



CARIBBEAN EXAMINATIONS COUNCIL

# CSEC<sup>®</sup> Principles of Accounts

**SYLLABUS  
SPECIMEN PAPER  
MARK SCHEME  
SUBJECT REPORTS**

Macmillan Education  
4 Crinan Street, London, N1 9XW  
A division of Macmillan Publishers Limited  
Companies and representatives throughout the world

[www.macmillan-caribbean.com](http://www.macmillan-caribbean.com)

ISBN 978-0-230-48209-8  
© Caribbean Examinations Council (CXC®) 2015  
[www.cxc.org](http://www.cxc.org)  
[www.cxc-store.com](http://www.cxc-store.com)

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First published 2014

This revised edition published 2015

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## Principles of Accounts Syllabus Extract

Principles of Accounts is a course of study that provides an introduction to the principles and techniques that accountants employ in measuring, processing, evaluating and communicating information about the financial performance and position of a business.

The course in Principles of Accounts helps students to develop an understanding of a range of theoretical and practical techniques used in accounting. It helps to develop skills that should enable them to participate more effectively and responsibly in today's business environment, to improve the management of personal financial activities, such as, budgeting, savings and investment. In addition, this course prepares students for post-secondary and professional studies in accounting.

The syllabus is arranged in 14 sections consisting of specific objectives and related content.

- Section 1 Introduction to Principles of Accounts
- Section 2 The Classified Balance Sheet
- Section 3 Books of Original Entry
- Section 4 Ledgers and the Trial Balance
- Section 5 The Preparation and Analysis of Financial Statements of the Sole-trader
- Section 6 End of Period Adjustments
- Section 7 Control Systems
- Section 8 Incomplete Records
- Section 9 Accounting for Partnerships
- Section 10 Accounting for Corporations (Limited Liability Companies)
- Section 11 Accounting for Co-operative Societies
- Section 12 Accounting for Non-Trading (Non Profit) Organisations
- Section 13 Manufacturing Accounts
- Section 14 Payroll Accounting



CARIBBEAN EXAMINATIONS COUNCIL

Caribbean Secondary Education Certificate  
CSEC<sup>®</sup>

# PRINCIPLES OF ACCOUNTS SYLLABUS

Effective for examinations from May/June 2008

Published by the Caribbean Examinations Council

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Correspondence related to the syllabus should be addressed to:

The Pro-Registrar  
Caribbean Examinations Council  
Caenwood Centre  
37 Arnold Road, Kingston 5, Jamaica, W.I.

Telephone: (876) 630-5200  
Facsimile Number: (876) 967-4972  
E-mail address: [cxcwzo@cxc.org](mailto:cxcwzo@cxc.org)  
Website: [www.cxc.org](http://www.cxc.org)

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The Garrison, St Michael BB14038, Barbados



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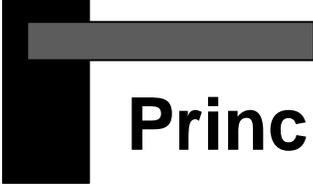
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The Principles of Business syllabus (CXC 10/0/SYLL 96) was revised in 2006 for first examination in 2008.

Teaching is expected to commence on the revised syllabus in September 2006.

First Published in 1978  
Revised in 1990, 1998, 2006  
and 2013

Please check the website, [www.cxc.org](http://www.cxc.org) for updates on CXC's syllabuses.



# Principles of Accounts Syllabus

## ◆ RATIONALE

Accounting is the financial information system that provides relevant information to those who manage or use economic resources or engage in other economic activity. **Principles of Accounts** is a course of study that provides an introduction to the principles and techniques that accountants employ in measuring, processing, evaluating and communicating information about the financial performance and position of a business.

This course in Principles of Accounts helps students to develop an understanding of a range of theoretical and practical techniques used in accounting. It helps to develop skills that should enable them to participate more effectively and responsibly in today's business environment, to improve the management of personal financial activities, such as, budgeting, savings and investment. In addition, this course prepares students for post-secondary and professional studies in accounting.

*The syllabus also seeks to instill tenets of the Ideal Caribbean as articulated by the CARICOM Caribbean Education Task Force (CTF) and adopted by the CARICOM Heads of Government at their 18<sup>th</sup> Summit. To this end the syllabus contains objectives and content intended to nurture and improve students' multiple literacy skills, as well as their management, economic and entrepreneurial skills and positive work ethic. In addition, in keeping with the UNESCO Pillars of Learning, on completion of this course of study students will learn to know, to be, to do, and to live together.*

## ◆ AIMS

The syllabus aims to:

1. introduce fundamental principles and practices of accounting;
2. develop skills and attitudes useful in a dynamic business environment;
3. provide a foundation for further studies in accounting;
4. provide an acceptable level of competence for entry-level employment.

## ◆ GENERAL OBJECTIVES

On completion of the syllabus, students should:

1. develop skills in applying accounting principles and procedures to business situations;

2. appreciate the importance of accountability in both public and private organizations;
3. grasp the significance of accounting as a tool for effecting control;
4. appreciate the use of accounting practice as a tool for efficient business management;
5. have the ability to identify and interpret financial data that will facilitate proper decision-making by users of accounting information;
6. develop an awareness of the role and impact of technology in accounting.

## ◆ ORGANIZATION OF THE SYLLABUS

The syllabus is arranged in 14 sections, consisting of specific objectives and related content.

- |            |   |   |
|------------|---|---|
| SECTION 1  | - | INTRODUCTION TO PRINCIPLES OF ACCOUNTS                                  |
| SECTION 2  | - | THE CLASSIFIED BALANCE SHEET  |
| SECTION 3  | - | BOOKS OF ORIGINAL ENTRY   |
| SECTION 4  | - | LEDGERS AND THE TRIAL BALANCE   |
| SECTION 5  | - | THE PREPARATION AND ANALYSIS OF FINANCIAL STATEMENTS OF THE SOLE-TRADER |
| SECTION 6  | - | END OF PERIOD ADJUSTMENTS   |
| SECTION 7  | - | CONTROL SYSTEMS   |
| SECTION 8  | - | INCOMPLETE RECORDS  |
| SECTION 9  | - | ACCOUNTING FOR PARTNERSHIPS   |
| SECTION 10 | - | ACCOUNTING FOR CORPORATIONS (LIMITED LIABILITY COMPANIES)               |
| SECTION 11 | - | ACCOUNTING FOR CO-OPERATIVE SOCIETIES                                   |
| SECTION 12 | - | ACCOUNTING FOR NON-TRADING (NON PROFIT) ORGANIZATIONS                   |
| SECTION 13 | - | MANUFACTURING ACCOUNTS  |
| SECTION 14 | - | PAYROLL ACCOUNTING  |

## ◆ SUGGESTED TIME –TABLE ALLOCATION

It is recommended that a minimum of five 40-minute periods per week (over a two year period) or the equivalent should be allocated to the syllabus.

## ◆ CERTIFICATION AND DEFINITION OF PROFILE DIMENSIONS

The CSEC Principles of Accounts syllabus will be examined at General Proficiency only. Candidates will be awarded an overall grade on a six-point scale. In addition to the overall grade, candidates' performance will be reported by a letter grade under profile dimensions of Knowledge, Application and Interpretation.

### (i) Knowledge

The ability to:

- (a) state, list or identify accounting concepts, terms and principles;
- (b) define and explain accounting concepts, principles, theories and procedures;
- (c) demonstrate an understanding of basic accounting concepts, conventions and principles.

### (ii) Application

The ability to:

- (a) apply accounting concepts and principles to analyze issues;
- (b) apply accounting concepts, principles and theories to solve accounting problems in various situations.

### (iii) Interpretation

The ability to:

- (a) select, organize and interpret accounting data presented in a variety of forms;
- (b) organize and present, logically and effectively, accounting ideas and arguments using verbal, graphical and numerical forms of communication.

## ◆ **FORMAT OF THE EXAMINATIONS**

The examination for General Proficiency certification will be set on the entire syllabus and will consist of two papers in the final examination and a School-Based Assessment component.

**Paper 01**                      A multiple-choice test of 60 items testing the profile dimensions Knowledge, Application and Interpretation in the ratio 1:2:1.  
(1 hour  
30 minutes)

**Paper 02**                      A problem-solving paper divided into two sections. Each section will test the profile dimensions, Knowledge, Application (of accounting principles) and Interpretation (of accounts) in the ratio 1:2:1.  
(3 hours)

Section 1 - Three compulsory questions drawn from Sections 2 to 9.

Section 2 - Four questions of which the candidate must attempt two. The questions may test any of the objectives in the syllabus.

Each question will be worth 20 marks; the total for five questions is 100 marks.

### **School-Based Assessment (SBA)**

**Paper 03/1**                      A School-Based Assessment component (SBA) comprising an individual report on a group or (SBA) individual project. Details of the SBA requirements are given on pages 29 - 30.

**Paper 03/2**                      An alternative to the School-Based Assessment component for private candidates consisting of 20 compulsory short answer questions based on case studies. Details of the Paper 03/2 requirements are given on page 31.

### **Distribution of Items for Paper 01 (Multiple Choice Test)**

<b>Section</b>	<b>Title</b>	<b>No. of items</b>
1	Introduction to Principles of Accounts	4
2	The Classified Balance Sheet	4
3	Books of Original Entry	6
4	Ledgers and the Trial Balance	7
5	The Preparation and analysis of financial Statements of the Sole-Trader	6
6	End of Period Adjustments	4
7	Control Systems	4
8	Incomplete Records	4
9	Accounting for Partnerships	5
10	Accounting for Corporations (Limited Liability Companies)	4
11	Accounting for Co-operative Societies	2
12	Accounting for Non-Trading (Non Profit) Organizations	4
13	Manufacturing Accounts	4
14	Payroll Accounting	<u>2</u>
	<b>TOTAL</b>	<b>60</b>

The profile dimensions and examination papers will be weighted as set out below.

<b>PROFILES</b>	<b>PAPER 01</b>	<b>PAPER 02</b>	<b>PAPER 03/1 (SBA)</b>	<b>TOTAL</b>	<b>(%)</b>
Knowledge	15	25	10	50	(25)
Application	30	50	20	100	(50)
Interpretation	15	25	10	50	(25)
<b>TOTAL</b>	<b>60</b>	<b>100</b>	<b>40</b>	<b>200</b>	<b>(100)</b>

# ◆ SECTION 1: INTRODUCTION TO PRINCIPLES OF ACCOUNTS

## SPECIFIC OBJECTIVES

Students should be able to:

1. explain the concept of accounting;
2. state the purpose of accounting;
3. identify the users of accounting information;
4. outline the distinguishing features of various types of business organizations;
5. identify the main financial statements prepared by various business organizations;
6. describe the accounting cycle;
7. outline the concepts and conventions that guide the accounting process;
8. assess the role and impact of technology on the accounting process.

## CONTENT

1. Concept of “Accounting” and “Principles of Accounting”.
2. Accounting as a business practice – the purpose of Accounting.
3. Internal and External users of Accounting information and their needs.
4. Types of business organizations – Sole-Traders, Partnerships, Corporations (Limited Liability companies), Cooperatives, Non-Profit Organizations.
5. Financial Statements – Income statement/Trading and Profit & Loss A/C, Income and Expenditure A/C, Balance Sheets, Cash Flow Statements. (*Teachers are not expected to teach how to prepare the cash flow statements but it should be identified as one of the financial statements which must be prepared by corporations*).
6. The Accounting cycle with its diagrammatic representations.
7. Accounting concepts and conventions – principles which guide the accounting process – accrual and matching concept, prudence (conservatism) concept, consistency concept, separate entity concept.

8.
  - (a) Accounting processes which could be readily performed by the use of the computer, for example, payroll, stock control, debtors' and creditors' schedules.
  - (b) Software currently being used in Accounting.
  - (c) Advantages and disadvantages of using the computer in Accounting.

## ◆ SECTION 2: THE CLASSIFIED BALANCE SHEET

### SPECIFIC OBJECTIVES

Students should be able to:

1. explain the concept of a Balance Sheet;
2. identify the components of a Balance Sheet;
3. use the Balance Sheet/Accounting equation;
4. construct a simple Balance Sheet;
5. give examples of different types of assets and liabilities;
6. construct classified Balance Sheets;
7. determine which items in a Balance Sheet will change as a result of various transactions.

### CONTENT

1. Definition and purpose of a Balance Sheet.
2. Definition and examples of Assets, Liabilities, Capital.
3. Balance Sheet equation  $A = C + L$ .
4. Preparation of Balance Sheets.
5. Definition and examples of Fixed Assets, Currents Assets, Current Liabilities, Long-term Liabilities.
6. Arrangement of Assets and Liabilities in order of:
  - (a) permanence;
  - (b) liquidity.
7. Effect of transactions on Balance Sheet items – increase or decrease in items while maintaining the Balance Sheet equation.

## ◆ SECTION 3: BOOKS OF ORIGINAL ENTRY

### SPECIFIC OBJECTIVES

Students should be able to:

1. explain the uses of books of original entry;
2. distinguish between cash and credit transactions;
3. identify source documents related to books of original entry;
4. use source documents to make entries into books of original entry;
5. distinguish between trade and cash discounts;
6. distinguish between discounts allowed and discounts received;
7. balance the cash book;
8. interpret the balances of the cash book;
9. balance the petty cash book;
10. indicate treatment of totals from books of original entry.

### CONTENT

1. The uses of Books of Original Entry:
  - (a) general journal;
  - (b) purchases book;
  - (c) sales book;
  - (d) returns outwards book;
  - (e) returns inwards book;
  - (f) cash book;
  - (g) petty cash book.

## BOOKS OF ORIGINAL ENTRY (cont'd)

2. Cash and credit transactions:

The use of:

- (a) cash;
- (b) cheques;
- (c) credit cards;
- (d) debit cards.

3. Source documents and the books of original entry to which they are related - sales invoice, purchases invoice, credit notes, debit notes, petty cash vouchers, receipts from cash transactions and non-cash transactions.

4. Record transactions using source documents:

- (a) purchases book;
- (b) sales book;
- (c) returns inwards book;
- (d) returns outwards book;
- (e) cash book;
- (f) petty cash book.

5. Treatment of trade discounts and cash discounts.

6. Cash discounts - discounts allowed and discounts received.

7. Balancing of the cash book.

8. The significance of the balances brought down on the cash book.

9. Balancing the petty cash book using the Imprest System.

10. Posting totals of books of original entry to the General Ledger.

## ◆ SECTION 4: LEDGERS AND THE TRIAL BALANCE

### SPECIFIC OBJECTIVES

Students should be able to:

1. identify the different types of ledgers;
2. describe the different classes of accounts;
3. explain the significance of debit and credit in each class of account;
4. distinguish between capital expenditure and revenue expenditure;
5. draw up simple account formats, neatly and accurately;
6. post from books of original entry to the general ledger and the subsidiary ledgers;
7. balance and close accounts;
8. use the balances brought down to prepare the trial balance;
9. outline the uses and limitations of the trial balance.

### CONTENT

1. Different types of ledgers for recording nominal, real and personal accounts:
  - (a) general ledger;
  - (b) sales/debtors' ledger;
  - (c) purchases/creditors' ledger
2. Classification of accounts:
  - (a) nominal - expenses and revenue;
  - (b) real - assets;
  - (c) personal - debtors and creditors.
3. Rules of entry for assets, liabilities, income, capital and expenses.
4. Capital expenditure; revenue expenditure.

## LEDGERS AND THE TRIAL BALANCE (cont'd)

5. Recording transactions in accounts using the double entry system.
6. Posting to general and subsidiary ledges.
7. Balancing accounts: calculation of the balances c/d and bringing down those balances.
8. Trial balances.
9. Uses and limitations of the trial balance.

# ◆ SECTION 5: THE PREPARATION AND ANALYSIS OF FINANCIAL STATEMENTS OF THE SOLE-TRADER

## SPECIFIC OBJECTIVES

Students should be able to:

1. explain the purpose of preparing financial statements;
2. list methods of inventory (stock) valuation;
3. calculate the value of closing inventory (stock);
4. assess the effect of different methods of inventory (stock) valuation on profit;
5. prepare closing journal entries;
6. identify the components of the Financial Statements;
7. draw up the Trading and the Profit and Loss account to determine gross profit or loss and net profit or loss;
8. show the effect of net profit or loss on capital;
9. use ratios to determine the performance (profitability) of the business;
10. prepare classified balance sheet in vertical style;
11. explain the significance of the working capital for the operation of a business;
12. calculate ratios to demonstrate the financial position of a business;
13. make recommendations about a business based on ratio analysis.

## CONTENT

1. The purpose of preparing Financial Statements to satisfy the needs of the users.
2. Methods of inventory (stock) valuation: First in, First out (FIFO), Last in, First out (LIFO), Average Cost (AVCO).
3. Calculation of closing inventory (stock); using: FIFO, LIFO, AVCO.
4. The effect on profit of different methods of (inventory) stock valuation.



## THE PREPARATION AND ANALYSIS OF FINANCIAL STATEMENTS OF THE SOLE-TRADER (cont'd)

5. (a) Journal entries to close off accounts in the ledger.  
(b) Linkage with Trading and Profit and Loss account.
6. Trading and Profit and Loss Account and Balance Sheet.
7. Trading and Profit and Loss account for sole-traders including adjustment for return inwards and outwards; closing stock.
8. Treatment of net profit or loss on the Balance Sheet.
9. Trading results: simple ratios such as stock turn, average stock, gross profit percentage, net profit percentage.
10. Definition of working capital, calculation of working capital; preparation of classified Balance Sheet showing working capital.
11. Working capital as a basic tool for solvency; working capital formula.
12. Analysis and interpretation of the financial position of a business using ratios: current ratio; acid test ratio; return on investment.
13. Preparation of simple reports evaluating a business based on ratios and making recommendations.

## ◆ SECTION 6: END OF PERIOD ADJUSTMENTS

### SPECIFIC OBJECTIVES

Students should be able to:

1. explain why adjustments are made to financial statements;
2. prepare journal entries for pre-payments and advanced revenues;
3. prepare journal entries for accrued expenses and revenues;
4. determine the amount of expenses or revenues to be transferred to the Profit and Loss Account/Income Statement;
5. indicate where accruals and prepayments will appear on the Balance Sheet;
6. distinguish between bad and doubtful debts;
7. prepare journal entries and ledger accounts to write off bad debts and create provision for doubtful debts;
8. explain the nature of depreciation;
9. calculate annual depreciation expenses using straight line method and reducing balance method;
10. prepare journal entries and ledger accounts for provision for depreciation;
11. prepare Financial Statements after adjustments.

### CONTENT

1. The reasons for adjustments; application of the matching/accruals concept.
2. Journal entries for prepaid expenses and advanced revenues.
3. Journal entries for accrued expenses and revenues.
4. Ledger accounts for expenses and revenues.
5. The treatment for prepayments and accruals on the balance sheet.
6. The reasons for bad debts: aging debtors; creation of provision for doubtful debts.

## END OF PERIOD ADJUSTMENTS (cont'd)

7. Accounting entries for bad and doubtful debts; the treatment of bad and doubtful debts in the Profit and Loss Account and Balance Sheet.
8. Definition of depreciation; causes of depreciation; factors to be considered when calculating depreciation (cost, estimated useful life and scrap value).
9. Straight line method (using formula) and reducing balance method of depreciation.
10. Journal entries for the provision for depreciation; the maintenance of the provision for depreciation account; the treatment of accumulated depreciation on the Balance Sheet; the determination of Net Book Value (NBV).
11. The preparation of adjusted Financial Statements (*the use of worksheets would be helpful*).

## ◆ SECTION 7: CONTROL SYSTEMS

### SPECIFIC OBJECTIVES

Students should be able to:

1. explain the need for control systems;
2. identify common control systems;
3. distinguish between those errors which affect and those which do not affect the trial balance;
4. explain the need for suspense account;
5. prepare journal entries for the correction of errors;
6. construct a suspense account;
7. construct a statement of revised profit after the correction of errors;
8. explain the purposes of control accounts and how they are prepared;
9. identify the sources of information for entries made in control accounts;
10. construct sales and purchases ledger control accounts;
11. explain the significance of the balances on control accounts;
12. account for differences between cash book and bank statement balances;
13. construct a bank reconciliation statement using the adjusted cash book balance.

### CONTENT

1. The need for control systems.
2. Common control systems:
  - (a) Suspense Account;
  - (b) Control Accounts;
  - (c) Bank Reconciliation Statements.

## CONTROL SYSTEMS (cont'd)

3. Types of errors.
4. Uses of the suspense account.
5. Correction of errors via journal entries.
6. Suspense accounts.
7. The effect of errors on the Trading and Profit and Loss account and the Balance Sheet.
8. Uses of control accounts.
9. Sources of information for entries in control accounts.
10. Sales Ledger Control Accounts, Purchases Ledger Control Accounts.
11. Meaning (significance) of the balances on Control Accounts.
12. Identification of the items that cause the difference between cash book and Bank statement balances and updating of the cash book.
13. Uses and construction of the Bank Reconciliation Statement.

## ◆ SECTION 8: INCOMPLETE RECORDS

### SPECIFIC OBJECTIVES

Students should be able to:

1. state the meaning and limitations of single entry records;
2. prepare opening and closing statement of affairs from incomplete records;
3. convert from single entry recording to double entry recording;
4. calculate missing figures in Trading and Profit and Loss Accounts;
5. prepare final accounts from incomplete records.

### CONTENT

1. The meaning and limitation of single entry recording.
2. Preparation of opening and closing statement of affairs from incomplete records.
3. Calculation of missing amounts such as sales, purchases, expenses, depreciation and drawings.
4. The use of mark-up, margin and stock turnover to find missing amounts, such as, purchases, sales and gross profit.
5. Preparation of Trading and Profit and Loss Account and Balance Sheet from incomplete records.

## ◆ SECTION 9: ACCOUNTING FOR PARTNERSHIPS

### SPECIFIC OBJECTIVES

Students should be able to:

1. define a partnership business;
2. state the features of a partnership;
3. give reasons for establishing partnerships;
4. outline the essential components of a partnership agreement;
5. prepare journal entries and ledger accounts to record the capital of partnership;
6. use various methods to share profit/loss among partners;
7. prepare appropriation account of partnerships;
8. prepare current account of partners;
9. explain the significance of the brought down balances on partners' current accounts;
10. prepare balance sheet of partnerships;
11. analyze performance and position using ratios.

### CONTENT

1. Definition of partnership; comparison of a partnership with sole-traders and corporations; types of partners.
2. Features of partnership - voluntary association, mutual agency, unlimited liability.
3. Reasons for formation of partnership, for example, increased capital, diverse skills.
4. Features of partnership agreement, including share of profits, interest on capital and drawings, salaries.
5. The capital account of partners - cash and non-cash resources; types of capital account -fixed and fluctuating capital accounts and their implications.
6. Methods of sharing profit/loss: capital ratio; fixed percentage, equally.
7. The preparation of the appropriation account.



## ACCOUNTING FOR PARTNERSHIPS (cont'd)

8. The current account prepared with items posted from the appropriation account; columnar form and single accounts.
9. The significance of the debit and credit balances brought down on the current accounts.
10. The treatment of current account balances on the balance sheet; (*emphasis on capital section*).
11. The calculation and interpretation of accounting ratios.

