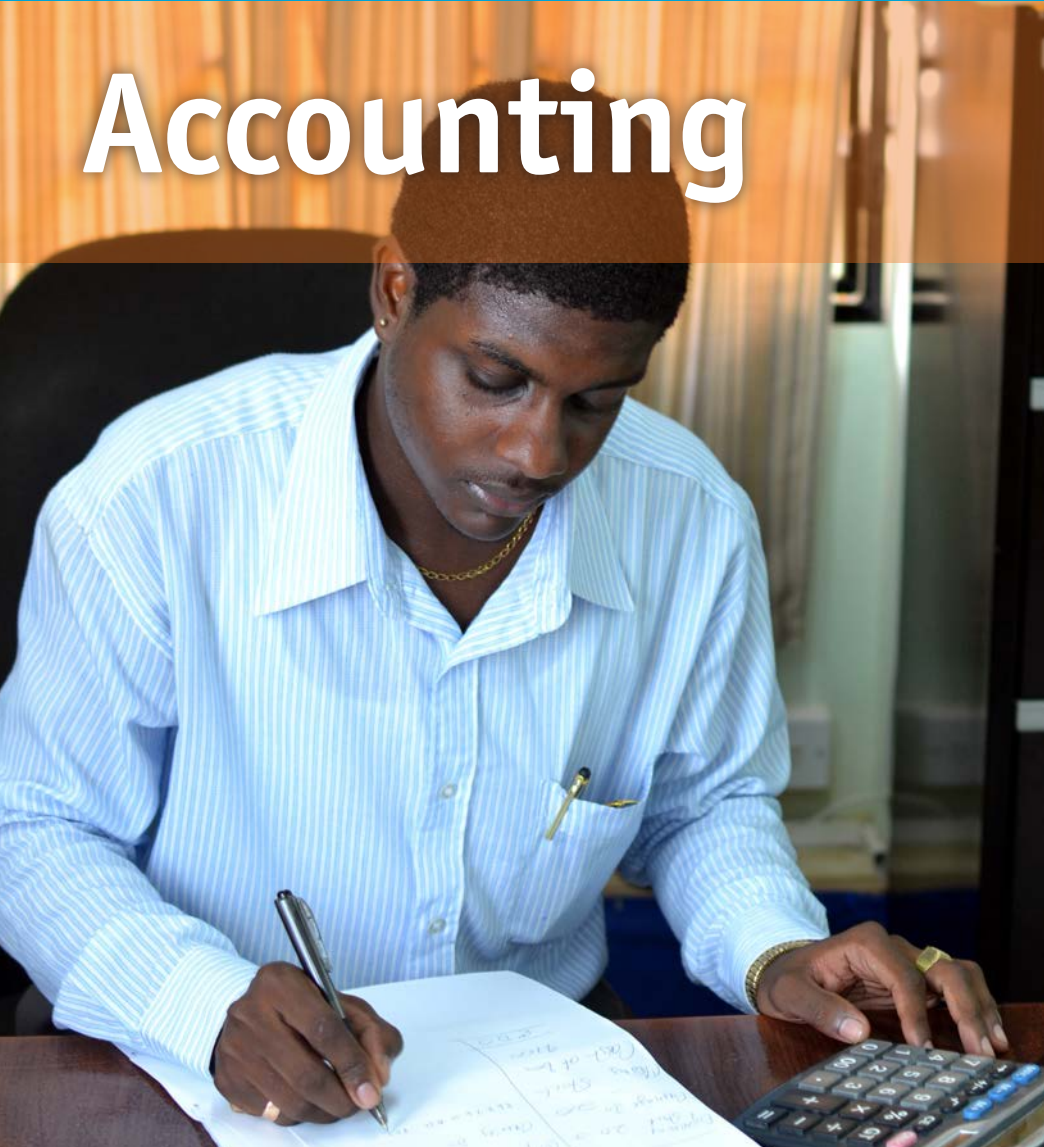




CARIBBEAN EXAMINATIONS COUNCIL

Accounting



CAPE[®] PAST PAPERS

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CAPE® Accounting Past Papers

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TEST CODE **02101010**

FORM TP 2005156

MAY/JUNE 2005

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 1 – PAPER 01

90 minutes

READ THE FOLLOWING DIRECTIONS CAREFULLY

1. This paper comprises TWO sections – SECTION A and SECTION B. SECTION A comprises 27 multiple-choice items. SECTION B comprises 6 short-answer items.

MULTIPLE-CHOICE

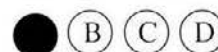
2. In addition to this test booklet, you should have an answer sheet.
3. Each item in the multiple-choice test has four suggested answers lettered (A), (B), (C), (D). Read each item you are about to answer and decide which choice is BEST.
4. On your answer sheet, find the number which corresponds to your item and blacken the space having the same letter as the answer you have chosen. Look at the sample item below.

Sample Item

Prime cost is calculated by

- (A) adding direct factory expenses to cost of materials used
- (B) adding indirect factory expenses to cost of materials used
- (C) subtracting direct factory expenses from cost of materials used
- (D) subtracting indirect factory expenses from cost of materials used

Sample Answer



The best answer to this item is “adding direct factory expenses to cost of materials used,” so answer space (A) has been blackened.

5. If you want to change your answer, be sure to erase your old answer completely and fill in your new choice.

SHORT-ANSWERS

6. In the case of the short-answer questions, each question is followed by a number of lines or a space in which you are expected to write your answer. **YOU MUST RETURN THE SHORT-ANSWER SECTION OF THE PAPER ALONG WITH YOUR MULTIPLE-CHOICE PAPER AND ANSWER SHEET.**
7. When you are told to begin, turn the page and work as quickly and as carefully as you can. If you cannot answer an item or question, omit it and go on to the next one. You can come back to the harder item later.
8. You will have 90 minutes to answer the questions on this paper.
9. **You may use silent non-programmable calculators to answer questions in both sections.**

SECTION A – MULTIPLE CHOICE

Answer ALL questions in this section.

Each question is worth ONE mark.

1. The Belmopan Cricket Club has 75 members who pay an annual subscription of \$150 each. During the review of the records on April 1, 2004, it was discovered that 70 members had paid their annual subscriptions during the year and 15 members had prepaid their 2004 subscriptions in 2003. The club had a social event in 2004 which realized a total profit of \$12 500. What amount of net income from subscriptions and social events should the Belmopan Cricket Club report in 2004?
 - (A) \$11 250
 - (B) \$23 000
 - (C) \$23 750
 - (D) \$25 250
2. The historical cost principle states that
 - (A) assets should be recorded initially at cost and then adjusted as market value changes
 - (B) the private activities of the owner of a business activity should not be incorporated into the activities of the business
 - (C) transactions involving assets are recorded at their acquisition cost
 - (D) only transactions that are capable of being expressed in monetary terms should be included in the accounting records
3. In preparing a statement of cash flows which of the following transactions would be considered an investing activity?
 - (A) Sale of equipment at book value
 - (B) Sale of merchandise on credit
 - (C) Declaration of a cash dividend
 - (D) Issuance of a note payable
4. Which ONE of the following statements is NOT an objective of financial reporting?
 - (A) To provide information that will increase the value of the company
 - (B) To provide information in assessing future cash flows
 - (C) To provide information that is useful for making investment and credit decisions
 - (D) To provide information that identifies what is owned, what is owed, and the ownership interest in the company
5. Donita Company received net proceeds of \$84 000 on the sale of an investment that cost \$79 000. This transaction will result in reporting in the income statement a
 - (A) loss of \$5 000 under 'Other expenses and losses'
 - (B) loss of \$5 000 under 'Operating expenses'
 - (C) gain of \$5 000 under 'Other revenues and gains'
 - (D) gain of \$5 000 under 'Operating revenues'

GO ON TO THE NEXT PAGE

6. Generally accepted accounting principles may be described as
- (A) the guidelines that accountants use to solve ethical dilemmas
 - (B) truths derived from the laws of nature and statute
 - (C) established by the department of inland revenue of a country
 - (D) a set of rules that are recognized as a guide for financial reporting
7. Which ONE of the following statements is NOT TRUE of a privately held corporation?
- (A) It is sometimes called a closed held corporation.
 - (B) Its shares are NOT regularly traded on the stock exchanges.
 - (C) It does not offer its shares for sale to the general public.
 - (D) It is usually smaller than a publicly held company.
-

8. Which of the following is NOT a feature of a computerized accounting system?

- (A) The recording of business transactions is more efficient.
- (B) Different principles are used from those in a manual accounting system.
- (C) It provides faster access to accounting information and reports.
- (D) Both large and small companies can realize the benefits of such a system.

9. Balmain Corporation sold 1 000 ordinary shares which were held as a temporary investment. The shares were acquired six months ago at a cost of \$90 a share. Balmain sold the shares for \$80 a share. What is the entry to record this sale?

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

GO ON TO THE NEXT PAGE

10. Which ONE of the following post-balance sheet events would generally require disclosure, but NO adjustment of the financial statements?
- (A) Retirement of the Chief Executive Officer
 - (B) Settlement of a law suit when the event that gave rise to the matter occurred prior to the balance sheet date
 - (C) Employee strikes that shut down the company for two weeks
 - (D) Issue of a large amount of capital stock
11. The Mangoes-by-the-Sea Company had net credit sales of \$8 800 000 and cost of goods sold of \$6 600 000 for the year. The average inventory for the year amounted to \$2 640 000. What was the inventory turn-over ratio for the year?
- (A) 2 times
 - (B) 2.5 times
 - (C) 3.3 times
 - (D) 10 times
12. The annual cash dividends paid per share expressed as a percentage of the market price per share is called
- (A) price earnings ratio
 - (B) dividend yield
 - (C) profit margin
 - (D) return on shareholders' equity
13. Which ONE of the following is NOT a duty of a receiver?
- (A) Take control of the assets
 - (B) Open a bank account
 - (C) Dispose of assets immediately upon appointment
 - (D) Assess the claims of creditors
14. The MAIN objective of financial reporting is to provide information
- (A) to government departments
 - (B) about the profitability of the business
 - (C) useful for making investment and lending decisions
 - (D) regarding sources and uses of cash
15. Included in the closing inventory valuation of \$65 000 are damaged goods which cost \$800. It was determined that these goods can be sold for \$480 if \$115 is spent to repair them. What is the correct valuation of the closing inventory for the balance sheet?
- (A) \$64 200
 - (B) \$64 565
 - (C) \$64 680
 - (D) \$65 000
16. The MAIN duty of external auditors from the point of view of shareholders is to
- (A) plan and perform the audit
 - (B) exercise accuracy in conducting the audit of the financial statements
 - (C) adhere to generally accepted auditing standards
 - (D) express an opinion on the reliability of the financial statements
17. DBG Ltd acquired for cash the business of Singer Inc. on June 22, 2004, at a price of \$14 500 000. The book value of the net assets at the time of the transaction was \$11 000 000. Independent appraisers valued Singer's net assets at a fair market value of \$13 000 000. What amount should DBG debit in the goodwill account?
- (A) \$ 0
 - (B) \$ 200 000
 - (C) \$1 500 000
 - (D) \$3 500 000

GO ON TO THE NEXT PAGE

Use the following information to answer items **18** and **19**.

Niger Inc. secured a \$540 000 12 per cent loan, on March 1, 2005. The loan is payable in three annual instalments of \$180 000, plus interest. The company's year end is June 30. The first payment is to be made on March 1, 2006.

- 18.** The income statement for the year ending June 30, 2005, would include

(A) interest expense of \$21 600
(B) interest revenue of \$21 600
(C) interest expense of \$16 200
(D) interest expense of \$64 800

- 19.** The balance sheet as at June 30, 2005, would indicate a current liability related to the loan of

(A) \$180 000
(B) \$201 600
(C) \$228 600
(D) \$244 800

- 20.** Nevis Inc. prepared its financial statements on the cash basis. The cash based income statement showed sales revenue of \$400 000, operating expenses of \$60 000 and net income of \$120 000. An analysis of Nevis Inc. records revealed that credit sales of \$30 000 were not included and operating expenses accrued amounted to \$5 000. The creditors were owed \$20 000 on accounts payable. What amount should Nevis Inc. show as cost of goods sold in an accrual-based income statement?

(A) \$220 000
(B) \$240 000
(C) \$245 000
(D) \$265 000

- 21.** Black and White formed a partnership with capital contributions of \$40 000 and \$80 000 respectively. The partnership agreement calls for profits and losses to be shared as follows: (i) \$12 000 salary to Black, (ii) 8% return on capital contribution of each partner, and (iii) the remainder to be shared equally. If the profits for the year before appropriation were \$16 000, what would be Black's share of profits?

(A) \$12 000
(B) \$12 400
(C) \$15 200
(D) \$16 000

- 22.** 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 at a ratio 80:20, respectively. What is Smith's capital balance?

(A) \$30 000
(B) \$35 000
(C) \$36 000
(D) \$50 000

- 23.** To evaluate short-term liquidity, which of the following ratios and statistics for analysis would be used?

I. Current ratio
II. Accounts receivable ratio
III. Pledged plant assets to secured creditor

(A) I only
(B) III only
(C) I and II only
(D) I, II, III

GO ON TO THE NEXT PAGE

24. Which ONE of the following is a limitation of the balance sheet?
- (A) Many items are omitted.
 - (B) It uses present values only.
 - (C) Only current values are reflected.
 - (D) Only the effects of cash transactions are reported.
25. The International Accounting Standards Board encourages companies operating in economies with high inflation, to show the effects of changing prices in supplementary financial information. This is done to
- (A) promote more informative financial reporting
 - (B) indicate the true value of a company during rising prices
 - (C) show how the price for individual assets increases or decreases
 - (D) replace the historical cost basis
26. Having ONE person responsible for ordering, paying and receiving goods
- (A) is an example of segregation of duties
 - (B) is a good example of how to safeguard the company's assets
 - (C) increases the potential for errors and fraud
 - (D) results in greater organizational efficiency
27. Persaud is a sole proprietor who does NOT maintain proper accounting records. Persaud indicated that at the start of the current year he had \$1 500 in the bank and was owed \$3 000 by customers. During the current period he collected \$28 000 from customers. At the end of the period Persaud was owed \$2 600 by two customers. All of Persaud's sales are on credit and customers always settle their accounts when due. What amount of sales revenue will be reported in Persaud's income statement for the current period?
- (A) \$27 400
 - (B) \$27 600
 - (C) \$28 400
 - (D) \$31 400

GO ON TO THE NEXT PAGE

SECTION B – SHORT ANSWER

Answer ALL questions in this section.

28. Listed below (a) – (g) are several information characteristics, accounting principles and assumptions. Match the letter of each with the appropriate phrase in Table I below which states its application. (Each characteristic, accounting principle and assumption may be used ONCE, MORE THAN ONCE, or NOT AT ALL).

- (A) Historical cost principle
- (B) Revenue recognition principle
- (C) Matching principle
- (D) Full disclosure principle
- (E) Economic entity assumption
- (F) Relevance characteristic
- (G) Consistency principle

TABLE I

	Accruals and deferrals in adjusting and closing process
	Affairs of the business distinguished from those of its owners
	Valuing assets at amounts originally paid for them
	Presentation of timely information with predictive and feedback value
	Notes as part of necessary information to a fair presentation
	Earning process completed and realized or realizable

Total 6 marks

GO ON TO THE NEXT PAGE

29. (a) Martha Ross is the owner of a successful printing shop. Recently her business has been increasing and Martha has been thinking about changing the organization of her business from a proprietorship to a corporation. Give THREE advantages that Martha would enjoy if she were to change her business to a corporation.

[3 marks]

- (b) List THREE differences between a private company and a statutory corporation.

[3 marks]

Total 6 marks

GO ON TO THE NEXT PAGE

30. The stockholders' equity section of Elcan Company of Jambados showed the following: share premium \$680 500 000; ordinary share capital \$88 300 000; preferred share capital \$66 000 000; and retained earnings of \$37 520 000. Capital reserves \$40 000 000.

There are 660 000 preferred shares authorized with a par value of \$100 and an annual \$3.75 per share cumulative dividend preference. At December 31, all authorized preferred shares are issued and outstanding. There are 300 million shares of \$1 par value ordinary shares authorized, of which \$88.3 million are outstanding at December 31.

Prepare the stockholders' equity section of the balance sheet.

Total 6 marks

GO ON TO THE NEXT PAGE

31. Prepare the necessary journal entry in each of the following independent cases. **No narrative is required.**

- (a) The supplies inventory on August 1, 2003, was \$7 460. Supplies costing \$14 520 were acquired during the year and charged to the supplies inventory. A count on July 31, 2004, indicated supplies on hand of \$6 810. Prepare the journal entry to record the adjustment that would be made on July 31, 2004, the end of the fiscal year.

[1 mark]

- (b) On May 4, 2004, Company X purchased 600 shares of BLP at \$113 per share plus an \$820 brokerage fee as a short-term investment. Prepare the journal entry to record the purchase of the shares as an investment.

[1 mark]

- (c) On July 1, Company X received a \$2.50 per share dividend on the BLP shares. Prepare the journal entry to record the receipt of dividends.

[1 mark]

- (d) On September 15, Company X sold 400 of the shares of BLP purchased on May 4, for \$120 per share less a brokerage fee of \$500. Prepare the journal entry to record this transaction.

[3 marks]

Total 6 marks

GO ON TO THE NEXT PAGE

32. Given the following financial data for Omega Company, calculate the ratios listed below.

Sales	\$325 000
Cost of goods sold	\$211 250
Income before taxes and interest	\$ 39 000
Interest expense	\$ 6 500
Net income	\$ 27 300

	Ending Balance	Beginning Balance
Cash	\$ 9 750	\$ 7 500
Accounts receivable net	\$ 32 500	\$ 29 900
Inventory	\$ 35 750	\$ 33 150
Plant and equipment	\$ 97 500	\$ 91 950
Total	<u>\$175 500</u>	<u>\$162 500</u>
Current liabilities	\$ 37 050	
Long-term notes payable	\$ 48 750	
Ordinary shares \$5 par value	\$ 80 000	
Retained earnings	\$ 9 700	

- (a) Current ratio [1 mark]
- (b) Acid-test [1 mark]
- (c) Average collection period in days [1 mark]
- (d) Inventory turnover [1 mark]
- (e) Times interest earned [1 mark]
- (f) Earnings per share [1 mark]

Total 6 marks

33. Ashford Company has the following balance sheet on December 31, 2004.

Assets		Liabilities and Equity	
Cash	\$1 000 000	Current liabilities	\$1 500 000
Other current assets	\$ 800 000	Long-term liabilities	\$3 800 000
Equipment	\$2 000 000	Ordinary share capital	\$1 000 000
Buildings	\$2 500 000	Share premium	\$1 000 000
Land	<u>\$1 500 000</u>	Retained earnings	<u>\$ 500 000</u>
Total	<u>\$7 800 000</u>	Total	<u>\$7 800 000</u>

On January 1, 2005, Ashford acquired the plant assets of Beckham Enterprises, a sole proprietorship that went out of business, for \$800 000. An independent appraiser assigned the following values to the assets that were acquired:

Land	\$522 000
Building	\$243 000
Equipment	\$135 000
Total	\$900 000

Prepare the balance sheet of Ashford Company on January 1, 2005, immediately after the acquisition of the plant assets of Beckham Enterprises.

END OF TEST

Total 6 marks

FORM TP 2005157



TEST CODE **02101020**

MAY/JUNE 2005

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 1 – PAPER 02

2 $\frac{3}{4}$ hours

13 MAY 2005 (a.m.)

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.

NOTHING HAS BEEN OMITTED

1. (a) Briefly explain the THREE primary objectives of financial reporting by business organizations as specified in the International Accounting Standards. [6 marks]
- (b) List the EIGHT steps in the Accounting Cycle (Process). [12 marks]
- (c) The table below presents a number of accounting procedures and practices in Chavez Corporation. Each item listed violates an accounting assumption, principle, information characteristic, or modifying convention.

Item Number	Item Description
1.	An officer of Chavez Corporation purchases a new home computer for personal use with the company's money, charging it to miscellaneous expenses.
2.	A machine, which cost \$60 000, is reported at its current market value of \$90 000.
3.	Chavez Corporation decides to establish a large loss and related liability this year because of the possibility that it may lose a pending patent infringement lawsuit. Its attorneys consider the possibility of the loss remote.
4.	Because the company's income is low this year, a switch from accelerated depreciation to straight-line depreciation is made this year.
5.	The president of Chavez Corporation believes that it is foolish to report financial information on a yearly basis. Instead, the president believes that financial information should be disclosed only when significant new information, related to the company's operations, is available.
6.	Chavez Corporation recognizes all sales revenues on a cash basis.

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. [17 marks]

Total 35 marks

2. (a) The AMIRA Corporation is about to be audited by the Accounting firm of Ragu and Raga. The corporation had dismissed its financial controller at the beginning of the last quarter and has been experiencing problems in filling the post. The corporation's chief executive officer (CEO) has asked the accounts clerk to prepare the statements for the auditing firm. The accounts clerk has been with the company for only three months and has never prepared financial statements before. The auditing firm needs to have proper statements before it can commence the audit. The following is the first draft of the income statement that this poorly trained accounts clerk has prepared for the CEO.

AMIRA Corporation
Income Statement
For the Year Ended December 31, 2004

	\$
Sales revenue	1 182 375
Investment revenue	19 250
Cost of merchandise sold	(340 375)
Selling expenses	(247 625)
Administrative expenses	(315 625)
Interest expense	(13 000)
Special items	
Depreciation non cash expense	(32 500)
Extraordinary item	(80 000)
Income tax liability	<u>(51 750)</u>
Net income	<u><u>120 750</u></u>

On discussion with the accounts clerk it was discovered that the following omissions were made in preparing the income statement.

- No provision was made for bad debts of \$1 500.
- The ending inventory included in the cost of goods sold included goods sold to a customer on December 25, valued at \$1 300 but which were still at the company on December 31.
- The administrative expenses included a \$4 000 payment to an insurance company representing a payment on the CEO's personal house. The CEO had refunded the organization on December 31, but the clerk did not record the transaction.
- AMIRA Corporation has 50 000 shares of common stock outstanding and is subject to income tax at a rate of 30 per cent on all aspects of its operations. The company declared a dividend of 15 cents per share.

Prepare a multiple-step income statement for 2004 for the AMIRA Corporation.

[15 marks]

(Ensure that both the format and terminology in the statement are consistent with International Accounting Standards.)

GO ON TO THE NEXT PAGE

- (b) The accounts clerk of the AMIRA Corporation also prepared the following balance sheet as at December 31, 2004.

AMIRA Corporation
Balance Sheet
For the year just finish December 31, 2004

Assets		Liabilities and Capital	
	\$		\$
Cash	18 000	Accounts payable	25 000
Marketable securities	27 000	Reserve for income taxes	34 000
Accounts receivable	75 000	Advanced payments by customers	3 500
Merchandise inventory	60 000	Bonds payable	120 000
Supplies inventory	3 000	Capital stock	225 000
Shares in another company	60 000	Reserve for depreciation	60 000
Unsold shares	75 000	Cash dividends declared	7 500
Building and land	213 000		<u>475 000</u>
Deferred charges	6 000		
Other assets	54 000	Earned surplus	116 000
	<u>591 000</u>	Total	<u>591 000</u>

While reviewing the balance sheet you realize that it contains several errors including misclassification of items, lack of adequate disclosure and poor terminology. In addition, from discussions with the accounts clerk, it was discovered that

- the bonds payable are due in 2010
- shares in the subsidiary represents shares purchased as a long term investments
- the item, 'Deferred charges,' represents the share premium account
- 'Other assets' represents the cash surrender value of an insurance policy
- the building has a historical cost of \$163 000 and the land \$50 000. The market values of these are now \$450 000 for the building and \$150 000 for the land.
- the item unsold shares represent the balance of the authorized share capital that has not been sold
- the earned surplus is a balancing figure that has been used in place of retained earnings
- the company has in its authorized capital 100 000, 8 per cent preference shares with a par value of \$5 that have not been issued as yet
- capital stock refers to 45,000 ordinary shares

Prepare the corrected balance sheet of AMIRA Corporation as at December 31, 2004. The balance sheet should be presented in good form using the International Accounting Standards. **[20 marks]**

Total 35 marks

GO ON TO THE NEXT PAGE

3. The financial statements of Brown Sugar Outfitters Inc. for the financial year 2004 are presented below.

Brown Sugar Outfitters Inc.
Income Statement
For the Year Ended December 31, 2004

	\$	\$
Sales		490 000
Less: Cost of goods sold		<u>(210 000)</u>
Gross profit		280 000
Less: Selling and administrative expenses	195 000	
Depreciation expense	15 000	
Interest expense	<u>1 000</u>	
		<u>(211 000)</u>
		69 000
Less: Loss on sale of machinery		<u>(3 000)</u>
Income before taxes		66 000
Less: Income tax expense		<u>(22 000)</u>
Net Income		<u><u>44 000</u></u>

Brown Sugar Outfitters Inc.
Balance Sheet
As at year ended December 31, 2004

Assets

	2004	2003
	\$	\$
Cash	5 000	45 000
Accounts receivable (net)	52 000	37 000
Inventory	41 000	25 000
Machinery (net)	<u>60 000</u>	<u>60 000</u>
Total assets	<u><u>158 000</u></u>	<u><u>167 000</u></u>

Liabilities & Stockholders' Equity

	\$	\$
Accounts payable	27 000	64 000
Long-term note payable	5 000	20 000
Common stock, \$5 par value	5 000	4 000
Paid-in capital in excess of par value	20 000	16 000
Retained earnings	<u>101 000</u>	<u>63 000</u>
Total liabilities and stockholders' equity	<u><u>158 000</u></u>	<u><u>167 000</u></u>

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- (a) The following additional information also applies to Brown Sugar Outfitters Inc.
1. Common stock (200 shares) was sold for \$25 per share in the middle of 2004.
 2. Dividends of \$6 per share were declared and paid in late 2004.
 3. Machinery that cost \$20 000 and that has a book value of \$13 000 was sold for \$10 000 cash. New machinery was purchased for \$28 000 cash.
 4. The note payable relates to a borrowing transaction.

Using the indirect method, prepare a Statement of Cash Flows for Brown Sugar Outfitters Inc. for the year ended December 31, 2004. **[20 marks]**

- (b) An independent review of the financial statements of Brown Sugar Outfitters Inc. for the year ended December 31, 2004, revealed the following items:
1. On December 15, 2004, an explosion occurred at the Diego Martin factory of the company. Ten people were injured, and five houses located close to the factory were severely damaged. Although no lawsuits had been filed by the end of the year, management anticipates future court appearances and several out-of-court settlements. The company was not insured for the casualty.
 2. Brown Sugar Outfitters Inc. was sued in February for discriminatory hiring practices. Its lawyers have indicated that the plaintiffs have a strong case and would likely win the suit. Although the suit was for \$100 000, it would probably be settled for \$40 000.

Describe the accounting treatment for contingent liabilities. **[4 marks]**

- (c) Outline how the TWO independent situations in (a) above should be treated in the December 31, 2004, financial statements of Brown Sugar Outfitters Inc. **[5 marks]**
- (d) On July 1, 2005, Brown Sugar Outfitters Inc. borrowed \$225 000 as a long-term loan. The terms of the loan require that Brown Sugar pay interest and \$75 000 of principal on July 1, 2006, 2007, and 2008. The unpaid balance of the loan accrues interest at the rate of 10 per cent per year. Brown Sugar Outfitters Inc. has a December 31 year-end.

Compute Brown Sugar Outfitters Inc.'s accrued interest as of December 31, 2005. **[2 marks]**

- (e) Prepare the balance sheet extract to show the appropriate disclosure for the accrued interest and the current and long-term portions of the outstanding debt as of December 31, 2005. **[4 marks]**

Total 35 marks

END OF TEST

FORM TP 2005158



TEST CODE **02101032**

MAY/JUNE 2005

**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

ACCOUNTING

UNIT 1 – PAPER 03/2

1 $\frac{1}{2}$ hours

02 JUNE 2005 (p.m.)

1. This paper comprises **THREE** 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.

Gabby Enterprises, located in Cave Vale Industrial Park, St. Barts, is a national snack-food producer. Mr Manning, the Managing Director, has just returned from a workshop on the proposed Caribbean Single Market and Economy (CSME). The Managing Director, armed with the latest financial statements and the wealth of information he obtained at the workshop, summoned a board meeting to discuss the challenges and opportunities for Gabby Enterprises.

Ms Rambally, the Operations Manager, informed the board that the expansion programme the company embarked upon the previous year had increased the capacity of the plant by eighty per cent. Lucy Wilson, the Marketing Manager, informed the meeting that her department had undertaken a major marketing campaign in its attempt to go into the regional market as a result of the proposed Caribbean Single Market and Economy. She further added that the sales had not come up to the predicted level and costs were higher than projected. The Managing Director noted that the company had incurred a large loss in 2003 rather than the expected profit. Mr Manning stated that with the increased competition as a result of the Caribbean Single Market and Economy (CSME), he and other investors were concerned about the firm's survival.

Mr Manning recruited Donna Johnson as a personal assistant to assist him in calculating some key ratios, as well as in collecting industry and other relevant data to start the process of getting the company back into a sound financial position.

The balance sheet and the income statement for the last two years are presented below.

**Gabby Enterprises
Balance Sheet**

	2003	2002
	\$	\$
Assets		
Cash	7 282	57 600
Accounts receivable	632 160	351 200
Inventories	<u>1 287 360</u>	<u>715 200</u>
Total current assets	<u>1 926 802</u>	<u>1 124 000</u>
Fixed assets	1 202 950	491 000
Less accumulated depreciation	<u>(263 160)</u>	<u>(146 200)</u>
Net fixed assets	<u>939 790</u>	<u>344 800</u>
Total assets	<u><u>2 866 592</u></u>	<u><u>1 468 800</u></u>
	\$	\$
Liabilities and equity		
Accounts payable	524 160	145 600
Notes payable	720 000	200 000
Accrued expenses	<u>489 600</u>	<u>136 000</u>
Total current liabilities	<u>1 733 760</u>	<u>481 600</u>
Long term liabilities	<u>1 000 000</u>	<u>323 432</u>
Share capital	460 000	460 000
Retained earnings	<u>(327 168)</u>	<u>203 768</u>
Total liabilities and equity	<u><u>2 866 592</u></u>	<u><u>1 468 800</u></u>

GO ON TO THE NEXT PAGE

**Gabby Enterprises
Income Statement**

	2003	2002
	\$	\$
Sales	5 834 400	3 432 000
Cost of goods sold	(5 728 000)	(2 864 000)
Other expenses	(680 000)	(340 000)
Depreciation	(116 960)	(18 900)
Interest expense	(176 000)	(62 500)
Taxes	—	(58 640)
Net income	<u>(866 560)</u>	<u>87 960</u>

Additional information on the company has been collected by the assistant and is presented below.

	2003	2002
Earnings per share	\$(8.66)	\$0.88
Share price – market	\$2.25	\$8.50
Shares outstanding	100 000	100 000

In an attempt to analyse the performance of the company Donna calculated some key ratios for the company for the years 2002 and 2003. In addition she has collected the industry averages for snack-food producers. This information is presented in the table below:

Ratio Analysis			
	2003	2002	Industry average
Ratios			
Current ratios	1.1	2.3	2.7
Quick ratio	0.4	0.8	1
Inventory turnover	4.5	4.8	6.1
Average collection period	39 days	36.8 days	32 days
Debt ratio	94.50%	54.80%	50%
Profit margin	- 8.90%	2.60%	3.50%
Return on assets	-18.1	6%	9.10%
Price earnings ratio	0.4	9.7	14.2
Book value per share	\$1.33	\$6.64	NA

GO ON TO THE NEXT PAGE

Donna has examined the data and is about to prepare an analysis of the Company's current financial position and what it must do to regain good financial health. Your assignment is to help her answer the following questions.

1. "Accounting information in the form of ratios can be useful to managers, shareholders and creditors."
 - (a) Identify the FOUR major categories of ratios.
 - (b) Discuss briefly the importance of EACH category of ratios to EACH of the users of financial statements identified in the statement above.

[14 marks]

2. "In moving into the regional market, it may be necessary for a company to make changes to its present ownership structure by issuing additional shares of the same or different classes."
 - (a) Briefly describe the characteristics of THREE types/classes of shares.
 - (b) Discuss how issuing these different classes of shares would affect the accounting system and the preparation and presentation of financial statements.

[14 marks]

3.
 - (a) Identify and discuss THREE issues you would raise in a report to the directors relating to the performance of Gabby Enterprises.
 - (b) In your report you should also highlight FOUR problems/limitations of ratio analysis.

[14 marks]

END OF TEST

FORM TP 2005161



TEST CODE **02201032**

MAY/JUNE 2005

**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

ACCOUNTING

UNIT 2 – PAPER 03/2

1½ hours

10 JUNE 2005 (a.m.)

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.

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1. Briefly describe how managers make use of management accounting information. [4 marks]
2. Briefly explain TWO benefits and TWO problems associated with budgeting. [4 marks]
3. (a) State TWO reasons why over-or-under absorption of overheads may arise. [2 marks]
(b) The following information relates to cost centre 260 in period 2:

	Budgeted	Actual
Direct labour hours	7 840	8 295
Direct wages	\$ 26 656	\$ 28 630
Machine hours	4 620	4 785
Direct materials	\$ 36 680	\$ 39 498
Unit products	113 400	119 414
Overheads	\$ 80 500	85 760

If overhead absorption, based on direct labour hours, is the most appropriate basis for cost centre 260, calculate the amount of over-or-under absorption of overhead (if any). [3 marks]

4. (a) List TWO major categories of remuneration methods and give an example of each. [2 marks]
(b) Draw a graph showing the earnings per hour for an output range of 0 – 400 units per hour, if the worker is paid under the following wage systems:
 - (i) Day work at \$4 per hour [1 mark]
 - (ii) Straight piecework at 20 cents per unit [1 mark]
 - (iii) Differential piecework at 20 cents per unit from 0 – 200 units; 25 cents per unit from 201 – 250 units; 27 cents per unit from 251 to 300; and 30 cents per unit on all units above 300 [2 marks]

5. The legal firm of NCB Associates uses a job order costing system. In preparing a mortgage for client No. X37 the following costs were incurred.

Search department	42 hours at \$35 per hour
Consultation and Registry Department	68 hours at \$30 per hour
Direct costs – registration, stamp duty	\$3 280

Overhead costs are allocated to jobs based on labour hours. The rate applicable to the search department is \$18 per hour, and \$15 per hour to the consultation and registry department. There is an additional administrative overhead cost of 10 per cent of the total cost added to the job.

Determine the cost of preparing the mortgage for client No. X37. [4 marks]

GO ON TO THE NEXT PAGE

6. Michael was in the process of completing the quarterly planning for the purchasing department when a major computer malfunction lost most of his data. Michael had the following information relating to raw materials on a piece of paper in his office:

Average inventory level of raw material	400
Orders per year	40
Average daily demand	96
Working days per year	250
Annual ordering costs	\$ 8 000
Annual carrying costs	\$12 000

Michael uses the EOQ model to determine the quantity he should purchase. Using the above information, determine the following:

- (a) The annual demand [1 mark]
- (b) The cost of placing an order [1 mark]
- (c) The annual carrying cost of one unit [1 mark]
- (d) The economic order quantity [1 mark]
7. Ruth Henley manufactures three products: X, Y and Z. The following information is available regarding the three products.

Product	X	Y	Z
Selling price	\$400	\$600	\$800
Direct materials (\$8 per kg)	\$ 40	\$224	\$180
Direct labour (\$12 per hour)	\$120	\$ 66	\$180
Variable overheads	\$ 60	\$ 33	\$ 90

Variable overheads are applied at the rate of \$6 per hour. Total fixed overheads are \$240 000.

Calculate the priority rankings of the products when the limiting factor is

- (a) sales [2 marks]
- (b) labour [2 marks]
- (c) materials. [2 marks]
8. "Standard costing can only be applied to manufacturing entities." Discuss. [4 marks]

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9. The Polishing Department of Mount Hope Manufacturing Company has the following production and manufacturing cost data for September. Materials are entered at the beginning of the process.

Production: Beginning inventory 1 600 units that are 100 per cent completed as to materials and 30 per cent completed as to conversion costs; units started during the period are 12 000; ending inventory is 3 000 units 10 per cent completed as to conversion costs.

Manufacturing costs: Beginning inventory costs, comprised of \$20 000 of materials and \$43 180 of conversion costs; materials added in polishing during the month, \$177 200; labour and overhead applied in polishing during the month, \$100 080 and \$257 860 respectively.

- (a) Compute the equivalent units, and cost per equivalent unit for materials and conversion cost for the month of September, assuming the company uses the weighted average method.

[4 marks]

- (b) Determine the cost to be assigned to finished units transferred out.

[1 mark]

END OF TEST



TEST CODE **02101010**

FORM TP 2006155

MAY/JUNE 2006

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 1 – PAPER 01

90 minutes

READ THE FOLLOWING DIRECTIONS CAREFULLY

1. This paper comprises TWO sections – SECTION A and SECTION B. SECTION A comprises 27 multiple-choice items. SECTION B comprises 6 short-answer items.

MULTIPLE-CHOICE

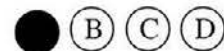
2. In addition to this test booklet, you should have an answer sheet.
3. Each item in the multiple-choice test has four suggested answers lettered (A), (B), (C), (D). Read each item you are about to answer and decide which choice is BEST.
4. On your answer sheet, find the number which corresponds to your item and blacken the space having the same letter as the answer you have chosen. Look at the sample item below.

Sample Item

Prime cost is calculated by

- (A) adding direct factory expenses to cost of materials used
- (B) adding indirect factory expenses to cost of materials used
- (C) subtracting direct factory expenses from cost of materials used
- (D) subtracting indirect factory expenses from cost of materials used

Sample Answer



The best answer to this item is “adding direct factory expenses to cost of materials used,” so answer space (A) has been blackened.

5. If you want to change your answer, be sure to erase your old answer completely and fill in your new choice.

SHORT-ANSWERS

6. In the case of the short-answer questions, each question is followed by a number of lines or a space in which you are expected to write your answer. **YOU MUST RETURN THE SHORT-ANSWER SECTION OF THE PAPER ALONG WITH YOUR MULTIPLE-CHOICE PAPER AND ANSWER SHEET.**
7. When you are told to begin, turn the page and work as quickly and as carefully as you can. If you cannot answer an item or question, omit it and go on to the next one. You can come back to the harder item later.
8. You will have 90 minutes to answer the questions on this paper.
9. **You may use silent non-programmable calculators to answer questions in both sections.**

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02101010/CAPE/2006

SECTION A – MULTIPLE CHOICE

Answer ALL questions in this section.

Each question is worth ONE mark.

