

FORM TP 2013130



TEST CODE **02201020**

MAY/JUNE 2013

**CARIBBEAN EXAMINATIONS COUNCIL**

**CARIBBEAN ADVANCED PROFICIENCY EXAMINATION®**

**ACCOUNTING**

**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.

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

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02201020/CAPE 2013

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**

	<b>SERVICE DEPARTMENT A</b>	<b>SERVICE DEPARTMENT B</b>	<b>SERVICE DEPARTMENT C</b>	<b>PRODUCTION DEPARTMENT P1</b>	<b>PRODUCTION DEPARTMENT P2</b>
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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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**

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]

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- (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:

	<b>Standard Hours</b>	<b>Rate per Hour</b>	<b>Standard Material Allowed</b>	<b>Standard Price of Material</b>
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.**

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**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**