

**CARIBBEAN EXAMINATIONS COUNCIL**

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

**MAY/JUNE 2013**

**ACCOUNTING**

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## **GENERAL COMMENTS**

This was the first time that the revised syllabus was being examined. Three papers were examined — Paper 01 consisted of 45 compulsory, multiple-choice items, 15 from each of the three modules; Paper 02 contained three questions (a mixture of computations and short essay type), each module covered by a separate question; Paper 031 was the School-Based Assessment (SBA), which was marked by the class teacher and moderated by CXC; and Paper 032 was the Alternate to the SBA for non-school candidates. It comprised six questions, two from each module.

Overall, performance was good.

There were fewer candidates who did not respond to any question when compared with 2012. However, the written or theory part of questions remains a concern; it appears that many candidates are unable to express themselves in writing.

## **DETAILED COMMENTS**

### **UNIT 1**

#### **Paper 01 – Multiple Choice**

Performance on this paper was quite good with an overall mean score of 33 out of a maximum of 45.

Candidate performance on Module 1 (Accounting Theory, Recording and Control Systems) was very good with the mean mark as high as 12 out of 15.

Performance on Module 2 (Preparation of Financial Statements) was also encouraging with the mean mark of 11 out of a maximum of 15.

Performance on Module 3 (Financial reporting and Interpretation) also had a mean mark of 10 out of a maximum of 15.

#### **Paper 02 – Structured Essay**

The paper comprised three compulsory questions.

### Question 1

This question was divided into six parts. Candidates were required to

- outline the structure of the conceptual framework of accounting, with the option of using a diagram
- state three reasons why the conceptual framework was developed by the IASB
- outline in their own words, three of the five selected qualitative characteristics of accounting information
- state any four steps leading to the establishment and issuance of an accounting standard
- state any four ways in which internal controls can be achieved in an organization to enhance the accuracy and reliability of accounting records
- journalize three transactions, along with narratives, about purchasing equipment partly for cash and on credit.

The question generally was not well done.

- In Part (a), some candidates listed all the elements of the conceptual framework and were totally unaware of the hierarchical structure. For Part (b), the reasons why the conceptual framework was developed appeared to be known and understood; the weakness was that candidates had difficulty communicating their knowledge.
- In Part (c) candidates satisfactorily stated the meaning of the qualitative characteristics of accounting information they selected. Candidates did not in all cases follow the instructions. They were required to write on three characteristics but many candidates wrote on all five terms. *Consistency* and *comparability* were well done, but not *relevance*.
- For Part (d) the steps that lead to the establishment and issuance of an accounting standard were not done very well. Candidates confused the development of accounting standards with the conceptual framework. Several did not state the steps logically. Candidates continue to have difficulty communicating their ideas.
- In Part (e), internal controls were generally well known; this section of the question was well answered. Many candidates were able to state the controls and explain why they worked.
- The journal entries in Part (f) were not well done. Some candidates prepared T-accounts when they were asked for journal entries. Candidates incorrectly named accounts. For example *Accrual* was used instead of *Accounts Payable*; this was not acceptable. Teachers need to ensure that students know the acceptable names of accounts that can be used for a liability. Candidates appear to think that everything that is purchased must pass through the Purchases Account; this is an error of principle. This part of the question dealt with Fixed Assets (Non-current assets), not stock (inventory). Candidates need to

understand the difference between stock (inventory) and common stock (share capital). The narration part of the answer was also weak.

## Question 2

The question was divided into two parts and was fairly well done overall.

