, understandability, substance over form.
- (c) Elements of financial statements – components of the Statement of Financial Position (Balance Sheet), Statement of Comprehensive Income (Income Statement), Statement of Changes in Equity, Statement of Cash Flows and Notes to Financial Statements.
- (d) Accounting principles, concepts and conventions – historical cost, prudence, materiality, going concern, entity, monetary, revenue recognition, matching principles.

UNIT 1

MODULE 1: ACCOUNTING THEORY, RECORDING AND CONTROL STSTEMS (cont'd)

5. Recording Financial Information

- (a) The double-entry system of accounting as it relates to liabilities, assets, revenues, expenses, adjustments, capital and reserves.
 - (i) Capital and reserves:
 - issue of shares (par value and no par value) excluding forfeiture;
 - redemption of shares;
 - capital reserves - the uses of capital reserves;
 - revenue reserves - appropriation of corporate profits.
 - (ii) Issue and redemption of long-term liabilities (at par only).
 - (iii) Short-term and long-term investments - purchase and sale, excluding discounts and premiums.

6. Accounting and Administrative Control Systems

- (a) The internal control system.

Internal controls as they relate to:

- (i) inventory;
 - (ii) cash;
 - (iii) accounts receivable;
 - (iv) accounts payable.
- (b) The role of the auditor:

Internal vs. *external auditor*

7. Technology and Financial Accounting

- (a) Theoretical assessment of manual vs. computerised accounting systems.
- (b) Controls *necessary in the electronic data-processing (EDP) environment*.

UNIT 1

MODULE 1: ACCOUNTING THEORY, RECORDING AND CONTROL STSTEMS (cont'd)

Suggested Teaching and Learning Activities

This Module requires 50 hours of work inclusive of time spent on the School-Based Assessment.

1. **The Nature and Scope of Financial Accounting**

This area attempts to familiarise students with the framework within which Financial Accounting takes place, highlighting the diverse users and their need for accounting information. This information can be found in an introductory chapter of most Financial Accounting texts.

2. **Accounting Methods**

Students should be encouraged to research businesses where the accrual or cash basis of accounting may be more appropriate.

3. **Accounting Standards**

- (a) Students should be encouraged to research the development of accounting standards.
- (b) A guest lecturer should be used, if possible, to discuss the role of the International Accounting Standard Committee (IASC) and its relevance to the particular territory. Discussion should also emphasise the role of the local institutes of chartered accountants where they exist.
- (c) Students should be encouraged to examine the notes of financial statements of public companies to identify the accounting policies used.

4. **Conceptual Framework of Accounting**

- (a) A chart should be used to depict the conceptual framework of accounting and illustrating the interrelationships among:
 - (i) objectives of Financial Reporting;
 - (ii) qualitative characteristics of accounting information – relevance, reliability, consistency, comparability, understandability and substance over form;
 - (iii) elements of financial statements – components of the Statement of Financial Position (Balance Sheet) and Statement of Comprehensive Income (Income Statement): Statement of Changes in Equity and Statement of Cash Flows;
 - (iv) accounting principles, concepts and conventions.

UNIT 1

MODULE 1: ACCOUNTING THEORY, RECORDING AND CONTROL STSTEMS (cont'd)

5. Recording Financial Information

- (a) Students should be practised in preparing journal entries as they relate to liabilities, assets, revenues, expenses, adjustments, capital and reserves.
- (b) Students should be encouraged to research:
 - (i) the issuance of shares (at par and no par value);
 - (ii) issue and redemption of long-term liabilities and investments.

6. Accounting and Administrative Control Systems

- (a) This area is designed to provide students with *in-depth* knowledge of internal control systems and related benefits. The controls in an EDP environment should be limited to security issues such as passwords and encryption, and disaster recovery.
- (b) *Candidates should be exposed to a storeroom of a local business to relate the theory of internal controls to the physical application.*
- (c) A guest lecturer from an auditing firm may be used to discuss the role of internal and external auditors.
- (d) Students should be encouraged to illustrate the linkages among control systems, recording financial information and accounting standards.

7. Technology and Financial Accounting

Students should be encouraged to assess the use of manual accounting systems, computers in accounting and computerised accounting systems.

UNIT 1

MODULE 2: PREPARATION OF FINANCIAL STATEMENTS

SPECIFIC OBJECTIVES

Students should be able to:

1. describe the various forms of business organisations;
2. assess critically the advantages and disadvantages of the various forms of organisations;
3. distinguish among private, public and statutory corporations;
4. prepare Statement of Comprehensive Income (Income Statements) for business entities, using established accounting guidelines;
5. prepare Statement of Changes in equity for business entities, using established accounting guidelines;
6. prepare Statement of Financial Position (Balance Sheets) for business entities, using established accounting guidelines;
7. prepare financial statements from incomplete records or where financial records are deficient or erroneous;
8. prepare income and expenditure accounts for non-commercial entities;
9. create accounts related to changes in partnerships with respect to admission, retirement and dissolution;
10. create accounts relating to the purchase of an unincorporated business by a limited company;
11. prepare a Statement of Financial Position (Balance Sheet) extract to illustrate the issue and repayment of capital;
12. apply a given corporation tax rate to net income.

CONTENT

1. **Forms of Business Organisations**
 - (a) Sole traders or proprietorships.
 - (b) General and limited partnerships.
 - (c) Corporations.

UNIT 1

MODULE 2: PREPARATION OF FINANCIAL STATEMENTS (cont'd)

- (d) Co-operatives.
- (e) Non-profit-making organisations, including non-governmental organisations (NGOs).

2. Advantages and disadvantages of the various business organisations.

3. Corporations

- (a) Private.
- (b) Public.
- (c) Statutory, state, chartered.

4. Statement of Comprehensive Income (Income Statement) Preparation

Using International Accounting Standards (IAS) and *International Financial Reporting Standards for Small and Medium-sized entities (IFRS for SMEs) 2009* relating to Statement of Comprehensive Income (Income Statement):

Section in IFRS for SMEs	Source	Description
Section 3	IAS 1	Presentation of Financial Statements
Section 5	IAS 1	Statement of Comprehensive income (income statement)
Section 13	IAS 2	Inventories
Section 23	IAS 18	Revenue

UNIT 1

MODULE 2: PREPARATION OF FINANCIAL STATEMENTS (cont'd)

5. Statement of Changes in Equity

Using International Accounting Standards (IAS) and *International Financial Reporting Standards for Small and Medium-sized entities (IFRS for SMEs) 2009* relating to Statement of Changes in Equity:

Section in IFRS for SMEs	Source	Description
Section 6	IAS 1	Statement of changes in equity and Statement of Comprehensive income and retained earnings

6. Statement of Financial Position (Balance Sheet) Preparation

Using International Accounting Standards (IAS) and *International Financial Reporting Standards for Small and Medium-sized entities (IFRS for SMEs) 2009* relating to Statement of Financial Position (Balance Sheets):

Section in IFRS for SMEs	Source	Description
Section 4	IAS 1	Statement of Financial Position
Section 13	IAS 2	Inventories
Section 17	IAS 16	Property, Plant and Equipment
Section 22	IAS 1	Liabilities and equity

7. Preparation of Financial Statement from Incomplete Records

- (a) Control Accounts.
- (b) Statement of Affairs.
- (c) Receipts and Payments.
- (d) Corrections of errors.

UNIT 1

MODULE 2: PREPARATION OF FINANCIAL STATEMENTS (cont'd)

8. Income and Expenditure Accounts

- (a) *Non-profit making Organisations.*
- (b) *Non Governmental Organisations.*

9. Accounting for Changes in Partnership

- (a) *Admission.*
- (b) *Retirement.*
- (c) *Dissolution (including insolvent partners).*

10. Incorporation of an Unincorporated Business

- (a) *Purchase of an unincorporated business.*
- (b) *Conversion of an unincorporated business to an incorporated business.*

11. Accounting for changes in corporations

- (a) *Raising and repayment of capital.*
- (b) *Preparation of Statement of Financial Position (Balance Sheet) extract.*

12. Corporation Tax

Treatment of corporation tax in financial statements.

Suggested Teaching and Learning Activities

This Module requires 50 hours of work inclusive of time spent on the School-Based Assessment.

1. Forms of Business Organisations

- (a) Students should be encouraged to research the various forms of business organisations in their respective territories with special emphasis on companies, cooperatives and NGOs.

UNIT 1

MODULE 2: PREPARATION OF FINANCIAL STATEMENTS (cont'd)

- (b) Role play can be used to highlight the advantages and disadvantages of the various forms of business organisations and, at the same time, assist in developing such skills as communication and negotiation.

2. Financial Statement Preparation

- (a) Students should be practised in the preparation of financial statements for the various forms of business entities using the International Accounting Standards *and International Financial Reporting Standards for Small and Medium-sized entities (IFRS for SMEs) 2009* identified.
- (b) Students should be encouraged to collect and examine financial statements of the various forms of business organisations in their respective countries.
- (c) Exposure to the relevant sections of local legislation relating to the preparation of financial statements for state enterprises, corporations and cooperatives could assist students in the School-Based Assessment.
- (d) Should be practised in *computing* and reporting Corporation tax.
- (e) Students should be practised in the preparation of Financial Statements from financial information that is deficient or erroneous.

3. Accounting for Changes in Ownership Structure

- (a) Students should be practised in the preparation of journal entries and posting to ledger accounts relating to corporations:
 - (i) raising and repayment of capital (including bonus and rights issues);
 - (ii) purchasing of unincorporated businesses;
 - (iii) Statement of Financial Position (Balance Sheet) extracts could be used to illustrate the financial statement resulting from the above activities;
 - (iv) students should be practised in the preparation of accounts relating to changes in partnerships.

UNIT 1

MODULE 3: FINANCIAL REPORTING AND INTERPRETATION

SPECIFIC OBJECTIVES

Students should be able to:

1. discuss social and ethical issues in financial reporting;
2. explain the impact of inflation on financial statements;
3. describe the accounting treatment for contingencies and events after the end of the reporting period (post balance sheet events);
4. prepare financial statements in a form suitable for publication, using disclosure requirements and relevant legislation;
5. prepare statement of cash flow;
6. compute ratios to test solvency, liquidity, profitability and activity;
7. explain the significance and limitations of financial statements;
8. analyse the *financial* performance of an entity;
9. distinguish between liquidation and receivership.

CONTENT

1. ***Disclosure requirements relating to social and ethical issues in financial reporting***
2. ***Inflation and Accounting***
 - (a) *The impact of inflation on asset values in financial statements prepared under the historical basis.*
 - (b) *Alternatives to historical cost accounting:*
 - (i) *current cost accounting;*
 - (ii) *fair value.*

UNIT 1

MODULE 3: FINANCIAL REPORTING AND INTERPRETATION (cont'd)

3. *Contingencies and Events after the end of the reporting period*

Presentation in financial statements.

Section in IFRS for SMEs	Source	Description
Section 21	IAS 37	Provisions, Contingent Liabilities and Contingent Assets.
Section 32	IAS 10	Events after the Reporting Period.

4. *Published Financial Statement*

(a)

Section in IFRS for SMEs	Source	Description
Section 3	IAS 1	Financial Statement Presentation
Section 4	IAS 1	Statement of Financial Position
Section 5	IAS 1	Statement of Comprehensive Income and Income Statement
Section 6	IAS 1	Statement of Changes in Equity
Section 8	IAS 1	Notes to Financial Statements
Section 22	IAS 1	Liabilities and Equity

(b) Legal requirements and consequences specific to various countries.

5. *Preparation of Statements of Cash Flow (indirect method only)*

Section in IFRS for SMEs	Source	Description
Section 7	IAS 7	Statement of Cash Flows

UNIT 1

MODULE 3: FINANCIAL REPORTING AND INTERPRETATION (cont'd)

6. Ratio Analysis

- (a) Liquidity.
- (b) Solvency.
- (c) Activity.
- (d) Profitability.

7. *Limitations of Financial Statements*

- (a) Historical.
- (b) Use of estimates and aggregation.
- (c) Use of accounting policies.

8. *Analysis of Performance*

- (a) Ratio Analysis.
- (b) Limitations of Ratio analysis.
- (c) Vertical Analysis/Common size.
- (d) Horizontal *analysis/Comparative*.

9. Liquidation and Receivership

- (a) Definition; causes and steps in the receivership and liquidation processes.
- (b) Role of the liquidator and receiver.

UNIT 1

MODULE 3: FINANCIAL REPORTING AND INTERPRETATION (cont'd)

Suggested Teaching and Learning Activities

This Module requires 50 hours of work inclusive of time spent on the School-Based Assessment.

1. Students should be encouraged to examine financial statements with special emphasis on the disclosure provided in the notes.
2. Students should be encouraged to discuss the limitations of financial statements. The discussion should also focus on the impact of inflation on the statements.
3. Students should be encouraged to read newspapers, magazine articles and professional accounting journals which would expose them to the broad area of corporate social responsibility and its related social, environmental and ethical issues.
4. Preparation of Statement of Cash Flows (indirect method only).
 - (a) Students should be practiced in the preparation of statement of cash flows as required by Section 7 IFRS for SMEs.
 - (b) Students should be encouraged to critically assess the usefulness of statements of cash flow.
5. Ratio Analysis and its Limitations.
 - (a) Students should be practiced in the calculation of the following ratios:
 - (i) liquidity: current ratio, acid test (quick ratio);
 - (ii) solvency: debt to total asset, debt to equity or gearing, time interest earned or interest cover;
 - (iii) activity: inventory turnover ratio, payables or payment period, receivables or collection period;
 - (iv) profitability: gross margin percentage, net income percentage, ROA, ROCE, price-earnings ratio, earnings per share, dividend pay-out ratio, dividend per share.
 - (b) Students should be practiced in report writing highlighting the analysis of financial statements and their limitations.
6. Liquidation and Receivership.
 - (a) Class discussion on the causes of and related issues in receivership and liquidation.
 - (b) Discussion and role play may be undertaken on the role of, and steps in, receivership and liquidation.

UNIT 1

MODULE 3: FINANCIAL REPORTING AND INTERPRETATION (cont'd)

RESOURCES

- Caribbean Examinations Council *CAPE Accounting Study Guide, Unit 1*, Nelson Thornes Publishers, 2011.
- Meigs, R., Meigs, W., and Meigs, M. *Introduction to Accounting*, London: McGraw Hill, 1996.
- Meigs, A. F., Whittington, R. and Meigs, M. *Financial Accounting*, Meigo, 9th edition, The McGraw Hill Companies, 1997.
- Randall, H. *Accounting for CAPE*, London: Cambridge University Press, 2007.
- Randall, M. *Advanced Level Accounting*, London: Letts Educational, 1996.
- Weygandt, J., Keiso, D., Kell, W. *Accounting Principles*, New York: John Wiley and Sons, 7th edition, 1990.
- Weygandt, J., Keiso, D., and Kell, W. *Principles of Financial Accounting*, New York: John Wiley and Sons Inc., 2007.

International Accounting Standards Board, International Financial Reporting Standards for Small and Medium-sized Entities (2009).

Companies Act of any Caribbean territory

Published Financial Statements

<http://www.ifrs.org/IFRS+for+SMEs/IFRS+and+related+material.htm>

◆ UNIT 2: COST AND MANAGEMENT ACCOUNTING

MODULE 1: COSTING PRINCIPLES

GENERAL OBJECTIVES

This Unit seeks to enable students to:

1. understand the principles and methods of Cost and Management Accounting and their application to practical business situations;
2. *select, order, analyse and present information in an appropriate accounting form;*
3. evaluate economic, legal, social and technological factors for decision-making;
4. *present reasoned explanations, understand their implications and communicate them in a clear and logical manner;*
5. *understand and appreciate the importance of qualitative characteristics in the decision-making process;*
6. develop the techniques of Cost and Management Accounting for planning activities, controlling operations and making decisions.

SPECIFIC OBJECTIVES

Students should be able to:

1. discuss the nature and scope of Cost Accounting and Management Accounting;
2. discuss the similarities and differences between Cost and Management Accounting and Financial Accounting;
3. prepare manufacturing accounts;
4. distinguish between direct and indirect labour;
5. apply methods of remuneration to situations where each may be appropriate;
6. classify costs in relation to inventory valuation, decision making, and planning and control;
7. construct various cost curves;
8. explain the principles of material control and inventory valuation;
9. distinguish among inventory valuation methods;
10. calculate economic order quantity (EOQ);

UNIT 2

MODULE 1: COSTING PRINCIPLES (cont'd)

11. allocate overhead and service department costs;
12. apply principles and methods of calculating costs for the production of goods and services.

CONTENT

1. Introduction to Cost and Management Accounting

- (a) *The importance and role of Management Accounting.*
- (b) *The role of Cost Accounting in manufacturing and service industries.*

2. Cost and Management Accounting Vs. Financial Accounting

Differentiation between Cost and Management Accounting and Financial Accounting.

