# CARIBBEAN EXAMINATIONS COUNCIL

**REPORT ON CANDIDATES' WORK IN THE**
**CARIBBEAN ADVANCED PROFICIENCY EXAMINATION**
**MAY/JUNE 2007**

## ACCOUNTING

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## CARRIBEAN ADVANCED PROFICIENCY EXAMINATION

## MAY/JUNE 2007

## UNIT 1
## GENERAL COMMENTS

The CAPE Accounting Unit 1 - Financial Accounting - consisted of three papers. Paper 01 consisted of 54 multiple-choice items eighteen per Module. Paper 02 was an extended answer paper comprising three questions (one per Module). Paper 03/1 was the Internal Assessment. This paper was assessed by the class teacher and moderated by CXC. Paper 03/2 was an alternative to the Internal Assessment for non-school candidates. This paper 03/2 comprised three questions - one per Module.

## DETAILED COMMENTS

## PAPER 01

The performance on the fifty four (54) multiple choice items on Paper 01 represented a satisfactory level of performance with a mean of 30.92 out of 63, and scores ranging between 0 and 53. This was the first year that Paper 01 consisted of multiple choice items only hence comparison to 2006 would be inappropriate.

The eighteen items drawn from Module 1 represented a good standard of performance. The mean was 11.87 out of 21, and a number of candidates scored full marks on the multiple-choice items drawn from this Module. The eighteen items drawn from Module 2 represented a satisfactory standard of performance with a mean of 9.69 out of 21. The eighteen items drawn from Module 3 represented a satisfactory standard of performance with a mean of 9.34, out of 21.

## PAPER 02

This paper consisted of three compulsory questions. The mean for this paper was 41.44 out of a maximum possible of 105, and the scores ranged from 0 to 91, representing a satisfactory standard of performance.

<u>Question 1</u>

This compulsory question was divided into three parts.

a) Distinguish between the criteria for recognizing revenues and expenses under the cash-basis and the accrual-basis of accounting.

b) The International Accounting Standards Board's conceptual framework of accounting sets forth relevance, reliability, comparability and consistency as important qualitative characteristics of accounting information. Explain each of these four qualitative characteristics of accounting information.

c) Briefly contrast the role of internal auditors and external auditors with reference to: what or who determines the scope of their work; the period for which they are usually appointed; what or whom they are usually required to be independent of; whether they are usually responsible for the prevention and detection of fraud; and, the standards which generally guide their work.

The response to this question was weak with a mean of 11.36 out of 35, and a range of scores of 0 – 31.

Candidates were able to distinguish between revenues and expenses. They were also able to explain the cash basis of accounting and the accrual basis. One major weakness in candidates' responses related to their discussion of revenues and expenses in the context of the double entry system and providing relevant examples. However, they did not discuss revenue and expense recognition as it relates to the cash basis and accrual basis of accounting as required by the question.

In the second part of the question, candidates demonstrated some knowledge of the qualitative characteristics of accounting information. However, a notable weakness in candidates' responses was their inability to distinguish between the concepts of reliability and relevance. Several candidates reversed the definitions of reliability and relevance.

In the third part of the question, candidates responded more favorably. However, some of the candidates were unable to distinguish between the roles of the internal and external auditor as they relate to detection and prevention of fraud, auditor independence, and the nature and scope of their work.

Question 2

The theoretical part of this question required candidates to briefly outline two similarities and three differences between a public company and a private company. In the major part of the question, candidates were presented with a set of poorly prepared financial statements with supporting notes and they were required to prepare an income statement together with a balance sheet using International Accounting Standards.

The response to this question was satisfactory with a mean of 16.48 out of 35, and a range of scores from 0 – 34.