Part (a) (i) required the preparation of a Multiple-Step Statement of Comprehensive Income in accordance with IAS 1 (Section 3 of IFRS for SMEs). While many candidates were able to present the correct format generally, the order or the section in which line items appeared showed some basic weaknesses. Most candidates recognized the expenses and could calculate the common stock dividends. There were a number of candidates who used 'as at' in the heading instead of *for the year ended*. Subheadings such as *selling expenses* and *administration expenses* were accepted in place of operating expenses. However, teachers are expected to introduce the correct format. The weakest area was the calculation of the bad debt Expense. There were many candidates who did not know how to treat the figure for bad debts in the given trial balance. This is what was required:

$$[500\ 000 + 2\% (300\ 050 - 50\ 000)] = 55\ 001$$

Other areas of weakness were:

- Inability to treat *freight in* and *purchase discount*
- Interest income was subtracted and treated as an expense
- Bond interest and taxation were not calculated
- The necessary adjustments were not done
- Taxation was calculated on total expenses
- Stock (inventory) was confused with share capital

Part (a) (ii) was poorly done. The main weakness was in the format; a Balance Sheet was presented in some cases instead of a Statement of Retained Earnings. Some candidates included organization costs in the Retained Earnings Statement. Candidates did not realize that Paid-in Capital in Excess of Stated Value (US terminology) is the same as Share Premium (UK terminology). It is important that teachers expose students to different terminology since the globalization of businesses means that many financial statements will appear with varying terms.

Part (b) was very well done. Many candidates scored full marks. The weakness here was the calculation of interest on salaries. Many candidates started with net profit instead of using the balance of profit for distribution in the profit and loss ratio. Some candidates added *interest on capital* to Net Profit before making the deduction and allocation. This is wrong.

### Question 3

The question was fairly well done. First, candidates were required to prepare a Statement of Cash Flows in accordance with IAS 7 (Section 7 IFRS for SMEs). The second part examined candidates' ability to perform ratio calculation and interpretation.

Part (a) was not well done. The formats presented were wrong; some candidates used a columnar format which is not in accordance with the standard. The new method of presenting the Statement of Cash Flows appears not to have been covered in some cases; some candidates were not sure which items appear under the respective headings of operating, investing and financing. It is suggested that teachers review the standard and ensure that students are competent in the presentation.

Part (b) was fairly well done. The response rate was high. Most candidates knew how to compute the Income/Assets ratio. In some cases, candidates subtracted Inventory from Current Assets in the Current Ratio calculation. The weakest part of the question was the interpretation. Candidates confused *liquidity* with *liquidation* in their discussion. Many did not know how to interpret the Debt/Equity ratio.

### **Recommendations**

- Teachers are reminded that all topics on the syllabus are examinable.
- Topics which are optional (companies, co-operatives) at the CSEC level should be revised since the CAPE syllabus presumes basic knowledge of such topics.
- All working should be clearly shown.

### **Paper 03 – School-Based Assessment (SBA)**

SBA samples displayed the following weaknesses.

- Sources were not properly cited.
- Students had difficulty distinguishing what was required for the Aims, Titles and Objectives sections of their reports.
- The Methodology did not include justification and limitations.
- Too many students reported on the same topic without variation.
- Students who did sampling did not show data.
- No financial documents were included in the appendix.

- Ratios were incorrectly calculated.
- No working was shown for calculations.
- Bibliographies were not properly done.
- Reports were done on three modules instead of one.
- Students did not report on current standards as outlined by the revised syllabus (IFRS).
- Some projects exceeded the word limit of 2500.
- Many students did not number the pages of their projects.
- Teachers awarded marks where there were no submissions.
- Many of the graphs presented were independent of the project.

The following were key strengths of the samples.

- Better supervision of projects was evident; Aims and Objectives were better written and the number of instances where reports were done on three modules was reduced.
- The majority of schools followed the new syllabus.
- Projects were neatly packaged and presented and media was creatively used.
- It was evident that students paid more attention to their research.
- Students gave details about the timelines in which the data collection process took place.

### **Recommendations**

- Teachers are reminded to use the revised syllabus.
- Students need to show working for the various calculations in ratio analysis.
- Teachers need to supervise students keenly on Data Analysis and Evaluation.
- APA (or any format) is to be used when preparing bibliographies and for citing references within the report.
- Data Analysis and Evaluation must be separated.
- Recommendations and Conclusion must be separated.
- The Table of Contents must be written in the correct format.
- Projects should be typed using Times New Roman, font size 12.