3. Manufacturing Accounts

- (a) *Prime costs.*
- (b) *Overheads.*
- (c) *Work-in-Process.*
- (d) *Cost of goods manufactured.*
- (e) *Cost of goods sold.*

4. Labour Costs

- (a) *Direct and indirect labour.*
- (b) *Changes in labour cost in light of technological advances.*

5. Remuneration

- (a) *Piece rate.*
- (b) *Hourly rate.*

UNIT 2

MODULE 1: COSTING PRINCIPLES (cont'd)

- (c) *Commissions.*
- (d) *Fixed salary.*
- (e) *Combinations of these.*

6. **Cost Classification**

- (a) Inventory valuation (product and period cost).
- (b) Decision making (relevant and irrelevant cost).

Relevant costing:

- (i) *make or buy decisions;*
 - (ii) *add or drop process;*
 - (iii) *accept or reject special order.*
- (c) Planning and control (controllable and non controllable costs; planned cost and actual costs).
 - (d) Fixed, variable and mixed.

7. **Cost Curves**

- (a) *Variable Cost Curves.*
- (b) *Fixed Cost Curves (total and unit).*
- (c) *Total Cost Curve.*
- (d) *Step Fixed Cost Curve.*
- (e) *Step Variable Cost Curve.*
- (f) *Mixed Cost Curve.*

8. **Material Control**

- (a) Procurement function.
- (b) Implication of the use and disposal of hazardous materials.

UNIT 2

MODULE 1: COSTING PRINCIPLES (cont'd)

9. Inventory or Stock Valuation *Methods*

- (a) *Compute inventory using LIFO, FIFO, Weighted Average.*
- (b) *Assess inventory valuation methods.*

10. Economic Order Quantity

- (a) Economic order quantities (EOQ) formula.
- (b) Carrying cost.
- (c) Ordering cost.
- (d) Re-order point.
- (e) Safety stock.

11. Overhead Costs

- (a) Types of overhead expenses (fixed and semi-fixed).
- (b) Apportionment of overhead costs.
- (c) Basis for the apportionment of costs.
- (d) Calculation of predetermined overhead recovery rates, using machine hours, direct labour hours and direct labour costs.
- (e) Service cost allocation.
- (f) Direct and reciprocal (*step down and repeated distribution limited to two steps*).

12. Principles and Methods of Calculating Costs

Non-manufacturing vs. manufacturing entities.

UNIT 2

MODULE 1: COSTING PRINCIPLES (cont'd)

Suggested Teaching and Learning Activities

This Module requires 50 hours of work inclusive of time spent on the School-Based Assessment.

1. Introduction to Cost and Management Accounting

This area attempts to familiarize the students with the nature and scope of Cost and Management Accounting. Students should be encouraged to prepare tables comparing and contrasting Cost and Management Accounting and Financial Accounting. This information can be found in the introductory chapters of most Cost and Management Accounting texts.

2. Accounting for Manufacturing Enterprises

Students should be practised in the preparation of the schedule of cost of goods manufactured as part of the Statement of Comprehensive Income (Income Statement) for manufacturing enterprises.

3. Elements of Cost

- (a) Students should be exposed to the concept of cost classification in relation to:
 - (i) inventory valuation (period vs. product);
 - (ii) decision making (relevant vs. irrelevant);
 - (iii) planning and control (controllable vs. non-controllable; actual vs. budgeted);
 - (iv) cost behaviour (fixed, variable, step fixed, step variable and mixed) and the sketching of those cost curves.
- (b) Students should be practised in identifying and classifying those costs. Students should also engage in problem solving using the concept of cost classification.
- (c) Students should be practised in the valuation of inventory and in the calculation of the EOQ. Students should be encouraged to discuss the usefulness of the EOQ model.
- (d) Students should be encouraged to research and discuss the procurement function and the implications, including cost, of using hazardous materials in manufacturing processes (for example paint factories), and in service industries (for example hotels).
- (e) Students discuss methods of remuneration appropriate to various situations.
- (f) Students should be practised in allocating service department costs and apportioning overhead cost. In the use of the repeated distribution method students should be practised in preparing the statements using two iterations.

UNIT 2

MODULE 2: COSTING SYSTEMS

SPECIFIC OBJECTIVES

Students should be able to:

1. *describe the use of various costing systems;*
2. allocate materials, labour and overhead costs to specific jobs;
3. prepare job-cost sheets;
4. calculate the value of work-in-progress;
5. compute over and under absorbed overhead;
6. compare and contrast activity-based costing (ABC) techniques with traditional costing approaches;
7. compute unit cost, using activity-based costing (ABC);
8. compute equivalent units of production;
9. prepare process-costing worksheet, using FIFO and weighted average methods;
10. apply traditional costing methods to service sector costing;
11. describe the difficulties associated with service sector costing;
12. compare marginal (or variable) and absorption (or full) costing;
13. prepare Income Statements under marginal costing and absorption costing.

CONTENT

1. **Costing Systems**
 - (a) *Job costing.*
 - (b) *Activity-based costing.*
 - (c) *Process costing.*

UNIT 2

MODULE 2: COSTING SYSTEMS (cont'd)

2. **Job Costing – (This content relates to Specific Objectives 2 – 5)**

- (a) Characteristics of job costing, including batch production.
- (b) Job-cost sheets.
- (c) Flow of costs.
- (d) Evaluation of work-in-progress.
- (e) Prime costs, factory costs.
- (f) Pre-determined overhead rates.
- (g) Over and under-absorption of overhead.

3. **Activity-based Costing (This content relates to Specific Objectives 4, 6, and 7)**

- (a) *Cost drivers.*
- (b) *Activity levels.*
- (c) *Activity rates.*

4. **Process Costing (This content relates to Specific Objectives 4, 8 and 9)**

- (a) Nature of process costing.
- (b) *Conversion costs.*
- (c) *Equivalent units of production.*
- (d) Process-costing procedures (*FIFO and Weighted Average*).
- (e) *Process-costing worksheets (excluding transferred in costs and accounting for losses).*

UNIT 2

MODULE 2: COSTING SYSTEMS (cont'd)

5. ***The Application of Costing Systems to the Services Industry (This content relates to Objectives 10 and 11)***

Job Costing, Activity based Costing and Process Costing in:

- (a) *Hotels.*
- (b) *Financial services.*
- (c) *Legal firms, medical, beauty salons.*

6. ***Marginal Costing and Absorption Costing***

- (a) *Marginal costing techniques.*
- (b) *Absorption costing techniques.*

7. ***Income Statements***

- (a) *Marginal costing income statement.*
- (b) *Absorption costing income statement.*
- (c) *Reconciliation of net income.*

Suggested Teaching and Learning Activities

This Module requires 50 hours of work inclusive of time spent on the School-Based Assessment.

1. **Overview of Costing Systems**

Class discussion on the need for costing systems.

2. **Job Costing**

Students should be practised in the preparation of job cost sheets and accounts related to job costing.

3. **Activity Based Costing**

Students should be practised in calculating activity rates using a number of different cost drivers.

UNIT 2

MODULE 2: COSTING SYSTEMS (cont'd)

Students should be practised in the computation of equivalent units for direct materials and conversion costs.

4. **Process Costing**

Students should be practised in the preparation of Process Costing Worksheets (using the process costing work sheets format – found in most North American Texts).

5. **Costing in the Service Sector**

Students should be practised in preparing statements using the various costing systems in service sector entities.

Class discussion on the issues and difficulties associated with service sector costing.

6. **Marginal Costing and Absorption Costing**

Students should be practised in the preparation of Income Statements under marginal and absorption costing and a statement reconciling the net income computed under marginal and absorption costing.

UNIT 2

MODULE 3: PLANNING AND DECISION MAKING

SPECIFIC OBJECTIVES

Students should be able to:

1. explain the rationale for the use of budgets in planning, decision making and control;
2. prepare a *master budget and its related schedules and budgets*;
3. explain the concept of standard costing and the process of establishing standards;
4. compute material, labour, variable overhead and fixed overhead variances;
5. calculate break-even point and margin of safety;
6. *compute* and use net present value (NPV), payback, discounted payback, accounting rate of return and internal rate of return (IRR) to accept or reject projects;
7. use financial and non-financial factors to evaluate investment decisions.

CONTENT

1. **Budgeting**

- (a) The objectives of budgeting.
- (b) The role of the budget committee.
- (c) Budgetary control.

2. **Master Budget**

- (a) *The cash budget and supporting schedules; (schedule of collections, schedule of disbursements).*
- (b) *Purchases budget, sales budget, production budget (**exclude** forecasted income statement and balance sheet).*

3. **Standard Costing**

- (a) The concept of standard costing.
- (b) The standard-setting process.
- (c) Standard cost card.

UNIT 2

MODULE 3: PLANNING AND DECISION MAKING (cont'd)

4. **Variance Analysis**

- (a) Material variances (price and usage).
- (b) Labour variances (wage rate and efficiency).
- (c) Variable overhead variances (efficiency and expenditure).
- (d) Fixed overhead variances (expenditure and volume).

5. **Cost Volume Profit Analysis**

- (a) *Break-even formula.*
- (b) *Break-even point in units and dollars.*
- (c) *Contribution margin.*
- (d) *Margin of safety.*
- (e) *Target profit.*

6. **Capital Budgeting Techniques**

- (a) Time value of money applications using net present value (NPV), discounted payback and internal rate of return (IRR).
- (b) Non-discounting methods – payback and the accounting rate of return (ARR).

7. **Investment Decision Making**

- (a) *The use of qualitative issues in decision making.*
- (b) *The use of quantitative factors (NPV, Payback, IRR) in evaluating investment decisions.*

UNIT 2

MODULE 3: PLANNING AND DECISION MAKING (cont'd)

Suggested Teaching and Learning Activities

This Module requires 50 hours of work inclusive of time spent on the School-Based Assessment.

1. **Budgeting**

Class discussion on the objectives of budgeting as it relates to the planning function, as a mechanism for control and as a tool for decision making.

Students should be practised in the preparation of related schedules to support the preparation of a cash budget. These schedules should include a cash collection schedule for sales and a cash disbursement schedule for purchases among others.

2. **Standard Costing**

Students should be practised in the calculating variances for Direct Materials, Direct Labour and Variable Overhead and Fixed Overhead.

Students should be practised in calculating the standard cost of a product.

3. **Cost Volume Profit Analysis**

Students should be practised in computing the contribution margin, break- even point, margin of safety and use of target profit in break even formula.

4. **Capital Budgeting**

Engage students in discussion on the importance of ethical, environmental and other social concerns, which may influence long-term decision making.

Students should be practised in calculating cash flows.

Students should be practised in calculating the present value of single amounts and annuities using present value tables. The present value formula should be discussed when introducing students to the present value concept.

Students should be practised in using the acceptance criteria for payback, NPV, ARR in investment decisions.

UNIT 2

MODULE 3: PLANNING AND DECISION MAKING (cont'd)

RESOURCES

- | | |
|---------------------------------------|---|
| Caribbean Examinations Council | <i>CAPE Accounting Study Guide, Unit 2, Nelson Thornes Publishers, 2011.</i> |
| Garrison, R., and Noreen, E. | <i>Managerial Accounting Concepts for Planning, Control and Decision Making, New Jersey: McGraw Hill, 2000.</i> |
| Weygandt, J., Keiso, D., and Kell, W. | <i>Accounting Principles, New York: John Wiley and Sons, 7th edition, 1990.</i> |

◆ OUTLINE OF ASSESSMENT

Each Unit of the syllabus will be assessed separately.

EXTERNAL ASSESSMENT

(80 per cent)

Written papers: 4 hours 15 minutes

Paper 01 (1 hour 30 minutes) This paper will consist of *forty-five* multiple-choice questions with *fifteen questions* on each of the three Modules. (30 per cent)

Paper 02 (2 hours 45 minutes) This paper will consist of three compulsory questions with one *on* each of the three Modules. (50 per cent)

SCHOOL-BASED ASSESSMENT

(20 per cent)

The School-Based Assessment for each Unit is compulsory.

For Unit 1, it will be based on a project requiring the candidate to demonstrate skills in research, analysis, evaluation and presentation of information.

For Unit 2, it will be based on module tests, set and assessed internally by teachers. The duration of the test for each Module should be 1½ hours. For each Module, teachers have the option of administering one 1½ hour test or two 45 minute tests. The scores obtained on the Module test will be the candidate's score for that Module.

MODERATION OF SCHOOL-BASED ASSESSMENT

School-Based Assessment Record Sheets are available online via the CXC's website www.cxc.org.

All School-Based Assessment Record of marks must be submitted Online using the SBA data capture module of the Online Registration System (ORS). A sample of assignments will be requested by CXC for moderation purposes. These assignments will be re-assessed by CXC Examiners who moderate the School-Based Assessment. Teachers' marks may be adjusted as a result of moderation. The Examiners' comments will be sent to schools. All samples must be delivered to the specified marking venues by the stipulated deadlines.

Copies of the students' assignment that are not submitted must be retained by the school until three months after publication of the examination results by CXC.

ASSESSMENT DETAILS

Assessment for each Unit

External Assessment by written papers (80 per cent of Total Assessment)

Paper 01- (1 hour 30 minutes – 30 per cent of Total Assessment)

1. Composition of the Paper

The paper consists of *forty-five (45) multiple-choice questions, fifteen on each Module*. All questions are compulsory.

2. Syllabus Coverage

Knowledge of the entire syllabus is required.

3. Question Type

(a) *At least fifteen of the multiple-choice questions will be conceptual. These questions will test students' understanding of accounting concepts and principles.*

(b) *The remaining questions will be computational. Questions of this type will require calculations using the data provided.*

4. Mark Allocation

(a) One mark will be assigned for each multiple-choice *question*.

(b) The total number of marks available for this paper is *45 which will be weighted to 90*.

(c) *Paper 01 contributes 30 per cent to the candidate's final grade.*

5. Use of Calculators

The use of silent non-programmable calculators is allowed.

Paper 02 - (2 hours 45 minutes – 50 per cent)

1. Composition of the Paper

This paper comprises three compulsory questions, one from each Module carrying equal weight.

2. Syllabus Coverage

The intention is to test candidates' knowledge of the syllabus in depth. Each question requires more depth of understanding than the questions in Paper 01.

3. Question Type

This paper will comprise essay questions and computational questions.

4. Mark Allocation

- (a) Each question is worth 35 marks. The total number of marks available for this paper is 105 *which will be weighted to 150*.
- (b) Marks will be awarded for evidence of:
 - (i) clear and logical reasoning;
 - (ii) the ability to analyse a problem step by step and to apply the necessary principles, conventions, knowledge and skills to reach a logical conclusion;
 - (iii) accuracy in computations and other problem-solving processes.
- (c) Full marks are awarded for correct answers and the presence of appropriate format and working.
- (d) Credit may be given for partially correct or incomplete answers.

5. Use of Calculators

The use of silent non-programmable calculators is allowed.

SCHOOL-BASED ASSESSMENT

School-Based Assessment (20 per cent)

School-Based Assessment is an integral part of student assessment in the course covered by this syllabus. It is intended to assist students in acquiring certain knowledge, skills, and attitudes that are associated with the subject. The activities for the School-Based Assessment are linked to the syllabus and should form part of the learning activities to enable the student to achieve the objectives of the syllabus.

During the course of study for the subject, students obtain marks for the competence they develop and demonstrate in undertaking their School-Based Assessment assignments. These marks contribute to the final marks and grades that are awarded to students for their performance in the examination.

The guidelines provided in this syllabus for selecting appropriate tasks are intended to assist teachers and students in selecting assignments that are valid for the purpose of School-Based Assessment. The guidelines provided for the assessment of these assignments are intended to assist teachers in awarding marks that are reliable estimates of the achievement of students in the School-Based Assessment component of the course. In order to ensure that the scores awarded by teachers are not out of line with the CXC standards, the Council undertakes the moderation of a sample of the School-Based Assessment assignments marked by each teacher.

School-Based Assessment provides an opportunity to individualise a part of the curriculum to meet the needs of students. It facilitates feedback to the student at various stages of the experience. This helps to build the self-confidence of students as they proceed with their studies. School-Based Assessment also facilitates the development of the critical skills and abilities emphasised by this CAPE subject and enhance the validity of the examination on which candidate performance is reported. School-Based Assessment, therefore, makes a significant and unique contribution to both the development of relevant skills and the testing and rewarding of students for the development of those skills.

The Caribbean Examinations Council seeks to ensure that the School-Based Assessment scores are valid and reliable estimates of accomplishment. The guidelines provided in this syllabus are intended to assist in doing so.

GENERAL GUIDELINES FOR TEACHERS

1. The School-Based Assessment is intended to assist in the development of the skills and abilities that are critical in Accounting.
2. Teachers are encouraged to provide ample opportunities for practicing the skills that will be developed through (tested in) the School-Based Assessment.
3. The provision of adequate and timely feedback is essential to the development of those skills.
4. Marks must be dispatched through the Local Registrar for submission to CXC by May 31 in the year of the examination.