Most of the candidates responded well to the first part of the question. Notable weaknesses in the candidates' responses to the differences between private and public companies related to their understanding of limited liability and the ownership structure. Some candidates stated that public companies were state-owned whilst private companies were owned by private individuals. Several candidates used size to distinguish between private companies and public companies asserting that private companies were small companies whilst public companies were large. Some candidates argued that one difference between private and public companies was derived from their business motivation, asserting that private companies were formed to make profits while public companies were formed to serve people and provide necessary goods and services. Additionally, several candidates identified characteristics as similarities in private and public companies. However these characteristics were not peculiar to companies, for example, they stated that both had members of the private sector on their boards, or both aimed to make a profit.

The second part of the question which related to the preparation of an income statement and balance sheet using the IAS, was fairly well done. The strengths identified in candidates' responses related to their ability to identify and correctly place most expenses and revenues in the income statement and correctly identify and place the assets in the current and non-current section of the balance sheet.

Most candidates correctly calculated the net sales figure, but failed to correctly calculate the cost of goods sold figure. They failed to make the necessary adjustments for freight in and purchase discount. Some candidates failed to distinguish between freight in and freight out and included both items in the operating expenses section of the income statement. Most candidates failed to adjust the bad debts figure and treated the bad debt recovered as revenue. The extraordinary item was placed in the income statement before corporation tax, and several candidates failed to recognize that the amount for obsolete stock should not have been included as an extraordinary item.

In the preparation of the balance sheet, several candidates failed to use an accepted format of listing assets either using the order of permanency or liquidity but proceeded to list items randomly. The candidates prepared the current assets section of the balance sheet satisfactorily and treated the long-term investment and bonds payable appropriately. Several candidates failed to correctly calculate and place the current portion of mortgage payable. The dividends payable were incorrectly placed in the equity section of the balance sheet by some candidates. Several candidates failed to recognize the liability relating to taxes payable, and failed to account for the accumulated depreciation in the balance sheet.

Question 3

This question consisted of two parts; the first part required candidates to prepare a statement of cash flows. In the second part, candidates were provided with data consisting of selected ratios for three consecutive years and were required to prepare a report analyzing the performance of the entity in terms of liquidity, activity, solvency and profitability.

The response to this question was acceptable with a mean of 13.61 out of 35 and a range of scores from 0 – 35.

Candidates performed well on the cash flow statement part of the question. There were some candidates who misclassified the issuance of long-term debt. A number of candidates had some difficulty in correctly treating the inflows and outflows in the operating activities section. Some candidates treated retained earnings as a financing activity. A number of candidates did not follow the IAS1 based on the 2000 standards and used a more recent standard.

In the second part of the question relating to interpreting financial ratios, most candidates were able to identify and explain the liquidity and profitability ratios. The candidates identified appropriate benchmarks when discussing the ratios and were able to discuss the trends in the ratios over the years. However, a common weakness in this part of the question related to candidates' inability to identify and explain solvency ratios. Some candidates had difficulty in explaining the price earnings ratio and the dividend payout ratio.

## PAPER 03/1

The quality of the project reports continues to be of a high standard demonstrating candidates' ability to do investigative research. The projects were well presented using different types of media, with well prepared questionnaires covering a wide range of content areas. The more popular areas included Accounting Standards, Ratio Analysis, and Business Organisation Structure. One major area of concern that must be highlighted was that some candidates lacked analytical and evaluation skills. Another area of concern was that some candidates provided aims and objectives for their projects that were either vague, or of a personal nature, or failed to relate the aims and objectives of the project to the rest of the project. A major concern was candidates' inability to integrate all the sections of the project.

This year a large number of candidates improved on the presentation of their projects by including graphs and charts. However, a notable weakness in the use of the charts was that candidates used these mainly as appendices and failed to reference or discuss them in the analysis section of the document.

A continuing problem with the internal assessment is that some teachers are not using the current syllabus and requiring candidates to prepare projects that are quite burdensome. More care needs to be taken in selecting topics and teachers need to provide the relevant guidance to students and use the correct syllabus.

The mean of this paper was 30.33 out of 42 and the range of scores was 0 – 42.