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

With effect from June 2013, this paper had six compulsory questions, two from each module and the total mark increased to 60 (compared with three compulsory questions, one from each module, and a maximum of 42 marks previously).

### Question 1

This question was well done. Candidates demonstrated good knowledge of the advantages and disadvantages of computerizing the accounting functions of a company.

The mean mark was 13 out of 16.

### Question 2

Since this question was linked to the first one, candidates were expected to perform well on it. Most candidates were able to explain why it is necessary to have controls in a computerized accounting environment. One such reason is to prevent unauthorized access to the computer equipment.

The mean mark was 2 out of 4.

### Question 3

This question proved challenging for candidates.

In Part (a), candidates were unable to name two commonly used accounting software packages. The majority of candidates wrongly mentioned 'Excel' instead of *QuickBooks*, *NetSuite*, *Pastel Accounting*, *Microsoft Dynamics GP*, *Traverse*, *Quicken*, *Peachtree Accounting* and *Zero Accounting software*.

Part (b) required candidates to identify accounting reports that are currently produced manually but which can be generated by a computer. Candidates mentioned documents such as 'receipts' and 'invoices' instead of *payroll*, *debtors' summary*, *trial balance*, *sales analyses*, *fixed assets register*, *stock valuation*, *aged debtors' summary* and *accounts receivable and payable listings*.

The mean mark was 3 out of 10.

### Question 4

This question was well done by the majority of candidates. Many were able to outline five steps that may be taken to convert a manual accounting system to a computerized one.

The mean mark was 5 out of 10.

### Question 5

Part (a), which required candidates to explain the term *ethical issues*, proved to be a challenge. Many candidates did not write any response. The following statement was acceptable.

*Ethical issues are situations that call for persons to apply the principles of right and wrong that they, acting as free moral agents, use to make choices to guide their behaviours.*

Part (b) was very well done. The majority of candidates was able to explain four given computer threats/risks.

The mean mark was 6 out of 10.

### Question 6

This was a simple and practical question which required candidates to state five activities to be undertaken in a computerized accounting environment in preparation for an expected hurricane. The question proved to be a challenge, with some candidates stating that computers must be plugged into a surge protector whereas it is expected that in expectation of a natural disaster such as a hurricane, all electrical appliances must be unplugged.

The mean mark was 5 out of 10.

Candidates are advised to use internet sources to research topics that are not easily accessible in textbooks.

## **UNIT 2**

### **Paper 01 – Multiple Choice**

Performance on this component was generally fair with the mean mark being 30 out of a maximum of 45.

Performance on Module 1 (Costing Principles) was fairly good with a mean mark of 11.

Candidates appeared to have had some challenges with items on Module 2 (Costing Systems), Activity-Based Costing in particular needs more attention.

Performance on Module 3 (Planning and Decision Making) was fair with a mean mark of 11.

## **Paper 02 – Structured Essay**

### Question 1

In Part (a), candidates were required to prepare a schedule to allocate service department costs using the step-down method and to compute predetermined overhead rates. A table was provided to assist candidates with the calculations; many candidates could not use the table but provided their own answer. They used their initiative to do the allocations but found it difficult to calculate overhead absorption rates. Where they used the correct bases, they were awarded marks.

For Part (b), candidates were required to allocate wages between direct labour cost and manufacturing overhead cost and to identify two other methods of payment that could be used by the company. The responses were good and many candidates were able to score more than half of the marks. The challenge some candidates had was that they calculated the wage instead of allocating it between direct labour and manufacturing overhead. There was also some difficulty calculating the premium for overtime.