5. CXC will require a sample of the projects and tests for external moderation. These assignments must be retained by the school for at least three months after publication of examination results.
6. Teachers should note that the reliability of marks awarded is a significant factor in School-Based Assessment, and has far-reaching implications for the candidate's final grade.
7. Candidates who do not fulfill the requirements of the School-Based Assessment will be considered absent from the whole examination.
8. **For Unit 1**, teachers are asked to note the following:
 - (a) the teacher is required to allocate one-third of the total score for the School-Based Assessment to each Module. Fractional marks should not be awarded. In cases where the mark is not divisible by three, then:
 - (i) when the remainder is 1 mark, the mark should be allocated to Module 3;
 - (ii) when the remainder is 2, then the mark should be allocated to Module 3, and the other mark to Module 2;for example, 35 marks would be allocated as follows:
 $35/3 = 11$ remainder 2 so 11 marks to Module 1 and 12 marks to each of Modules 2 and 3.
 - (b) the standard of marking should conform to the guidelines prescribed in the syllabus.
 - (c) teachers are required to submit samples of the projects. *SBA's may be submitted electronically.*
9. **For Unit 2**, teachers are asked to note the following:
 - (a) the total of the marks obtained on each test represents the candidate's mark for that Module.
 - (b) teachers are required to submit a sample of candidates' graded scripts, a copy of each test, the solutions and mark schemes used for the test.

UNIT 1

Paper 03/1: The Project – 20 per cent

Marks earned will be pro-rated over the three Modules.

The aims of the project are to:

1. allow students to ask their own questions and find appropriate answers;
2. allow teachers the opportunity to participate in the assessment of their students;
3. promote investigative skills;
4. ensure that assessment takes place in a more authentic environment;
5. explore more fully some areas of the Unit which cannot be assessed adequately under examination conditions;
6. enable students to experience the environment within which accounting and reporting activities occur in the Caribbean.

1. Guidelines for selecting task for School-Based Assessment

Candidates' performance will be reported by Unit and Module.

The syllabus lends itself to a range of accounting issues that are suitable for investigation. The topic selected for investigation should reflect legal, social, ethical and technological issues and their impact on accounting in business entities in the Caribbean. The following table provides a list of such topics, however, candidates may select a topic that is not included in the list provided that they can report on the impact of such on accounting.

- (a) Social and ethical issues in accounting
- (b) Liquidation and receivership
- (c) Internal controls
- (d) Accounting standards
- (e) Technology and accounting
- (f) Incomplete records
- (g) Performance analysis
- (h) Financial reporting and disclosure practices
- (i) Accounting and reporting practices in the various forms of business entities
Auditing

Candidates should study the specific objectives provided in the syllabus and select one or more than one objective that fit within their area of investigation. The specific objectives provide the context within which the selected topic will be investigated.

In presenting the results of your investigation whether you select one or more than one objective from one or more than one Module, your report should present a coherent investigation, rather than a disjointed piece of work. *Students doing more than one subject in the Business cognate group may submit one SBA under a theme which covers this group.*



2. Management of the Project

- (a) An early start to planning project work is highly recommended. Each candidate should know the requirements of the project and its assessment procedures as part of the orientation to the unit.
- (b) Teachers should guide the candidate in choosing an appropriate topic that relates to the candidate's interest and the specific objectives identified.
- (c) A schedule of the dates for submitting project work (agreed by teachers and candidates) should be firmly established.
- (d) The teacher should offer guidance in the data collection process and the preparation of the report.
- (e) The following primary sources of data can be used by candidates in their research activities: newspapers published financial statements, magazines (such as News Week, Business Week, Times), trade and professional journals, accounting professionals, local legislation, accounting standards and the Internet.

3. Project Reports

Candidates are required to select a topic for investigation and write a project report between 2000 and 2500 words, preferably type written and double-spaced. This report should contain the following:

- (a) Title;
- (b) Table of contents;
- (c) Acknowledgements;
- (d) Introduction;
- (e) Report;
 - (i) Aims and objectives of your Project – (issues being explored);
 - (ii) Literature Review;
 - (iii) Data Collection;
 - (iv) Data Presentation and Analysis;
 - (v) Evaluation;
 - (vi) Recommendations;
 - (vii) Conclusion;
- (f) Appendices (such as questionnaires, diagrams, charts, statistical data);
- (g) Bibliography.

4. Description of terms used in the Project:

Aim and Objectives

- (a) *The aim of the Project refers to what the Project hopes to achieve.*
- (b) *An Objective of the Project refers to the specific research question you are seeking to answer.*

Literature Review

A literature review is an account of what has been published on a topic by researchers.

Data Collection

The method or methods used to collect the data/information for the project (including questionnaires, interviews and other methods).

Data Presentation and Analysis

Presentation of the results of the investigation using analysis tools.

Evaluation

An evaluation of research findings. Relating the findings of your investigation to the literature.

The following pages outline how the Project Report will be assessed.

MARK SCHEME FOR SCHOOL-BASED ASSESSMENT

	MARKS
1. AIMS AND OBJECTIVES	(6)
• Aim(s) and at least two objectives of the study clearly stated and relevant to the topic chosen.	6
• Aim(s) and one objective of the study clearly stated and relevant to the topic.	5
• Aim(s) and at least two objectives of the study bearing relevance to the topic stated but not clearly stated.	4
• Aim(s) and one objective of the study bearing relevance to the topic but not clearly stated.	3
• Aim(s) and two objectives of the study stated.	2
• Aim(s) and one objective of the study stated.	1
2. DATA COLLECTION	(8)
• The method(s) of investigation clearly stated.	1-2
• Justification for the method(s) adequate.	1-3
• A statement or explanation of limitations stated.	1-3
3. LITERATURE REVIEW	(6)
• Thorough treatment of literature related to topic.	5-6
• Fairly thorough treatment of literature related to topic.	3-4
• Partial treatment of literature related to the topic.	1-2
4. DATA PRESENTATION AND ANALYSIS	(11)
• Candidate correctly applies most principles, concepts and skills to problems/situations and uses analysis tools to analyse the most relevant issues in a very competent way.	9-11
• Candidate applies principles, concepts and skills to problems/situations and analyses issues in a fairly competent way.	6-8
• Candidate applies limited skills and principles and analyses few issues in a limited way.	3-5
• Candidate shows little or no skill in the application of principles/concepts and in analysing issues.	1-2

5.	EVALUATION	(12)
	<ul style="list-style-type: none"> • Candidate uses well-defined criteria, that is, accuracy, consistency, logical order to evaluate/make inferences from data collected in a very competent way, including reasons for judgement/decision. 9-12 • Candidate uses well defined criteria that is, to evaluate/make inferences from data collected in a fairly competent way. 6-8 • Candidate uses one or two criteria to evaluate data collected in a limited way. 3-5 • Candidate shows little or no skill in evaluating data collected. 1-2 	
6.	RECOMMENDATIONS	(4)
	<ul style="list-style-type: none"> • Candidate makes recommendations, logically deduced from data collected. 3-4 • Candidate makes recommendations that have limited relationship to data collected. 1-2 	
7.	CONCLUSION	(3)
	<ul style="list-style-type: none"> • Conclusion based on findings and related to the purposes of the project. 2-3 • Conclusion related to the purpose of the project but not based on findings. 1 	
8.	PRESENTATION OF PROJECT	(10)
	<ul style="list-style-type: none"> • Table of contents presented in an acceptable format. 1 • Candidate communicates information using correct grammar. 1-2 • Candidates use media other than text to present information (graph, tables, charts, diagrams). 1-2 • Bibliography presented in an acceptable manner. 1-2 • Candidate organises project report presenting the information logically and coherently. 1-3 	
	Total Marks	(60)

GUIDELINES FOR SCHOOL-BASED ASSESSMENT FOR UNIT 2

This paper comprises module tests. The duration of the test for each Module should be 1½ hours. For each Module teachers have the option of administering one 1½ hour test or two 45 minute tests. The scores obtained on the Module test will be the candidate's score for that Module. The tests, designed and assessed by the teacher, are externally moderated by CXC.

1. Composition of the Tests

- (a) In testing each Module at least 60 per cent of the objectives in Module must be covered.
- (b) Items selected for each test should examine only specific objectives contained in the module.
- (c) Each question should be clearly linked to one (or more) specific objectives.

2. Question Type

- (a) The mix of questions could take the form of multiple choice, short answer, essay or computational.
- (b) The questions on the Specimen Paper 03/2 provided in the syllabus may be used as a prototype.

3. Mark Allocation

- (a) There is a maximum of 20 marks for each Module.
- (b) There is a maximum of 60 marks for the School-Based Assessment
- (c) The tests in each Module may be marked out of a raw score of any total but this must be converted to a score out of twenty (20) for the Module.

4. Award of Marks

- (a) The mark scheme provided in the syllabus for Specimen Paper 03/2 may be used as a *prototype*.
- (b) Full marks *shall be* awarded for correct answer and the presence of appropriate format and working.
- (c) Credit should be given for partially correct or incomplete answers.
- (d) If a candidate uses an incorrect answer computed earlier in the question then marks may be awarded in the later part even though the original answer is incorrect. In this way, a candidate is not penalized twice for the same mistake.

◆ REGULATIONS FOR PRIVATE CANDIDATES

Private candidates will be required to write Papers 01, 02 and 03/2.

UNIT 1

Paper 03/2 - (20 per cent of Total Assessment)

1. Composition of the Paper

This paper comprises three compulsory questions, one from each Module carrying equal weight. Each question may require computational and free response answers.

2. Syllabus Coverage

Private candidates are expected to undertake an investigation on a specific topic in order to address the scenarios presented in the examination.

The topics for the examination years 2012 – 2017 are listed below. The following identifies the examination year and the topic of study. In investigating a topic, candidates should focus on the relevant specific objectives for each of the three Modules in the Unit.

1. Topic for 2012 - Investigate the accounting and reporting practices of different forms of business organizations —General and limited partnerships, corporations and non-profit making organizations including non-governmental organizations (NGOs).
2. Topic for 2013 - The impact of computers or computerisation on accounting.
3. Topic for 2014 - The use of international accounting standards in the Caribbean.
4. Topic for 2015 - The impact of internal control systems on businesses in the Caribbean.
5. Topic for 2016 - The performance of a manufacturing or retail organisation over the last three years.
6. Topic for 2017 - Financial reporting in Non-Governmental Organisations (NGOs) and Community Based Organisations (CBOs).

3. Question Type

Questions in this paper may be short answer, extended essay and computational questions.

4. Mark Allocation

Each of the two modules would have TWO questions worth 20 marks. The total number of marks available for this paper is 60.

5. Award of Marks

- (a) Marks will be awarded for evidence of:
- (i) clear and logical reasoning;
 - (ii) the ability to analyze a problem step by step and to apply the necessary principles, conventions, knowledge and skills to reach a logical conclusion;
 - (iii) accuracy in computations and other problem-solving processes.
- (b) Full marks are awarded for correct answers and the presence of appropriate format and working.

6. Use of Calculators

The use of silent non-programmable calculators is allowed.

UNIT 2 - Paper 03/2

1. Composition of the Paper

This paper comprises nine short response questions, three from each Module.

2. Syllabus Coverage

The questions may require knowledge of at least 60 per cent of the objectives in each module.

3. Mark Allocation

The marks for each Module total 20 marks, though each question may not necessarily carry the same number of marks. The maximum number of marks for this paper is 60.

The total number of marks available for this paper is 60.

4. Award of Marks

- (a) Marks will be awarded for evidence of:
- (i) clear and logical reasoning;
 - (ii) the ability to analyze a problem step by step and to apply the necessary principles, conventions, knowledge and skills to reach a logical conclusion;
 - (iii) accuracy in computations and other problem-solving processes.
- (b) Full marks are awarded for correct answers and the presence of appropriate format and working.
- (c) Credit may be given for partially correct or incomplete answers.

5. Use of Calculators

The use of silent non-programmable calculators is allowed.

◆ REGULATIONS FOR RESIT CANDIDATES

Re-sit candidates must *rewrite* Papers 01 and 02 of the examination for the year for which they re-register.

Re-sit candidates may elect not to repeat the School-Based Assessment component provided they rewrite the examination no later than two years following their first attempt. *Candidates re-using SBA scores must register as 'Re-sit candidates' and must provide the previous candidate number. Candidates are no longer required to earn a moderated score that is at least 50 per cent of the maximum possible score; any moderated score may be re-used.*

Re-sit candidates must be entered through a school, approved educational institution or the Local Registrar's office.

◆ ASSESSMENT GRID

The Assessment Grid for each Unit contains marks assigned to papers and to Modules and percentage contributions of each paper to total scores.

PAPER	Modules			Total	(%)
	Module 1	Module 2	Module 3		
External Assessment					
Paper 01	15 (30)	15 (30)	15 (30)	45 (90)	(30)
Paper 02	35 (50)	35 (50)	35 (50)	105 (150)	(50)
School-Based Assessment					
Papers 03/1 or 03/2	20	20	20	60	(20)
Total	100	100	100	300	(100)

N.B. Weighted marks are indicated in parenthesis.

Western Zone Office

CARIBBEAN EXAMINATIONS COUNCIL®

Caribbean Advanced Proficiency Examination®



ACCOUNTING

Specimen Papers and Mark Schemes/Keys

Specimen Papers:

- Unit 1, Paper 01
- Unit 1, Paper 02
- Unit 1, Paper 03/2
- Unit 2, Paper 01
- Unit 2, Paper 02
- Unit 2, Paper 03/2

Mark Schemes/Keys:

- Unit 1, Paper 01
- Unit 1, Paper 02
- Unit 1, Paper 03/2
- Unit 2, Paper 01
- Unit 2, Paper 02
- Unit 2, Paper 03/2



**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

**SPECIMEN PAPER
MULTIPLE CHOICE QUESTIONS
FOR**

ACCOUNTING - UNIT 1

Paper 01

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This test consists of 54 items. You will have 90 minutes to answer them.
2. Each item in this test has four suggested answers lettered (A), (B), (C), (D). Read each item you are about to answer and decide which choice is best.
3. Look at the sample item below.

Sample Item

The cost of an asset consumed in the generation of revenue is treated in the books as

Sample Answer

- (A) a gain
- (B) a liability
- (C) an expense
- (D) an allowance



The best answer to this item is “an expense”, so answer space (C) has been shaded.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

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1. Gablewoods Apartments Inc received six months' rent in advance on December 1, 2009. Under the accrual basis of accounting the income should be recognized
- (A) on December 31, 2009
 - (B) on December 1, 2009
 - (C) proportionately each month
 - (D) at the end of the six-month period
2. What is the MOST important element of an internal control system?
- (A) Publication of the internal controls
 - (B) Motivating staff to increase output
 - (C) Purchasing adequate insurance coverage
 - (D) Performing a cost-benefit analysis before each internal control is put into place
3. Which of the following activities is NOT an application of accrual accounting?
- (A) Adjusting the accounts at the end of a period
 - (B) Recognizing revenues when earned
 - (C) Recognizing expenses when incurred
 - (D) Recording expenses when paid
4. Financial accounting focuses on the specific needs of decision makers external to the organization. Which of the following is NOT an external user?
- (A) Stockholder
 - (B) Internal Revenue Service
 - (C) Vice President Marketing
 - (D) Bank
5. Which of the following statements does NOT express a feature of a computerized accounting system?
- (A) The recording of business transactions is more efficient
 - (B) Principles different from those in a manual accounting system are used
 - (C) Accounting information and reports are accessed much faster
 - (D) Arithmetic calculations are more accurate

-
6. Richardson Inc sold 2 000 ordinary shares which were held as a temporary investment. The shares were acquired six months ago at a cost of \$45 a share. Richardson Inc sold the shares for \$40 a share. The entry to record the sale is:

		\$	\$
(A)	Temporary stock investment	80 000	
	Loss on sale of temporary investment	10 000	
	Cash		90 000
(B)	Cash	90 000	
	Gain on sale of temporary investment		10 000
	Temporary stock investments		90 000
(C)	Cash	80 000	
	Temporary stock investments		80 000
(D)	Cash	80 000	
	Loss on sale of temporary investment	10 000	
	Temporary stock investments		90 000

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7. The principle that underlies an accountant's decision to make a provision for doubtful debts is the principle of

- (A) conservatism
- (B) revenue recognition
- (C) money measurement
- (D) double entry

8. Joylyn Inc paid \$9,000 for 1 500 common shares with a par value of \$5.00 each from Jackie Ltd. The journal entry to record this transaction in the books of Jackie Ltd is

		\$	\$
(A)	Investment in Jackie Ltd	9 000	
	Cash		9 000
(B)	Cash	9 000	
	Share Capital		7 500
	Share premium		1 500
(C)	Share Capital	7 500	
	Share premium	1 500	
	Cash		9 000
(D)	Share Capital	9 000	
	Cash		9 000

9. RXM Ltd. invested \$600 000 in marketable securities in 2009. During 2010 the market value of these securities fluctuated between \$300 000 and \$600 000. The market value at the end of 2010 was \$650 000. RXM Ltd. should record its marketable securities at December 31, 2010 as

- (A) \$ 50 000
- (B) \$ 300 000
- (C) \$ 600 000
- (D) \$ 650 000

11. Which of the following tasks is a function of International Accounting Standards?

- (A) Regulating the payment of income tax in Caribbean territories
- (B) Providing guidelines indicating how to report economic events
- (C) Providing rules for conducting business activities
- (D) Devising principles for conducting accounting research and practice

10. ABC Corporation issued 1 000 shares of \$10 par value at \$12 per share. Which of the following credits are made in order to record this transaction?

