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.

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

2130

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 *Choose* (Monetary and/or non-monetary)		
6. Type of information *Choose* (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	

(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

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

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	36 000	77 000
	$140 000	$296 000

(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]

(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.