## ◆ SECTION 10: ACCOUNTING FOR CORPORATIONS (LIMITED LIABILITY COMPANIES)

### SPECIFIC OBJECTIVES

Students should be able to:

1. identify the essential features of a limited liability company;
2. outline the advantages and disadvantages of a limited liability company in relation to sole proprietorship and partnership;
3. describe the various methods of raising capital available to limited liability companies;
4. prepare journal entries to record the issue of shares and debentures;
5. identify the various types of shares and the rights of the owners of each type of share;
6. identify the various components of shareholders' equity;
7. calculate dividend payments for various types of shares;
8. appropriate profits between dividends and reserves;
9. prepare the final accounts of a limited liability company;
10. analyze performance and position using ratios.

### CONTENT

1. Nature of limited liability companies; public and private.
2. Advantages and disadvantages of limited liability companies.
3. Methods of raising capital - equity (preference and ordinary shares), debt (debentures, bank loans).
4. Issue of shares and debentures.
5. Types of shares; rights and privileges of owners of each type of share.
6. Elements of shareholders' equity: share capital, reserves.
7. Calculation of dividend payments.

## ACCOUNTING FOR CORPORATIONS (Limited Liability Companies) (cont'd)

8. Appropriation of profits (dividends and reserves).
9. Final accounts of limited liability companies.
10. Calculation and interpretation of accounting ratios.

# ◆ SECTION 11: ACCOUNTING FOR CO-OPERATIVE SOCIETIES

## SPECIFIC OBJECTIVES

Students should be able to:

1. identify the essential features of a Co-operative;
2. identify types of Co-operatives;
3. describe the various methods of raising capital for a Co-operative;
4. prepare the Income Statement showing how surplus is distributed;
5. prepare the Balance Sheet of a Co-operative.

## CONTENT

1. Nature of Co-operative societies; Co-operative principles.
2. Types of Co-operatives, for example, credit unions, agricultural societies.
3. Raising capital for a Co-operative society; journal entries to record capital.
4. Preparation of Income Statement showing distribution of surplus.
5. Preparation of Balance Sheet.

## ◆ SECTION 12: ACCOUNTING FOR NON-TRADING (NON- PROFIT) ORGANIZATIONS

### SPECIFIC OBJECTIVES

Students should be able to:

1. identify types of non-trading and non-profit organizations;
2. outline the differences in accounting procedures for trading and non-trading (non-profit) organizations;
3. prepare receipts and payment accounts;
4. prepare income generating accounts for non-trading organizations;
5. distinguish between capital expenditure and revenue expenditure;
6. prepare the Income and Expenditure Account;
7. prepare the Balance Sheet.

### CONTENT

1. Non-trading and Non-profit organizations, for example, clubs and societies.
2. Accounting procedures for trading and non-trading organizations.
3. Preparation of receipts and payments A/c.
4. Preparation of income generating accounts: subscription A/c; bar/trading A/c; dance A/c.
5. Distinction between capital expenditure and revenue expenditure.
6. Preparation of Income and Expenditure Account treating transfer from income generating accounts (deficit/surplus).
7. Preparation of Balance Sheets including calculation of accumulated fund; treatment of deficit or surplus on accumulated fund.



## ◆ SECTION 13: MANUFACTURING ACCOUNTS

### SPECIFIC OBJECTIVES

Students should be able to:

1. distinguish between direct and indirect costs;
2. prepare manufacturing accounts;
3. calculate unit cost of items produced;
4. prepare final accounts for a manufacturing concern.

### CONTENT

1. Elements of cost: direct materials, direct labour and factory overheads.
2. Preparation of manufacturing account showing:
  - (a) cost of raw material consumed;
  - (b) prime cost;
  - (c) factory overheads;
  - (d) work in progress;
  - (e) cost of production.
3. Calculation of unit cost of items produced.
4. Preparation of Trading, Profit and Loss Account and Balance Sheet of a manufacturer.

## ◆ SECTION 14: PAYROLL ACCOUNTING

### SPECIFIC OBJECTIVES

Students should be able to:

1. identify basic source documents of the payroll;
2. transfer information from time cards or sheets to payroll;
3. calculate employees' gross earnings;
4. calculate employees' net pay;
5. distinguish between voluntary and statutory deductions.

### CONTENT

1. Use of time cards, time books, electronic clock-in cards, employee earnings records.
2. Calculation of gross earnings (wages) from employee records.
3. Preparation of payroll and wage documents from time cards, computer records.
4. Calculation of statutory deductions and non-statutory deductions, for example, income tax, social security and mortgage.
5. Statutory and non-statutory deductions.

## ◆ GUIDELINES FOR THE CONDUCT OF THE SCHOOL-BASED ASSESSMENT IN PRINCIPLES OF ACCOUNTS

School-Based Assessment (SBA) is an integral part of student assessment in the course covered by this syllabus. It is intended to assist students in acquiring certain knowledge, skills and attitudes that are associated with the subject. The activities for the School-Based Assessment are based on the syllabus and should form part of the learning activities to enable the student to achieve the objectives of the syllabus.

During this course of study, students obtain marks for the competencies they develop and demonstrate in undertaking their SBA assignments. These marks contribute to the final marks and grades that are awarded to students for their performance in the examination.

The guidelines provided in this syllabus for selecting appropriate tasks are intended to assist teachers and students in the selection of assignments that are valid for the purpose of School-Based Assessment. The guidelines provided for the assessment of these assignments are intended to assist teachers in awarding marks that are reliable estimates of the achievement of students in the School-Based Assessment component of the course. In order to ensure that the scores awarded by the teachers are consistent with the Caribbean Examinations Council's standards, the Council undertakes the moderation of a sample of the SBA assignments submitted by the school.

School-Based Assessment provides an opportunity to individualize a part of the curriculum to meet the needs and interests of students. It facilitates feedback to the student at various stages of the experience. This helps to build the self-confidence of students as they proceed with their studies. The SBA also facilitates the development of critical skills and abilities, emphasized by the subject and enhances the validity of the examination scores.

### RESEARCH PROJECT

The School-Based Assessment component of the Principles of Accounts syllabus is a single guided research project *for school candidates*. The project should involve the manipulation of accounting data in real-life situations, obtained through the SIMULATION OR ACTUAL OPERATION of a business entity. All activities selected must be within the law and must lend themselves to the collection of accounting data and application of accounting principles identified in the mark scheme on pages 29-30 of the syllabus. Others are advised to gather data from entities and situations with which they are familiar and from data which may be easily obtained, for example,

- (i) school's cafeteria and stationery shop;
- (ii) snack shop at school events;
- (iii) events coordinated by students such as concerts and fashion shows;
- (iv) sporting and other cultural clubs at school.

The project must satisfy the objectives in the syllabus that are related to:

- (i) books of original entry, including cash book, general journal sales and purchases journal;
- (ii) the ledger: 12 – 20 transactions;
- (iii) trial balance;
- (iv) financial statements and ratio analysis.

## SBA REQUIREMENTS

Every candidate who enters for the CSEC Principles of Accounts examination must submit a report on a project. Students may work individually or in groups to gather data. However, each candidate must produce a complete report. No two reports from the same group should be identical. The report should *not exceed* 1,000 words, (not including appendices). Wherever a candidate exceeds the maximum length for the project by more than 10 per cent, the teacher must impose a penalty of 10 per cent of the score that the candidate achieves on the project. On the candidate's script, the teacher should clearly indicate the candidate's original score – that is, the score before the deduction is made – the marks which are to be deducted, and the final score that the candidate receives after the deduction has been made.

Only the final score is to be indicated on the record sheets which are submitted to CXC *electronically via the SBA data capture module on the Online Registration System (ORS) on the Council's website.*

*Students doing more than one subject in the Business cognate group may submit one SBA project under a theme which covers the group.*

## PROJECT REPORTS

A student's report should be presented *electronically or* in a soft folder bearing the student's name, number, name of subject, school, centre number and the date submitted. The project document should comprise the following in the order prescribed below.

1. Table of contents
2. Aim of the project
3. Information about the entity operated or simulated, namely,
  - name of entity and description of activity
  - actual accounting procedures used and records kept
  - performance of the business
  - interpretation of results: by simple ratios, comparisons
  - conclusion.

In addition, all appendices should be attached, including source documents, diagrams, charts and statistical data.

## MANAGEMENT OF THE PROJECT

School-Based Assessment tasks should be completed in the course of normal teaching time and supervised and marked by the teacher. Although some of the data collection and research work must be undertaken outside of normal school time, the teacher must be satisfied that the work submitted for assessment is the student's own work.

The teacher must:

- (a) provide assistance to students in the selection of projects and identification of appropriate stationery;
- (b) advise students of the nature of the task, the scope and depth required to fulfil it and the availability of resource materials;
- (c) monitor students' progress by advising them of the quality of their work and by recommending ways to improve the quality of the project;
- (d) collect and grade students' projects;
- (e) keep records of students' marks and submit these, together with samples of their work, as requested by CXC;
- (f) ensure that the SBA guidelines are closely followed and the marking criteria are adequately met.

## MARK SCHEME FOR RESEARCH PROJECTS

The project should be marked out of 40, weighted as follows:

- |       |                    |   |          |
|-------|--------------------|---|----------|
| (i)   | Knowledge (K)      | - | 10 marks |
| (ii)  | Application (A)    | - | 20 marks |
| (iii) | Interpretation (I) | - | 10 marks |

CRITERIA		P1- K	P2- A	P3- I
1.	<b>PRESENTATION (Total 12 marks)</b>			
(a)	<i>Layout (7 marks)</i>			
	▪ Table of contents included	1		
	▪ Aims clearly stated	2		
	▪ 4 different types of source documents used	1		
	▪ Diagrams, pictures and tables used	1		
	▪ Information properly sequenced	1		
	▪ Report is neatly and tidily presented		1	
(b)	<i>Relevance (2 marks)</i>			
	▪ Simulated or actual business entity identified and activities described		1	
	▪ Relevant information and records of entity provided		1	
(c)	<i>Completeness (3 marks)</i>			
	▪ Specified period under review stated		1	
	▪ A minimum of five accounts completed and balanced to date		1	
	▪ All sections of the project are in evidence and report duly completed		1	
<b>Sub-Total</b>		<b>6</b>	<b>6</b>	<b>0</b>
2.	<b>APPLICATION OF PRINCIPLES (Total 14 marks)</b>			
(a)	<i>Accurate use of principles (5 marks)</i>			
	▪ Cash/Bank Account		1	
	▪ Income Statements		1	
	▪ Any other accounts		1	

CRITERIA		P1- K	P2- A	P3- I
	▪ Any book or books of original entry		1	
	▪ Classified Balance Sheet		1	
(b)	<b>Correct recording of data from (4 marks)</b>			
	▪ Cash Receipt		1	
	▪ Bank document		1	
	▪ Invoice		1	
	▪ Any other related document		1	
(c)	<b>Accuracy of results as stated in (5 marks)</b>			
	▪ Balances c/d		1	
	▪ Profits/Losses		1	
	▪ Balances transferred		1	
	▪ Trial Balance totals agreeing		1	
	▪ Balance Sheet balancing		1	
<b>Sub-Total</b>		<b>0</b>	<b>14</b>	<b>0</b>
<b>3. CONCLUSION: SUMMARY: EVALUATION (Total 14 marks)</b>				
(a)	<b>A correct statement about the performance of the business operated or simulated (2 marks)</b>			2
(b)	<b>Further Interpretation of Results (4 marks)</b>			
	▪ Ratios included (2 mark each; maximum 2 marks)			2
	▪ Comparisons made (beginning with end)			2
(c)	<b>Suggestions And Recommendations (2 marks)</b>			
	▪ Any two recommendations or suggestions regarding the business operated or simulated			2
(d)	<b>Conclusion (2 marks)</b>			
	▪ Relevance of conclusion in relation to stated aim of the project			2
<b>Sub-Total</b>		<b>0</b>	<b>0</b>	<b>10</b>
(e)	<b>Communication of information in a logical way using correct grammar (4 marks)</b>			
	▪ No grammatical errors or flaws and extensive use of appropriate accounting terms. (4 marks)			
	▪ Some grammatical errors and good use of appropriate accounting terms. (3 marks)			
	▪ Some grammatical errors and limited use of appropriate accounting terms. (2 marks)	4		
	▪ Numerous grammatical errors and poor use of appropriate accounting terms. (1 mark)			
	▪ Numerous grammatical errors and no use of appropriate accounting terms. (0 mark)			
<b>Sub-Total</b>		<b>4</b>	<b>0</b>	<b>0</b>
<b>GRANDTOTAL</b>		<b>10</b>	<b>20</b>	<b>10</b>

## ◆ GUIDELINES FOR THE ALTERNATIVE TO SCHOOL-BASED ASSESSMENT

The present syllabus for Principles of Accounts has been developed for examination and certification at General Proficiency only.

Paper 03/2 is the Alternative to School-Based Assessment (SBA) of the CXC examination in Principles of Accounts. Paper 01 is a multiple choice paper and Paper 02 is a problem-solving paper. Paper 03/1 is the SBA for school candidates and Paper 03/2 is for private candidates.

The Alternative to the School-Based Assessment in Principles of Accounts (Paper 03/2), takes the form of a written examination in lieu of internal teacher assessment for school candidates. This paper, of 90 minutes duration, will be based on the same area of the syllabus as the SBA component defined in the syllabus and weighted in the same way as the Paper 03/1 (SBA) for school candidates, as shown in the table below.

WEIGHTING OF PAPER (03/2) SBA					
Proficiency	Knowledge P1	Application P2	Interpretation P3	Total Marks	% of Total Exam
General	10	20	10	40	20

Paper 03/2 will consist of a case study and candidates will be required to answer between 10 and 15 questions based on the case study. Candidates are advised to familiarize themselves with the areas of the syllabus listed below, in order to prepare adequately for Paper 03/2. **Please note that candidates taking Paper 03/2 are NOT required to submit a project.**

Questions derived from the case studies should satisfy the objectives and content of:

Section 2: The Classified Balance sheet

Section 3: Books of Original Entry

Section 4: Ledgers and the Trial Balance

Section 5: The Preparation and Analysis of Financial Statements of The Sole-Trader

Section 6: End of Period Adjustments

## ◆ REGULATIONS FOR PRIVATE CANDIDATES

Private candidates must be entered for the examination through the Local Registrar in their respective territories. They will be required to sit Papers 01, 02, and **EITHER** Paper 03/1 or Paper 03/2.

Paper 03/1 is a single guided research project for candidates whose research must be monitored by tutors in a recognized educational institution. The reports must be original work and must be validated by the principal and the candidates' tutors.

Paper 03/2 is a written examination designed for candidates whose research projects cannot be monitored by tutors in a recognized educational institution and who have been assigned by the Local Registrar to write Paper 03/2 at a designated examination centre.

## ◆ REGULATIONS FOR RESIT CANDIDATES

Resit candidates who have obtained a **MODERATED** score of 50% or more of the SBA marks will not be required to repeat this component of the examination provided that they write the examination in the academic year immediately following their first sitting of the examination. Resit candidates who failed to achieve 50% of the total SBA marks must repeat the project during the academic year in which the examination is repeated. Resit candidates must indicate at registration that they are resit candidates.

## ◆ REGULATIONS FOR THE JANUARY SITTING

- i. All candidates for the January sitting who are taking CSEC Principles of Accounts examination for the first time **MUST** write Paper 03/2.
- ii. There is no SBA option (Paper 03/1) available for January candidates.
- iii. Resit candidates fall into two categories:
  - a. those resit candidates who wrote Paper 03/1 (SBA) in the year immediately preceding the January examination. Those who obtained a **MODERATED** score of 50% or more are **NOT** required to write Paper 03/2 in January;
  - b. those resit candidates who wrote Paper 03/2 (Alternative to SBA) in the year immediately preceding the examination. Those who obtained a **MODERATED** score of 50% or more are **NOT** required to re-write Paper 03/2 in January.
- iv. A candidate who qualified under iii(a) and iii(b) above who obtained a **MODERATED** score of 50% or more, but who wish to try to improve on his/her grade may write Paper 03/2 in January.
- v. All resit candidates who did **NOT** satisfy the 50% requirement (either on 03/1 or 03/2) are required to write Paper 03/2 in January.

Western Zone Office

2006/05/10





**CARIBBEAN EXAMINATIONS COUNCIL**  
**CARIBBEAN SECONDARY EDUCATION CERTIFICATE**  
**EXAMINATION®**

**SPECIMEN**  
**MULTIPLE CHOICE QUESTIONS**  
**FOR**

**PRINCIPLES OF ACCOUNTS**

**READ THE FOLLOWING DIRECTIONS CAREFULLY**

Each item in this test has four suggested answers lettered (A), (B), (C), (D). Read each item you are about to answer and decide which choice is best.

Sample Item

Sample Answer

Prime cost is calculated by:

A   B   C   D

- (A) adding direct factory expenses to cost of materials used;
- (B) adding indirect factory expenses to cost of materials used;
- (C) subtracting direct factory expenses from cost of materials used;
- (D) subtracting indirect factory expenses from cost of materials used.

The best answer to this item is “adding direct factory expenses to cost of materials used”, so answer space (A) has been blackened.

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1. Which of the following is entered in the Purchases Account of a Grocery?

- (A) Goods for sale
- (B) Duplicating Machines
- (C) Typewriters
- (D) Office stationery

2. The following correcting entries appear in the general journal:

GENERAL JOURNAL		
	DR	CR
R. Scott	\$20	
S. Scott		\$20

Which of the following gave rise to the correcting Entry?

- (A) S. Scott paid R. Scott.
- (B) R. Scott's account was debited instead of S. Scott's account.
- (C) R. Scott paid S. Scott.
- (D) R. Scott's account was credited instead of S. Scott's Account.

3. Which of the following transactions should be debited in the Cash Account?

- (A) Bought goods for cash from J. Jones
- (B) Sold goods for cash
- (C) Paid office cleaner cash
- (D) Paid on loan account

4. Patrick is to join Dennis and Tony in partnership. Patrick brings to the partnership furniture valued at \$3 000 and a motor van worth \$5 000. How much would be the amount of Patrick's capital?

- (A) \$4 000
- (B) \$6 000
- (C) \$8 000
- (D) \$9 000

Item 5 refers to the following list of balances:

	\$
Work in progress Jan 1	1 600
Work in progress Dec 31	1 700
Cost of materials used	3 000
Indirect expenses	3 200
Factory wages	5 000

5. From the above list of balances, what is the cost of goods produced?

- (A) \$ 8 000
- (B) \$ 8 700
- (C) \$11 100
- (D) \$11 200

6. Which of the following statements BEST describe the purpose of Accounting?

- I. Keeping proper records of business Transactions
- II. Keeping proper control of the finances of a business
- III. Assisting management in making decisions
- IV. Using the accounting transactions to make proper decisions

- (A) I and II only
- (B) II and IV only
- (C) I, II and III only
- (D) I, III and IV only

7. John Jones buys goods on credit from Henry Stokes for \$15. The correct entry for recording this transaction in the books of Henry Stokes is a

- (A) credit entry in the account of Henry Stokes
- (B) credit entry in the account of John Jones in the Ledger
- (C) debit entry in the account of Henry Stokes
- (D) debit entry in the account of John Jones in the Ledger

8. The recording and analysis of financial records is called

- (A) accounting
- (B) adjusting
- (C) record keeping
- (D) decision making

9. A trader started with a capital of \$20,000 and used \$12 000 of it to purchase building and plant. What is his new capital balance?

- (A) \$32 000
- (B) \$20 000
- (C) \$12 000
- (D) \$ 8 000

10. A trade discount can be described as an amount deducted from the

- (A) catalogue price in determining the actual price
- (B) selling price when the customer pays within a specific period
- (C) invoice price because a large quantity of goods is bought
- (D) selling price when an article has a flaw

11. If a buyer's invoice has been overstated the seller should send him a

- (A) debit note
- (B) corrected invoice
- (C) credit note
- (D) returns voucher

12. In a partnership a partner, Mr. B., takes home merchandise costing \$80. This amount should be charged to

- (A) Merchandise/Purchase Account
- (B) Sales Account
- (C) Mr. B's Drawings Account
- (D) Mr. B's Capital Account

Item 13 refers to the following journal entry:

Bad Debts	\$70
K. Lamb	\$70

13. How would the above journal entry be posted in the Ledger?

- (A) Debit Profit & Loss;  
Credit Bad Debts
- (B) Debit K. Lamb;  
Credit Profit & Loss
- (C) Debit K. Lamb;  
Credit Bad Debts
- (D) Debit Bad Debts;  
Credit K. Lamb

Item 14 refers to the following information obtained from a petty cashier.

	\$
Imprest amount	200
Petty cash expenses	150
Received for stamps	10

14. What amount will be reimbursed to restore the imprest?

- (A) \$ 40
- (B) \$140
- (C) \$150
- (D) \$200

Item 15 refers to the following information.

	\$
Debtors at start of the year	8 200
Cash received from debtors during the year	17 400
Debtors at end of the year	9 300

15. The above information was provided by a trader. What was his credit sales for the year?

- (A) \$16 300
- (B) \$18 500
- (C) \$25 600
- (D) \$26 700

16. Which of the following statements best describe principles concerning the distribution of profits and losses in a Partnership?

- I. All profits are appropriated
  - II. Each partner is entitled to a share of the profit or loss
  - III. Profits are retained for the next accounting period
  - IV. Only losses are distributed
- (A) I and II only
  - (B) I and III only
  - (C) II and III only
  - (D) II and IV only

17. You are required to reconcile the debit balance in the Cash Book with the balance found in the Bank Statement. A credit entry recorded on the Bank Statement, but not in the Cash Book should be

- (A) added to the Cash Book balance
- (B) deducted from the Cash Book balance
- (C) added to the balance from the Bank Statement
- (D) deducted from the balance from the Bank Statement

18. A. Gill purchased a machine for \$3 500 from Wayne and Co. Ltd. paying \$1 500 in cash and the balance in 10 days. Which is the CORRECT procedure for recording this transaction?

- (A) Debit machinery a/c \$3 500  
Credit cash a/c \$2 000
- (B) Debit purchases a/c \$3 500  
Wayne & Co. Ltd \$3 500
- (C) Debit Machinery \$3 500  
Credit cash a/c \$1 500  
Wayne & Co. Ltd \$2 000
- (D) Debit Wayne & Co.a/c \$2 000  
Debit cash a/c \$1 500  
Credit purchases a/c \$3 500

Item 19 refers to the journal entries below showing credit sale of a machine to John Brown.

	Dr\$	Cr\$
July 1 John Brown	500	
Machine		500

19. Which of the following are the corresponding ledger entries?

I.

Machine A/c	
John	Brown
500	

II.

John Browne's A/c	
Machine	
500	

III.

Machine A/c	
	John Brown
	500

IV.

Sales A/c	
	John Brown
	500

- (A) I and II only
- (B) I and IV only
- (C) II and III only
- (D) III and IV only

20. The Gross Profit of a firm is \$3 600; bad debts \$100; rent paid \$120 which includes rent prepaid \$20; general expenses \$80; discount received \$110. What is the net profit?

- (A) \$3 400
- (B) \$3 410
- (C) \$3 430
- (D) \$3 710

21. The accounting cycle consists of a sequence of steps beginning with analysis and recording of raw transactions. Which of the following sequences BEST describes the other steps in the cycle?