- (A) Share capital \$10 000 and share premium \$2 000
- (B) Share capital \$12 000 and cash \$2 000
- (C) Share capital \$10 000 and profit and loss \$2 000
- (D) Share capital \$10 000 and retained earnings \$2 000

12. Guyco. issued 750 000 shares of \$10 par value common stock in exchange for a building valued at \$800 000. The entry for this transaction includes a

- (A) debit to the Building account for \$800 000
- (B) debit to the Building account for \$750 000
- (C) credit to Common Stock for \$800 000
- (D) credit to the Building account for \$50 000

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13. A company received a \$300 dividend payment on a short-term investment. Which of the following is true?
- (A) Dividend Revenue is credited for \$300.
 - (B) Dividend Revenue is debited for \$300.
 - (C) Short-term Investment is debited for \$300.
 - (D) Short-term Investment is credited for \$300.
14. On January 1, 2012, RosMarie Inc. has machinery on the books that originally cost \$100 000. During 2012, the following expenditures were made:
- | | |
|---------------|--------|
| Minor repairs | 5 000 |
| Improvements | 20 000 |
| Additions | 9 000 |
- How much would be recorded in the machinery account on December 31, 2012?
- (A) \$105 000
 - (B) \$109 000
 - (C) \$120 000
 - (D) \$129 000
15. The declaration of a 10% stock dividend on 100 000 outstanding shares with a par value of \$1 and a market value of \$20 would include a debit to Retained Earnings of
- (A) \$ 0
 - (B) \$ 20 000
 - (C) \$ 200 000
 - (D) \$ 210 000
16. The Hodge Company estimated at January 1, 2009 that its income before taxes for the year ended December 31, 2009 would be \$5 500 000. The Hodge Company's tax rate for the year is 42%. The company made quarterly tax payments in April, June, September and December 15. The actual income for the year ended December 31, 2009 was \$5 700 000. The amount of income tax payable at December 31, 2009 is
- (A) \$ 0
 - (B) \$ 84 000
 - (C) \$ 100 000
 - (D) \$ 144 000
17. Which of the following is a feature of preferred shares?
- I. Convertible
 - II. Participating
 - III. Callable
- (A) I only
 - (B) I and II only
 - (C) II and III only
 - (D) I, II and III
18. The par value of a share is defined as
- (A) the minimum price for the stock when issued
 - (B) the maximum amount for which a share of stock may be sold
 - (C) an amount determined by the marketplace when shares of stock are sold
 - (D) the exact amount for which an individual share of stock must be sold
19. The Lara Company issued 10 000 000 no par shares at a stated value of \$5 on January 1, 2000. On December 31, 2010 the company declared and distributed a 5% stock dividend. The shareholders equity on the statement of financial position would increase by
- (A) \$ 0
 - (B) \$ 500 000
 - (C) \$ 2 000 000
 - (D) \$ 2 500 000

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Items 20–21 refer to the following information.

Able, Baker and Chapman partnership had assets with a book value of \$240 000 and a market value of \$195 000, liabilities of \$90 000, and capital balances for partners Able, Baker and Chapman of \$70 000, \$30 000 and \$50 000. The partners decide to incorporate the partnership. The new company ABC Inc. will issue 30 000 shares with a par value of \$2 each to the partners.

20. Able will receive
- (A) 14 000 shares
 - (B) 21 000 shares
 - (C) 28 000 shares
 - (D) 30 000 shares
21. Chapman will receive shares with a total value of
- (A) \$ 10 000
 - (B) \$ 20 000
 - (C) \$ 35 000
 - (D) \$ 50 000

Items 22–23 refer to the following information.

Will Smith, a new partner, is admitted to the Labell and Ross Partnership under the bonus method. He contributes cash of \$20 000 and equipment with a market value of \$30 000 in exchange for a 20% ownership interest in the new partnership. The capital of the existing partnership is \$130 000. Labell and Ross share profits and losses in the ratio 80:20, respectively.

22. Will Smith's capital balance is
- (A) \$ 30 000
 - (B) \$ 35 000
 - (C) \$ 36 000
 - (D) \$ 50 000

23. Which of the following bonus amounts would be recorded?

- (A) \$ 14 000 to Will Smith capital
- (B) \$ 2 800 increase to Ross capital
- (C) \$ 2 800 decrease to Ross capital
- (D) \$ 7 000 increase to Labell capital

24. On January 1, 2010, Haynes Company issued \$75 000 of notes payable, of which \$15 000 is due on January 1 for each of the next five years. The company year end is December 31. The statement of financial position presentation on December 31, 2010, is:

- (A) Current Liabilities – \$ 75 000
- (B) Long-Term Liabilities – \$ 75 000
- (C) Current Liabilities – \$ 15 000
Long-Term Liabilities – \$ 60 000
- (D) Current Liabilities – \$ 60 000
Long-Term Liabilities – \$ 15 000

25. A factor that distinguishes a company from a sole proprietorship or partnership is that it is

- (A) an accounting entity
- (B) organized to make a profit
- (C) subject to statute and government regulations
- (D) required to close its temporary accounts at the end of the fiscal period

26. Which of the following statements relating to societies is FALSE?

- (A) The surplus can be allocated in the form of patronage refund.
- (B) Members can transfer their shares on the local securities exchange.
- (C) They are controlled by members who have equal voting rights.
- (D) They are based on values of self-help, equality and equity.

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27. The Georgetown Cricket Club has 75 members who pay an annual subscription of \$150 each. During the review of the records on April 1, 2009 it was discovered that 70 members had paid their annual subscriptions during the year and 15 members had prepaid their 2009 subscriptions in 2008. The club had a social event in 2009 which realized a total profit of \$12 500. The Georgetown Cricket Club should show income from subscriptions and social events in the amount of
- (A) \$ 11 250
(B) \$ 23 000
(C) \$ 23 750
(D) \$ 25 250
28. Alexander Inc. purchased a new truck in 2005 for \$27 000. On January 1, 2009, when accumulated depreciation was \$20 000, the truck was sold for \$7 000 cash. What amount of gain or loss should Alexander Inc. report for this sale?
- (A) \$ 0
(B) \$ 7 000
(C) \$ 10 000
(D) \$ 14 000
29. Which of the following would NOT be considered an intangible asset?
- (A) Leasehold
(B) Trademark
(C) Franchise
(D) Receivables
30. Which of the following is NOT a long-term investment?
- (A) Cash surrender value of a life insurance policy
(B) Land held for speculation
(C) Franchise under specified conditions
(D) Government debentures redeemable in 5 years
31. Ashdon Inc.'s cost of goods sold for 2010 was \$65 000. They had beginning and ending inventory of \$12 000 and \$14 000, respectively. What was Ashdon Inc.'s inventory turnover for 2010?
- (A) 4.6
(B) 5.0
(C) 5.4
(D) 5.6
32. A Caribbean company made credit sales last year for \$10 000 000. The company's average annual accounts receivable was \$1 000 000. Given 365 days in a year calculate the Average Collection period for the company.
- (A) 36.5 days
(B) 66.5 days
(C) 300 days
(D) 360 days

-
33. Information relating to Black River Company's shares is as follows:

	<u>Per share</u>
Book value at December 31, 2009	\$ 15.00
Market value on Caribbean Stock Exchange at December 31, 2009	\$ 10.00
Earnings for 2009	\$ 5.00
Par value	\$ 2.00
Dividend for 2009	\$ 1.00

What is the price-earnings ratio on common stock for 2009?

- (A) 1.5
(B) 2.0
(C) 3.0
(D) 5.0

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34. A common measure of long-term solvency is

- (A) the current ratio
- (B) asset turnover
- (C) the debt-to-equity ratio
- (D) earnings per share

35. Trump Inc., reported net income of \$300 000 for 2009 and paid dividends to common and preferred stockholders of \$50 000 and \$80 000, respectively. Trump Inc. had 100 000 shares of common and 50 000 shares of preferred stock outstanding during the year. What was Trump Inc. EPS for 2009?

- (A) \$1.70
- (B) \$2.20
- (C) \$2.50
- (D) \$3.00

36. Justin Inc., had the following balances at June 30, 2010:

Total Liabilities	\$ 80 000
Total Shareholders' Equity	\$ 20 000
Total Assets	\$100 000
Pretax Income	\$ 10 000

What is Justin Inc.'s debt-to-equity ratio?

- (A) 3:1
- (B) 4:1
- (C) 5:1
- (D) 10:1

37. The financial statements of Pryce Inc showed a net loss of \$10 000, depreciation expense of \$15 000, and an increase in accounts receivable of \$6 000. The amount of cash provided by (used in) operating activities, assuming no other charges in the accounts is

- (A) \$ (1 000)
- (B) \$ (4 000)
- (C) \$ 5 000
- (D) \$ 11 000

38. For the year ended December 31, 2012, a company had cash payments for dividends on stock of \$40 000, cash paid for interest of \$7 000, cash paid to suppliers of \$8 000 and cash payments for equipment of \$9 000. Cash used by investing activities for 2012 is

- (A) \$ 9 000
- (B) \$ 17 000
- (C) \$ 24 000
- (D) \$ 49 000

39. ACE Builders Inc. has three items in inventory at December 31. The cost and market value of each is as follows:

Item	Cost	Market Value
A	\$10	\$ 8
B	\$12	\$14
C	\$15	\$16

Using the lower-of-cost-or-market method on units basis of valuing inventory, what is the value reported for inventory in the statement of financial position?

- (A) \$34
- (B) \$35
- (C) \$37
- (D) \$38

40. Which of the following events occurring after the reporting period would generally require disclosure, but no adjustment of the financial statements?

- (A) Retirement of the General Manager
- (B) Issue of a large amount of capital stock
- (C) Employee strikes that shut down the company for one month
- (D) Settlement of a law suit when the event that gave rise to the matter occurred prior to the balance sheet date

41. In the process of a liquidation the receiver must
- (A) dispose of assets in a commercially reasonable manner
 - (B) dispose of the business assets as soon as possible
 - (C) pay the creditors the full amount of their claims
 - (D) pay liquidation expenses after all other claims
42. Which of the following is a/are limitation(s) of the statement of financial position
- I. Many items are omitted
 - II. Judgement may be used
 - III. Current values are not reflected
- (A) I only
 - (B) III only
 - (C) II and III only
 - (D) I, II and III
43. Niger Inc. secured a \$540 000, 12 percent loan on March 1, 2011. The loan is payable in three annual installments of \$180 000, plus interest. The company's year-end is June 30. The first payment is to be made on March 1, 2012. The statement of financial position as at June 30, 2011 would indicate a current liability of
- (A) \$ 180 000
 - (B) \$ 201 600
 - (C) \$ 228 600
 - (D) \$ 244 800
44. During periods of inflation or deflation, the historical cost model for financial reporting is deficient because
- (A) comparative financial statements are published only for the three years prior
 - (B) the historical cost model uses numerous estimates for revenue and expense
 - (C) the historical cost model recognizes revenues and expenses before they are actually realized
 - (D) it adds and subtracts dollars with different purchasing power without adjusting for those differences
45. Creditors with liens against assets whose realisable value is more than the amount of the claim are called
- (A) priority creditors
 - (B) fully secured creditors
 - (C) partially secured creditors
 - (D) unsecured creditors

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 1, PAPER 01

MARK SCHEME

CARIBBEAN EXAMINATIONS COUNCIL

**CARIBBEAN ADVANCED PROFICIENCY
EXAMINATION**

ACCOUNTING - UNIT 1

SPECIMEN PAPER 2011

Question	SO	Key
1	1.2.2	C
2	1.6.6	B
3	1.2.2	D
4	1.1.1	C
5	1.7.7	B
6	1.5.5	D
7	1.4.4	A
8	1.5.5	B
9	1.5.5	D
10	1.5.5	A
11	1.3.3	B
12	1.5.5	A
13	1.5.5	A
14	1.5.5	D
15	1.5.5	C
16	2.12.12	B
17	2.1.1	D
18	2.1.1	A
19	2.11.11	D
20	2.10.10	B
21	2.10.10	C
22	2.9.9	C
23	2.9.9	B

Question	SO	Key
24	2.6.6	C
25	2.1.1	C
26	2.1.1	B
27	2.8.8	C
28	2.4.4	A
29	2.6.6	D
30	2.6.6	C
31	3.6.6	B
32	3.6.6	A
33	3.6.6	B
34	3.8.8	C
35	3.6.6	B
36	3.6.6	B
37	3.5.5	A
38	3.5.5	A
39	3.4.4	B
40	3.3.3	D
41	3.9.9	A
42	3.7.7	C
43	3.4.4	B
44	3.2.2	D
45	3.9.9	B

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

SPECIMEN PAPER

UNIT 1

PAPER 02

2 ¾ hours

INSTRUCTIONS TO CANDIDATES

1. This paper consists of THREE questions.
2. EACH question is worth 35 marks.
3. ALL questions are COMPULSORY.
4. Begin EACH answer on a new page.
5. Silent non-programmable calculators may be used, but ALL necessary working should be clearly shown.

1 (a) The Five Seasons Hotel has the following internal control procedures over cash disbursements. Explain the internal control PRINCIPLE that is applicable to each procedure.

- (i) Company cheques are pre-numbered.
- (ii) The bank statement is reconciled monthly by an internal auditor.
- (iii) Cheques must be signed by the Financial Controller and an Operations assistant.
- (iv) Blank cheques are stored in a fire-proof safe in the Financial Controller's Office.
- (v) Persons who sign cheques are not allowed to record cash disbursement transactions.

[10 marks]

(b) The table below presents a number of accounting procedures and practices in Red Sea Corporation. Each item listed violates an accounting assumption, principle, information characteristic or modifying convention.

Item Number	Item Description
1	An officer of Red Sea Corporation charges the cost of his life insurance premium as an administrative expense.
2	A machine, which cost \$180 000 is reported at its current market value of \$200 000.
3	Red Sea Corporation recognised all its sales revenue on a cash basis.
4	Red Sea Corporation wishes to change from FIFO method of stock valuation to LIFO method because the company is paying too much tax.
5	Red Sea Corporation's lawyers advised the company that it was possible that Red Sea would be awarded \$2 000 000 in damages and Red Sea recorded the amount as a receivable.

For EACH item, identify the assumption, principle, information characteristic or modifying convention that is being violated and state the purpose of that assumption, principle, information characteristic or modifying convention.

[15 marks]

- (c) The Charter of Bogata Corporation authorizes the issuance of 10 000 shares of Class A preferred stock, 2 000 shares of Class B preferred stock and 20 000 shares of common stock. During a two-month period, the following stock issuance occurred.

Nov 17	Issued 4 000 shares of \$2 per common stock at \$12.50.
Dec 4	Sold 600 no par Class A preferred stock at \$5.00, for \$3 000 cash.
Dec 15	Received inventory valued at \$15 000 and equipment with market value of \$25 000 for 6500 shares of \$1 par common stock.
Dec 29	Issued 2 000 shares of \$1 shares of 5% no par preferred stock with stated value of \$50 per share. The issue price was cash of \$60 per share.

Prepare the journal entries for the transactions above.

[10 marks]

Total 35 marks

2. Carnival Company is involved in the wholesaling and retailing of office supplies. The accountant resigned immediately after the following trial balance was extracted from the books of the company as at December 31, 2009, the end of the company's fiscal year.

Account Titles	Debit (\$)	Credit (\$)
Cash	50 100	
Accounts Receivable	128 100	
Allowance for doubtful debts		27 000
Merchandise inventory	114 000	
Store supplies	16 500	
Investments	285 000	
Store equipment	255 000	
Accumulated Depreciation - Store equipment		54 000
Delivery Equipment	144 000	
Accumulated Depreciation - Delivery Equipment		27 000
Accounts Payable		145 500
Utilities payable		8 400
Notes payable		180 000
Issued ordinary share capital		120 000
Share premium		210 000
Retained earnings		102 750
Sales		2 273 400
Sales returns and allowances	12 600	
Purchases	1 384 800	
Purchases returns, allowances and discounts		44 400
Rent and utilities expense	114 000	
Freight-in	32 400	
Salaries expense	420 000	
Advertising expense	39 600	
Delivery expense	72 000	
General expense	64 350	
Interest expense	48 600	
Loss due to flood	11 400	
Total	3 192 450	3 192 450

An accounts clerk prepared the following additional information that should be considered in preparing the financial statements:

1. Store supplies on hand totalled \$8 000 at the end of the period
2. Depreciation is charged on all fixed assets at the rate of 20 per cent per annum using the reducing balance basis.
3. Merchandise inventory on hand at December 31, 2009 is \$120 000.
4. Bad debts expense is estimated at 2 per cent of net sales.
5. Salaries expense is 60 per cent selling and 40 percent administrative.
6. Rent and utilities expense is 70 per cent selling and 30 percent administrative.
7. \$100 000 of the notes payable is due for payment the following year.
8. General expense is 100 percent administrative.
9. The corporation tax rate is 30 per cent.
10. Accounts receivable includes \$5 500 due from a customer who went into liquidation on December 15, 2009.
11. The company suffered minor losses due to seasonal flooding.
12. The investments are government bonds that will mature on December 1, 2020. The bonds pay 8 percent interest annually and were acquired in 2006.