1. The quality of accounting information that provides users of financial statements with the assurance that the information is free of error and bias is
- (A) consistency
 - (B) relevance
 - (C) verifiability
 - (D) reliability
2. Which of the following statements is NOT true regarding ordinary shares or preference shares?
- (A) Ordinary shares are the most basic and common type of shares.
 - (B) All companies issue ordinary shares.
 - (C) With preference shares the amount of dividend is generally specified and increases every year.
 - (D) With preference shares the holders have priority over ordinary shareholders in dividend and assets distribution.
3. Liquidity is determined by the use of the
- (A) investment turnover ratio
 - (B) acid test ratio
 - (C) debt to equity ratio
 - (D) earning per share
4. 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) historical cost

-
5. Sylvia Inc. paid \$18 000 for 3 000 ordinary shares with a par value of \$2.50 each from JLP Ltd. The journal entry to record this transaction in the books of JLP is

(A)	Dr. Investment in JLP Ltd	\$18 000	
	Cr. Cash		\$18 000
(B)	Dr. Cash	\$18 000	
	Cr. Ordinary share capital		\$ 7 500
	Cr. Share premium		\$10 500
(C)	Dr. Ordinary share capital	\$ 7 500	
	Dr. Share premium	\$10 500	
	Cr. Cash		\$18 000
(D)	Dr. Ordinary share capital	\$18 000	
	Cr. Cash		\$18 000

GO ON TO THE NEXT PAGE

6. Which of the following are shareholders NOT entitled to do?
- (A) Vote on certain matters concerning the company at the annual meeting
 - (B) Share residually in the company's assets upon liquidation
 - (C) Acquire inventory of the company at cost
 - (D) Acquire more shares of subsequent issues of shares
7. Financial statements that are expressed assuming a stable monetary unit are
- (A) current value financial statements
 - (B) fair-value financial statements
 - (C) historical-dollar financial statements
 - (D) general price level financial statements
-
8. Seaview Ltd signed a 15 per cent \$400 000 note payable on July 1, 2004. Interest is payable annually on the anniversary date of the note. The company prepares accounts to December 31 of each year. The journal entry to record the accrued interest on the loan at December 31, 2004 is
- (A)

Dr. Interest expense	\$30 000	
Cr. Cash		\$30 000
 - (B)

Dr. Note payable	\$60 000	
Cr. Interest payable		\$60 000
 - (C)

Dr. Interest expense	\$30 000	
Cr. Interest payable		\$30 000
 - (D)

Dr. Interest expense	\$60 000	
Cr. Interest payable		\$60 000
9. A characteristic of preference shares that provides increasing dividends when ordinary dividends increase is known as
- (A) participating
 - (B) callable
 - (C) liquidating preference
 - (D) cumulative
10. If an investment is to be held for a long time, it should be classified as a
- (A) current asset in an investment category
 - (B) non-current asset which appears in a separate investment category
 - (C) non-current asset which appears in the fixed asset section
 - (D) non-current asset which appears in the intangible assets investment section

GO ON TO THE NEXT PAGE

11. The MAIN duty of the external auditor, from the point of view of the shareholders, is to
- (A) plan and perform the audit using statistical techniques
 - (B) exercise accuracy in conducting the audit of financial statements
 - (C) adhere to generally accepted auditing standards
 - (D) express an opinion on the reliability of the financial statements
12. The primary objective of financial accounting is to provide information
- (A) about the firm and the amount of profit earned
 - (B) to decision makers outside the firm
 - (C) about the profitability of the firm
 - (D) to management to aid in the operation of the business
13. An event that is classified on the income statement as an extraordinary item should be
- (A) unusual in nature, infrequent and material in amount
 - (B) unusual in nature, infrequent and immaterial in amount
 - (C) infrequent and material in amount but not unusual
 - (D) unusual in nature, material in amount but not infrequent
14. A contingent liability
- (A) is a potential liability that depends on a future event arising out of a past transaction
 - (B) can always be calculated with great precision and always has a definite amount recorded
 - (C) is not of interest to readers of financial statements
 - (D) must be disclosed in the body of the financial statements, including the expected dollar amount

Use the following information to answer items **15** and **16**.

The Belmopan Company began operations on January 1, 2002. The company has the following items included in the owners' equity section of its balance sheet.

Eight per cent preference shares \$100 par value, 25 000 shares issued and outstanding	\$2 500 000
Ordinary shares \$3 par value, 50 000 shares issued and outstanding	\$ 450 000
Share premium	\$ 2 250 000
Total dividends declared and paid were:	

During 2002	\$170 000
During 2003	\$210 000
During 2004	\$240 000

- 15.** Assuming that the preference shares were non-cumulative, how much of the 2003 dividends would be distributed to the preference shareholders?
- (A) \$ 2 000
(B) \$100 962
(C) \$110 526
(D) \$200 000
- 16.** Assuming that the preference shares were cumulative, how much of the 2003 dividends would be distributed to the ordinary shareholders?
- (A) \$ 0
(B) \$ 5 192
(C) \$ 9 200
(D) \$10 000
-
- 17.** The current portion of long-term debt on the balance sheet represents
- (A) a short-term loan from a bank which has also granted a long-term loan
(B) the amount of long-term debt appearing in the non-current liability section
(C) the amount of interest which comes due in the coming year
(D) the amount of principle on long-term debt which comes due in the coming year
- 18.** When historical cost statements are presented during a period of inflation, income as reported by most companies tends to be
- (A) understated
(B) overstated
(C) correctly stated
(D) restated on a constant dollar basis

19. 'Insolvency' in the context of bankruptcy means
- (A) book value of assets is greater than liabilities
 - (B) fair value of assets is less than liabilities
 - (C) inability to meet financial obligations as they come due
 - (D) liabilities are greater than the book value of assets
20. 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 to the report date
 - (B) it uses numerous estimates for revenue and expense
 - (C) it recognizes revenues and expenses before they are actually realized
 - (D) it adds and subtracts dollars with different purchasing power without adjusting for those differences
21. 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
 - (D) Government debentures redeemable in 5 years
22. The Chanderpaul Co. issued 10 000 000 no par shares at a stated value of \$5 on January 1, 2000. On December 31, 2005, the company declared and distributed a 5 per cent stock dividend. The shareholders' equity on the balance sheet would increase by
- (A) \$ 0
 - (B) \$ 500 000
 - (C) \$2 000 000
 - (D) \$2 500 000
23. An example of a contingent liability is
- (A) a bond which can be converted into ordinary shares
 - (B) any interest-bearing liability
 - (C) the unrealized loss from the reduction in the market price of a long-term liability
 - (D) a lawsuit being filed against the company
24. Which of the following would be used in a computerized accounting system?
- (A) Revenue journal
 - (B) Cash receipts journal
 - (C) Electronic invoice form
 - (D) Month-end postings to the general journal
25. The Rampaul Company estimated at January 1, 2005, that its income before taxes for the year ended December 31, 2005, would be \$5 500 000. The Rampaul Company's tax rate for the year is 42 per cent. The company made quarterly tax payments on April 30, June 30, September 30 and December 15. The actual income for the year ended December 31, 2005, was \$5 700 000. The amount of income tax payable at December 31, 2005, is
- (A) \$ 0
 - (B) \$ 84 000
 - (C) \$100 000
 - (D) \$144 000

GO ON TO THE NEXT PAGE

26. At December 31, 2004, ABC had 10 000 ordinary shares of \$10 par value each, issued and outstanding. Net income for the year ended December 31, 2004, was \$800 000. During 2004, ABC paid \$3 per share in dividends on its ordinary shares. The quoted market price of ABC on the national stock exchange was \$24 on December 31, 2004. The price earnings ratio on the ordinary shares at December 31, 2004, was

- (A) 3.0 to 1
- (B) 3.5 to 1
- (C) 4.8 to 1
- (D) 8.0 to 1

27. The following information was extracted from the records of ABC company.

Cost of goods sold for 2005	\$3 000 000
Inventories at December 31, 2004	\$ 550 000
Inventories at December 31, 2005	\$ 650 000

The inventory turnover ratio in days for 2005 is

- (A) 60 days
- (B) 66 days
- (C) 73 days
- (D) 79 days

GO ON TO THE NEXT PAGE

SECTION B – SHORT ANSWER

Answer ALL questions in this section.

28. The following information was derived from the financial statements of Lewis Inc.

Net income (accrual basis)	\$50 000
Depreciation expenses	8 000
Increase in inventory	5 000
Decrease in wages payable	6 000
Decrease in accounts payable	10 000
Cash dividends declared and paid	4 000
Payment on long-term note payable	20 000
Gain on sale of fixed asset, \$1 000; book value \$7 500	

Prepare the operating activities section of a cash flow statement for Lewis Inc.

Total 6 marks

GO ON TO THE NEXT PAGE

29. On January 1, 2003, Green Co. invested in 150 000 ordinary shares of Blue Co. at \$24 per share. During 2003, Blue Co. made a profit and declared a dividend of \$12 000 of which Green was entitled to 30 per cent. On July 1, 2004, Green Co. sold its investment in Blue Co. for \$4 000 000.

(a) Prepare the journal entry to record the Green Co. purchase of shares in Blue Co.

[2 marks]

(b) Prepare the journal entry to record the receipt of dividends from Blue Co.

[2 marks]

(c) Prepare the journal entry to record the sale of shares in Blue Co. by Green Co.

[2 marks]

Total 6 marks

GO ON TO THE NEXT PAGE

30. Lara is interested in purchasing shares in Brian Inc. Lara collected the financial statements of Brian Inc. and prepared the following ratios:

	2005	2004	2003
Current ratio	1.5:1	2.1:1	2.5:1
Quick ratio	0.6:1	0.9:1	1.4:1
Accounts receivable turnover	49 days	40 days	30 days
Inventory turnover	5.5 times	6.2 times	8 times
Return on assets	15%	12%	9.50%
Return on capital employed	24%	15%	7.80%
Dividends per share	\$2.50	\$2.50	\$2.50
Earnings per share	\$4.75	\$3.50	\$2.50
Price earnings ratio	5.63 times	7.69 times	10.34 times

Prepare a short report to Lara on the financial position and performance of Brian Inc. over the last THREE years. Your report should highlight the changes in **liquidity**, **solveny**, **activity** and **profitability** RATIOS over the three years.

Total 6 marks

GO ON TO THE NEXT PAGE

31. Averno Shelly, a sole proprietorship, does NOT maintain double entry records. The following data were obtained from the incomplete records:

	January 1 2005	January 31 2005
Cash	\$ 400	\$ 65
Accounts receivable	\$4 000	5 000
Inventory	3 600	3 400
Accounts payable	4 200	4 750
Accrued expenses	200	185
Prepaid expenses	200	150
Furniture and fittings (net)	3 000	2 750

- Total cash receipts on accounts receivable for credit sales during January totalled \$15 000.
- Total cash disbursed for accounts payable for credit purchases totalled \$10 500 and the payment for expenses totalled \$7 465.
- All sales were on credit.

Complete the following income statement for Averno Shelly.

Sales		\$
Cost of goods sold	—	—
Beginning inventory	\$3 600	
Add purchases	\$	
Goods available for sale	\$	
Ending inventory	(\$3 400)	
Cost of goods sold		\$
Gross margin		\$
Expenses:	—	—
Depreciation		\$
Other expenses		\$
Net income/(loss)		\$

Total 6 marks

32. Yolán Corporation had the following capital structure at the beginning of the year: Ten per cent preference shares, \$5 par value, 50 000 shares issued and outstanding; ordinary shares, \$10 par value, 40 000 shares issued and outstanding. Share premium \$110 000 and retained earnings \$440 000.

During the year the following transactions occurred:

- The company issued 10 000 ordinary shares at a price of \$15 each and 5 000 preference shares at \$10 each.
- The net income for the year was \$125 000 and the board of directors approved the transfer of \$100 000 to a special reserve.

Prepare the equity section of the balance sheet for the company after the above transactions.

Total 6 marks

33. The following accounting terms used in the conceptual framework are coded A,B,C,D,E,F.

- A. Conservatism
- B. Materiality
- C. Relevance
- D. Recognition
- E. Consistency
- F. Verifiability

Below are examples of business activities. In the space to the left of EACH activity, enter the code letter from the list above which represents the accounting term that best describes the activity. You may use any letter more than once, once or not at all. The first one is completed as an example.

- A 1. Charging all the research and development costs as an expense, as it is incurred
- 2. The report of cash in the bank is essential to determine how much money to borrow
- 3. The use of a different inventory method every year is NOT an example of this
- 4. An error of \$100 of revenue on a small business versus \$100 of revenue for an extremely large business
- 5. Applying the lower-of-cost-or-market methods to assets valuation
- 6. Three auditors count the same amount of cash
- 7. This term requires revenues to be earned and realized

Total 6 marks

END OF TEST

FORM TP 2006156



TEST CODE **02101020**

MAY/JUNE 2006

**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

ACCOUNTING

UNIT 1 – PAPER 02

2 $\frac{3}{4}$ hours

12 MAY 2006 (a.m.)

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 electronic calculators may be used, but **ALL** necessary working should be clearly shown.

NOTHING HAS BEEN OMITTED

1. (a) Under accruals-basis accounting, accountants frequently make the following FIVE categories of adjusting journal entries at the end of each accounting period: Deferred expenses (prepaid expenses); Deferred revenues (unearned revenue); Accrued expenses (accrued liabilities); Accrued revenues (accrued assets); Estimated expenses (e.g., depreciation, allowance for uncollectible accounts)

(i) Write short notes on the process involved in recording adjusting journal entries for **any THREE** of the five categories of items listed above. [9 marks]

(ii) Explain how the adjusting journal entries listed above are related to the accruals and matching concepts. [7 marks]

- (b) Internal controls promote accurate information, help an organization ensure compliance with applicable laws and regulations and safeguard organizational assets. As a result, internal controls are important even in small businesses.

List and briefly describe FIVE internal control practices relating to cash, which would be carried out even in a small business having little opportunity for the separation of duties. [10 marks]

- (c) While listening to the evening news recently your friend Jack heard a report about a decision taken by the local accountancy profession to implement accounting standards in your country. Jack firmly believes in the free market system and thinks that the decision to introduce accounting standards is a useless and undesirable infringement on the right of firms to choose the accounting policies that are most appropriate to their individual circumstances.

Briefly describe THREE ways in which accounting standards benefit the following persons.

(i) Those who prepare financial statements for publication

(ii) The users of published financial statements [9 marks]

Total 35 marks

2. Bravo and Rampaul are partners in a partnership trading as B & R Distributors. This partnership is located in Westmoreland, Jamaica. The business has been trading successfully for more than fifteen years and with the increased activity in the surrounding area the partners are eager to expand the business. There are a number of options that are available to the partners. These options include admitting additional partners or incorporation. Bravo and Rampaul have been reading about the different types of business entities as well as the Companies' Act and the legislation relating to partnership. In order for the partners to come to an agreement on the new form the business should take, they are collecting data and will be meeting with a consultant to determine the best route for the business.

The partners have extracted the adjusted trial balance of B & R Distributors as at December 31, 2005. The trial balance presented below indicates the account balances at December 31, 2005.

Account Title	Debit	Credit
Cash	\$21 620	
Accounts receivable (net)	84 000	
Inventory	29 360	
Prepaid expenses	3 900	
Equipment	98 000	
Accumulated depreciation		\$ 18 000
Notes payable (due in 2 years)		9 600
Accounts payable		38 520
Accrued expenses		2 880
Bravo, capital (beginning of year)		70 000
Bravo, drawings	10 080	
Rampaul, capital (beginning of year)		60 000
Rampaul, drawings	7 200	
Sales		648 960
Purchases	389 800	
Selling expenses	112 380	
Administrative expenses	91 620	
Totals	\$847 960	\$847 960

The company uses a periodic inventory system. The physical inventory at the end of the year was \$38 200. The partnership agreement provides that partners are allowed 10 per cent interest on invested capital as of the beginning of the year. The residual net income and any bonuses on the admission of new partners are to be divided equally.

- (i) Prepare the income statement for B & R Distributors for the year ending December 31, 2005. (Include the appropriation of profits between the partners.) [8 marks]
- (ii) Prepare a statement of changes in the partners' capital for the current year. [3 marks]

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The expansion of B & R Distributors requires injection of capital from investors. The first option available to B & R Distributors is the admission of a new partner.

B & R Distributors approached Zandolie, a sole proprietor in a neighbouring town, to acquire a one-third share of the partnership for \$70 000 in cash and other assets. Zandolie, who has been experiencing some minor health problems, views the offer as an excellent opportunity and is eager to join the partnership.

Zandolie offers to contribute the following assets and liabilities to the partnership:

Cash	\$10 000
Equipment	85 000
Current liabilities	25 000

The above figures reflect the fair market value of the assets and liabilities of Zandolie.

The partners are examining the proposal and would like to know the effect of the admission of Zandolie on their respective capital balances. The partners are aware that they could admit the partner using the bonus method or the goodwill method. They are currently considering admission of Zandolie using the bonus method.

- (iii) Compute the bonus attributable to Bravo and Rampaul upon the admission of Zandolie to the partnership. **[8 marks]**
- (iv) Prepare a balance sheet for the partnership immediately following the admission of Zandolie. **[12 marks]**

Having completed the calculation pertaining to changes in their respective capitals as a result of admitting Zandolie using the bonus method, the partners are considering the option of incorporating the business and selling shares to members of the public. The partners need to know the advantages and disadvantages of this type of business organization.

- (v) Briefly discuss TWO advantages and TWO disadvantages that would accrue to B & R Distributors if they changed from a partnership to a public company. **[4 marks]**

Total 35 marks

GO ON TO THE NEXT PAGE

3. CARICOM Company is the leading merchandiser of imported furniture in St. Kitts. The following data were taken from the records of CARICOM Company for the year ended December 31, 2005:

Administrative expenses	\$100 000
Cost of merchandise sold	732 000
Gain on condemnation of land	30 000
Interest expense	8 000
Interest revenue	5 000
Loss on disposal of a segment of the business	92 500
Sales	1 820 000
Selling expenses	400 000
Accounts payable	149 500
Accounts receivable	309 050
Accumulated depreciation	3 050 000
Allowance for doubtful accounts	21 500
Cash	145 500
Ordinary shares \$15 par (400 000 shares authorized; 152 000 shares issued)	2 280 000
Dividends:	
Cash dividends paid on ordinary shares	120 000
Interim cash dividends on preference shares	25 000
Stock dividends declared and distributed on ordinary shares	60 000
Dividends payable	30 000
Equipment	9 541 050
Income tax payable	55 900
Interest receivable	2 500
Merchandise inventory (December 31, 2005), at lower of cost (FIFO) or market	425 000
Notes receivable	77 500
Organization costs	55 000
Share premium /(Paid-in capital in excess of par) ordinary shares	666 250
Share premium /(Paid-in capital in excess of par) preference shares	240 000
5 per cent preference shares \$100 par (30 000 shares authorized; 15 000 shares issued)	1 500 000
Prepaid expenses	15 900
Retained earnings, January 1, 2005	2 548 150
Treasury stock (2 000 shares of ordinary shares of \$35 per share)	70 000

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Additional Information:

The average number of common shares outstanding during 2005 was 150 000.

The directors declared the final dividend on the preference shares.

The gain on condemnation of the land is an extraordinary item.

The corporation tax rate applicable to the company is 35 per cent.

- (a) Using the information provided above, prepare the following statements in a form suitable for publication (that is, the statements should comply with the minimum requirements of the International Accounting Standards):
- (i) A multi-step income statement for CARICOM Company for the year ended December 31, 2005. [10 marks]
 - (ii) A statement showing the appropriation of the profits for the year ended December 31, 2005. [5 marks]
 - (iii) The shareholders equity section of CARICOM Company's balance sheet as at December 31, 2005. [10 marks]
- (b) Briefly describe the purpose of the income statement and the balance sheet. [4 marks]
- (c) Briefly discuss THREE limitations of financial statements as a source of information for assessing the financial condition and performance of a company. [6 marks]

Total 35 marks

END OF TEST

FORM TP 2006157



TEST CODE **02101032**

MAY/JUNE 2006

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 1 – PAPER 03/2

1½ hours

01 JUNE 2006 (p.m.)

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

Ben Arundel has just been appointed as a trainee auditor with the accounting firm of ABC Chartered Accountants. Ben was quite excited with this job as he always wanted to be a public accountant. Ms. McCabe, Ben's supervisor, was quite anxious to get him started in auditing and sought to provide him with a feel for the auditing environment. Ms. McCabe explained to Ben that the firm had a number of clients and she advised him that he should try to get an understanding of the reporting and accounting practices of each of the different types of business entities.

Ben started his task and went to the secretary to obtain a list of the clients with which ABC had signed engagement letters. He noticed that during the last five years, ABC had a mix of clients from all the different forms of business entities he had studied in school. Ben had studied Principles of Business and obtained a grade one. He was quite knowledgeable about the advantages and disadvantages of each of the business entities operating in this area. As Ben perused the list he noted the number of each business entity in each form of organization. He tallied the list at the end, discovering that ABC client list comprised of two statutory/(state) corporations, three private companies, four public companies, two cooperatives, one non-governmental organization, one partnership and two sole proprietorships.

With this type of information Ben knew it would be a challenge and he set out to collect the information in a form that would help him get a greater understanding of the accounting and reporting practices of the different types of business entities. He decided to collect the file of each business entity and examine the content in terms of financial statements, chart of accounts, adjusting entries that the auditors made, as well as other information. Ben started with the financial statements and began by considering the similarities and differences in the presentation of the financial statements he had collected. He borrowed copies of the Companies Act, the Cooperatives Act and the 2005 edition of the International Accounting Standards. In all these documents he highlighted the sections that dealt with the presentation of financial statements. He then listed the differences and similarities.

Having completed that activity, Ben moved to the next stage. From the audit files he realized that in the chart of accounts and the adjusting entries, the main differences among the entities were in the equity section. He also noticed that there were certain types of liability accounts shown in incorporated businesses that did not appear in the sole proprietorships and partnerships. He next classified the types of accounts in each type of business entity.

Ms. McCabe dropped into Ben's office to enquire how the project was coming along. Ben reported with enthusiasm that he had compiled some differences and similarities among the different forms of business entities. He informed her that he had noticed in the corporate form of reporting there was much more detailed reporting and disclosure than in the other types of business entities. In addition, he noticed that in the public companies their reporting included some market price information on shares and other types of information.

After Ms. McCabe left the office, Ben began to think about how he could organize and present this data. Your assignment is to assist Ben by answering the following three questions.

1. Discuss the differences in **recording** of transactions relating to equity accounts (issue of capital/shares and appropriation of profits) in the different forms of business entities identified in the case. [Use journal entries without numbers to illustrate your answers.]

[14 marks]

GO ON TO THE NEXT PAGE

2. Discuss the differences and similarities in presentation of financial statements [income statement and balance sheet] among the different forms of business entities identified in the case. **[14 marks]**
3. Ben discovered that some types of liability accounts were more common in some business entities, some entities provided market data pertaining to their shares, and some were able to provide more detailed reporting as required by legislation.

Given the differences in information (market prices and supplemental disclosure), identify and discuss FIVE financial ratios that an investor or creditor can prepare for ONE of the following:

- (a) A public corporation
- (b) A cooperative
- (c) A statutory/state company
- (d) A private company

[14 marks]

END OF TEST



TEST CODE **02201010**

FORM TP 2006158

MAY/JUNE 2006

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 2 – PAPER 01

90 minutes

READ THE FOLLOWING DIRECTIONS CAREFULLY

1. This paper comprises TWO sections – SECTION A and SECTION B. SECTION A comprises 27 multiple-choice items. SECTION B comprises 6 short-answer items.

MULTIPLE-CHOICE

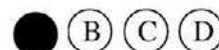
2. In addition to this test booklet, you should have an answer sheet.
3. Each item in the multiple-choice test has four suggested answers lettered (A), (B), (C), (D). Read each item you are about to answer and decide which choice is BEST.
4. On your answer sheet, find the number which corresponds to your item and blacken the space having the same letter as the answer you have chosen. Look at the sample item below.

Sample Item

Prime cost is calculated by

- (A) adding direct factory expenses to cost of materials used
- (B) adding indirect factory expenses to cost of materials used
- (C) subtracting direct factory expenses from cost of materials used
- (D) subtracting indirect factory expenses from cost of materials used

Sample Answer



The best answer to this item is “adding direct factory expenses to cost of materials used,” so answer space (A) has been blackened.

5. If you want to change your answer, be sure to erase your old answer completely and fill in your new choice.

SHORT-ANSWERS

6. In the case of the short-answer questions, each question is followed by a number of lines or a space in which you are expected to write your answer. **YOU MUST RETURN THE SHORT-ANSWER SECTION OF THE PAPER ALONG WITH YOUR MULTIPLE-CHOICE PAPER AND ANSWER SHEET.**
7. When you are told to begin, turn the page and work as quickly and as carefully as you can. If you cannot answer an item or question, omit it and go on to the next one. You can come back to the harder item later.
8. You will have 90 minutes to answer the questions on this paper.
9. **You may use silent non-programmable calculators to answer questions in both sections.**

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02201010/CAPE/2006

SECTION A – MULTIPLE CHOICE

Answer ALL questions in this section.

Each question is worth ONE mark.

1. In comparing financial and management accounting, which of the following more accurately describes management accounting information?

(A) Historical, precise, useful
(B) Required, estimated, internal
(C) Budgeted, informative, adaptable
(D) Comparable, verifiable, monetary

2. Rampaul Inc. applies overhead to jobs on the basis of direct labour at the rate of 80 per cent of direct labour. Rampaul's records revealed the following data for 2005:

	\$
Direct labour	111 600
Direct material	84 200
Actual overhead	98 700

The amount of over- or under-applied overhead for the year is

- (A) over-applied by \$12 900
(B) under-applied by \$12 900
(C) over-applied by \$9 420
(D) under-applied by \$9 420

3. Cost and management accounting

- (A) requires an entirely separate group of accounts than financial accounting uses
(B) focuses solely on determining how much it costs to manufacture a product or provide a service
(C) provides product/service cost information as well as information for internal decision making
(D) is required for business record-keeping as are financial and tax accounting

4. Which is the BEST reason for using an activity-based costing system?

- (A) To keep better track of overhead costs
(B) To more accurately assign overhead costs to cost pools so that these costs are better controlled
(C) To better assign overhead costs to products
(D) To assign indirect service overhead costs to direct overhead cost pools

5. Green Enterprises uses a job order costing system. The job cost sheet for Job #329 shows the following for the month of March:

Direct material	\$5 000
Direct labour (100 hours at \$7.25)	\$725
Machine hours incurred	40
Predetermined overhead rate per machine hour	\$26

The total cost that should appear on the job cost sheet for Job #329 is

- (A) \$5 725
(B) \$5 765
(C) \$6 765
(D) \$8 325

Use the following information for items 6 - 9.

DeSouza Company has the following information available for October, when 3 500 units were produced (round answers to the nearest dollar).

Standards:

Material 3.5 pounds per unit at \$4.50 per pound
Labour 5.0 hours per unit at \$10.25 per hour

Actual:

Material purchased 12 300 pounds at \$4.25 per pound
Material used 11 750 pounds
17 300 direct labour hours at \$10.20 per hour

6. What is the labour rate variance for October?
- (A) \$ 865 F
(B) \$ 865 U
(C) \$ 875 F
(D) \$ 875 U
7. What is the labour efficiency variance for October?
- (A) \$ 2 040 U
(B) \$ 2 040 F
(C) \$ 2 050 F
(D) \$ 2 050 U
8. What is the material price variance (based on quantity purchased) for October?
- (A) \$ 2 938 U
(B) \$ 2 938 F
(C) \$ 3 075 U
(D) \$ 3 075 F
9. What is the material quantity variance for October?
- (A) \$2 250 F
(B) \$2 250 U
(C) \$2 475 F
(D) \$2 475 U

-
10. The following information was extracted from the records of James Inc.

Cost of goods sold is \$107 000.

Ending balance of Finished Goods Inventory is \$20 000.

Cost of goods manufactured is \$57 000.

The beginning balance of finished goods inventory for the period is

- (A) \$ 70 000
(B) \$ 77 000
(C) \$127 000
(D) \$157 000

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Use the following information for items **11** and **12**.

Adams Co. uses a job order costing system. The following information is available from its records. The company has 3 jobs in process: #5, #8, and #12.

Raw material used \$120 000
Direct labour per hour \$ 8.50
Overhead applied based on
 direct labour cost 120 per cent

Direct material was requisitioned as follows for **each** job:

30 per cent, 25 per cent, and 25 per cent; the balance of the requisitions was considered indirect. Direct labour hours per job are 2 500; 3 100; and 4 200 respectively. Indirect labour is \$33 000. Other actual overhead costs totalled \$36 000.

11. What is the total amount of overhead applied to Job #8?

- (A) \$ 18 250
- (B) \$ 26 350
- (C) \$ 30 000
- (D) \$ 31 620

12. If Job #12 is completed and transferred, what is the balance in work-in-process inventory at the end of the period, if overhead is applied at the end of the period?

- (A) \$ 96 700
- (B) \$ 99 020
- (C) \$170 720
- (D) \$139 540

13. Corazol Inc. applies overhead to jobs at the rate of 40 per cent of direct labour cost. At the beginning of June the balance in the work-in-process account relating to Job #44 was \$2 800. During June, the following was expended on Job #44: Direct material of \$1 250 and direct labour of \$1 400. The total cost of Job #44 at June 30th was

- (A) \$ 3 210
- (B) \$ 4 760
- (C) \$ 5 450
- (D) \$ 6 010

14. Pegasus Manufacturing Inc. uses a weighted average process costing system. The company started 30 000 units into production this month. Pegasus Manufacturing Inc. had 12 000 units that were 20 per cent completed as to conversion costs in beginning work-in-process inventory and 3 000 units that were 40 per cent completed as to conversion costs in ending work-in-process inventory. What are the equivalent units for conversion costs?

- (A) 37 800
- (B) 40 200
- (C) 40 800
- (D) 42 000

15. A primary purpose of using a standard-cost system is to

- (A) make things easier for managers in the production facility
- (B) provide a distinct measure of cost control
- (C) minimize the cost per unit of production
- (D) provide more information to managers

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16. Absorption costing differs from variable costing in all of the following EXCEPT

- (A) treatment of fixed manufacturing overhead
- (B) treatment of variable production costs
- (C) acceptability for external reporting
- (D) arrangement of the income statement

Use the following information to answer items **17** and **18**.

The income statement for Cipriani Co. for 2005 is presented below:

Sales	\$400 000
Variable costs	<u>(125 000)</u>
Contribution margin	\$275 000
Fixed costs	<u>(200 000)</u>
Profit before taxes	<u>\$ 75 000</u>

The company produced and sold 25 000 units.

17. What is the break-even point in dollars for Cipriani?

- (A) \$200 000
- (B) \$290 909
- (C) \$300 000
- (D) \$325 000

18. If Cipriani had a break-even sales figure in dollars of \$250 000, the margin of safety for 2005 would be

- (A) \$ 75 000
- (B) \$109 091
- (C) \$150 000
- (D) \$250 000

19. The net present value and internal rate of return methods of decision making in capital budgeting are superior to the payback method in that they

- (A) are easier to implement
- (B) consider the time value of money
- (C) require less input
- (D) reflect the effects of sensitivity analysis

20. Berbice Farms Ltd estimates that its annual carrying cost for material X is \$0.30 per lb. If the farm requires 50 000 lbs per year, and ordering costs are \$100 per order, the EOQ (rounded to the nearest pound) is

- (A) 1 225 lbs
- (B) 1 732 lbs
- (C) 4 082 lbs
- (D) 5 774 lbs

21. Which of the following is NOT a benefit of budgeting?

- (A) It uncovers potential bottlenecks before they occur.
- (B) It coordinates the activities of the entire organization by integrating the plans and objectives of the various parts.
- (C) It ensures that accounting records comply with generally accepted accounting principles.
- (D) It provides benchmarks for evaluating subsequent performance.

22. The wages of factory maintenance personnel would usually be considered to be

	Indirect labour	Manufacturing overhead
(A)	No	Yes
(B)	Yes	No
(C)	Yes	Yes
(D)	No	No

23. Conversion cost consists of which of the following?

- (A) Manufacturing overhead cost
- (B) Direct materials and direct labour cost
- (C) Direct labour cost
- (D) Direct labour and manufacturing overhead cost

24. The Aron Co. 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) 600
- (D) 693

25. Susan Ince is paid 10 per cent of the gross sales of her department as salary per month. Susan received \$15 000 **each** month for the last three months. Which of the following methods BEST describes how Susan is paid?

- (A) Commission on sales
- (B) Fixed salary
- (C) Hourly rate
- (D) Piece rate

26. A company applies overhead on the basis of machine hours. The company's predetermined overhead rate is \$28 per machine hour based on its budget of 17000 hours. During the year the company incurred actual overheads of \$496 500 and under-applied overhead by \$12 520. The budgeted overhead cost for the period was

- (A) \$476 000
- (B) \$483 980
- (C) \$496 500
- (D) \$509 020

27. An accounting firm employs 25 professional auditors. Budgeted costs total \$1 200 000, of which \$550 000 are indirect costs and the budgeted professional labour hours are 500 000. Actual indirect costs were \$600 000 and actual labour hours were 504 000. The predetermined overhead rate is

- (A) \$1.10 per hour
- (B) \$1.19 per hour
- (C) \$2.38 per hour
- (D) \$2.40 per hour

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SECTION B – SHORT ANSWER

Answer ALL questions in this section.

28. GuyWood Lumber Inc. is considering the purchase of a new lathe machine. The new lathe will cost \$30 000, have an eight-year life, and create cost savings of \$5 000 per year. The new lathe will require \$700 of maintenance **each** year. GuyWood Lumber Inc. uses a discount rate of 9 per cent. The annuity figure of 9 per cent for 8 years is 5.538

(a) Compute the net cash flow per year. **[1 mark]**

(b) Compute the net present value of the lathe. **[3 marks]**

(c) Determine the payback period. **[2 marks]**

Total 6 marks

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29. Philmore Corp. produces a single product. The following is a cost structure applied to its first year of operations, 2005:

Sales price	\$15 per unit
Variable costs:	
Selling expenses	\$2 per unit
Manufacturing	\$4 per unit
Fixed costs (total cost incurred for the year):	
Selling expenses	\$14 000
Manufacturing	\$20 000

During 2005, Philmore Corp. manufactured 5 000 units and sold 3 800. There was no beginning or ending work-in-process inventory.

- (a) Prepare the income statement using the absorption costing format. **[3 marks]**

- (b) Prepare the income statement using the variable costing format. **[3 marks]**

Total 6 marks

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30. JR Co. Ltd budgeted overheads for its production and service departments as follows:

	Production Department		Service Department	
	1	2	G	H
Overhead cost	\$870 000	\$690 000	\$160 000	\$82 000
Percentage usage of G	60%	30%	–	10%
Percentage usage of H	50%	30%	20%	–

Allocate the service department overhead cost to the production departments using the step-down method. **Allocate service department G first.**

Total 6 marks

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31. Z Ltd had the following purchases of raw material X during the month of April:

April 4	Purchases	140 units at \$10 each
12	Purchases	60 units at \$12 each
16	Purchases	200 units at \$10 each
26	Purchases	50 units at \$12 each

Z Ltd had in stock at the beginning of April, 40 units of raw material X which they had purchased in March at a price of \$10 each. At April 30, during the regular stock taking exercise, there were 90 units of raw material X on hand.

Calculate the value of the 90 units on hand using the following:

(a) First in first out method of inventory valuation. **[2 marks]**

(b) Last in first out method of inventory valuation. **[2 marks]**

(c) Weighted average method of inventory valuation. **[2 marks]**

Total 6 marks

GO ON TO THE NEXT PAGE

32. ABC Accounting Services provides general accounting, audit and advisory services to clients. ABC charges clients at the rate of \$150 per hour for its services. The overhead charge per hour for jobs is \$40. Clients A and B **each** incurred 120 hours of accounting services during May. Client A's accounting services were conducted by two senior accountants and one junior accountant **each** working 40 hours. Client B's consulting was done by four junior accountants **each** working equal time. The actual cost of **each** class of accountant is

Senior Accountant	\$75 per hour
Junior Accountant	\$47.50 per hour

Calculate the total cost of **each** client job.

Total 6 marks

33. Sherwood Inc. predicts it will produce and sell 40 000 units of its sole product in 2006. At that volume, it projects a sales price of \$30 per unit, a contribution margin ratio of 40 per cent, and fixed costs of \$5 per unit.

Calculate the company's projected breakeven for 2006 in dollars and units. **[4 marks]**

Calculate the company's projected profit if it produced and sold 30 000 units. **[2 marks]**

Total 6 marks

END OF TEST

FORM TP 2006159



TEST CODE **02201020**

MAY/JUNE 2006

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 2 – PAPER 02

$2\frac{3}{4}$ hours

06 JUNE 2006 (p.m.)

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 electronic calculators may be used, but ALL necessary working should be clearly shown.
6. **Present-value tables are provided in the appendix.**

1. (a) Ato Company is the leading manufacturer of premium quality tables in Guava Wood Country. The following data were extracted from the accounting records of Ato Company for the current period during which Ato produced 800 tables.

\$

Work-in-process inventory, beginning of year	32 400
Raw materials inventory, beginning of year	42 000
Finished goods inventory, beginning of year	90 000
Sales	1 376 400
* Indirect labour	80 400
Sales commissions expense	165 168
Raw materials purchased (net)	441 600
Rent – plant	20 640
Advertising expense	30 000
* Factory supplies used	41 400
Depreciation – office equipment (straight line)	59 400
Direct labour	236 400
* Plant utilities – electricity and water rates	16 440
Administrative office salaries	188 640
Insurance – plant	10 920
Depreciation – plant (units of output)	19 320
Work-in-process inventory, end of year	37 920
Raw materials inventory, end of year	46 800
Finished goods inventory, end of year	81 600

* Vary with units produced.

Compute the following for the current period:

- (i) Total variable costs incurred [4 marks]
- (ii) Total fixed costs incurred [3 marks]
- (iii) Total product costs incurred [4 marks]
- (iv) Direct materials used [3 marks]
- (v) Total manufacturing overhead [3 marks]
- (vi) Cost of goods manufactured [5 marks]
- (vii) Cost of goods sold [4 marks]

Note that a cost item may be used to compute more than one total.

GO ON TO THE NEXT PAGE

- (b) Ato company recently received an order from a customer in a neighbouring country, Mahogany Land, for 200 tables. The customer indicated that its regular supplier had experienced some minor industrial action and would be unable to meet its full requirement for the coming month. The customer further stated that the labour situation at its supplier had been resolved so this would be a one-time order.

The customer offers to pay Ato Company a flat fee of \$1 200 per dinette set and will pick up the merchandise at Ato Company's factory. If this one-time order is accepted, Ato Company will not pay commissions to any salesperson. Ato Company usually sells a table for \$1 800.

- (i) Assuming that Ato Company's fixed costs are constant within the range of 800 to 1300 dinette sets, should the order be accepted? **Show workings to support your answer.** [6 marks]
- (ii) List **THREE qualitative** factors that should be considered by a company when evaluating whether or not to accept a special order. [3 marks]

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2. Kingstown Industries manufactures two types of computerized scoreboards, custom and standard, each of which involves three manufacturing processes, namely, cutting, assembling, and packaging. The company uses an activity-based costing system to allocate its overhead cost to the manufacturing processes.

In using the activity-based costing system the company uses four overhead activities, production setup, procurement, quality control and materials management, in each production department.

An activity analysis of the overhead related to the cutting department revealed the following estimated costs and activity bases for the four overhead activities:

Activity	Cost	Activity Base
	\$	
Production setup	43 200	Number of setups
Procurement	156 000	Number of purchase orders
Quality control	175 000	Number of inspections
Materials management	<u>150 000</u>	Number of components
Total	<u>524 200</u>	

The activity-based usage quantities for **each** product in the cutting department are as follows:

	Setups	Purchase Orders	Inspections	Components	Unit Volume
Custom	400	1 000	2 000	300	5 000
Standard	80	200	500	100	5 000
Total	480	1 200	2 500	400	10 000

- (i) Determine an activity rate for each activity. [4 marks]
- (ii) Calculate the total overhead cost assigned to each product in the cutting department using the rates computed in part (i). [8 marks]
- (iii) Determine the unit activity (overhead) cost for each product in the cutting department. [2 marks]

The cutting department at Kingstown Industries uses a process-costing system to record the cost of processing its products. Currently, only the custom computerized scoreboard is made in this department. In arriving at the **conversion cost the company adds the overhead cost calculated at (ii) above, to the direct labour cost** incurred in the department.

The cutting department provided the following information relating to the custom computerized scoreboard for the current period.

Work-in-process, start of period, 1500 units, 35 per cent completed

	\$	\$
Direct materials	76 500	
Direct labour	12 400	
Factory overhead	42 700	131 600
Costs incurred in the current period		
Direct materials used		270 000
Direct labour cost		120 000
Factory overhead (determined from (ii) above)		
Units started in the current period		4 800
Ending work-in-process, 30 per cent completed		1 000

The cutting department uses the weighted average process-costing method and all direct materials are added at the beginning of production, while conversion activity occurs uniformly throughout the production process.

- (iv) Prepare a process-costing worksheet for the cutting department of Kingstown Industries for the current period using the weighted-average process costing method. **[21 marks]**

3. (a) Red Gabby, owner of RG Wholesalers, is negotiating with the Caribbean Dominion Bank for a \$200 000, 12 per cent, 90-day loan, effective July 1 of the current year. If the bank grants the loan, the proceeds will be \$194 000, which Red Gabby intends to use on July 1 as follows: Pay accounts payable, \$150 000; purchase equipment, \$16 000; add to cash balance, \$28 000.

The current working capital position of RG Wholesalers, according to financial statements as of June 30, is as follows:

Cash in bank	\$ 20 000
Accounts receivable (net of allowance for doubtful accounts)	160 000
Merchandise inventory	90 000
Total current assets	<u>\$270 000</u>
Accounts payable (including accrued operating expenses)	<u>150 000</u>
Working capital	<u><u>\$120 000</u></u>

The bank loan officer asks Red Gabby to prepare a forecast of his cash receipts and cash payments for the next three months to demonstrate that the loan can be repaid at the end of September.