- I. Take Trial Balance
- II. Close the Accounts
- III. Posting Transactions
- IV. Adjust the Accounts
- V. Prepare Trading and Profit and Loss Account
- VI. Prepare Balance Sheet

- (A) III, I, IV, II, V, VI
- (B) I, III, IV, II, V, VI
- (C) III, I, IV, II, VI, V
- (D) III, IV, I, VI, V, II

Item 22 refers to the following information which relates to the business of T & T Ltd.

	\$
Opening stock (cost price)	3 500
Closing stock (cost price)	4 200
Cost of sales	34 650

22. What is the rate of stock turn over?

- (A) 4.5
- (B) 9
- (C) 10
- (D) 8

23. Which of the following are characteristics of a public limited company?

- I. The minimum number of members is two.
- II. It restricts the right to transfer shares.
- III. It offers shares for sale to the public.
- IV. There is no limit to the size of its membership.

- (A) I and II only
- (B) III and IV only
- (C) I, II and IV only
- (D) I, III and IV only

24. Which of the following describe methods used in inventory valuation?

- I. LIFO
- II. Straight Line
- III. FIFO
- IV. Periodic

- (A) I and II only
- (B) I and III only
- (C) II and III only
- (D) II and IV only

25. A trader sent Mr. Jones an invoice for \$68 instead of \$65. Which note should the trader subsequently send to Mr. Jones?

- (A) Promissory note
- (B) Advice note
- (C) Debit note
- (D) Credit note

26. Which of the following is shown in the Appropriation account of a Limited Liability Company?

- I. Proposed dividends
- II. Debenture interest
- III. Transfers to general reserves
- IV. Directors' remuneration

- (A) I and II only
- (B) I and III only
- (C) II and III only
- (D) III and IV only

27. The excess of income over expenditure of a non-profit-making organization is called

- (A) gross profit
- (B) net profit
- (C) accumulated fund
- (D) surplus

28. Which of the following is a prime cost in Manufacturing Accounts?

- (A) Depreciation
- (B) General expenses
- (C) Direct wages
- (D) Production overhead

29. In preparing an Income and Expenditure Account, subscriptions paid in advance should be

- (A) added this year and subtracted next year
- (B) subtracted this year and added next year
- (C) subtracted this year and entered into the Receipts and Payments Account next year
- (D) added this year and entered into the Receipts and Payments Account this year

30. Which of the following documents should NOT be used when calculating total wages?

- (A) Employees' Register
- (B) Income Tax Return Forms
- (C) Pay Sheet
- (D) Time Sheet

Item 31 refers to the information below.

	\$		\$
Stock	2 000	Bank overdraft	3 000
Machinery	4 000	Debtors	700
Creditors	500	Cash	5 000

31. What is the working capital?

- (A) \$2 200
- (B) \$4 200
- (C) \$7 200
- (D) \$8 200

32. A vehicle was bought on January 1, 2005 for \$30 000. It is depreciated at the rate of 10% per annum using the diminishing balance method. What will be the depreciated charge for the year ended December 31, 2006?

- (A) \$2 700
- (B) \$2 970
- (C) \$5 970
- (D) \$6 000

33. Nate began his retail business with \$80 000 capital. Drawings during the year amount to \$15 000 and his closing capital was \$70 600. What was the amount of his net profit?

- (A) \$ 5 600
- (B) \$24 000
- (C) \$55 000
- (D) \$65 000

34. An asset purchased for \$1,000 is depreciated at 10% per annum using the diminishing balance method. What would be the value of the asset at the beginning of the third year?

- (A) \$ 800
- (B) \$ 810
- (C) \$ 900
- (D) \$1 190

35. A form on which details of employees earnings and deductions for each pay period are assembled and summarized is frequently referred to as

- (A) payroll register
- (B) payroll distribution
- (C) employees' earnings record
- (D) payroll

36. On January 01, 2005 a firm owed \$60 for electricity. During the year \$1 250 was paid towards electricity. On December 31, 2005 total electricity usage for the year amounted to \$1 800. What is the amount owing for electricity for year ending December 31, 2005?
- (A) \$ 550  
(B) \$ 610  
(C) \$1 190  
(D) \$1 800
37. The credit entry of rent of \$80 in the cash book is posted to the ledger as
- (A) a credit rent account \$80  
(B) a debit rent account \$80  
(C) a debit in the cash account  
(D) a credit in the cash account
38. Which of the following is NOT a book of original entry?
- (A) General Journal  
(B) Cash Book  
(C) Sales Day Book  
(D) Ledger
39. Which of the following errors would **NOT** affect the profit of a business?
- (A) Purchase of a motor van debited in Purchases account  
(B) Sale of machinery credited in Sales account  
(C) An amount credited to Discount received instead of debited to discount allowed  
(D) Jim Khan's account debited instead of Joe Khan's account
40. The sum of \$375 imprest cash was advanced to the petty cashier on February 1. During the month the following payments were made:
- Travelling expenses \$46; postage \$20; and stationery \$123.
- On February 28 the petty cash was reimbursed and no further payments were made. What was the petty cash balance after reimbursement?
- (A) \$186  
(B) \$189  
(C) \$375  
(D) \$564
41. A firm has sales of \$24 000 during the period and it adds a mark-up of 20%. What is the Gross Profit?
- (A) \$4 000  
(B) \$4 800  
(C) \$6 000  
(D) \$6 800
42. A public limited liability company wishes to increase its share capital. The company may do so by issuing the following:
- I. ordinary shares  
II. preference shares  
III. debentures  
IV. dividends
- (A) I and II only  
(B) III and IV only  
(C) I, II and III only  
(D) I, II and IV only

Items **43** and **44** refer to the following information.

**Acme Co-operative Society  
Appropriation A/c  
for year ended December 31, 2005**

	\$	\$		\$
Transfers to reserves:			Net income for the year	35 000
Statutory reserve	4 000		Undistributed income from last year	1 600
Special reserve	2 500	7 500		
Debenture interest		3 000		
Honorarium		6 000		
Proposed dividend		15 000		
Undistributed income earned		5 100		
		36 000		36 000

- 43.** Which item should NOT have been included in the Appropriation account?
- (A) Debenture interest \$ 3 000  
 (B) Statutory reserve \$ 4 000  
 (C) Honorarium \$ 6 000  
 (D) Proposed dividend \$15 000
- 44.** Which of the following items will be carried forward to the Appropriation Account in the new accounting period?
- (A) Undistributed income from last year, \$1 600  
 (B) Statutory and special reserves, \$7 500  
 (C) Honorarium, \$6 000  
 (D) Undistributed income earned \$5 100
- 45.** Edward Broomes has just started a business. He owns a motor car valuing \$20,000 and a truck valuing \$45,000. He decides to bring the truck into the business. In determining the total value of the business's fixed assets he does not include the value of the motor car. Which accounting concept is Edward Broom observing?
- (A) Money measurement  
 (B) Separate entity  
 (C) Prudence  
 (D) Matching
- 46.** Albert and Bernard are in partnership with capitals of \$6 000 and \$4 000 respectively. Interest on capital is charged at the rate of 5% per annum. The firm's net profit was \$12 500.
- What was Albert's share of the net profit?
- (A) \$4 800  
 (B) \$5 200  
 (C) \$6 000  
 (D) \$6 500

GO ON TO THE NEXT PAGE

47. From which of the following does the accumulated fund arise?

- I. Initial contributions of members of a club
  - II. Several years' surplus of income over expenditure
  - III. Gifts and donations to a club
  - IV. Special fund of a club
  - V. Gifts and donations for a
- (A) I and II only
  - (B) III and IV only
  - (C) I, II and III only
  - (D) II, III and IV only

Items 48 – 49 refer to the following information.

<u>Assets</u>	<u>\$</u>	<u>Liabilities</u>	<u>\$</u>
Cash-in-hand	55	Bank overdraft	1 750
Prepaid rent	120	Creditors	1 250
Furniture & Fittings	800	Wages due	75
Debtors	1 650		
Land & Buildings	8 000		
Bank Account	1 500		
Motor Vehicles	4 000		
Stock	800		

48. What is the value of the current assets?

- (A) \$2 625
- (B) \$3 125
- (C) \$4 005
- (D) \$4 125

49. What is the capital?

- (A) \$13 750
- (B) \$13 850
- (C) \$14 750
- (D) \$14 850

- 50.** Fruit and Cake are in partnership. At the end of the trading period Fruit has a debit balance of \$1 525 on her account. What is the significance of the balance on Fruit's current account?
- (A) Fruit is entitled to \$1 525 from the partnership
  - (B) Fruit has overdrawn her profits by \$1 525
  - (C) Fruit is entitled to a salary of \$1 525
  - (D) Fruit may withdraw a further \$1 525 from the business

Items 51 – 52 refer to the following information.

	\$
Sales	100 000
Stock of finished goods at 31.12.05	4 000
Stock of finished goods at 1.1.05	3 890
Production cost of goods completed	79 345
Sundry expenses	11 785

- 51.** What is the gross profit?
- (A) \$20 545
  - (B) \$20 765
  - (C) \$23 765
  - (D) \$28 545
- 52.** What is the net profit?
- (A) \$8 115
  - (B) \$8 870
  - (C) \$8 880
  - (D) \$8 980

Item 53 refers to the following information.

**Balance Sheet of Boots' Sports Store  
as at December 31, 2005**

	\$	\$		\$
Capital	12 000			
Add net profit	4 000			
			Land and building	9 000
	16 000		Motor van	5 000
	500		Fixtures & Fittings	600
Less drawings		15 500	Stock	450
Creditors		2 100	Debtors	250
			Bank	2 000
			Cash	300
		17 600		17 600

**53.** What is the acid test ratio?

- (A) 1.2: 1
- (B) 1.4: 1
- (C) 7.0: 1
- (D) 8.4: 1

Item 54 refers to the following bank statement information.

			Dr	Cr	Balance
			\$	\$	
Dec	1	Bal b/f			60
	5	Cheque		90	
	14	Unit Trust: Standing order	100		
	20	P. Palmer: Credit Transfer			
	29	Bank Charges	85	30	

**54.** The Balance as per Bank Statement was

- (A) a credit balance of \$5
- (B) a debit balance of \$65
- (C) a credit balance of \$125
- (D) a debit balance of \$5

55. Which of the following lists of assets are arranged in the order of liquidity?
- (A) Land, machinery, stock, debtors, bank, cash
  - (B) Land, stock, machinery, cash, debtors, bank
  - (C) Cash, bank, debtors, stock, machinery, land
  - (D) Bank, debtors, stock, cash, land, machinery
56. Mr. Dee's gross earnings is \$9 500 per month, his income tax is 8% on gross earnings and national insurance contribution is \$145 monthly. What is his net pay for June 2005?
- (A) \$9 355
  - (B) \$8 595
  - (C) \$8 740
  - (D) \$7 687
57. Use the information below to determine credit purchases for the period ending December 31, 2005.
- |                       |          |
|-----------------------|----------|
| Creditors at Jan 2005 | \$ 6 000 |
| Creditors at Dec 2005 | \$ 4 200 |
| Receipts from debtors | \$12 300 |
| Payments to creditors | \$15 000 |
- (A) \$16 000
  - (B) \$14 100
  - (C) \$10 500
  - (D) \$13 200
58. A company's net income for the year is \$109 000. The company proposes to transfer \$16 000 to general reserve, pay \$11 000 ordinary dividends and \$5 000 preference dividends. What will be the value of the company's retained profit for the year?
- (A) \$77 000
  - (B) \$82 000
  - (C) \$88 000
  - (D) \$93 000
59. From which of the following items in the Trading Account should Return Outwards be deducted?
- (A) Carriage outwards
  - (B) Carriage inwards
  - (C) Purchases
  - (D) Sales
60. Which of the following transactions should be treated as a capital expenditure in the accounts?
- (A) Paid \$275 for cleaning the office
  - (B) Purchased a new printing machine for use in the Printing Department
  - (C) Purchased four computers for resale
  - (D) Paid for repairing the air conditioner.

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ITEM NO.	KEY
1	A
2	D
3	B
4	C
5	C
6	C
7	D
8	A
9	B
10	A
11	C
12	C
13	D
14	B
15	B
16	A
17	A
18	C
19	C
20	C
21	A
22	B
23	D
24	B
25	D
26	B
27	D
28	C
29	B
30	B

ITEM NO.	KEY
31	B
32	A
33	A
34	B
35	C
36	B
37	B
38	D
39	D
40	C
41	B
42	A
43	A
44	D
45	B
46	C
47	A
48	D
49	B
50	B
51	B
52	D
53	A
54	D
55	C
56	B
57	D
58	A
59	C
60	B



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**PRINCIPLES OF ACCOUNTS**

**PAPER 02 – GENERAL PROFICIENCY**

**KEY**

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PRINCIPLES OF ACCOUNTS  
PAPER 02 – GENERAL PROFICIENCY

**KEY**

1. (a) (i) Pooling of resources  
(ii) Sharing of skills  
(iii) Increase capital
- (b) (i) Partnership has limited liability while a sole trader's liability is not limited.  
(ii) Profits and losses in a partnership are shared among partners while a sole trader takes all of the profits and must absorb all losses.
- (c)

**Rock and Lumber**

Appropriation Account

For the ½ year ended December 31, 2005

		\$
Net Profit		32 500
Add: Interest on Drawings		
Rock	100	
Lumber	<u>64</u>	<u>164</u>
		32 664
Less:		
Salary - Rock	3 000	
Interest on capital (½ year) - Rock	1 800	
Interest on capital (½ year) - Lumber	<u>1 200</u>	<u>6 000</u>
		<u>26 664</u>
<u>Share of residue</u>		
Rock (½)	13 332	
Lumber (½)	<u>13 332</u>	<u>26 664</u>

PRINCIPLES OF ACCOUNTS  
PAPER 02 – GENERAL PROFICIENCY  
**KEY**

(d)

**Rock and Lumber**

Current Account

For the ½ year ended December 31, 2005

	ROCK	LUMBER		ROCK	LUMBER
	\$	\$		\$	\$
Drawings	5 000	4 800	Interest on capital	1 800	1 200
Interest on Drawings	100	64	Salary	3 000	----
Balance C/D	<u>13 032</u>	<u>9 668</u>	Share of residue	<u>13 332</u>	<u>13 332</u>
	<u>18 132</u>	<u>14 532</u>		<u>18 132</u>	<u>14 532</u>
			Balance B/D	13 032	9 668

- (e) A debit balance on a partner's account means that he has overdrawn on amounts due to him by the partnership.

2.

(a)

## Suspense Account

Difference as per Trial Balance	1 978	Furniture	2 200
Sales	320	Discount allowed	98
	2 298		2 298

## GENERAL JOURNAL

(b) (ii)

1.	Purchases	280	
	T. Trading		280
	Correction of transaction omitted from books		
2.	Suspense	320	
	Sales		320
	Correction of sales journal which was understated		
3	Furniture	2 200	
	Suspense		2 200
	Purchase of furniture not recorded in the ledger		
4	Discount allowed	98	
	Suspense		98
	Correction of error in crediting discount allowed instead of debiting		

- (b) (iii) In situations where a creditor (supplier) is also a debtor (customer).

PRINCIPLES OF ACCOUNTS  
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**KEY**

(c)

L. Martin  
Purchases Ledger Control Account  
For the month ending March 31, 2005

Balance b/f	150	Balance b/f	14 890
Payments to suppliers	16 890	Credit Purchases	9 250
Returns outwards	275		
Discount received	190		
Balance c/d	6 635		
	24 140		24 140

3. (a) (i) General Journal  
(ii) Cash Book  
(iii) Returns Inwards Book  
(iv) Purchases Day Book  
(v) General Journal

(b)

Kriss Kross  
Balance Sheet  
as at December 31, 2005

<u>ASSETS</u>			<u>LIABILITIES</u>	
<u>FIXED</u>		\$		\$
Land	30 000		Capital	61 554
Equipment	<u>28 000</u>		Less Drawings	<u>7 800</u>
		58 000		53 754
<u>CURRENT</u>			<u>Long Term Liabilities</u>	
Stock	11 926		Loan	20 000
Debtors	4 120		<u>Current Liabilities</u>	
Cash at Bank	<u>6 178</u>	<u>22 224</u>	Creditors	<u>6 470</u>
		<u>80 224</u>		<u>80 224</u>

PRINCIPLES OF ACCOUNTS  
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**KEY**

- (c) Complete the table to show the effects on working capital and net profit of the following.

Transactions		Effect on Working Capital	Effect on Net Profit
1.	A cheque for \$500 sent by a creditor was not recorded	0	0
2.	Stock no longer usable, \$350 worth, is to be written off	- 350	+350
3.	Bad debts \$500 to be written off	- 500	- 500
4.	The depreciation provision is to be increased by \$800	0	- 800
5.	A machine with a net book value of \$4 000 was sold for \$4 000	+4 000	0

OPTIONAL SECTION

4. (a) (i) French Ruby A/c – Creditors Ledger; Accounts Payable Ledger  
Repairs – General Ledger
- (ii) French Ruby is a creditor to whom Jah Mayea owes \$1,275
- (iii) May 5 – Cheque of \$1,306 was paid out for repairs  
May 10 – cash of \$384 was paid out for repairs  
May 18 – a cheque of \$1,250 was paid to French Ruby
- (iv) May 25 – Goods purchased on May 15 were returned to French Ruby maybe because they were the wrong order or they were damaged.
- (v) French Ruby's balance would be under the heading Current Liabilities.  
Repairs balance would be under the heading Current Assets.

PRINCIPLES OF ACCOUNTS  
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**KEY**

- (b)  
(i)

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	DEBIT	CREDIT
Cash	2 000 000	
Ordinary Share Capital a/c		1 500 000
8% Preference Share Capital a/c		500 000
<i>To record the receipt of cash on a fully subscribed issue</i>		

- (ii) 8% Preference =  $100\,000 \times 10 = \$1\,000\,000$  + Ordinary shares of \$1 500 000

\$2 500 000

- (iii) Total value of Issued Share Capital:- \$2 000 000:

1 500 000 Ordinary Shares @ \$1 each = \$1 500 000

50 000 %8 Preference Shares @ \$10 each = \$500 000

- (iv) Authorised capital is the registered capital and the total amount of capital the company is allowed to issue. The Issued capital is the total amount of capital the company has issued to the public.
- (v) Other alternatives are: The issue of debentures or bonds; bank loans;

PRINCIPLES OF ACCOUNTS  
PAPER 02 – GENERAL PROFICIENCY  
**KEY**

5. (a)

Johnson Clothings Manufacturing Account  
For the year ending December 31, 2006

	\$	\$	\$
Opening stock of raw materials			25 470
Add: Purchases of raw materials		225 600	
Less: Returns		<u>7 500</u>	218 100
<b>Raw materials available</b>			<b>243 570</b>
Less: Closing stock of raw materials			<u>18 400</u>
<b>Cost of materials consumed</b>			<b>225 170</b>
Factory wages			<u>170 000</u>
<b>Prime Cost</b>			<b>395 170</b>
<b>Factory Overheads</b>			
Salaries		140 500	
Factory power and fuel	56 000		
Add: Arrears	<u>900</u>		
		56 900	
Insurance		6 800	
Rent		33 600	
Dep.: Machinery		<u>50 000</u>	
			<u>287 800</u>
			682 970
Add: Opening stock of work-in-progress			<u>59 000</u>
			741 970
Less: Closing stock of work-in-progress			<u>6 500</u>
<b>Total cost of Production</b>			<b><u>735 470</u></b>

(b)

Johnson Clothings Trading & Profit & Loss Account  
For the year ending December 31, 2006

	\$	\$
Sales		950 400
Opening stock of finished goods	11 460	
Cost of goods produced	<u>735 470</u>	
		746 930
Less: Closing stock of finished goods		<u>30 100</u>
Cost of sales		<u>716 830</u>
Gross Profit		233 570
<b>Expenses</b>		
Rent	8 400	
Advertising	7 500	
Administrative expenses	<u>125 000</u>	<u>140 900</u>
<b>Net Profit</b>		<b>92 670</b>

(c) Unit cost of items produced = \$735 470 ) 2 500  
= \$294.18

PRINCIPLES OF ACCOUNTS  
PAPER 02 – GENERAL PROFICIENCY  
**KEY**

6. (i)

**The Pig Farmers' Cooperative  
Balance Sheet  
as at December 31, 2006**

	\$	\$	\$	\$
<b>Fixed Assets</b>				
Farm Land and Buildings			271 250	
Equipment (NBV)			67 500	
Motor Vehicles (NBV)			<u>32 187</u>	370 937
Investments				18 750
<b>Current Assets</b>				
Stock of supplies		33 750		
Debtor	11 000			
Less prov. For bad debts	<u>1 000</u>	10 000		
Bank		22 000		
Cash		<u>3 750</u>	69 500	
<b>Currently Liabilities</b>				
Dividends owing		41 250		
Creditors		16 875		
Loan interest		2 375		
Rent		1 000		
Telephone		<u>937</u>	<u>62 437</u>	
<b>Working Capital</b>				<u>7 063</u> <b><u>396 750</u></b>
<b>Capital and Reserves</b>				
Share Capital (312 500 @ \$1 each)				312 500
Accumulated Reserves				46 750
<b>Long-Term Liability</b>				
Loan				<u>37 500</u> <b><u>396 750</u></b>

- (i) Current ration: current assets/current liabilities:  $69500/62437 = 1.1:1$
- (ii) A good current ration is 2:1. This means the value of current assets is twice as much as the current liabilities, allowing a business to pay its short-term debts if required to do so. At 1.1:1, the cooperative needs to improve its current ratio.