You have just been hired and given the trial balance and additional information above. The directors of the company need a set of financial statements for their board meeting.

Prepare a **Statement of Comprehensive Income** and **Statement of Financial Position** for Carnival Company for the year ending December 31, 2009. The statements should comply with the requirements of the International Accounting Standards and International Financial Reporting Standards.

Total 35 marks

3. The financial statements of M J M Ltd. for the financial year 2008 are presented below.

M J M Ltd.
Statement of Comprehensive Income
For the year ended December 31, 2008

	\$	\$
Sales		245 000
Less: Cost of goods sold		<u>(105 000)</u>
Gross profit		140 000
Less: Selling and administrative expenses	97 500	
Depreciation expense	7 500	
Interest expense	500	
		<u>(105 500)</u>
		34 500
Less: Loss on sale of machinery		<u>(1 500)</u>
Income before taxes		33 000
Less: income tax expense		<u>(11 000)</u>
Net income		<u><u>22 000</u></u>

M J M Ltd.
Statement of Financial Position
For the year ended December 31, 2008

Assets

	\$	\$
	2008	2007
Cash	2 500	22 500
Accounts receivable (net)	26 000	18 500
Inventory	20 500	12 500
Machinery (net)	<u>30 000</u>	<u>30 000</u>
Total Assets	<u>79 000</u>	<u>83 500</u>

Liabilities & Stockholders' Equity

	\$	\$
Accounts payable	13 500	32 000
Long-term note payable	2 500	10 000
Common stock, \$5 par value	2 500	2 000
Paid in capital in excess of par value	10 000	8 000
Retained earnings	<u>50 500</u>	<u>31 500</u>
Total liabilities and stockholders' equity	<u>79 000</u>	<u>83 500</u>

The following additional information also applies to M J M Ltd.

1. Common stock (100 shares) were sold for \$25 per share in the middle of 2008
2. Dividends of \$6 per share were declared and paid late in 2008.
3. Machinery that cost \$10 000 but has a book value of \$6 500 was sold for \$5 000 cash. New machinery was purchased for \$14 000 cash.
4. The note payable relates to a borrowing transaction.

- (a) Using the indirect method, prepare a Statement of Cash Flow for M J M Ltd for the year ended December 31, 2008.

[20 marks]

- (b) Calculate the following for M J M Ltd for 2008.

- | | | |
|-------|------------------------|------------------|
| (i) | Current ratio | [1 mark] |
| (ii) | Acid test Ratio | [1 mark] |
| (iii) | Net Income Percentage | [2 marks] |
| (iv) | Return on Total Assets | [2 marks] |
| (v) | Debt to Equity | [2 marks] |
| (vi) | Times Interest Earned | [2 marks] |

- (c) Discuss the liquidity & solvency of M J M Ltd.

[5 marks]

Total 35 marks

/CAPE/SPEC/MS/2010

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

ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

SPECIMEN PAPER

UNIT 1
PAPER 02

MARK SCHEME

**ACCOUNTING
UNIT 1 PAPER 02
MARK SCHEME**

Question 1

1 (a)

- (i) The use of the company's pre-numbered cheques ensures documentation procedures, since all cheques are in a series and therefore can be accounted for in the records. **2 marks**

- (ii) The monthly reconciliation of the bank statement by an internal auditor allows for independent internal verification since bank and cash book balances are compared. **2 marks**

- (iii) Cheques being signed by the Financial Controller and Operations Assistant establishes responsibility. Only two persons are specified individuals who have authorization to ensure that the information is valid and accurate. **2 marks**

- (iv) Blank cheques are stored in a fire proof safe in the Financial Controller's office is the physical control in safeguarding the assets. **2marks**

- (v) Cheque signers are not allowed to record cash disbursements this ensures that the recording of the transaction and custody are separate. **2 marks**

1(b)

ITEM

- 1. Separate Legal Entity** **1 mark**

The business is seen as separate and distinct from its owners, so that finances of the firm should not be comingled with that of the officer's or owners of the company. **2 marks**

- 2. Historical Cost Concept** **1 mark**

Assets should be reported and presented at their original cost. **2 marks**

- 3. Revenue Recognition** **1 mark**

Revenue should be recognized when it is earned or received i.e. credit sales should be recognized as revenue **2 marks**

**ACCOUNTING
UNIT 1 PAPER 02
MARK SCHEME**

1(b) cont'd **ITEM**

4. Consistency Principle **1 mark**

The business should apply the same accounting methods over subsequent periods. The business should not change the accounting methods.

2 marks

5. Prudence Concept **1 mark**

Expenses and liabilities should be recognized as soon as possible. Revenues should be recognized when they are realized or assured. The contingent gain is not virtually certain, it should not be recognized.

1 (c)

2 marks

Nov 17	Cash	50 000	
	Common Stock	8 000	
	Share Premium	42 000	2 marks

Dec 4	Cash	3 000	
	Preference Stock- Class A	3 000	2 marks

Dec 15	Inventory	15 000	
	Equipment	25 000	
	Common Stock	6 500	
	Share Premium	33 500	3 marks

Dec 29	Cash	120 000	
	Preference Stock – Class B	100 000	
	Paid in excess of stated value	20 000	3 marks

TOTAL 35 marks

**ACCOUNTING
UNIT 1 PAPER 02
MARK SCHEME**

Question 2

**Carnival
Statement of Comprehensive Income
For Y/E Dec 31, 2009**

	\$	\$	\$
Sales			2 273 400
Sales Returns			<u>12 600</u>
Net Sales			2 260 800 (1)
<u>Cost of Goods Sold</u>			
Opening Inventory		114 000	
Purchases	1 384 800		
Freight	32 400		
Purchase Returns	<u>(44 400)</u>		
Net Purchases		<u>1 372 800 (2)</u>	
		1 486 800	
Closing Inventory		<u>120 000</u>	
Cost of Goods Sold			<u>1 366 800 (1)</u>
Gross Profit			894 000 (1)
<u>Distribution and Selling</u>			
Delivery equipment depreciation 20% (144 000-27 000)		23 400 (1)	
Advertising		39 600 *	
Delivery expense		72 000 *	
Rent and Utilities(70% x 114 000)		79 800 (1)	
Bad debt [2% x (2 260 800-55000)] + 5500		50 606 (2)	
Salaries (60% x 420 000)		<u>252 000 (1)</u>	
			(517 406)
<u>Administrative expenses</u>			
General expense		64 350 *	
Salaries (40% x 420 000)		168 000 (1)	
Store supplies		8 500 (1)	
Loss due to Flood		11 400 *	
Rent and Utilities(30% x 114 000)		34 200 (1)	
Depreciation- Store Equipment 20% (255 000 -54 000)		<u>40 200 (1)</u>	
			(326 650)
<u>Finance Cost</u>			
Interest on Loans			<u>(48 600) (1)</u>
Profit before Tax			1 344 (1)
Corporation Tax			<u>(403) (1)</u>
Net Income			<u>941 (1)</u>

**ACCOUNTING
UNIT 1 PAPER 02
MARK SCHEME**

Question 2 Cont'd

Carnival
Statement of Financial Position
As at Dec 31, 2009

	\$	\$	\$
ASSETS			
<u>Non Current Assets</u>			
Property, Plant and Equipment			
Store equipment: Cost			
Accumulated depreciation	255 000		
	<u>(94 200)</u>		
		160 800	(1)
Delivery Equipment: Cost			
Accumulated depreciation	144 000		
	<u>41 400</u>		
		<u>93 600</u>	(1)
Investment in Government Bonds			254 400
			<u>285 000</u>
			(1)
			539 400
Current Assets			
Store Supplies			
Merchandise Inventory		8 000	(1)
Accounts Receivable		120 000	*
(128 100 - 45106 -5500 -27000)			
Cash		50 494	(1)
		<u>50 100</u>	*
Total Assets			<u>228 594</u>
			<u>767 994</u>
			(1)
EQUITY AND LIABILITIES			
Equity			
Ordinary Share Capital			
Share Premium		120 000	*
Retained Earnings (102 750 + 941)		210 000	*
		<u>103 691</u>	(1)
Non Current Liabilities			433 691
Note Payable			
Current Liabilities			80 000
Note Payable			
Corporation Tax Payable		100 000	(1)
Utilities Payable		403	(1)
Accounts Payable		8 400	*
		<u>145 500</u>	*
Total Equity and Liabilities			<u>254303</u>
			<u>767 994</u>
			(1)
Account Title - 1 mark			<u>767 994</u>
10 stars at 1 mark for 2 stars (5 marks)			(1)

TOTAL 35 Marks

**ACCOUNTING
UNIT 1 PAPER 02
MARK SCHEME**

**Question 3
(a)**

**MJM Inc
Statement of Cash Flows
For Y/E 31 December 2008**

	\$		\$
Operating Activities			
Profit before interest and income taxes		33 500	(2)
Add depreciation		7 500	(1)
Add Loss on Sale of Machinery		<u>1 500</u>	(1)
Operating Income before Working Capital Changes			
Increase in Accounts Receivable		(7500)	(1)
Increase in Inventory		(8000)	(1)
Decrease in Accounts Payable		<u>(18 500)</u>	(1)
		8 500	
Interest Paid		(500)	(1)
Tax Paid		<u>(11 000)</u>	(1)
Net Cash from Operating Activities		(3 000)	(1)
Investing Activities			
Sale of Machinery	5 000		(1)
Purchase of Machinery	<u>(14 000)</u>		(1)
			(9 000) (1)
Financing Activities			
Repayment of long term loans	(7 500)		(1)
Issue of Shares	2 500		(1)
Dividends Paid	<u>(3 000)</u>		(1)
Net Cash used in Financing Activities		<u>(8 000)</u>	(1)
Decrease in Cash and Cash Equivalents	-	(20 000)	(1) <u>22 500</u>
Opening Cash and Cash Equivalents			<u>2500(1)</u>
Closing Cash and Cash Equivalents			

Account Title - 1 mark

ACCOUNTING
UNIT 1 PAPER 02
MARK SCHEME

3 (b) MJM Ratios

- (i) Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$
$$= \frac{2500 + 26\,000 + 20\,500}{13\,500}$$
$$= 3.62:1$$
 (1 mark)
- (ii) Acid Test Ratio = $\frac{\text{Current Assets} - \text{Closing Inventory}}{\text{Current Liabilities}}$
$$= \frac{2500 + 26\,000}{13\,500}$$
$$= 2.1: 1$$
 (1 mark)
- (iii) Net Income Percentage = $\frac{\text{Net Income}}{\text{Sales}} \times 100$
$$= \frac{22\,000}{245\,000} \times 100$$
$$= 8.98\%$$
 (2 marks)
- iii) Return on Assets = $\frac{\text{Net Income}}{\text{Average Total Assets}}$
$$\text{Average Total Assets} = \frac{(79\,000 + 83\,500)}{2}$$
$$= 81\,250$$

$$\text{Return on Total assets} = \frac{22\,000}{81\,250} \times 100$$
$$= 27\%$$
 (2 marks)
- iv) Debt to equity = $\frac{\text{Total Debt}}{\text{Total Equity}}$
$$= \frac{13\,500 + 2\,500}{2500 + 10\,000 + 50\,500}$$
$$= 25\%$$
 (2 marks)
- v) Times Interest Earned = $\frac{\text{Income before Tax and Interest}}{\text{Interest Expense}}$
$$= \frac{33\,000 + 500}{500}$$
$$= 67 \text{ times}$$
 (2 marks)

ACCOUNTING
UNIT 1 PAPER 02
MARK SCHEME

3 (c) MJM appears to be quite liquid, as for both Current ratio and Acid Test ratio the company can comfortably cover their short term obligations. However, both Current ratio and Acid Test ratio are above the benchmark of 2:1 and 1:1, this indicates that the current assets may be idle. **(3 marks)**

Both debt to equity and times interest earned ratios indicate that MJM is quite solvent, i.e. they can meet their long term liabilities. The company is lowly geared and covers their interest expense comfortably. **(2 marks)**

Total 35 marks

TEST CODE: 02101032

FORM TP 2012128/SPEC/2010

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING
SPECIMEN PAPER

UNIT 1

PAPER 03/2

1 ½ hours

READ THE FOLLOWING DIRECTIONS CAREFULLY

1. This paper comprises **SIX** questions. Answer **ALL** questions.
2. Begin **EACH** answer on a separate page.

CASE

The main branch of Tina's Variety Store in Clarendon employs Margaret Taitt, the branch manager, a sales assistant, Julie Morgan and a store attendant, Mr. Smiley. The branch uses a bank account in Clarendon to deposit cash and to pay expenses. The account is kept in the name of the business. To pay expenses, checks must be signed by Margaret Taitt or by the Treasurer of Tina's Variety, Don Burns. Julie Morgan, the sales assistant, operates the front office store including the cash register. Mr. Smiley receives the goods and stacks the shelves. He also functions as the security guard.

1. List THREE objectives and THREE elements of an effective internal control system.
(6 marks)
2. Outline the process you would use to investigate the effectiveness of the internal control system at the Clarendon branch of Tina's Variety Store.
(14 marks)

On investigating the internal control systems at Tina's Variety Store you have discovered the following:

Assets Register

The business acquired its building four years ago together with store fixtures and fittings. This was secured by a mortgage from the local bank in Clarendon. The cash register and a small computer were acquired about five months ago. None of the assets was recorded in the books and no depreciation was taken on any asset to date. The branch manager keeps the documents pertaining to these assets in a safety deposit box in the bank.

Sales and Cash Collection

The company makes both credit and cash sales. The Sales Assistant, Julie Morgan, records the credit sales in a notebook while cash sales are entered through the cash register. The manager stores the notebook containing the record of credit sales, the duplicate cash register tape and any notes relating to customer returns in a large box kept at the back of the store.

A section of the ground floor of the business has been sublet to Mr. Raga whose lease requires that he pays the rent quarterly in advance. He rented the premises on the 1st of November and the business' fiscal year end is December 31.

Purchases and Cash Disbursements

The company purchases goods on credit from most suppliers. Small cash purchases are made with cash from the cash register. On occasions the owner withdraws some cash for personal uses and documents this in a notebook which is kept beside the cash register. The suppliers are paid when the invoice is received. The sales assistant records the cheque number on the invoice, stamps 'paid' on the invoice, clips the invoice on to a wire hanger in the corner of the store and mails the cheque to the supplier. The supplier returns a receipt to Tina's Variety together with any discrepancies noted on the account. The company on occasions returns faulty merchandise to the suppliers who issue the company with a credit note. These notes are also filed on the wire hanger but no attempt is made to determine the amount owed to the supplier by reconciling these notes to the invoices. The company maintains a cheque register to record all payments made by cheque. The bank statement and returned cheques are stored in the box at the back of the store. Business cheques are used to pay the various utilities and other expense bills for both the business and the owner's home. No attempt is made to match them to any particular accounting period. These bills are placed in the box and the corresponding cheque number is written on them when paid. The shop attendants are paid every two weeks while the manager is paid monthly.

3. Using the information provided, identify SIX accounts that Tina's Variety should have in its chart of accounts that can be used as the basis for the preparation of the financial statements.

(6 marks)

4. Outline the process you would go through in preparing a complete set of financial statements for Tina's Variety Store for the year ending December 31.

(14 marks)

On completion of the financial statements for Tina's Variety Store you have received a copy of the financial statements for Rogers Trading Inc, a business that is quite similar to Tina's Variety. Our friend Bridget asserted that you can use ratio analysis to assess the performance of the two entities. She further added that in making the comparison using ratio analysis the ratios can be classified into four distinct categories

5. (a) Identify the FOUR categories that are used in ratio analysis to assess performance.

(2 marks)

- (b) For each of the categories identified in (a), provide a definition of the categories and two ratios that are classified within the category.

(8 marks)

6. (a) Outline the process that you would use to compare the two businesses. **(4 marks)**

(b) State SIX limitations of the process outlined in (a). **(6 marks)**

[60 marks]

END OF TEST

/CAPE/SPEC/MS/2010

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

ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

SPECIMEN PAPER

UNIT 1
PAPER 03/2

MARK SCHEME

ACCOUNTING
UNIT 1 - PAPER 03/2
MARK SCHEME

Question 1

1. THREE objectives of internal control are to provide reasonable assurance to management and to external auditors that:

- ❖ Operations are managed to achieve the desired goals of the business.
- ❖ Financial reports are accurate.
- ❖ Laws and regulations are complied with.
- ❖ Assets are safe

(1 mark each for 3 correct)
Max **3 marks**

THREE elements of internal control are:

- ❖ control procedures to ensure competent personnel are on the job, responsibilities are clearly defined,
- ❖ the separation of duties for related functions,
- ❖ the separation of accounting from custody of assets and from the operations of the business,
- ❖ having security measures for safeguarding assets.

