

FORM TP 2022149



TEST CODE **02201020**

MAY/JUNE 2022

CARIBBEAN EXAMINATIONS COUNCIL

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®

ACCOUNTING

UNIT 2 – Paper 02

2 hours 45 minutes

06 MAY 2022 (a.m.)

420

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.

A002

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



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MODULE 1

COSTING PRINCIPLES

1. (a) Define cost accounting in relation to the following criteria.

- Purpose
- Scope
- Procedures and practices

[3 marks]

(b) The Clarendon Candle Company manufactures a range of candles. Information regarding one of its most popular line of candles is provided in the following table.

Quantity	Total Fixed Cost \$	Total Variable Cost \$	Total Cost \$	Average Fixed Cost \$	Average Variable Cost \$	Average Total Cost \$
0	600	—	600	—	—	—
10	600	A	800	60	F	J
20	600	300	900	C	G	45
30	600	450	1 050	D	15	K
40	600	800	1 400	E	H	L
50	600	B	1 950	12	I	39

(i) Insert the correct data into EACH of the spaces labelled A–L in the answer booklet. [6 marks]

(ii) On the grid provided in the answer booklet, sketch a graph of EACH of the following curves using the information calculated in (b) (i). (Use the same axis for all the curves.)

- Average variable cost
- Average fixed cost
- Average total cost

[8 marks]

(iii) Outline ONE reason for the shape of EACH of the curves in (b) (ii). [6 marks]

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The following information should be used in answering Parts (c) and (d).

Georgetown Oil Services Limited has two production departments (manufacturing and assembly) and two service departments (maintenance and recreational).

The following are budgeted costs for the next period.

	\$		\$
Rent	75 000	Indirect labour	18 100
Electricity	20 000	Direct labour	125 000
Machine depreciation	16 500		

The following additional information is available.

	Manufacturing	Assembly	Maintenance	Recreational	Total
Area (sq metres)	4 000	2 000	1 000	500	7 500
kW hours consumed	5 400	2 500	1 500	600	10 000
Machine value (\$)	60 000	35 000	11 000	4 000	110 000
Number of staff	30	15	10	2	57
Direct labour hours	5 600	3 800	—	—	9 400
Indirect labour budget (\$)	2 400	11 200	3 000	1 500	18 100

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Required

- (c) Determine the basis on which the following categories of costs will be allocated and using the appropriate overhead allocation base, complete the table provided in the answer booklet by inserting the missing information in the spaces labelled (i) to (xx).

Overhead	Basis of Apportionment/ Allocation	Manufacturing \$	Assembly \$	Maintenance \$	Recreational \$
Rent	(i)	(v)	(ix)	(xiii)	(xvii)
Electricity	(ii)	(vi)	(x)	(xiv)	(xviii)
Machine depreciation	(iii)	(vii)	(xi)	(xv)	(xix)
Indirect labour	(iv)	(viii)	(xii)	(xvi)	(xx)

[12 marks]

Total 35 marks

MODULE 2
COSTING SYSTEMS

2. Allen and Smith, a professional services firm, has been invited to submit a proposal to provide services as a receiver. The partners of the firm estimate that the project would require approximately 900 hours of professional labour. The partners have determined that the billing rate for the project will be \$500 per hour for direct labour. The firm's accountant estimates the following additional direct costs.

Direct support labour		\$60 000
Benefits for direct labour	75% of direct support labour	
Photocopying and printing		\$16 000
Telephone calls		\$7 500

Last year, the firm's overhead costs totalled \$680 000. The three partners of the firm logged approximately 17 000 professional labour hours. The firm uses an overhead allocation based on direct labour hours.

The firm's policy is to mark-up cost by 20% to determine the estimated price of jobs.

Required

- (a) Compute the estimated service price of this project to be included in the proposal. **[12 marks]**
- (b) Explain the difference between EACH of the following terms.
- (i) Absorption costing and marginal costing **[4 marks]**
 - (ii) Cost centre and profit centre **[4 marks]**

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- (c) Allen and Smith invested in Modern Designs Ltd, a manufacturing firm which has estimated the following overhead costs and activity drivers for the next financial year.

Activity Level	Estimated Cost (\$)	Activity Driver
Setup cost	650 000	Number of setups – 800
Maintenance	800 000	Machine hours – 20 000
Inspection	500 000	Number of inspections – 25 000

Overheads are currently applied using direct labour hours and an expected capacity of 100 000 direct labour hours. The company has been invited to bid on a job, QP3514, to manufacture 600 units and has assembled the following data relating to the job.

Direct materials	\$15 000
Direct labour	\$ 6 000
Number of setups	4
Machine hours	120
Number of inspections	7
Direct labour hours	300

Required

- (i) Calculate the activity cost driver rates for EACH of the following.

- Setup
- Maintenance
- Inspection

[6 marks]

- (ii) Calculate the total cost for Job QP3514 using activity-based costing.

[9 marks]

Total 35 marks

MODULE 3

PLANNING AND DECISION-MAKING

3. (a) Lagoon Ltd manufactures two products, incurring a total fixed cost of \$1 300 000, and has at its disposal total machine hours of 40 000 hours. The prevailing tax rate is 30%. The following data relates to both products.

	Products	
	A	B
Demand (units)	15 000	12 500
Selling price	\$800	\$450
Variable cost	\$350	\$150
Contribution margin	\$450	\$300
Machine hours required per unit	5	2

Required

- (i) State TWO assumptions of breakeven analysis. **[2 marks]**
- (ii) Using limiting factor analysis, calculate the optimum total contribution margin for Lagoon Ltd. **Show all working.** **[13 marks]**
- (b) State TWO functions of the budget committee within an organization. **[2 marks]**

(c) Lagoon Ltd has provided the following information from October 2019 to February 2020.

	2019			2020	
	October \$	November \$	December \$	January \$	February \$
Sales	600 000	700 000	800 000	775 000	850 000
Purchases	200 000	280 000	350 000	300 000	420 000
Expenses				230 000	300 000

- The budgeted cash balance at 31 December 2019 is \$75 000 and there are no outstanding borrowings.
- The company's policy is to keep a minimum cash balance of \$70 000 at all times.
- Sixty per cent of sales are on a cash basis and the remaining 40% are credit sales, collected the month after the sales.
- Forty per cent of purchases is on a cash basis. The remaining amounts are credit purchases which are paid as follows:
 - One-third the month after purchase
 - One-third two months after purchase
 - The balance three months after purchase
- Expenses are paid in the month incurred.
- In January the company will purchase equipment costing \$450 000.
- A shortfall in cash in any month will be covered by borrowing from a financial institution at an interest rate of 12% per annum on a reducing balance basis. Principal and interest are paid in months when there is excess cash.
- Borrowings take place at the beginning of the month and principal and interest are paid at the end of the month in full or part when there is excess cash.

Required

- (i) Prepare the cash collections schedule **[4 marks]**
- (ii) Prepare the cash disbursement schedule for purchases **[5 marks]**
- (iii) Prepare the cash budget **[9 marks]**

Total 35 marks

END OF TEST

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