PRINCIPLES OF ACCOUNTS  
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**KEY**

7. (a)

**Kensington Domino Club  
Income & Expenditure A/c  
For the year ended April 30, 2006**

	\$	\$
<b>Assets</b>		
Furniture	3 000	
Stock	1 500	
Subscriptions due	300	
Bank and Cash	<u>1 200</u>	6 000
<b>Liabilities</b>		
Subscriptions in advance		<u>30</u>
<b>Accumulated Fund</b>		<b><u>5 970</u></b>

(b)

**Subscriptions Account**

	\$		\$
Balance owing b/f	300	Balance owing c/d	275
Balance in advance c/d	50	Balance in advance b/f	30
Income and Expenditure Account	<u>9 155</u>	Receipts and Payments Account	<u>9 200</u>
	<b><u>9 505</u></b>		<b><u>9 505</u></b>
Balance owing b/d	275	Balance in advance b/d	50

(c)

**Bar Trading Account  
For year ended April 30, 2006**

	\$		\$
Opening Stock	1 500	Bar Takings	17 300
Purchases	<u>10 200</u>		
	11 700		
Less ending stock	<u>1 750</u>		
Goods available for sale	9 950		
Gross Profit	<u>7 350</u>		
	<b><u>17 300</u></b>		<b><u>17 300</u></b>

PRINCIPLES OF ACCOUNTS  
PAPER 02 – GENERAL PROFICIENCY  
**KEY**

(d)

**Kensington Domino Club**  
**Income & Expenditure Account**  
**For the year ended April 30, 2006**

	\$	\$	\$
<b>Income</b>			
Subscriptions		9 155	
Donations		1 000	
Bar Profit		7 350	
Dance Profit		<u>1 800</u>	19 305
<b>Expenses</b>			
Depreciation on Furniture		300	
Rates	500		
Add accrual	<u>230</u>	730	
General Expenses		<u>2 500</u>	<u>3 530</u>
<b>Surplus</b>			<b><u>15 775</u></b>



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MARK SCHEME

<b>Question 1</b>	<b>Profiles</b>		
	<b>K</b>	<b>A</b>	<b>I</b>
(a) Stated TWO possible reasons.			2
(b) Distinguishing features (any TWO)	2		
(c) Correct heading of appropriation account	1		
Added interest on drawings to net profit			1
Correct amounts for drawings (any one correct)		1	
Correct treatment of salary		1	
Correct amounts for interest on capital (1 mark each)		2	
Share of residue in correct proportion			1
Correct amounts for share of profit		1	
(d) Correct heading	1		
Debited drawings		2	
Credited interest on capital		1	
Credited salary		1	
Credited share of profits		1	
Balanced accounts correctly	1		
(e) Correct explanation of the significance			1
<b>Total Marks</b>	<b>5</b>	<b>10</b>	<b>5</b>

PRINCIPLES OF ACCOUNTS  
PAPER 02 – GENERAL PROFICIENCY  
MARK SCHEME

	Profiles		
	K	A	I
<b><u>Question 2</u></b>			
<b><u>Suspense Account</u></b>			
Opened suspense account and debited the account with trial balance difference	1		
Correct amount of the difference		1	
Completed the suspense account appropriately (debited account with 320 and credited with 98 and 2200)			2
<b><u>General Journal</u></b>			
Correct debit entries for items 1-3 (1 mark each – max. 2 marks)		2	
Correct credit entries for items 1-3(1 mark each – max 2 marks)		2	
Correct debit and credit for item 4 (1 mark each)			2
Any two appropriate narrations (1 each)	2		
<b><u>Purchase Ledger Control Account</u></b>			
Appropriate explanation for debit balance on Purchases Ledger Control Account			1
Purchase Ledger Control Account selection of correct opening balance	1		
Opening balances recorded correctly		1	
3 correct debit entries other than opening balance		3	
Correct credit entry other than balance		1	
Balanced account correctly	1		
<b>Total Marks</b>	<b>5</b>	<b>10</b>	<b>5</b>

PRINCIPLES OF ACCOUNTS  
PAPER 02 – GENERAL PROFICIENCY  
**MARK SCHEME**

<b><u>Question 3</u></b>	<b>Profiles</b>		
	<b>K</b>	<b>A</b>	<b>I</b>
(a) Identified day books (1 mark for each)	5		
(b) (i) Correct heading for Balance Sheet		1	
(ii) Suitable classification heading - (1 for 2)		2	
(iii) Listed fixed assets correctly		2	
(iv) Any TWO correct current assets		2	
(v) Correctly listed liabilities		2	
(vi) Correct treatment of drawings		1	
(vii) Correct capital figure			1
(c) Correct entries (1 mark for 2 – max. 4 marks)			4
<b>Total Marks</b>	<b>5</b>	<b>10</b>	<b>5</b>

PRINCIPLES OF ACCOUNTS  
PAPER 02 – GENERAL PROFICIENCY  
MARK SCHEME

<b>Question 4</b>	<b>Profiles</b>		
	<b>K</b>	<b>A</b>	<b>I</b>
<b>(a)</b>			
(i) Correctly identified ledgers (1 for 1)	2		
(ii) Correctly explained the significance of the balance			1
(iii) Each transaction correctly described (1 for 1 – max. 3 marks)		3	
(iv) Appropriate reason given		1	
(v) Balance Sheet headings correctly identified (1 mark for 1)			2
<b>(b)</b>			
(i) Correct debit entry		1	
2 correct credit entries		2	
Appropriate narration		1	
(ii) Correct amount calculated		2	
(iii) Total value of issued capital correctly calculated			2
(iv) Distinction made between issued and authorized capital	2		
(v) Identified suitable alternatives	1		
<b>Total Marks</b>	<b>5</b>	<b>10</b>	<b>5</b>

PRINCIPLES OF ACCOUNTS  
PAPER 02 – GENERAL PROFICIENCY  
MARK SCHEME

<b>Question 5</b>	<b>Profiles</b>		
	<b>K</b>	<b>A</b>	<b>I</b>
<b>(a) <u>Manufacturing Account</u></b>			
Correct heading	1		
Subtracted returns outwards from purchase of raw materials		1	
Showed cost of raw material used	1		
Correct amount for raw material used		1	
Added factory wages to cost of raw materials consumed	1		
Showed prime cost	1		
Allocated correct proportion of rent to factory overhead			1
Included depreciation among the factory overheads		1	
Added factory power in arrears to factory power			1
Included two other expenses (1 mark for 2)		1	
Correct treatment of opening and closing work-in-progress (1 mark each)			2
<b>(b) <u>Trading and Profit and Loss Account</u></b>			
Included cost of production in Trading Account		1	
Used opening and closing stocks of finished goods in Trading Account	1		
Indicated gross profit		1	
Indicated 3 expenses in Profit and Loss Account (1 mark each)		3	
<b>(c) Correct formula to arrive at unit cost</b>			1
Correct amount for unit cost		1	
<b>Total Marks</b>	<b>5</b>	<b>10</b>	<b>5</b>

PRINCIPLES OF ACCOUNTS  
PAPER 02 – GENERAL PROFICIENCY  
MARK SCHEME

<b>Question 6</b>	<b>Profiles</b>		
	<b>K</b>	<b>A</b>	<b>I</b>
<b>(a)</b>			
Correct heading of Balance Sheet	1		
Suitable classification of items (max.2 marks)	2		
Correct placement of investments			1
Correctly identified fixed assets (1 for 1 – max.2 marks)		2	
Correctly identified current assets (1 for 2 – max. 2 marks)		2	
Subtracted provision for bad debt from debtors		1	
Correctly identified current liabilities (1 mark each – max. 4 marks)		4	
Identified share capital	1		
Correct computation of share capital			1
Included reserves		1	
Showed loan as a long-term liability	1		
<b>(b)</b>			
(i) Correct computation of current ratio			1
(ii) Suitable interpretation of ratio including what needs to be done			2
<b>Total Marks</b>	<b>5</b>	<b>10</b>	<b>5</b>

PRINCIPLES OF ACCOUNTS  
PAPER 02 – GENERAL PROFICIENCY  
MARK SCHEME

	Profiles		
	K	A	I
<b><u>Question 7</u></b>			
<b>(a) Statement of Accumulated Fund</b>			
Correct heading	1		
Showed Assets and Liability		2	
Showed Accumulated Fund		1	
<b>(b) Subscriptions Account</b>			
Treated amounts owing and prepaid correctly (1 mark for 2 – max. 2 marks)			2
Included receipts correctly		1	
Showed amount being transferred to Income and Expenditure Account	1		
Brought down balances	1		
<b>(c) Bar Trading Account</b>			
Added opening stock to purchases		1	
Subtracted closing stock		1	
Included bar takings		1	
Showed profit on bar	1		
Correct bar profit		1	
<b>(d) Income and Expenditure Account</b>			
Used bar profit and amount transferred to the Income and Expenditure Account from the Subscriptions Account			1
Recognized that there was depreciation on Furniture			1
Added rates accrued			1
Correct income items (1 for 2 – max. 2 marks)		2	
Used correct term to denote excess income over expenditure	1		
<b>Total Marks</b>	<b>5</b>	<b>10</b>	<b>5</b>



TEST CODE 01239020

## FORM TP 2005122/SPEC 2006

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**PRINCIPLES OF ACCOUNTS**

**Paper 02 – General Proficiency**

*3 hours*

**Specimen**

1. Answer **ALL** the questions in Section I and **TWO** questions from Section II.
2. Begin **EACH** answer on a separate page.
3. Keep **ALL** parts of **EACH** answer together.
4. Silent electronic calculators may be used, but **ALL** necessary working should be clearly shown.
5. Each question is worth **20** marks.

---

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**SECTION I**

**Answer ALL questions in this section.**

1. Rock, a mason and Lumber, a carpenter decided to form a partnership business. Rock invested \$60 000 and Lumber \$40 000 on **July 1, 2005**.

The partnership agreement provided for the following:

- 1) Rock is to receive an annual salary of \$6000.
- 2) Interest on capital 6% per annum.
- 3) Interest on drawings 8% per annum.

The business made a profit of \$32 500 for the period of operation ending **December 31, 2005**.

Rock made drawings of \$5000 on October 1, 2005; Lumber made drawings of \$4800 on November 1, 2005.

- a) Give TWO possible reasons why Rock and Lumber decided to form a partnership.  
**(2 marks)**
- b) State TWO distinguishing features between a partnership and a sole trader.  
**(2 marks)**
- c) Prepare the partnership profit and loss appropriation account for the **six months** ended December 31, 2005.  
**(8 marks)**
- d) Prepare the partnership current accounts as at December 31, 2005.  
**(7 marks)**
- e) Explain the significance of a debit balance on a partner's current account.  
**(1 mark)**

**Total 20 marks**

2. (a) The trial balance of Tone Enterprises failed to agree at the end of the trading period. The debit side was \$11 772 and the credit side was \$13 750. A suspense account was opened with the difference.

Open the suspense account and insert the difference. **(2 marks)**

- (b) Subsequently the following errors were discovered:

1. An invoice for \$280 received from T. Trading for goods purchased was not recorded on the books.
2. The Sales Journal was understated by \$320.
3. Furniture purchased for \$2 200 had been entered in the cash book but **NOT** posted to the ledger.
4. Discount allowed \$49 was credited in error in the discount allowed account.

(i) Prepare journal entries necessary to correct the above errors. **(8 marks)**

(ii) Complete the suspense account opened in (a) above. **(2 marks)**

(iii) Explain why a purchases ledger control account may carry a debit balance.

**(1 mark)**

- (c) L. Martin's Sales Ledger and Purchases Ledger Control accounts showed the following opening balances at March 1<sup>st</sup>, 2005:

	<b>DR</b>	<b>CR</b>
Sales Ledger Control	\$13 750	\$ 280
Purchases Ledger Control	150	14 890

During the month the following summary of entries were drawn from the day journals.

Receipts from debtors	\$15 900
Payments to creditors	16 890
Credit Sales	10 260
Credit Purchases	9 250
Returns Outwards	275
Returns Inwards	123
Discount Received	190
Discount Allowed	110

Prepare the **Purchases Ledger Control account** for month ending March 31<sup>st</sup>, 2005.

**(7 marks)**

**Total 20 marks**

3(a) Identify the Day Book in which EACH of the following transactions would be recorded:

- (i) Purchased motor lorry on credit from Auto Sales Ltd.
- (ii) Sold an old printer for cash to G. Grimes.
- (iii) Credit note sent to O. Rind.
- (iv) Purchased Stock on credit from Standards Inc. for resale.
- (v) S. Windle owed the business and migrated. It was decided to write off the amount as a bad debt.

**(5 marks)**

(b) The following Balance Sheet (including the heading) has errors.

Balance Sheet of Kris Cross for the year ended  
December 31, 2005

<u>ASSETS</u>		<u>LIABILITIES &amp; CAPITAL</u>	
	\$		\$
Drawings	7 800	Creditors	6 470
Debtors	4 120	Land	30 000
Loan (10 years)	20 000	Equipment	28 000
Stock	11 926	Cash at Bank	6 178
Capital			
	105 400		70 648

Redraft the Balance Sheet in classified form and include the Capital amount.

**(11 marks)**

- (c) Complete the table to show the effects on **working capital** and **net profit** of the following:-

The first item has been completed for you as an example:

<b>Transactions</b>	<b>Effect on Working Capital</b>	<b>Effect on Net Profit</b>
1. A cheque for \$500 sent by a creditor was not recorded.	0	0
2. Stock no longer usable, \$350 worth, is to be written off.		
3. Bad debts \$500 to be written off.		
4. The provision for depreciation is to be increased by \$800.		
5. A machine with a net book value of \$4000 was sold for \$4000.		

**(4 marks)**

**Total 20 marks**

6  
SECTION II

**Answer TWO questions from this Section.**

- 4.(a) The two accounts shown below appear in the ledger of Jah Mayca a trader. Answer the questions following.

<b>French Ruby A/C</b>					
\$			\$		
18 May	Bank	1 250	1 May	Balance b/d	1 275
25 May	Returns Outwards	175	15 May	Purchases	2 975
31 May	Balance c/d	2 825			
		4 250			4 250
		4 250	1 June	Balance b/d	2 825

<b>Repairs A/C</b>					
\$			\$		
5 May	Bank	1 306	31 May	Profit and loss	1 490
10 May	Cash	384	31 May	Balance c/d	200
		1 690			1 690
		1 690	1 June	Balance b/d	200

- (i) Name the specific ledgers in which you will find each of these two accounts.  
**(2 marks)**
- (ii) What is the significance of the balance b/d on May 1 in French Ruby's account?  
**(1 mark)**
- (iii) Describe the transactions that would give rise to the entries on May 5 and 10 on the Repairs account and May 18 on French Ruby's account.  
**(3 marks)**
- (iv) Give one reason to explain the entry on May 25 in French Ruby's account.  
**(1 mark)**
- (v) State under which classified heading(s) on Jah Mayca's Balance Sheet you would list the balances b/d on French Ruby's and the Repairs account on June 1.  
**(2 marks)**

- (b) The Chutney Company, a public limited liability company, was formed with an authorized capital of \$3 000 000 made up of 2 000 000 ordinary shares at \$1 each and 100 000 8% preference shares at \$10 each.

On December 1, 2005, the Company issued 1 500 000 ordinary shares for \$1 each and 50 000 8% preference shares at \$10 each. The issue was fully subscribed and all cash received.

- (i) Prepare journal entries, with appropriate narratives, to record the share issue.  
**(4 marks)**
- (ii) Calculate the amount of cash that would have been received by the company if all the 8% Preference Shares together with the 1 500 000 ordinary shares were issued and fully subscribed.  
**(2 marks)**
- (iii) Calculate the total value of the Chutney Company's issued share capital.  
**(2 marks)**
- (iv) Distinguish between the authorized capital and the issued capital.  
**(2 marks)**
- (v) State one other method of raising capital that is available to the Chutney Company.  
**(1 mark)**

**Total 20 marks**

5. Johnson Clothings is a small manufacturing concern. At the end of the accounting year December 31, 2006, the following information was available.

	\$
Stocks, January 1, 2006	
Raw materials	25 470
Finished goods	11 460
Work-in-progress	59 000
Factory wages	170 000
Factory salaries	140 500
Purchases of raw materials	225 600
Returns outwards	7 500
Factory power and fuel	56 000
Sales	950 400
Factory insurance	6 800
Advertising	7 500
Machinery at cost	250 000
Rent	42 000
Administrative expenses	125 000
Stocks, December 31, 2006	
Raw materials	18 400
Finished goods	30 100
Work-in-progress	6 500

You are given the following additional information:

1. Rent is to be divided in the ratio 4:1 between factory and office.
  2. Machinery to be depreciated at the rate of 20 per cent per annum.
  3. Factory power is in arrears of \$900.
  4. 2 500 items of finished goods were produced.
- (a) Prepare a manufacturing account for the year ended December 31, 2006, showing clearly the following:
- (i) The cost of raw materials consumed.
  - (ii) The prime cost.
  - (iii) Factory overheads.
  - (iv) The total cost of production.
- (12 marks)**
- (b) Prepare the Trading and Profit and Loss Account for the year ended December 31, 2006.
- (6 marks)**
- (c) Calculate the unit cost of items produced.  
(show workings)
- (2 marks)**

**Total 20 marks**

6. The Pig Farmers' Cooperative has a membership of 50 farmers. Each member has 6 250 shares of \$1 each. The balances on the books of the Cooperative on December 31, 2006, were as follows:

	\$
Unpaid dividend to members	41 250
Debtors	11 000
Provision for bad debts	1 000
Stock of supplies	33 750
Investments in other cooperatives	18 750
Net book value of Motor Vehicles	32 187
Net book value of equipment	67 500
Farm land and buildings	271 250
Long term loan	37 500
Cash	3 750
Bank	22 000
Creditors	16 875
Accumulated Reserves	46 750
Amounts owing:	
Loan interest	2 375
Rent	1 000
Telephone	937

- (i) Prepare the Balance Sheet of the Pig Farmers' Cooperative as at December 31, 2006.
- (17 marks)**
- (ii) Calculate the current ratio of the cooperative.
- (1 mark)**
- (iii) Based on the ratio (i) above, advise the Board of Directors (**in a very short statement**) about the current financial position of the cooperative.

**(2 marks)****Total 20 marks**

7. The following is a summary of the receipts and payments for the year to April 30, 2006, of the Kensington Domino Club.

	\$
<b>Receipts</b>	
Club subscriptions	9 200
Donations	1 000
Christmas dance	2 500
Bar takings	17 300
<b>Payments</b>	
Rates	500
General expenses	2 500
Bar purchases	10 200
Christmas dance expenses	700

Other relevant information at the beginning and end of the year is as follows:-

	May 1, 2005	April 30, 2006
	\$	\$
Subscriptions due	300	275
Subscriptions in advance	30	50
Rates owing	-	230
Bar stock	1 500	1 750
Furniture	3 000	2 700
Bank and cash	1 200	17 300

Prepare the following:

- (a) A statement to show the accumulated fund at the start of the period. **(4 marks)**
- (b) A Subscriptions Account. **(5 marks)**
- (c) A Bar Trading Account. **(5 marks)**
- (d) An Income and Expenditure Account for period. **(In preparing the account, use information from the Bar Trading Account and the Subscriptions Account appropriately.)** **(6 marks)**

**Total 20 marks**

**END OF TEST**



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**PAPER 03/2 – GENERAL PROFICIENCY**

**KEY**

**SPECIMEN**

PRINCIPLES OF ACCOUNTS  
PAPER 03/2 – GENERAL PROFICIENCY  
**KEY**

1. Sole trader/sole proprietorship.
2.
  - (a) Owned and operated by the same person
  - (b) Capital invested by one individual
  - (a) All of the profits go to the owner
  - (c) Risks borne by one individual

3.
 

A	-	L	=	C
\$14 745	-	0	=	\$14 745

Capital = \$14 745

4. **JOURNAL**

	\$	\$
Stoves	1 500	
Tables	850	
Chairs	720	
Pots and Pans	475	
Refrigerator	2 500	
Freezer	1 200	
Cutlery	600	
Cash at bank	5 500	
Cash in hand	1 400	
<b>Capital</b>		1 4745
Opening entries to start business on Jan. 1 2006		

5.
 

Current Assets:	Cash at Bank	\$5 500
	Cash in Hand	<u>\$1 400</u>
		<u>\$6 900</u>

PRINCIPLES OF ACCOUNTS  
PAPER 03/2 – GENERAL PROFICIENCY  
**KEY**

6. **CASH BOOK**

		C	B			C	B
		\$	\$			\$	\$
Jan 1	Balances	1 400	5 500	Jan 6	Purchases		3 750
7	Bank C	2 000			Purchases		1 900
9	Sales	360		7	Cash (C)		2 000
14	Loan		5 000	8	Purchases		780
				11	Purchases	150	
					Purchases	175	
					Purchases		1 200
					Purchases		600
				Jan 14	Bal C/D	3 435	270
		<b>3 760</b>	<b>10 500</b>			<b>3 760</b>	<b>10 500</b>
Jan 15	Bal B/D	3 435	270				

7. Water, advertising, taxes or any other suitable expense.

8.

Thomas Timberland  
Trading and Profit and Loss Account  
For the month of January 31, 2006

	\$	\$
Sales		20 000
Purchases	8 555	
Less: Returns Outwards	<u>60</u>	
	8 495	
Less: Closing Stock	<u>650</u>	
Cost of Goods Sold		<u>7 845</u>
Gross Profit		12 155
<u>Expenses</u>		
Electricity Owing	1 240	
Cooking gas	1 180	
Wages	2 720	
Transportation	175	
Telephone	<u>45</u>	
Net Profit		<u>5360</u> <u>6795</u>

9.
  - (a) Buy small quantities
  - (b) Better storage
  - (c) Change the supplier
  - (d) Change the variety of vegetables
  
10.
  - (a) Promotions
  - (b) Advertising
  - (c) Reduction in price
  - (d) Change of menu



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**MARK SCHEME**

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PRINCIPLES OF ACCOUNTS  
PAPER 03/2 – GENERAL PROFICIENCY  
MARK SCHEME

		Profiles		
		K	A	I
Question				
1.	Correctly stated the type of business	1		
2.	Listed any TWO features correctly	2		
3.	Correctly calculated opening capital		1	
4.	Recorded debit entries correctly (1 mark for 2, max. 4)		4	
	Showed capital	1		
	Suitable narration	1		
5.	Correct calculation of current assets		1	
6.	Correct heading	1		
	Included opening cash and bank balances (1 mark each)		2	
	Correctly entered all other transactions (1 mark for 2, max. 4)		4	
	Correctly recorded contra entries			2
	Balanced Cash Book correctly	1		
7.	Correctly identified any other TWO expenses			2
8.	Correct heading for Trading and Profit and Loss Account	1		
	Correct treatment of Returns Outwards		1	
	Correct amount for purchases			1
	Included Returns Outwards			1
	Included sales amount		1	
	Correctly included closing stock		1	
	Indicated Gross Profit	1		
	Included 5 expenses (1 mark each)		5	
	Indicated Net Profit	1		
9.	Listed TWO appropriate ways of dealing with the problem			2
10.	Listed two suitable ways of increasing sales			2
<b>Total Marks</b>		<b>10</b>	<b>20</b>	<b>10</b>



TEST CODE 01239032  
SPECIMEN

## FORM 01239032/SPEC 2006

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PRINCIPLES OF ACCOUNTS

Paper 03/2 – General Proficiency

*1½ hours*

**Specimen**

1. Answer ALL the questions.
2. Silent electronic calculators may be used, but ALL necessary working should be clearly shown.
3. Answer the questions on the Answer Booklet provided and return it.
4. Attach additional completed sheets (Ledger, Journal, Cash Book) to this Answer Booklet, where necessary.

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**CASE STUDY**

Thomas Timberland inherited a small restaurant - “**The Junction**” – along with a sum of money from his Aunt Joan Smart. On January 1, 2006, he invested some of his savings to expand the operations of the restaurant.

The assets of the business as at January 1, 2006 were:

	\$
Stoves	1 500
Tables	850
Chairs	720
Pots and pans	475
Refrigerator	2 500
Freezer	1 200
Cutlery	600
Cash at Bank	5 500
Cash in Hand	1 400

**PART A.**

1. What type of business entity is Thomas Timberland about to operate?

---

2. List TWO features of this type of business entity. **(1 mark)**

---

3. Determine the opening capital of this business.

**(2 marks)**

4. Prepare Thomas Timberland’s opening Journal entry.  
(A *Journal Sheet* is provided for this answer)

**(1 mark)**

**(6 marks)**

5. What is the value of his current assets?

**(1 mark)**

## PART B.

The following transactions took place during the first two weeks of January:

<b>2006</b>	<b>\$</b>
January 6 Bought chicken and lamb	3 750
Bought rice	1 900
7 Withdrew \$ 2 000 from the bank for business use	
8 Bought pasta products	780
9 Sold 20 lunches to Harry Smith at \$18 each for cash	
11 Purchased peas	150
Purchased seasonings	175
Purchased drinks	1 200
Purchased vegetables	600
12 Returned unsuitable vegetables	60
14 Obtained a loan from Overland Credit Union and received a cheque for \$5 000	

All payments which were less than \$200 were paid in cash.

