FORM TP 2019134

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MAY/JUNE 2019

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ACCOUNTING

UNIT 2 – Paper 02

2 hours 45 minutes

10 MAY 2019 (a.m.)

READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

1. This paper comprises THREE questions. Answer ALL questions.
2. Write your answers in the booklet provided.
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.

MODULE 1

COSTING PRINCIPLES

1. (a) State TWO differences between 'financial accounting' and 'management accounting'. **[4 marks]**

(b) Explain 'product cost' and 'period cost', giving ONE example of EACH. **[6 marks]**

The following balances were extracted from the books of Silver Slipper Ltd as at 31 March 2019.

	$	$
Bank	205 000	
Capital		500 000
Carriage inwards direct raw material	25 000	
Carriage outwards	12 000	
Cash	160 500	
Trade payables		185 000
Trade receivables	48 000	
Direct expense	70 000	
Electricity	180 000	
Factory machinery at cost	280 000	
Fixtures and fittings	270 000	
Insurance	36 000	
Opening inventory of direct raw material	18 000	
Opening inventory of finished goods	27 000	
Opening inventory of work-in-progress	6 000	
Provision for unrealized profits		1 500
Provision for depreciation on factory machinery		30 000
Provision for depreciation on fixtures and fittings		140 000
Provision for doubtful debt		5 000
Purchases of direct raw material	320 000	
Rent	250 000	
Returns	13 000	4 000
Sales		1 500 000
General selling and distribution costs	190 000	
General administrative expenses	115 000	
Wages and salaries	140 000	
	2 365 500	2 365 500

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Additional information

- Closing inventories were as follows:

  - Raw materials $23 000
  - Work-in-progress $ 7 500
  - Finished goods $54 000

- Depreciation is provided on fixtures and fittings at 5% on the straight-line basis with zero residual value; 80% of the depreciation on fixtures and fittings are apportioned to the factory. Depreciation on factory machinery is provided at 10% on the reducing balance basis.

- Electricity was accrued by $20 000 and rent prepaid by $30 000.

- Expenses were apportioned as follows.

	Factory	**Administration**
Electricity	75%	25%
Rent	85%	15%
Insurance	75%	25%

- The wages for the year were as follows:

  - Amount that can be traced **directly** to the production of goods, 60%
  - Amount for supervisors in the manufacturing process, 20%
  - Amount attributable to administrative functions, 20%

Required

(c) (i) Prepare the manufacturing account for the year ending 31 March 2019.
[21 marks]

(ii) Silver Slipper Ltd had the option of purchasing items rather than making them. This requires the company to evaluate relevant and irrelevant costs in arriving at a decision.

Distinguish between 'relevant costs' and 'irrelevant costs', giving ONE example of EACH. **[4 marks]**

Total 35 marks

MODULE 2

COSTING SYSTEMS

2. Lucas Ltd decided to respond to a request for proposal (RFP) recently published in the media for the supply of Product 427. The accountant gathered the following data pertinent to the preparation of a competitive bid.

Direct materials	$50 000
Direct labour (1500 hours)	$35 000
Number of orders	25
Number of inspections	50
Machine hours	2 400
Number of kilowatt hours	7 000

Traditionally the company uses a predetermined overhead rate based on machine hours to apply overheads. The mark-up on all jobs is 15%.

The company has four categories of overheads as follows.

Overhead	Cost	Activity Driver	Quantity
	$		
Inspection	430 000	Number of inspections	215 000
Ordering	80 000	Number of orders	50 000
Power	780 000	Kilowatt hours	500 000
Maintenance	350 000	Machine hours	200 000

Required

(a) Outline TWO differences between 'traditional costing approaches' and 'activity-based costing techniques'. **[4 marks]**

(b) Determine the bid price for Product 427, using machine hours to apply overheads. **[6 marks]**

(c) Determine the bid price of Product 427, using activity-based costing to apply overheads. **[12 marks]**

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(d) Product 427 passes through two departments. At the beginning of the last quarter the cost assigned to work-in-progress were materials $256 000 and conversion $196 460. The following equivalent unit schedule was prepared for the first department for the last quarter when 350 000 units were completed.

	Materials	**Conversion Cost**
Units in WIP × Fraction complete		
Materials (60 000 × 80%)	48 000	
Conversion (40 000 × 60%)		24 000

Actual manufacturing costs incurred during the quarter

Materials $599 700
Conversion $286 000

Required

(i) Using the weighted average method calculate the

- unit cost for the quarter **[7 marks]**
- cost of goods transferred **[3 marks]**

(ii) Calculate the cost of ending work-in-progress. **[3 marks]**

Total 35 marks

MODULE 3

PLANNING AND DECISION-MAKING

3. Unique Design manufactures Product 753. The company has budgeted to produce 650 units to be sold for $23 000 per unit. The following standard was established.

Direct materials (45 sq ft of lumber)	$6 750
Direct labour (20 hours)	$2 000
Variable overheads ($60 per direct labour hour)	$1 200
Budgeted fixed cost	$5 128 650

The following actual costs were incurred during the last quarter when 600 units were produced are:

Direct material purchased and used (23 500 sq ft)	$3 478 000
Direct labour (9000 hours)	$1 755 000
Variable overheads	$ 495 000
Fixed cost	$5 000 000

(a) Calculate the following:

(i) Breakeven in units **[4 marks]**

(ii) Margin of safety **[2 marks]**

(iii) The number of units that must be sold if the company wants to make a total profit of $4 306 500 for the quarter **[4 marks]**

(b) Calculate the following variances:

(i) Direct material price **[2 marks]**

(ii) Direct material quantity **[2 marks]**

(iii) Direct labour rate **[2 marks]**

(iv) Direct labour efficiency **[2 marks]**

(c) Explain EACH of the following terms:

(i) Ideal standard **[3 marks]**

(ii) Practical standard **[3 marks]**

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(d) Unique Design is contemplating two different investment opportunities. The company's cost of capital is 8 per cent. Information on the two investment opportunities is shown below.

	Project A	**Project B**
Initial investment	$851 000	$621 000
Economic life	15 years	10 years
Annual cash inflow	$115 000	$90 000
Payback period		6.9 years
NPV	$133 342.50	
IRR	10.49%	7.39%

$PVIFA_{8\%,10\ yrs}$ 6.7101
$PVIFA_{8\%,15\ yrs}$ 8.5595

(i) Distinguish among the THREE given methods for evaluating investment decisions. **[3 marks]**

(ii) Calculate the payback period for Project A. **[2 marks]**

(iii) Calculate the NPV for Project B. **[4 marks]**

(iv) Suggest, using the NPV criterion, which project should be recommended to Unique Design, giving ONE reason. **[2 marks]**

Total 35 marks

END OF TEST

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