Red Gabby has made the following estimates which are to be used in preparing a three-month cash budget: Sales (all on credit) for July, \$300 000; August, \$360 000; September, \$270 000; October, \$200 000. Past experience indicates that 80 per cent of the receivables generated in any month will be collected in the month following the sale, 19 per cent in the second month following the sale, and 1 per cent will prove uncollectible. Red Gabby expects to collect \$120 000 of the June 30 receivables in July and the remaining \$40 000 in August.

Cost of goods sold has consistently averaged about 65 per cent of sales. Operating expenses are budgeted at \$36 000 per month plus 8 per cent of sales. With the exception of \$4 400 per month depreciation expense, all operating expenses and purchases are paid in the month following their incurrence.

Merchandise inventory at the end of **each** month should be sufficient to cover the following month's sales.

Prepare the following schedules for **each** of the three months, July, August and September

- (i) Cash collections on accounts receivable. [3 marks]
- (ii) Estimate merchandise purchased. [5 marks]
- (iii) Estimated cash payments for accounts payable (merchandise purchases) and operating expenses. [4 marks]
- (iv) Prepare a cash budget for **each** of the three months. [9 marks]
- (v) On the basis of the cash budget discuss whether it is likely that RG Wholesalers will be able to repay the \$200 000 loan to Caribbean Dominion Bank at the end of September. [1 mark]

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- (b) RG Wholesalers is also evaluating the acquisition of one of three possible pieces of equipment to automate its operations. The initial investment required for each of the proposed pieces of equipment is \$70 000 and they each have a useful life of 7 years. The firm's cost of capital is 14 per cent. The net cash flows for the three pieces of equipment are as follows:

Year	Equipment A	Equipment B	Equipment C
1	\$ 27 250	\$ 10 000	\$ 25 000
2	33 750	20 000	25 000
3	9 000	30 000	20 000
4	8 000	10 000	15 000
5	7 000	(8 000)	10 000
6	6 000	20 000	5 000
7	5 000	30 000	2 500
Total	\$ 96 000	\$112 000	\$102 500

- (i) To evaluate the investment opportunities compute the Net Present Value of the three pieces of equipment. [12 marks]
- (ii) Based on your calculations in part (i), which is the most attractive opportunity for RG Wholesalers?

Present Value Table to be used with question 3(b)

Year	12%	14%	16%
1	0.8929	0.8772	0.8621
2	0.7972	0.7695	0.7432
3	0.7118	0.6750	0.6407
4	0.6355	0.5921	0.5523
5	0.5674	0.5194	0.4761
6	0.5066	0.4556	0.4104
7	0.4523	0.3996	0.3538

[1 mark]

END OF TEST

FORM TP 2006160



TEST CODE **02201032**

MAY/JUNE 2006

**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

ACCOUNTING

UNIT 2 – PAPER 03/2

1½ hours

09 JUNE 2006 (a.m.)

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

1. (i) Briefly describe the ABC method of inventory management. [2 marks]
- (ii) Why is the ABC inventory management method important for large, complex organizations? [2 marks]
2. What factor(s) should be taken into consideration in deciding whether to use a job-order costing system or a process-costing system in a manufacturing firm? Give an example to support your answer. [3 marks]
3. The Hastings Company is the largest producer of orange juice in St. Vincent. The company imports orange juice concentrate from Miami, USA, dilutes and mixes the concentrate with distilled water and then fills two-litre bottles with the mixture. Hastings Company recently prepared the following sales budget:

Month	Budgeted Sales
March	\$250 000
April	265 000
May	255 000
June	272 500
July	262 500

Hastings Company prices its orange juice to ensure a 40 per cent gross profit rate and desires to maintain sufficient ending inventory to meet 30 per cent of the following month's sales.

Required:

Prepare a purchases budget for Hastings Company for April, May, June, and then for the entire quarter. [4 marks]

4. Dominica Company manufactures high-quality speedboats using fiberglass, fabrics, wood, and steel. The boats are produced to fill specific orders placed by customers and involve top-quality craftsmanship and strict quality control. Dominica Company uses a job-order costing system to accumulate the costs incurred for each boat. Direct costs are traced to each job, and manufacturing overhead is applied on the basis of 75 per cent of direct labour cost.

The following costs were accumulated for Job No. 189 which involved the production of a boat for a customer in Bacolet:

Direct materials requisitioned:		
Date	Requisition Number	Amount
June 1	1187	\$2 860
June 10	1201	3 810
June 17	1319	1 860
Direct labour recorded:		
Date	Time Ticket Number	Amount
June 1	86	\$ 865
June 2	88	962
June 3	90	1 624
June 10	106	842
June 11	111	967
June 17	127	1 200

Required:

- (i) Compute the total cost of Job No. 189. [4 marks]
- (ii) Compute the selling price for Job No. 189, assuming that Dominica Company charges a 50 per cent mark-up on prime costs. [3 marks]

5. Billie's Knife Company manufactures THREE different products. The estimated demand for the products for the current year exceeds the company's production capacity. Data for each product are listed below.

Product	Estimated Unit Sales	Sales Price	Direct Material Cost	Direct Labour Cost	Variable Manufacturing Overhead	Contribution Margin (CM)	Direct Labour Hours
A	15 000	\$20	\$3	\$10	\$1	\$6	1.0
B	8 000	12	1	5	1	5	0.5
C	2 400	17	2	10	1	4	1.0

The total contribution margin for the current sales mix of products is \$139 600.

- (i) If you were able to reduce the production of ONE of the products in order to meet the demand of the others, what would that product be? Give reasons for your answer. [Assume that the available direct labour hours represent the scarce resource that limits output.]
[2 marks]
- (ii) Assume that the 15 000 hours of direct labour hours now used to produce product A are shifted to the production of product B, what would be the **change** in the total contribution margin of Billie's Knife Company?
[2 marks]
6. Tunapuna Fabricators has been experiencing productivity problems for the past three months following the departure of one of its supervisors. The firm's manager, Sarwan Chanderpaul, believes that this problem can be corrected by the introduction of an individual incentive scheme for factory workers.
- (i) List TWO advantages (benefits) and TWO disadvantages (drawbacks) of individual incentive schemes.
[2 marks]
- (ii) Under what circumstances are individual incentive schemes most likely to succeed?
[2 marks]

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7. The following data are for the month of January, for Pinney Corporation, which manufactures saucers.

	Standard Inputs Expected for Each Unit of Output	Standard Price per Unit of Input
Direct material	10 pounds	\$6 per pound
Direct labour	3 hours	\$10 per hour

During the month of January, Pinney Corporation actually produced 1 000 saucers, which was 50 units fewer than expected. Direct material purchased and used amounted to 10 500 pounds at a cost of \$6.25 per pound. Actual direct labour was 2 900 hours at an actual cost of \$10.50 per hour.

Required:

- (i) Calculate the standard cost of direct material and direct labour per saucer. [2 marks]
- (ii) Compute the price and usage variances for direct material and direct labour. (Be sure to indicate whether **each** variance is favourable or unfavourable.) [4 marks]
8. Plymouth Company produces 10 000 blades annually for its lawn-trimmer division. The blades are produced evenly throughout the year. The set-up cost for a given production-run for the blades is \$40, and the cost incurred to carry one blade in inventory for the year is \$0.20.
- (i) What is Plymouth Company's Economic Order Quantity (EOQ) for the blades? [3 marks]
- (ii) How many times should the company produce the blades during the year? [1 mark]
- (iii) What is the total annual set-up (ordering) and carrying cost for the inventory? [2 marks]
9. Discuss TWO types of costing systems that can be used in the service sector. [4 marks]

END OF TEST

FORM TP 2008140



TEST CODE **02101020**

MAY/JUNE 2008

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 1 – PAPER 02

2 $\frac{3}{4}$ hours

09 MAY 2008 (a.m.)

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.

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02101020/CAPE/2008

NOTHING HAS BEEN OMITTED.

1. (a) Identify FIVE groups who use financial accounting information and state ONE purpose for which EACH group uses this information. [10 marks]
- (b) Explain why a business should have an internal control system. Include FIVE reasons in your response. [5 marks]
- (c) Balandra Clothing Store retails ladies' garments. Management uses the following control procedures for cash disbursements:
1. Each week, the owner leaves 100 blank company cheques in an unmarked envelope on a shelf behind the cash register.
 2. The store manager personally approves all payments before signing and issuing cheques.
 3. The company's cheques are not numbered.
 4. After payment, bills are filed in a folder marked "Paid invoices".
 5. The company's accountant prepares the bank reconciliation and reports any discrepancies to the owner.
 6. The store maintains a petty cash fund to pay for small purchases. The fund is kept in the top drawer of a desk and can be accessed by the owner, the store manager and the treasurer.

For EACH procedure above:

- (i) Identify the weakness in internal control. [6 marks]
- (ii) Suggest a change in the procedure that will result in good internal control. [6 marks]

You may provide the responses to (c) (i) and (ii) above in tabular format as shown below:

Control procedure	Weakness in internal control	Suggested change in control procedure

- (iii) Identify FOUR internal control principles that have been violated by the procedures that are currently in place at Balandra Clothing Store. [8 marks]

Total 35 marks

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2. Carnival Company is involved in the wholesaling and retailing of household supplies. The accountant resigned immediately after the following trial balance was extracted from the books of the company as at November 30, 2007, the end of the company's fiscal year.

Account Titles	Debit (\$)	Credit (\$)
Cash	33 400	
Accounts receivable	85 400	
Allowance for doubtful accounts		18 000
Merchandise inventory	76 000	
Store supplies	11 000	
Investments	190 000	
Store equipment	170 000	
Accumulated depreciation - Store equipment		36 000
Delivery equipment	96 000	
Accumulated depreciation - Delivery equipment		18 000
Accounts payable		97 000
Utilities payable		5 600
Notes payable		120 000
Issued ordinary share capital		80 000
Share premium		140 000
Retained earnings		68 500
Sales		1 515 600
Sales returns and allowances	8 400	
Purchases	923 200	
Purchases returns, allowances and discounts		29 600
Rent and utilities expense	76 000	
Freight-in	21 600	
Salaries expense	280 000	
Advertising expense	26 400	
Delivery expense	48 000	
General expense	42 900	
Interest expense	32 400	
Loss due to flood	7 600	
Total	2 128 300	2 128 300

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

1. Store supplies on hand totalled \$4 000 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 November 30, 2007 is \$90 000.
4. Bad debts expense is estimated at 2 per cent of net sales.
5. Salaries expense is 70 per cent selling and 30 per cent administrative.
6. Rent and utilities expense is 80 per cent selling and 20 per cent administrative.
7. \$60 000 of the notes payable is due for payment the following year.
8. General expense is 100 per cent 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 November 15, 2007.
11. The company suffered minor losses due to seasonal flooding.
12. The investments are government bonds that mature on December 1, 2020. The bonds pay 8 per cent 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 **multiple-step income statement** and **classified balance sheet** for Carnival Company for the year ending November 30, 2007. The statements should comply with the requirements of the International Accounting Standards.

Total 35 marks

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3. The Maraval Company, a local retailing firm, has been operating fairly successfully for the past five years. However, the directors are concerned about the recent performance of the business. The company's comparative balance sheets for 2006 and 2007, and the income statement for 2007 are presented below.

Balance Sheet for 2006 and 2007		
	As at December 31	
	2006	2007
	\$	\$
Cash	100 000	140 000
Accounts receivable, net	300 000	330 000
Inventory	500 000	400 000
Property, plant and equipment	1 200 000	1 400 000
Accumulated depreciation	(300 000)	(350 000)
Accounts payable (inventory only)	80 000	90 000
Income taxes payable	50 000	83 000
Dividends payable	30 000	40 000
Bonds payable	250 000	250 000
Premium on bonds payable	20 000	17 000
Common stock, no-par	700 000	750 000
Retained earnings	670 000	690 000

Income Statement	
For the Year Ending December 31, 2007	
	\$
Net sales	1 200 000
Cost of goods sold	(550 000)
Depreciation expense	(150 000)
Interest expense	(20 000)
Other operating expenses	(200 000)
Gain on equipment sale	50 000
Income tax expense	(120 000)
Net income	210 000

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The following additional information is available:

1. Equipment costing \$200 000 was sold for \$150 000 during 2007, resulting in a loss of \$50 000.
2. Cash dividends of \$180 000 were paid in 2007.

(a) Prepare the statement of cash flows (SCF) using the indirect method.

[20 marks]

(b) Calculate the following ratios for Maraval Company for 2007:

(i) Current ratio

(ii) Acid test ratio

(iii) Net income per cent

(iv) Return on total assets

(v) Debt to equity

[10 marks]

(c) Maraval Company is in the process of acquiring Gordon Limited, a company that has been experiencing financial difficulties for several months. The financial difficulties began with working capital problems but escalated recently when the company was unable to meet its loan interest and principal repayments on its long-term debt.

Describe Gordon Limited's current financial situation and give a justification for your answer.

[5 marks]

Total 35 marks

END OF TEST

FORM TP 2008141



TEST CODE **02101032**

MAY/JUNE 2008

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 1 – PAPER 03/2

1 $\frac{1}{2}$ hours

29 MAY 2008 (p.m.)

1. This paper comprises THREE 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.

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02101032/CAPE/2008

1. Jacqueline Warner recently completed her accounting degree at the University of the West Indies (UWI) and is now working as a management trainee for the First Royal Bank. First Royal Bank is about to adopt International Accounting Standards (IAS) for the preparation of its financial statements and is prepared to have several staff members trained in the use of IAS.

First Royal Bank decides to sponsor one employee's participation in the next offering of the course in international accounting at the UWI. Owen Patrick, a senior accounts clerk in the bank's treasury department, is selected to attend the course. He is advised that upon successful completion of the course he will be promoted to the position of junior accountant.

Owen starts the course enthusiastically but runs into trouble when his supervisor insists that he work overtime to complete an urgent project. Working overtime means that Owen is unable to devote sufficient time to his studies. As a result, he performs very poorly on the first test.

Jacqueline agrees to tutor Owen but her work schedule prevents her from giving Owen the assistance that he needs.

Your assignment is to help Jacqueline answer the three questions on Owen's review sheet below and to comment on the balance sheet that he has prepared.

Review Sheet
International Accounting Course

- | | | |
|-----|---|------------|
| (a) | Describe the conceptual framework of accounting. | [5 marks] |
| (b) | Explain why there is a need for a conceptual framework. | [5 marks] |
| (c) | Outline the importance of using International Accounting Standards. | [4 marks] |

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2. Owen prepared the following balance sheet.

Balance Sheet Prepared by Owen Patrick

Balance Sheet			
Year Ended December 31, 2007			
	\$	\$	\$
Assets			
Current assets			
Cash in bank		11 800	
Dues from customers and employees	9 700		
Less: Reserve for uncollectibles	<u>(600)</u>	9 100	
Bond sinking fund		15 000	
Inventories		<u>22 300</u>	
Total current assets			58 200
Property, plant and equipment			
Land and building	41 000		
Furniture and fixtures	17 500		
Unused property held for resale	<u>4 000</u>		
Total		62 500	
Less: Accumulated depreciation		<u>(19 000)</u>	
Total property, plant and equipment			43 500
Deferred charges			
Unamortized bond discount		1 200	
Supplies on hand		2 000	
Goodwill		<u>14 000</u>	
Total deferred charges			17 200
Other assets			
Treasury stock (at cost)			<u>5 500</u>
Total assets			<u>124 400</u>
Equities			
Liabilities			
Accrued bond interest expense	800		
Accounts and notes payable	21 000		
Bonds payable	<u>40 000</u>		
Total liabilities		61 800	
Net worth			
Capital stock	40 000		
Retained earnings	7 600		
Reserve for bond sinking fund	<u>15 000</u>		
Total net worth		<u>62 600</u>	
Total equities			<u>124 400</u>

Identify FOURTEEN elements of the above balance sheet that are NOT consistent with the requirements of the International Accounting Standards. **You are required to focus on deficiencies in formatting, classification and terminology. Do NOT prepare a revised balance sheet.**

[14 marks]

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3. Charlestown Company, a manufacturer of lawn mowers, uses the International Accounting Standards (IAS) to prepare its financial statements. Late in 2007, a defective mower injures a customer. The customer sues the company claiming damages of \$800 000. The company's insurance covers the first \$300 000 of personal injury claims where the policyholder is at fault. Charlestown is advised by its lawyers that the customer will probably win the lawsuit and that the court is likely to award damages of approximately \$500 000 to the customer when the case is determined in late 2008.
- (a) Describe THREE ways in which contingencies can be treated in the financial statements. [4 marks]
 - (b) Explain how Charlestown Company should account for this lawsuit in its 2007 financial statements. [3 marks]
 - (c) Justify the accounting treatment provided in (b) above. [3 marks]
 - (d) Outline the effects of the accounting treatment for the lawsuit on Charlestown Company's 2007 income statement and balance sheet. [4 marks]

END OF TEST

FORM TP 2008143



TEST CODE **02201020**

MAY/JUNE 2008

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 2 – PAPER 02

2 $\frac{3}{4}$ hours

03 JUNE 2008 (p.m.)

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.

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02201020/CAPE/2008

NOTHING HAS BEEN OMITTED.

1. Hendry Manufacturing Inc. manufactures thermostats that the company uses in several of its products. Management is considering whether to continue manufacturing the thermostats or to buy them from an outside source. The account balances for the quarter ending March 31, 2008 are presented below.

	\$
Direct raw materials inventory (January 1)	80 500
Direct raw materials inventory (March 31)	75 000
Work-in-progress inventory (January 1)	245 700
Work-in-progress inventory (March 31)	299 250
Finished goods inventory (January 1)	945 000
Finished goods inventory (March 31)	892 500
Direct materials purchased	656 000
Indirect materials used	147 000
Direct manufacturing labour	840 000
Indirect manufacturing labour	325 500
Property taxes on manufacturing plant building	50 400
Salespersons' company vehicle costs	21 000
Depreciation of manufacturing equipment	462 000
Depreciation of office equipment	216 300
Miscellaneous plant overhead	236 250
Plant utilities	161 700
General office expenses	534 450
Marketing distribution costs	52 500

- (a) Prepare a schedule of cost of goods manufactured. [19 marks]
- (b) Prepare a schedule of cost of goods sold. [6 marks]
- (c) Hendry Manufacturing Inc. needs 80 000 thermostats per year. Thermostats can be purchased from an outside supplier at a cost of \$6 per unit, whereas it costs the company \$7.50 to manufacture each thermostat. The costs of manufacturing the thermostats are presented below.

	\$
Direct materials	156 000
Direct labour	132 000
Variable manufacturing overhead	168 000
Fixed manufacturing overhead	144 000
Total	<u>600 000</u>
Cost per unit (600 000 ÷ 80 000 units)	7.50

Discontinuing the manufacture of the thermostats will eliminate the costs for all of the direct materials, all the direct labour, 60 per cent of the variable manufacturing overhead and \$9 200 of the fixed manufacturing overhead.

- (i) Advise the management of Hendry Manufacturing as to whether they should purchase the thermostats or continue to manufacture them. Support your decision with appropriate calculations. [8 marks]
- (ii) Explain why the company estimated that it would cost \$7.50 to manufacture each thermostat in-house while outside suppliers estimated that it would cost \$6.00 to manufacture each. [2 marks]

Total 35 marks

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2. (a) Wickham 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 \$1 800 000 and the plant expected capacity is 200 000 machine hours.

Marcella Powell, 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	\$16 000
Direct labour	24 000
Overhead	\$?
Number of inspections	2
Number of setups	1
Number of machine hours	4 000
Engineering hours	20

Marcella 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 are 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	<u>1 800 000</u>		

- (i) Calculate the overhead rate per machine hour. [2 marks]
- (ii) Assuming that Marcella uses the traditional job order costing system, calculate the total cost of the proposed job. [6 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. [7 marks]
- (v) Explain how activity-based costing systems can provide more accurate product costs than traditional costing systems. [5 marks]

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- (b) Portsmore General Hospital uses an indirect job-costing system for all patients. The budgeted nursing care charges for each department and budgeted allocation bases of nursing days for the month of March, 2008 are presented below.

March, 2008	Critical Care	Special Care	General Care
Budgeted nursing care costs	\$3 720 000	\$2 466 000	\$1 920 000
Budgeted nursing days	7 500	6 000	12 000

Patient Roxy Gardner spent eight days in critical care and twelve days in special care during March, 2008. The remainder of the 31-day month was spent in the general care area.

- (i) Calculate the budgeted overhead rate for EACH department, for March, 2008.
[3 marks]
- (ii) Compute the total charges to Ms. Gardner if she spent the entire month in the facility.
[8 marks]

Total 35 marks

3. (a) Cavalcade Inc. is expected to begin operations on January 1, 2009, selling a line of lawn and garden equipment. The company will start operations with the following assets:

	\$
Cash	14 000
Inventory	29 000
Equipment	50 000
Land	31 000
Buildings	200 000

Projected sales for the first four months of 2009 are as follows:

	\$
January	140 000
February	280 000
March	325 000
April	400 000

Twenty per cent of the company's sales will be for cash and the remaining 80 per cent will be on credit. Seventy-five per cent of the receivables (credit sales) will be collected in the month of the sale and 23 per cent in the following month. The remaining receivables will be deemed uncollectible.

Some expenses are expected to vary with the sales in each month as follows:

Cost of goods sold	60% of sales
Bad debts	2% of sales
Variable selling expenses	4% of sales
Variable administration expenses	5% of sales

Sixty per cent of the merchandise purchased will be paid for in the month in which the purchase is made and the balance will be paid for in the following month.

Seventy-five per cent of the variable expenses will be paid for in the month in which they were incurred and the balance the following month.

The ending inventory of each month should be equal to one-third of the amount estimated for cost of sales for the coming month.

The fixed expenses will be paid for in the month in which they are incurred. These expenses for each month are as follows:

	\$
Selling	25 000
Administration	18 550
Depreciation	3 125
Wages and salaries	5 000
General expenses	6 500

The company proposes to make an additional investment in equipment of \$22 500 in March 2009 to handle the increase in sales levels.

The company must maintain a bank balance each month of \$5 000. The company can borrow any additional funds from the local bank at 5 per cent interest per month.

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- (i) Prepare the following schedules for the months of **January, February and March, 2009**.
- a) Cash collections schedule [5 marks]
 - b) Purchases budget [4 marks]
 - c) Cash disbursement schedule for purchases [3 marks]
 - d) Cash disbursement schedule for expenses [4 marks]
- (ii) Use the information from the schedules at (i) above to prepare a cash budget for the months of **January, February and March, 2009**. [10 marks]
- (b) Greggs Inc. is considering an investment in a new product line. The investment would require an immediate outlay of \$200 000 for equipment and an immediate investment of \$400 000 in working capital. The investment is expected to generate a net cash inflow of \$200 000 in year 1, \$300 000 in year 2, \$400 000 in year 3 and \$400 000 in year 4. At the end of the fourth year, the equipment would be disposed of at its salvage value of zero but the working capital of \$400 000 would be recovered. The company uses the straight-line method for depreciating its equipment over its four-year life and salvage value of zero.
- (i) Calculate the payback period for the investment. [2 marks]
 - (ii) Calculate the Net Present Value (NPV) of the proposed product line investment using a discount rate of 16 per cent. [7 marks]

Period	Present Value Interest Factor				
	12%	14%	16%	18%	20%
1	0.8929	0.8772	0.8621	0.8475	0.8333
2	0.7972	0.7695	0.7432	0.7182	0.6944
3	0.7118	0.6750	0.6407	0.6086	0.5787
4	0.6355	0.5921	0.5523	0.5158	0.4823
5	0.5674	0.5194	0.4761	0.4371	0.4019

Total 35 marks

END OF TEST

FORM TP 2008144



TEST CODE **02201032**

MAY/JUNE 2008

**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

ACCOUNTING

UNIT 2 – PAPER 03/2

1½ hours

06 JUNE 2008 (a.m.)

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.

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02201032/CAPE/2008

1. Distinguish between a **variable cost** and a **fixed cost**. Give TWO examples of EACH. [4 marks]

2. You have recently joined the staff of Mings Enterprises as the trainee cost accountant. The management accountant has prepared a list of transactions from which you are to prepare a set of journal entries to show your understanding of the cost flows in a manufacturing entity.

The following information relates to transactions that have occurred during the month.

- (i) Purchased raw material on account \$28 500
- (ii) Put material into production: \$15 000 of direct material and \$3 000 of indirect material
- (iii) Accrued payroll of \$90 000, of which 70 per cent was direct and the remainder was indirect
- (iv) Transferred items costing \$86 500 to finished goods

Prepare the journal entries that are necessary to record the transactions, assuming that the Raw Material Inventory account contains BOTH direct and indirect material. [6 marks]

3. Vincie Inc. sells 600 000 units per year of a particular ink cartridge at \$12 each. The current cost of manufacturing an ink cartridge is as follows:

	\$
Direct materials	3.00
Direct labour	1.00
Variable manufacturing overhead	3.50
Fixed manufacturing overhead	1.50
Total	<u>9.00</u>

At the beginning of the current year, Vincie Inc. received a special order for 10 000 units of ink cartridges per month, for one year only, at a sales price of \$8 per unit. To fill the order, Vincie Inc. will have to rent additional assembly space at a cost of \$1 000 per month.

Compute the estimated **increase or decrease** in monthly operating income that will result from accepting this special order. [4 marks]

4. Briefly describe job order and process costing systems. [2 marks]

5. The Crown Co. manufactures toasters. The manufacturing costs consist of a variable cost of \$6 per unit and fixed manufacturing costs which total \$50 000 per year. The selling and distribution costs consist of a variable cost of \$10 per unit and a fixed selling and distribution cost of \$100 000. The company sells a toaster for \$35. In 2007, the firm produced 10 000 units and sold 9 000.

- (a) Prepare an income statement using the absorption costing approach. [3 marks]
- (b) Prepare an income statement using the variable costing approach. [3 marks]

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6. Joan Ally Co. manufactures a homogeneous product and uses a process costing system. The management accountant has assembled the following information for May 2008:

Beginning Work-in-Process Inventory (25% complete as to conversion)	10 000 units
Started	120 000 units
Ending Work-in-Process Inventory (30% complete as to conversion)	30 000 units

All materials are added at the start of production and all completed products are transferred out.

- (a) Prepare a schedule showing the amount of equivalent units using the FIFO method. [3 marks]
- (b) Prepare a schedule showing the amount of equivalent units using the weighted average method. [3 marks]
7. Define EACH of the following terms:
- (a) Standard cost system
- (b) Total variance
- (c) Material price variance
- (d) Labour efficiency variance [4 marks]
8. Discuss the role of budgeting in the management and performance evaluation of a business. [4 marks]
9. Yorkshire Inc. produces three specialist sprinklers, A, B and C. The cost and selling price per sprinkler are as follows:

	<u>Sprinkler A</u>	<u>Sprinkler B</u>	<u>Sprinkler C</u>
Selling price	\$100	\$150	\$176
Variable cost	50	90	110
Contribution	<u>50</u>	<u>60</u>	<u>66</u>

The company uses the same machine to produce the three sprinklers. The machine hours required to manufacture each sprinkler are as follows:

	<u>Sprinkler A</u>	<u>Sprinkler B</u>	<u>Sprinkler C</u>
Machine hours per unit	10	15	11

The forecasted demand for the sprinklers is as follows:

	<u>Sprinkler A</u>	<u>Sprinkler B</u>	<u>Sprinkler C</u>
Demand	150	100	200

The current machine has a capacity of 4 000 hours; hence it would NOT be able to meet the full demand of all sprinklers.

- (a) Calculate the contribution per machine hour for EACH sprinkler. [3 marks]
- (b) Calculate the quantity of EACH sprinkler that should be produced by the company given that the capacity of the machine is 4 000 hours. [3 marks]

END OF TEST

FORM TP 2008143



TEST CODE **22201020**

MAY/JUNE 2008

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 2 – PAPER 02

2 $\frac{3}{4}$ hours

08 JULY 2008 (p.m.)

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. Cox Manufacturing Company produces seat belts for automobile companies. During the year just ended, the company produced 60 000 seatbelts and incurred the following costs :

Materials and supplies used	\$
Strapping	360 000
Metal clasps	127 500
Thread	4 500
Machine lubricants	1 500
Wages and salaries	
Machine operators	333 000
Production supervisors	100 500
Other factory costs	
Maintenance personnel	20 000
Janitorial personnel	24 000
Insurance	33 000
Administrative expenses (50% fixed)	165 000
Selling expenses (100% fixed)	148 500

- (a) Compute EACH of the following:
- (i) Total direct materials [2 marks]
 - (ii) Total indirect labor [2 marks]
 - (iii) Total factory overhead [3 marks]
 - (iv) Total product cost [2 marks]
 - (v) Total period cost [2 marks]
 - (vi) Total variable manufacturing cost [2 marks]
- (b) (i) Cox Manufacturing Company recently received an order for 10 000 seatbelts from an automobile manufacturer in Anguilla.
- Assuming that Cox Manufacturing Company has the production capacity to fill this order without affecting existing production, **list the categories of costs** that are relevant to the decision. [2 marks]
- (ii) Cox Manufacturing will not accept the order if the company will be worse off financially by so doing. Calculate the minimum price that Cox Manufacturing Company can charge for the order. [3 marks]

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- (c) Cox Manufacturing Company has three service departments and two operating departments. Selected data for 2007 is presented below.

	Service Departments			Operating Departments		Total
	Administration	Janitorial	Maintenance	Cutting & Stitching	Assembly	
Overhead costs	\$140 000	\$105 000	\$48 000	\$275 000	\$430 000	\$998 00
Number of employees	60	35	140	315	210	760
Square feet of space occupied	15 000	10 000	20 000	40 000	100 000	185 000
Hours of machine time	—	—	—	60 000	30 000	90 000

The company allocates service department costs as follows:

Administration – based on number of employees

Janitorial – based on space occupied

Maintenance – based on hours of machine time.

Cox Manufacturing Company uses the direct method to allocate service department costs.

- (i) Calculate the allocation rate for EACH service department. [3 marks]
- (ii) Calculate the amount of overhead cost that will be assigned to EACH operating department. [14 marks]

Total 35 marks

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2. (a) Williams and Associates, is a prestigious law firm owned by Donna Gray and Indira Rampersad in St. Georges, Grenada. The firm uses a job order costing system to monitor the cost of servicing its clientele. The office manager has prepared the following budget for 2007:

Client billings		\$12 672 000
Less: Professional staff costs (85%)	\$6 600 000	
Administrative staff costs (75%)	2 200 000	
Other office costs (60%)	<u>1 100 000</u>	<u>9 900 000</u>
Operating income		<u>\$ 2 772 000</u>

The numbers in brackets indicate the percentage of cost that can be directly traced (traceable costs) to client jobs. The remaining portion of each cost that cannot be directly traced to specific jobs (non-traceable costs) is charged to client jobs by using a predetermined overhead application rate. The office manager uses total direct costs as the overhead application base.

In March, the firm completed work on a lawsuit for Eldon Company. The following costs were directly traced to Eldon Company:

Professional staff	\$25 000
Administrative staff	6 400
Other office costs	6 600

By the end of 2007, the actual costs directly traced to client jobs amounted to \$8 305 000 and non-traceable costs incurred totaled \$2 139 500.

- (i) Calculate the firm's pre-determined overhead application rate. [4 marks]
- (ii) Prepare a job cost sheet for the Eldon Company job showing clearly the **traceable** and **non-traceable** costs for the job. [7 marks]
- (iii) Calculate the amount of over- or under-applied overhead (non-traceable) costs for Williams and Associates for 2007. [5 marks]

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- (b) Eldon Company, one of the clients of Williams and Associates, produces and sells a single product, a hand press for moulding pastries. Selected cost and operating data relating to the product for one year are provided below:

Selling price per unit		\$ 50
Manufacturing costs:		
Variable per unit produced:		
Direct materials		11
Direct labour		6
Variable overhead		3
Fixed per year		120 000
Selling and administrative costs:		
Variable per unit sold		
		5
Fixed per year		70 000

	Units
Units in beginning inventory	0
Units produced during the year	10 000
Units sold during the year	8 000
Units in ending inventory	2 000

- (i) Compute the unit product cost assuming that Eldon Company uses
- a) absorption costing [3 marks]
 - b) variable costing [2 marks]
- (ii) Prepare a variable costing income statement for the company. [5 marks]
- (iii) Prepare an absorption costing income statement for the company. [5 marks]
- (iv) Reconcile the difference between the net operating income computed under variable costing and that computed under absorption costing. [2 marks]
- (c) Both Eldon Company and Williams and Associates use traditional costing methods. Outline ONE way in which activity-based costing differs from traditional costing methods. [2 marks]

Total 35 marks

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3. (a) (i) Describe FOUR benefits that a business may gain from budgeting. [4 marks]
- (ii) Distinguish between 'ideal' and 'practical standards'. [4 marks]
- (iii) Identify the factors that should be considered in setting the standard cost for a product or service. [3 marks]
- (b) Pamela Codrington plans to open a day care centre for young children at the beginning of the new year. She rented a building and has estimated that the following annual costs will be required to operate the centre:

Salaries for three teachers	\$55 200
Salaries for two assistants	\$19 200
Rent	\$19 200
Utilities	\$ 4 320
Miscellaneous	\$ 2 880
Supplies	\$48 per child
Meals and snacks	\$456 per child

Based on the space in the building and the number of teachers, Pamela believes that the maximum number of children that can be cared for is 180. Pamela plans to charge a fee of \$1 400 per child.

- (i) Compute the contribution margin. [2 marks]
- (ii) Calculate the number of children who must be enrolled in order for the centre to break even. [4 marks]
- (iii) Calculate the margin of safety in **dollars** AND as a **percentage** of budgeted revenue, if the budgeted enrolment of the day care centre is 135 children. [5 marks]

- (c) Cork Hill Company produces three products, BP, PM, and WD. Selected data relating to the three products are presented below:

	Products (per unit)		
	BP	PM	WD
Selling price	\$80	\$56	\$70
Less: Variable expenses			
Direct materials	24	15	9
Other variable expenses	24	27	40
Total variable expenses	48	42	49
Contribution margin	\$32	\$14	\$21
Contribution margin ratio	40%	25%	30%
Estimate demand during the following month	500 units	600 units	1000 units

The same material is used in each product. The material costs \$3 per kilogram (kg) with a maximum of 5,000 kilograms (kgs) available each month.

- (i) Determine the amount of raw materials (in kg) needed to produce ONE unit of EACH product. [3 marks]
- (ii) Determine the contribution margin per kg of material used in EACH product. [3 marks]
- (iii) Prepare a schedule showing the **total** direct materials that will be required to produce the units estimated to be sold during the following month. [3 marks]
- (iv) Cork Hill Company would like to maximize its income from the production of the three products. State the criteria that should be used by the company to allocate the 5 000 kg of raw materials among the three products. [1 mark]
- (v) Determine the amount of EACH product that Cork Hill Company should produce during the following month. [3 marks]

Total 35 marks

END OF TEST



TEST CODE **22201032**

FORM TP 2008144

MAY/JUNE 2008

**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

ACCOUNTING

UNIT 2 – PAPER 03/2

1½ hours

07 JULY 2008 (p.m.)

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

1. Derrick Lewis (DL) owns a small metal fabrication shop in Castries, St. Lucia. He attended an accounting workshop hosted by the Small Business Development Company. DL found it difficult to understand most of the material covered in the workshop and had several areas on which he needed clarification.

Derrick knows that you are currently enrolled in an accounting programme at the Sir Arthur Lewis Community College and approached you for help in answering the following questions.

- (a) (i) Give ONE example of a **time-based** remuneration system. [1 mark]
- (ii) State TWO conditions under which a **time-based** remuneration system may be appropriate. [2 marks]
- (b) Contrast **financial accounting** with **cost and management accounting** by stating TWO differences between these areas. [2 marks]
- (c) Describe the flow of product costs in a metal fabrication firm such as the one owned by Derrick Lewis, from the point at which the costs were incurred to the point where they become expenses on the income statement. [2 marks]

2. Moruga Company's beginning inventory and the purchases of a particular product during August are shown below:

			\$
Aug 1	Inventory	1 400 units x 12.00	
21	Purchase	1 800 units x 12.28	
31	Purchase	1 200 units x 12.54	

On August 31, 1 000 units remain in inventory.

- (a) Calculate the cost of the ending inventory. [1 mark]
- (b) Calculate the cost of goods sold using the last-in-first-out (LIFO) method. [2 marks]
3. Paula Cole-Bourne is a part-time employee of Atlantic Consulting Services. She is paid \$140 per hour for regular time and \$210 per hour for all authorized work in excess of 40 hours per week. The supervisor authorized Paula to work eight hours in overtime to complete an urgent job.
- (a) Identify the remuneration method that is used to pay Paula. [1 mark]
- (b) Suggest an alternative remuneration method that could be used to pay Paula. [1 mark]
- (c) Calculate the amount of wages paid to Paula. [2 marks]

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4. Costume Manufacturing Company uses a job order costing system to accumulate production costs. Selected data applicable to January 2008 are presented below:

	\$
January 1 balance of work-in-process	38 000
Direct materials used	156 000
Direct labour incurred (4 300 hours)	68 800
Indirect labour incurred	11 600
Factory utilities	4 400
Factory equipment depreciation	8 000
Cost of goods completed	256 000

Determine the cost of the company's work-in-process inventory on January 31.

[4 marks]

5. The following information has been extracted from the books of Mason Hall Company which uses the first-in-first-out (FIFO) method:

<u>Beginning work-in-process</u>	
Units	9 000
Stage of completion	25%
<u>Units started and completed</u>	
Total units completed	30 000
<u>Ending work-in-process</u>	
Units	10 800
Stage of completion	30%

Conversion costs are incurred uniformly throughout production.

Calculate the equivalent units for conversion costs.

[3 marks]

6. Tabernacle Development Corporation would like to implement an activity-based costing system. The company's Purchasing Department incurred costs of \$697 500 during 2007. The department has ten employees and three major activities. The Management Accountant presented the following information for 2007.

Activity	Allocation Measure — Number of Units	Total Cost
Issuing purchase orders	Purchase orders	\$135 000
Reviewing receiving reports	Receiving reports	\$157 500
Making phone calls	Phone calls	\$405 000

During the year, 90 000 phone calls were made in the department, 45 000 purchase orders were issued and 18 000 shipments were received. Product A required 180 phone calls, 135 receiving reports and 120 purchase orders.

- (a) Calculate the amount of purchasing department cost that should be assigned to product A. [4 marks]
- (b) Explain how activity-based costing systems can provide more accurate product costs than traditional cost systems. [3 marks]
7. Sobers Enterprises wishes to prepare its cash budget for the quarter ending June 30, 2007. The following information is available:

	Cash Receipts \$	Cash Payments \$
April	60 000	84 000
May	90 000	74 000
June	80 000	90 000

The cash balance on April 1, 2007 was \$4 000 and the company wishes to maintain a minimum cash balance of \$30 000 at the end of each month. Arrangements have been made with the Business Development Company for interest free loans to meet any shortfalls. All borrowings take place at the beginning of the month and repayments of principal take place at the end of the month.

Prepare the cash budget for the quarter April to June 2007. [5 marks]

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8. The following direct materials and direct labour data pertain to the operations of Carolina Company for August 2007:

Costs		Quantities	
Actual labour rate	\$13.00 per hour	Actual hours incurred and used	4 200 hours
Actual materials	\$128.00 per kilogram	Actual quantity of materials purchased and used	1 230 kilogram
Standard labour rate	\$12.00 per hour	Standard hour used	4 300 hours
Standard materials price	\$130.00 per kilogram	Standard quantity of materials used	1 200 kilograms

- (a) Compute EACH of the following:
- (i) Material quantity variance [2 marks]
 - (ii) Labour rate variance [2 marks]
- (b) Provide a possible explanation for ONE unfavorable variance calculated in (a) above. [1 mark]
9. Walkes Company is planning to purchase new packaging equipment for \$440 000. The equipment is expected to save the company \$80 000 in cash-operating cost per annum. The estimated useful life of the equipment is 10 years and it will have a zero disposal value. The required rate of return is 16 per cent.
- (a) Compute the payback period. [1 mark]
 - (b) Compute the accrual accounting rate of return based on net initial investment. Assume straight-line depreciation. [3 marks]

END OF TEST

FORM TP 2009130



TEST CODE **02101020**

MAY/JUNE 2009

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 1 – PAPER 02

2³/₄ hours

08 MAY 2009 (a.m.)

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) **Completeness, neutrality, timeliness, understandability** and **verifiability** are five characteristics of financial information.