6. Prepare and balance the Two-column cash Book for the first two weeks of January.

**(10 marks)**

## PART C

At the end of the month it was observed that the business had incurred the following expenses:-

	\$
Electricity	1 240
Cooking gas	1 180
Wages	2 720
Transportation	175
Telephone	45

The business also bought a new food processor on credit from Courts Ltd. for \$1 200. Revenue earned from sales for the period was \$20 000. The value of closing stock was \$650.

7. Name TWO other items of expense which Timberland may have incurred.

---



---

**(2 marks)**

8. Prepare the Trading and Profit and Loss Account for the period ended January 31, 2006.

**(13 marks)**

9. Thomas experienced a high level of spoilage of vegetables during the first month of operation. State TWO ways this problem can be avoided in the future.

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**(2 marks)**

10. List TWO ways by which Thomas could have increased sales.

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**(2 marks)**

**Total: 40 marks**

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
CARIBBEAN SECONDARY EDUCATION CERTIFICATE**

**JANUARY 2004**

**PRINCIPLES OF ACCOUNTS**

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## PRINCIPLES OF ACCOUNTS

### GENERAL PROFICIENCY JANUARY 2004

#### GENERAL COMMENTS

The Principles of Accounts examination administered in January 2004 consists of three papers. Paper 01 is a 60-item Multiple Choice paper. Paper 02 is an extended paper divided into two sections. Section I consists of three questions which are compulsory and Section II consists of four questions of which candidates are required to attempt any two. Paper 03/2 is the alternative to the School Based Assessment.

This report gives details of candidates' performance on each Paper.

#### Paper 01 - Multiple Choice

Paper 01 consists of 60 multiple choice items of which 15 are Knowledge items, 30 Application items and 15 Interpretation items. The performance on this paper was good. The mean score was 38.40 and the standard deviation was 8.58. On this paper 93 per cent of the candidates achieved Grade III or higher.

#### Paper 02 - Problem Solving

Although the overall performance of candidates on this paper has not improved significantly over the years, it should be noted that there is some improvement in certain aspects of their responses. For example, candidates are taking greater care in heading statements correctly and there is improvement in recording transactions in the general journal.

#### **Section I (Compulsory)**

#### Question 1

The question had two parts. Part (a) required the candidates to rewrite a given Trial Balance correctly, thereby testing their understanding of how to classify items and determine whether the item should be debited or credited.

Part (b) tested candidates' understanding of how to use the general journal by requiring them to record transactions with appropriate narrations.

Most candidates demonstrated from their workings, that they were very comfortable with the preparation of a Trial Balance. Items on the Trial Balance with which some candidates had difficulty were: (i) Provisions (ii) Discounts (iii) Carriage.

Some candidates did not know which stock should be in and which should be out of the Trial Balance.

Part (b) of the question presented difficulty for some candidates. The transaction which proved to be most challenging was item (v) which required the candidates to correct an error where receipt from a revenue had been debited to an Expense Account and credited to cash. Although candidates recognized the need to remove the item from the expense account by crediting the account, very few candidates recognized the corresponding need to double the amount when adjusting the Cash Account.

Candidates would benefit from additional practice in recording transactions in the general journal, especially those which require them to correct errors.

## Question 2

This question tested the candidates' ability to prepare a set of Final Accounts from incomplete records. In order to prepare the Trading and Profit and Loss Account, candidates would have had to use the information given to determine the amounts for items such as Purchases, Sales and certain expense items. Similarly, calculations were required to arrive at opening capital, cash and some other items of assets in order to prepare the Balance Sheet.

Ninety-six per cent of the candidates attempted this question. Most candidates had difficulty calculating the correct sales amount, failing to include the \$800 000 deposit from cash sales. Similar difficulty was encountered in calculating purchases, cash balance and capital.

Candidates demonstrated a clear understanding of how to set up and do a Trading and Profit and Loss Account and Balance Sheet, but because the calculations were, for the most part, incorrect. The overall performance on the question was disappointing.

Candidates would benefit from additional practice in using the Control Accounts to calculate missing figures of Purchases and Sales. In determining amounts to go to the Profit and Loss Account for expense items, it would be helpful if students actually wrote up the Expense Account.

### Question 3

This question tested the candidates' ability to prepare the Final Accounts and the Current Accounts of a partnership. Candidates were required to demonstrate an understanding of how to calculate and treat items such as interest on capital, interest on loans (when the loan is made by a partner), salaries paid to partners and profits when the agreement is silent about how they are to be shared.

Eighty-one per cent of the candidates attempted this question, but only a small percentage did very well on it. For the most part, the preparation of the Current Account was well done. The majority of candidates calculated the interest on capital correctly. This item, as well as salaries, was dealt with correctly in the Appropriation Account.

Although most candidates calculated the interest on the loan correctly, very few recognized that as a business expense, it should have been dealt with before the preparation of the Appropriation Account. Most treated it as a part of the appropriation of profits. Additionally, as an outstanding expense item, it should have been carried to the Balance Sheet as a current liability. Many candidates missed this.

In preparing the Balance Sheet, many candidates carried the detailed workings from the partners' Current Accounts instead of simply transferring the closing balances.

Candidates attempted to share the residual profits by various means other than sharing equally as stated in the Partnership Act.

Candidates would benefit from additional practice in those areas where weakness was evident, for example how to treat interest on loans, transferring balances from the Current Account to the Balance Sheet and the Partnership Act with respect to sharing of profits.

## **Section II (Optional Questions)**

### Question 4

This question tested candidates' ability to use information from the Bank Statement to update the Cash Book and prepare a Bank Reconciliation Statement. Candidates were also required to give brief responses to questions which tested their understand-

ing of how to treat with the bank balance on the Balance Sheet and outstanding cheques.

Forty-four per cent of the candidates attempted this question. Most candidates demonstrated a clear understanding of how to prepare a Bank Reconciliation Statement and selected the correct items from the question in preparing it.

Candidates, however, had difficulty in updating the Cash Book. Items which presented the most challenge were item (1), which involved the recording of an incorrect amount in the Cash Book, and item (3), where the amount was debited instead of credited in the Cash Book. In the case of item (3), very few candidates recognized the necessity to double the figure when making the correction.

In attempting the theory questions in part (c), candidates had difficulty in determining which bank balance would appear in the Balance Sheet. However, most candidates knew how cash at bank would be classified on the Balance Sheet and that cheques which were not cancelled and returned by the bank represented cheques not yet credited by the bank.

“Correction of Errors” is a section of the syllabus which warrants a great deal of practice.

### Question 5

This question required candidates to journalize the entries of a newly formed company and to prepare the opening Balance Sheet. Further, given an assumed profit made by the company at the end of the year, candidates were required to prepare a Profit and Loss Appropriation Account and show extracts from the end-of-year Balance Sheet.

Only nine per cent of the candidates attempted this question and the responses were unsatisfactory.

In recording the journal entries, a large number of candidates demonstrated a lack of understanding of the difference between share capital and loan capital. The question required that they show the entries for share capital but almost all candidates included the 11 per cent debentures. In preparing the opening Balance Sheet, very few candidates attempted to show the distinction between shares and debentures by using the label “Long Term Liability” for the debentures. However, the calculation for the ordinary and preference shares was, for the most part, correct.

Part (b) of the question required candidates to prepare a Profit and Loss Appropriation Account on the assumption that the company made a \$70 000 profit at the end of the year. Candidates were also required to show the liability side of the end-of-year Balance Sheet.

The section of the question dealing with the Appropriation Account was well done. The majority of candidates correctly prepared the Appropriation Account of a company. However, they experienced difficulties with the preparation of the Balance Sheet extract.

In preparing the extract, some common errors which occurred were:

- not including the retained profit among the reserves. Some candidates did not include it in the balance sheet.
- not using the term “retained profit” for the balance in the Appropriation Account.
- not treating the dividends payable as current liabilities.
- not grouping items correctly. Some candidates did not attempt to group the items under sub-sections with appropriate headings. Items were simply listed anywhere in the balance sheet.

### Question 6

Part (a) of this question tested the candidates’ ability to differentiate between capital expenditure and revenue expenditure, given five separate transactions. Part (b) tested candidates’ knowledge of depreciation by requiring them to calculate annual depreciation and net book values over a three-year period using the Straight-line and Reducing Balance methods. A form was provided for candidates’ responses. A few candidates did not use the form in their response.

Seventy-six per cent of candidates attempted this question. Most candidates were strong on the calculation of annual depreciation using both the Straight-line and Reducing Balance methods. Calculating the net book value of the fixed assets was also an area of strength.

Identifying whether a transaction represented revenue or capital expenditure proved challenging for candidates. Candidates need to understand that remodeling a building and the cost of installing a fixed asset represent a capital expenditure in contrast to repairs which come under building maintenance.

Another area of difficulty was determining the difference in the net fixed asset totals if one method of depreciation were used instead of another. This simply required that candidates totalled the assets in both methods and find the difference. However, very few candidates attempted this section or came up with the correct answer.

### Question 7

This question tested candidates' ability to prepare a set of Final Accounts for non-profit organizations. Candidates were required to prepare a Bar Trading Account, Income and Expenditure Account and a Balance Sheet from data given.

Forty-four per cent of the candidates attempted this question. Candidates seemed to be reasonably capable in identifying the revenue and expense items to be used in the Income and Expenditure Account. In many instances though, the calculation of the amount was incorrect – an indication that they were not sufficiently able to deal with prepayments and accruals.

The purchase of library books presented a challenge for many of the candidates. Since library books are to remain in the library for some time, the purchase should be treated as a capital expenditure and the item should appear among the current assets on the Balance Sheet. Many candidates treated the purchase as a revenue expenditure and reported it on the Income and Expenditure Account.

Finding the correct purchases to include in the Bar Trading Account was a challenge for many candidates, as they did not factor in the closing creditors' balance. Candidates should be encouraged to prepare total creditors'/debtors' accounts when they are required to determine purchases or sales in a problem.

Other areas of difficulty identified were:-

- not recognizing loan as a long-term liability
- inability to either calculate or recognize depreciation on equipment
- not showing sub-sections in the Balance Sheet

**PAPER 03/2 (For Private Candidates only)**

Paper 03/2, as the alternative paper to the School based Assessment, attempts to simulate what students do for the SBA. In order to do this, the paper presents one or two business cases or situations and requires the candidates to perform accounting functions in answering questions asked.

This year the paper presented one business case. The case required candidates to answer questions about the operations of the business, carry out certain accounting functions and make simple business decisions.

The case presented a community centre engaging in fund-raising activities to improve facilities within the community. Candidates were asked to determine profit or loss made on the activities, draw up and record an expense account, answer simple questions about the business and make simple recommendations.

Candidates' performance on this paper continues to improve. The mean on this paper was 13.59 and the Standard Deviation was 6.27; and 26 per cent of the candidates achieved Grade III or higher.

The Examining Committee is of the view that the difficulties candidates experience with this paper may be due to their unfamiliarity with answering questions on case studies and therefore continues to recommend that candidates work through past papers when preparing for this examination.

**C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L**

**REPORT ON CANDIDATES' WORK IN THE  
SECONDARY EDUCATION CERTIFICATE EXAMINATION**

**JUNE 2004**

**PRINCIPLES OF ACCOUNTS**

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## PRINCIPLES OF ACCOUNTS

### GENERAL PROFICIENCY JUNE 2004

#### GENERAL COMMENTS

This paper has two sections. Section I consists of three compulsory questions and Section II consists of four questions of which candidates are required to answer any two. All questions carry 20 marks each.

School Based Assessment is part of the requirement for the examination. In addition, there is an alternative paper to be done by private candidates in lieu of School Based Assessment. This report gives details of the candidates' performance on each question. In addition it provides feedback on the School Based Assessment as well as the alternative paper 3/2.

#### DETAILED COMMENTS - PAPER 02

##### Section I - Compulsory

###### Question 1

Candidates were required to:

- Arrange items in order of permanence
- Classify items into Real, Personal and Nominal accounts
- Calculate fixed and current assets
- Prepare journal entries to correct errors
- Prepare a Suspense account to reveal the original balance

Approximately forty per cent of the candidates who attempted this question scored 8 marks or more. The mean mark on this question was 7.87.

###### Strengths

Candidates showed the ability to:

- List assets in order of permanence
- Classify items into Real, Personal and Nominal accounts
- Calculate total fixed assets
- Post entries to the Suspense accounts

###### Weaknesses were shown in the following areas:

- Calculation of current assets
- The use of dates and the business name in the headings
- Correcting errors
- Proper format of the General Journal
- Determining the original difference as per Trial Balance on the Suspense account

###### Recommendations

Teachers should ensure that candidates:

1. Prepare the Suspense accounts to determine the original difference on the Trial Balance.
2. Correct errors with the Suspense account.
3. Write proper headings including the name of the business and date.
4. Read questions carefully and follow instructions given.
5. Know the correct format of the Journal.

## Question 2

Candidates were required to:

- Prepare a Sales Ledger Control account
- Prepare a Purchases Ledger Control account
- Indicate why a Sales Ledger Control account can have both a debit and credit balance
- State benefits of Control accounts

About sixty per cent of the candidates who attempted this question scored between 9 and 11 marks out of a possible 20. About thirty per cent scored below 9, and about ten per cent had marks above 11. The mean mark on this question was 8.42.

Most of the marks were obtained in the part of the question which dealt with the Sales Ledger Control account.

The following general areas of weaknesses were noticeable in the candidates' work:

- Thorough heading of accounts was not maintained, i.e. name of the firm, name of the account and period of time under consideration.
- Dishonoured cheque was credited instead of debited in the Sales Ledger Control account.
- Many candidates did not know which entries go to the Sales Ledger Control account and which go to the Purchases Ledger Control account.
- The closing debit and credit balances were entered on the wrong sides of the Sales Ledger Control account.
- Purchases were entered on the debit side instead of the credit side of the Purchases Ledger Control account.
- There was uncertainty in treating with and differentiating between (a) returns inwards and returns outwards and (b) discounts allowed and discounts received, in the Sales and Purchases Ledger Control accounts.
- Failure to balance off the accounts properly, i.e. balance c/d and balance b/d.
- A few candidates treated the Sales Ledger Control account and Purchases Ledger Control account as one account.
- Most candidates did not know why a Sales Ledger Control account could have a credit balance.

## Recommendations

1. Ensure that every unit of the syllabus is taught. Judging from the number of "No Responses", it is evident that in many instances 'Control accounts' was either not taught or not thoroughly revised.
2. Insist that candidates practise the use of Control accounts in the SBA projects.
3. Encourage candidates to read on the topics from different books. They can get a better understanding and appreciation of the topics when this is done.
4. Ensure that candidates work on past papers in preparation for their examination.

### Question 3

This question tested the topic 'LEDGER' and required candidates to:

- Post transactions separately to divisions of the Ledger including Purchases, Sales and the General Ledger.
- Post all cash transactions to the business' bank account.
- Prepare a list of creditors at July 28, 2002.
- Prepare a list of debtors at July 28, 2002.
- Correctly balance any three (3) accounts.

Approximately eighty-one per cent of the candidates attempted this question. The mean mark on this question was 6.83. Those candidates who did not do well showed weaknesses in the following areas:

- Identifying the divisions of the Ledger
- Correctly naming the accounts in their appropriate divisions
- Posting correctly to accounts in the Purchases and Sales Ledgers
- Distinguishing between discounts allowed and discounts received
- Distinguishing between returns inwards and returns outwards
- Correctly treating cash transactions in respect to correct identification of particulars
- Correctly posting transactions; some candidates reversed the entries to the respective ledger accounts
- Correctly treating credit sales in the Sales Ledger
- Correctly treating credit purchases in the Purchases Ledger
- Correctly closing / balancing off accounts. Some candidates balanced the accounts by placing b/d to close the account and c/d as the closing balance
- Identifying discount allowed and treating it as a bad debt
- Recognising the significance of full settlement
- Treating the three Ledgers as accounts and posted to these
- Preparation of Journals for Ledgers

Part (b) (i) required candidates to prepare a list of creditors and (b) (ii) a list of debtors. Candidates who performed poorly in this section were unable to

- differentiate between debtors and creditors
- correctly list the creditors
- correctly list the debtors.

Part (c) required candidates to balance any three accounts. This part was generally well done, although some candidates showed the following weaknesses:

- (i) Used the brought down (b/d) to close the account and the carried down (c/d) to bring down the balance
- (ii) Inserted the c/d without completing the b/d

The candidates' overall performance was satisfactory. Fifty per cent (50%) scored in the range of 9 - 20. The remaining fifty per cent had scores in the range of 0 - 8 marks.

Twenty-four per cent of those in the 0 - 8 range scored between 0 - 2 marks. This seems to suggest that there is a basic weakness among candidates in understanding the Ledger and its divisions.

The level of mastery in this area was expected to be higher as it is required for the SBA. The general overall performance highlighted a basic weakness in an introductory topic in which each candidate should demonstrate proficiency. Teachers should take note since this area forms the basis for other areas.

## **Section II - Optional**

### Question 4

This question tested candidates' ability to:

- Prepare a payroll register.
- Calculate the amount payable to National Health Insurance Scheme and to give reasons why employees' hourly rates differ.

Forty-two per cent scored less than 8 marks. The mean mark on the question was 9.19. Candidates did not obtain full marks for the calculation of the various deductions given.

However, most candidates who were prepared scored above the average mark, with some obtaining perfect scores.

### Strengths

- (a) The majority of candidates obtained high scores in the knowledge profile with many obtaining the maximum mark. In addition, results indicated that most candidates knew how to calculate gross wages and net wages.
- (b) Responses to this part indicated that candidates were able to give at least one correct reason for differences in rates.
- (c) Candidates scored marks for this part if the correct multiplier was used. Responses were fair.

### Weaknesses

- (a) Some candidates calculated the overtime rate incorrectly and hence failed to arrive at the correct figure for gross pay. The majority of candidates had difficulties in calculating the correct figure for income tax. Candidates lost marks for not including union dues, and in addition, incorrect figures for other elements of deductions resulted in the wrong figure for income tax.
- (b) Candidates stated the total National Health Insurance figure obtained from the payroll register. This treatment clearly showed lack of correct interpretation of total National Health Insurance Scheme. In addition, candidates lost marks for using the incorrect multiplier.
- (c) A few candidates were not aware that P.A.Y.E. and tax were the same and hence did not include the figures in the given column. Some inserted an additional column for tax.

### Conclusion

The overall performance was unsatisfactory since this question was based on one of the easiest topics in the syllabus. Results clearly indicated that there was a lack of knowledge of basic principles, namely calculating gross wages, income taxes and other deductions. A small number of candidates, who were prepared, performed well.

### Recommendations

Candidates should be given more practice in calculating income taxes using various approaches.

In addition, more emphasis should be placed on explaining concepts clearly, such as National Health Insurance and other deductions to be determined from gross wages. This should be extended to practical cases used in a typical business.

Furthermore, most candidates lost marks due to rounded off figures to the nearest dollar. This practice must be discouraged and should be clearly communicated to candidates in the classroom.

### Question 5

The question tested most of the objectives required for this area of the syllabus, namely Trading Account, Profit and Loss Account and the Balance Sheet. This question had a mean of 7.81.

It provided the necessary stimulus for the candidates to respond appropriately to the question which was very straightforward and in the format to which candidates are usually accustomed. Candidates were given a choice in that they could have chosen any format to present their answer and the mark scheme awarded them appropriately. The question was very popular among candidates.

### Weaknesses

- Attention should be paid to the use of the correct format, e.g. Carriage Inwards added to Purchases and Returns Outwards subtracted to determine correct Net Purchases. Most candidates missed the mark awarded for Carriage Inwards added to Purchases
- Candidates did not know how to correctly treat Bad Debts, Provision for Bad Debts and Depreciation.

This was a popular question. Approximately 50 per cent of the candidates obtained a passing grade.

### Question 6

This question was divided into two parts. In the first part, candidates were asked to:

- Prepare, from a summarized Receipts and Payments account and notes, a Subscription account.
- Identify the amount of subscription to be transferred to the Club's Income and Expenditure account.
- Calculate the amounts for telephone expenses and furniture repairs to be transferred to the Income and Expenditure account.
- State the amounts for Bank and Subscription as a current liability on the Club's Balance Sheet.
- Identify three other income items with their totals.

In the second part, the candidates were asked to:

- Post transactions to a Motor Vehicle account.
- Show the Provision for Depreciation account for two years using the Reducing Balance method and the entry for Motor Vehicles in the Balance Sheet for the second year.

This question was not popular. About ten per cent of the candidates attempted it and of these about eighty per cent received less than nine marks out of 20. The mean mark on this question was 4.34.

In the first part, candidates were unable to prepare properly the Subscription account. More emphasis and exposure should be given to candidates to show them how to prepare this account. Some of the candidates were unable to start the account with the correct figure for balance b/d and to close off the account with the correct figure for balance c/d. However, candidates were able to gain marks in calculating the correct amounts for telephone expenses, furniture repairs and stating the other income items.

Another weakness demonstrated by candidates was the inability to state correctly the amounts for subscription as a current liability and for bank on the Balance Sheet.

In the second part, of those who attempted to post entries in the Motor Vehicle account, some were able to record the correct word for the particulars / details column, yet too many used incorrect words such as 'purchases' and 'motor vehicle'. Again this is another area where more emphasis should be placed in writing up a fixed asset account. Another problem area in this section was the balancing off of both the Motor Vehicle and Provision for Depreciation accounts. In the Provision for Depreciation account the candidates again fell down, failing to record the correct words, 'Profit and Loss account', in the details column. In the last part of this question many candidates failed to include the depreciation for the period in the accumulated depreciation figure and in writing up the Balance Sheet extract. Candidates also prepared Balance Sheets for years one and two although only the extract for year two was required. The Motor Vehicle at cost in some cases was not stated.

Question 7

This was an optional question and fewer than twenty-five per cent of the candidates attempted it. The response to the question was fair, with a mean score of 9.8.

Candidates were presented with data in a jumbled form pertaining to a partnership and a company and were required to separate the data so that they could:

- (i) Prepare an Appropriation account for a partnership.
- (ii) Prepare an Appropriation account (Statement of Retained Earnings) for a company.
- (iii) Prepare the Current account of individual partners.
- (iv) List two advantages that a limited company has over a partnership type of business.

Unfortunately, in response to the request for identification of the information relating to a partnership as against a company, a number of candidates detailed the information using at least one page. No marks were allocated for this exercise as they were awarded only for the actual preparation of the accounts. It is recommended that candidates spend their time productively on activities for which marks are allocated.

Most candidates were able to deal competently with the Appropriation account of the partnership. However, some candidates appeared to be unfamiliar with the computation of the share of profit for the partners. A significant number of candidates also deducted interest on drawings from the net profit rather than adding to it. The partners' salaries and their interest on capital were, for the most part, treated correctly.