(1 mark each for 3 correct)
Max **3 marks**

Total 6 marks

ACCOUNTING
UNIT 1 – PAPER 03/2
MARK SCHEME

Question 2

Obtain a copy of the business's mission and goals as well as its organisation chart and operations procedures to assess the effectiveness of the formal organisation and management structure of the business

Use these documents as the basis for observing whether employees follow or ignore stated business policies.

Also use documents to assess whether employees are competent to perform the functions assigned to them e.g. is Ms Morgan trained to operate the cash register.

Assess the level of controls based on the separation of duties. For example, if Ms Taitt signs the cheques and Ms Morgan operates the cash register, find out who reconciles the business' bank account and who makes deposits.

Assess security measures by observing what happens if Ms Morgan goes to lunch, or moves away from the cash register: is it locked, does someone else operate the register?

Interview staff to determine what they actually do on a daily basis and check this against the procedures documents for consistency.

Use interviews to determine if there is an internal and or external assessment of the business internal controls, and if managers receive a report on such assessment on a regular basis for decision making.

Use relevant national laws and accounting standards to determine whether the business is in compliance with these. Look particularly at the financial statements, and determine whether they are in accordance with international accounting standards.

**2 marks each for any
7 correct**

Total 14 marks

ACCOUNTING
UNIT 1 – PAPER 03/2
MARK SCHEME

Question 3

The accounts included in the chart of accounts should include the following:

1 mark for any 6 correct

Cash account, buildings, fixtures and fittings, depreciation expense, accumulated depreciation, bank charges, utilities expenses, rent revenue, sales, purchases, purchase returns, sales returns, wages and salaries, expense, drawings, other expenses, mortgage and mortgage interest.

Total 6 marks

Question 4

Analyze transactions and journalize – this ensures that only items related to the business are kept separate from items related only to the owner

Post journal entries into the general ledger accounts

Prepare a trial balance

Prepare adjusting journal entries to ensure that revenues and expenses are appropriately recognized and assets and liabilities are properly valued

This may require discussion with management about the terms of sales, expenses that may be incurred that are not documented, and the depreciation policy. Also the bank statement should be checked for bank charges and these entered in the appropriate account.

Prepare an adjusted trial balance

Prepare income statement, balance sheet, statement of cash flows and statement of owner's equity

Prepare and post closing entries

2 marks each for 7 correct

Prepare a post-closing trial balance

Max 14 marks

Total 14 marks

ACCOUNTING
UNIT 1 – PAPER 03/2
MARK SCHEME

Question 5

2 marks for all 4
1 mark for any 2

(a) The four areas that can be used to assess the performance of an entity are **liquidity, solvency, activity and profitability**.

(b) – Liquidity ratios are designed to measure a company's ability to meet its short-term obligations.

1 mark

Liquidity ratios:

- Current ratio
- Acid test/Quick ratio

1 mark
for 2

– Profitability ratios measure the company's control of its expenses and the return on invested funds.

1 mark

Profitability ratios:

- Gross profit ratio
- Net profit ratio
- Operating ratio
- Expense ratio
- Return on shareholders investment or net worth
- Return on equity capital
- Return on capital employed (ROCE) ratio
- Dividend yield ratio
- Dividend payout ratio
- Earnings Per Share Ratio
- Price earning ratio

1 mark
for any 2

– Solvency ratios measure the company's ability to meet its long-term obligation.

1 mark

Solvency ratios:

- Debt equity ratio
- Fixed assets to shareholders funds
- Current assets to shareholders funds
- Capital gearing ratio

1 mark
for any 2

ACCOUNTING
UNIT 1 – PAPER 03/2
MARK SCHEME

Question 5 cont'd

- Activity ratios measure the company's asset management.

1 mark

Activity ratios:

- Inventory/Stock turnover ratio
- Debtors/Receivables turnover ratio
- Average collection period
- Creditors/Payable turnover ratio
- Working capital turnover ratio
- Fixed assets turnover ratio

**1 mark
for any 2**

Total 8 marks

ACCOUNTING
UNIT 1 – PAPER 03/2
MARK SCHEME

Question 6

- (a) Compute a set of ratios to assess the liquidity, solvency, activity and profitability of the two businesses **(1)** and then compare the ratios under each category to analyze the performance of each business **(1)**.

2 marks

Identify appropriate benchmarks for the selected ratios or criteria for interpreting ratios **(1)** (e.g. obtain ratios for leading companies in this area of business and make a comparison to these two businesses). **(1)**

2 marks

(b) Limitations of Ratio Analysis

- Financial statements present a limited picture of the business and do not include all facets of the business.
- Financial statements are prepared using the historical cost concept.
- Consolidated financial statements contain financial information from many different sectors and industries and this can make comparison difficult if the financial information is aggregated and cannot be easily split up.
- External analysis of financial statements can be misleading because these are prepared at a particular date and may not be representative of the whole year.
- Comparing two firms may result in misleading conclusions since the accounting policies used by one company may not be those used by the other company.
- Horizontal analysis can be used to assess the performance over the years.
- Common sized statements can be used to assess the performance of the entity

1 mark each for 6
Max 6 marks

Total 10 marks



**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

**SPECIMEN PAPER
MULTIPLE CHOICE QUESTIONS
FOR**

ACCOUNTING - UNIT 2

Paper 01

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This test consists of 54 items. You will have 90 minutes to answer them.
2. Each item in this test has four suggested answers lettered (A), (B), (C), (D). Read each item you are about to answer and decide which choice is best.
3. Look at the sample item below.

Sample Item

Overhead absorption rates are used to determine the

- (A) service department's overhead cost
- (B) estimated overhead cost for products
- (C) allocation of overhead costs to products
- (D) actual overhead cost for finished product

Sample Answer



The best answer to this item is “allocation of overhead costs to product”, so answer space (C) has been shaded.

DO NOT TURN THIS PAGE UNTIL YOU ARE TOLD TO DO SO.

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1. What type of cost is straight-line depreciation on a sewing machine in a garment factory?
 - (A) Variable
 - (B) Fixed
 - (C) Mixed
 - (D) Relevant

2. Which of the following may be classified as carrying costs?
 - (A) Transportation costs of items purchased
 - (B) Clerical and administrative costs of purchasing, accounting and good reception
 - (C) Warehouse staff, equipment, maintenance and running costs
 - (D) Loss of future sales because customers may go elsewhere

3. Guyco's demand for plastic bottles is 2 000 units per month; the ordering costs are \$700 per order; and the carrying costs are \$3.20 per unit. What is the economic order quantity (EOQ)?
 - (A) 935 units
 - (B) 1 620 units
 - (C) 2 646 units
 - (D) 3 240 units

5. What is the value of existing inventory on May 20, using FIFO?
 - (A) \$2 063.33
 - (B) \$2 200.00
 - (C) \$2 640.00
 - (D) \$3 730.00

6. The budgeted indirect cost allocation rate can be determined by the budgeted manufacturing overhead
 - (A) multiplied by the budgeted quantity of the cost driver
 - (B) divided by the actual quantity of the cost driver
 - (C) plus budgeted quantity of the cost driver
 - (D) divided by the budgeted quantity of the cost driver

7. The Aron Company requires 40 000 units of product Q for the year. The units will be used evenly throughout the year. It costs \$60 to place an order. It costs \$10 to carry a unit in inventory for the year. The economic order quantity (EOQ) rounded to the **nearest** whole unit is
 - (A) 400
 - (B) 490
 - (C) 693
 - (D) 793

Items 4–5 refer to the following information which was extracted from a company's raw material stores ledger.

May	Received		Quantity issued in Units
	Quantity purchased in units	Total value \$	
1	240	4 800	
4			120
8	160	4 000	
11			190
14	90	1 980	
17			160
20	100	2 200	

4. What is the value of existing inventory on May 13, using LIFO?
 - (A) \$ 1 800.00
 - (B) \$ 2 400.00
 - (C) \$ 4 200.00
 - (D) \$ 4 600.00

8. Which one of the following MOST closely coincides with the manufacturing costs incurred by a company?
 - (A) Factory overheads incurred during the period.
 - (B) The sum of direct materials used and direct labour.
 - (C) The sum of raw materials used, work in process and finished goods.
 - (D) The sum of direct materials used, direct labour and factory overhead.

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9. Mico garment factory produces item Q using a labour intensive process. The following cost were incurred for the month of March 2010:

Salary expenses:	
Cleaning and maid staff	15 000
Sewing machine operators	5 000
Administrative staff	25 000
Packers	2 000
Designers	19 500
Machine maintenance staff	4 600
Factory floor supervisors	30 000
Temporary machine operators	2 800

The total amount that should be charged as direct labour for the month of March is

- (A) \$ 29 300
- (B) \$ 59 300
- (C) \$ 63 900
- (D) \$ 103 900

Items **10–12** refer to the following information reported by Lewis Manufacturing for last year.

Revenue	\$420 000
Beginning inventory of direct materials, January 1	22 000
Purchases of direct materials	146 000
Ending inventory of direct materials, December 31	16 000
Direct manufacturing labour	18 000
Indirect manufacturing costs	40 000
Beginning inventory of finished goods, January 1	35 000
Cost of goods manufactured	104 000
Ending inventory of finished goods, December 31	36 000
Operating costs	140 000

10. How much of the above would be considered period costs for Lewis Manufacturing?
- (A) \$ 104 000
 - (B) \$ 140 000
 - (C) \$ 246 000
 - (D) \$ 390 000
11. The prime cost for the year is
- (A) \$ 104 000
 - (B) \$ 164 000
 - (C) \$ 170 000
 - (D) \$ 210 000
12. The TOTAL conversion cost for the year is
- (A) \$ 40 000
 - (B) \$ 58 000
 - (C) \$ 198 000
 - (D) \$ 244 000

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13. Factory supervisors are paid a commission once they exceed their budget. The commission is calculated at 10% of the excess over the budget. One supervisor who's budget is set at 1 000 units sold 1 200 units at a unit price of \$100. The amount paid as commission is
- (A) \$ 1 000
 - (B) \$ 2 000
 - (C) \$ 10 000
 - (D) \$ 12 000
14. The support department allocation method that is the MOST widely used because of its simplicity is the
- (A) step-down method
 - (B) reciprocal allocation method
 - (C) direct allocation method
 - (D) sequential allocation method
15. Gibson Manufacturing used machine hours to allocate manufacturing overhead to ALL jobs. The budgeted manufacturing overhead cost is \$30 000 and the budgeted labour hours and machine hours were 60 000 and 100 000 respectively. The pre-determined overhead rate is
- (A) \$ 0.30 per machine hour
 - (B) \$ 0.50 per machine hour
 - (C) \$ 0.60 per machine hour
 - (D) \$ 3.33 per machine hour
16. The method of costing that includes all direct costs and overheads is known as
- (A) absorption costing
 - (B) fixed overhead costing
 - (C) manufacturing overhead costing
 - (D) variable costing

Items **17–18** refer to the following information.

Marie's Deserts and Pastries produces and sells a chocolate cake for \$100 per unit. In 2010, 100 000 cakes were produced and 80 000 were sold. Other information for the year includes:

Direct materials	\$ 30.00 per unit
Direct manufacturing labour	\$ 2.00 per unit
Variable manufacturing costs	\$ 3.00 per unit
Sales commissions	\$ 5.00 per part
Fixed manufacturing costs	\$ 25.00 per unit
Administrative expenses, all fixed	\$ 15.00 per unit

17. What is the inventoriable cost per unit using variable costing?
- (A) \$ 32
 - (B) \$ 35
 - (C) \$ 40
 - (D) \$ 60
18. What is the inventoriable cost per unit using absorption costing?
- (A) \$ 32
 - (B) \$ 35
 - (C) \$ 60
 - (D) \$ 80

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19. Smith and Jones Company uses job costing. The records at Smith and Jones Company show Job No. 110 charged with \$11 000 of direct materials and \$12 500 of direct labour. Smith and Jones Company allocates manufacturing overhead at 85% of direct labor cost. What is the TOTAL cost of Job No. 110?
- (A) \$ 20 625
 - (B) \$ 21 625
 - (C) \$ 22 500
 - (D) \$ 34 125

Items 20–21 refer to the following information.

The Haynes Corporation uses a process costing system. In the Mixing department, 4 000 units were started and by the end of the period, all but 400 units had been completed. The 400 units were 80% complete regarding direct materials and 40% complete regarding conversion costs. Costs added during the current period include \$66 300 for direct materials and \$70 000 for conversion costs.

20. What is the number of equivalent units for direct materials?
- (A) 3 540
 - (B) 3 760
 - (C) 3 900
 - (D) 3 920
21. What is the number of equivalent units for conversion costs?
- (A) 3 700
 - (B) 3 760
 - (C) 3 900
 - (D) 3 920
22. The basic difference between marginal and absorption costing is the treatment of
- (A) direct expenses
 - (B) direct labour costs
 - (C) fixed selling and administrative cost
 - (D) fixed manufacturing overhead cost

23. Which of the following statements about activity-based costing is NOT true?
- (A) Activity-based costing is useful for allocating marketing and distribution costs.
 - (B) Activity-based costing is more likely to result in major differences from traditional costing systems if the firm manufactures only one product rather than multiple products.
 - (C) Activity-based costing seeks to distinguish batch-level, product-sustaining, and facility-sustaining costs, especially when they are not proportionate to one another.
 - (D) Activity-based costing differs from traditional costing systems in that products are not cross-subsidized.
24. Marginal costing will produce a larger net income than absorption costing if
- (A) fixed overhead decreases
 - (B) production exceeds sales
 - (C) fixed overhead increases
 - (D) sales exceeds production
25. Harmony Company uses a job costing system. Harmony Company estimated manufacturing overhead costs for 2011 at \$378 000. The company allocates overhead at a rate of \$2.10 per direct labour hours. Actual direct labour hours for 2011 totaled 195 000. The actual manufacturing overhead for 2011 was \$391 500. What was the balance in manufacturing overhead at December 31, 2011, and was it over-allocated or under-allocated?
- (A) \$ 18 000 over-allocated
 - (B) \$ 18 000 under-allocated
 - (C) \$ 31 500 over-allocated
 - (D) \$ 31 500 under-allocated

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26. Which of the following distinguishes activity based costing from traditional costing?
- (A) In activity based costing multiple cost drivers are utilized within a department.
 - (B) In activity based costing each department is a different activity.
 - (C) In activity based costing yearly estimates are used.
 - (D) In traditional costing systems overheads application rates can be based on direct labour.

Items 27–28 refer to the following information.

Southend Motors is a wholesale distributor that uses activity-based costing for all its overhead costs. The company has provided the following data concerning its annual overhead costs and its activity-based costing system:

Overhead Costs

Wages and salaries	\$380 000
Other expenses	\$100 000
Total	\$480 000

Distribution of resource consumption

	Activity cost pools			Total
	Filling orders	Customer support	Other	
Wages and salaries	30%	60%	10%	100%
Other expenses	35%	45%	20%	100%

The ‘Other’ activity cost pool consists of the costs of idle capacity and organizational sustaining costs. The activity measures for the activity cost pools for the year are as follows:

<u>Activity cost pool</u>	<u>Activity</u>
Filling orders	3 000 orders
Customer support	20 customers

27. The TOTAL overhead cost per order using activity-based costing is
- (A) \$ 48.00
 - (B) \$ 49.67
 - (C) \$ 52.00
 - (D) \$ 56.00
28. The TOTAL overhead cost per customer using activity-based costing is
- (A) \$ 10 800
 - (B) \$ 12 600
 - (C) \$ 13 650
 - (D) \$ 14 400

29. Costing systems that are used for the costing of like or similar units of products in mass production are called
- (A) job-costing systems
 - (B) process-costing systems
 - (C) inventory-costing systems
 - (D) weighted-average costing systems
30. Peter wants to identify the total cost for computing the personal tax return he prepared for his client. Labour is the only direct cost at \$150 per hour. Indirect costs are \$80 per labour hour. What is the TOTAL direct cost, indirect cost, and job cost respectively if 8 hours are spent preparing the tax return?