In Part (c), candidates were required to use a diagram and an example to explain three cost terms. The question was attempted by most candidates. While the graphs were good, the interpretation proved challenging. It was difficult to understand some of the explanations; candidates continue to struggle with expression. Some candidates used pictures for the example. It must also be pointed out that fixed cost (FC) on the graph is a function of time rather than output.

### Question 2

This question had three parts; it was not very well done. Candidates were required in Part (a) to determine the overhead rate for three activities, assign the manufacturing overhead costs for two products, calculate the total assigned costs and calculate the overhead cost per product. The assignment of costs was not done in the required format. The activity-based costing section of the question was well done. Many candidates however, did not know how to calculate overhead absorption rate (OAR); when asked to calculate total cost, they used 80 000 instead of using the specific amount for each cost driver. Some candidates calculated one total cost for the two different products. They did not differentiate between total cost and overhead cost.

In Part (b), candidates were asked to state differences between job order costing and process costing. Most candidates could not differentiate between job costing and process costing. Some explanations were given but the comparisons were blurred and examples were not concrete.

In Part (c), candidates were required to identify four types of organizations in which service costing can be used and outline two of the difficulties associated with service sector costing. Candidates confused service sector with service organizations. ‘Government organizations’, ‘multinational organizations’ and the ‘public sector’ were incorrectly given as examples instead of *taxi operations*, *beauty salons* and *hospitals*. Candidates should be given examples of services which they use in every-day life. The problems associated with service sector costing were not well known.

### Question 3

This question had a mixture of calculations and theory.

Part (a) dealt with the calculation of contribution margin ratio and associated issues.

Candidates major challenges here were their inability to

- differentiate between contribution margin and contribution ratio
- recognize that .25% is not the same as 25%
- calculate break-even in both dollars and units
- recognize \$900 000 as fixed cost
- differentiate between material efficiency and material quantity
- understand the importance of material purchased and material used, and when to use the different figures

Part (b) asked candidates to identify four non-financial factors. Most candidates scored good marks. However, in an attempt to explain, some candidates compressed their responses and were therefore unable to communicate the meanings clearly.

Part (c) dealt with the theory and application of payback period, internal rate of return (IRR) and net present value (NPV). These sections were attempted by most candidates. This part was the most challenging; those who understood the function and were able to communicate scored full marks. *Payback* was often wrongly explained as ‘paying back a loan’ or ‘paying back the businesses’. This topic is at the end of the syllabus but it should not be ignored.

## **Recommendations**

Candidates should endeavour to explain definitions, observations, and make recommendations or decisions using their own words.

Candidates should prepare adequately to respond to theory questions.

### **Paper 031 – School-Based Assessment (SBA)**

The following major weaknesses were observed in the SBA samples.

- Some teachers submitted test papers with no answer keys.
- Some answer keys were submitted without clearly identifying how marks were awarded.
- Some tests were too long for the time allotted in the syllabus.
- Tables of specifications were not submitted with question papers and mark schemes.
- Some moderation sheets/forms were not properly filled.
- Materials from past papers and textbooks (including a CXC Distance Learning Study Guide) were used but without proper citations.

The following key strengths of the samples were noted.

- Marks were clearly allocated in the majority of samples.
- Some tables of specifications were submitted with question papers and mark schemes.
- Answer keys and question papers were packaged properly.
- Students' names and numbers were on most question papers submitted.
- Samples were neat and well done.

### **Paper 032 – Alternative to the School-Based Assessment**

This paper consisted of nine compulsory questions, three from each module.

#### Question 1

This question required candidates to complete a stock ledger with given information. An example of an entry was given for candidates to follow yet the question proved quite challenging. The majority of candidates left the balance on hand (units and \$) column blank on the ledger card.

The mean mark was 4 out of 9.

### Question 2

This question required candidates to differentiate between financial and cost accounting under three given headings. This was a guided question and the differences required were very elementary yet candidates were unable to respond appropriately. The answers expected were that, under 'purpose', financial accounting provides information for all stakeholders while management accounting provides information for internal decision making.