A large number of the candidates prepared the current accounts of the partners correctly. However, quite a few candidates failed to recognize that the partner, Cough, had an opening debit balance in his current account. This hindered them from obtaining maximum marks in this section.

In part (c), the candidates were required to prepare a Statement of Retained Earnings. Apparently, this requirement presented the greatest difficulty. Those candidates who revised and practised preparing the Appropriation account of a company scored heavily in this section, but some of the weaker candidates were unsure of what information should be included in the Statement of Retained Earnings. Some of those candidates had incorrectly included partners' salaries and interest on capital in the Statement. It seems quite evident that they experienced difficulty in handling the accounts relating to a company.

Another area of weakness was demonstrated in the last part of the question. Very few candidates scored any mark here. They were unable to give two advantages that a limited company has over a partnership type of business.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
CARIBBEAN SECONDARY EDUCATION CERTIFICATE**

**JANUARY 2005**

**PRINCIPLES OF ACCOUNTS**

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## **PRINCIPLES OF ACCOUNTS**

### **GENERAL PROFICIENCY**

**JANUARY 2005**

### **GENERAL COMMENTS**

The Principles of Accounts examination administered in January 2005 consists of three papers. Paper 01 is a 60-item Multiple Choice paper. Paper 02 is an extended paper divided into two sections. Section I consists of three questions which are compulsory and Section II consists of four questions of which candidates are required to attempt any two. Paper 03/2 is the alternative to the School Based Assessment.

This report gives details of candidates' performance on each Paper.

#### **Paper 01 – Multiple Choice**

Paper 01 consists of 60 multiple-choice items of which 15 are Knowledge items, 30 Application items and 15 Interpretation items. The performance on this paper was good with 87 per cent of candidates scoring 30 marks or above.

#### **Paper 02 – Problem Solving**

There continues to be notable improvement in heading up statements correctly as well as the correct use of the general journal.

#### **Section I (Compulsory)**

##### Question 1

The question provided the candidates with a trial balance for a sole trader and required them to prepare the trading and profit and loss account and balance sheet for the sole trader. The balance sheet should have been prepared using the vertical format.

The trial balance was routine. However, additional information was provided, and candidates had to make adjustments to the purchases, the amount of goods which were withdrawn by the trader and the record of salesmen's commission which had not been paid.

The question was attempted by 96 per cent of the candidates. Overall performance was good with some candidates scoring full marks. More than half the number of candidates who attempted this question, scored marks of 10 and above.

The majority of candidates followed the instructions for using the vertical format of presentation for the balance sheet. Depreciation was calculated and used correctly, as well as the calculations of prepayments and accruals by a large number of candidates.

Despite the many areas of strengths demonstrated, there were some areas of weaknesses. Several candidates did not adjust the carriage inwards for the accrued amount and some candidates continue to add the gross purchases to opening stock, then make adjustments for items such as carriage and returns on the total amount. The preferred approach would be to adjust the gross purchase figure, then add the net purchases to the opening stock.

Several candidates did not recognize returns in the credit column of the trial balance as returns outwards, and instead, treated them as returns inwards by adjusting gross sales with the amount. Some candidates did not know what to do with the withdrawal of stock from the business by the owner and even those who correctly subtracted it from purchases, failed to increase drawings on the balance sheet by the amount of goods withdrawn. Several candidates did not calculate the salesmen's outstanding commission correctly. A few showed the accrued amount on the profit and loss account but failed to follow through by showing the item as an accrual in the balance sheet.

Candidates would benefit from practice with various adjustments to purchases and sales of the trading account. Also, candidates must be able to easily recognize items such as returns inwards/outwards, carriage inwards/outwards, interest paid/received by their location in the trial balance, instead of these items being pointed out continuously to them.

## Question 2

This question had two parts. In Part (a) candidates were presented with extracts from the bank columns of a cash book together with a bank statement covering the same period as the cash book. Candidates were required to update the cash book and then reconcile the bank statement. They were also asked to give reasons for the difference in the cash book and the bank statement balances.

In Part (b), candidates were provided with data to enable them to calculate two profitability ratios and one liquidity ratio. Candidates were also required to interpret the ratios.

The question was attempted by 90 per cent of the candidates. Overall performance on this question was unsatisfactory. Some of the common errors made by candidates in Part (a) included using the bank statement balance to update the cash book, confusing unpresented cheques with late lodgements, incorrect application of the bank error, adding instead of subtracting or debiting instead of crediting. Instead of explaining the reason for the difference in the cash book and bank statement balances, several candidates gave a definition of the bank statement.

Not many candidates attempted Part (b) of the question. Several of those who made the attempt were able to calculate the ratios but only a few were able to provide a satisfactory interpretation.

Candidates would benefit from greater emphasis being placed on the interpretation of ratios and not just the calculation of them. Practice in responding to errors, whether in the cash book or on the bank statement, would also be helpful. Proper headings on all financial statements are important and although candidates, for the most part, headed up trading and profit and loss accounts and balance sheets on other questions correctly, they were sloppy in the heading of the bank reconciliation statement.

## Question 3

In this question, candidates were presented with the assets and liabilities of two separate sole traders who were combining to form a partnership. Candidates were required to calculate the capital of each partner and to record the opening entries of the partnership in the general jour-

nal. Further, candidates were required to use the additional information provided to prepare the partnership's profit and loss appropriation account for the first six months and to identify items which are normally recorded in partners' current accounts.

The question was attempted by 78 per cent of the candidates and was satisfactorily answered by approximately half of them. Most candidates were able to calculate the capitals of the partners as well as prepare the appropriation account. Several candidates were also able to identify the items which are usually recorded in partners' current accounts.

On the other hand, several candidates demonstrated an inability to record the journal entries to combine the two sole traders' assets and liabilities. In addition, several candidates worked with one year's amounts of salaries, interest on capital and interest on drawings instead of amounts representing six months as indicated in the question.

Candidates must have more practice in the reading of questions in order to identify what the examiner has asked. Though it was obvious that candidates knew what they were doing in the appropriation account, they lost marks because they did not observe the examiner's instructions to do their calculations for six months.

Candidates need to get more practice in journalizing the formation of a partnership and especially with simple mergers of two sole traders.

## **Section II (Optional Questions)**

### Question 4

In this question, candidates' ability to prepare a profit and loss and appropriation account for a cooperative was tested. Additionally, candidates were tested on their knowledge of the kinds of records cooperatives are expected to keep and what information members of a cooperative society should receive at annual general meetings.

The question was not a popular one and was attempted by only 16 per cent of the candidates. The responses were, for the most part, unsatisfactory. Most of the marks were scored in the section which required candidates to prepare the profit and loss account. Many candidates demonstrated an inability to prepare the appropriation account. Although some candidates were able to identify the records which a cooperative

society needs to keep, very few candidates indicated the need to provide members with information such as profits made, dividends proposed and paid, and the names of persons who comprise the Board of Directors.

Candidates would benefit from practice in preparing the appropriation account of a cooperative. Additionally, discussions on the workings of a cooperative society would also be helpful.

### Question 5

This question provided straightforward data for a manufacturing concern and required candidates to prepare the manufacturing, trading and profit and loss accounts. Sixty-four per cent of the candidates attempted the question and the responses tended to be either very good or unsatisfactory.

Most candidates identified and correctly treated items belonging to the "Overheads" section in the manufacturing account. They were also able to make the distinction between carriage inwards which they correctly added to purchases of raw materials and carriage outwards which they correctly treated as an expense in the profit and loss account.

On the other hand, headings continue to be sloppily written with parts missing, such as the name of the organization or using terms such as "as at" in the heading of the trading and profit and loss account. Very few candidates demonstrated an understanding of how to calculate the depreciation charge for the year on the cutting saw. Most candidates simply used the provision for depreciation of \$2 000 which was given in the list of balances without taking into consideration the cost and book values of the cutting saw. Many candidates did not recognize the need to debit the profit and loss account with bad debts for the bankrupt debtor.

Candidates tend to gravitate towards the topic, manufacturing account. However, it should be emphasized that in order for them to score high marks in the examination, they must pay attention to details such as complete headings and the proper grouping of items especially in the manufacturing account.

### Question 6

In this question, candidates' knowledge on the correction of errors was tested. Three aspects of this topic were presented using the general jour-

nal to correct errors, preparing the suspense account to determine the original difference on the trial balance and identifying the nature of the errors.

This question was popular with 63 per cent of the candidates attempting it but generally was not satisfactorily answered. Areas of strength were demonstrated by a number of candidates who recognized when to use the suspense account to correct an error as well as how to use the journal to correct the errors. Many candidates were also able to identify the nature of the errors.

Areas, which require attention, are posting from the journal to the suspense account and correcting errors which require that the amount be doubled. There were instances where candidates doubled the amounts, though none of the transactions required them doing so. Only a few candidates recognized that the balance in the suspense account represents the difference on the trial balance.

### Question 7

In this question three distinct areas of the syllabus were assessed. In Part (a), candidates were examined on company accounts with specific reference to the issue of ordinary shares and preference shares. The application of the straight line method of depreciation on a month-by-month basis was assessed in Part (b). Candidates were also required to post entries to the fixed asset account over a continuous three-year period. Candidates' basic knowledge of accounting terms was assessed in Part (c).

The question was attempted by 30 per cent of candidates and less than half responded satisfactorily on Part (a). Candidates gained at least 40 per cent of the available marks. Almost all candidates attempted Part (b) of the question but the overall performance on this section was unsatisfactory. Approximately 75 per cent of responses included an attempt at Part (c) of the question with good results.

Most candidates were able to calculate the number of unissued shares. The major weakness was in the calculation of dividends on preference shares. In addition, the concept of 'par value' and its application to the valuation of issued and unissued shares appears to be not clearly understood.

Candidates tended to provide a full year's depreciation on assets bought during the year. Many candidates prepared a separate fixed asset account for each year. Furthermore, they demonstrated a weakness in their understanding of the matching entry to be made in recording the purchase of a fixed asset. Many tended to make entries using the model name or number of the vehicle or made credit entries for cash/bank. The account was often balanced incorrectly. Candidates appeared unable to manipulate the formula used to calculate annual depreciation to arrive at the useful life of an asset.

For Part (c), candidates seemed clear about the purpose of the journals, appropriation account and suspense account. However, they were not sure about the use of the trial balance and were unable to state the accounting equation. In responding to the statement "write out the accounting equation", candidates gave on average three contradictory equations.

The focus of this question was on theoretical aspects of examinable topics. Candidates need more exposure to the concepts and theory underlying the practice of accounting.

### ***Paper 03/2***

This paper comprised a case study which required the candidates to demonstrate their knowledge of certain accounting concepts and principles. Many candidates scored 50 per cent of the marks and more. The candidates who performed well displayed competence in:

- (1) Identifying and calculating fixed and current assets
- (2) Identifying the day book required to enter particular transactions
- (3) Calculating revenues and expenditures
- (4) Preparing a balance sheet

The weaker candidates experienced great difficulties in:

- (1) Calculating the working capital, depreciation and the net loss
- (2) Preparing an account to show provision for depreciation and profit and loss
- (3) Explaining the effect of a negative working capital on the business
- (4) Classifying subscriptions in the balance sheet
- (5) Dealing with the net loss in the balance sheet

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
SECONDARY EDUCATION CERTIFICATE EXAMINATION**

**JUNE 2006**

**PRINCIPLES OF ACCOUNTS**

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## **PRINCIPLES OF ACCOUNTS**

### **GENERAL PROFICIENCY JUNE 2006**

#### **GENERAL COMMENTS**

In June 2006, 22 490 candidates registered for the Principles of Accounts (POA), General Proficiency examination. The examination consists of three papers:-

Paper 01	–	Multiple Choice Paper
Paper 02	–	Essay Paper
Paper 03/2	–	Alternative Paper to SBA (Private Candidates)

#### **Paper 01 – Multiple Choice**

Paper 01 consists of 60 multiple choice items taken from the three profiles (Knowledge, Application, Interpretation) of the syllabus. The performance of candidates on Paper 01 was fairly good.

The mean mark was 39.63 out of 60. Eighty-four per cent of the candidates scored at least 50 per cent of the available marks for this paper while 36 per cent of candidates scored the maximum marks of 60.

#### **Paper 02 – Essay**

Paper 02 comprises two sections. Section I, the compulsory section, required candidates to answer three compulsory questions. Section II, the optional section, required candidates to attempt two out of four questions.

The performance on Paper 02 was unsatisfactory. The mean mark for this paper was 34.89 out of 100. Less than 25 per cent of candidates earned 50 per cent or more of the maximum mark on this paper.

Too many candidates simply either wrote out the questions or instructions in their entirety, indicating a lack of preparation for the examination. A number of candidates wrote over their answer and in some cases tried out different versions of the answer several times. The heading of statements and accounts, that is, the name of organizations, the name of statements and appropriate periods or dates as well as balancing of accounts, remain areas of weakness.

#### **Paper 03/2 – Alternative to SBA**

Paper 03/2 is designed to serve as an alternative evaluation mechanism, in lieu of the SBA Project. It is expected that only those candidates who are out of the regular Secondary School Education mainstream, and who are not eligible to carry forward a qualifying SBA mark from the previous year, typically registered as “private candidates”, would take this exam. The examination requires candidates to perform accounting functions in answering questions based on one or two cases.

Over the years, the performance on this paper has not been satisfactory, perhaps because of the unavailability of past papers to practise.

The mean mark was 17.89 out of 40 marks and 44 per cent of candidates earned at least 50 per cent of the maximum mark on this paper.

## DETAILED COMMENTS

### PAPER 02 – ESSAY

#### Section I – Compulsory

##### Question 1

This question tested the preparation of final accounts for a partnership, specifically the profit and loss and appropriation account, the current accounts and the balance sheet. This area of the syllabus is examined fairly frequently.

All candidates attempted the question, of which 37 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 7.49 out of 20.

##### Strengths

- Most candidates were able to correctly calculate the appropriations account for interest on capital and salary.
- Many candidates were able to treat correctly the appropriations in the current accounts, as well as drawings.
- The balance sheet was in most cases properly set out in terms of the classification of sections.

##### Weaknesses

- A large number of the candidates did not begin the profit and loss account with the gross profit figure. Many instead, did an arithmetical calculation to arrive at the net profit. This indicates a lack of understanding of the relationship between the trading account results and the profit and loss and appropriation account. It could also suggest that practice problems in the classroom always start at the appropriation account.
- Candidates continue to ignore additional information, especially information pertaining to depreciation. Where this was calculated, percentages were often applied to the accumulated depreciation figures and not the cost of the fixed assets. Furthermore, few candidates attempted to adjust for accumulated depreciation in the balance sheet. Instead, the tendency was to subtract the current year's depreciation from the cost of the fixed assets.
- Less than 50 per cent of candidates used the correct profit-sharing ratio. Instead, many candidates shared the residual profits equally.
- Candidates failed to calculate interest on loan and provision for bad debts, neither did they use them in the profit and loss account or adjust them in the balance sheet.
- Candidates either ignored the opening balances in the current accounts or failed to discern that there was a credit balance and a debit balance.
- Generally candidates ignored the information about goodwill or placed it wherever they felt like placing it, including the appropriation account.

##### Recommendations

- Teachers are encouraged to use a range of questions in the classroom that clarify the link between:
  - the trading account, the profit and loss account and the appropriation account
  - the notes accompanying the trial balance and the balance sheet and
  - the appropriation account and the current accounts.
- Students should have at least a basic awareness of what goodwill is and how it should be treated in the balance sheet.

## Question 2

This question had two parts. Part (a) tested the preparation of an adjusted cash book and the bank reconciliation statement. Part (b) tested the preparation of the provision for bad debts account and the adjustment for debtors in the balance sheet. In general, all parts of the question were attempted.

Ninety-five per cent of candidates attempted the question, of which 21 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 6 out of 20.

### Strengths

#### Part (a)

- Most candidates recorded the opening cash book balance on the correct side. The treatment of direct credit, bank charges, standing orders and dishonoured cheques was fairly well done.
- Candidates deduced the need to correct for the error of \$90. A large number of candidates carried down the updated cash book balance to the bank reconciliation statement and treated unpresented cheques and unrecorded deposits correctly.

#### Part (b)

- The credit entry for the first year, 2003, in the provision for bad debts account was generally well done.

### Weaknesses

#### Part (a)

- Incorrect headings for both the updated cash book and the bank reconciliation statement were prevalent.
- Some candidates recorded items in both a bank and cash column. Candidates did not treat the overdraft cash book balance or the error correctly.

#### Part (b)

- A number of candidates simply calculated the provision for each year without attempting to draw up an account. Where an account was drawn up, candidates did not correctly name the profit and loss account as the account with the matching debit or credit entry. They were unable to present the adjustments that were necessary for the increase and decrease in the provision for bad debts. Instead they treated the provision for bad debts account as if it were a provision for depreciation account, by accumulating the provisions.
- Many candidates did not demonstrate an understanding of the relationship between the provision for bad debts account and the effect on debtors value in the balance sheet.
- Poor labelling also reduced the accuracy of treatment of debtors in the balance sheet. A few candidates showed only the net debtors figure.

### Recommendations

- Students should be made to practise the bank reconciliation statement by using the revised cash book balances as the starting point.
- Topics with which some students have difficulty, e.g. provision for bad debts, should be routinely assessed.

### Question 3

This question had two parts. Part (a) tested the use of the general journal to correct errors as well as record unusual transactions. Part (b) tested the use of information to calculate missing information. Both parts tested the candidates' knowledge, application and interpretation of the rules of entry.

Ninety-nine per cent of candidates attempted the question, of which 28 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 6.87 out of 20.

#### Strengths

##### Part (a)

- Many candidates provided satisfactory journal entries including starting date, making the debit entries before the credit entries, indenting their credit entries and outlining narrations.

##### Part (b)

- Some candidates used the appropriate information including the cash transactions to calculate total sales and purchases.
- Many candidates sought to make use of all relevant information including cash sales and cash purchases.
- Many candidates used the total account format and were able to record opening and closing debtors correctly.

#### Weaknesses

##### Part (a)

- Candidates tended to treat all items as errors to be corrected, reversed the correcting entries, demonstrating a real weakness in their grasp of the rules of entry and classified errors incorrectly in their narratives.
- Candidates tended to treat the return of the fixed asset as a return of stock, demonstrated very little familiarity with the recording of recovery of bad debts and very few recognized the need for a suspense account in item 5.
- Many candidates did not attempt to do narrations. When attempted, the narrations were vague.
- Several candidates attempted ledger accounts or even placed items in subsidiary journals as well as profit and loss statement format rather than general journal form.

##### Part (b)

- Few candidates used the statement format correctly with several attempting to restate given information in the form of a paragraph.
- Many candidates tended to treat opening and closing balances, especially creditors balances, wrongly or they failed to discriminate between debtors and creditors balances.
- Uncertainty as to where to place information led to candidates providing multiple responses with slight changes or completely reversed entries.
- Many candidates mixed up debtors and creditors information such as placing cash purchases in their sales account or cash paid to creditors in the debtors account.
- Some candidates opened cash accounts or attempted trading accounts with the information provided.
- Many candidates were unable to distinguish between cash paid to creditors and purchases, ignoring information on amounts owed to creditors. A similar misunderstanding affected the treatment of sales and debtors.

### Recommendations

- Candidates need more practice on the principles of double entry, as this forms the basis for making journal entries.
- Teachers need to consider dealing with the correction of simple errors such as the errors of omission, commission, original entry and reversal of entry, immediately after candidates have grasped the rules of entry.
- Students need to practise to write appropriate journal entries.

## **Section II – Optional**

### Question 4

This question tested the preparation of the manufacturing account and the subsequent trading and profit and loss account. The manufacturing account focused on testing candidates' understanding of the components of prime costs of using more than one type of raw material while providing a guiding worksheet.

Seventy-five per cent of candidates attempted the question, of which 52 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 9.7 out of 20.

### Strengths

- Many candidates demonstrated satisfactory knowledge of the components of both the manufacturing and trading and profit and loss account in vertical style.
- Subtotals were clearly labelled for the most part.
- The treatment of opening and closing work in progress was well understood.

### Weaknesses

- Candidates demonstrated a lack of clarity in distinguishing prime cost elements from factory overheads and this was further compounded when they had to deal with more than one element of prime costs.
- Many candidates treated factory wages as overheads and many more ignored information about the allocation of rent expense and the need to calculate depreciation on factory equipment.
- Several candidates placed work in progress between the prime cost section and the overheads section.
- Many candidates did not distinguish between stocks used in the manufacturing account and the trading and profit and loss account.
- Although labelling production cost transferred to trading account, many candidates failed to do so and picked up on the term purchases of sports pictures as part of the cost of goods sold in the trading account. Others ignored the latter cost completely, although it was logically part of the raw materials costs.

### Recommendations

- Candidates need more exposure to, and explanations of, the terminology used in manufacturing accounts as well as the situation where manufacturers wish to distinguish the costs of processing two or more raw material elements.
- Emphasis should be placed on the prevalence of allocating and apportioning costs between cost centres.
- The link between the manufacturing account and the trading account via the treatment of production cost of completed goods as well as the adjustments made for stocks of completed goods should be made clearer.
- Teachers may consider emphasizing the idea that traders or the trading department of a manufacturer is selling finished or completed goods when they first introduce the concept of stock, that is, items bought for resale.

### Question 5

This question comprised two parts. Part (a) tested the preparation of a classified balance sheet for a limited liability company in vertical style from a poorly prepared, mis-classified balance sheet presented in the horizontal style. Part (b) tested the candidates' understanding of percentage figures placed before debentures and preference shares.

Sixty-six per cent of candidates attempted the question, of which 58 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 9.74 out of 20.

### Strengths

- In general, candidates were able to label correctly the sections of the balance sheet, including information appropriate to the sections, such as fixed assets, current assets and current liabilities.
- Most candidates used the vertical style of presenting the information.
- Many candidates were able to interpret the 6 per cent before debentures as the interest rate.

### Weaknesses

- The correct classification of debentures, proposed preference dividends and debenture interest owing continues to baffle students.
- Students did not connect the 7 per cent before preference shares with the rate of return or rate of dividend.
- The inclusion of authorized share capital information in the balance sheet appears to be a major area of weakness. Where it was included it was not ruled off but treated as part of the capital data and added to the issued capital.
- The section for capital and reserves was the weakest area of performance as students either included irrelevant items or placed relevant items elsewhere.

### Recommendations

- Students may benefit from practice questions focusing on the capital sections of various business organizations with a view to recognizing the differences.
- Emphasize the difference between authorized share capital and issued share capital and the treatment of each in the balance sheet.

### Question 6

This question tested the preparation of the statement of affairs, a refreshment account and an income and expenditure account of a club. Candidates were also asked to classify three balance sheet items by identifying where they would be recorded.

Twenty-five per cent of candidates attempted the question, of which 36 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 7.76 out of 20.

### Strengths

- Candidates continue to recognize the importance of labelling statements properly, that is, name of organization, name of statement and appropriate date.
- Most candidates made use of the correct information at the start of the year.
- Many candidates recognized that subscriptions in advance is a current liability.

