

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.)

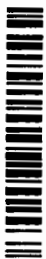
READ THE FOLLOWING INSTRUCTIONS CAREFULLY.

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.

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

Copyright © 2013 Caribbean Examinations Council
All Rights Reserved.

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]**

- (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

GO ON TO THE NEXT PAGE

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.