**PAPER 03/2**

This paper took the form of a mini-case, and consisted of three compulsory questions. The mean for this paper was 13.94 out of a maximum of 42 and the scores ranged from 6 to 27. The paper sought to investigate the impact of computerization on accounting.

Question 1

Candidates were required to identify seven ways in which a computerized accounting system could improve the efficiency of recording accounting information, and to discuss how the objectives of good internal control are achieved in a computerized accounting environment. The response to this question revealed that candidates had a limited grasp of the principles and concepts in this Module. The mean of the question was 5.78 out of 14 and the range was 3 to 9.

Question 2

Candidates were required to identify four types of ownership structures and briefly describe one; discuss how the computerization of the accounting system is affected firstly by the type of ownership structure and secondly the type of business in terms of accounts and financial statements prepared. The mean of the question was 3.61 out of 14; and the range of scores was 0 to 11.

Question 3

Candidates were required to identify six ratios that could be easily incorporated into an accounting software package to assess the performance of the business; define comparative financial statements; explain why they are important; and, explain how a computerized accounting system would assist the management of Steward Corporation in interpreting and analyzing the performance of the business. The mean of the question was 4.56 out of 14, and the range of scores was 1 to 10.

## UNIT 2

## COST AND MANAGEMENT ACCOUNTING

## GENERAL COMMENTS

The CAPE Accounting Unit 2 – Cost and Management Accounting - consisted of three papers. Paper 01 consisted of 54 multiple-choice items, eighteen per Module. Paper 02 was an extended answer paper comprising three questions (one per Module). Paper 03/1 was the Internal Assessment. This paper was assessed by the class teacher and moderated by CXC. Paper 03/2 was an alternative to the Internal Assessment for non-school candidates. This paper comprised three questions, one per Module.

## DETAILED COMMENTS

## PAPER 01

The performance on the fifty four (54) multiple-choice items on Paper 01 represented a good standard performance with a mean of 37.81 out of 63, and the scores ranged between 0 and 61. This was the first year that Paper 01 consisted of multiple-choice items only hence comparison to 2006 would be inappropriate.

The eighteen items drawn from Module 1 represented a good standard of performance as the mean was 12.7, and the range of scores was 0 – 21 out of a maximum of 21. The eighteen items drawn from Module 2 represented good performance with a mean of 12.47, and again in this Module some candidates scored full marks. The eighteen items drawn from Module 3 represented a good standard of performance with a mean of 12.63, and the range of scores was 0 – 21 out of 21.

## PAPER 02

This paper consisted of three compulsory questions. The mean for this paper was 56.64 out of a maximum possible of 105, and the scores ranged from 0 to 105. The candidates' performance on this paper represented a satisfactory standard.

### Question 1

Candidates were provided with a list of accounts balances and were required to prepare a cost of goods manufactured schedule and an income statement. In addition they were required to prepare schedules to calculate the value of the Belmopan Company's inventory on December 31, 2006 under the LIFO and FIFO inventory cost-flow methods. The final part of the question required candidates to make a decision relating to the elimination of an unprofitable division.

Candidates' performance on this question was good resulting in a mean of 23.62, and scores ranging from 0 to 35. In the first part of the question candidates were able to classify direct cost correctly, calculate the total manufacturing costs, and were able to treat overhead costs correctly. However, some candidates included the finished goods inventory in their manufacturing schedule and confused overheads with operating expenses. In the second part of the question, candidates were able to correctly calculate the cost of sales, gross margin and net income. A weakness in some candidates' responses related to the incorrect treatment of sales commission. The part of the question relating to inventory valuation was handled correctly by most students. The only notable weakness was that some candidates confused the two methods. The final section of the question which related to candidates using cost information for decision making was not well done. Some candidates were able to identify the incremental profits as well as the contribution to cover fixed costs. However, a large percentage of the candidates responded to the question without any supporting calculations.