### Weaknesses

- Many candidates did not use the opening bank balance or deal with subscriptions in advance as a liability in drawing up the statement of affairs.
- Few candidates used information about depreciation in the income and expenditure account.
- Candidates did not recognize the difference between
  - (i) refreshment purchases as a trading account item and purchase of refreshments as a receipts and payments account item
  - (ii) subscriptions received as a receipts and payments account item and subscriptions income as an income and expenditure account item.
- Many candidates did not recognize the balance in the receipts and payments account as the closing bank balance nor did they make the connection between surplus/deficit and the usual placement of net profit/loss in the balance sheet.

### Recommendations

- Students need to be guided as to the importance of dates in compiling statement of affairs.
- A clear distinction must be made between receipts and payments and income and expenditure items.
- Teachers need to re-inforce the vocabulary of a non-profit organization versus a profit making entity.
- Students must be alert to the need to go beyond the data presented to arrive at the information expected.

### Question 7

This question tested the interpretation of data through the calculation of ratios from data provided as well as the provision of comments using benchmarks.

Thirty-four per cent of the candidates attempted the question, of which 29 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 6.64 out of 20.

### Strengths

- Many candidates utilized the skills derived from carrying out the tasks of the School-Based Assessment (SBA) to calculate the current ratio, the acid test ratio and the net profit percentage ratios showing workings clearly.
- Candidates were strong in their responses to part (b) (i) - (iii).

### Weaknesses

- Candidates were less confident in calculating the ratios for return on capital invested and rate of stock turnover.
- Candidates were weak in their responses to part (b) (iv) - (v).
- Many candidates simply re-wrote the data given in the question.

### Recommendations

- Teachers should ensure that candidates are familiar with more than one ratio that allows assessment of the profitability, liquidity and efficiency of an organization.
- Students are to be encouraged to show the process and not just show their final answer.
- Students are expected to both calculate ratios and interpret them through contrast and comparison with benchmarks.
- Students are expected to have a certain amount of theoretical understanding that will afford them the opportunity to pursue accounting as a profession.

## GENERAL COMMENTS

### BASIC PROFICIENCY

In June 2006, 332 candidates registered for the Principles of Accounts, Basic Proficiency examination. The 2006 sitting is the final for the Basic Proficiency.

The examination consists of three papers:-

Paper 01	–	Multiple Choice Paper
Paper 02	–	Problem Solving Paper
Paper 03/2	–	Alternative Paper to SBA (Private Candidates)

### DETAILED COMMENTS – PAPER 02

This paper comprises two sections. Section I consisted of three compulsory questions and Section II consisted of four questions of which candidates were required to answer any two. All questions carried 18 marks each.

#### Section I – Compulsory

##### Question 1

This question required candidates to prepare a receipts and payments account and an income and expenditure account from a list of balances given. There were three additional notes associated with the items in the list.

Eighty-two per cent of candidates attempted the question of which 41 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 8 out of 18.

##### Strengths

The receipts and payments account was well done. The account was also balanced correctly for the most part.

##### Weaknesses

The income and expenditure account was poorly done. Candidates did not demonstrate a clear understanding of capital and revenue expenditures or how to treat prepayment and accrual of expenses. Many candidates were not able to calculate the amount of subscription which should be recorded in the income and expenditure account.

Many candidates did not calculate the surplus correctly, nor did they label it correctly.

##### Recommendations

Students need practice in preparing the income and expenditure account. It might help if teachers reminded students that preparing the receipts and payments account is similar to preparing a cash account, while the income and expenditure account is similar to preparing a profit and loss account. This may cause them to be more conscious of adjustments to expenses as well as differentiating between capital and revenue expenses.

## Question 2

This question had three parts:

Part (a) required candidates to construct a classified balance sheet from a given trial balance. Part (b) required the candidates to identify given transactions as being either capital expenditure/receipts or revenue expenditure/receipts. Part (c) required the candidates to prepare an updated balance sheet after certain transactions occurred.

All candidates attempted the question of which 6 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 4.81 out of 18.

### Strengths

The opening balance sheet was well done. Items were classified correctly for the most part.

### Weaknesses

Determining whether a transaction was a capital expenditure/receipt or revenue expenditure/receipt was an area of weakness. This would also explain why candidates did poorly on the preparation of the income and expenditure account in question 1, part (b).

While candidates were able to adjust the balance of items such as machinery and land, many had great difficulty in adjusting correctly stock and bank. As a result, the updated balance sheet was poorly done. Very few candidates recognized the connection between the stock sold at a profit and the effect on capital.

### Recommendations

Students should be given more practice in distinguishing between capital expenditure/receipts and revenue expenditure/receipts.

## Question 3

This question essentially required candidates to show two separate accounts of someone who was a customer as well as a supplier. They were therefore to show the accounts of the person as a debtor and a creditor.

Ninety-five per cent of candidates attempted the question of which 5 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 3.46 out of 18.

Overall performance on the major part of this question was very poor. However, several candidates scored full marks on the short answers.

### Recommendations

It was very evident from the responses to this question, that students are unaccustomed to doing these types of questions. Practice in a few such problems could be very helpful. It would also enhance their understanding of "set offs" in control accounts.

## **Section II – Optional**

Candidates were required to answer two of four questions from this section.

### Question 4

This question required candidates to demonstrate their knowledge on use of the general journal in recording opening entries as well as the withdrawal of stock by the owner. Candidates were also required to show the capital account for a two year period. The performance on this question was very poor.

Eighteen per cent of the candidates attempted the question of which none of them scored 50 per cent or more of the available marks. The mean mark on this question was 2.47 out of 18.

### Strengths

Most candidates were able to record the opening entries in the journal, although the writing of a narration presented difficulty. They also demonstrated that they knew how to balance an account.

### Weaknesses

The capital account was not well done. Candidates did not know whether to use the debit or credit side of the account for entering the transactions.

### Question 5

This question required candidates to prepare a manufacturing, trading and profit and loss account for an organization.

Six per cent of candidates attempted the question of which 45 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 8 out of 18.

### Strengths

Candidates were quite clear on the format of a manufacturing account. Calculations of the various cost elements – raw material used, prime cost, total factory overhead were all shown, even if the amounts were not correct.

### Weaknesses

Several candidates were not able to make the distinction between direct and indirect wages. Instead of including direct wages in arriving at the prime cost, both wages were included in factory overheads.

Depreciation of plant which is a factory overhead, was very often treated in the profit and loss account.

Although candidates demonstrated that they knew how to arrive at the production cost, in many instances, this cost was not taken to the trading account in arriving at the cost of goods sold.

### Recommendations

The areas of weakness clearly need practice. Explaining why certain costs are dealt with in specific areas of the manufacturing, trading and profit and loss account will prove to be more helpful, than if students try to learn rote form.

### Question 6

This question tested the candidates' knowledge of subsidiary ledgers, source documents, identifying books of original entry and the preparation of ledger accounts.

Fifty-six per cent of candidates attempted the question of which 6 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 3.69 out of 18.

#### Strengths

The only strong area of this question was the candidates' ability to identify the books of original entry.

#### Weaknesses

Candidates were not able to explain clearly the purpose of the books of original entry. Nor were they able to associate the source document with the book of original entry. The preparation of the ledger account was also weak.

### Question 7

This question had two parts:

Part (a) required candidates to prepare a provision for depreciation account as well as the asset account.

Part (b) tested candidates' knowledge on Payroll Accounting by requiring candidates to provide definitions for certain terms.

Twenty per cent of candidates attempted the question of which 4 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 3.17 out of 18.

#### Strengths

Most candidates were able to provide suitable definitions for the terms relating to Payroll Accounting.

#### Weaknesses

The calculation of depreciation using the Reducing Balance Method proved to be a challenge for most candidates.

The preparation of the provision for depreciation account and the diving equipment account were equally challenging.

#### Recommendations

Students need practice in the preparation of the provision for depreciation account using both the Reducing Balance Method as well as the Straight line Method.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
CARIBBEAN SECONDARY EDUCATION CERTIFICATE  
JANUARY 2007**

**PRINCIPLES OF ACCOUNTS**

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## **PRINCIPLES OF ACCOUNTS**

### **GENERAL COMMENTS**

The Principles of Accounts examination is offered in June and January each year.

The examination consists of three papers

Paper 01	-	Multiple Choice
Paper 02	-	Essay Paper
Paper 03/2	-	Alternative to SBA (Private Candidate)

### **DETAILED COMMENTS**

#### **Paper 01 – Multiple Choice**

Paper 01 consists of 60 multiple choice items of which 15 items are Knowledge, 30 Application and 15 Interpretation. The mean score was 35.63 out of 60. Seventy-seven per cent of the candidates earned at least 50 per cent of the maximum available marks.

#### **Paper 02 – Extended Problem Solving**

The overall quality of performance of candidates on this paper showed significant improvement over previous years. There continues to be marked improvement in certain specific areas of candidates' responses. For example, candidates are taking greater care in writing heading statements correctly. There is also improvement in the quality of responses to questions on Cooperatives.

The mean score on this paper was 43.77 out of 100. On this paper, 37 percent of the candidates earned at least 50 per cent of the maximum available marks.

#### **Paper 03/2**

Paper 03/2, the alternative to the School Based Assessment (SBA), is an examination offered to private candidates. The examination attempts to simulate the skills tested in the SBA. This is achieved by presenting the candidates with one or two cases or scenarios from which they are required to respond to questions.

The performance of candidates on the 03/2 paper showed marked improvement over previous years. The mean mark was 20.33 out of 40 marks and 54 per cent of candidates earned at least 50 per cent of the maximum available mark on this paper.

## **Section I Compulsory**

### Question 1

The question required candidates to prepare a trading and profit and loss account using the vertical style of presentation and to show the balance sheet extracts of the fixed assets only. Candidates were deliberately not asked to prepare a complete balance sheet because of the complexity and length of the trading and profit and loss account. However, some candidates wasted valuable time in completing a balance sheet. A few candidates used the horizontal style of presentation for which they lost marks.

Approximately 98 per cent of the candidates attempted the question.

Most candidates demonstrated an understanding of the general presentation of the trading and profit and loss account and balance sheet extract. Many candidates recognized the need to make adjustments to purchases and sales for returns outwards and inwards in order to arrive at net purchases and net sales. However, some candidates missed the further adjustment needed to purchases, for transportation inwards. This could have occurred because of unfamiliarity with the term “transport inwards”. Candidates may have been more familiar with the term “carriage inwards”.

Candidates tend not to get a lot of practice working with revenues. It was therefore encouraging to see several candidates not only recognizing the revenues, but correctly adding them to the gross profit.

The main areas of weaknesses demonstrated in this question were, recognizing and calculating the outstanding bank loan interest and treating the increase in provision for bad debts correctly. Many candidates calculated the 3 per cent of debtors and used that amount, instead of finding the difference between the new provision of \$690 and the old provision of \$600. Candidates also showed weakness in calculating the depreciation on building (cost value \$98 000/useful life 20 years), and in determining that rent received was outstanding by \$750.

Most candidates did not subtract the accumulated depreciation from the cost value of assets in the balance sheet. Instead, they subtracted the depreciation for the year.

### **Recommendations**

Although candidates demonstrated a good working knowledge of how to prepare a trading and profit and loss account, it would be beneficial for teachers to give practice in problems which engage students in working with adjustments such as transportation costs, increase or decrease in provision for bad debts, treatment of revenues (together with amounts owing or received in advance) and calculating depreciation for the year as well as accumulated depreciation.

### Question 2

This question required candidates to prepare the journal entry to record the start of the partnership and to give an advantage of moving from sole proprietorship to partnership. They were later required to prepare the trading and profit and loss account and the appropriation account of the partnership as well as the current accounts for each partner.

Approximately 88 per cent of the candidates attempted the question.

Many candidates demonstrated knowledge of how to enter the assets brought in by the partners in the appropriate journal, but failed to show the respective capitals represented by their assets. Some candidates failed to use the journal and opened accounts instead.

The trading and profit and loss account which was really a summary, was surprisingly not well done by a number of candidates. The Appropriation Account however, was fairly well done. Candidates showed an understanding of how to deal with interest on drawings, how to calculate interest on capital and how to share the residual profit.

Preparing the Current Accounts presented a challenge for many candidates. Entries which should have been debited were credited and vice versa. Much practice is needed in this area.

### **Recommendation**

For examination purposes, it is much quicker to use columnar current accounts since the information does not have to be repeated for each partner. Teachers, who are still teaching individual current accounts for each partner, should consider introducing their students to the use of the columnar format in order to save time in examinations.

### Question 3

This question tested candidates' ability to calculate the value of closing stock using the FIFO method of stock valuation. Candidates were provided with a worksheet on which they were to record the movement of stock through purchases and sales. Having arrived at total purchases and total sales and the value of closing stock, they were then required to prepare a trading account for the period.

Approximately 92 per cent of the candidates attempted this question.

Many candidates demonstrated an understanding of the FIFO method of stock valuation. However, candidates seemed to be unfamiliar with the worksheet that was provided. In this regard, although in many instances the correct calculations were done, amounts were entered in the wrong columns of the worksheet.

Most candidates calculated the purchase price of the items correctly, but a few candidates used the new cost value of stock to calculate the sale of items, even though the selling price was given. This resulted in an incorrect figure for the total sales for the period.

Candidates who attempted the trading account did a fairly good job of it, although in many instances the sales and ending stock amounts were incorrect because of the errors made earlier in filling out the stock form.

### **Recommendations**

Although candidates demonstrated knowledge of the stock valuation method, they seemed unfamiliar with the use of the form. Teachers should allow students to practice the various methods of stock valuation on forms similar to the one which was used in this examination.

## **Section II - Optional Section**

### Question 4

This question tested candidates' ability to enter opening balances in the accounts of expenses, revenues and provisions accounts, make adjusting entries and close the accounts appropriately. Candidates were further required to respond to specific theory questions about some of the accounts.

Approximately 15 per cent of the candidates attempted this question.

The low percentage of candidates opting to attempt this question is probably indicative of the lack of confidence about this topic. Even the few candidates who attempted the question, generally did not do well on it. From the very outset, it was obvious that many candidates were unsure about how to treat the opening balances. Most candidates opened the appropriate accounts, but balances which should have been debited were credited and vice versa.

Very limited knowledge of how to adjust revenues and expenses for prepayments and accruals was demonstrated. Some candidates did not recognize that there were prepayments or accruals and those who did, did not know whether to debit or credit the account with the adjustment. The provision for depreciation account and the provision for bad debts accounts were not adjusted correctly for the new provisions.

### **Recommendations**

The newly revised Principles of Accounts syllabus re-emphasizes the correct treatment of adjusting and closing entries especially for revenues, expenses and provisions accounts. Teachers should therefore ensure that these areas are carefully taught. It is not sufficient for students to know how to deal with prepayments and accruals in the preparation of the profit and loss account and balance sheet. They need to know how to deal with prepayments and accruals in the individual accounts.

An approach that some teachers are now using, and which the CAPE Accounting syllabus uses, is to treat the expense account separate from the prepayment or accrual account. Prepaid expense account is treated as an asset account while accrued expense account is treated as a liability account. Adjusting entries are therefore made between the expense account and the prepayment and/or accrued account. The expense account is closed to the profit and loss account and the prepayment and accrued accounts are balanced like any other asset or liability account. Revenues are treated in a similar fashion where advanced receipts are kept in a liability account of that name and outstanding revenues are kept in a separate asset account of that name. Adjusting entries are between the revenue account and the advanced receipts and/or outstanding revenue account. Revenues are closed to the Profit and loss account and advanced receipts and outstanding revenues accounts are balanced.

#### Question 5

This question required candidates to calculate the cost of two different sets of raw material used in a manufacturing concern. Having arrived at the two separate costs, candidates then needed to sum these costs to arrive at an overall cost of raw material used and then to prepare the manufacturing account for the business. Candidates were required to show total prime cost, total factory overhead and total cost of goods manufactured.

This question was very popular with approximately 61 per cent of candidates attempting it.

The majority of candidates were able to calculate the cost of the two sets of raw materials. Many candidates failed to add both sets of raw materials used to arrive at the overall cost of raw materials in the preparation of the manufacturing account. Most candidates correctly identified and calculated correctly, factory overhead expenses. Proper labeling of the costs was also done. However, some candidates were still unable to calculate the correct prime cost as they seem not to be able to distinguish between direct and indirect costs.

Some candidates wasted time in preparing the trading and profit and loss account although this was not required. Candidates need to read instructions carefully and do only what is required of them.

#### Question 6

This question had two parts. Part (a) required candidates to record transactions in a three column cash book and to balance the cash book appropriately. Part (b) required candidates to update a cash book with appropriate transactions and to prepare a bank reconciliation statement.

This was another popular question with approximately 77 per cent of candidates attempting it.

The cash book was well done by most candidates, although several candidates did not include the opening balances. This may have been an oversight since the balances were given in the opening statement and not at the beginning of the transactions. Most candidates balanced the cash book appropriately and totaled the discount columns. A few candidates treated drawings as a contra entry.

Although updating the cash book presented a challenge for some candidates, many of them entered the credit transfer, dishonoured cheque and the standing order correctly. The items which presented the biggest challenge were the cheque debited in error and the bank fees.

Candidates failed to use the updated cash book balance when reconciling the bank statement. Most candidates tended to use the original cash book balance which resulted in the bank statement not being reconciled. Many candidates are still unsure of how to treat un-presented cheques and outstanding deposits when the balance is an overdrawn amount.

### **Recommendations**

Teachers need to emphasize the need to use the updated cash book balance when reconciling the bank statement. Much practice in the use of overdrawn balances would help to develop confidence in students when they are doing the bank reconciliation statement.

### Question 7

This question tested candidates' knowledge of co-operatives and their ability to prepare trading, income and expenditure, and appropriation accounts for co-operative societies.

Approximately 20 per cent of candidates attempted this question.

The overall response to this question was satisfactory. Candidates approached the trading account confidently although a few candidates included expenditure items in the trading account. Where the income and expenditure account was attempted, the item surplus/deficit was correctly identified. Instructions regarding the appropriation of the profits were carefully followed by most candidates.

Several candidates were unable to calculate the dividend applicable to the shareholder of the \$1 000 shares.

### **Recommendations**

Many candidates are attempting and doing a fairly good job of questions on co-operatives. Teachers are encouraged to continue to give students practice on this topic. Weak areas such as the calculation of dividend to individual shareholders as well as identifying items to be included in the trading account, income and expenditure account and appropriation account should be attended to.

## **PAPER 03/2**

Paper 03/2, the alternative paper to the School Based Assessment (SBA), attempts to simulate the skills tested in the SBA. This year the paper presented one business case. The case required candidates to answer questions about the operations of the business, carry out certain accounting functions such as preparing a cash book, sales book, purchases book and the account of a debtor and the account of bad debts. Candidates were also required to identify parts of a sales invoice.

Candidates' performance on this paper, continue to show improvement.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
SECONDARY EDUCATION CERTIFICATE EXAMINATION  
MAY/JUNE 2007**

**PRINCIPLES OF ACCOUNTS**

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**PRINCIPLES OF ACCOUNTS  
GENERAL PROFICIENCY EXAMINATION  
MAY/JUNE 2007**

**GENERAL COMMENTS**

The May/June 2007 examination in Principles of Accounts (POA), General Proficiency, had 28 723 registered candidates. The examination consists of three papers:

- Paper 01 – Multiple Choice Paper
- Paper 02 – Problem Solving Paper
- Paper 03/2 – Alternative Paper to SBA (Private Candidates)

**General Proficiency**

**Paper 01 – Multiple Choice**

Paper 01 consists of 60 multiple choice items covering the three profiles (Knowledge, Application, Interpretation) of the syllabus. The performance of candidates on Paper 01 was good.

The mean mark was 34.91 out of 60. Approximately 71 per cent of the candidates scored at least 50 per cent of the available marks for this paper.

**Paper 02 – Problem Solving**

Paper 02 comprises two sections. Section I consists of three compulsory questions. In Section II, the optional section, candidates were required to answer two questions out of four .

The performance on Paper 02 was unsatisfactory. The mean mark for this paper was 36.86 out of 100. Less than 27 per cent of candidates earned 50 per cent or more of the maximum mark on this paper.

**Paper 03/2**

Paper 03/2 is designed to serve as an alternative evaluation mechanism, in lieu of the SBA Project. It is offered to candidates who are outside of the regular secondary school education mainstream. The examination requires candidates to perform accounting functions in answering questions based on one or two cases.

In recent years, the performance on this paper has been showing improvement. This trend has continued for the May/June sitting. The mean mark was 18.83 out of 40 marks and approximately 49 per cent of candidates earned at least 50 per cent of the maximum mark on this paper.

## DETAILED COMMENTS

### Paper 02 – Essay

#### Section I – Compulsory

##### Question 1

This question tested the preparation of final accounts for a partnership, specifically the Profit and Loss and Appropriation Account, the Current Accounts and the Balance Sheet. Candidates were required to list three distinguishing features of a partnership. This area of the syllabus is examined fairly frequently.

Regrettably, the question had an error. Cymbal's current account balance which should have been a credit balance of \$15 000 was stated as \$1 500 on the question paper. The error prevented the balance sheet from balancing which was probably destabilizing for some candidates. However, action was taken to ensure that no candidate was affected adversely. It was, however, commendable how some candidates dealt with the error. They created a suspense account with the difference on the balance sheet and used this amount to balance the balance sheet.

Eighty four per cent of the candidates attempted the question, of which approximately 43 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 7.97 out of 20.

##### **Theory Section**

The responses to the theory section on the distinguishing features indicated that while candidates had some knowledge of partnership, they were unable to identify those features that distinguish a partnership from other forms of business organisations.

##### **The Appropriation Account**

Almost all candidates appeared to be familiar with the format of this account since they included interest on drawings, capital and salaries and attempted to share residual profit. While most candidates calculated and treated interest on capital and salaries correctly, few candidates were able to do the same for interest on drawings. A few candidates calculated the interest for nine months or twelve months rather than eleven months. Some candidates added the interest on capital to the net profit, others subtracted interest on drawings to the net profit. In sharing the residual profit, most candidates recognized that the ratio was 3:4.

##### **The Current Accounts**

Most candidates transferred the credit and debit entries correctly from the appropriation account to the current accounts. However, candidates either ignored the opening balances or treated the debit balance incorrectly. Some candidates reversed all entries for example, debiting rather than crediting interest on drawings. Other candidates included capital balances in the current accounts.

##### **The Balance Sheet**

Candidates have improved in their presentation of a classified balance sheet including correct treatment of the accumulated depreciation on motor vehicles. However, candidates are not consistently using the vertical format which allows for calculation and labelling of the working capital figure. Many candidates did not show the capital accounts of the partners separately. In fact, some candidates attempted to deal with the capital like that of a sole trader concern and made adjustments to the capital for net profit and drawings.

Although the question specifically stated that details of the current account should not be shown in the balance sheet, some candidates wasted time and showed details, while others included the opening current account balances instead of the closing ones.

### Recommendations

Teachers should discuss with students significant features of a partnership in comparison with a sole trader and other types of business organizations when those topics are taught.

Calculation of interest on drawings is an area where teachers need to spend a little extra time explaining and demonstrating especially where interest is charged on a monthly basis. Furthermore, the treatment of interest on drawings should be justified by an understanding of its purpose and its effects.

Generally, there has been improvement in the preparation of the current accounts. However, candidates still seem to have trouble recognizing the difference between a credit and a debit balance in the partners' current accounts. Hence, teachers need to underscore the theoretical significance of each balance with some reference to the principle of separate entity and the purpose of separate current accounts.