The table below lists the definitions of these characteristics with corresponding letters:

Definitions of characteristics	Letters
Accounting information must make sense to mature users who are willing to study the information.	A
Financial statements should show all aspects of the business.	B
Financial statements should be published as soon as possible after year-end.	C
Accounting information must be traceable to source documents.	D
Financial information should not favour any particular group of users.	E

List the FIVE characteristics and match EACH with the appropriate definition by selecting the correct letter from the table above. [5 marks]

- (b) Define the term 'due process' as it relates to the development of accounting standards. [2 marks]
- (c) You have just begun an assignment with a new company and you are discussing with the owner of the company her need for a good 'internal control' system.

Answer the following questions which were posed to you during the discussion:

- (i) What is the meaning of the term 'internal control'? [2 marks]
- (ii) What is the role of internal control in a business organization? [3 marks]
- (iii) Why are internal controls important for inventory (stock)? [3 marks]
- (iv) Identify TWO internal controls that should be put in place for accounts receivable (debtors). [2 marks]

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- (d) Caribbean Biscuits is a public company which has been in operation for several years. The draft financial statements of the company for the year ended June 30, 2008, showed a profit of \$172 800. The trial balance did not balance and a suspense account with a credit balance of \$6 620 was included in the Balance Sheet.

A subsequent check of the data revealed the following errors:

1. On July 1, 2007, the opening accrual of the Motor Repairs A/C of \$6 800 which represented repair bills had not been brought down. It was unpaid at June 30, 2008.
2. Cash discount totals for June 2008 had not been posted to the Discount A/C on the subsidiary ledger.

The figures were as follows:

	\$
Discount allowed	790
Discount received	580

3. Depreciation of 'Motor vehicle' at 25 per cent was calculated for the year ended June 30, 2008 on the reducing balance and should have been calculated on the straight line basis at 25 per cent. Cost of 'Motor vehicle' was \$240 000. Net book value at July 1, 2007 was \$176 000.
 4. Irrecoverable debts totalling \$16 800 are to be written off.
- (i) Prepare journal entries with narratives to correct the errors above. [16 marks]
- (ii) Prepare a statement showing the necessary adjustments to the profit. [2 marks]

Total 35 marks

2. Alfred's Beach Restaurant is located on the east coast of Sunny Island. The unadjusted trial balance at December 31, 2008 contains the items below which are listed in alphabetical order. All accounts have normal balances.

	\$
Accounts payable (trade)	56 000
Accounts receivable	48 000
Bank overdraft	14 000
Building: cost	160 000
: accumulated depreciation	16 000
Bank loan (16%)	100 000
Bad debts written off	10 000
Furniture & fittings: cost	180 000
: accumulated depreciation	86 000
Inventories	70 000
Land (valuation)	250 000
Motor vehicle: cost	80 000
: accumulated depreciation	8 000
Ordinary shares @ \$5 each	200 000
Operating expenses	360 000
Prepaid insurance	9 000
Purchases	500 000
Retained earnings	30 000
Sales	1 139 000
Salary expenses	96 000
Salaries payable	34 000
10% preference shares @ \$10 each	80 000

Additional information:

1. 30 000 ordinary shares were issued at \$5 each on January 1, 2008; this cash transaction was not reflected in the trial balance above.
2. Loan interest and the preferred dividend for the year were paid on December 31. An ordinary dividend of 40 cents per share was also paid on December 31; these transactions were not reflected in the trial balance above.
3. The trial balance does not reflect depreciation charges for the year. The building is depreciated over fifty years on a straight line basis. 'Motor vehicle' is depreciated at 20 per cent on a straight line basis, while 'Furniture and fittings' are depreciated on the reducing balance basis at 25 per cent.

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4. At December 31, 2008, totals for closing inventory and additional expenses are as follows:

	\$
Closing inventory	40 000
Additional operating expenses owing	10 000

5. The company pays corporation tax at the rate of 30 per cent.

6. The bank loan is repayable in 7 years.

Based on the information above, prepare the following statements for the year ending December 31, 2008:

(a) An Income Statement [11 marks]

(b) A classified Balance Sheet [24 marks]

The presentation of the statements should comply with the International Accounting Standards.

Total 35 marks

3. Cheryl's Curl Up & Dye Beauty Salon has been in operation in Nevis for several years. Cheryl has expanded to sell hair products and wants to approach the bank for a loan to purchase a building. She has to prepare a statement of cash flows as part of the loan application process and has asked for your assistance in exchange for her professional services.

The following information was extracted from the books of the salon:

**Cheryl's Curl Up & Dye Beauty Salon
Comparative Balance Sheets**

	March 31,	
	2007	2008
ASSETS		
Current assets:	\$	\$
Cash	20 000	55 000
Inventory	90 000	100 000
Salon supplies	156 000	212 000
Prepaid expenses	4 000	6 000
Total current assets	<u>270 000</u>	<u>373 000</u>
Equipment (net of accumulated depreciation)	500 000	616 000
Total assets	<u>770 000</u>	<u>989 000</u>
LIABILITIES & SHARE CAPITAL		
Current liabilities:		
Bank loan (short term)	55 000	45 000
Accounts payable	61 000	76 000
Accrued expenses	15 000	22 000
Taxes payable	19 000	11 000
	<u>150 000</u>	<u>154 000</u>
Long term liabilities:		
Note payable		40 000
Bonds payable	300 000	400 000
Share capital	150 000	200 000
Retained earnings	170 000	195 000
	<u>770 000</u>	<u>989 000</u>

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Cheryl's Curl Up & Dye Beauty Salon
Income Statement
for the year ended March 31, 2008

Revenue:	\$	\$
Net sales		900 000
Less cost of sales		<u>(500 000)</u>
Gross profit		400 000
Other revenue:		
Interest revenue		9 000
Gain on the sale of equipment		<u>31 000</u>
		<u>440 000</u>
Expenses:		
Operating expenses		
(including depreciation of \$40 000)	300 000	
Interest expense	35 000	
Income tax expense	<u>40 000</u>	
		<u>375 000</u>
Net income		<u>65 000</u>

Additional information:

1. Cheryl's equipment increased by \$116 000 during the year. An analysis of the underlying transactions indicates the following:

	\$
Purchased \$200 000 in equipment paying \$200 000 cash	200 000
Equipment with a book value of \$44 000 sold for \$75 000 cash	(44 000)
Recorded depreciation expense for the year	<u>(40 000)</u>
Net change in equipment	<u>116 000</u>
 2. The company issued bonds payable for \$100 000 cash and a note payable for \$40 000 cash.
 3. The company issued 1 000 shares for cash to family and friends at a price of \$50 per share.
 4. Cash dividends declared and paid to shareholders amounted to \$40 000.
- (a) Prepare a Statement of Cash Flows for 2008 showing clearly cash flows from **operating** activities, **investing** activities and **financing** activities. [23 marks]

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- (b) You are a loans officer with Third Nevis Bank. Cheryl has applied to the bank for the loan to finance her building. You have calculated the ratios below pertaining to the salon for the years 2007 and 2008 and you have obtained industry averages of the relevant ratios from the beauty salon industry.

Financial measure	Cheryl's Salon		Industry average
	2007	2008	
Liquidity			
Quick ratio	1.2 to 1	1.7 to 1	1.5 to 1
Days to sell inventory	90 days	73 days	70 days
Profitability			
Operating expense ratio	65%	60%	63%
Net income as a % of sales	15%	13%	18%

- (i) State TWO uses and TWO limitations of financial ratios. [4 marks]
- (ii) Discuss the performance of Cheryl's Salon over 2007 and 2008 in terms of **liquidity** and **profitability** using the industry averages as benchmarks. [8 marks]

Total 35 marks

END OF TEST

FORM TP 2009131



TEST CODE **02101032**

MAY/JUNE 2009

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 1 – PAPER 03/2

1 ½ hours

11 JUNE 2009 (a.m.)

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

1. The Rice Factory

Kwame Manners is the Chief Financial Officer (CFO) at The Rice Factory. The following discussion took place between Mr. Manners and the company's external auditor regarding two issues that were likely to affect the company's 2008 audit.

Issue Number 1 – Restructuring to Control Costs

Mr. Manners: This year should be our most profitable year since we started operations. I expect the Board to give very generous bonuses.

Auditor: I thought profits were down this year when I looked at your half-year financial statements.

Mr. Manners: Well, management took a decision to streamline the operations after we saw the half-year report. We made significant savings on "Wages and Salaries."

Auditor: How did you do that?

Mr. Manners: Wendy was asked to take on the preparation of bank reconciliations. Her task as Executive Assistant to the General Manager was very light – other than answering the phone, she was only required to open the mail and take cash to the bank; she was underutilized.

When Lisa, the Accountant, went off on maternity leave we did not replace her. Wendy was asked to record the cash receipts and payments transactions and to maintain the Accounts Receivable sub-ledger. Also, Tony, the young man in the storeroom, offered to do overtime in the evenings to bring the bin cards up-to-date. He was asked to take on Lisa's duties of authorizing and approving invoices during the day when he was not busy.

Additionally, we decided not to replace Mrs. Dyer, our storeroom keeper who retired. Tony doubled up; his salary is half of hers.

Auditor: I am surprised that the management team agreed to those arrangements. Don't you realize how much you weakened your internal controls?

Mr. Manners: That's interesting; maybe that is what facilitated the actions by Wendy which resulted in her dismissal shortly after the end of the year.

Auditor: What did Wendy do?

Mr. Manners: Our internal investigation revealed that Wendy found herself in financial difficulties when her husband became ill and could not work. She took \$5 000 cash from the cash register as sales were not banked every day. To cover up her theft, she then removed a \$5 000 cheque which came in the post. This cheque was sent in by a customer, Judith Mendes, who was clearing her account as she was leaving town. Wendy made no journal entry to record the payment by Ms. Mendes. She included the cheque in the deposits in place of the money she had taken from cash sales.

Prior to leaving town, Ms. Mendes visited the company to query her last statement. This prompted an investigation.

Auditor: That is exactly what I was afraid might happen.

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Mr. Manners: Fortunately, we got to the bottom of it quickly and were able to recover the stolen funds just after the end of the year.

Issue Number 2 – Subsequent (Post-Balance Sheet) Events

Mr. Manners: Several events took place early in 2009 that are likely to affect the 2008 financial statements. However, I am not sure how they should be treated.

Auditor: Please tell me about these subsequent (Post-Balance Sheet) Events. I might be able to help.

Mr. Manners: There were five events.

1. The Rice Company settled a disputed corporation tax liability at a cost considerably in excess of the amount expected at year-end.
2. The company lost a significant customer to a major competitor.
3. The company issued a large number of shares of common (ordinary) stock.
4. A fire in one of the company's warehouses destroyed much of the merchandise inventory.
5. The company is unable to collect on a major account receivable due to the bankruptcy of the customer.

Auditor: I am sure we can help you to determine the appropriate treatment of these events. However, such assistance would be outside the scope of our normal audit work and would be billed as accounting services.

1. (a) Explain FOUR ways in which internal controls have been weakened at The Rice Factory. [8 marks]
(b) For THREE of the weakened internal controls identified in (a) above, indicate a change that could be made to correct EACH weakness. [6 marks]
Total 14 marks
2. (a) Outline the potential effects of the weak internal controls at The Rice Factory on FOUR of the accounts in the financial statements. [8 marks]
(b) List SIX factors that should be considered in determining the internal controls that are appropriate for a small company such as The Rice Factory. [6 marks]
Total 14 marks
3. (a) Briefly describe the TWO types of Subsequent (Post-Balance Sheet) Events. [4 marks]
(b) Indicate the appropriate treatment in The Rice Company's 2008 financial statements for EACH of the FIVE Subsequent (Post-Balance Sheet) Events listed by Mr. Manners in Issue number 2 above. [10 marks]
Total 14 marks

END OF TEST

FORM TP 2009133



TEST CODE **02201020**

MAY/JUNE 2009

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 2 – PAPER 02

2 $\frac{3}{4}$ hours

02 JUNE 2009 (p.m.)

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) A manufacturing company incurred the following costs during 2008:
1. Salaries of the accountant and finance staff
 2. Depreciation on the salesperson's car
 3. Rent on equipment used in the factory
 4. Salaries of personnel working in the finished goods warehouse
 5. Soap and paper towels used by workers at the end of a shift
 6. Heat, water and power consumed in the factory
 7. Advertising outlays
 8. Workers' compensation insurance on factory employees
 9. Depreciation on chairs and tables in the factory lunchroom
 10. The salary of the switchboard operator
 11. Rent on rooms at a resort for the annual sales conference

Classify EACH cost item as being EITHER a **product** (inventoriable) cost OR a **period** (non-inventoriable) cost.

Prepare your response using the format below. The first item has been completed as an example.

Cost item	Product	Period
1		X

[5 marks]

- (b) Ajani Water Sports Company began buying and selling surfboards on January 01, 2008. Purchases of surfboards during the year were as follows:

Month	Units	Unit cost \$	Total cost \$
January	10	150	1 500
February	20	155	3 100
March	55	160	8 800
November	5	200	1 000
December	10	240	2 400
Total	100		16 800

Forty surfboards remained in inventory on December 31, 2008. The company's average selling price during the year was \$320 per surfboard.

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Ajani Water Sports Company uses a periodic inventory system.

- (i) Calculate ending inventory, cost of goods sold and gross profit under EACH of the following inventory valuation methods:
- a) First-in-First-out (FIFO) [5 marks]
 - b) Last-in-First-out (LIFO) [5 marks]
 - c) Weighted average [4 marks]
- (ii) Indicate which of the above is the MOST appropriate inventory valuation method if management's goal is to produce the most "up-to-date" inventory valuation on the Balance Sheet. [1 mark]

(c) Marwick Company recorded the following data for 2008:

Sales	\$620 000
Raw materials purchased	72 000
Selling and administrative expenses	96 000
Direct labour	118 000
Beginning raw materials inventory	18 000
Ending raw materials inventory	15 000
Plant depreciation	112 000
Plant utilities	6 500
Indirect labour	8 800
Insurance – plant	3 000
Beginning work in process inventory	57 000
Ending work in process inventory	59 000
Beginning finished goods inventory	25 000
Ending finished goods inventory	22 000
Maintenance – plant	4 700

- (i) Prepare a Cost of Goods Manufactured Statement for 2008. [10 marks]
- (ii) Prepare an Income Statement for 2008. [5 marks]

Total 35 marks

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2. (a) Dominica Company manufactures and sells a single product. Cost data for the product are given below:

Variable cost per unit:	\$
Direct materials	7
Direct labour	10
Variable manufacturing overhead	5
Variable selling and administrative	<u>3</u>
Total variable cost per unit	<u>25</u>
Fixed cost per month:	
Manufacturing overhead	315 000
Selling and administrative	<u>245 000</u>
Total fixed cost per month	<u>560 000</u>

The product is sold at \$60 per unit. Beginning inventory for finished goods was 2 500 units. Production and sales data for August are as follow:

Units produced	Units sold
17 500	20 000

The company's accounting department has prepared the following income statement for August using absorption costing:

	August 2008
Sales	<u>\$1 200 000</u>
Less cost of goods sold:	
Opening inventory	100 000
Add cost of goods manufactured	<u>700 000</u>
Goods available for sale	800 000
Less ending inventory	<u>—0—</u>
Cost of goods sold	800 000
Gross margin	400 000
Less selling and administrative expenses	<u>305 000</u>
Net income	<u>\$ 95 000</u>

- (i) Determine the cost of a single unit of the product under EACH of the following:
- a) Absorption costing
 - b) Variable costing
- [4 marks]

GO ON TO THE NEXT PAGE

- (ii) Prepare an Income Statement for August using the contribution format and variable costing. [8 marks]
 - (iii) Reconcile the variable costing net income figures computed in (ii) above and the absorption cost net income figure provided. [2 marks]
 - (iv) Briefly explain the MAIN difference between variable costing and absorption costing in terms of the treatment of costs in the financial statements. [2 marks]
 - (v) Indicate the primary purposes for which variable costing and absorption costing are used. [2 marks]
 - (vi) Explain why the variable costing income measurement approach would be attractive to a manager who is interested in projecting her firm's future profit performance. [2 marks]
- (b) St. Michael Company manufactures a product that requires inputs from several departments prior to completion. The mixing department is the first department in the production process. On completion of the mixing process, the units are transferred to the moulding department.

The following information is available on work in the mixing department for June 2008:

	Units	Percentage completed	
		Materials	Conversion
Work in process, June 01	20 000	100	75
Started into production	180 000		
Completed and transferred out	160 000		
Work in process, June 30	40 000	100	25

Cost in the beginning work-in-process inventory and cost added during June were as follows:

	Materials	Conversion
	\$	\$
Work in process, June 01	\$ 25 200	\$ 24 800
Cost added during June	\$334 800	\$238 700

The company uses the weighted-average method to compute unit costs.

Prepare a production report for the mixing department for June 2008. [15 marks]

Total 35 marks

3. (a) Castries Co-operative Limited manufactures wooden bookends for office and home use. Wood is cut, shaped and processed into the completed product. The wood is inspected for defects just prior to completion of the bookends and before felt pads are attached to the base of the product to prevent scratches on furniture.

The following information is available:

1. One hundred and four pairs of bookends must be processed for every 100 satisfactory pairs produced.
2. Each pair of bookends requires 2.5 metres of lumber at \$1.40 per metre.
3. Each pair of bookends has 4 felt pads on its base. During the past year, when 15 000 pairs of bookends were manufactured, the total cost for pads amounted to \$3 600. The management of Castries Co-operative Limited was recently informed by the felt supplier that there would be a price increase of \$0.01 per pad.
4. All direct labourers are paid \$12 per hour. Expected labour times for a pair of bookends are:

Cutting, shaping and processing	15 minutes
---------------------------------	------------

Finishing (attaching felt pads and polishing)	1 minute
---	----------

5. Actual packaging costs recently totalled \$0.32 per pair of bookends, which was \$0.02 higher than the standard cost. As a result of a change to a sturdier, more attractive box, the standard packaging cost will be increased by 10 per cent.
 - (i) Calculate the total standard cost of materials (including packaging) for a pair of bookends.

[7 marks]
 - (ii) List TWO parties that would typically participate in the development of material standards.

[2 marks]
 - (iii) For any ONE of the parties listed in (ii) above, indicate their role in the development of material standards.

[1 mark]

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- (b) Belize Laboratories Incorporated (BLI) produces various chemical compounds for industrial use. One compound, Right Lube, is prepared by an elaborate distilling process. The company has developed standard costs for one unit of Right Lube as follows:

	Standard quantity	Standard price or rate	Standard cost
Direct materials	2.5 ounces	\$20.00 per ounce	\$50.00
Direct labour	1.4 hours	12.50 per hour	17.50
Variable overhead	1.4 hours	3.50 per hour	4.90
			\$72.40

During November 2008, the following activities were recorded by the company relative to the production of Right Lube:

1. Twelve thousand ounces of materials were purchased at a cost of \$225 000.
2. There was no beginning inventory of materials on hand to start the month; at the end of the month 2 500 ounces of materials remained in the warehouse unused.
3. The company employs 35 laboratory technicians to work on the production of Right Lube. During November, each lab technician worked an average of 160 hours at an average rate of \$12 per hour.
4. Variable overhead is assigned to Right Lube on a basis of direct labour-hours. Variable overhead costs during November totalled \$18 200.
5. During November, 3 750 acceptable units of Right Lube were produced.

BLI's management is anxious to determine the efficiency of the activities involved in the production of Right Lube.

- (i) Compute the price and efficiency variances of the materials used in the production of Right Lube. **[5 marks]**
- (ii) The materials were purchased from a new supplier who is anxious to enter into a long-term purchase contract. Would you recommend that the company sign the contract? Support your response with an appropriate explanation. **[2 marks]**
- (iii) Compute the rate and efficiency variances for direct labour employed in the production of Right Lube. **[6 marks]**
- (iv) In the past, the 35 technicians employed in the production of Right Lube consisted of 20 senior technicians and 15 assistants. During November, the company experimented in order to save costs and used only 15 senior technicians and 20 assistants. Would you recommend that the new labour mix be continued? Support your response with an appropriate explanation. **[2 marks]**

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- (c) Negril's Confectionery Company is the exclusive wholesale distributor of a brand of gourmet chocolate. The company's president is developing his firm's financial strategy for the coming year. He has accumulated the following data regarding next year's operations:

Expected annual sales volume	500 000 boxes
Selling price per box	\$6.40
Fixed costs	\$844 800
Variable costs:	
Cost of chocolate	\$3.20 per box
Selling and administrative	\$0.64 per box

- (i) What is the current contribution margin per box of gourmet chocolate. **[1 mark]**
- (ii) Compute the current break-even point, in dollars, before the cost increase. **[3 marks]**
- (iii) Compute the company's expected net income for next year. **[4 marks]**
- (iv) After accumulating the above data, the president was informed that in the coming year the manufacturers of the gourmet chocolate planned to increase the cost per box by 20 per cent. This increase was the result of an increase in the cost of sugar. Assume that the cost of the chocolate increased by 20 per cent. Calculate the new selling price if the company wants to maintain the current contribution margin rate. **[2 marks]**

Total 35 marks

END OF TEST

FORM TP 2009134



TEST CODE **02201032**

MAY/JUNE 2009

**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

ACCOUNTING

UNIT 2 – PAPER 03/2

1 $\frac{1}{2}$ hours

05 JUNE 2009 (a.m.)

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. Distinguish between 'financial accounting' and 'management accounting' in relation to EACH of the following:

- (a) Users of the information
- (b) Scope of the reports
- (c) Period covered by the information
- (d) Frequency of reporting

[4 marks]

2. The accounting records of Allied Cleaning Company include the following manufacturing costs and inventories for 2008.

	December 31, 2008	January 01, 2008
Manufacturing costs:		\$
Direct materials used		267 000
Direct labour costs charged to production		105 000
Manufacturing overhead applied		457 000
Inventories:	\$	
Materials	37 000	24 000
Work in process	23 000	14 000
Finished goods	113 000	159 000

Prepare a Schedule of Cost of Finished Goods Manufactured for the year ended December 31, 2008.

[6 marks]

3. Peter Caraspy is employed by Arouca Company which manufactures metal windows. He is paid \$25 per hour for regular time, and time and a half for all work in excess of 40 hours per week.

Assume that during a given week Peter works a total of 50 hours. For the past week Peter was idle for 5 hours due to a machine breakdown. Allocate Peter's wages for the past week between direct labour cost and indirect labour cost.

[4 marks]

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Questions 4 and 5 refer to the following job cost sheet of Edwards Company.

Job Cost Sheet			
Job Number	49	Quantity	200
Item	Bird cages	Date Requested	July 02, 2008
For	Talparo Company	Date Completed	July 31, 2008
Date July 2008	Direct materials \$	Direct labour \$	Manufacturing overhead \$
10	825		
12	900		
15		440	572
22		380	494
24	1 600		
27	1 500		
31		540	702
Cost of completed job:			
	Direct materials	_____	
	Direct labour	_____	
	Manufacturing overhead	_____	
	Total cost	_____	
	Unit cost	_____	

4. (a) List the source documents for the direct materials and direct labour costs that are assigned to this job. [2 marks]
- (b) Calculate the predetermined manufacturing overhead rate and indicate how this rate was determined. [2 marks]
5. Using the information presented above and your answers to Question 4, determine the TOTAL cost and the unit cost of the completed job. [4 marks]

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6. Sunflower Manufacturing Company produces high-quality furniture on a job order basis. In March, production consisted of only two jobs, Jobs 65 and 66. These jobs were started and completed during the month. Manufacturing overhead was applied at a rate of \$8 per direct labour hour.

The following cost data were recorded for the month:

	Job 65	Job 66
Direct materials	\$ 20 125	\$16 050
Direct labour cost	\$ 44 000	\$19 600
Hours	6 000	2 700
Selling price	\$193 163	\$97 250

Actual manufacturing overhead for the month totalled \$68 700.

- (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 65. [4 marks]
7. (a) Define the term 'standard costs.' [2 marks]
- (b) State ONE condition under which previously established standard costs could be revised. Include an appropriate example for the condition stated. [2 marks]

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8. Listed below are EIGHT technical accounting terms that are associated with the evaluation of long-term investment projects.

- (a) Annuity
- (b) Average annual net income
- (c) Capital budgeting
- (d) Discounting
- (e) Internal rate of return
- (f) Payback period
- (g) Present value
- (h) Return on average investment

Each of the following statements defines ONE of these technical terms. List the EIGHT technical accounting terms and match EACH with its definition by indicating the correct number (1–8) of the matching statement. Each definition should be used only once.

- 1. The process of analysing investments in plant assets
- 2. The number of years required to recover the entire cost of an investment from its net cash flows
- 3. A stream of equal cash flows to be received or paid
- 4. The estimated average annual income of an investment expressed as a percentage of its initial cost
- 5. The numerator in the return on average investment computation
- 6. The amount an investor should be willing to pay today for the right to receive a specified amount of cash at a specified future date
- 7. The process of computing the present value of future cash flows
- 8. The rate of return that equates a project's cash inflows to its cash outflows

[8 marks]

9. List TWO factors that should be taken into consideration when assessing the adequacy of the rate of return of a capital investment proposal. [2 marks]

END OF TEST

FORM TP 2010123



TEST CODE **02101020**

MAY/JUNE 2010

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 1 – PAPER 02

2 ¾ hours

07 MAY 2010 (a.m.)

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.

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1. (a) The ELEVEN transactions listed (i to xi) below were completed by Office Cleaners Inc. during the year 2009.
- (i) The organizers paid in cash and in turn received 10 000 no-par shares.
 - (ii) Office Cleaners Inc. borrowed cash from the local bank.
 - (iii) Office Cleaners Inc. purchased a delivery truck, paid 75% in cash and the balance is due in 6 months.
 - (iv) Revenues earned were collected cash in full.
 - (v) Expenses incurred were paid cash in full.
 - (vi) Revenues earned, on credit (cash will be collected later).
 - (vii) Expenses were incurred on credit (cash will be paid later).
 - (viii) A cash dividend to shareholders was declared and paid.
 - (ix) All the credit amount in (vii) was paid.
 - (x) A spare tyre was stolen from the company truck which was not insured.
 - (xi) At the end of 2009, the truck was depreciated by a dollar amount (an expense).

For EACH transaction above, make the appropriate entries **on the answer sheet provided**. Enter in the table a D for debit and a C for credit to reflect the increases and decreases in the assets, liabilities, owners' equity, revenues, withdrawals and expenses. Separate accounts are given for owners' equity.

The first transaction, (i), has been completed on the insert as an example.

[10 marks]

- (b) “A country should develop its own accounting standards.”

State whether you agree or disagree with this statement and outline FIVE reasons to support your position. **[10 marks]**

- (c) Stephanie Sealy has recently been hired as manager of the Big Banana Restaurant, which has stores located at the seaport and airport of Any Island in the Caribbean. During her first month, she visits both locations and observes the following internal control situations:

1. Each store has one cash register. In any one shift, the same employee takes the customer order, accepts payment and then prepares the order.
2. Since only one employee uses the cash register, that employee is responsible for counting the cash at the end of the shift and verifying that the cash in the drawer corresponds to the amount of sales recorded by the cash register.
3. Stephanie sees an employee putting two cases of beer in his car. Not to cause a scene, she simply says to him, “I don’t think you are putting those cases on the right shelf. Don’t they belong inside the restaurant?” The employee returns the cases to the stockroom.

For EACH situation described above:

- (i) Outline the weakness in internal control. **[6 marks]**
- (ii) Explain the changes that are required in order to strengthen internal control. **[9 marks]**

Total 35 marks

2. (a) Assume that you are the new Accountant at Carib Realty and you have been presented with the following Balance Sheet and Income Statement for the company.

**Carib Realty
Balance Sheet
As at July 31, 2008**

	\$	\$
ASSETS		
Current assets		
Cash	10 560	
Accounts payable	13 580	
Supplies	3 300	
Prepaid insurance	9 600	
Land	120 000	
	<hr/>	
Total current assets		157 040
Property, plant and equipment		
Building	313 400	
Equipment	86 000	
	<hr/>	
Total property, plant and equipment		477 240
		<hr/>
Total assets		<u>634 280</u>
LIABILITIES		
Current liabilities		
Accounts receivable	27 500	
Accumulated depreciation – building	173 400	
Accumulated depreciation – equipment	36 960	
Net income	50 000	
	<hr/>	
Total Liabilities		287 860
SHAREHOLDERS' EQUITY		
Wages payable	2 680	
Share capital	110 000	
Retained earnings	233 740	
	<hr/>	
Total Shareholders' Equity		346 420
		<hr/>
Total liabilities and shareholders' equity		<u>634 280</u>

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Carib Realty
Income Statement
For the year ended July 31, 2008

	\$	\$
REVENUE		
Unearned revenue	39 000	
Depreciation expense - buildings	24 000	
Depreciation expense - equipment	4 500	
Insurance expense	8 050	
Rental fees	33 150	
	<hr/>	
		108 700
EXPENSES		
Advertising	1 000	
Utilities	9 000	
Property tax	10 000	
Salaries and wages	21 000	
Supplies	1 700	
Commissions income	11 000	
Bank interest	5 000	
	<hr/>	
		58 700
NET INCOME		<hr/> <hr/>
		50 000

Both the Balance Sheet and Income Statement have errors.

- (i) Prepare the corrected Balance Sheet in good form. **[20 marks]**
 - (ii) Prepare the corrected Income Statement in good form. **[10 marks]**
- (b) Define EACH of the following terms:
- (i) Public company
 - (ii) Statutory company
 - (iii) Private company **[5 marks]**

Total 35 marks

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3. The firm of Hussein and Daughters is developing its annual financial report at September 30, 2008. The statements below are complete except for the Statement of Cash Flows.

	Comparative	
	2007	2008
Balance Sheet		
Cash	30 000	79 000
Inventory	45 000	53 000
Accounts receivable	15 000	12 000
Investment (Shares in T Limited)	20 000	8 000
Machinery and equipment (net)	75 000	64 000
	185 000	216 000
	185 000	216 000
Accounts payable	16 000	13 000
Income taxes payable	5 000	12 000
Long term note payable	45 000	30 000
Share capital (11 000 and 12 000 shares)	117 000	124 000
Retained earnings	2 000	37 000
	185 000	216 000
	185 000	216 000
Income Statement		
Revenue		180 000
Cost of goods sold		(89 000)
Depreciation expense		(10 000)
Remaining operating expenses		(32 000)
Income tax expense		(8 000)
Gain on disposal of machine		3 000
Net income		44 000
		44 000

The following additional information is available:

1. Machinery which had a book value of \$8 000 was sold for \$11 000 cash.
2. Long term investment (shares of T Ltd.) was sold for \$12 000 cash and the carrying value was \$12 000.
3. Equipment was acquired for \$7 000.
4. Principal payment on debt was \$15 000.
5. A cash dividend of \$9 000 was declared and paid.

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- (a) Prepare the Statement of Cash Flows for 2008 in accordance with International Accounting Standards 7 (IAS 7). **[20 marks]**
- (b) Calculate TWO liquidity and THREE profitability ratios for the company and comment on the performance. **[10 marks]**
- (c) List FIVE limitations of financial statement ratio analysis. **[5 marks]**

Total 35 marks

END OF TEST



**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

ACCOUNTING

UNIT 1 – PAPER 02

Candidate Number:

Centre Number:

Answer Sheet for Question 1. (a)

Accounting Model	Transactions										
	(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	(xi)
Assets	D										
Liabilities											
Owners' Equity Investments by owners	C										
Revenues											
Withdrawals											
Expenses											

ATTACH THIS ANSWER SHEET TO YOUR ANSWER BOOKLET

FORM TP 2010124



TEST CODE **02101032**

MAY/JUNE 2010

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 1 – PAPER 03/2

1 ½ hours

10 JUNE 2010 (a.m.)

1. This paper comprises THREE 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.

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1. Albert Alfred and Anthony Ramsingh are the owners of the Corner Drugstore Inc. located in Georgetown. The Balance Sheet for 2006, 2007 and 2008 and the Income Statements for 2007 and 2008 are provided below.

CORNER DRUGSTORE INC.

**Balance Sheet
As at December 31, 2008**

	Dec 31, 2008	Dec 31, 2007	Dec 31, 2006
Current Assets			
Cash	34 000	28 500	94 300
Accounts receivable	210 600	205 100	163 100
Inventories	478 300	422 400	370 000
Total Current Assets	<u>722 900</u>	<u>656 000</u>	<u>627 400</u>
Current Liabilities			
Accounts payable and accruals	157 400	137 600	112 500
Notes payable	66 200	18 500	19 400
Taxes payable	47 000	79 800	97 800
Long term debt due in one year	3 500	3 500	3 500
Total Current Liabilities	<u>274 100</u>	<u>239 400</u>	<u>233 200</u>
Net current assets	448 800	416 600	402 200
Property, plant and equipment	578 900	427 300	341 400
Investments	38 300	35 000	29 700
Total assets less current liabilities	1 066 000	878 900	773 300
Less long term debt	(292 900)	(145 100)	(123 300)
NET ASSETS	773 100	733 800	650 000
Represented by:			
Share capital	137 400	136 400	134 700
Retained earnings	635 700	597 400	525 300
Total share capital and retained earnings	773 100	733 800	650 000

GO ON TO THE NEXT PAGE

CORNER DRUGSTORE INC.
Income Statement
For the year ended December 31, 2008

	December 31	
	2008	2007
Net Sales	1 524 000	1 472 000
Cost of goods sold	784 800	792 600
	<hr/>	<hr/>
GROSS PROFIT	739 200	679 400
Expenses:		
Employees compensation	403 400	390 000
Selling expenses	40 000	50 000
Administrative expenses	30 000	50 000
Depreciation	51 700	64 000
	<hr/>	<hr/>
Total Expenses	525 100	554 000
Net Operating Profit	214 100	125 400
Interest expense	(7 100)	(14 900)
	<hr/>	<hr/>
NET INCOME	207 000	110 500
	<hr/> <hr/>	<hr/> <hr/>
Dividends	68 000	68 100

- (a) The owners of the Corner Drugstore Inc. review the financial statements at their monthly management meeting. List **THREE** reasons why these statements are important to the owners. **[3 marks]**
- (b) One objective of every business is to operate profitably. State **ONE other** primary objective that must be met for a business to survive and outline the importance of this objective. **[2 marks]**
- (c) State the purpose for which **EACH** of the following persons or institutions uses the financial statements of a company:
- (i) Potential investor
 - (ii) Labour union
 - (iii) Creditor
 - (iv) Bank
 - (v) Government agency
- [5 marks]**
- (d) List **FOUR** factors that contribute to the reliability of financial statements. **[4 marks]**

Total 14 marks

GO ON TO THE NEXT PAGE

2. The owners of the Corner Drugstore Inc. had formed a private company to carry on their business activities. The following financial information relates to the company:

	2007	2008
Net Sales	<u>1 472 000</u>	<u>1 524 000</u>
Employees compensation	390 000	403 400
Selling expenses	50 000	40 000
Administrative expenses	50 000	30 000

- (a) Name TWO other types of business organizations that the owners could have set up. **[2 marks]**
- (b) If Albert Alfred owned 40% of the shares and Anthony Ramsingh owned the other 60%, calculate the value of the dividends that EACH received in 2008. **[2 marks]**
- (c) State the difference between **operating income** and **net income**. **[1 mark]**
- (d) List THREE items that may have been combined to form the compensation expenses. **[3 marks]**
- (e) Calculate EACH of the THREE categories of expenses listed above (i.e. employees' compensation, selling, administrative) as a percentage of net sales for 2007 and 2008. **[3 marks]**
- (f) Comment on the trend in the categories of expenses calculated in (e) above and the movement in Net Sales. **[3 marks]**

Total 14 marks

3. (a) Using the information provided in Question 1, calculate EACH of the following ratios for the Corner Drugstore Inc. for 2007 and 2008.
- (i) Current ratio
 - (ii) Quick ratio
 - (iii) Working capital **[6 marks]**
- (b) Comment on the trends in liquidity measures over the two years and state whether the company appears solvent at the end of 2008. **[3 marks]**
- (c) All sales by the Corner Drugstore Inc. are on credit. Calculate the following for 2007 and 2008:
- (i) Gross profit percentage
 - (ii) Inventory turnover
 - (iii) Accounts receivable turnover **[3 marks]**
- (d) Comment on the movement of inventories and receivables as calculated in (c) above. **[2 marks]**

Total 14 marks

END OF TEST

FORM TP 2010126



TEST CODE **02201020**

MAY/JUNE 2010

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 2 – PAPER 02

2 ¾ hours

01 JUNE 2010 (p.m.)

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.

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1. (a) Below are listed various costs that might be found in a service, merchandising, or manufacturing company.

1. Bread used to make sandwiches in a cafeteria
2. Advertising by an engineering firm
3. Mangoes processed and canned by an agricultural cooperative
4. Shipping of canned mangoes for an agricultural cooperative to its customers
5. Insurance on a factory producing carnival costumes
6. Insurance on the corporate headquarters of a leading Caribbean Insurance Company
7. Salary of a supervisor overseeing production of handicraft items
8. Commissions paid to persons selling advertising space in a local newspaper
9. Depreciation on staff lunchroom facilities at a leading manufacturing firm
10. Steering wheels used by a company in the production of automobiles
11. Property taxes on a factory building
12. Salaries of janitorial staff assigned to the administrative offices
13. Lubricants used on printing equipment in a print shop
14. Solder used in producing electrical appliances
15. Bad debt expenses
16. Boxes used in packaging soap powder

- (i) Classify EACH cost as being **either** variable **or** fixed with respect to volume or level of activity.
- (ii) Classify EACH cost as being **either** a selling and administrative cost **or** a product cost.

Prepare your responses, using the following format. The first item has been completed as an example.

Cost	Cost Behaviour		Selling and Administrative Cost	Product Cost
	Variable	Fixed		
1.	X			X

[15 marks]

GO ON TO THE NEXT PAGE

- (b) Darren Joseph is employed by Arima Products and assembles a component part for one of the company's product lines. He is paid \$20 per hour for regular time, and time and a half for all work in excess of 40 hours per week.
- (i) Assume that during a given week Darren is idle for five hours due to machine breakdowns and that he is idle for four more hours due to material shortages. No overtime is recorded for the week. Allocate Darren's wages for the week between direct labour cost and manufacturing cost. **[3 marks]**
 - (ii) Assume that during the following week Darren works a total of 48 hours. He has no idle time for the week. Allocate Darren's wages for the week between direct labour cost and manufacturing overhead cost. **[3 marks]**
 - (iii) Arima Products provides an attractive package of fringe benefits for its employees. This package includes a retirement programme and a health insurance programme. Explain TWO ways that the company could classify the cost of fringe benefits for direct labour workers in its cost records. **[4 marks]**
- (c) You have gathered the following information relating to Montego Bay Company, which has two service departments and two production departments:

	Service Department		Production Department	
	1	2	A	B
Direct overhead costs	\$268 000	\$228 000	\$150 000	\$240 000
Square feet occupied	15 000	10 000	10 000	13 000
Number of employees	15	10	48	28
Cost allocation basis	Square Feet	Number of Employees		

Montego Bay Company makes no distinction between fixed and variable costs incurred in its service departments.

Calculate the total service department costs that should be allocated to EACH production department using the direct method. **[10 marks]**

Total 35 marks

NOTHING HAS BEEN OMITTED

2. (a) The Regional Printing Company produces phone books for firms located throughout the Eastern Caribbean. A job order costing system is used to accumulate the costs incurred for each printing job. At the beginning of August 2009, two jobs were in process: Job 811 with assigned costs of \$16 500 and Job 813 with assigned costs of \$4 200. The following transactions were recorded by the Company during August 2009:

- Raw materials costing \$69 500 were purchased on account.
- Shop supplies costing \$3 600 were purchased on account.

Raw materials and shop supplies requisitioned during August were:

Raw Materials:

Job 813	\$ 8 500
Job 814	16 500
Job 815	12 000
Shop supplies	3 300

Labour hours worked during the month were:

Job 811	410
Job 813	620
Job 814	750
Job 815	110
Indirect labour	140

- Each worker was paid \$14 per hour.
- Depreciation on shop equipment was \$7 200.
- Other shop overhead was \$9 150.
- Shop overhead was applied to printing jobs at the rate of \$13.20 per direct labour hour.
- Jobs 811, 813 and 814 were completed and sold during the month.