	Direct cost	Indirect cost	Job cost
(A)	\$ 640	\$ 1 200	\$ 1 840
(B)	\$ 1 100	\$ 900	\$ 2 000
(C)	\$ 1 200	\$ 640	\$ 1 840
(D)	\$ 1 240	\$ 1 200	\$ 2 480

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31. Roberts' company has a single product. The selling price is \$50 and the variable cost is \$30 per unit. The company fixed expenses are \$200 000 per month. What is the break even sales in dollars?
- (A) \$ 20 000
(B) \$ 33 333
(C) \$ 400 000
(D) \$ 500 000
32. The following figures are taken from the financial statements of Rudder company. Net Income \$30 000; Fixed cost \$90 000; Sales \$200 000 and contribution margin ratio 60%. The company's margin of safety in dollars is
- (A) \$ 30 000
(B) \$ 50 000
(C) \$ 80 000
(D) \$ 150 000
- Items 33–34 refer to the following information.
- During June, Able Company produced 4 000 units of a product. The standard cost card indicates that the cost per unit of output is 3.5 hours at \$6 per hour. During the month, production staff worked 15 000 hours.
33. How many standard hours should be allowed for the month?
- (A) 14 000 hours
(B) 15 000 hours
(C) 18 000 hours
(D) 24 000 hours
34. What is the labour efficiency variance for June?
- (A) \$ 1 000F
(B) \$ 1 000U
(C) \$ 6 000F
(D) \$ 6 000U
35. During July the Tin Can Company produced 3 000 units of a product. The standard cost card indicates that the cost per unit of output is 2 kilograms at \$0.50. During July 8 000 kilograms of material were purchased at a cost of \$3 900. What is the materials price variance for July?
- (A) \$ 100F
(B) \$ 100U
(C) \$ 4 100F
(D) \$ 4 100U
36. In which of the following ways are 'standards' expressed?
- (A) On a per unit basis
(B) By a management team
(C) Through the organization goals
(D) Through the organization's policies and procedures
37. Which of the following statements about budget and budgeting is NOT true?
- (A) Budgets promote communication and coordination between departments.
(B) Budgeting is an aid to planning and control.
(C) Budgets help to coordinate the activities of the entire organization.
(D) Budgeting is an activity that is best carried out by top management only.
38. What is the practice of directing executive attention to important deviations from budgeted amounts called?
- (A) Management by exception
(B) Management by objective
(C) Management by control
(D) Management by analysis

GO ON TO THE NEXT PAGE

39. If a company's beginning cash balance is \$15 000; the required ending cash balance is \$12 000; cash disbursement total \$125 000; and cash collections from customers total \$90 000, the company must borrow
- (A) \$ 8 000
 - (B) \$ 20 000
 - (C) \$ 32 000
 - (D) \$ 38 000
40. Caricom Company had actual sales of \$30 000 in June, \$50 000 in July and \$70 000 in August. Sales in September are expected to be \$60 000. If 30% of a month's sales is collected in the month of sale, 50% in the first month after sale and 15% in the second month after sale, then cash receipts for September are budgeted to be
- (A) \$ 57 000
 - (B) \$ 60 500
 - (C) \$ 62 000
 - (D) \$ 70 000
41. The payback period for this investment project would be
- (A) 0.25 years
 - (B) 2.41 years
 - (C) 4 years
 - (D) 10 years
42. The accounting rate of return on this investment would be
- (A) 10%
 - (B) 15%
 - (C) 25%
 - (D) 35%
43. Which of the following variances is MOST controllable by a production supervisor?
- (A) Materials price variance
 - (B) Materials quantity variance
 - (C) Fixed overhead volume variance
 - (D) Variable overhead spending variance
44. Which capital budgeting method uses accrual accounting, rather than net cash flows, as a basis for calculations?
- (A) Payback
 - (B) IRR
 - (C) NPV
 - (D) ARR

Items 41–42 refer to the following information.

Jackies' Company has gathered the following data on a proposed investment project

Initial cost of Investment	\$ 800 000
Annual net cash flows	\$ 200 000
Salvage value	0
Life of the investment	10 years
Discount rate	12%

The company uses straight-line depreciation on all projects.

45. Advance Engineering makes payments on its inventory purchases as follows: 30% in the month of purchase, 50% in the following month, and 20% in the second month following purchase. Budgeted inventory purchases for June, July, and August are \$50 000, \$43 000 and \$56 000, respectively. At what amount are cash payments for inventory in August budgeted?
- (A) \$ 56 000
 - (B) \$ 51 900
 - (C) \$ 48 300
 - (D) \$ 47 500

END OF TEST

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 2, PAPER 01

MARK SCHEME

CARIBBEAN EXAMINATIONS COUNCIL

**CARIBBEAN ADVANCED PROFICIENCY
EXAMINATION**

ACCOUNTING - UNIT 2

SPECIMEN PAPER 2011

Question	SO	Key
1	1.6.6	B
2	1.10.10	C
3	1.10.10	A
4	1.9.9	A
5	1.9.9	C
6	1.11.11	D
7	1.3.6	C
8	1.3.3	D
9	1.4.4	A
10	1.6.6	B
11	1.3.3	C
12	1.3.3	B
13	1.5.5	B
14	1.11.11	C
15	1.11.11	A
16	2.12.6	A
17	2.12.6	B
18	2.12.6	C
19	2.3.2	D
20	2.8.4	D
21	2.8.4	B
22	2.8.4	D
23	2.6.3	B

Question	SO	Key
24	2.13.7	C
25	2.5.2	A
26	2.6.3	A
27	2.7.3	B
28	2.7.3	C
29	2.1.1	B
30	2.10.5	C
31	3.5.5	D
32	3.5.5	B
33	3.4.3	A
34	3.4.4	D
35	3.4.4	A
36	3.3.3	A
37	3.1.1	D
38	3.1.1	A
39	3.2.2	C
40	3.2.2	B
41	3.6.6	C
42	3.6.6	B
43	3.3.3	B
44	3.6.6	D
45	3.2.2	C

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

ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

SPECIMEN PAPER

UNIT 2

PAPER 02

2 ¾ hours

INSTRUCTIONS TO CANDIDATES

1. This paper consists of THREE questions.
2. Each question is worth 35 marks.
3. ALL questions are COMPULSORY
4. Begin EACH answer on a new page.
5. Silent non-programmable calculators may be used, but ALL necessary working should be clearly shown.

1 (a) Hodge Tec Manufacturing company (HTMC) had the following cost and expense data for the year ending December 31, 2009:

Direct materials, January 1, 2009	60 000
Direct materials, December 31, 2009	40 000
Direct materials purchases	410 000
Indirect materials purchases/ used	30 000
Work in Progress, January 1, 2009	160 000
Work in Progress, December 31, 2009	100 000
Finished Goods, January 1, 2009	220 000
Finished Goods, December 31, 2009	240 000
Direct Labour	700 000
Factory manager's salary	70 000
Insurance, factory	28 000
Property taxes, factory building	12 000
Sales (net)	3 000 000
Delivery expenses	200 000
Sales Commission	300 000
Indirect labour	180 000
Factory machine rent	80 000
Factory utilities	130 000
Depreciation, factory building	48 000
Administrative expenses	600 000

- (i) Prepare a cost of goods manufactured schedule for Hodge Tec Manufacturing Company for the period ending December 31, 2009.
[11 marks]
- (ii) Prepare a statement of comprehensive income for Hodge Tec Manufacturing Company for the period ending December 31, 2009.
[7 marks]

- (b) Roseau Medical Clinic has two service departments, Accounting Services and Catering and three operating departments, Obstetrics, Oncology and Minor surgery. The central administration allocates the cost of accounting services on the basis of invoices processed and catering based on the number of patient days. No distinction is made between variables and fixed cost. The budgeted operating data for the year ended January 31, 2009 is as follows:

	Accounting Services	Catering	Obstetrics	Oncology	Minor Surgery
Budgeted costs before allocation	625 000	2 500 000	3 750 000	11 250 000	7 500 000
Invoices processed	25 000	100 000	150 000	450 000	300 000
Patient days			137 500	192 500	220 000

Prepare a schedule to allocate service department costs to operating departments by the step down method, allocating the cost of accounting services first.

[17 marks]

Total 35 marks

- 2 (a) Longly associates, a manufacturer of precision parts, has three categories of overhead costs: machine operating, engineering and inspecting. The company usually uses a job order costing system and applies overhead using machine hours and expected capacity. The total overhead cost expected for the coming year is 2 700 000 and the plant expected capacity is 300 000 machine hours.

Marya Smith; the plant manager, has been asked to submit a bid on a potential job and has assembled the following data relating to the job.

Direct materials	24 000
Direct labour	36 000
Overhead	\$?
Number of inspections	3
Number of setups	2
Number of machine hours	6 000
Engineering hours	30

Marya has been advised that many competitors use activity based costing to assign overheads to jobs. Before submitting her bid, she wants to assess the effects of this alternative approach. She has collected additional information on the overhead costs for the plant, and the costs expected for these categories for the coming year as follows:

Activity	Expected Cost \$	Activity driver	Activity capacity
Machining	880 000	Machine hours	200 000
Setup equipment	120 000	Number of setups	300
Engineering	440 000	Engineering hours	20 000
Inspecting	360 000	Number of inspections	12 000
Total	1 800 000		

- (i) Calculate the overhead rate per machine hour.
[2 marks]
- (ii) Assuming that Marya uses the traditional job order costing system, calculate the total cost of the proposed job.
[4 Marks]

- (iii) Calculate the activity-cost driver rate for EACH of the four activities, machining, setup, engineering and inspecting.

[4 marks]

- (iv) Using the activity rates obtained in (iii) above, calculate the cost of the job using the activity based costing system.

[10 marks]

Total 20 Marks

- (b) Freeze It Inc. manufactures local ice-cream. Materials are added at the beginning of the process and conversion costs are uniformly incurred. At the beginning of January, Work-in-progress is 40% complete and at the end of the month it is 60% complete. Other data for the month include:

Beginning Work-in-progress inventory	1 600 units
Units started	2 000 units
Units placed in finished goods	3 200 units

Conversion costs	\$ 200 000
Cost of direct materials	\$ 260 000

Beginning work in progress costs:

Materials	\$ 154 000
Conversion	\$ 82 080

Prepare a production cost work sheet with supporting schedules using the weighted-average method of process costing.

[15 Marks]

Total 35 marks

Question 3

Kevin, an enterprising engineering graduate joined the Reba Company. As part of his 'best students' award, the Company was asked to introduce his new creation, the solar heater widget. To facilitate the production of this product, the firm would have to make the following special investments:

1. Equipment for the production of the widgets cost \$200 000. It would have a useful life of 12 years and salvage value of \$ 20 000.
2. A working capital of \$80 000 would be required to finance day to day expenses necessary to facilitate production and sales of the widget.
3. The projected selling price is \$90 each with variable production, administrative and sales cost estimated at \$50 per unit.

4. The projected sales based on market surveys is:

Year 1	4 000 units
Year 2	7 000 units
Year 3	10 000 units
Years 4 – 12	12 000 units

5. He has been advised that in order to capture and maintain market share, advertising would be necessary. Estimates are as follows:

Years 1 – 2	\$140 000 each year
Year 3	100 000
Year 4 – 12	80 000

6. Other costs identified to cover insurance, salaries, maintenance and depreciation will be \$255 000. (Depreciation is calculated using the straight line method).

7. The widget is perceived as a high-risk venture; therefore the company is required to have a 20% rate of return in order for this product to be acceptable.

- (a) State THREE arguments why budgeting is not always effective as an accounting tool. **(3 marks)**
- (b) List FOUR reasons why you would recommend the use of a standard costing system. **(4 marks)**
- (c) Using the information given on expected cash inflows and operating expenses, compute the net cash flows from the sale of the widgets for each year over the next 12 years. **(13 marks)**
- (d) Using the data computed in (iii) above and other data provided, determine the net present value of the proposed investment. **(9 marks)**
- (e) Advise the Reba Company whether it should or should not accept the widget as a new product line. **(1 mark)**
- (f) List FIVE qualitative factors which the Reba Company may consider in deciding whether or not to accept the investment proposal. This decision may be taken despite the evidence in (iv) and your answer to (v) above. **(5 marks)**

Total 35 marks

END OF TEST

/CAPE/SPEC/MS/2010

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

ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

SPECIMEN PAPER

UNIT 2
PAPER 02

MARK SCHEME

ACCOUNTING
UNIT 2 - PAPER 02
MARK SCHEME

QUESTION 1 (a) (i)

Hodge Tec Manufacturing Company
Schedule of Cost of Goods Manufactured
For the period ended December 31, 2009

	\$	\$
Direct material inventory Jan 1 2009		60 000 [1]
Add: Purchases of direct material		<u>410 000 *</u>
Direct materials available for use		470 000 *
Less: Direct material inventory Dec 31, 2009		<u>(40 000) [1]</u>
Direct materials used in production		430 000 [1]
Add: Direct labour		700 000 *
Add: Manufacturing overheads		
Factory utilities	130 000*	
Depreciation on factory equipment	48 000*	
Indirect materials	30 000*	
Indirect labour	180 000*	
Factory Machine rent	80 000*	
Factory managers salary	70 000*	
Property taxes on Factory building	12 000*	
Insurance, factory	<u>28 000*</u>	
Total manufacturing overheads		<u>578 000</u>
Total manufacturing costs		1 708 000 [1]
Add WIP Jan 1 2009		<u>160 000 [1]</u>
Total WIP during the period		1 868 000 *
Less WIP Dec 31 2009-11-19		<u>(100 000) [1]</u>
Cost of goods manufactured		<u>1 768 000 [1]</u> OF

* 1 mark for Every THREE items, MAX 4 marks

Question 1 (a) (ii)

Hodge Tec Manufacturing Company
Statement of Comprehensive Income
For the period ended December 31, 2009

Sales		3 000 000	[1]
Less cost of goods sold			
Finished goods inventory Jan1	220 000 *		
Add: Cost of goods manufactured	<u>1 768 000 *</u>		
Cost of goods available	1 988 000		
Less: Finished goods Dec 31	<u>(240 000) *</u>		
Cost of goods sold		<u>(1 748 000)</u>	[1]
Gross Profit		1 252 000	[1]
Less: Operating expenses			
Administrative expenses	600 000 *		
Delivery expenses	200 000 *		
Sales commission	<u>300 000 *</u>		
Total expenses		<u>(1 100 000)</u>	
Net income		<u>152 000</u>	[1]

* 1 mark for Every TWO items, MAX 3 marks

Total 18 marks

**ACCOUNTING
UNIT 2 - PAPER 02
MARK SCHEME**

QUESTION 1 (b)

		Accounting Services	Catering	Obstetrics	Oncology	Minor Surgery	Marks
		A	B	C	D	E	
Accounting Services	Budgeted costs before allocation	625 000	2 500 000	3 750 000	11 250 000	7 500 000	1
	Allocation of Accounting Services	-625 000					
	Catering 100000/1000000##*\$625 000		62 500				2
	Obstetrics 150000/1000000*\$625 000			93 750			2
	Oncology 450000/1000000*\$625 000				281 250		2
	Minor Surgery 300000/1000000*\$625 000					187 500	2
	Adjusted Balances	0	2 562 500	3 843 750	11 531 250	7 687 500	1
Catering	Allocation of catering		-2 562 500				
	Obstetrics 137500/550000##*\$25 625 000			640 625			2
	Oncology 192500/550000*\$25 625 000				896 875		2
	Minor Surgery 220000/550000*\$25 625 000					1 025 000	2
	Costs after allocation	0	0	4 484 375	12 428 125	8 712 500	1
	# = Invoices processed in A + B + C + D						
	## = Patient Days in B + C + D						

KEY

Opening balances – **max 1 marks**

1 mark for all opening balances posted correctly

Accounting services – **max 8 marks**

2 marks each for allocation of accounting services to operating departments

total 8 marks

(**1 mark** for posting an allocation of accounting services to operation departments)

(**1 mark** each for computation)

Adjusted balances **1 mark** for all correct totals

Catering – **max 6 marks**

2 marks each for allocation of Catering to operating departments – **total 6 marks**

(**1 mark** for posting an allocation of Catering to operation departments)

(**1 mark each** for the computation)

Costs after allocation – **1 mark** for all correct totals

Total 17 marks

ACCOUNTING

UNIT 2 PAPER 02

MARK SCHEME

Question 2 (a) (20 Marks)

Longly Associates

(i) Overhead rate per machine hour

<u>Estimated manufacturing overhead costs</u>	=	<u>\$2,700,000</u>	=	\$9.00 per machine hour	Marks
Estimated machine hours		300,000 machine hours			2

(ii) Total cost of proposed job: assuming traditional job-order costing system

Direct material	\$ 24,000		1
Direct labor	36,000		1
overhead (\$9.00 * 6,000 machine hours)	54,000		2
Total cost of proposed job	<u>\$ 114,000</u>		OR 4 marks for correct total

(iii) Activity -cost driver rates for EACH of FOUR activities

Activity	Expected Cost \$ A	Activity Capacity B	Units	Activity Rates A / B	
Machining	880,000	200,000	Machine hours	\$ 4.40 per machine hr	1
Setup equipment	120,000	300	Setups	400 per setup	1
Engineering	440,000	20,000	Engineering hrs	22 per Engineering hr	1
Inspecting	360,000	12,000	Inspections	30 per inspection	1

(iv) Total cost of proposed job: activity-based costing system

Direct material	24,000		1
Direct labor	36,000		1
Inspections (3 inspections * \$30)	90		2 OF
Setups (2 setups * \$400)	800		2 OF
Engineering (\$22 * 30 engineering hours)	660		2 OF
Machining (\$4.40 * 6,000 machine hours)	26,400		2 OF
Total cost of proposed job	<u>\$ 87,950</u>		OR 10 for correct total cost