### Question 2

The first part of the question required candidates to calculate the manufacturing cost per unit under absorption costing and variable costing; prepare income statements under both methods; and, reconcile the difference between the two net incomes. The second part of the question required candidates to prepare job cost sheets and calculate the over- or under- applied overhead.

Candidates performed satisfactorily on this question resulting in a mean of 19.56, and scores ranging from 0 - 35.

The candidates performed fairly well on the job-costing section of the question. The candidates were able to correctly calculate the predetermined overhead rates and determine the cost of each job. However, there were some candidates who ignored the overheads in calculating the cost of the jobs. Another weakness in some responses was that candidates listed the cost of the jobs but did not identify the jobs that were completed. Some candidates interpreted the question as requiring an overhead account, but placed the actual and applied overhead on the incorrect sides of the account. Most of these candidates failed to identify the balance as representing under-applied or over-applied overhead. A number of the candidates did not realize that the over/under-applied overhead represented the difference between actual and applied overhead. Many reported over- or under-applied overhead as the difference between estimated and applied overhead.

The variable and absorption part of question proved more challenging. The typical errors included preparing the income statement rather than schedules when calculating unit costs. Candidates also included non-production cost when they were calculating unit manufacturing cost, thus reporting a total cost instead. Some students also found total cost but were confused as to whether to use production volume or sales volume. Most candidates could not successfully reconcile the net income computed under the variable costing with that of absorption costing. Several identified the difference that related to the inventory but could not demonstrate an understanding of the reason for the difference. Some candidates attributed the difference to manufacturing overhead as opposed to fixed manufacturing overhead.

Question 3

This question tested candidates' competencies in the calculation of direct materials, direct labour and overhead variances. The second part of the question required candidates to use cost volume profit analysis in answering the question. Candidates performed satisfactorily on this question resulting in a mean of 13.89 and scores ranging from 0 to 35.

The formulae for the calculation of the direct materials and direct labour variance were widely known. However, a large number of candidates were unable to apply this knowledge in answering the question. Candidates seem unaware of how to calculate the overhead variances and a large number did not respond to this part of the question.

In the second part of the question, most candidates seemed familiar with CVP but a number of them failed to distinguish between unit contribution and contribution margin ratio. Candidates were able to identify and apply the formula for the calculation of the break-even sales in dollars, but were unable to calculate the margin of safety as a percentage.

## PAPER 03/1

The Internal Assessment comprised three tests constructed, administered and marked by the teacher. These tests, along with the keys and mark schemes submitted for moderation were well constructed, with the objectives being clearly identified. The test items selected were of a level of difficulty, type and mix of questions appropriate to the level being assessed. The tests in general conformed to the objectives of the Modules and the quality of these tests were of a high standard. Most of the mark schemes presented, complimented the tests, but there were a number of mark schemes where the mark allocation was unclear. The tests which contained excellent mark schemes were marked consistently with those keys and mark schemes.

A problem that surfaces year after year is that some teachers compile tests that do not adhere to the guidelines provided in the syllabus. One example is that the tests are not covering 60 percent of the objectives of a Module. There were a few cases where teachers submitted tests that contained questions not relating to the syllabus; care must be taken in this regard. Finally, some teachers submitted sample scripts but did not provide keys and mark schemes or tests. Teachers must be reminded that failure to follow the guidelines as provided in the syllabus could affect the moderation process and the final grade of the candidates.

## PAPER 03/2

This paper consisted of nine compulsory questions, three per Module. The mean for this paper was 13.2 out of a maximum possible of 42, and the scores ranged from 3 to 28.

Performance on this paper was generally weak, though a few candidates were able to provide satisfactory responses for most of the questions.

### General Comments

The problem of non-response continues in this examination. Candidates are not completing all the questions as required and this affects their overall performance. A non-response on a question decreases candidates' ability to obtain a satisfactory grade in a Module and this will affect their composite score. Success or failure in a Unit depends upon performance across Modules.  Teachers must try to complete the syllabus and should assign research topics that lend themselves to self-directed learning.