- (i) Calculate the total shop overhead applied to jobs in August. **[2 marks]**
- (ii) By how much was shop overhead over- or under-applied during August? **[3 marks]**
- (iii) Compute the cost of the completed jobs for the month. **[10 marks]**
- (iv) Compute the total cost of jobs in process on August 31. **[4 marks]**

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(b) (i) Describe the MAIN difference between traditional costing systems and activity-based costing systems. **[2 marks]**

(ii) An Antigua Company manufactures two products, premium and super. The company has manufactured the super product since its inception; the premium product was introduced several years later to tap into a new segment of the market. Since the introduction of the premium product, the company's profits have steadily declined, and management has become concerned about the accuracy of its costing system. Sales of the premium product have been increasing rapidly.

Overhead is currently assigned to the products on the basis of direct labour hours, and the company's predetermined overhead rate for 2009 is \$25 per direct labour hour.

For 2009, the current year, the company has estimated that it will incur \$4 000 000 in overhead costs and produce 10 000 units of premium and 80 000 units of super. The premium product requires 3.2 hours of direct labour time per unit, and the super product requires 1.6 hours per unit. Direct materials, direct labour and overhead costs per unit are as follows.

	Products	
	Premium	Super
Direct materials	\$300	\$224
Direct labour	32	26
Manufacturing overhead	80	40
Total manufacturing cost	\$412	\$290

Assume that the company's overhead costs can be traced to four activity centres. These activity centres, their cost drivers, and estimated cost and activity data for each centre for 2009 are given below:

Activity Centre and (Cost Driver)	Traceable Cost	Expected Number of Transactions or Events		
		Premium	Super	Total
Purchase orders (Numbers of orders)	\$168 000	400	800	1 200
Scrap/rework orders (Numbers of orders)	432 000	300	600	900
Product testing (Number of tests)	900 000	4 000	11 000	15 000
Machining (Number of machine hours)	2 500 000	20 000	30 000	50 000
Total Overhead Cost	\$4 000 000			

- a) Compute the activity application rate for EACH activity centre for 2009. **[4 marks]**
- b) Compute the total overhead cost assigned to EACH product in 2009 using activity-based costing. **[4 marks]**
- c) Compute the total cost to manufacture ONE unit of EACH product in 2009 using activity-based costing. **[2 marks]**
- d) Based on your responses to a) through c) above, explain why the company's profitability has been declining since the introduction of the premium product. **[4 marks]**

Total 35 marks

3. (a) The president of Georgetown Company is evaluating three investment projects. The net cash flows for each project are estimated as follows:

Investment Project			
	A	B	C
Initial Cost	(\$212 508)	(\$227 448)	(\$217 180)
Year			
1	\$90 000	\$60 000	\$50 000
2	90 000	60 000	50 000
3	90 000	60 000	50 000
4		60 000	50 000
5		60 000	50 000
6			50 000
7			50 000
8			50 000

The firm's cost of capital is 12% and the following present value tables are available:

PVIF TABLE

Year	10%	11%	12%	13%	14%
0	1.0000	1.0000	1.0000	1.0000	1.0000
1	0.9091	0.9009	0.8929	0.8850	0.8772
2	0.8264	0.8116	0.7972	0.7831	0.7695
3	0.7513	0.7312	0.7118	0.6931	0.6759
4	0.6830	0.6587	0.6355	0.6133	0.5921
5	0.6209	0.5935	0.5674	0.5428	0.5194
6	0.5645	0.5346	0.5066	0.4803	0.4556
7	0.5132	0.4817	0.4523	0.4251	0.3996
8	0.4665	0.4339	0.4039	0.3762	0.3506
9	0.4241	0.3909	0.3606	0.3329	0.3075

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Compute EACH of the following:

- (i) The payback period for EACH investment project. **[9 marks]**
- (ii) The net present value for EACH investment project. **[16 marks]**
- (b) Rank the TWO investment projects based on the three measures in (a) (i) – (iii). **[2 marks]**
- (c) Assume that investment project “B” involves the installation of equipment that will drastically reduce the emission of harmful gases from the company’s manufacturing plant. This plant is located in a pollution-ravaged city where the unemployment rate is higher than the national average.

Briefly describe FOUR non-financial benefits that may accrue to Georgetown Company if it decides to proceed with the investment in project “B”. **[8 marks]**

Total 35 marks

END OF TEST

FORM TP 2010127



TEST CODE **02201032**

MAY/JUNE 2010

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 2 – PAPER 03/2

1 ½ hours

04 JUNE 2010 (a.m.)

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.

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1. The following information is available for the Lopinot Development Company for the year 2009.

	December 31	January 01
	\$	\$
Raw materials inventory	0	0
Work-in-process inventory	20	30
Finished goods inventory	25	10
Direct materials used	325	
Net sales	2 535	
Direct labour	450	
Manufacturing overhead	950	
General and administrative expenses	250	
Selling expenses	250	
Income tax paid	50	

- (a) Calculate the total manufacturing costs charged to Work-in-Process during 2009. **[3 marks]**
- (b) Calculate the costs of finished goods manufactured. **[3 marks]**

Total 6 marks

2. Freeport Company uses 9 000 units of part RT-100 each year. The company has determined that the cost to place an order for the part is \$30, while it costs \$1.50 to carry one unit of this part in inventory for one year.

Compute the Economic Order Quantity for part RT-100.

Total 4 marks

3. You have just been hired by Olympic Company, which was incorporated on January 2 of the current year. The company manufactures and sells a single product. It is your responsibility to coordinate shipments of the product from the factory to distribution warehouses located in various parts of the Caribbean region, so that goods will be available as orders are received from customers.

The company is unsure how to classify your \$240 000 annual salary in its cost records. The company's cost analyst states that your salary should be classified as a manufacturing (product) cost; the controller states that it should be classified as a selling expense; and the President indicates that it does not matter which way your salary cost is classified.

From the point of view of the reported net income for the year, is the President correct in his statement that it does not matter which way your salary cost is classified? Explain your answer.

Total 4 marks

4. The following information is provided for Dragon Beer Company for the month of August, 2009.

	\$
Sales (25 000 cases @ \$12 each)	300 000
Variable manufacturing costs per case	3.50
Fixed manufacturing costs	120 000
Selling and administrative costs	65 000

Thirty thousand cases of beer were manufactured in August. As this was the first month of operations there was no beginning inventory.

Prepare a contributing format income statement using variable costing.

Total 4 marks

Questions 5 and 6 refer to the following information.

Classy Furniture Inc. applies overhead on the basis of direct labour cost. At the beginning of 2009, the company's cost accountant made the following predictions about the year's operations: direct labour cost, \$4 million; factory overhead, \$5 million.

The first two jobs manufactured in 2009 were No. 501 and No. 502. Selected costs and the production status of these two jobs are as follows.

	Job No. 501	Job No. 502
Direct materials	\$22 000	\$48 000
Direct labour	\$40 000	\$75 000
Job status	In process	Completed but not shipped

At the end of 2009, actual direct labour costs amounted to \$4 200 000 and factory overhead incurred totalled \$5 180 000. There was no work in process on January 01, 2009.

5. (a) Compute the company's overhead application rate. **[1 mark]**
- (b) Determine the balance in the Work-in-Process account in relation to the jobs above at the end of 2009. **[3 marks]**
- (c) Determine the amounts of finished goods inventory in relation to the jobs above at the end of 2009. **[3 marks]**

Total 7 marks

6. Using the information provided above and your answer to Question 5, determine the amount of over- or under-applied overhead for 2009. Be sure to indicate whether overhead was over-applied or under-applied.

Total 3 marks

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7. The director of budgeting for Coryal Products is beginning the process of preparing a cash budget for January 2010. The sales forecast for the month of January 2010 is as follows:

Estimated cash sales	\$ 90 000
Estimated sales on account	\$ 680 000

In the past, the accounts receivable originating from credit sales have been collected in the following pattern:

In the month of sale	20%
In the first month following the sale	45%
In the second month following the sale	30%
Written off as uncollectible	5%

Credit sales in the last two months of 2009 were as follows:

November	\$ 580 000
December	\$ 730 000

Compute the amount of cash expected to be collected from customers in January 2010.

Total 5 marks

8. Royal Corporation produces three lines of wooden desks from classic, royal, and standard wood. Cost, revenue and operating data pertaining to each product are shown below:

	Classic	Royal	Standard
Selling price	\$150	\$220	\$70
Total variable costs	50	140	40
Wood used per unit	5	10	3
Demand (in units)	250	100	500

Royal has 3 000 square feet of wood available for use during the coming period.

Determine the mix of products that Royal Corporation should produce in order to maximize its operating income for the coming period.

Total 5 marks

9. The management of Bowen Manufacturing has three different investment proposals (Projects A, B and C) under consideration. The Accounting Department has prepared the following information:

	Project		
	A	B	C
Initial investment	\$3 100 000	\$2 450 000	\$2 055 000
Useful life of equipment	7 years	7 years	7 years
Estimated salvage value	\$0	\$400 000	\$100 000
Payback period	4.2 years	4.4 years	4 years
Net present value discounted at 15%	\$(30 000)	\$21 600	\$15 800

- (a) If Bowen Manufacturing has a screening hurdle of FOUR years, identify the project(s) that will be short-listed for investment. **[1 mark]**
- (b) Give an example of a situation that may motivate a firm that is committed to profit maximization to invest in a project such as A which has a negative Net Present Value. **[3 marks]**

Total 4 marks

END OF TEST

FORM TP 2011127



TEST CODE **02101020**

MAY/JUNE 2011

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 1 – PAPER 02

2 $\frac{3}{4}$ hours

06 MAY 2011 (a.m.)

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.

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NOTHING HAS BEEN OMITTED.

1. (a) During their review of the accounts of James Sargeant Company for the year to March 31, 2009, the external auditors realised that the company had not made the adjusting journal entries for the following items.
- (i) The rent expense account includes a payment of \$5 550 for the six months to April 30, 2009.
 - (ii) The electricity has only been paid up to December 31, 2008. There is an unpaid invoice in the records for the 3 months to March 31, 2009 for \$1 785.
 - (iii) The policy in Sargeant's company is to depreciate fixed assets at 18% on the reducing balance basis. At March 31, 2009, cost of fixed assets was \$138 900. Accumulated depreciation at April 01, 2008 was \$45 500. The company did not purchase or dispose of any fixed assets during the year.
 - (iv) Inventory on hand at March 30, 2009 was included at cost. Some items costing \$2 645 had been on hand for over 12 months. The company is convinced that it can sell them for \$4 000 but first it will have to spend \$2 250 to refurbish them.
 - (v) Sargeant Company had outstanding accounts receivable totalling \$20 000 as of March 31, 2009. There was also a credit balance of \$1 000 in the allowance for doubtful accounts. The company estimates that 8% of its outstanding receivables will be uncollectible.

Prepare the journal entries to record EACH of the above situations. **[15 marks]**

- (b) (i) Explain THREE purposes of accounting standards in the commercial activity of a country. **[3 marks]**
- (ii) The International Accounting Standards (IAS) are developed by a cross-section of persons from the society. Identify TWO groups of persons who are represented on the International Accounting Standards Board and give ONE reason for EACH group to show why it needs accounting standards. **[4 marks]**
- (iii) Define EACH of the following accounting concepts:
- Relevance
 - Reliability
 - Comparability
 - Consistency
- [8 marks]**
- (c) Outline FIVE ways in which accounting information in an Electronic Data Processing (EDP) environment can be controlled. **[5 marks]**

Total 35 marks

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2. (a) The bookkeeper of Manuel Congo Company has prepared the following balance sheet as of July 31, 2010.

Manuel Congo Company Balance Sheet as at July 31, 2010			
	\$		\$
Cash	69 000	Accounts payable	44 000
Accounts receivable (net)	40 500	Mortgage	75 000
Inventories	60 000	Stockholders' equity	155 500
Equipment (net)	84 000		
Patents	21 000		
Total	274 500	Total	274 500

The following additional information is provided:

1. Cash includes \$1 200 in a petty cash fund and \$12 000 in a bond sinking fund.
2. The net accounts receivable balance comprises the following three items:
 - a) accounts receivable – debit balances \$52 000,
 - b) accounts receivable – credit balances \$8 000, and
 - c) allowance for doubtful accounts \$3 500.
3. The mortgage is subject to 10% interest every July 31 and matures in installments of \$5 000 every July 31, beginning July 31, 2011.
4. Equipment had a cost of \$112 000 and an accumulated depreciation balance of \$28 000.

Use the available information to adjust the account balances as appropriate and prepare a corrected classified balance sheet for Manuel Congo Company as at July 31, 2010, in good form. **[15 marks]**

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(b) Most Caribbean business organizations fit into one of the following categories (type of entities):

- Proprietorship
- Partnership
- Company / Corporation
- Non-Governmental Organizations (NGOs)

Identify ONE benefit that will arise when operating a business under EACH type of entity listed above. **[4 marks]**

(c) At December 31, 2010 an analysis of the accounts and discussions with the management of Pamponette Company revealed the following information after all adjusting entries were recorded:

	\$
Sales	1 100 000
Purchase discounts	18 000
Purchases	642 000
Selling expenses	128 000
Cash	60 000
Accounts receivable	90 000
Common stock	200 000
Accumulated depreciation	180 000
Dividend revenue	8 000
Inventory, January 1, 2010	152 000
Inventory, December 31, 2010	125 000
Unearned service revenue	4 400
Accrued interest payable	1 000
Land	370 000
Patents	100 000
Retained earnings, January 1, 2010	290 000
Interest expense	17 000
General and administrative expenses	150 000
Dividends declared	29 000
Allowance for doubtful accounts	5 000
Notes payable (maturity 7/1/2013)	200 000
Machinery and equipment	450 000
Materials and supplies (asset)	40 000
Accounts payable	60 000

All the accounts have normal balances. The company is subject to a 30% rate of corporation tax.

Prepare a multiple-step Income Statement, in good form, for the year ended December 31, 2010. **[16 marks]**

Total 35 marks

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3. Questions 3 (a), 3 (b) and 3 (c) are based on the following information.

As a loan analyst for National Commercial Bank, you have been presented with the following information.

	Panorama Company	Kaiso Fiesta Company
<u>Assets</u>	\$	\$
Cash	120 000	320 000
Accounts receivable	220 000	302 000
Inventories	570 000	518 000
Total current assets	910 000	1 140 000
Other assets	500 000	612 000
Total assets	1 410 000	1 752 000
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities	300 000	350 000
Long-term liabilities	400 000	500 000
Capital stock and retained earnings	710 000	902 000
Total liabilities and stockholders' equity	1 410 000	1 752 000
Annual sales (all on credit)	930 000	1 500 000
Rate of gross profit on sales	30%	40%
Interest expense	40 000	60 000
Net income	95 000	135 000

Assume that the ending account balances are representative of the entire year.

Each of these companies has requested a loan of \$55 000 for 6 months with no collateral offered. Since your bank has reached its quota for loans of this type, only one of these requests can be granted.

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- (a) Compute the following ratios for both companies.
- (i) Current ratio [2 marks]
 - (ii) Acid-test (quick) ratio [2 marks]
 - (iii) Accounts receivable collection period [4 marks]
 - (iv) Inventory turnover ratio [2 marks]
 - (v) Debt to total assets ratio [2 marks]
 - (vi) Debt to equity ratio [2 marks]
 - (vii) Times interest earned ratio [3 marks]
- (b) Prepare a report for the bank outlining the performance of EACH company in terms of liquidity and solvency. [6 marks]
- (c) Indicate which of the two companies should receive the loan AND give ONE reason why it should. [2 marks]
- (d) The following three independent situations relate to Montego Company.
- (i) In August 2010 a worker was injured in an accident at one of the factories owned by Montego Company. The accident was partially the result of the worker's own negligence. The worker has sued Montego Company for \$800 000. Counsel believes it is reasonably possible that the outcome of the suit will be unfavourable for the company and that the settlement would cost the company between \$250 000 to \$500 000.
 - (ii) A suit for breach of contract seeking damages of \$350 000 was filed by a supplier against Montego Company on October 4, 2010. Montego's legal counsel believes that an unfavourable outcome is probable. A reasonable estimate of the award to the plaintiff is between \$100 000 and \$250 000. No amount within this range is a better estimate of potential damages than any other amount.
 - (iii) Montego Company is involved in a pending court case against one of its customers, Peete Company. Peete's lawyers believe it is probable that Montego Company will be awarded damages of \$1 000 000.

Discuss the proper accounting treatment, including any required note disclosures, for EACH situation in the financial statements / accounting records of Montego Company. [10 marks]

Total 35 marks

END OF TEST

FORM TP 2011128



TEST CODE **02101032**

MAY/JUNE 2011

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

UNIT 1 – PAPER 03/2

1 ½ hours

09 JUNE 2011 (a.m.)

1. This paper comprises **THREE** 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.

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Read the following passages and answer all the questions that follow each of them.

Khandi Francis graduated in 2000 from Central Polytechnic Institute with a Diploma in Automotive Repairs and Refurbishment. After graduating, Khandi worked for three years as Operations Manager at Automate Service Inc. The work experience together with her training at the Polytechnic provided Khandi with the skills necessary to operate her own business. In 2004, Khandi opened a small business, trading as Victory Automotive, a sole proprietorship, operating on a vacant lot adjacent to her home. She employed two additional persons. Khandi provided the tools and equipment needed to operate the business. The business clientele continued to grow at an exceptional rate and by the end of 2007 the business had employed fifteen persons and had over 200 clients. This rapid growth created several challenges for Khandi, since she did not maintain any accounting records and had to carry a considerable amount of spare parts which needed to be effectively controlled.

A freighting company has approached Victory Automotive about servicing their fleet of sixty vehicles on a fixed contract basis. Khandi, the owner/manager is excited about this business opportunity as she feels it would catapult her business into the number one position in the local small vehicle servicing market. However, the present operating conditions would not permit Victory Automotive to accept the offer. Therefore, the owner/manager has decided to expand the business by leasing a nearby commercial lot that had been approved for industrial use. A steel frame building would be erected on the site, together with two ramps, pressure hoses and other industrial equipment that would enable the company to increase its capacity and enhance its delivery times. In order to facilitate the expansion programme, Khandi has to make some decisions concerning the financing of the expansion. She must decide whether she would maintain the sole proprietorship and borrow the needed funds; form a partnership and admit two of her best friends to provide the needed capital; or incorporate the business and sell shares.

Option 1 – Maintain the sole proprietorship and finance by way of a loan

If this option is selected, Khandi would need to borrow some funds from the National Commercial Bank. During the interview with the loans officer, Khandi recognised that though she had a sound knowledge of the mechanical and operational aspects of the business, she had no understanding of the accounting procedures. The loans officer recognised that Khandi had no understanding of the entity concept and the accrual basis of accounting. During the interview, it was revealed that Khandi deposited all the money collected from the business into her personal account from which she paid the employees' wages and all the other business expenses. In addition, it was revealed that over the years Khandi purchased equipment for the business as needed, using personal loans or hire purchase accounts. The loans officer also recognised that "Victory Automotive did not have an effective internal control system".

1. (a) Explain what is meant by the term 'the entity concept'. **[2 marks]**
- (b) Explain how the accounting system at Victory Automotive violates the entity concept and suggest how Khandi can implement this concept in a revised arrangement. **[4 marks]**

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- (c) (i) State FOUR benefits that Victory Automotive could gain from implementing an effective internal control system. **[4 marks]**
- (ii) State FOUR control measures that Victory Automotive could implement to safeguard and effectively control its spare parts inventory. **[4 marks]**

Total 14 marks

Option 2 – Form a partnership

Khandi, in discussing the expansion of Victory Automotive with her two best friends, Gale and Denise, is unsure of whether a partnership or a limited liability company would be the better route to take at this time. Gale and Denise are both willing to invest in the venture and provide the additional funds needed to finance the expansion, but they both have limited knowledge of the differences between the different forms of business organisations. Khandi is also unsure of how the financial statements under the different forms will be prepared. Khandi has requested your help in understanding the accounting and recording practices as they relate to the two different forms of business organisations under consideration.

- 2. (a) State TWO advantages and TWO disadvantages of a
 - (i) partnership
 - (ii) limited liability company. **[8 marks]**
- (b) Khandi has also heard that she can admit her two friends into the partnership using either the bonus method or goodwill method. Explain how the accounting for an admission differs under these TWO methods. **[2 marks]**
- (c) Outline the presentation of the equity section of the balance sheet among the following: sole proprietorship, partnership and limited liability company. **[4 marks]**

Total 14 marks

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Option 3 – Incorporate and sell additional shares

Khandi incorporated Victory Automotive on June 1, 2010 trading as Victory Automotive Inc. Khandi was given 20 000 ordinary shares with a par value of \$2.50 and 30 000 5% preference shares with a par value of \$5.00 in exchange for her assets and liabilities. The authorised share capital of the firm consisted of 100 000 ordinary shares with a par value of \$2.50 each and 30 000 5% preference shares with a par value of \$5 each. On July 1, 2010, the company issued to Gale and Denise 30 000 shares each at a price of \$6.00 per share. The company's financial year end is May 31. Selected account balances at May 31, 2011 revealed: Issued share capital – ordinary shares 80 000 and preference shares 30 000. The share premium /additional paid in capital account for ordinary shares stood at \$210 000 and Share Premium Account for the preference shares stood at \$90 000. The balance in the Retained Earnings Account was \$35 000 and Other Revenue Reserves stood at \$50 000. The organization Costs Accounts Balance was \$40 000.

On April 15, 2011 the company was sued by a client for damages to his vehicle as a result of the “carelessness of a new mechanic”. The company's lawyer has advised that the company should accept liability and settle the case out of court. The lawyer further advised that in similar cases the amount awarded for damages might exceed \$10 000.

3. (a) Prepare the equity section of the Balance Sheet for Victory Automotive Inc., in a form suitable for publication. **[8 marks]**
- (b) Explain what is meant by contingent liability and outline the presentation options that are available to the company. **[4 marks]**
- (c) List TWO pieces of information that should be included in the contingent liability footnote. **[2 marks]**

Total 14 marks

END OF TEST

FORM TP 2011130



TEST CODE **02201020**

MAY/JUNE 2011

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 2 – PAPER 02

2 $\frac{3}{4}$ hours

31 MAY 2011 (p.m.)

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.

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1. (a) The following information was taken from the accounting records of Horsford Company for the year ended December 31, 2010:

	\$
Direct material purchases	880 000
Indirect materials used	175 000
Direct labour	940 000
Other factory overheads	295 000
Selling expenses	250 000
Administrative expenses	360 000
Sales	4 200 000

Inventories	January 01	December 31
	\$	\$
Raw (direct) materials	230 000	140 000
Work in process	75 000	60 000
Finished goods	200 000	300 000

- (i) Prepare a schedule of cost of goods manufactured for the year ended December 31, 2010. **[11 marks]**
- (ii) Calculate Horsford Company's cost of goods sold for the year ended December 31, 2010. **[4 marks]**
- (b) (i) Identify THREE major elements in the cost of a manufactured product. **[3 marks]**
- (ii) Explain EACH of the following types of costs and give ONE example of EACH.
- a) Product cost
 - b) Period cost
 - c) Mixed cost **[6 marks]**
- (iii) Distinguish between prime cost and conversion cost. **[2 marks]**
- (iv) Identify ONE method that is used to separate mixed cost into its components. **[1 mark]**
- (v) Explain how direct and indirect costs are typically treated in an income statement of a service organization. **[3 marks]**

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- (c) Wallace Company applies manufacturing overhead to jobs on the basis of machine hours used. In 2010, manufacturing overhead costs were expected to total \$550 000 and machine usage was estimated at 125 000 hours.

The manufacturing overhead cost incurred in January 2010 was \$30 000 and the number of machine hours used was 15 000.

- (i) Compute the pre-determined manufacturing overhead rate for the year.
[3 marks]
- (ii) Calculate the amount of manufacturing overhead applied during January 2010.
[2 marks]

Total 35 marks

NOTHING HAS BEEN OMITTED.

2. (a) The management accountant of Lawson Bravo Company compiled the following data for its only product, Oildown, during its first year of operation:

	\$	
Sales price per unit	30	
Variable costs per unit:		
Selling and administrative expenses	2	
Production	4	
Fixed manufacturing costs per unit produced	4	
Fixed selling and administrative cost per unit sold	3	
Units manufactured		5 000
Units sold for the year		3 800

- (i) Assuming that Lawson Bravo Company uses an absorption costing system, compute its operating income for the year. **[4 marks]**
- (ii) Assuming that Lawson Bravo Company uses a marginal costing system, compute its operating income for the year. **[4 marks]**
- (iii) Reconcile the operating income figures computed in parts (a) (i) and (ii) above. **[2 marks]**
- (b) Belmopan Company produces calendars in a one-process department. Direct materials are introduced at the beginning of the process. Conversion costs are applied uniformly throughout the process. The weighted-average method of process costing is used. Data for the current period are as follows:

Beginning work in process inventory (40% complete for conversion cost)	22 500	units
Units started in current period	130 000	units
Units completed in current period	124 000	units
Ending work in process inventory (60% complete for conversion cost)	28 500	units
Costs contained in beginning work in process inventory		
Direct materials	\$ 51 900	
Conversion costs	\$ 20 174	
Costs added during current period		
Direct materials	\$ 430 000	
Conversion costs	\$ 310 000	

Prepare a production report for Belmopan Company. **[15 marks]**

- (c) (i) State THREE fundamental differences between activity-based costing and traditional costing systems such as process costing. **[6 marks]**
- (ii) Explain how cost drivers are selected in activity-based costing systems. **[4 marks]**

Total 35 marks

GO ON TO THE NEXT PAGE

3. (a) Define the term 'budget' and outline FOUR benefits of budgeting. [6 marks]

Use the information below to answer Questions 3 (b) and 3 (c).

The Management Accountant of Philmore Inc. has provided you with the following information pertaining to the company.

- | | |
|---------------------------|---------|
| 1. Monthly Sales: | \$ |
| November 2010 (Actual) | 100 000 |
| December 2010 (Actual) | 150 000 |
| January 2011 (Forecasted) | 175 000 |
| February 2011 | 160 000 |
| March 2011 | 120 000 |
2. Cash collection pattern:
- 30% in the month of sale
 - 50% in the next month
 - 18% in the month following
 - 2% uncollected
3. Cost of goods sold = 60% of sales
Desired ending inventory = 20% of next month's sales
Inventory on hand at December 31, 2010 35 000
4. Payment pattern:
- 40% of purchases paid in the month of purchase
 - 60% paid in the following month
- Accounts payable at December 31, 2010 55 800
5. Other information:
- | | |
|---|--------|
| Cash in bank on January 1, 2011 | 10 000 |
| Expected purchase of equipment in January 2011 (40% of this was paid) | 50 000 |
| Dividends – January 2011 | 30 000 |
| Administrative expense – per month, paid in month | 40 000 |
| Mortgage payment due in January 2011 | 5 000 |
| Selling expense is 5% of sales of the current month to be paid in month | |
| Interest expense payable in January | 1 000 |
6. The company has access to a line of credit with the bank with the following terms:
- Borrowings in a given month are taken out at the beginning of the month.
 - Repayments are made at the end of the month.
7. The company wants to maintain a minimum cash balance of \$10 000 at all times.

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- (b) Prepare the following for the month of January 2011:
- (i) Cash collection schedule [7 marks]
 - (ii) Purchases schedule [4 marks]
 - (iii) Cash disbursement on purchases schedule [4 marks]
- (c) Prepare the cash budget for the month of January 2011 [14 marks]

Total 35 marks

END OF TEST

FORM TP 2011131



TEST CODE **02201032**

MAY/JUNE 2011

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 2 – PAPER 03/2

1 ½ hours

03 JUNE 2011 (a.m.)

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.

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1. The financial records of Bermuda Company for the period January 1 to December 31, 2010 were damaged during a recent flood. Fortunately, the company was able to salvage the income statement information presented below.

Bermuda Company	
Partial Income Statement Information	
for the year ended December 31, 2010	
	\$
Sales	225 000
Finished goods, beginning inventory	?
Work-in-process, beginning inventory	7 500
Raw materials used	42 500
Direct labour cost	27 500
Manufacturing overhead	30 000
Work-in-process, ending inventory	?
Cost of goods manufactured	95 000
Finished goods, ending inventory	11 500
Cost of goods sold	?
Gross profit	105 000
Operating expenses	35 000
Net income	?

Calculate the following amounts for Bermuda Company:

- (a) Cost of goods sold [2 marks]
- (b) Ending work-in-process inventory [2 marks]

Total 4 marks

2. The costs that follow were extracted from the accounting records of several different manufacturers:

- (a) Weekly wages of an equipment maintenance worker
- (b) Marketing costs of a soft drink bottler
- (c) Cost of sheet metal in a Honda automobile
- (d) Monthly operating costs of pollution control equipment used in a steel mill
- (e) Weekly wages of a seamstress employed by a clothing manufacturer
- (f) Cost of compact discs (CDs) for newly recorded releases of a popular Caribbean musician

Determine which of the items above are product costs and which are period costs.

Total 6 marks

3. The accountant of Talparo Company which uses the Economic Order Quantity (EOQ) decision model to make inventory decisions, compiled the following information in relation to one of the company's products:

Annual demand	60 000 units
Ordering cost	\$25 per order
Holding cost	\$3 per unit per year
Purchase order lead time	7 days

Talparo Company is open 365 days each year and sales are spread evenly over the year.

- (a) Calculate the company's Economic Order Quantity for this product. **[2 marks]**
- (b) Calculate the number of orders that will be placed during the year. **[1 mark]**
- (c) Calculate the reorder point. **[1 mark]**

Total 4 marks

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4. Plymouth Company manufactures electrical plugs. The following operating statistics were compiled for its first year in business, which ended on December 31, 2010.

Sales (45 000 plugs)	\$ 360 000
Production (75 000 plugs)	

	Variable Costs	Fixed Costs
	\$	\$
Production costs:	240 000	56 000
Non-production costs:		
Selling and administrative	90 000	

Prepare a variable costing Income Statement for Plymouth Company using the contribution format.

Total 7 marks

5. The cost accountant of Barbados Manufacturers prepared the following information relating to the company's production for June, 2010.

	Physical Units	Equivalent Units	
		Materials	Conversion
<u>Completed production</u>			
Beginning work-in-process	4 500		3 000
Units started and completed	13 000	13 000	13 000
Ending work-in-process	7 500	7 500	5 000
	25 000	20 500	21 000
	25 000	20 500	21 000

Prior period costs in respect of work-in-process inventory on June 01, 2010 amounted to \$22 500. Current costs per equivalent unit for material and conversion are \$8.50 and \$12.00 respectively.

Determine the cost of the ending work-in-process inventory.

Total 3 marks

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6. The Lucian-Warriors Carnival Band is well known throughout the Caribbean for its impressive line of carnival costumes. The band's manager has accumulated the following information for its four activity-cost pools and the corresponding activity drivers for Carnival 2011:

Activity	Cost	Cost Driver
	\$	
Marketing	120 000	\$1 000 000 of sales
Customer service	30 000	5 000 customers
Order and fitting	10 000	1 000 orders
Warehousing	5 000	50 costume types

Determine the activity-cost-driver rate for EACH of the FOUR activities above.

Total 4 marks

7. Grenville Company provided the following information for 2010:

	January	February	March
Sales	\$50 000	\$60 000	\$80 000

Twenty-five per cent (25%) of sales are on a cash basis while the remaining 75% represents credit sales. Cash collections on credit sales are received as follows:

- 50% in the month following the sale
- 45% in the second month after the sale

The accounts receivable balance on December 31, 2009 was \$15 000.

Calculate the expected cash collections for March 2010.

Total 6 marks

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8. MillieB Company produces a laundry detergent known as Clean-Up. The firm uses a standard cost system to control costs. The standard direct material required for one box of Clean-Up is as follows:

Chemical compound – 5 pounds at \$1.50 per pound

During August, the company purchased and used 110 000 pounds of chemical compound at \$1.55 per pound to manufacture 21 000 boxes of Clean-Up.

- (a) Compute the direct materials price variance. **[1 mark]**
- (b) Compute the direct material quantity variance. **[1 mark]**
- (c) State the title of the person who would MOST likely be responsible for the direct material price variance. **[1 mark]**
- (d) State the title of the person who would MOST likely be responsible for the direct material quantity variance. **[1 mark]**

Total 4 marks

9. The St Kitts Group of Companies is thinking of buying, at a cost of \$440 000, some new packaging equipment that is expected to save \$150 000 per annum in cash-operating costs. The estimated useful life of the equipment is 5 years and it will have a zero terminal disposal price. The required rate of return is 16%.

Present Value of an Annuity of \$1 per Period for n Period			
Period	14%	16%	18%
1	0.8772	0.8621	0.8475
2	1.6467	1.6052	1.5656
3	2.3216	2.2459	2.1743
4	2.9137	2.7982	2.6901
5	3.4331	3.2743	3.1272
6	3.8887	3.6847	3.4976

- (a) Compute the payback period. **[1 mark]**
- (b) Compute the net present value. **[3 marks]**

Total 4 marks

END OF TEST

FORM TP 2012127



TEST CODE **02101020**

MAY/JUNE 2012

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 1 – Paper 02

2 hours and 45 minutes

05 JUNE 2012 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises **THREE** questions.
2. **EACH** question is worth 35 marks.
3. **ALL** questions are **COMPULSORY**.
4. Begin **EACH** answer on a new page.
5. You may use a silent, non-programmable calculator to answer questions.

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1. (a) Internal and external auditors often liaise on various matters but there are differences between their roles.

(i) Copy and complete the following table which compares and contrasts the scope and objectives of the work of internal auditors for a public company with those of external auditors.

TABLE 1: THE ROLES OF INTERNAL AND EXTERNAL AUDITORS

Internal Auditors	External Auditors
Appraise the effectiveness with which organisational units	Give an opinion on the fair presentation of
Report to	Report to
Study and evaluate accounting and administrative	Limit themselves to reviewing accounting controls as they affect the figures on the
Employees of the	Independent of the company they

(8 marks)

(ii) Explain BRIEFLY the extent to which EACH type of auditor should be expected to detect fraud in a company. **(4 marks)**

(b) Bernice Inc was incorporated in St Barths on 30 November 2010. A number of transactions occurred over the next two years. However, no entries were made in the books with respect to any of these transactions. The director has hired you to make the necessary journal entries to bring the books up to date. The following transactions occurred over the two years.

- 15 June 2011, Bernice Inc issued 15 000 shares of \$10 par value common stock in exchange for land with a fair market value of \$60 000 and a building with a fair market value of \$180 000.
- 15 October 2011, Bernice Inc purchased 35% of the outstanding shares of \$2 par value common stock of Fly Corporation for \$700 000.
- 30 November 2011, Fly Corporation paid a total cash dividend of \$120 000.

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- 31 December 2011, accrued the interest on an \$80 000 6-month 10% note payable taken on 01 October 2011 (**Note: do not make any entry for the actual loan**).
- 31 December 2011, the company has estimated accumulated retained earnings of \$5 million. The board of directors declared a stock dividend by issuing 9 000 additional \$10 par shares of common stock.

Prepare journal entries with narratives to record the above transactions. **(17 marks)**

- (c) International Accounting Standard 1 (IAS 1) states that there are certain considerations that must be taken into account if financial statements are to be fairly presented and if the financial statements are to be in compliance with the International Accounting Standards.

Briefly explain the following terms as used in IAS 1.

- (i) Consistency **(2 marks)**
- (ii) Materiality **(2 marks)**
- (iii) Going concern **(2 marks)**

Total 35 marks

2. (a) Copy and complete Table 2 by putting a tick (✓) to indicate whether the characteristic is applicable to the Corporation or Partnership.

TABLE 2: CHARACTERISTICS OF A CORPORATION AND A PARTNERSHIP

Characteristics	Corporation	Partnership
Taxation of the entity		
Ease of transfer of ownership		
Owners' liability for debts of the business		
Continuity of existence		
Separate legal entity		

(5 marks)

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- (b) Kendal and Kwame are in partnership in a publishing business sharing profits and losses equally. They decide to admit Janet into the partnership. Janet brought \$80 000 to be used for expansion. Profits in the future would be shared equally among Kendal, Kwame and Janet. Immediately prior to admission of Janet, the Balance Sheet of Kwame and Kendal was as follows:

Kwame & Kendal		
	\$	\$
Assets		
Current assets		
Cash at bank	2 000	
Accounts Receivable	12 000	
Inventory	<u>10 000</u>	
Total current assets		24 000
Current Liabilities		
Accounts Payable		<u>8 000</u>
		16 000
Fixed Assets		
Property, Plant and Equipment		
Building	180 000	
Plant and Machinery	<u>20 000</u>	
		200 000
Total net assets		<u>216 000</u>
Capital		
Kwame		120 000
Kendal		<u>96 000</u>
		<u>216 000</u>

Revaluation of assets reveals goodwill to be valued at \$18 000, Buildings at \$200 000 and Plant and Machinery at \$16 000. Inventory and Accounts Receivable are considered to have fair value equal to book value.

- (i) Prepare the Capital Adjustment Account which shows the charges to the Plant and Machinery Account, Building Account, Goodwill and the Partners Capital Accounts just before Janet is admitted. **(10 marks)**
- (ii) Prepare the Balance Sheet to show the opening position of the new partnership of Kwame, Kendal and Janet. **(10 marks)**

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(c) William Barker organized Fancy Beachwear Inc early in 2009 with an authorized share capital of 500 000 shares at \$5 each.

- On 15 January 2009 the company issued to William and other investors 40 000 ordinary shares.
- The investors paid \$6 for each share.
- The Income Statement prepared at 31 December 2009, showed a pre-tax profit of \$120 000.
- No dividends were declared in 2009.
- In 2010, the directors offered a 1 for 2 rights issue at \$5 per share.
- All the rights were taken up.
- The pre-tax profit for 2010 was \$625 000.
- In June 2011, the directors gave a bonus issue of 1 share for every share in issue.
- The pre-tax profit for 2011 was \$750 000.
- The corporation tax rate was 35% for the period 2009–2011.

Prepare the Shareholder Equity section of Fancy Beachwear Inc at 31 December 2011. **(10 marks)**

Total 35 marks

3. You have been presented with the following Trial Balance of Portsmouth Home & Office Depot at 30 June 2011.

	DR	CR
	\$'000	\$'000
Fittings at cost	226	
Fittings, accumulated depreciation – 01 July 2010		88
Buildings at cost	592	
Buildings, accumulated depreciation – 01 July 2010		48
Land, at cost	188	
Bank	30	
Retained Earnings – 01 July 2010		104
Long term loan		40
Loan interest	4	
Dividend paid	20	
Sales		1510
Returns inwards	28	
Wages and salaries	144	
Insurance	14	
Utilities	70	
Inventory – 01 July 2010	128	
Allowance for bad debts – 01 July 2010		8
Administrative expenses	64	
Purchases	884	
Discounts received		76
Accounts payable		200
Accounts receivable	256	
Directors fees	56	
\$1 Ordinary shares		570
Share premium account		60
	2704	2704

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Additional information available as at 30 June 2011:

- Ending inventory is valued at \$60 000.
- Invoices for utilities NOT received for June is \$12 000.
- Insurance expense includes \$2 000 for July and August 2011.
- Fittings are to be depreciated at 25% per annum using the reducing balance method.
- Buildings are depreciated at 5% per annum on the original cost.
- Land was revalued on 30 June 2011 to \$200 000.
- \$10 000 of the long term loan is due to be paid in the next accounting period.
- Tax has been calculated at \$40 000 for the year.

Prepare the Income Statement **and** Balance Sheet for the Company for the year ended 30 June 2011 in accordance with International Accounting Standard 1 (IAS 1).

Total 35 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2012128



TEST CODE **02101032**

MAY/JUNE 2012

**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

ACCOUNTING

UNIT 1 – Paper 032

1 hour and 30 minutes

11 JUNE 2012 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises THREE questions. Answer ALL questions.
2. Begin EACH answer on a new page.
3. You may use a silent, non-programmable calculator to answer questions.

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Peter Spindley recently inherited \$400 000 from his uncle's estate. He is trying to determine the best possible way to use the funds and has had a meeting with an investment analyst. The analyst has provided Peter with the following options:

- Option 1** – Invest the funds to start a personal business.
- Option 2** – Contribute capital as a general partner in the family business.
- Option 3** – Purchase common stock of \$2.50 par value from Smart Line Plc. (public company), at a premium of 50 cents each.
- Option 4** – Purchase 8% non-cumulative preference shares of \$1.25 at par from CARICOM Inc. (a private company).
- Option 5** – Deposit the money in Portsmouth Credit Union.