Under 'frequency of reports' financial accounting, it is annual, whilst management accounting, it is irregular. Under 'external audit role', for financial accounting, she certifies reports while report certification is not required for cost accounting.

The mean mark was 1 out of 3.

### Question 3

This question dealt with the graphical presentation of cost curves. Performance was quite good. Majority of candidates were able to identify the type of curves correctly and were also able to make readings from them correctly.

The mean mark was 5 out of 8.

### Question 4

This question required candidates to prepare a marginal costing income statement from given information and then differentiate between two approaches. This question proved rather challenging to most candidates.

Candidates had major problems with Part (a). The expected format was as follows:

Sales		XXXX
<u>Less Variable Cost</u>		
Variable Manufacturing Cost	XXXX	
Less: Closing Inventory	XXXX	
Add: Variable Selling Expenses	XXXX	
Contribution		XXXX
<u>Less: Fixed Cost</u>		
Manufacturing	XXXX	
Administration	XXXX	
Net Profit		<u>XXXX</u>

It was evident from the responses that candidates did not prepare well for this topic.

The mean mark was 1 out of 9.

#### Question 5

This question required candidates to calculate equivalent production units using the weighted average method from given information. The majority of candidates found the question challenging.

For Part (a), candidates were expected to determine the ‘units to be accounted for’ and the units ‘accounted for’ separately.

For Part (b), candidates were expected to show the output to process 2 under materials as well as under conversion cost. The closing work in progress ( $\frac{100\%}{50\%}$ ) must also be shown under both headings. The total equivalent units would then be found by simply adding up the figures.

For Part (c), ‘Costs, equivalent units, and cost per equivalent unit were also to be shown under materials and conversion costs separately.

The mean mark was 2 out of 7.

#### Question 6

This question required candidates to compute and complete a job cost sheet using given information. Performance was very good. Candidates were able to demonstrate their competence in this area by properly presenting their work very clearly in tabular form

The mean mark was 3 out of 4.

### Question 7

This question required candidates to compute and complete a production budget table using given information. The majority of candidates performed well on this question although many were unable to show that they understood the relationships among production, inventory and sales. Some candidates even added the opening inventory and deducted the closing inventory when it should have been the reverse, in preparing a budget.

The mean mark was 4 out of 8.

### Question 8

This question required candidates to calculate the closing stock for materials, finished goods and standard cost of sales using information given on a standard cost card. The question was the most challenging of all nine questions on the paper.

For Part (a), candidates were expected to deduct the 'used' from the 'purchased' to get the 'unused' taking account of the \$5 cost per unit.

For Part (b), candidates were expected to deduct the 'sold' from the 'produced' to get the 'unsold', taking account of the costs.

For Part (c), candidates were expected to multiply the units sold by the standard cost of sales per unit to get the total standard cost of sales.

The mean mark was 0.30 out of 5.

### Question 9

This question simply required candidates to read off given parameters from a clearly labelled break-even chart. These parameters included break-even points in units and sales revenue, margin of safety in units, budgeted revenue and budgeted total cost. In the graph, the y-axis was the revenue and the x-axis was the output in units.

Candidates should have noted the following from the graph:

- The break-even point in units was the point of intersection of the sales revenue and the total cost curve; this point corresponds to 80 units on the x-axis.
- The break-even point in sales revenue was the same point mentioned above but which corresponded to \$40 000 on the y-axis.
- The margin of safety is the maximum output level less the break-even output (200 minus 80) = 120 units.
- Budgeted revenue was the maximum revenue that corresponded to the maximum output which was \$100 000 on the graph.
- The budgeted total cost was easily read off from the end point of the total cost curve which corresponded to \$55 000 on the y-axis.

The break-even points in units and sales volume when calculated showed clearly that these were 80 units and \$40 000, obtained merely by reading from the given graph. The mean mark was 2 out of 7.

Overall, candidates need to place more work emphasis on cost accounting principles and practices.