**ACCOUNTING
UNIT 2 - PAPER 02
MARK SCHEME**

Question 2 (b) (15 Marks)						
FREEZE IT INC.						
Production Cost Worksheet: Weighted-Average						
For the Period Ending January 31 --						
Equivalents Units of ice-cream completed in current period	Physical Units	% Completed	Equivalent Units	% Completed	Equivalent Units	MARKS
			Material		Conversion	
Units completed and transferred out	3,200	100%	3,200	100%	3,200	1
Ending WIP	400	100%	400	60%	240	1
Total Equivalent Units			3,600		3,440	1
Cost per Equivalent Unit of ice-cream completed			Material	Conversion	Total	
Cost of beginning WIP inventory			\$ 154,000	\$ 82,080		1
Cost added during the current period			260,000	200,000		1
Total cost			\$ 414,000	\$ 282,080		1
Number of Equivalent units produced in period			3,600	3,440		1 OF
Cost per equivalent unit			\$ 115.00	\$ 82.00	\$ 197.00	1 OF
Cost of Ending WIP Inventory of ice-cream			Material	Conversion	Total	
(a) Number of equivalent units			400	240		1 OF
(b) Cost per equivalent unit			\$ 115.00	\$ 82.00		1 OF
(a) multiplied by (b) = cost of ending inventory			\$ 46,000	\$ 19,680	\$ 65,680	1 OF
Cost of ice-cream completed and transferred out			Material	Conversion	Total	
(a) Number of equivalent units			3,200	3,200		1 OF
(b) Cost per equivalent unit			\$ 115.00	\$ 82.00		1 OF
(a) multiplied by (b) = cost of units started and completed			\$ 368,000	\$ 262,400	\$ 630,400	1 OF
Total cost of units completed during current period						
Reconciliation of costs flowing through the department during the period						
Costs to be accounted for:			Material	Conversion	Total	
Beginning WIP			\$ 154,000	\$ 82,080	\$ 236,080	1
Costs added during current period			\$ 260,000	\$ 200,000	\$ 460,000	
Total costs to be accounted for			\$ 414,000	\$ 282,080	\$ 696,080	
Costs accounted for:						
Ending WIP			\$ 46,000	\$ 19,680	\$ 65,680	
Units completed and transferred out			\$ 368,000	\$ 262,400	\$ 630,400	
Total costs accounted for			\$ 414,000	\$ 282,080	\$ 696,080	

**ACCOUNTING
UNIT 2 - PAPER 02
MARK SCHEME**

QUESTION 3

- (a)
- unwillingness of line management to participate in budget preparation
 - budget staff is usually left with the task of budget preparation with little input from line personnel
 - there tends to be a lack of co-ordination between budget staff
 - prepared budgets may not be implemented as set out in the plans

1 mark EACH for any 3 = 3 marks

- (b) Four reasons for using standard costs:

- standard costs can greatly simplify book-keeping
- standard costs fit naturally in an integrated system of 'responsibility accounting'.
- Standard costs that are viewed as reasonable by employees can promote economy and efficiency.
- it is good for price determination and price control.
- it is effective for financial statement preparation.
- it can be used for budgetary planning and control.

1 mark EACH for any 4 = 4 marks

- (c) The net cash inflow from sales of the widgets for each year would be:

	YEAR				MARKS
	1	2	3	4 - 12	
Sales in units	4 000	7 000	10 000	12 000	
Sales in dollars (\$90 each)	360 000	630 000	900 000	1 080 000	1 mark for 2 correct boxes 2
Less variable expenses					
(\$50 each)	200 000	350 000	500 000	600 000	1 mark for 2 correct boxes 2
Contribution margin	160 000	280 000	400 000	480 000	
Less: Advertising	140 000	140 000	100 000	80 000	1 mark for 2 correct boxes 2
Less: fixed expenses - depreciation	240 000	240 000	240 000	240 000	1 mark for 2 correct boxes 2
Total fixed expenses	380 000	380 000	340 000	320 000	
Net cash inflow/outflow	(220 000)	(100 000)	60 000	160 000	1 mark for EACH correct box 4 OF

(12 marks)

ACCOUNTING
UNIT 2 - PAPER 02
MARK SCHEME

Depreciation must be eliminated from the fixed expenses, since it is not a cash outflow.

Cost of equipment	200 000
Less salvage value	<u>(20 000)</u>
Depreciable cost	180 000
Annual depreciation	180,000 ÷ 12 =\$15 000 per year

\$255 000 – 15 000 depreciation = 240 000 cash fixed expenses **(1 mark)**

(d) Net Present value of the proposed investment

Item	Year(s)	Amount of Cash Flows	20% Factor	Present value of Cash flows	MARKS
Investment in equipment	Now	200 000	1.000	(200 000)	1
Working capital investment	Now	80 000	1.000	(80 000)	1
Yearly cash flows	1	220 000	0.833	(183 260)	1
Yearly cash flows	2	100 000	0.694	69 400	1
Yearly cash flows	3	60 000	0.579	35 740	1
Yearly cash flows	4 - 12	160 000	2.333*	373 280	1
Salvage value of equipment	12	20 000	0.112	2 240	1
Release of working	12	80 000	0.112	8 960	1
Net present value				(112 440)	1

(9 marks)

Present value factor for 12 periods	4.439
Present value factor for 3 periods	<u>2.106</u>
Present value factor for 9 periods	<u>2.333 *</u>

**ACCOUNTING
UNIT 2 - PAPER 02
MARK SCHEME**

(e) The widgets should not be accepted as a new product line.

(1 mark)

(f) Qualitative factors with safety factors to encourage investment

- complies with safety regulations
- environmentally friendly
- enhances use of natural source energy
- reduces effect of carbon emissions
- use of reliable natural resource
- can positively impact on global warming

1 mark EACH for ANY 5 factors

(5 marks)

Total 35 marks

FORM TP 2012131/SPEC/2010

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

SPECIMEN PAPER

UNIT 2

PAPER 03/2

1 ½ hours

INSTRUCTIONS TO CANDIDATES

1. This paper comprises NINE questions. Answer ALL questions.
2. Begin EACH answer on a separate page.
3. Silent non-programmable calculators may be used, but ALL necessary working should be clearly shown.

1. The Nonika Read Manufacturing Company located in Silver Lane, Jamaica, had the following activities during the month of June 2009:

	\$
Beginning inventory of direct material	12 000
Purchases of direct material	36 960
Ending inventory of direct materials	6 240
Direct manufacturing labour	9 600
Manufacturing overhead	7 200
Beginning work in process inventory	480
Ending work in process inventory	2 400
Beginning finished goods inventory	14 400
Ending finished goods inventory	9 600

Calculate

- (a) The cost of direct material used during the month.
- (b) The cost of goods manufactured for the month.
- (c) The cost of goods sold for the month.
- (d) The amount of prime cost that was added to production during the month.
- (e) The amount of conversion costs that was added to production during the month.

(10 marks)

2. For supply, XYZ Anguilla Company has been ordering 375 units based on the recommendation of the sales person that calls the company monthly.

Jane Adams has been hired by the Company and wants to start using the Economic Order Quantity method and its supporting decision elements. She has gathered the following information:

Annual demand in units	750
Days used per year	250
Lead time in days	30
Ordering costs	300
Carrying costs	60

Calculate the following:

- (a) The EOQ **(2 marks)**
- (b) The annual ordering costs **(2 marks)**
- (c) The annual carrying costs. **(2 marks)**

3. Copy and complete the following table to distinguish between ‘financial accounting’ and ‘management accounting’:

	Criterion	Financial Accounting	Management Accounting
(a)	Users of the information.		
(b)	Scope of the reports.		
(c)	Period covered by the information		
(d)	Frequency of reporting		

(4 marks)

4. Joyeth Bakery is located in the Sun Valley. During 2009 it had sales of 75 000 units. The Company started with 10 000 units and produced 100 000 units during the year. Other information relevant to the year include:

Direct manufacturing labour	\$ 187 500
Variable manufacturing overhead	100 000
Direct materials	150 000
Variable selling expenses	100 000
Fixed administrative expenses	100 000
Fixed manufacturing overhead	200 000

- (a) Compute the number of units in ending finished goods inventory.
- (b) Compute the per unit product cost under absorption costing.
- (c) Compute the value of beginning finished goods inventory under absorption costing.
- (d) Compute the value of ending finished goods inventory under absorption costing.
- (e) Compute the cost of goods sold under absorption costing.

(7 marks)

5. Marigold Manufacturing Company produces high-quality office furniture on a job order basis. In November, there were only TWO jobs, Job 43 and Job 44. These jobs were started and completed during the month. Manufacturing overhead was applied at a rate of \$16 per direct labour hour.

The following cost data were recorded for the month:

	Job 43	Job 44
Direct materials	\$ 40 250	\$ 32 100
Direct Labour Cost	\$ 88 000	\$ 39 200
Hours	6 000	2 700
Selling Price	\$ 386 326	\$ 194 500

Actual Manufacturing overhead for the month \$ 137 400

- (a) Calculate the amount by which the manufacturing overhead cost was over-applied or under-applied during the month. **(2 marks)**
- (b) Compute the gross profit for Job 43. **(4 marks)**
6. Haynes Ltd. has two products X and Y. The Company uses an activity based costing system.

Activity Cost Pool	Estimated Cost \$	Expected Activity		
		Product X	Product Y	Total
Molding	13 200	600	225	825
Waxing	9 000	375	150	525
Finishing	19 500	600	300	900

- (a) Calculate activity rates under activity based costing system. **(3 marks)**
- (b) Calculate the cost to be allocated to Product Y. **(4 marks)**

7. Blackberry Company sells phones for \$ 1 500. The unit variable cost per phone is \$500, plus a selling commission of 10%. Fixed manufacturing costs total \$ 50 000, while fixed selling and administrative costs total \$ 25 500.

(a) Calculate the contribution margin per phone. **(2 marks)**

(b) Calculate the breakeven point in number of phones. **(2 marks)**

(c) Calculate the margin of safety in dollars if the company sold 115 phones. **(1 mark)**

(d) Calculate the number of phones which must be sold to earn a profit of \$ 90 000. **(2 marks)**

8. The following are forecasts of sales and purchases for a company:

	Sales \$	Purchases \$
January	120 000	45 000
February	135 000	60 000
March	127 500	45 000

All sales are on credit. Records show that 70% of the customers pay during the month of the sale, 20% pay the month after the sale and the remaining 10% pay the second month after the sale. Purchases are all paid for during the month following at a 2% discount. Cash disbursements for operating expenses in March were \$ 5 000.

Required: Prepare a schedule for cash receipts and disbursements for March. **(5 marks)**

9. Sunshine Company produces a perfume called Fantasy. The direct materials and direct labour standards for one bottle of Fantasy are given below:

	Standard Quantity Or Hours	Standard Price or Rate	Standard Cost
Direct Materials	7.2 ounces	\$ 2.50 per ounce	\$ 18
Direct Labour	0.4 hours	\$10.00 per hour	\$ 4

During the month of September, the following activities were recorded.

1. 20 000 ounces of material were purchased at a cost of \$ 2.40 per ounce.
2. All of the material was used to produce 2 500 bottles of Fantasy.
3. 900 hours of direct labour time were recorded at a total labour cost of \$ 10 800.

Required:

- (a) Compute the direct materials price and quantity variances for the month. **(4 marks)**
- (b) Compute the direct labour rate and efficiency variances for the month. **(4 marks)**

END OF TEST

/CAPE/SPEC/MS/2010

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

ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

SPECIMEN PAPER

UNIT 2
PAPER 03/2

MARK SCHEME

**ACCOUNTING
UNIT 2 PAPER 03/2
MARK SCHEME**

Question 1

[2 marks each]

- (a) $12\,000 + 36\,960 - 6\,240 = \$ 42\,720$
 (b) $42\,720 + 9\,600 + 7\,200 = \$ 57\,600$
 (c) $57\,600 + 14\,400 - 9\,600 = \$ 62\,400$
 (d) $42\,720 + 9\,600 = \$ 52\,320$
 (e) $9\,600 + 7\,200 = \$ 16\,800$

[1 mark for calculation]

[1 mark for answer]

10 marks

Question 2

[2 marks each]

(a) $\frac{\sqrt{2 \times C_o \times D}}{C_c} = \frac{\sqrt{2 \times 300 \times 750}}{2} = 86.60$

[1 mark for calculation]

[1 mark for answer]

(b) $\frac{300 \times 750}{86.60} = 2\,598$

(c) $60 \times \frac{86.60}{2} = 2\,598$

6 marks

Question 3

	Criterion	Financial Accounting	Management Accounting
(a)	Users of the information.	External	Internal (Manager)
(b)	Scope of the reports.	Highly aggregated	Segments
(c)	Period covered by the information	Historical	Futuristic
(d)	Frequency of reporting	Annual, Semi-annual	Whenever required by management

[1 mark each for any pair]

4 marks

ACCOUNTING
UNIT 2 PAPER 03/2
MARK SCHEME

Question 4

- (a) $10\,000 + 100\,000 - 75\,000 =$ 35 000 units [1]
Absorption
- (b) Direct material * 150 000
Direct manufacturing labour* 187 500
Variable manufacturing overhead * 100 000
Fixed manufacturing overhead * 200 000
637 500 [2]
- Unit cost:
 $\$637\,500^* \div 100\,000^* =$ \$ 6.375 **1 mark for 2***
- (c) Ending inventory:
 $35\,000\text{ units} \times \$6.375 =$ \$ 223 125 [1]
- (d) Beginning inventory
 $10\,000\text{ units} \times \$ 6.375 =$ \$ 63 750 [1]
- (e) Cost of good sold
 $75\,000 \times 6.375 =$ \$478 125 [1]

7 marks

Question 5

Marigold Manufacturing Company Ltd produces

Mfg O/H for Job 43

$6000\text{ hrs} \times \$ 16\text{ per hr} =$ 96 000

Mfg OH for job 44

$2700\text{ hrs} \times 16\text{ per hr} =$ 43 200

- (a) Actual Overhead \$137 400
Applied Overhead \$139 200 [1]
- Over Applied Overhead \$ 1 800 [1]

2 marks

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Question 5 cont'd

(b)	Gross Profit for Job			
			\$	
	Sales		386 326	
	<u>Cost of sales</u>			
	D – M	40 250		[1]
	D - L	88 000		[1]
	O/Heads	<u>96 000</u>	<u>224 250</u>	[1]
	Gross Profit		<u>162 076</u>	[1]

4 marks

Question 6

(a)	Activity Rates:			
	moulding =	<u>13 200</u>		
		825		
	=	\$16		[1]
	waxing =	<u>9 000</u>		
		525		
		\$17.14		[1]
	finishing	<u>19 500</u>		
		900		
	=	\$21.67		[1]

(b)	Cost to be allocated:			
	moulding	16 x 225	3 600	[1]
	waxing	17.14 x 150	2 571	[1]
	finishing	21.67 x 300	<u>6 501</u>	[1]
			<u>12 672</u>	[1]

7 marks

**ACCOUNTING
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MARK SCHEME**

Question 7

(a)	Contribution margin ratio	=	1 500 – 500 – (10% x 1 500)	[1]
		=	\$ 850	[1]

(b)	Breakeven point	=	<u>Fixed cost</u> Cost per unit	
			$\frac{75\,500^*}{850} = 88.82$	[1]
		=	89 phones	[1]

(c)	Margin of safety	=	Target sales – Breakeven sales 115 – 89	
		=	26 phones	[1]

(d)	Target profit			
	Sales unit	=	$\frac{\text{fixed cost} + \text{profit}}{\text{cost per unit}}$	
	For target Profit			
		=	$\frac{75\,200 + 90\,000}{7}$	[1]

			= 194.7	
		=	195 phones	[1]

7 marks

Question 8

Schedule for cash receipts and Disbursements for March

Cash Receipts:

From current month sale (March)	.7 x 127 500	89 250	[1]
From 1 month prior sale (February)	.2 x 135 000	27 000	[1]
From 2 months prior sale (January)	.1 x 160 000	<u>16 000</u>	[1]
Total Cash Receipts		132 250	

Cash disbursements:

February purchases @ 98% (less discount)	.98 x 60 000	58 800	[1]
Operating expenses		<u>5 000</u>	[1]
Total cash disbursements		<u>63 800</u>	
Net increase in cash for March		\$68 450	

5 marks

**ACCOUNTING
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MARK SCHEME**

Question 9

(a) Direct Materials Price Variance

$$\begin{aligned} &AQ (AP - SP) \\ &20\,000 (2.40 - 2.50) \\ &= 20\,000 (-.10) \\ &= \$2\,000 \text{ F} \end{aligned}$$

Direct Materials Quantity Variance

$$\begin{aligned} &SP (AQ - SQ) \\ &2.5 (20\,000 - 18\,000) \\ &= 2.5 (2\,000) \\ &= \$5\,000 \text{ U} \end{aligned}$$

(b) Direct Labour Rate Variance

$$\begin{aligned} &AH (AR - SR) \\ &900 (12.00 - 10.00) \\ &= 900 (2) \\ &= \$18\,000 \text{ U} \end{aligned}$$

Direct Labour Efficiency Variance

$$\begin{aligned} &SR (AH - SH) \\ &10 (900 - 1\,000) \\ &= 10 (-100) \\ &= \$1\,000 \text{ F} \end{aligned}$$

**[1 mark for working]
[1 mark for answer]
2 marks each**

8 marks