The thought of running his own business has excited Peter so Options 1 and 2 are quite appealing. However, Peter has recently been promoted to a new position by his employer and would not want to disappoint his superiors by resigning at this stage. Peter is thinking about his next move and needs some information on the different types of business entities that the analyst has identified. Peter has learned that you have recently completed your CAPE Accounting course and is desirous of having a discussion with you about his investment options and the role that accounting plays in these different business entities to assist him in making the decision.

1. Prepare a report for Peter outlining how the investment of the \$400 000 would be recorded in the equity/capital accounts and what would cause changes to the account balances for a:
 - (a) Sole Trader
 - (b) Partnership
 - (c) Company
 - (d) Co-operative

Note:

Calculations are NOT required.

In your report, identify the names of the accounts used in the various types of businesses to record the introduction and withdrawal of capital, the treatment of profits and losses as well as any excess amounts paid for shares (in the case of companies).

Where necessary, indicate the names of any special accounts which are set up to deal with dividends, bonuses and reserves.

Total 14 marks

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2. Peter recalls that in his Principles of Business class at San Soucie Comprehensive College, the advantages and disadvantages of the different business entities were discussed but he cannot remember the details. In addition, he recalls that some of his friends in the Principles of Accounts classes talked about different presentations for the financial statement of the various types of businesses.

- (a) For the FOUR different forms of businesses identified in Question 1, prepare a report for Peter which outlines the similarities and differences in the presentation of
- (i) their assets and liabilities on the balance sheet **[6 marks]**
 - (ii) their income statements. **[5 marks]**
- (b) What is the impact of the concept of limited liability in the different forms of business entities identified? **[3 marks]**

Total 14 marks

3. The analyst supplied Peter with comparative data for Smart Line Plc. and CARICOM Inc. Peter, as an investor, requires some information on the financial performance of these two companies. The analyst has informed him that the four key ratios to focus on are : Return on common stockholders' equity, Earnings per share, Price earnings ratio and Dividend payout.

	Smart Line Plc.	CARICOM Inc.
	\$ '000	\$ '000
Net sales (all on credit)	298 000	223 000
Cost of goods sold	155 000	125 000
Income from operations	83 000	47 000
Interest expense	13 000	
Net income	43 000	29 000
Dividends – common stock	2 250	3 000
Dividends – Preference stock	1 000	800
Total current assets	113 000	103 000
Total assets	197 000	159 000
Total current liabilities	59 000	65 000
Total liabilities	79 000	65 000
Preference stock, 5%, \$100 par	20 000	
Preference stock, 8%, \$100 par non-cumulative		10 000
Common stock, \$1 par (6 000 shares)		6 000
Common stock, \$2.50 par (3 000 shares)	7 500	
Total common stockholders' equity	118 000	94 000
Market price per share of common stock	67	31

Prepare a report for Peter which contains:

- (a) a computation of the four ratios identified by the analyst for EACH company [10 marks]
- (b) the importance of EACH ratio. [4 marks]

Total 14 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2012130



TEST CODE **02201020**

MAY/JUNE 2012

CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION

ACCOUNTING

UNIT 2 – Paper 02

2 hours and 45 minutes

31 MAY 2012 (p.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises of **THREE** questions.
2. **EACH** question is worth 35 marks.
3. **ALL** questions are **COMPULSORY**.
4. Begin **EACH** answer on a new page.
5. You may use a silent, non-programmable calculator to answer questions.

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1. (a) Copy and complete the following table to show the differences between Cost and Management Accounting and Financial Accounting. Use the six headings identified.

Headings	Cost and Management Accounting	Financial Accounting
1. Users of information		
2. Use of information		
3. Format of presentation of information		
4. Focus of information		
5. Nature of information <i>Choose</i> (Monetary and/or non-monetary)		
6. Type of information <i>Choose</i> (Historical / Future Planning)		

[6 marks]

- (b) Caribbean CD Production Limited develops and sells educational CDs to help students in their exams. Classify EACH of the following costs and expenses for this company as EITHER fixed OR variable in relation to the number of units produced and sold:

- (i) Sales commissions
- (ii) Advertising
- (iii) Packaging costs
- (iv) CDs
- (v) Salaries of customer support personnel
- (vi) Property taxes on the general offices

[6 marks]

- (c) The accounting records of San Fernando Manufacturing Co include the following information for the year ended 31 December 2011.

	2011 December 31	2011 January 1
	\$	\$
Inventory of work in progress	40 000	20 000
Inventory of finished goods	160 000	120 000
Direct material used	400 000	
Direct labour	240 000	
Manufacturing overhead applied	360 000	
Selling expenses	300 000	

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(i) Calculate the cost of finished goods manufactured.

(ii) Calculate the cost of goods sold. **[4 marks]**

- (d) Cal's Fast Food, which operates on Long Beach, prepares two types of sandwiches – the luxury and the standard. The luxury sandwich has a wide variety of fillings, while the standard sandwich is either cheese or flying fish. Cal currently pays its workers using the **piece rate system**.

Present annual production:

– Luxury sandwiches	300 000 units
– Standard sandwiches	450 000 units

Cost (piece rate) per sandwich:

– Luxury	\$0.25
– Standard	\$0.18

(i) Calculate the cost of producing 300 000 units of luxury sandwiches and 450 000 units of standard sandwiches under the piece rate system. **[5 marks]**

Under the present system, Cal employs 30 persons with a normal working week of 40 hours. However, for 8 weeks in the summer, when demand is high, overtime is paid at \$2.50 per hour in addition to the normal piece rate.

Weekly production during the summer (8 weeks)

Luxury sandwiches	20 000 units
Standard sandwiches	24 000 units

Estimated labour time per sandwich:

Luxury	3.00 minutes
Standard	2.00 minutes

(ii) Calculate the **total** number of hours worked during summer.

[5 marks]

(iii) Calculate the **overtime** hours worked per week during the summer. **[3 marks]**

(iv) Calculate the **additional** pay for labour over the 8 weeks of the summer.

[3 marks]

With the economic downturn, Cal is looking for ways to cut costs. He plans to reduce the production staff to 12 and pay each of them a monthly salary of \$1 000 fixed (\$12 000 annually). Under the proposed system each employee would work 50 weeks at 40 hours per week and be paid at \$6 per hour.

(v) Calculate the annual wages payable under the proposed system.

[3 marks]

Total 35 marks

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2. (a) Aqualead Ltd produces orange juice at its factory. The following information relates to the production of orange juice for the period ending 31 March 2011.

	Production (Units)	Sales (Units)		
Budget	60 000	58 000		
Actual	64 000	62 000		
	Variable Production Cost \$	Fixed Production Overhead \$	Fixed Selling Overhead \$	
Budget	3 000 000	600 000	450 000	
Actual	3 200 000	625 000	450 000	

The fixed production overhead was absorbed at a predetermined rate per unit produced. One bottle of orange juice was sold for \$95. At the beginning of April 2010, there was an opening inventory of 3 500 units valued at \$210 000; this includes fixed production overhead of \$35 000.

- (i) Prepare a **marginal costing** income statement for the company. [7 marks]
 - (ii) Prepare an **absorption costing** income statement for the company. [7 marks]
 - (iii) Reconcile the difference between the net operating income computed under marginal costing and that computed under absorption costing. [2 marks]
- (b) Akupa Engineering Ltd is asked to provide information in relation to the supply of a replacement motor for a standby generator at a local factory. The motor will need to be passed through the **machining** department, the **assembly** department and the **finishing** department.

JOB Y152

Material required will be:

- Iron 280 kg at \$52.50 per kg
- Zinc 195 kg at \$36.80 per kg
- Copper 209 kg at \$28.95 per kg

Direct labour required will be:

- Machining department 80 hours at \$450 per hour
- Assembly department 336 hours at \$360 per hour
- Finishing department 184 hours at \$280 per hour

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Production overhead is charged on the following basis:

- \$245.00 per machine hour in machining department
- \$384.00 per labour hour in the assembly department
- \$4.06 per labour hour in finishing department
- The profit margin is 25%

- (i) Prepare the job cost sheet for Akupa Engineering Ltd. [12 marks]
- (ii) Calculate the quotation price for the job. [3 marks]
- (c) List FOUR benefits that Akupa Engineering Ltd. could gain from using the **Activity-Based Costing** approach instead of the **Traditional Approach** to costing. [4 marks]

Total 35 marks

3. Ocean Gardens Construction Company is considering the purchase of a new cement truck costing \$200 000. The Project Manager, Robert Lee, intends to keep the truck for five years before trading it in for a new one. The truck's estimated salvage value at the end of the five-year period is approximately \$50 000. The truck is expected to increase annual income and generate net cash flows by the following amounts.

Year	Increase in Income	Increase in Net Cash Flows
	\$	\$
1	20 000	47 500
2	24 000	47 500
3	28 000	57 000
4	32 000	67 000
5	<u>36 000</u>	<u>77 000</u>
	<u>\$140 000</u>	<u>\$296 000</u>

- (a) Calculate the payback period for this investment. **[4 marks]**
- (b) Calculate the accounting rate of return. **[4 marks]**
- (c) Calculate the net present value of this investment if Mr Lee requires a minimum return of 20%.

Year	Cash Flow	Discount rate 20%	Present Value
0	(200 000)	1	(200 000)
1		.833	
2		.694	
3		.579	
4		.482	
5		.402	
5		.402	
Net present value of proposed investment			

[4 marks]

GO ON TO THE NEXT PAGE

- (d) What observations can you make about your findings in the answers (a), (b) and (c)? **[5 marks]**
- (e) (i) Explain the term 'variance' as used in standard costing. **[5 marks]**
(ii) List FOUR limitations of variance analysis. **[4 marks]**
- (f) Explain the term 'Internal Rate of Return (IRR)'. **[5 marks]**
- (g) Other than non-financial considerations, what decision should a company take about a proposed project if the calculated Internal Rate of Return is
(i) higher than the company's cost of capital
(ii) lower than the company's cost of capital. **[4 marks]**

Total 35 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2012131



TEST CODE **02201032**

MAY/JUNE 2012

**CARIBBEAN EXAMINATIONS COUNCIL
ADVANCED PROFICIENCY EXAMINATION**

ACCOUNTING

UNIT 2 – Paper 032

1 hour and 30 minutes

07 JUNE 2012 (p.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises NINE questions. Answer ALL questions.
2. Begin EACH answer on a new page.
3. You may use a silent, non-programmable calculator to answer questions.

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1. Classical Manufacturing Ltd incurred the following costs for the year ending 31 December 2011.

	\$
Raw material costs	45 800
Production workers' wages	30 600
Special design cost relating to production	7 950
Production Manager's salaries	10 840
General Manager's salaries	26 400
Factory light and heat	15 300
Delivery vehicle running cost	19 400
Factory rental	25 800
Depreciation of plant and machinery	12 640
Administrative cost	4 680

Calculate the total **manufacturing cost** of Classical Manufacturing Ltd for the year ending 31 December 2011.

Total 4 marks

2. The following accounts are kept for material **XX99**, used by the production department of a company.

January 1	Balance b/f 300 units valued at \$300 each
January 6	Receipts 900 units valued at \$310 each
January 12	Issue 750 units valued at \$480 each
January 18	Receipts 660 units valued at \$330 each
January 28	Issue 500 units valued at \$520 each

- (a) Calculate the value of closing stock using the Weighted Average Method. [3 marks]
- (b) Calculate the Gross Profit using the Weighted Average Method for closing stock. [3 marks]

Total 6 marks

3. Define the following terms and give ONE example of EACH:

- (a) Overhead allocation [2 marks]
- (b) Overhead apportionment [2 marks]

Total 4 marks

GO ON TO THE NEXT PAGE

4. Danta Manufacturing Ltd has prepared the following budgeted information for the coming year:

	\$	
Direct material	100 000	
Direct wages	75 000	
Direct expenses	15 000	
Production overhead	60 000	
Budgeted production		60 000 units
Budgeted labour hours		4 000
Budgeted machine hours		5 000

It is the company's policy to absorb overhead using labour hours.

The company has been asked to price Job **D55**. This job requires the following:

	\$	
Direct material	9 506	
Direct labour	2 680	
Direct expense	1 380	
Machine hours		240
Labour hours		460

- (a) Calculate the **COST** of Job D55. **[3 marks]**
- (b) Compute the **PRICE** of Job D55, given that the company profit margin is set at 15%. **[2 marks]**

Total 5 marks

5. (a) List **TWO** factors that may lead to abnormal process loss. **[2 marks]**
- (b) List **TWO** factors that may lead to normal process loss. **[2 marks]**

Total 4 marks

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6. Gallet Ltd produces two products, X and Y. They are made using similar equipment and methods. The data for the last period are:

	<u>X</u>	<u>Y</u>
Units produced	1 500	2 000
Labour hours per unit	2	4
Machine hours per unit	2	1
Set up in period	25	60
Orders handled in period	20	45
Overhead for the period		\$
Production set ups		120 000
Order handlings		60 000
Machine activity		<u>75 000</u>
		<u>255 000</u>

Compute the total overhead for Product Y using Activity-Based Costing.

Total 5 marks

7. Kente Ltd. makes a single product, Product X88 which sells for \$250. The variable cost of each unit is:

Material	\$130
Labour	\$ 40
Overheads	\$ 10

Sales for the last two months were:

November 1500 units
December 1700 units

Budgeted sales for the next quarter are:

January 1900 units
February 2100 units
March 2300 units

Customers are expected to pay on the following basis:

- 10% in month of sales
- 35% in month following sales
- 50% in second month following sales
- 5% is uncollectible

Prepare the collection schedule of Kente Ltd for the months of January and February.

Total 6 marks

GO ON TO THE NEXT PAGE

8. State THREE objectives of standard costing.

Total 3 marks

9. Oxendale Ltd manufactures 350 000 units of plastic cups at a variable cost of \$2.75 per unit. The units are sold as follows:

(a) The first 190 000 units at \$5.50 each

(b) The remaining units at \$4.50 each

The total fixed cost is \$750 000.

Compute the break-even point in sales value (dollars).

Total 5 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2013127



TEST CODE **02101020**

MAY/JUNE 2013

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

C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N ®

A C C O U N T I N G

UNIT 1 – Paper 02

2 hours and 45 minutes

24 MAY 2013 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises THREE questions.
2. EACH question is worth 35 marks.
3. ALL questions are COMPULSORY.
4. Begin EACH answer on a new page.
5. You may use a silent, non-programmable calculator to answer questions.
6. ALL working must be clearly shown.

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1. (a) Outline the structure of the 'Conceptual Framework of Accounting'. (You may use a diagram.) [6 marks]
- (b) State THREE reasons why the Conceptual Framework of Accounting was developed by the International Accounting Standards Board (IASB). [3 marks]
- (c) Outline in your own words, the meaning of any THREE of the following qualitative characteristics of accounting information:
- (i) Relevance
 - (ii) Reliability
 - (iii) Comparability
 - (iv) Consistency
 - (v) Understandability [6 marks]
- (d) State any FOUR steps that lead to the establishment and issuance of an Accounting Standard. [4 marks]
- (e) State any FOUR ways in which internal controls can be achieved in an organisation to enhance the accuracy and reliability of accounting records. [4 marks]
- (f) The new Accounting Clerk at D&G Limited had difficulty in making the required journal entries in the following situations.
- D&G Ltd purchased a welding plant from Welders International for \$150 000 on 15 March 2012. On that date a payment of \$100 000 was made and the balance was scheduled to be paid no later than two months after.
 - On 30 April, the balance owing on the welding plant was paid.
 - Office supplies worth \$25 000 were purchased during the year. After the annual stocktaking exercise at the end of the year, office supplies on hand had a value of \$2 500. The adjusting entry for the supplies used needs to be made.

Prepare the journal entries necessary, with narratives.

Calculations must be clearly shown.

[12 marks]

Total 35 marks

2. The following unadjusted Trial Balance was taken from the books of K M Mart Limited, a medium sized clothing store located in downtown Montego Bay.

K M Mart Limited
Trial Balance
As at 31 December 2012

	Dr	Cr
	\$	\$
Cash	14 000	
Notes Receivable	43 960	
Accounts Receivable	300 050	
Allowance for doubtful debts		4 482
Short-term investment	25 800	
Merchandise inventory	560 200	
Prepaid insurance	2 590	
Equipment	170 240	
Accumulated depreciated – Equipment		32 200
Organization Costs	10 000	
Accounts Payable		147 208
Notes Payable		100 000
8% Preference Stock (\$100 par value)		120 000
10% Bonds Payable, due 2016		102 600
Common Stock (\$20 stated value)		300 000
Paid-in Capital in excess of stated value		25 000
Retained Earnings		110 000
Sales		3 440 200
Purchases	2 677 980	
Purchases Discounts		20 600
Freight in	7 440	
Selling Expenses	397 000	
General Expenses	102 200	
Salaries	94 540	
Interest income		3 710
	<u>4 406 000</u>	<u>4 406 000</u>

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The accounting clerk has asked that the following additional information be considered in the preparation of the financial statements:

- Merchandise Inventory at 31 December 2012 was \$470 540.
- Depreciation on equipment is to be charged at a rate of 10% on cost.
- Insurance expired during the year amounted to \$1 320.
- It was discovered at the end of the year that a total of \$ 50 000 of the Accounts Receivable was uncollectible.
- Bad debt expense is estimated to be 2% of Accounts Receivable.
- \$20 000 of the notes payable is due for payment in 2013.
- Corporation tax is charged at a rate of $33\frac{1}{3}\%$.
- The Bonds payable attract an interest rate of 10% per annum, paid semi-annually. The amount due on 01 July 2012 was paid but not recorded and no accrual was set up for the outstanding amount.
- Dividends of \$2 per share were declared for common stock holders; both preferred stock dividends and common stock dividends are to be paid in February of 2013.

Prepare:

- (a) (i) A Multiple-Step Statement of Comprehensive Income (Income Statement), in good form (vertically) according to IAS 1. (Section 3 of IFRS for SMEs.) **[14 marks]**
- (ii) A Statement of Retained Earnings. **[4 marks]**
- (b) Three friends, Khary, Kwame and Kofi, form a partnership to operate a night club, Seventh Heaven, with Khary investing \$200 000, Kwame \$160 000 and Kofi \$100 000. They agree to share the net income as follows:

Salary allowances:

- \$160 000 to Khary
- \$100 000 to Kwame
- \$100 000 to Kofi

Interest allowances:

- 12% on opening Capital Account balances of each partner.

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Any partnership income in excess of the amount required to cover the interest and salaries is to be divided:

- 60% to Khary
- 20% to Kwame
- 20% to Kofi

The partnership income for the first year of operations ended 31 December 2012 amounted to \$741 000.

Show how the income of \$741 000 would be divided among the three partners. (**Show clearly the amounts of interest, salaries and the residual amount divided.**)

[17 marks]

Total 35 marks

3. The Manager of Fabric Smart Jamaica Ltd. would like to assess the cash-generating ability of the company in order to make plans for the acquisition of new equipment. The Income Statement is currently showing a reasonable net income; however, she does not think it is prudent to base decisions of this nature only on information from this source.

The information below was extracted from the company's books.

Fabric Smart Jamaica Ltd.
Comparative Balance Sheets as at
31 December 2011 and 31 December 2010

	2011	2010
	\$	\$
ASSETS		
Cash	51 920	26 050
Accounts Receivable	90 090	69 410
Merchandise Inventory	431 000	401 000
Store Supplies	520	790
Prepaid Electricity	4 500	4 500
Prepaid Rent	2 300	2 000
Fixtures and Fittings	250 980	300 980
Less: Accumulated Depreciation	(88 700)	(106 700)
Total Assets	<u>742 610</u>	<u>698 030</u>
LIABILITIES		
Accounts Payable	25 400	39 300
Notes Payable (long term)	31 720	59 640
Insurance Payable	1 040	1 990
Income Tax Payable	11 280	10 460
Dividends Payable	12 000	12 000
Interest Payable	120	1 160
Total Liabilities	<u>81 560</u>	<u>124 550</u>
STOCKHOLDER'S EQUITY		
Common Stock	517 190	457 190
Retained Earnings (reserves)	143 860	116 290
Total Stockholder's Equity	<u>661 050</u>	<u>573 480</u>
Total Liabilities and Stockholder's Equity	<u>742 610</u>	<u>698 030</u>

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Fabric Smart Jamaica Ltd.
Income Statement
For the Year Ended 31 December 2011

	\$	\$
Sales: Cash	654 760	
Credit	327 380	982 140
Less Cost of Goods Sold		678 350
Gross Profit		303 790
Less Expenses:		
Depreciation expense – Fixtures and Fittings	26 000	
Wages	126 400	
Other operating expenses	24 150	
Interest Expense	790	
Income Tax Expense	45 110	
Other Income:		
Gain on sale of Fixtures and Fittings	(6 230)	216 220
Net Income		87 570

Statement of Retained Earnings for the year ended 31 December 2011

	\$
Balance at 01 Jan 2011	116 290
Add: Net Income	87 570
	203 860
Cash Dividends paid	60 000
Balance at 31 December 2011	143 860

Additional Information:

- 12 000 shares of Common Stock of \$ 5 par value were sold for cash during the year.
 - The change in Notes Payable was as a result of principal repayment.
 - Fixtures and Fittings, originally costing \$50 000 and having an accumulated depreciation of \$44 000, were sold for cash of \$12 230 during the year.
- (a) Prepare a Statement of Cash Flows for the year ended 31 December 2011 in accordance with IAS 7 (IFRS for SMEs Section 7), indicating clearly **cash flows** from **operating activities**, **investing activities** and **financing activities**. Use the indirect method.

[20 marks]

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(b) For the year ended 31 December 2011, calculate the following ratios for Fabric Smart Jamaica Ltd and interpret your answers.

(i) Current ratio [3 marks]

(ii) Quick ratio [3 marks]

(iii) $\frac{\text{Debt}}{\text{Total Assets}}$ [3 marks]

(iv) $\frac{\text{Debt}}{\text{Equity}}$ [3 marks]

(v) $\frac{\text{Net Income}}{\text{Total Assets}}$ [3 marks]

Total 35 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2013128



TEST CODE **02101032**

MAY/JUNE 2013

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

C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N ®

A C C O U N T I N G

UNIT 1 – Paper 032

1 hour and 30 minutes

13 JUNE 2013 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises SIX questions. Answer ALL questions.
2. Begin EACH answer on a new page.
3. You may use a silent, non-programmable calculator to answer questions.
4. ALL working must be clearly shown.

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Parkah Brothers, a private company, is a medium-sized hardware store in the centre of San Fernando. Its shareholders include the three Parkah brothers as well as an overseas investor group. It started about 15 years ago on the ground floor of the Parkah family's dwelling home, but has since expanded and relocated to #12 Bevin Avenue. At the outset, one of the brothers, Paul Parkah, did the accounting manually, with the assistance of a friend, Mr. Rafael, who worked at Price Iron House. However, over the years, with the growth in the business, Paul has had to set up an entire accounting department to deal with the volume of transactions and the complexity of the accounting needs of the business.

Recently, the Accountant has complained about the difficulties being experienced with the manual system and has asked that the department be computerized.

1. Explain FOUR advantages and FOUR disadvantages of computerizing the accounting functions of the company. **[16 marks]**

2. Discuss TWO reasons why it is important to have controls in a computerized accounting environment such as in Parkah Brothers company. **[4 marks]**

Total 20 marks

After a detailed assessment of the implications of computerizing the accounting functions of the business, Mr. Rafael, who is an expert in the area, was asked to assist in the conversion process. He has arranged for the management and the accounting staff to attend training sessions to introduce them to accounting software packages and the computerization process, and to discuss the many reports that can be generated by the computer if the accounts are computerized.

3. (a) Name TWO commonly used accounting software packages. **[2 marks]**

(b) Identify EIGHT financial reports that are currently prepared by the Accounting Department which would be easier to generate in a computerized accounting environment. **[8 marks]**

4. Outline FIVE steps that must be taken to convert a manual accounting system to a computerized system. **[10 marks]**

Total 20 marks

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Despite the excitement among the accounting staff, Mr. Parkah is wary of the pending computerization process, given the many horror stories he has heard concerning the misuse of computer technology and the many issues of security that can arise. He is very concerned about the ethical issues that he might have to deal with and the damage that might be done to the organization.

5. (a) Explain the term 'ethical issues'. **[2 marks]**
- (b) Mr Parkah has also been informed that computerization can expose an organization to a number of threats and risks. Explain any FOUR of the following computer threats/risks:
- (i) Identity theft
 - (ii) Virus
 - (iii) Internal sabotage
 - (iv) Hacking
 - (v) Espionage **[8 marks]**
6. Outline FIVE practical activities to be carried out in a computerized accounting environment in preparation for a natural disaster such as a hurricane. **[10 marks]**

Total 20 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2013130



TEST CODE **02201020**

MAY/JUNE 2013

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

C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N [®]

A C C O U N T I N G

UNIT 2 – Paper 02

2 hours and 45 minutes

04 JUNE 2013 (p.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises **THREE** questions.
2. **EACH** question is worth 35 marks.
3. **ALL** questions are **COMPULSORY**.
4. Begin **EACH** answer on a new page.
5. You may use a silent, non-programmable calculator to answer questions.
6. **ALL** working must be clearly shown.

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1. (a) Tell Company has three service departments and two production departments. The company has provided the following information for the five departments.

TABLE 1: TELL COMPANY'S FIVE DEPARTMENTS

	SERVICE DEPARTMENT A	SERVICE DEPARTMENT B	SERVICE DEPARTMENT C	PRODUCTION DEPARTMENT P1	PRODUCTION DEPARTMENT P2
Overhead costs	\$100 000	\$40 000	\$30 000	\$500 000	\$600 000
Number of employees	60	150	50	500	1 000
Square feet of space occupied	2 500	5 000	10 000	40 000	80 000
Machine hours				20 000	40 000

The company allocates service department costs utilizing the step-down method in the following order:

- number of employees
- space occupied
- machine hours.

The company makes no distinction between fixed and variable Service Department costs.

- (i) **Using the answer sheet provided**, prepare a schedule to allocate service department costs to production departments by the step-down method. **[13 marks]**
- (ii) Compute predetermined overhead rates in the Production Department **P1** and Production Department **P2**. **[2 marks]**
- (b) Sue Lalah is employed by Tell Company. She works in the Production Department P1 which assembles parts for making the company's products. Sue is paid \$60 per hour for regular time. She is also paid time and a half per hour for all work in excess of 45 hours per week.
- (i) In the first week, Sue worked the normal 45 hours but was idle for 3 hours due to machine breakdowns. No overtime was recorded for the week. You are required to allocate Sue's wages for the week between direct labour cost and manufacturing overhead cost. **[4 marks]**
- (ii) In the second week of her employment, Sue worked 60 hours. She had no idle time for the week. You are required to allocate Sue's wages for the week between direct labour cost and manufacturing overhead cost. **[5 marks]**

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- (iii) Tell Company has decided to change its method of payment to its employees. Identify **TWO other** methods of payment that Tell Company can use.

[2 marks]

- (c) Use a **diagram** and an **example** to explain EACH of the following cost terms:

(i) Fixed cost

(ii) Variable cost

(iii) Stepped-fixed cost

[9 marks]

Total 35 marks

2. (a) Bracket Inc. manufactures two products: geometrical dividers and T-squares. During April, 1 500 dividers and 3 000 T-squares were produced. Overheads incurred by the company amounted to \$80 000. An analysis of overhead costs revealed the following activities:

TABLE 2: ANALYSIS OF OVERHEAD COSTS

Activity	Cost Driver	Total Cost
1. Material handling	Number of requisitions	\$35 000
2. Machine set ups	Number of set ups	\$30 000
3. Quality inspections	Number of inspections	\$15 000

The cost driver volume for EACH product is shown in Table 3 below.

TABLE 3: ANALYSIS OF COST DRIVER VOLUME

Cost Driver	Geometrical Dividers	T-Squares	Total
Number of requisitions	400	600	1 000
Number of set ups	150	300	450
Number of inspections	200	400	600

- (i) Determine the overhead rate for EACH of the THREE activities indicated in Table 2. **[9 marks]**
- (ii) Assign the manufacturing overhead costs for April for the TWO products. **[6 marks]**
- (iii) Calculate the total assigned costs. **[2 marks]**
- (iv) Calculate the overhead cost per product. **[2 marks]**
- (b) State FOUR differences between 'Job Order Costing' and 'Process Costing'. **[8 marks]**
- (c) (i) Identify FOUR types of organizations in which service sector costing can be used. **[4 marks]**
- (ii) Outline TWO difficulties associated with services sector costing. **[4 marks]**

Total 35 marks

GO ON TO THE NEXT PAGE

3. (a) Fanciful Enterprises operates bouncy castles and other fun events for all ages. One of its goals is to promote an all-inclusive cruise along with fun events in a Caribbean tourist resort. The company is considering selecting an island in the Bahamas where the cruise will end with fun events. The total estimated cost for this venture is \$900 000. The estimated cost will include the hire of a venue for the events, rooms for occupancy, flights and advertising costs.

Variable costs will consist of buffet meals which would be provided by a few caterers at a price which is currently being negotiated. The cost is likely to be in the region of \$900 per ticket. The proposed price for the sale of a ticket is \$1 200.

- (i) Calculate the contribution margin ratio. **[2 marks]**
- (ii) Calculate the number of tickets that **MUST** be sold to break even in units **AND** in dollars. **[3 marks]**
- (iii) Calculate the number of tickets that **MUST** be sold to earn a target profit of \$50 000. **[2 marks]**
- (b) Fanciful Enterprises will have to consider several financial factors, such as cost of meals, before determining the proposed selling price of \$1 200 per ticket. Identify **FOUR non-financial** factors which can also influence the pricing decision. **[4 marks]**
- (c) Explain **EACH** of the following project appraisal techniques:
- (i) Payback period
- (ii) Internal Rate of Return (IRR)
- (iii) Net Present Value (NPV)

You should include in your answer

- what the technique seeks to achieve
- how the decision is made
- one piece of information required for calculation **[9 marks]**

GO ON TO THE NEXT PAGE

- (d) Fanciful Enterprises has built miniature guard huts for the venture. The following information has been provided:

Number of units produced	800 units
Number of actual hours worked	600
Total actual direct labour cost	\$9 000
Material purchased	900 ft
Material used in production	1 000 ft
Cost per foot for material purchased	\$7

The standard cost card has the following information:

	Standard Hours	Rate per Hour	Standard Material Allowed	Standard Price of Material
Direct labour	2.5	\$12		
Direct material			1.5	\$8

Compute EACH of the following:

- (i) Labour rate variance **[4 marks]**
- (ii) Labour efficiency variance **[4 marks]**
- (iii) Material price variance **[3 marks]**
- (iv) Material quantity variance **[4 marks]**

Total 35 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.



CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ACCOUNTING

UNIT 2 – Paper 02

Answer Sheet for Question 1. (a) (i)

Centre Number _____

Candidate's Number _____

	SERVICE DEPARTMENT A	SERVICE DEPARTMENT B	SERVICE DEPARTMENT C	PRODUCTION DEPARTMENT P1	PRODUCTION DEPARTMENT P2
Overhead costs					
Allocation of costs: (Number of employees)					
Service Department A:					
Service Department A:					
Service Department A:					
Service Department A:					
ADJUSTED BALANCES					
Allocation of costs: (Space occupied)					
Service Department B:					
Service Department B:					
Service Department B:					
ADJUSTED BALANCES					

FORM CONTINUES ON BACK PAGE

	SERVICE DEPARTMENT A	SERVICE DEPARTMENT B	SERVICE DEPARTMENT C	PRODUCTION DEPARTMENT P1	PRODUCTION DEPARTMENT P2
Allocation of costs: (Machine hours)					
Service Department C:					
Service Department C:					
COST AFTER ALLOCATION					

TO BE ATTACHED TO YOUR ANSWER BOOKLET

FORM TP 2013131



TEST CODE **02201032**

MAY/JUNE 2013

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ACCOUNTING

UNIT 2 – Paper 032

1 hour and 30 minutes

11 JUNE 2013 (p.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises NINE questions. Answer ALL questions.
2. Begin EACH answer on a new page.
3. You may use a silent, non-programmable calculator to answer questions.
4. ALL working must be clearly shown.

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NOTHING HAS BEEN OMITTED

1. The inventory records of RMB Limited showed the following data for raw material MQ.

January 1	Remaining inventory from December 2012 was 20 units at \$10 each
4	Purchased 30 units at \$10 each
6	Issued 25 units to production
10	Purchased 15 units at \$12 each
12	Issued 20 units to production
22	Purchased 25 units at \$13 each
30	Issued 35 units to production

Using the answer sheet provided, complete the Stock Ledger for January 2013. Use the Weighted Average Cost Method. (The opening inventory is already entered for you as an example.)

Total 9 marks

2. Outline **THREE** differences between Financial **and** Cost and Management Accounting under the following headings:

- (a) Purpose
- (b) Frequency of reports
- (c) Part played by external auditors

Total 3 marks

3. The following cost curves and data were provided by the accountant of Busy Corner Ltd. Use them to answer the questions that follow.

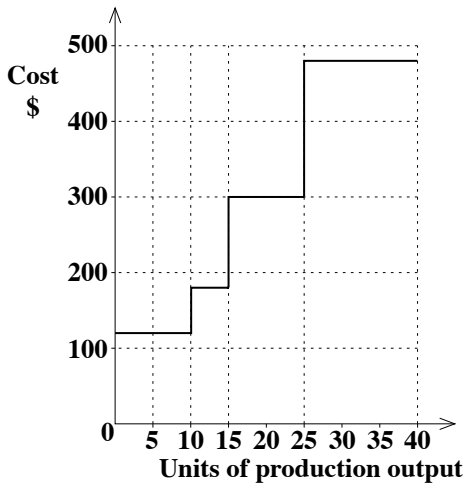


Figure 1: Salaries expense

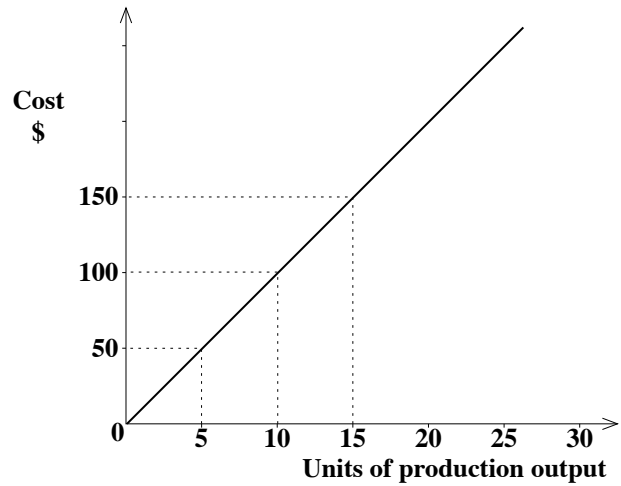


Figure 2: Depreciation expense

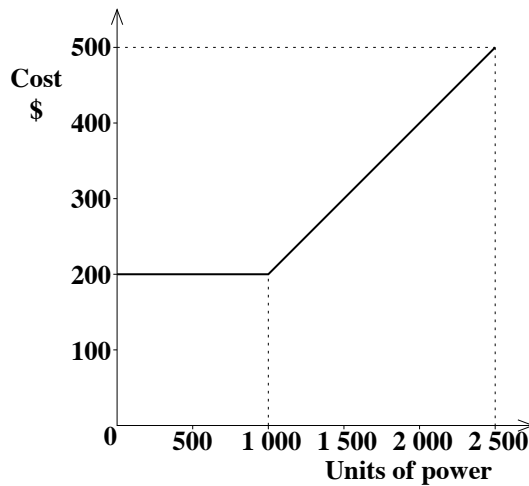


Figure 3: Electricity expense

Additional Information:

- Electricity is charged by the power company as follows:
 - A standing charge for the first 1 000 units of power used (\$200) plus \$2 per power unit above 1 000 power units.
- To produce ONE unit of production output, 100 units of power is required.

GO ON TO THE NEXT PAGE

- (a) Identify the type of cost curve illustrated in EACH of Figure 1, Figure 2 and Figure 3. Choose from among: **fixed; variable; stepped fixed; fixed variable.** [3 marks]
- (b) Using Figure 1, determine the amount of salaries expense at 40 units of production output. [1 mark]
- (c) Using Figure 2, calculate the amount of depreciation expense for 25 units of production output. [2 marks]
- (d) Using Figure 3 and the additional information given, calculate electricity expense for 25 units of production output. [2 marks]

Total 8 marks

4. Shanna's Manufacturing Company produced the following Income Statement for the month ended 31 May 2012.

Absorption Costing Income Statement

	\$	\$
Sales		2 400 000
<u>Less cost of goods sold:</u>		
Variable production costs	600 000	
Fixed production costs	<u>1 200 000</u>	
Total production costs	1 800 000	
Less closing inventory	450 000	
		<u>1 350 000</u>
Gross profit		1 050 000
<u>Less non-production costs:</u>		
Variable selling expenses	180 000	
Fixed administration expenses	<u>200 000</u>	
		<u>380 000</u>
Income from operations		<u><u>670 000</u></u>

Additional Information:

- | | | |
|-------|--|-----------------|
| (i) | <u>Revenues and costs:</u> | <u>Per unit</u> |
| | Sales | \$80 |
| | Variable production | \$15 |
| | Variable selling | \$6 |
| (ii) | Units produced | 40 000 units |
| (iii) | Units sold | 30 000 units |
| (iv) | There was no opening inventory. | |
| (v) | Output for the month was the same as budgeted. | |
- (a) Prepare a Marginal (Variable) Costing Income Statement for the month of May 2012. **[6 marks]**
- (b) Reconcile the difference in income from operations under the two costing approaches. **[3 marks]**

Total 9 marks

GO ON TO THE NEXT PAGE

5. Lotgreho manufactures cleaning liquids using two processes. Table 2 shows the data for Process 1 for the month of June 2012.

TABLE 2: DATA FOR PROCESS 1

1.	Inventory	Equivalent Units	Degree of completion	Cost (\$)
	Beginning WIP	2 000	Raw materials 100% Conversion cost 70%	50 000 7 000
	Ending WIP	1 600	Raw materials 100% Conversion cost 50%	

2. Units started during the month – 4 000 .
3. Materials input for the month – \$100 000.
4. Total materials and conversion cost for the month – \$19 000.

Using the Weighted Average Method, calculate EACH of the following:

- (a) Equivalent units for production **[2 marks]**
- (b) Equivalent units of production on conversion **[2 marks]**
- (c) Unit production cost on conversion **[3 marks]**

Total 7 marks

6. ABZ Manufacturing uses a job order cost accounting system.

Using the information provided in Table 3 below, complete the Job Order Cost Sheet for Job No. 101 by providing the data required for the spaces labelled (a), (b), (c), (d), (e), (f) and (g). Manufacturing overhead was applied on the basis of direct labour cost at 120%. **Do not reproduce the table.**

TABLE 3: JOB ORDER SHEET

Job No. 101		For 3 000 units	
Date	Direct Materials (\$)	Direct Labour (\$)	Manufacturing Overheads (\$)
April 1	4 000	5 000	6 000
10	–	7 000	–
15	8 000	–	8 000
25	–	3 000	(c)
	(a)	15 000	(b)
Cost of completed job:			\$
Direct materials			(d)
Direct labour			15 000
Manufacturing overheads			(e)
Total cost			(f)
Unit cost			(g)

Total 4 marks

7. The Budget Committee of Ajax Ltd. produced the following estimates:

Ajax Ltd.

- | | | | \$ |
|----|-------------|-----------------|--------|
| 1. | Sales units | – December 2012 | 7 500 |
| | | January 2013 | 8 000 |
| | | February 2013 | 10 000 |
| | | March 2013 | 12 000 |
2. Closing inventory of finished goods is maintained at 10% of the budgeted sales units.
3. The production of one unit requires 10 kgs of material R.

Using the information given above, copy and complete the following Production Budget for Ajax Ltd.

AJAX Ltd. Production Budget - Units

	January	February	March
Sales	8 000	10 000	12 000
Closing Inventory			
Opening Inventory			
Production			12 200

Total 8 marks

8. The following standard cost card was prepared for a single product for the month of May.

Standard Cost Card		
		\$
Materials	4 kgs @ \$5	20
Labour	5 hrs @ \$20	100
Variable manufacturing overheads	5 hrs @ \$10	50
Fixed manufacturing overheads	5 hrs @ \$4	20
Selling and administration overheads		15

Additional Information:

1. There were no opening stocks for May.
2. During the month of May, 600 units were produced and 500 units were sold.
3. 3 000 kgs of materials were purchased during the month.

Using standard costing principles, calculate EACH of the following:

- (a) The value for closing stock of materials **[2 marks]**
- (b) The value for closing stock of finished goods **[2 marks]**
- (c) The standard cost of sales **[1 mark]**

Total 5 marks

9. Figure 4 below is a breakeven chart for Orange Valley PLC. Selling price per unit is \$500 and variable cost per unit is \$125. The budgeted output is 200 units.

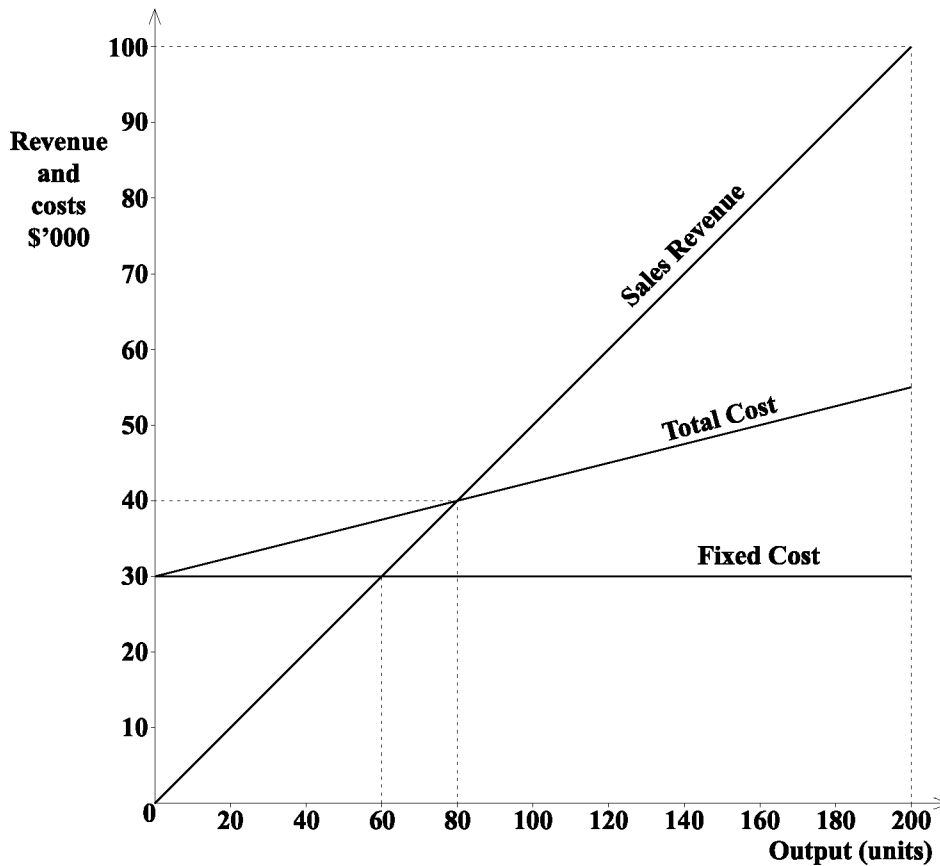


Figure 4: Breakeven Chart for Orange Valley PLC

- (a) Using the graph in Figure 4, determine EACH of the following:
- (i) Break-even point in units [1 mark]
 - (ii) Break-even point in sales revenue [1 mark]
 - (iii) Margin of safety in units [1 mark]
 - (iv) Budgeted revenue for the period [1 mark]
 - (v) Budgeted total cost [1 mark]
- (b) By means of arithmetic equations, prove that (a) (i) and (a) (ii) are correct. [2 marks]

Total 7 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.



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ACCOUNTING

UNIT 2 – Paper 032

Answer Sheet for Question 1.

Centre Number _____

Candidate's Number _____

Date		Receipts			Issues			Balance		
		Quantity	Price (\$)	Value (\$)	Quantity	Price (\$)	Value (\$)	Quantity	Price (\$)	Value (\$)
January	1						20	10	200	

TO BE ATTACHED TO YOUR ANSWER BOOKLET

FORM TP 2014124



TEST CODE **02101020**

MAY/JUNE 2014

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ACCOUNTING

UNIT 1 – Paper 02

2 hours 45 minutes

23 MAY 2014 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises THREE questions. Answer ALL questions.
2. EACH question is worth 35 marks.
3. Begin EACH answer on a new page.
4. You may use a silent, non-programmable calculator to answer questions.
5. ALL working must be clearly shown.

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02101020/CAPE 2014



1. (a) Douglas Spencer Ltd (DS Ltd) reported the following amounts in the shareholders' equity section of its December 2013 Statement of Financial Position:

	\$
10% Preferred Shares, no par value	
10 000 Shares authorized, 2 000 Shares issued	200 000
Common shares, \$100 par value	
100 000 shares authorized, 2 000 issued	200 000
Contributed Capital in Excess of Par (Share Premium)	25 000
Retained Earnings	450 000
	<hr/>
	\$ 875 000
	<hr/> <hr/>

During 2014, DS Ltd took part in the following transactions concerning shareholders' equity:

- (i) Paid the annual dividend on the preferred shares and a \$2 dividend on the common shares. These dividends had been declared on 28 December 2013.
- (ii) Issued 500 preferred shares at \$105.
- (iii) Received equipment with a market value of \$77 600 for 7 500 common shares.
- (iv) Appropriated retained earnings for plant expansion \$200 000.

Prepare journal entries to record the transactions. **Narratives are NOT required.**

[10 marks]

- (b) The National Gas Corporation sold 5 000 shares of Mango Pulp Company on 27 March 2013 for \$17.50 per share, incurring \$1 590 in brokerage commission. The shares had originally been bought for \$28.00.

Prepare the journal entry to record the sale of the shares.

[5 marks]

- (c) (i) Give TWO reasons why it became necessary to develop IFRS for SMEs.

[4 marks]

- (ii) There are several Institutes of Chartered Accountants in the Caribbean whose main function is to ensure that their members adopt and implement the International Accounting Standards (IAS) (IFRS for SMEs). Name ONE such institute.

[1 mark]

GO ON TO THE NEXT PAGE

(d) The owner of Mcntyre's Enterprise is in the process of reviewing the procedures and practices that exist in his organization. He has discovered the following situations:

1. The storeroom clerk hangs the key to the storeroom on a nail in front of his door when he goes for lunch.
2. The purchasing manager is also responsible for receiving goods and maintaining the records of the goods received.
3. The company cheques are not pre-numbered.
4. Two cashiers use the same cash register.
5. Paid invoices are stored in the accountant's unlocked desk drawer.
6. The cashier checks off the day's receipts and makes the bank lodgement.

For EACH of the situations outlined above and using the format provided in Table 1 as an insert:

- (i) Identify the Internal Control Principle that is being violated. **[5 marks]**
- (ii) Suggest ONE corrective measure that could be employed and give your reason. **[10 marks]**

Situation 1 has been completed for you as an example.

Total 35 marks

2. West Coast Eatery is a fast food restaurant that is operated as a partnership of three individuals. The three partners share profits equally. The following selected account balances are for 2012 before any closing entries are made.

	Dr	Cr
	\$	\$
Calvin Capital		55 000
Sylvia Capital		60 000
Leroy Capital		5 000
Calvin Drawing	15 000	
Sylvia Drawing	15 000	
Leroy Drawing	30 000	
Income Summary (Profit & Loss Account)		90 000

- (a) Prepare a Statement of Partners' Equity for the current year ended 30 September. Assume that no partner has made any additional investments during the year. **[10 marks]**
- (b) Assuming that Calvin and Sylvia spend the same amount of time in the business, why might Leroy be given the same portion of the profits as the other two partners? **[1 mark]**
- (c) State THREE factors that the partners should consider when deciding how to distribute the profits of the partnership? **[3 marks]**
- (d) Distinguish between corporations and partnerships in terms of the following characteristics:
- (i) Owners' liability for debts of the business
 - (ii) Transferability of ownership interest
 - (iii) Continuity of existence **[6 marks]**

GO ON TO THE NEXT PAGE

- (e) The new accounting clerk employed at Chin's Haberdashery located at 27 Barnett Street, has made several errors in the preparation of the first set of financial statements. Below is the Income Statement she prepared for the year ending 30 September 2013.

Statement of Comprehensive Income		
As at 30 September 2013		
	\$	\$
Sales		230 000
Add: Sales Returns and Allowances		940
Net Sales		<u>230 940</u>
Cost of Goods Sold:		
Merchandise Inventory, 01 October 2012		81 000
Purchases	90 140	
Purchases Returns, Allowances	4 146	
Net Purchases	<u>85 994</u>	
Cost of Goods Available for Sale		<u>166 994</u>
Add: Merchandise Inventory, 30 September 2013		54 800
Cost of Goods Sold		<u>221 794</u>
Gross Profit		9 146
Operating Expenses:		
Wages		57 020
Interest Expense		500
Supplies Expense		1 950
Freight In		3 000
Sales Discounts		880
Office Equipment at Cost		50 000
Furniture & Fittings at Cost		144 000
Depreciation – Office Equipment		2 500
Interest Income		(1 240)
Depreciation – Furniture and Fittings		4 000
Total Operating Expenses		<u>262 610</u>
Income from Operations and Net Income		<u>(253 464)</u>

The owner is convinced that he should not have made a loss and is worried that if he reports this loss to the Inland Revenue Department he will be assessed and the tax rate of 25% applied. He has asked you to review the Income Statement presented and make the necessary corrections applying the stated tax rate.

Prepare a Multi-step Income Statement in accordance with IAS1 (Section 6 of IFRS for SMEs). **[15 marks]**

Total 35 marks

GO ON TO THE NEXT PAGE

3. (a) (i) Name TWO users of the Statement of Cash Flows. **[2 marks]**
- (ii) State ONE reason why EACH user named in (a) (i) above would need a Statement of Cash Flows. **[2 marks]**
- (b) Classify the following list of items using the headings **operating activity (indirect method), investing activity, financing activity** and **significant non-cash investing and financing activity**:
- (i) Loss on sale of fixed asset
 - (ii) Issuance of bonds for land
 - (iii) Conversion of bonds into common stock
 - (iv) Purchase of land
 - (v) Redemption of bonds
 - (vi) Payment of dividends
 - (vii) Depreciation
 - (viii) Receipt of dividends on stock investment
 - (ix) Interest payments on bonds payable
 - (x) Issuance of common stock **[10 marks]**
- (c) An extract from the Statement of Comprehensive Income (Income Statement) of Margaritaville Company for the year ended 30 June 2010 is as follows:

	\$	\$
Sales		1 000 000
Depreciation expense	61 000	
Other operating expenses	719 000	
Loss on sale of equipment	15 000	795 000
Income before tax	<u> </u>	<u>205 000</u>
Income tax expense		<u>51 250</u>
Net Income		<u><u>153 750</u></u>

An extract from the Statement of Financial Position (Balance Sheet) at that same date is as follows:

	2010	2009
	\$	\$
Accounts payable	35 000	28 000
Accrued expenses payable	8 700	7 400
Accounts receivable	53 200	64 000
Inventory	35 000	25 000
Income tax payable	4 500	7 200

Prepare the operating activities section of the Statement of Cash Flows in accordance with IAS (Section 7 of IFRS for SMEs) using the indirect method. **[8 marks]**

- (d) State THREE limitations of accounting ratios. **[3 marks]**

GO ON TO THE NEXT PAGE

- (e) Selected data from the books of Hilton's Bakery for the year ended 31 October 2010 are as follows:

	\$
Sales	550 000
Cost of Goods Sold	250 000
Other Expenses	114 000
Interest Expense	20 000
Income Taxes Expense	28 000

The following information is also available:

1. Cash dividends declared and paid was \$ 25 000. The company only issued common stock.
2. Common stock outstanding at the end of the year were 42 000 shares.
3. The current market price for Hilton's stock is \$8 per share.

Using the information above and the formulae below (**not given in any special order**), calculate the following ratios and give ONE meaning of your result in EACH case.

- Earnings per share = $\frac{\text{Net income}}{\text{Common stock outstanding}}$
- Gross profit margin = $\frac{\text{Gross profit}}{\text{Sales}} \times 100$
- Price earnings ratio = $\frac{\text{Market price per share}}{\text{Earnings per share}}$
- Dividend payout = $\frac{\text{Cash dividends}}{\text{Net income}} \times 100$
- Times interest earned = $\frac{\text{Income before interest and tax}}{\text{Interest expense}}$

- (i) Gross profit margin [2 marks]
- (ii) Times interest earned [2 marks]
- (iii) Earnings per share [2 marks]
- (iv) Price earnings ratio [2 marks]
- (v) Dividend payout [2 marks]

Total 35 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.



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ACCOUNTING

UNIT 1 – Paper 02

Answer Sheet for Question 1 (d) (i) and (ii) **Centre Number** _____

Candidate's Number _____

**TABLE 1: INTERNAL CONTROLS VIOLATED,
CORRECTIVE MEASURES AND REASONS**

Mcntyre's Enterprise

Internal Control Violated (ICV)	Corrective Measure (CM)	Reason (R)
1. Physical control	The key should be handed to an authorized person when the storeroom clerk goes for lunch.	The person who holds the key to the storeroom is responsible for any losses.
2.		
3.		
4.		
5.		
6.		

TO BE ATTACHED TO YOUR ANSWER BOOKLET

FORM TP 2014125



TEST CODE **02101032**

MAY/JUNE 2014

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

C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N [®]

A C C O U N T I N G

UNIT 1 – Paper 032

1 hour 30 minutes

12 JUNE 2014 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises SIX questions. Answer ALL questions.
2. Begin EACH answer on a new page.
3. You may use a silent, non-programmable calculator to answer questions.
4. ALL working must be clearly shown.

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02101032/CAPE 2014



Topic: The Use of International Accounting Standards in the Caribbean

Alan Davids is a small entrepreneur in Trinidad. With his degree in Construction Management and Engineering and the need for construction services following the passage of Hurricane Nicole, he has decided to start a small private construction company, Barachel Limited. He has been advised that his financial statements must be prepared using International Accounting Standards (IAS) and in particular, those set for small and medium-sized organizations.

Through his own research, he has discovered that the relevant authorities in most Caribbean countries are making this a requirement, because of the benefits to be derived. He has also discovered, however, that especially at the outset, there were certain challenges that some Caribbean countries faced in its implementation.

1. (a) Identify TWO reasons why it has become necessary for Caribbean countries to adopt the International Accounting Standards (IAS). **[4 marks]**
- (b) Explain THREE challenges that Caribbean countries, especially the smaller territories, faced with the implementation of the IAS. **[6 marks]**

Total 10 marks

2. Alan has also learnt that in preparing financial statements, there are certain fundamental principles that have been adopted as a framework and are covered under International Financial Reporting Standards for Small and Medium-sized Entities (Section 3 of the IFRS for SMEs – Presentation of financial statements).

Outline the meaning of EACH of the following accounting principles:

- (a) Going concern **[2 marks]**
- (b) Accruals **[2 marks]**
- (c) Prudence **[2 marks]**
- (d) Materiality **[2 marks]**
- (e) Consistency **[2 marks]**

Total 10 marks

GO ON TO THE NEXT PAGE

3. In addition, Alan also carries a large stock of simple farming tools which he sells from time to time.

Apply the basic rule in IAS 2 (Section 13 of the IFRS for SMEs) for valuing inventory (rule of lower of cost) and in EACH of the following cases, determine the

- (i) Net Revenue Valuation (NRV)
- (ii) Valuation.

	Item	Cost (\$)	Selling Price (\$)	Marketing Cost (\$)	
(a)	Shovels	400	600	100	[2 marks]
(b)	Rakes	190	120	20	[2 marks]
(c)	Forks	300	520	20	[2 marks]
(d)	Cutlasses	120	220	20	[2 marks]
(e)	Hoses	900	850	50	[2 marks]

Total 10 marks

4. Given that accountants are prudent, state whether or not Alan's accountant should recognize revenue at the different stages of a sale stated below, as covered under IAS 18 (Section 23 of the IFRS for SMEs – Revenue Recognition).

- (a) A customer calls on the telephone and places a firm order for some tools for resale. **[2 marks]**
- (b) The tools are delivered to the customer. **[2 marks]**
- (c) An invoice has been sent to the customer. **[2 marks]**
- (d) The customer receives the tools and pays cash. **[2 marks]**
- (e) The customer receives the tools and pays by cheque. **[2 marks]**

Total 10 marks

GO ON TO THE NEXT PAGE

5. Alan has decided to find out why disclosures are required by the International Accounting Standards Board (IASB) and then familiarize himself with the uses of and components of cash flow statements.

(a) Give TWO reasons why disclosures are required by the IASB. **[2 marks]**

(b) Give FOUR uses of the Statement of Cash Flow. **[4 marks]**

(c) Identify FOUR items which are normally included in the Statement of Cash Flows. **[4 marks]**

Total 10 marks

6. IAS 10 (Section 32 of the IFRS for SMEs) describes events occurring after the balance sheet period. This is popularly called 'post balance sheet events'.

(a) Identify the key elements which taken together fully explain 'events occurring after the balance sheet period'. **[7 marks]**

(b) Give THREE examples of events occurring after the balance sheet period which may or may not be considered under IAS 10. **[3 marks]**

Total 10 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2014127



TEST CODE **02201020**

MAY/JUNE 2014

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

C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N [®]

A C C O U N T I N G

UNIT 2 – Paper 02

2 hours 45 minutes

09 MAY 2014 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises THREE questions. Answer ALL questions
2. EACH question is worth 35 marks.
3. Begin EACH answer on a new page.
4. You may use a silent, non-programmable calculator to answer questions.
5. ALL working must be clearly shown.

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1. Lime Grove Electronic Store, a new Barbadian company, produced and sold *tablets* at a cost of \$850 each. Lime Grove Electronic Store's inventory carrying cost is 1.5% of the unit cost of each computer per annum. The order costs are estimated to be \$468.75 per order. Demand for the *tablets* is expected to be constant with a rate of 64 units per month. Assume 365 days per year and lead time of 18 days.

(a) (i) List THREE components of 'carrying cost'. **[3 marks]**

(ii) State TWO components of 'ordering cost'. **[2 marks]**

(iii) What is the recommended order quantity for the *tablets*? (The formula below may be used for your calculations.)

$$\left(\text{E. O. Q.} = \sqrt{\frac{2 D C_0}{C_c}} \right) \quad \begin{array}{l} \text{where} \\ D = \text{Annual demand} \\ C_c = \text{Carrying cost per unit} \\ C_0 = \text{Order cost per order} \end{array} \quad \textbf{[5 marks]}$$

(iv) How many times should orders be placed per year? **[2 marks]**

(v) What is the reorder point in units? (The formula below may be used for your calculations.)

Maximum usage × maximum lead time **[3 marks]**

(b) Roadside Ltd manufactures computers, using parts that it makes itself. Monitors are purchased from a supplier at a unit price of \$17 500. The company currently produces 12 500 computers per year. The company's managing director has suggested that Roadside Ltd could manufacture its own monitors. Estimates show that the company could manufacture its own brand for a total unit cost of \$18 750 consisting of:

Direct Material	\$ 7 500
Direct Labour	\$ 5 250
Variable Factory Overhead	\$ 1 500
Fixed Manufacturing Overhead (avoidable)	\$ 1 875
Fixed Manufacturing Overhead (unavoidable)	\$ 2 625
Total Unit Cost	<u>\$ 18 750</u>

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Roadside Ltd purchases 12 500 monitors per year.

- (i) Should the company continue to purchase the monitors? (**Show all working**) [5 marks]
- (ii) The company has recently discovered that the factory space which would be used for the manufacturing of the monitors, could be rented out for \$750 000 per month. Should the company make or buy the monitor? (**Show all working**) [6 marks]
- (c) Roadside Ltd pays its daily rated employees as follows:

Basic rate: \$6 per hour

- Overtime:
- Time and a quarter for evenings
 - Time and a half for weekends

The following are the hours required to complete two jobs.

	Job X123	Job X687
Normal Time	240	110
Evening Time	51	30
Weekend	20	60

You are required to calculate the direct labour cost and production overhead chargeable to EACH job in the following scenarios:

- (i) Where overtime is worked to meet production targets of the company itself [5 marks]
- (ii) Where the overtime is worked at the customer's request [4 marks]

Total 35 marks

HINT: *Be sure to show whether the overtime cost is included in production cost or direct labour cost in each case.*

2. (a) Gayle Ltd produces two types of cell phones, a basic and a multi-feature. The basic cell phones are designed with calling and texting features. The multi-feature cell phones also contain these features and others such as mobile banking, internet, video and many more features. Since the introduction of the multi-feature cell phone, profits have steadily declined. Management believes that the accounting system might not be accurately allocating cost to the products.

Management has asked you to investigate the cost allocation problem. Manufacturing overheads are currently assigned to the products based on direct labour costs of the products. Last year's manufacturing overhead was \$1 500 000 based on the production of 1 350 000 basic units and 650 000 multi-feature units. Direct labour and direct material cost were as follows.

	Basic	Multi-feature	Total
Direct Material Cost	\$ 550 000	\$ 825 000	\$ 1 375 000
Direct Labour Cost	\$1 012 500	\$ 737 500	\$ 1 750 000

Management believes that overheads are caused by three cost drivers.

Cost Driver	Overhead Assigned	Basic	Multi-feature	Total
Number of set up	\$ 750 000	300	450	750
Quality control test	\$ 300 000	125	250	375
Number order processed	\$ 450 000	100	200	300
Total overhead	\$ 1 500 000			

- (i) Compute the activity application rate for EACH activity centre for Gayle Ltd. **[3 marks]**
- (ii) Compute the total overhead cost assigned to EACH product for Gayle Ltd using activity-based costing. **[4 marks]**
- (iii) Compute the total cost per unit to manufacture EACH product using activity-based costing. **[4 marks]**
- (iv) Compute the total overhead cost assigned to EACH product if direct labour cost had been used to allocate overhead (traditional costing approach). **[2 marks]**
- (v) Compute the total cost per unit to manufacture EACH product using direct labour cost (traditional costing approach). **[4 marks]**

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- (b) Taylor Ltd produces a product using two consecutive processes, that is, melting and moulding.

The following data is available for moulding for the month of April 2011.

	Percentage Completed		
	Units	Material	Conversion
Work in progress, 01 April	17 500	30	40
Started into production	105 000		
Completed and transferred out work	104 300		
Work in progress, 30 April	15 450	80	60

Costs for the month of April 2011 were as follows:

1. Work in Progress at 01 April 2011.

	\$
Material cost	132 000
Conversion cost	24 000

2. Cost added during the month of April for Taylor Ltd. Moulding process.

	\$
Material cost	812 000
Conversion cost	240 000

It is company policy to value the equivalent unit using the weighted average method.

Prepare a production report for the moulding department for June 2011. **(Show all working).** [18 marks]

Total 35 marks

3. (a) (i) List FIVE assumptions of breakeven analysis. **[5 marks]**
- (ii) State why EACH of the assumptions you have stated in (i) above may NOT always be true. **[5 marks]**
- (b) McIntosh Ltd makes one product and its factory has the capacity to produce 200 000 units of that product for a year. The budgeted Income Statement for the next year is as follows:

	\$	\$
Sales (150 000 × \$75)		11 250 000
Expenses: Direct Material	2 250 000	
Direct Wages	3 000 000	
Production Overhead:		
Variable	300 000	
Fixed	1 250 000	
Distribution Overhead:		
Variable	900 000	
Fixed	500 000	
	<hr/>	
		8 200 000
Net Profit		<hr/> <hr/>
		3 050 000

Calculate the

- (i) breakeven point in units **[3 marks]**
- (ii) breakeven point in dollars **[3 marks]**
- (iii) margin of safety in units **[3 marks]**
- (iv) margin of safety in dollars. **[3 marks]**

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- (c) (i) State THREE objectives of budgeting. [3 marks]
- (ii) Outline TWO features EACH of the imposed, participative and negotiated budget styles. [6 marks]
- (iii) State the role of a budget committee. [2 marks]
- (iv) Name TWO sections of a cash budget. [2 marks]

Total 35 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2014128



TEST CODE **02201032**

MAY/JUNE 2014

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

C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N [®]

A C C O U N T I N G

UNIT 2 – Paper 032

1 hour 30 minutes

10 JUNE 2014 (p.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises NINE questions. Answer ALL questions.
2. Begin EACH answer on a new page.
3. You may use a silent, non-programmable calculator to answer questions.
4. ALL working must be clearly shown.

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02201032/CAPE 2014



1. Draw TWO sketches to show the nature of the following curves:

(a) Total fixed cost [2 marks]

(b) Fixed cost per unit as output increases [2 marks]

The axes should be clearly labelled.

Total 4 marks

2. Rowe Industries Ltd operates a manufacturing plant with three production departments: Machining, Assembly and Finishing, and three service departments: Canteen, Store and Engineering Shop, as shown in Table 1.

TABLE 1: DETAILS OF PRODUCTION AND SERVICE DEPARTMENTS

Details	Machining	Assembly	Finishing	Store	Canteen	Engineering Shop
Allocated Overhead	\$586 000	\$418 000	\$322 000	\$118 000	\$115 000	\$158 000
Number of Employees	40	75	60	10	–	15
Number of Orders	100	80	125	–	–	55
Service Hours	1500	1 000	800	–	–	–

The company allocates service departments' costs as follows:

- Store – based on number of orders
- Canteen – based on number of employees
- The canteen employees are subcontractors
- Engineering Shop – based on service hours

Rowe Industries Ltd uses the step down method to allocate service department costs.

Calculate the amount of overhead cost that will be assigned to EACH production department.

Total 9 marks

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3. Tucker Ltd is considering undertaking a job for a customer at the costs below.

Materials	\$1 600
Additional expenses	\$1 200
Labour time required	100 hours
Labour cost	\$25 per hour

To undertake the job, the company would have to **move** labour from other operations that earn a contribution of \$75 per hour.

Overhead costs are absorbed at the rate of \$95 per direct labour hour.

The customer is willing to pay \$11 800 for the job. Should the company accept the job? (**Show all working**).

Total 7 marks

4. Nugent Ltd is a company that manufactures building equipment. It has three production departments. It has produced the following budgeted and actual costs of production for the year ended 30 June 2011.

	Department A	Department B	Department C
Budgeted production overhead	\$150 000	\$180 000	260 000
Budgeted direct labour hours	25 000	20 000	52 000
Budgeted machine hours	35 000	45 000	20 000
Budgeted direct labour cost	\$100 000	\$120 000	\$180 000

Actual results were as follows:

Direct labour hours	52 000	41 000	33 000
Machine hours	38 000	46 000	8 500
Direct labour cost	\$108 000	\$122 000	\$208 000
Actual overhead	\$310 000	\$190 000	\$302 500

- (a) Calculate overhead absorption rate for EACH department, using the following base:

(i) Department A direct labour hours

(ii) Department B machine hours

(iii) Department C direct labour cost

[3 marks]

- (b) Calculate the under or over absorbed overheads per department.

[6 marks]

Total 9 marks

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5. The financial controller of Richard Manufacturing Company Ltd is currently using marginal costing in the preparation of the company's statement of comprehensive income.

The following cost and revenue data have been provided:

	\$ per unit
Selling Price	535.00
Direct Material Cost	108.00
Direct Labour Cost	105.00
Variable Production Overhead	102.00
Variable Selling Expense	35.00

Fixed production overhead costs are budgeted at \$280 000 per annum based on a budgeted normal output of 56 000 units per annum. The budgeted fixed selling expense is \$150 000 per annum.

The sales and production estimates for the year ended 31 December 2010 are:

	Units
Production	60 000
Sales	55 000

Prepare the Statement of Comprehensive Income (Income Statement) for the year ended 31 December 2010 using Absorption Costing format. **(Show all working).**

Total 7 marks

6. State TWO examples of work that may be done using job costing and TWO examples of work that may be done using process costing.

Total 4 marks

7. Murray Industries Ltd produces a single product, ABQ. The budget for product ABQ for the period 01 January 2011 to 30 June 2011 was as follows:

Production	7000 units
Sales	6000 units @ \$150 per unit
Direct Material cost	21 000 kg @ \$20 per kg
Direct Labour cost	14 000 hrs @ 50 per hour

The actual result of Murray Industries Ltd for the period 01 January 2011 to 30 June 2011 was as follows:

Production	8 750 units
Sales	7 800 units @ \$150 per unit
Direct Material cost	17 500 kg purchased and consumed at a total cost of \$411 250
Direct Labour cost	20 000 hours at total cost of \$960 000

Calculate for Murray Industries Ltd:

- | | | |
|-----|----------------------------|----------------------|
| (a) | Material Usage Variance | [2 marks] |
| (b) | Material Price Variance | [2 marks] |
| (c) | Labour Efficiency Variance | [2 marks] |
| (d) | Labour Rate Variance | [2 marks] |
| | | Total 8 marks |
8. (a) Identify THREE techniques used for investment appraisal. [3 marks]
- (b) Give TWO advantages and THREE disadvantages of any ONE of the techniques named in (a) above. [5 marks]
- Total 8 marks**
9. (a) State TWO advantages of cash budgets. [2 marks]
- (b) State TWO limitations of cash budgets. [2 marks]
- Total 4 marks**

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2015124



TEST CODE **02101020**

MAY/JUNE 2015

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ACCOUNTING

UNIT 1 – Paper 02

2 hours and 45 minutes

22 MAY 2015 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises THREE questions.
2. EACH question is worth 35 marks.
3. ALL questions are COMPULSORY.
4. Begin EACH answer on a new page.
5. You may use a silent, non-programmable calculator to answer questions.
6. ALL working must be clearly shown.

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02101020/CAPE 2015



1. B. Ross started operations on 1 June 2014 with a motor car purchased three years ago for \$120 000. The latest valuation estimated the worth of the car at \$75 000. On the same day, B. Ross opened a chequing account at a local bank with \$20 000, \$15 000 of which was proceeds of a loan from M. Brown.

After the first six months of operations, B. Ross recorded drawings of \$17 300 and a loss of \$21 500.

- (a) State the meaning of the following accounting concepts:
- (i) Historical cost **[2 marks]**
 - (ii) Prudence **[2 marks]**
- (b) What amount should B. Ross record for the motor car in the books of the business? **[2 marks]**
- (c) Identify and explain the concept which allows B. Ross to record the motor car invested in the business as a non-current asset. **[4 marks]**
- (d) Show the journal entries required to record the formation of B. Ross' business on 1 June 2014. **[6 marks]**
- (e) Show the closing entries to record the loss and the drawings for the period. **[3 marks]**
- (f) The management of B. Ross intends to operate in a paperless environment and hires a trainee accountant. Within the first week on the job, the trainee accountant is seen to be consistently using Blackberry Messenger while working. In addition, the trainee occasionally logs on to Facebook using the computer on which financial information is stored.

Outline THREE controls that the management can implement to ensure the integrity of its accounting records. **[6 marks]**

(g) **Using Table 1 provided as an insert**, show the effect of EACH of the following transactions in the Cash Book and Statement of Comprehensive Income of BisNess Ltd for the year ended 30 June 2014, if the accruals basis of accounting is used. One example has been done for you on the insert.

- (i) Paid rent of \$12 000 for six months ending 30 September 2014.
- (ii) Bad debts of \$1 500 written off during the accounting year.
- (iii) Fixtures purchased for \$74 000 on 2 July 2013 by cheque.
- (iv) Depreciation on fixtures purchased on 2 July 2013 is charged at a rate of 15% using the straight line method.
- (v) Invoice for electricity amounting to \$3 700 for the month of June 2014 not received nor paid.

[10 marks]

Total 35 marks

2. (a) Amar and Mohan are equal partners in a retail clothing business. They each contributed \$240 000. Afterwards, it was agreed that Lee should join the partnership with all three partners sharing profits equally. For the purpose of admitting the new partner, the goodwill in the business was valued at \$180 000. Goodwill is not to be maintained in the accounts. Lee brought in cash of \$160 000 into the business.

Prepare the capital accounts of the partnership showing clearly the adjusted balances after the admission of the new partner. **[11 marks]**

- (b) Distinguish between 'corporations' and 'co-operatives' in terms of the following characteristics:

- (i) Transferability of ownership interest
- (ii) Voting rights
- (iii) Purpose
- (iv) Legislation

[8 marks]

- (c) An extract of the adjusted Trial Balance for Point Dex Ltd as at 31 May 2014 is provided below.

	\$ 000
Sales	750 000
Inventory (31 May 2014)	145 300
Gross purchases	345 700
Returns outwards	34 100
Discounts received	1 700
Allowance for doubtful accounts	4 500
Accounts receivable	105 000
Accounts payable	79 750
Property, plant and equipment at cost	1 375 400
Accumulated depreciation	466 800
Selling and distribution cost	125 435
Investment in Aral Ltd	350 000
Investment income	35 000
Depreciation charge	101 000
Administrative cost	234 195
Research cost	15 670
Inventory (1 June 2013)	77 400
Tax payable	7 500
15% loan (2025)	735 000
General reserve	1 500
Dividends paid	670 000
Retained earnings	825 760

Additional notes:

- Point Dex Ltd depreciates all assets at a rate of 10% per annum using the reducing balance method. Depreciation is normally allocated at 40% to distribution and 60% to administration.
- Corporation tax is 25%.
 - (i) Prepare a Statement of Comprehensive Income for Point Dex Ltd for the year ended 31 May 2014. **[11 marks]**
 - (ii) Identify the figures to be included in
 - a) Current assets
 - b) Current liabilities

which would appear in the Statement of Financial Position as at 31 May 2014.

[5 marks]

Total 35 marks

GO ON TO THE NEXT PAGE

3. The financial statements for Sisco Ltd for the income year to 30 June 2012 are given below.

Statement of Comprehensive Income

	\$ 000	\$ 000
Revenue		17 234
Cost of sale		<u>(11 930)</u>
Gross profit		5 304
Operating expense	3 218	
Loss on sale of NCA	<u>30</u>	
		<u>(3 248)</u>
		2 057
Interest on loan		<u>48</u>
Profit before tax		2 009
Tax		<u>(1 110)</u>
Profit for the period		<u><u>899</u></u>

Statement of Financial Position

	\$ 000	\$ 000
Non-current asset		
Property, plant and equipment		6 181.50
Current assets		
Inventory at close	560	
Accounts receivable	1 540	
Bank	<u>1 216</u>	
Total current assets		<u>3 316</u>
Total assets		<u>9 497.50</u>
Equity and liability		
Equity		
Ordinary share \$1		4 250
Share premium		400
Retained earnings		<u>77.50</u>
Total equity		4 727.50
Non-current liability		
6% loan		1 620
Current liability		
Trade payables	1 980	
Accruals	<u>1 170</u>	
		<u>3 150</u>
		<u><u>9 497.50</u></u>

GO ON TO THE NEXT PAGE

- (a) Prepare common size statements for Sisco Ltd. From these, prepare a report to analyse the performance of the company. Your report should focus on liquidity and profitability by using at least TWO ratios in EACH category. **Calculate ratios to two decimal places.** [14 marks]

HINT: You may use the following formulae:

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$$

$$\text{Net profit margin} = \frac{\text{Net profit before interest and tax}}{\text{Sales revenue}} \times 100$$

$$\text{Return on capital employed} = \frac{\text{Operating profit}}{\text{Capital employed}} \times 100$$

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Acid test (quick ratio)} = \frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}}$$

- (b) List THREE limitations of ratio analysis. [3 marks]
- (c) Section 32 of the IFRS for SMEs defines Events after the End of Reporting Period as ‘any event that provides evidence of conditions that existed at the end of the reporting period’.
- (i) Outline TWO examples of events that would be disclosed in the financial statements as required by Section 32. [4 marks]
- (ii) Explain the meaning of ‘conditions that existed at the end of the reporting period’ and give ONE example. [4 marks]

GO ON TO THE NEXT PAGE

- (d) (i) List **THREE** duties of the receiver in a bankruptcy situation. **[3 marks]**
- (ii) In dealing with the claims of an insolvent business, the liquidator must first pay any outstanding National Insurance/Social Security funds which had been withheld from wages, followed by claims of secured creditors, claims of partly secured creditors and lastly unsecured claims, before dealing with shareholders. The list falls into three categories shown in the headings in Table 2 below.

Copy Table 2 into your answer booklet. Complete the table to show how items a) to g) should be classified.

- a) Unsecured bank loan.
- b) Accounts receivable of \$40 000 has been pledged as security for a note payable of \$120 000.
- c) Wages and salaries payable.
- d) Robin has used her shares in The Cable Inc. valued at \$75 000 as security for a business loan of \$75 000.
- e) The utility bill for the Water Authority.
- f) Davis' Garage has a charge on a car owned by Philip Patel as a result of a high court judgement.
- g) Accounts payable.

TABLE 2

Secured Claims	Partly Secured Claims	Unsecured Claims

[7 marks]

Total 35 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2015125



TEST CODE **02101032**

MAY/JUNE 2015

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

C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N [®]

A C C O U N T I N G

UNIT 1 – Paper 032

1 hour and 30 minutes

11 JUNE 2015 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises SIX questions. Answer ALL questions.
2. Begin EACH answer on a new page.
3. You may use a silent, non-programmable calculator to answer questions.
4. ALL working must be clearly shown.

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02101032/CAPE 2015



Topic: The Impact of Internal Control Systems on Business in the Caribbean

Tim Johnson just graduated from the University of the West Indies with an Accounting degree and has been hired as an accountant at Hobbit Ltd. This company has been in existence for the past five years and is relatively small. The company deals in customized interior finishing. At the end of the first week, Tim concluded that the internal control system at Hobbit Ltd was at risk, based on the following observations.

- When the cashier collects cash, cheques or credit/debit card payments, in addition to writing the receipts, she enters the data on the computer as well as prepares the bank deposit.
- Cheques and sales invoices are not pre-numbered and the purchasing supervisor and the managing director are both signatories to the account.
- Any one signature is accepted as sufficient.
- The cashier and the purchasing supervisor have not taken a vacation in the last four years.
- There are no insurances that protect the company from the misappropriation of assets by the employees.
- There is only one security officer on the premises who has to secure both the external and internal surroundings and this is very challenging on a daily basis.
- The managing director is out of the office for two days every week on other client business and is unable to check every transaction even when he is in the office.
- When the cashier goes for lunch, any one of the two sales clerks takes over, using the same cash drawer.

Tim Johnson, the new accountant, feels that these observations are all weaknesses in the internal control system at Hobbit Ltd and violate internal control principles. These violations fall under FIVE major principles which are listed in Table 1 **provided as an insert**.

GO ON TO THE NEXT PAGE

1. (a) **Using Table 1 provided as an insert**, identify from the case, ONE example of EACH principle being violated by Hobbit Ltd. **[5 marks]**
- (b) For EACH of the examples of violation given and using Table 1 provided, state ONE measure that can be used to correct it. **[5 marks]**

2. The managing director of Hobbit Ltd is considering installing a new computerized accounting software as he has been told that there are many benefits to be gained.

Outline FIVE internal control procedures Tim Johnson should recommend to the managing director in order to protect the computerized accounting information. **[10 marks]**

Tim Johnson was working very hard at implementing good internal control procedures but he is now worried about paying the corporation tax for the financial year ending December 2014. There are no financial statements prepared: if the corporation tax is not paid within 30 days, a 50% penalty will apply. After much searching, Tim found the following information.

	\$
Gain on the sale of equipment	1 000
Administration expenses	45 600
Cost of goods sold	379 200
Interest expense	1 500
Losses due to theft	500
Sales	576 000
Selling expenses	91 200
Interest revenue	2 500
Corporation tax 30%	?

3. Using the above information, prepare the Statement of Comprehensive Income according to IAS 1 for the year ending 31 December 2014 (including the calculation of corporation tax). **[12 marks]**
4. Outline FOUR ways in which a good internal control system can contribute to the preparation of the financial statements of Hobbit Ltd which are fairly stated. **[8 marks]**

GO ON TO THE NEXT PAGE

After six months as an accountant at Hobbit Ltd, Tim Johnson was already implementing good internal control practices and always looking for ways to improve the system. He just completed all the financial statements up to the last fiscal year of 2014. He decided to review the overall liquidity of the company including the accounts receivable.

The review revealed the following ratios for Hobbit Ltd:

- (a) Current ratio = 1.35:1
- (b) Acid test ratio = 0.60:1
- (c) Accounts receivable turnover = 6 times
- (d) Inventory turnover = 5 times
- (e) Average collection period = 57 days

5. Evaluate the operations of Hobbit Ltd based on EACH of the FIVE ratios. **[15 marks]**
6. Management is concerned about the average collection period of 57 days. Identify FIVE internal control procedures that can be used in the management of accounts receivable. **[5 marks]**

Total 60 marks

END OF TEST

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FORM TP 2015127



TEST CODE **02201020**

MAY/JUNE 2015

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ACCOUNTING

UNIT 2 – Paper 02

2 hours and 45 minutes

08 MAY 2015 (a.m.)

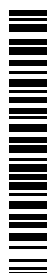
READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises THREE questions.
2. EACH question is worth 35 marks.
3. ALL questions are COMPULSORY.
4. Begin EACH answer on a new page.
5. You may use a silent, non-programmable calculator to answer questions.
6. ALL working must be clearly shown.

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02201020/CAPE 2015



1. (a) Sicard Industries is a small manufacturing business. The following balances were taken from the books of Sicard Industries on 31 December 2014.

Inventory 1 January 2014	\$
Raw material	113 400
Work-in-progress	11 160
Finished goods	125 600
Inventory 31 December 2014	
Raw material	115 100
Work-in-progress	10 100
Finished goods	123 000
Purchase of raw materials	510 000
Work-in-progress	56 000
Purchase of finished goods	84 600
Carriage on raw materials	13 000
Carriage on sales	12 400
Sale of finished goods	1 250 000
Purchases return on raw materials	1 600
Sales return on finished goods	11 400
Depreciation of delivery vehicle	11 200
Depreciation of factory equipment	14 400
Factory heat and light	17 500
Rent and rates of factory	19 000
Rent and rates of office	13 000
Selling expenses	24 800
Manufacturing wages	122 800
Audit fee	10 400
Advertising	12 000
Depreciation of factory machinery	5 300
Administrative salaries	24 000
General expenses (Factory)	28 000
Factory manager's salary	25 900

GO ON TO THE NEXT PAGE

- (i) Prepare a schedule of cost of goods manufactured for the year ended 31 December 2014. **[20 marks]**
 - (ii) Calculate Sicard Industries' cost of goods sold (Cost of Sales) for the year ended 31 December 2014. **[6 marks]**
 - (iii) Prepare a schedule of Sicard Industries' selling and distributions costs for the year ended 31 December 2014. **[5 marks]**
- (b) In times of inflation, the market price of purchased materials increases.

Explain what happens under the FIFO stock valuation method to the value of

- (i) the materials issued **[2 marks]**
- (ii) closing inventories. **[2 marks]**

Total 35 marks

2. (a) Daley Ltd has been asked to submit a bid on two prospective jobs, one for Caribbean Sun Ltd and the other for West Indies Star Ltd. The company uses a job costing system and applies overheads using machine hours. Total overhead for the year is expected to be \$500 000 and it is expected that 40 000 machine hours will be worked. Information relating to the prospective jobs have been provided as follows.

	Caribbean Sun Ltd	West Indies Star Ltd
Direct material	\$25 000	\$30 000
Direct labour	\$36 000	\$35 000
Direct expenses	\$20 000	\$15 000
Number of machine hours	2 500 hours	6 000 hours
Number of set ups	10	5
Number of orders	12	6
Number of maintenance hours	300	125

Calculate the total cost of EACH job assuming overhead is applied at the rate of \$12.50 per machine hour. **[10 marks]**

- (b) Daley Ltd is concerned that the company may be over or under-pricing the jobs on which they bid. The company has decided to use activity-based costing to estimate the cost of future jobs. Daley Ltd has provided the following information.

Overhead Item	Cost (\$)	Cost Driver	Total Capacity
Machining	250 000	Machine hours	50 000 machine hours
Set up	80 000	Number of set ups	250 set ups
Maintenance	120 000	Number of maintenance hours	1 000 maintenance hours
Order	50 000	Number of orders	800 orders
	500 000		

- (i) Calculate the activity rate for EACH activity. **[7 marks]**
- (ii) State TWO benefits of activity-based costing. **[2 marks]**

GO ON TO THE NEXT PAGE

- (c) Below is a list of costs for Carrington and Robinson, a law firm. Copy the list into your answer booklet.

Identify the units of cost that should be applied for each item on the job cost card for services delivered. (The first item has been completed as an example.)

Carrington and Robinson Law Firm	
Direct costs	Unit used for costing
<i>Senior Partner</i>	<i>No. of labour hours</i>
Junior Partner	
Secretarial support	
Photocopying	
Telephone	
Travel (overseas)	
Travel (local)	
Indirect costs	
General support	
Utilities	

[8 marks]

- (d) A service such as a hairdo or haircut, is different from a good in the following ways: it is perishable, intangible, heterogeneous and is produced and consumed simultaneously.

Explain the difficulties with costing a hairdo/haircut because of these four features.

[8 marks]

Total 35 marks

3. (a) Bernice Industries Ltd is considering the purchase of new equipment, Equipment X154, to replace the current Equipment Y183. Equipment X154 costs \$750 000 and requires \$50 000 in installation costs. It will be depreciated using the straight line method over a period of 5 years. Equipment Y183 was purchased for \$475 000 and an installation cost of \$25 000 was incurred 5 years ago. It was being depreciated using the reducing balance method at a rate of 25% per annum. Equipment Y183 can be sold today for \$155 000. As a result of the proposed replacement of Equipment Y183, the firm's cash flow will be the following:

Year	Cash Flow
1	175 000
2	166 000
3	133 000
4	154 000
5	142 000

Year	Present Value Interest Factor (PVIF)
0	1.0000
1	0.9091
2	0.8264
3	0.7513
4	0.6830
5	0.6209

Bernice Industries' cost of capital is 10%.

- (i) Calculate the net book value (NBV) of Equipment Y183. **[6 marks]**
- (ii) Compute the initial investment associated with the proposed replacement of Equipment Y183 with Equipment X154. **[3 marks]**
- (iii) Compute the payback period for Equipment X154. **[6 marks]**
- (iv) Compute the net present value for the proposed replacement of Equipment Y183 with Equipment X154. **[8 marks]**
- (v) Should Bernice Industries purchase Equipment X154 and why? **[2 marks]**
- (b) List SIX reasons why you would recommend the use of a standard costing system. **[6 marks]**
- (c) State FOUR arguments against the use of budgeting as an accounting tool. **[4 marks]**

Total 35 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2015128



TEST CODE **02201032**

MAY/JUNE 2015

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

C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N [®]

A C C O U N T I N G

UNIT 2 – Paper 032

1 hour and 30 minutes

09 JUNE 2015 (p.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises NINE questions. Answer ALL questions.
2. Begin EACH answer on a new page.
3. You may use a silent, non-programmable calculator to answer questions.
4. ALL working must be clearly shown.

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02201032/CAPE 2015



1. Toco Company, in its first month of operations, made three purchases of merchandise as follows:

2 January 300 units at \$6
15 January 400 units at \$7
28 January 200 units at \$8

At the end of January, there were 360 units on hand. Compute the cost of the ending inventory under the following methods:

(a) FIFO [3 marks]

(b) LIFO [3 marks]

Note: Toco Company uses a periodic inventory system.

Total 6 marks

2. Beacon's annual demand for glass bottles is 2 500. The ordering costs are \$770 per order and the carrying cost is \$4 per unit.

Calculate the economic order quantity (EOQ).

Formula:

$$EOQ = \sqrt{\frac{2SO}{C}}$$

Total 4 marks

3. In 2013, Forres Park Company incurred the following costs in manufacturing its product:

	\$
Materials used in production	120 000
Advertising expense	45 000
Depreciation on plant	62 000
Property taxes on plant	14 000
Property taxes on store	8 500
Delivery expense	21 500
Labour costs of assembly line workers	135 000
Sales commission	40 000
Factory supplies used	25 000
Salaries to sales clerks	55 000
Work in progress – 1 January 2013	15 000
Work in progress – 31 December 2013	16 500
Finished goods inventory – 1 January 2013	60 500
Finished goods inventory – 31 December 2013	56 500

Compute the schedule of cost of goods manufactured.

Total 10 marks

4. San Fernando Engineering supports a number of engineers across the Caribbean. For costing purposes, San Fernando Engineering uses job order costing. It is generally possible to match the costs to specific jobs. Other costs which are incurred, but which cannot be traced to specific clients, are charged using a predetermined overhead application rate. In addition, there is a mark-up to allow the engineering firm to cover its operating income and earn a profit.

Using past experience, San Fernando Engineering prepared the following budget.

Costs	Amount \$	Traceable Directly to Specific Jobs	Not Traceable to Specific Jobs
Salary of consultant engineers	400 000	296 000	104 000
Salary of administration staff	60 000	34 000	26 000
Travel	40 000	26 000	14 000
Other administration costs	20 000	8 000	12 000
	<u>520 000</u>	<u>364 000</u>	<u>156 000</u>

The budget also showed expected revenue of \$464 000 and operating income of \$204 000.

- (a) Compute the firm's overhead application rate. This is based on total costs traceable to clients' work. **[2 marks]**
- (b) Calculate San Fernando Engineering's estimated income for the year as a percentage of costs traceable to clients' work. **[2 marks]**
- (c) In March 2015, San Fernando Engineering completed a project for GS Engineering of St Vincent. The costs directly chargeable to GS Engineering were:

Salary of consultant engineers	\$ 9 000
Salary of administration staff	600
Travel	3 300
Other administration costs	300
	<u>13 200</u>

Estimate the total billing to GS Engineering.

[6 marks]

Total 10 marks

5. Lindy's Cakes and Bakery makes red velvet cakes, which are sold for \$150 each. In 2013, 500 cakes were made and 480 were sold. Other information for the year includes:

	\$
Direct materials	35.00 per unit
Direct manufacturing labour	2.50 per unit
Variable manufacturing cost	3.50 per unit
Sales commissions	5.00 per unit
Fixed manufacturing costs	27.00 per unit
Administrative expense, all fixed	15.00 per unit

- (a) Calculate the cost per unit using variable costing. **[2 marks]**
- (b) Calculate the cost per unit using absorption costing. **[2 marks]**
- (c) Distinguish between 'variable costing' and 'absorption costing'. **[2 marks]**

Total 6 marks

6. Brentwood Consultants is a medium-sized law firm. On 21 January 2013, the firm was hired to settle a dispute involving a property located in Rock Road. The dispute was settled on 30 June 2013. During the period, the lawyer on that case worked a total of 300 hours at a rate of \$350 per hour. Estimated indirect costs such as clerical, administrative and secretarial services were \$550 000 for the financial year 2013. Overheads are applied based on the direct labour hours and the number of professional hours estimated for 2013 was 22 000 hours.

Prepare the job-cost sheet for job number BC211 (Rock Road).

Total 4 marks

7. Maracas Company is considering three new projects in its new financial year. Each project requires an investment of \$22 000 in equipment and will last for three years. The following cash inflows are expected.

Year	P	Q	R
	\$	\$	\$
1	7 000	9 500	13 000
2	9 000	9 500	10 000
3	15 000	9 500	9 000
Total	31 000	28 500	32 000

Maracas Company uses the straight line method of depreciation and there is no salvage value on the equipment. Any project with a payback period over two years will not be accepted. The internal rate of return (IRR) is 12%.

Present value of \$1			
(n)	11%	12%	15%
Periods			
1	0.901	0.893	0.870
2	0.812	0.797	0.756
3	0.731	0.712	0.658
4	0.659	0.636	0.572

Present value of Annuity of \$1			
(n)	11%	12%	15%
Periods			
1	0.909	0.893	0.870
2	1.736	1.690	1.626
3	2.444	2.402	2.283
4	3.102	3.037	2.855

- (a) Compute EACH project's payback period and indicate which project is MOST desirable and which is LEAST desirable. **[4 marks]**
- (b) (i) Compute the net present value (NPV) of EACH project. **[6 marks]**
- (ii) On the basis of NPV, which project is LEAST desirable? **[1 mark]**

Total 11 marks

GO ON TO THE NEXT PAGE

8. Green Waters Company has a cash balance of \$31 000 in its Statement of Financial Position as at 31 December 2013. In the first quarter of 2014, the following cash flows are expected.

	\$
Collection from customers	180 000
Payments for direct materials	41 000

Other information regarding the first quarter of 2014 are as follows:

	\$
Direct labour	70 000
Manufacturing overhead	35 000
Sale of equipment	3 500
Purchase of securities	12 000
Selling and administrative expenses	45 000

Green Waters Company intends to maintain a balance of at least \$25 000 cash at the end of each quarter.

Prepare the cash budget for the first quarter.

Total 6 marks

9. The Barber Shop on Ariapita Avenue had the following activities in the month of December 2014:

- 2 700 haircuts and shampoos at an average price of \$30.
- Fixed costs were \$18 000 and variable costs were 70% of sales.

(a) What is the contribution margin per unit? **[2 marks]**

(b) Compute the breakeven point in units. **[1 mark]**

Total 3 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2016127



TEST CODE **02101020**

MAY/JUNE 2016

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

C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N [®]

A C C O U N T I N G

UNIT 1 – Paper 02

2 hours 45 minutes

20 MAY 2016 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises THREE questions. ALL questions are COMPULSORY.
2. EACH question is worth 35 marks.
3. Begin EACH answer on a new page.
4. You may use a silent, non-programmable calculator to answer questions.
5. ALL working must be clearly shown.

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MODULE 1

ACCOUNTING THEORY, RECORDING AND CONTROL SYSTEMS

1. (a) The regulatory framework requires companies to provide users with relevant and reliable financial statements that record the economic substance of transactions.

Using appropriate examples, explain the following accounting terms:

- (i) Substance over form **[2 marks]**
 - (ii) Relevance **[2 marks]**
 - (iii) Reliability **[2 marks]**
- (b) (i) List the FIVE elements of a full set of financial statements as required by IFRS for SMEs. **[5 marks]**
- (ii) State FOUR reasons why financial statements do not provide users with all the information they need. **[4 marks]**
- (iii) Give FOUR reasons why the role of the external auditor is important to users of financial statements. **[4 marks]**
- (c) Old Bailey Ltd is keen to ensure the accuracy of information contained in its accounting records and the safe custody of assets such as inventory and cash. State FOUR appropriate controls that may be used in EACH of the following cases:
- (i) Accounts receivable **[4 marks]**
 - (ii) Cash at bank **[4 marks]**
- (d) You are the assistant to the chief finance officer of Blooms and Shrubs Garden Centre, which is at the end of its first year of operation. The company has issued 50 000 ordinary shares of 50 cents each and 20 000 7% preference shares of \$1 each. Its profits after taxation for the year to 30 April 2016 were \$84 000. The board of directors has decided to pay preference dividends and transfer \$16 000 to a general reserve.
- Prepare the following journal entries to record these events.
- (i) Issue of ordinary shares **[2 marks]**
 - (ii) Issue of preference shares **[2 marks]**
 - (iii) Distribution of preference dividends **[2 marks]**
 - (iv) Transfer of profits to general reserve **[2 marks]**

Total 35 marks

GO ON TO THE NEXT PAGE

MODULE 2

PREPARATION OF FINANCIAL STATEMENTS

2. Sian and Amin are in partnership sharing profits and losses 3:2 respectively. No drawings are allowed but EACH partner receives an annual salary of \$45 000. The partnership does not keep a full set of accounts. For the year ending 31 December 2015, the following information is provided:

	\$
Property, plant and equipment	1 500 000
Inventory at cost	137 500
Accounts receivable (net)	75 000
Accounts payable	195 000
Bank overdraft	24 800
Fixed capital: Sian	800 000
Amin	600 000
Current accounts: Sian	?
Amin	?

Additional information:

- All sales are on account and the accounts receivable represents one month of sales.
 - Inventory at 31 December 2015 increased by 10% over the inventory at 01 January 2015.
 - Gross profit and net profit is a constant 25% and 15% of sales respectively.
 - Partners' closing current account balances are assumed to be in the ratio 3:2.
- (a) (i) Prepare a partnership Statement of Comprehensive Income for the year ended 31 December 2015 including as much detail as possible. **[8 marks]**
- (ii) Prepare a partnership Statement of Changes in Owners' Equity for the year ended 31 December 2015. **[5 marks]**

GO ON TO THE NEXT PAGE

- (b) (i) List THREE possible reasons why a business partnership may be dissolved. **[3 marks]**
- (ii) Explain the difference between a judicial and a non-judicial dissolution of partnership. **[4 marks]**
- (iii) Identify THREE steps required to dissolve a partnership. **[3 marks]**
- (iv) Identify FOUR benefits of operating as a co-operative. **[4 marks]**
- (v) State TWO advantages and ONE disadvantage of a sole proprietorship. **[3 marks]**
- (c) Sunshine Bakery's existing share capital is \$400 000 (800 000 ordinary shares of 50 cents each). The existing shares are traded on the Barbados Stock Exchange at a price of \$2.00 each. The directors decided to make a rights issue of 2 for 5 at a price of \$1.50 each.
- (i) Calculate how many shares will be issued if all the rights are taken up. **(Show all working.)** **[2 marks]**
- (ii) Prepare the journal entry (without narrative) to record the transaction. **[3 marks]**

Total 35 marks

MODULE 3

FINANCIAL REPORTING AND INTERPRETATION

3. (a) M. Ralph, a sole proprietor trading as Farmers Mart, is anxious to ascertain the amount of cash generated by the business during the last accounting year. You are required to prepare a Statement of Cash Flow for the year ended 31 December 2015 from the summary information provided.

Statement of Comprehensive Income
for the year ended 31 December 2015

	\$
Net sales	425 000
Cost of sales	<u>(185 000)</u>
Gross profit	240 000
Selling and administrative expenses	<u>(208 750)</u>
Investment income	14 500
Interest expense	<u>(22 800)</u>
Profit for the period	<u>22 950</u>

Statement of Financial Position
as at 31 December 2015

	31 December 2014	31 December 2015
	\$	\$
Non-current assets	275 800	386 000
Current assets	<u>68 900</u>	<u>98 400</u>
Total assets	389 000	484 400
Non-current liabilities		
Loan	140 000	125 000
Current liabilities		
Trade payables	65 800	74 500
Expenses owing	1 400	900
Bank overdraft	<u>nil</u>	<u>15 000</u>
Net assets	<u>182 500</u>	<u>269 000</u>

M. Ralph
Statement of Changes in Owners' Equity
for the year ended 31 December 2015

	\$
Opening capital, 01 January	182 500
Cash drawings	(21 450)
Capital invested during the year	85 000
Profit for the period	<u>22 950</u>
Ending capital, 31 December	<u>269 000</u>

During the year, equipment with a book value of \$65 000 was sold for \$40 000. The loss of sales was included in administrative expenses.

Selling expenses includes an annual depreciation charge of \$53 400.

A piece of equipment valued \$143 600 was purchased during the year by cheque.

Current assets at 31 December 2014 includes cash at bank of \$45 000. **[15 marks]**

- (b) Below are TWO independent scenarios.

Discuss the proper accounting treatment of EACH, including any required disclosures according to IFRS for SMEs Section 21: Provisions, Contingent Liabilities and Contingent Assets. Give the rationale for your answers.

Scenario 1

In August 2015, a worker was injured in the factory in an accident partially due to his own negligence. The worker has sued Rooney Co. for \$800 000. Legal counsel believes it is reasonably possible that the outcome of the suit will be unfavourable and that the settlement would cost the company between \$250 000 and \$500 000. **[3 marks]**

Scenario 2

A suit for breach of contract seeking damages of \$2 400 000 was filed by an author against Early Co. on 04 October 2015. Early's legal counsel believes that an unfavourable outcome is probable. A reasonable estimate of the award to the plaintiff is between \$600 000 and \$1 800 000. The potential damages are best reflected by the estimate. **[7 marks]**

GO ON TO THE NEXT PAGE

(c) As at the year ending 31 December 2015, the liabilities outstanding of Manning Corporation included the following:

- Note payable to Third National Bank, \$300 000, due 05 January 2017.
- Cash dividends on common stock declared on 15 December 2015, \$60 000, payable on 06 January 2016.
- Note payable to Admire State Bank, \$470 000, due 06 January 2016.
- Serial bonds \$1 000 000, of which \$250 000 mature during 2016.

The following transaction is expected in 2016:

05 January: 40 000 shares of common stock will be issued for \$350 000.
\$300 000 of the proceeds will used to liquidate the note payable to
Third National Bank.

Instructions

Prepare a partial balance sheet for Manning Corporation, showing the manner in which the above liabilities should be presented at 31 December 2015. The liabilities should be properly classified as either current or long-term. Appropriate note disclosure should be included. **[10 marks]**

Total 35 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2016128



TEST CODE **02101032**

MAY/JUNE 2016

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

C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N [®]

A C C O U N T I N G

UNIT 1 – Paper 032

1 hour 30 minutes

09 JUNE 2016 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises SIX questions. Answer ALL questions.
2. Begin EACH answer on a new page.
3. You may use a silent, non-programmable calculator to answer questions.
4. ALL working must be clearly shown.

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Topic: The performance of a retail organization over the last three years.

Messado's Retail Store is a small, private limited company located in the town of Mandeville. At its recent annual general meeting, one director, Mr Lee, expressed concern that there was insufficient analysis of the performance of the business over the years. He believes that this needs to be done so that some strategic decisions can be made for the future.

You are asked to provide a comparative income statement for the last three years for a subsequent meeting. You have prepared the following statements.

Messado's Retail Store
Comparative Income Statement
for the years ended 31 December 2013, 2014 and 2015

	2015	2014	2013
	\$	\$	\$
Sales	836 000	731 500	536 800
Cost of goods sold	512 500	369 600	304 700
Gross profit	<u>323 500</u>	<u>361 900</u>	<u>232 100</u>
Operating expenses	<u>195 130</u>	<u>175 643</u>	<u>126 990</u>
Operating income	128 370	186 257	105 110
Other expenses and losses			
Interest expense	<u>6 800</u>	<u>7 300</u>	<u>4 400</u>
Income before income taxes	121 570	178 957	100 710
Income taxes	<u>60 428</u>	<u>51 223</u>	<u>46 550</u>
Net income	<u>61 142</u>	<u>127 734</u>	<u>54 160</u>

GO ON TO THE NEXT PAGE

Messado's Retail Store
Comparative Balance Sheets
as at 31 December 2013, 2014 and 2015

	2015	2014	2013
	\$	\$	\$
Assets			
Current assets			
Cash	79 200	56 100	20 800
Accounts receivable	130 900	120 800	50 300
Merchandise inventory	110 200	106 000	85 000
	<u>320 300</u>	<u>282 900</u>	<u>156 100</u>
Property, plant and equipment	230 000	215 000	200 000
Total assets	<u>550 300</u>	<u>497 900</u>	<u>356 100</u>
Liabilities and shareholders' equity			
Current liabilities	80 440	71 395	92 510
Long-term liabilities	140 000	160 000	60 000
Total liabilities	<u>220 440</u>	<u>231 395</u>	<u>152 510</u>
Shareholders' equity			
Common stock, \$10 par	200 000	180 000	150 000
Retained earnings	129 860	86 505	53 590
Total stockholders' equity	<u>329 860</u>	<u>266 505</u>	<u>203 590</u>
Total liabilities and stockholders' equity	<u>550 300</u>	<u>497 900</u>	<u>356 100</u>

Note: The value of total assets for 2012 was \$319 300.

As the accountant, you are asked to provide an explanation for some questions that Mr Lee, one of the youngest directors, had concerning the preparation of the accounts using the accruals basis of accounting, rather than the cash basis. Mr Lee is of the opinion that the cash basis should be used, as this, he believes gives a truer picture of the performance of the business.

GO ON TO THE NEXT PAGE

MODULE 1

ACCOUNTING THEORY, RECORDING AND CONTROL SYSTEMS

1. (a) Explain the difference between the cash basis and the accrual basis of accounting. **[4 marks]**
- (b) Suggest FOUR ways in which the use of the cash basis could impact on the assessment of performance. **[4 marks]**
2. (a) Based on the information provided, rework the Income Statement for 2014, using the cash basis, if the following is known:
- 70% of sales was for cash
 - 80% of the cost of goods sold was for cash
 - 100% of the operating expenses was paid within the year
 - Only 50% of the interest was paid
 - No income taxes were paid **[8 marks]**
- (b) Comment on the effect of the calculations in (a) above on net income, stating how the performance for 2014 might be perceived as compared with the other two years. **[3 marks]**
- (c) State ONE consequence that this income statement result could have for the organization in its course of business. **[1 mark]**

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MODULE 2

PREPARATION OF FINANCIAL STATEMENTS

At the meeting, another director voiced his opinion that going public would naturally result in the organization performing better. From your studies of various types of organizations and the knowledge you gained about factors that affect the performance of a business, respond to Questions 3 and 4.

3. (a) Identify THREE features of public corporations. **[3 marks]**
- (b) Outline FOUR benefits that a private company would gain from going public. **[8 marks]**
4. (a) In not more than one paragraph, explain why going public may not necessarily cause an improvement in the performance of an organization. **[4 marks]**
- (b) Show the revised Statement of Financial Position (Balance Sheet) extract for Messado's Retail Store as at 31 December 2015, if the directors decide to issue bonus shares of 50 new shares for every one held at present. **[5 marks]**

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MODULE 3

FINANCIAL REPORTING AND INTERPRETATION

Determined to find out if the company is performing as well as it should, Mr Lee insists that you provide results, and explanations for some key ratios based on the 2015 financial statements. Questions 5 and 6 will assist you with this exercise.

5. Using the formulae below, calculate the ratios in (a)–(d) for the year 2015.

$$\text{Profit margin} = \frac{\text{Net income}}{\text{Sales}}$$

$$\text{Return on assets} = \frac{\text{Net income}}{\text{Average assets}}$$

$$\text{Interest cover} = \frac{\text{Income before int. and tax}}{\text{Int. exp.}}$$

$$\text{Debt to equity} = \frac{\text{Long-term liability}}{\text{Total equity}}$$

- | | | |
|-----|------------------|------------------|
| (a) | Profit margin | [3 marks] |
| (b) | Return on assets | [3 marks] |
| (c) | Interest cover | [3 marks] |
| (d) | Debt to equity | [3 marks] |

Answers should be given to 2 decimal places.

GO ON TO THE NEXT PAGE

6. Comment on the performance of the business in the areas of solvency and profitability, based on the ratios calculated in Question 5. Indicate which ratios are being used to make the assessment in each case.

The following information is also available for use.

- Industry averages for the ratios are:

Profit margin 10%
Return on assets 30%
Interest cover 15%
Debt of equity 25%

- The ratios for 2014 and 2013 are given as follows:

	<u>2014</u>	<u>2013</u>
Profit margin	17.46%	10.09%
Return on assets	29.91%	16.04%
Interest cover	25.51 times	23.89 times
Debt to equity	60.04%	29.47%

[8 marks]

Total 60 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2016130



TEST CODE **02201020**

MAY/JUNE 2016

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

C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N [®]

A C C O U N T I N G

UNIT 2 – Paper 02

2 hours 45 minutes

06 MAY 2016 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises THREE questions. ALL questions are COMPULSORY.
2. EACH question is worth 35 marks.
3. Begin EACH answer on a new page.
4. You may use a silent, non-programmable calculator to answer questions.
5. ALL working must be clearly shown.

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MODULE 1

COSTING PRINCIPLES

1. (a) HJ Manufacturing Company has identified a list of costs associated with its operation. The company is seeking your help with respect to classifying its costs into manufacturing costs, non-manufacturing selling costs, and non-manufacturing administrative costs.

In your answer booklet, state the classification for EACH cost item. An example has been provided for you in italics.

Cost Item	Classification
<i>Salary of factory supervisor</i>	<i>Manufacturing</i>
1. Salary of chief accountant	
2. Leasing cost – factory equipment	
3. Depreciation on office furniture	
4. Salary of plant supervisor	
5. Office stationery	
6. Rental of delivery van	
7. Fuel for factory equipment	
8. Property taxes on office building	
9. Plant utilities	
10. Sales commission	

[10 marks]

- (b) In times of inflation the market prices for purchased material increases. Explain what happens to the following when the last in, first out (LIFO) stock valuation method is used:
- (i) The cost of material issued **[2 marks]**
 - (ii) The value of closing inventory **[2 marks]**
 - (iii) Profit **[2 marks]**

GO ON TO THE NEXT PAGE

- (c) Soca Engineering Company manufactures a range of products. Shown below are the budgeted total unit cost for one of the components and one of the products manufactured by the company.

	Component ABC per unit \$	Product XYZ per unit \$
Direct material	180	480
Direct labour	160	440
Variable overhead	80	220
Fixed overhead	220	600
Component ABC		620
Total	<u>620</u>	<u>2 360</u>

Component ABC is incorporated into product XYZ manufactured and sold by the company. It is possible to purchase component ABC for \$525 per unit from another company. The anticipated selling price of product XYZ per unit is \$2750.

Fixed Overhead:

- Soca Engineering Company will incur \$125 per unit whether it purchases or manufactures component ABC.
- The company could avoid spending \$280 per unit if product XYZ was NOT produced.

Advise the management of the company whether it would be profitable to

- (i) make or buy component ABC **[6 marks]**
- (ii) accept a special offer of \$1750 per unit from an outside company for product XYZ. Provide a justification for your answer. **[9 marks]**
- (d) Crawle Company Ltd is a manufacturing company which applies overhead to its products based on direct labour hours. The accounting record for Crawle Company Ltd for 2015 was as follows:

Budgeted production overhead	\$875 000
Actual production overhead	\$925 000
Budgeted direct labour hours	103 125 hours
Actual direct labour hours	112 700 hours

The production overhead cost incurred in December 2015 was \$58 000 and the number of direct labour hours used was 7800.

- (i) Compute the predetermined production overhead rate for 2015. **[2 marks]**
- (ii) Calculate the over/under applied overhead for December 2015. **[2 marks]**

Total 35 marks

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MODULE 2

COSTING SYSTEMS

2. (a) (i) Brown, Smith and Williams Law Firm has recently engaged the services of a cost accountant who has recommended that the firm use the activity-based costing (ABC) method for charging overhead to each client. The firm was using the traditional method of applied overhead using direct labour hours. The cost accountant has prepared the following cost information relating to the law firm's overhead.

Activity	Overhead \$	Cost Driver
1. Research cost	880 000	125 000 research hours
2. Case management cost	975 000	86 000 case hours
3. Pre-trial cost	780 000	64 000 pre-trial hours
4. Trial cost	1 650 000	180 000 trial hours

Compute the activity rate for EACH activity in the law firm. **[8 marks]**

- (ii) Hope McKay, a client of Brown, Smith and Williams, has incurred the following direct and indirect costs (overheads) for a civil litigation conducted by the firm.

<u>Direct costs</u>	\$
Engagement cost	15 000
Research cost	163 000
Cost of junior counsel	364 000
Cost of senior counsel	542 000
<u>Indirect costs</u>	
Research	1 580 hours
Case management	2 764 hours
Pre-trial	3 443 hours
Trial	4 285 hours

The firm charges a profit margin of $33\frac{1}{3}\%$ on the client's legal bill.

Compute the legal bill for Hope McKay using the activity-based costing (ABC) method. **[14 marks]**

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- (b) John is planning to mass produce wooden furniture for a growing market in Europe. He is not familiar with accounting but would like to employ the process costing system to track his cost of production. Briefly outline the FIVE steps involved in preparing the process costing worksheet. **[5 marks]**
- (c) Janet rents small stores to various clients in her mall. She utilizes the activity-based costing (ABC) system to assign costs to each store. The following activities were identified by Janet:
- Janitorial services
 - Advertising and marketing
 - Lighting and air-conditioning
 - Maintenance of building
- (i) Suggest an appropriate cost driver for EACH activity. **[4 marks]**
- (ii) State TWO merits and TWO demerits of the ABC system employed by Janet. **[4 marks]**

Total 35 marks

MODULE 3

PLANNING AND DECISION-MAKING

3. Wilson is planning its cash needs for the final quarter of 2016. The company usually has to borrow money during this quarter. The following information has been made possible to assist in preparing the budgets for the quarters.

Budgeted Monthly Income Statement for October 2016 to January 2017

	October 2016	November 2016	December 2016	January 2017
	\$	\$	\$	\$
Sales	375 000	562 500	312 500	250 000
Cost of sales	262 500	393 750	218 750	175 000
	<hr/>	<hr/>	<hr/>	<hr/>
Gross margin	112 500	168 750	93 750	75 000
	<hr/>	<hr/>	<hr/>	<hr/>
Less operating expenses:				
Variable overhead	49 375	75 000	38 750	31 875
Fixed overhead	26 000	26 000	26 000	26 000
	<hr/>	<hr/>	<hr/>	<hr/>
Total expense	75 375	101 000	64 750	57 875
	<hr/>	<hr/>	<hr/>	<hr/>
Net income	37 125	67 750	29 000	17 125

- Fixed overhead includes depreciation of \$12 500 for each month.
- Sales: 25% of cash is collected in the month of the sale, 50% is collected in the first month following the sale, 23% in the second month following the sale and the remaining 2% is uncollectible. Sales for August and September were \$200 000 and \$250 000 respectively.
- For inventory purchases, 65% is paid in the month in which the goods are purchased and the remainder is paid in the following month. Accounts payable at the end of September for inventory purchases is \$78 000.
- Inventory on hand at the end of each month must be 12.5% of the cost of sales in the following month. Inventory as at 30 September 2016 is \$32 812.50.
- The company has to repay a loan of \$30 625 in November 2016.
- Furniture costing \$10 000 was purchased in August 2016 and should be paid for two months after purchase.
- The cash balance at 30 September 2016 is \$65 000.
- Variable overhead and fixed overhead incurred are paid for during the month in which they are incurred.

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- (a) Prepare an inventory purchase budget for EACH of the months October, November and December. **[8 marks]**
- (b) Prepare a schedule of expected cash disbursement for inventory purchases for EACH of the months October, November and December (final quarter). **[6 marks]**
- (c) Prepare a schedule of budgeted cash collections for sales for EACH of the months October, November and December (final quarter). **[6 marks]**
- (d) Briefly discuss THREE uses of the budget in a typical organization. **[9 marks]**
- (e) Briefly describe the THREE styles of budgeting. **[6 marks]**

Total 35 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.

FORM TP 2016131



TEST CODE **02201032**

MAY/JUNE 2016

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

C A R I B B E A N A D V A N C E D P R O F I C I E N C Y E X A M I N A T I O N [®]

A C C O U N T I N G

UNIT 2 – Paper 032

1 hour 30 minutes

07 JUNE 2016 (p.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises NINE questions. Answer ALL questions.
2. Begin EACH answer on a new page.
3. You may use a silent, non-programmable calculator to answer questions.
4. ALL working must be clearly shown.

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

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MODULE 1

COSTING PRINCIPLES

1. Mendoza Manufacturing Company produces a sub-assembly part for its finished product at a unit cost of \$8 (\$3 fixed and \$5 variable). Thomas and Company, a supplier, offers to make 10 000 of the part at \$5.30 per unit. If Mendoza Manufacturing Company accepts the offer, it will save all variable costs but no fixed costs.
- (a) Prepare the analysis showing the total cost saving if any, that Mendoza Manufacturing Company will realize by buying the part from Thomas and Company. **[3 marks]**
- (b) Based on the analysis above, recommend whether Mendoza Manufacturing should continue to make the part. Provide justification for your response. **[1 mark]**

Total 4 marks

2. Minimizing and managing costs are a major part of a firm's operations.
- (a) Construct a total variable cost curve and a total fixed cost curve including all labels. **[4 marks]**
- (b) Due to technological advances in recent times, many firms have shifted from manual labour to the use of automated machinery. How has this affected the classification of the assignment of labour cost? (Hint: look at the impact on direct labour and overhead.) **[2 marks]**

Total 6 marks

3. In a manufacturing company raw material inventory cost is a major element of the product cost.
- (a) State the steps that should be followed in the procurement process for raw materials so as to secure the best price. **[2 marks]**
- (b) Hazardous waste, in some cases, is a result of the manufacturing process.
- (i) List ONE type of hazardous waste. **[1 mark]**
- (ii) List ONE method of storing hazardous waste. **[1 mark]**
- (iii) State ONE reason why the disposal of hazardous materials is important. **[1 mark]**
- (c) In valuing ending inventory the company may use one of three methods: FIFO, LIFO and AVCO.
- (i) Which of the methods would result in inventories approximating current cost in the balance sheet? **[1 mark]**
- (ii) Which of the methods would result in the company paying the least amount of taxes in the first year? **[1 mark]**
- (d) In order for the firm to keep its inventory costs at a minimum, it has adopted the economic order quantity (EOQ) model.
- (i) Define the EOQ. **[1 mark]**
- (ii) A company purchases raw materials at a cost of \$16 per unit with the annual demand for the finished product being 25 000 units. The holding cost per unit is \$6.40 and the cost of placing an order is \$32. Calculate the EOQ. **[2 marks]**

Total 10 marks

MODULE 2
COSTING SYSTEMS

4. Jetson Manufacturing Company specializes in the manufacture of a number of machine parts. Part number AA247 uses \$35 of direct materials and \$15 direct labour per unit.

The estimated manufacturing overhead consists of:

Material handling	\$100 000
Machining	200 000
Factory supervision	150 000
Total	<u>450 000</u>

Overhead is applied based on direct labour cost which was estimated at \$200 000.

After much consideration, Jetson Manufacturing Company is considering adopting activity-based costing (ABC). The estimated cost drivers are as follows:

<u>Activity</u>	<u>Cost Driver</u>	<u>Expected Usage</u>
Material handling	Weight of materials	50 000 pounds
Machining	Machine hours	20 000 hours
Factory supervision	Direct labour hours	12 000 hours

- (a) Compute the cost of 1000 units of part number AA247 using the current traditional costing system. **[4 marks]**
- (b) Compute the cost of 1000 units using the proposed ABC system. Assume that the 1000 units use 2500 pounds of material, 500 machine hours and 1000 labour hours. **[5 marks]**

Total 9 marks

5. Cedros Manufacturing Company has the following production data for the selected months.

Month	Beginning Work in Process	Units Transferred Out	Ending Work in Process	
			Units	% Complete as to Conversion Cost
February	0	30 000	10 000	40%
April	0	40 000	8 000	75%

- (a) Compute the physical units for each month. **[2 marks]**
- (b) Compute the equivalent units of production for material and conversion costs, assuming materials are 100% complete at the beginning of the process. **[2 marks]**

Total 4 marks

6. Sunset Cove Manufacturing Company, a boating company, uses the job costing system to accumulate and assign costs. The following data is available for Job# 2012200.

Direct Materials		Direct Labour	
August 15 Issued	\$40 000	Week 1	150 @ \$50
August 22 Issued	\$35 000	Week 2	125 @ \$55
August 30 Issued	\$25 000	Week 3	30 @ \$60

Manufacturing overhead is applied at the rate of \$45 per direct labour hour.

- (a) Calculate the cost of Job# 2012200. **[4 marks]**
- (b) Compute the selling price of Job# 2012200 if Sunset Cove Manufacturing Company charges a mark-up of 45% of cost. **[2 marks]**
- (c) If manufacturing overhead is under applied, what is the journal entry to correct this situation? **[1 mark]**

Total 7 marks

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MODULE 3

PLANNING AND DECISION-MAKING

7. You have been hired as the new accountant in Sammy Company and you want to apply the concept of standard costing; however, the manager has never heard the term.
- (a) Explain the term 'standard costing'. **[2 marks]**
 - (b) State TWO advantages of implementing standard costing. **[2 marks]**
 - (c) Sammy Company has a standard labour cost per unit of output of \$20 (2 hours at \$10 per hour). During September 2015, the company incurred 2100 hours of direct labour at an hourly cost of \$10.50 per hour in the production of 1000 units of the finished product. Compute the total, price and quantity labour variances. **[3 marks]**

Total 7 marks

8. Maracas Company had the following data as it relates to sales and production.

Sales price per unit is \$80. Unit sales for the year are listed below.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Sales in units	10 000	12 000	14 000	18 000

Additionally, management desires to have an ending finished goods inventory equal to 20% of the next quarter's expected unit sales.

- (a) Prepare the sales budget by quarters for the year ending 31 December 2015. **[4 marks]**
- (b) Prepare the production budget for the first two quarters of 2015. **[5 marks]**

Total 9 marks

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9. As part of a business project, the students of Business Class A set up a stall to sell ice cream at \$2 each. The variable cost per unit is \$1.50 and the fixed costs are \$900 per month.

- (a) Using the formula below, calculate the breakeven point in units.

$$\text{BE (units)} = \frac{\text{Fixed cost}}{\text{Contribution margin}} \quad \text{[2 marks]}$$

- (b) If Business Class A wants to achieve a profit of \$5000, how many ice creams must they sell? [2 marks]

Total 4 marks

END OF TEST

IF YOU FINISH BEFORE TIME IS CALLED, CHECK YOUR WORK ON THIS TEST.