The fact that several candidates prepared a balance sheet extract showing the liability side only, suggests that some of them are not accustomed to preparing the entire balance sheet. Though this practice is often used in examination questions, usually with the intent of making the question shorter, students should get practice in doing the complete vertical style balance sheet. Partnership balance sheets must display individual capital and current accounts with a focus on the closing balances.

### Question 2

This question had two parts. Part (a) required candidates to record transactions in a three column cash book and to balance the cash book. Part (b) tested candidates' ability to update a bank account and to prepare a Bank Reconciliation Statement. Eighty-four per cent of candidates attempted the question, of which 36 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 8.48 out of 20.

#### **Three Column Cash Book**

Many candidates demonstrated a fair understanding of the cash book. Recording of opening balances in the cash account and the contra entries were well done and for the most part, the discounts were correctly recorded. However, many candidates did not use the stationery provided for the cash book properly, placing headings without attention to consistency. The discount which presented a challenge to most candidates was Townsend's on April 7. Many candidates calculated the 3 per cent on \$970, not recognizing that \$970 represented 97 per cent as the 3 per cent discount had already been deducted. Many candidates treated the overdraft incorrectly as a debit balance and balanced the discount columns, instead of totalling them. Candidates also balanced the cash account and arrived at a credit balance carried down.

#### **Updated Cash Book**

Updating the bank account posed little problem for most of the candidates. Candidates were able to identify the differences and treat them correctly except for the error. This required that candidates treat with the difference in recorded amount rather than the whole figure. Some candidates demonstrated difficulty in how to treat the dividends and what to call it. For example, some candidates used terms such as credit transfer, direct credit and direct debit.

## **Bank Reconciliation Statement**

In preparing the bank reconciliation statement, many candidates were able to identify the total outstanding lodgments and the unpresented cheque; however the difference in treatment based on the starting figure went unrecognized.

### Recommendations

If students do not get practice in using the correct stationery in class, then they will become confused when presented with special stationery in the examination. Teachers should allow students to do at least some of their work on accounting's special stationery. Practice is needed on calculating discount amounts when the amount received/paid has already been discounted.

Students need to be reminded that although the cash book is balanced, the discount columns need to be totalled as they represent two different discounts – discount allowed and discount received. Students need to get practice in working with overdrawn balances, whether it is recording in the cash book, updating the cash book or doing bank reconciliation statements.

### Question 3

This question had two parts. Part (a) tested candidates' knowledge of books of original entry and source documents. Part (b) tested candidates' ability to record entries in the bad debts provision account and to prepare balance sheet extracts of the transactions for three years.

Approximately, 80 per cent of candidates attempted the question, of which 18 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 5.72 out of 20.

## **Basic Accounting Knowledge**

Most candidates recognized the source document and book of original entry which should be used for the return of goods purchased and sold. Very few candidates were able to identify the source document and book of original entry associated with the purchase of goods for cash and the sale of an old computer on credit.

### **Provision for Bad Debts**

Most candidates were able to calculate the provision for bad debts for each year. However, the Provision for Bad Debts Account was, for the most part, poorly done. Very few knew how to record the entry in the account. They did not indicate that they knew that it is the increase or decrease that would affect the Profit and Loss Account. Instead, the whole amount for the new provision was recorded. In many instances, the amounts were not even transferred to the Profit and Loss Account. Balancing the Provision for Bad Debts Account each year also presented a challenge for many candidates. In preparing the balance sheet extracts, candidates used incorrect terms such as provision for depreciation or bad debts instead of provision for bad debts. Although figures were clearly labelled debtors, candidates did not use this term in their balance sheets.

### Recommendations

When teaching source documents, teachers are encouraged to use actual specimens so that students can become familiar with them. An area in which this practice is recommended is in the SBA project since students will have an opportunity to actually use the documents to make entries in their Day Books.

The fact that many candidates were able to calculate each year's provision for bad debts, suggests that aspects of this topic are well known but it is not sufficient just to have students calculate and subtract the amounts from debtors in the balance sheet. They need to be taught how to record the entries in the provisions account and in particular, how to deal with increases and decreases in provision for bad debts. Candidates should be encouraged to read question stimuli carefully as valuable information can be obtained.

#### Question 4

This question had two parts, each related to cooperative societies. Part (a) required candidates to prepare the Appropriation Account with an emphasis on the distribution of the available surplus. Part (b) required candidates to prepare a balance sheet with an emphasis on the vertical style and the recognition of items that may be peculiar to cooperative societies. In general, candidates performed poorly on this question which suggests that there is inadequate coverage of this topic.

Twenty-two per cent of candidates attempted the question, of which approximately 23 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 7.47 out of 20.

#### **Appropriation Account**

Most candidates were able to apply the correct percentages in calculating the transfers to statutory reserve and scholarship fund. However, the percentages were sometimes applied to the share capital or the surplus share capital with many candidates ignoring the undistributed surplus at start. Several candidates had problems calculating the dividends correctly. Incorrect heading of the account and mislabelling of the undistributed surplus at close were other weaknesses displayed.

#### **Balance Sheet**

Candidates were able to head the balance sheet and identify the correct main headings in the balance sheet. The major weakness displayed arose as candidates attempted to group items, as members' deposits were treated as current assets, long term investments loans to members were treated as liabilities and share capital and statutory reserve were not recognized as financing items. Many candidates calculated working capital correctly even if they did not use the vertical style balance sheet; however, they did not label it.

#### Recommendations

Students need more exposure to the preparation of final accounts for cooperative societies. Most candidates used the horizontal style when preparing the appropriation account and the balance sheet. Teachers should emphasize the vertical style presentation for all financial reports, regardless of the type of business organization.

#### Question 5

This question presented candidates with a trial balance which did not balance. Candidates were required to correct certain given errors, using the journal as well as a suspense account, then to redraft a corrected trial balance. Many candidates attempted the question but the correction of errors remains a difficult area for candidates. Some candidates simply provided what they were prepared to do (Trading and Profit and Loss Accounts and Balance Sheets) without regard to what was required.

Approximately 58 per cent of candidates attempted the question, of which approximately 25 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 7.65 out of 20.

### **Journal Entries to correct errors**

Most candidates demonstrated that they were knowledgeable of the mechanics of recording journal entries, that is, observing the double entry system and recording debits before credits. Errors which did not affect the suspense account were correctly treated for the most part. However, candidates continue to omit the date and do not appear to recognize when the suspense account should be used. Few candidates recognized that they were required to create a bad debt recovered account to correct error number 5.

### **Suspense Account**

Many candidates opened, posted and balanced the suspense account. However, some candidates did not open the suspense account with the difference on the trial balance. Those candidates who did employ a suspense account in correcting errors, did not always post entries to the side as determined from their journal. Several candidates reversed the entries in the suspense account.

### **Redrafting Trial Balance**

In redrafting the trial balance, many candidates adjusted at least one of the items which required adjustment. Labelling the statement correctly remains a problem for students.

### Recommendations

Teachers must insist on dates and format, including proper headings, as important contributions to the quality and clarity in accounting. Teachers are encouraged to provide frequent practice opportunities for students in the areas of correction of errors and posting of journal entries to the suspense account. A wealth of resources exists in past examination questions.

### Question 6

This question tested candidates' knowledge of stock valuation using the FIFO method. Candidates were required to complete a stock card showing purchases, sales and value of stock remaining at the end of a period. In addition, candidates were asked to determine gross profit from the use of stock card information. Candidates displayed knowledge of other methods of stock valuation besides FIFO.

Approximately 65 per cent of candidates attempted the question, of which 43 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 10.55 out of 20.

### **Completion of Stock Card**

A large percentage of candidates demonstrated that they were comfortable with the FIFO method of stock valuation. They used the form well in recording purchases and sales and were able to identify the closing stock in units. Candidates who did not include previous unit balances to current ones did not get the correct figure for remaining units. Several candidates ignored the effect of activity dates on balances. A number of candidates prepared their own well-practised form thereby providing unnecessary information.

### **Information from Stock Card**

Many candidates successfully transferred knowledge on trading account format to the question on gross profit calculations. Some candidates seemed not to recognize the link between dates and numbers of units bought and sold and sale price and cost price which could be derived from the stock card or the original data.

### Recommendations

Teachers need to point out to students, that a running balance is kept of stock movement that recognizes the cost price of the items moving out and not the sales price of these units. The teaching of this topic should also move beyond filling out of stock cards to link with the calculation of cost of goods sold and profit.

### Question 7

This question tested candidates' knowledge of the various income generating accounts associated with clubs and other non-profit organizations. From a Receipts and Payment Account, together with other relevant information, candidates were required to prepare a Subscriptions Account, a Bar Suppliers Account, a Bar Trading Account and a Theatre Productions Account.

Fourteen per cent of candidates attempted the question, of which approximately 21 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 6.69 out of 20.

### **Subscriptions Account**

The majority of candidates prepared the Subscriptions Account satisfactorily, correctly recording the opening balances and including relevant items. Some candidates correctly identified significant figures for example, subscriptions to be transferred to the income and expenditure account. However, too many candidates placed items on the wrong side of the Subscriptions Account.

### **Bar Suppliers and Trading Accounts**

The Bar Suppliers account was poorly done, as candidates failed to recognize it as a Total Creditors Account. Quite often items were placed on the wrong side of the account. Most candidates scored the majority of marks in the Bar Trading Account. They were able to treat stocks and purchases correctly and arrive at a gross profit. A satisfactory number of candidates attempting this section recognized bar takings as bar sales. Many candidates failed to go beyond the gross profit and did not include bar expenses.

### **Theatre Production Account**

Candidates recognized the appropriate expenses for this account and were able to score marks. Some candidates labelled the closing figure as surplus or deficit. However, most candidates failed to correctly adjust the production expense. A few candidates were able to add the accrual at start but were unable to execute the required deduction for accrual at close. Although the question required candidates to prepare the Theatre Productions Account (an income generating account), most candidates incorrectly named the account income and expenditure, and some actually prepared an Income and Expenditure Account.

### Recommendations

More practice on this topic is required to improve the overall performance of candidates. Candidates who choose to use a statement format rather than a T-account format need to be very careful in deciding what to add and subtract. It is easier to determine whether to make a debit entry or a credit entry. Labelling of figures needs to be emphasized. Teachers need to emphasize the skill of balancing accounts. Adjustments for opening and closing prepayments and accruals must be taught for both income and expense accounts. Students should be made aware of this and taught how to treat with these tricky debit and credit balances. Students should be reminded to do what is required in an examination question and not to produce responses based on what they are accustomed to doing in class.

## **GENERAL COMMENTS**

### **Paper 03/1**

#### **School-Based Assessment**

The primary aim of administering the SBA project is to allow candidates to consolidate and crystallize their knowledge and understanding of the application of accounting principles. The SBA project should provide candidates with opportunity to garner depth and breadth to their working knowledge of the application of the Principles of Accounts in a real-life situation.

Of the 20 234 candidates who did the General Proficiency, School Based Assessment (SBA) Project, 95 per cent scored at least 20 of the 40 available marks. The mean mark on this component was 31.74.

### Strengths

There were improvements in the overall quality of the projects samples submitted for moderation this year. Most submissions were neatly and tidily presented. For the most part, projects which were moderated were generally good and in keeping with the expectations of the syllabus. The presentations were quite adequate in their focus and depth, and their length was also acceptable. The businesses, simulated or operated, were appropriate and interesting.

- Candidates continued to demonstrate strength in the correct application of accounting principles in drawing or writing up Cash Book or Cash/Bank Account, Books of Original Entry, Ledger Accounts, Trial Balance and Final Accounts and Balance Sheet.
- Quite a number of candidates were able to correctly transfer balances from Ledger to Final Accounts, and many candidates were able to arrive at correct results in their Final Accounts, as evident in their recorded data.
- It is commendable that the increase in the use of appropriate charts, graphs and diagrams by most candidates has continued this year, and these were almost always properly applied to projects.
- Undoubtedly, the majority of candidates demonstrated strengths in the ability to select appropriate accounting ratios, which were also accurately calculated and correctly interpreted. Many candidates in fact presented more than the minimum of two ratios suggested by the mark scheme outlined in the syllabus. The use of ratios to explain the performance of the business was particularly well done.

- Many candidates were also able to make reasonable suggestions or recommendations for improving the performance of the businesses.

### Weaknesses

Some notable areas continue to provide serious challenges to candidates.

- The use of source documents continues to be a general problem. The syllabus requires that at least four source documents be used, which can be traced to the books of original entry in the projects submitted. Of gravest concern was the fact that the source documents presented in projects were not traceable to the books of original entry. Often times, four source documents were in fact presented, but they were not used at all in any of the books of original entry, and consequently would not qualify as being “*traceable to accounting records*”.

In many instances, even when attempts were made to use the source documents presented in the project, the information on source documents did not fully correspond to the financial data recorded in books of original entry.

In cases where the *amounts* matched, between data on source documents vis-à-vis data recorded in the books of original entry, the *dates* and/or *names* used did not match.

In cases where the *dates* and/or *names* used did match the data on source documents vis-à-vis data recorded in the books of original entry, the *amounts* did not correspond . . . and so forth.

This shortcoming adversely affected the marks candidates received for the “*correct recording of data*”.

- Several candidates showed evidence of requiring more guidance from teachers in the selection and use of the Final Accounts and Balance Sheet “presentation formats”, which are more generally accepted as being relevant to candidate’s chosen “type of business”, operated or simulated. The ‘sole trader’ presentation style of accounting records were generally used for all types of businesses, including partnerships and limited liability companies.
- With regard to the dating of Final Accounts, candidates continue to disregard the important principle that the Trading and Profit & Loss Account is prepared to report “*for a particular period of time*”; unfortunately, we often came across the use of “*As at ...*” in the heading of Final Accounts.
- Students also need guidance in correctly identifying beginning and ending dates for their chosen fiscal periods. For instance, some candidates who reported the period of operation as being “for a year”, and who began the year with “*March 1*”, concluded the fiscal year with “*December 31*”.
- The ‘Conclusion, Summary & Evaluation’ section continues to warrant improvement. We need to emphasize that any “conclusions” drawn by candidates at the end of the SBA, must refer to the “aims” which they stated at the beginning of the project. Too many candidates continue to repeat their assessment of the performance of the business as their conclusion, for which they receive no marks.

The “comparison” segment is singled out as being most poorly done. For many candidates, a *beginning* aspect was not compared with the corresponding *end* of the chosen aspect. Instead, candidates tried to compare two non-congruent items, such as sales with purchases, or compared what was done in class, with what was done in the project.

### Recommendations

- We take this opportunity to remind, thankfully just a few teachers, that the CXC syllabus has long ago discontinued ‘visitation of businesses by candidates’ for the purposes of preparation of the SBA project.
- There is concern over a number of teachers who were found to be inconsistent in their marking of the SBA samples. We continue to recommend increasing degrees of coordination and sharing of experience and expertise among the teachers of Principles of Accounts in any one school, in the marking of the projects, and in the selection of the representative samples for submission to CXC.
- We highly recommend that candidates are encouraged to complete the SBA project following a logical sequence, in keeping with the steps in the accounting cycle. Foremost in this process, would be application principles concerning the use of source documents as the primary source of information for the recording of entries in the day books or journals, which are then posted to ledger accounts. Students should be afforded ample opportunity to practise extracting information from a variety of source documents, recognizing which daybook or journal is required in each instance, and duly completing relevant journal entries using the information extracted from source documents. Details recorded in journal entries, such *names*, *dates*, and *amounts* should, at all times, directly correlate with the particulars to be found on the corresponding source documents. Whenever any sort of journal entries are being made, teachers should use these opportunities to impress on students that information for the writing up of any, and all, journal entries, in all cases must come from source documents.
- In assessing “relevance” in a candidate’s SBA project, quite apart from assessing whether the chosen list of transactions is in keeping with, and relevant to, the activities of the type of business chosen and described by the student, the teacher must also ensure that the presentation format of Final Accounts and Balance Sheet is also relevant to the candidate’s type of business.
- In writing up the dates for final reports at the end of a fiscal period, the prefix “*As at ...*” ought to be restricted to heading up of the Trial Balance and the Balance Sheet, the heading for Final Accounts ought to have the date prefixed with “*For the period ended ...*”. As such it is recommended that teachers develop an appreciation in students that whereas some statements convey a “*snapshot*”, or static picture, of a business at a *specific point in time* (e.g. Trial Balance and Balance Sheet), other statements actually report the summation of activities that occurred during a *period of time* (notably, the Trading and Profit & Loss Account, for example). Therefore, the dating style is to be selected carefully, to reflect this difference in the dating of reports.
- Also with reference to dates, students should clarify the difference between a “calendar year” and a “fiscal year”. Whereas a calendar year will always begin with *January 1* end with “*December 31*”, a fiscal year, on the other hand, can commence with any month of the year, and would then end on the 12th consecutive month after its commencement. This end date may, consequently, be any of the named months of a year. For instance, a fiscal year that commenced on *March 1, 2007* will end on *February 28, 2008*.

- With reference to the “Conclusion, Summary & Evaluation” section effort should be made to ensure that the final “conclusions” given by candidates have a direct relationship to the “aims” stated at the commencement of the project. The “Conclusions” ought to relate to the SBA project itself. The aim should guide the project through to the “Conclusions”.

For “Comparisons”, a *beginning* aspect must be compared with the corresponding *end* of the same chosen aspect.

Where candidates chose to operate for a single accounting period, the comparison could, for instance, be based on the performance of a business item measured at the start and end of the period under review, as for example *capital at start* versus *capital at end*.

Where candidates chose to operate over several fiscal periods, the comparison could then, for instance, be based on *sales/revenues* generated over two consecutive periods; or another comparison could be made of *gross profit to sales* ratios calculated for two consecutive periods, in support of their evaluation.

## GENERAL COMMENTS

### Paper 03/2

#### Alternative to the School-Based Assessment

Paper 03/2 is designed to serve as an alternative evaluation mechanism, in lieu of the SBA Project, designed for candidates who are out of the regular Secondary School Education mainstream.

The June 2007 Paper 03/2 comprised one case study set on the scenario of a retired agricultural worker who began a sole trader business selling sugar-cane juice on the outskirts of a shopping centre. Candidates were required to calculate the sole trader’s opening capital, given the start-up information, and answer a variety of questions based on the case study, including:

- Identification of sole trader’s most liquid and most permanent asset on a given date
- Identification of appropriate books of original entry for given transactions
- Recognition of business type and reasons or explanations for the formation of that business type
- Giving reasons for forming mergers
- Differentiating between revenue and capital expenditure items

They were also required to calculate

- Total Sales in a given year from data provided
- Total Sales in subsequent year given updated data
- Percentage increase in sales in the subsequent year
- Average Stock
- Return on investment

As well as to prepare a Balance Sheet at start, and a Trading and Profit & Loss Accounts for a given year.

Of the 4267 candidates who sat the General Proficiency Paper 03/2, 52 per cent scored at least 20 of the 40 available marks. The mean mark on this paper was 18.83.

### Strengths

- Most candidates were able to correctly identify which items were to be grouped as “assets” for the calculation of the opening capital.
- Many candidates were able to correctly identify the owner’s contribution.
- Some candidates were able to distinguish between liquid and permanent assets.
- Most candidates were able to correctly recognize that a partnership business had been effected when the sole trader merged business with a sugar-cane farmer. They were also well-versed in the reasons for forming partnerships.
- Some candidates were quite good at identifying capital expenditure items.
- In the preparation of the Balance Sheet, most candidates were able to obtain marks awarded for correctly heading up the Balance Sheet, and presented a classified Balance Sheet. Fixed Assets were also correctly identified in many instances.
- Calculation of sales for the first year was done fairly well by candidates and most candidates were able to correctly calculate the total sales in the second year.
- The formula to be used in the calculation of ‘Average Stock’ was generally well known.
- The majority of candidates knew how to prepare the Trading and Profit & Loss Account, and scored highly. It was also noteworthy that most candidates were able to correctly adjust for the rent expense and the assistant’s salary.

### Weaknesses

- Many candidates were unable to calculate the correct opening capital amount, of \$22,000, due to their failure to deduct the bank loan (liability) from the total assets. There were frequent instances where the item, “Bank Loan”, was listed as an asset.
- Also, many candidates clearly did not understand the concept of “liquid”, as opposed to “permanent” assets, and in many cases made no attempt to single out “*the most ...*”, in each category, as required by one of the questions.
- Many candidates were unable to distinguish between books of original entry or journals, and ledgers.
- Candidates were unable to distinguish between capital and revenue expenditures and often mis-stated the examples of the two types.
- In the preparation of the Balance Sheet, the calculation of the remaining cash amount, of \$1,000, posed a difficulty for many candidates. As previously mentioned, many candidates failed to recognize that ‘Bank Loan’ was a liability, and were consequently unable to calculate the correct capital amount. However, some candidates failed to indicate ‘Capital’ as a required item in the Balance Sheet – it was left out altogether.
- Despite knowing the correct formula to be used for the calculation of “average stock” for the second year, candidates selected the wrong amounts upon which to apply the formula.
- In the preparation of the Trading and Profit & Loss Accounts, most candidates could not identify the correct ‘opening stock’ figure. Despite knowing how to prepare the Trading and Profit & Loss Account, very few candidates concluded with the correct Net Profit amount. Many candidates incorrectly included the owner’s salary in the Profit & Loss Account.
- The calculation of the “Return on Investment” at the end of the second year was generally rather poorly done. It appears that most candidates were not even acquainted with the relevant formula to be used, nor did they know what figures were relevant to this calculation.

### Recommendations

- Emphasis and reinforcement should continue to be placed on the basic concepts and principles of accounts such as
  - Classification of Accounts – Assets, Liabilities, Capital, etc.
  - The Balance Sheet Equation that  $A = L + C$ . From which  $C = A - L$  can be deduced
  - Headings in Balance Sheet and Trading & Profit & Loss Accounts.
  - Differentiation between Fixed & Current Assets.
  - Classification of items in their proper groupings on a Balance Sheet.

- The link between the theory and application in accounting needs to be established throughout the development of the course.
- Greater emphasis should be placed on defining and distinguishing between
  - Capital and Revenue Expenditure
  - Liquid and Permanent Assets

The significance of these concepts in the application of accounting principles must also be addressed. The “Order of Liquidity” and “Order of Permanence” also require more attention in teaching the Balance Sheet module.

- Traditional accounting formulae should be well known by all. Greater effort should be deployed in the development of a good understanding of common terms used in accounting, such as ‘return on investment’, and ‘average stock’. They should be given ample opportunities to apply and practise the use of the formulae in a variety of scenarios. It is always recommended that candidates start by stating the formula to be used, and then follow on with the actual amounts and calculations.
- Consideration ought to be given to the use of simulated exercises in developing better understanding and application of principles in the use of Journals and Ledgers, and clarifying their relationship.
- Students should be made aware that when the owner of a business pays himself a salary, this should not be treated as a business expense but instead should be treated as drawings on the balance sheet.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
CARIBBEAN SECONDARY EDUCATION CERTIFICATE  
JANUARY 2008**

**PRINCIPLES OF ACCOUNTS**

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## **PRINCIPLES OF ACCOUNTS**

### **GENERAL PROFICIENCY EXAMINATION**

**JANUARY 2008**

#### **GENERAL COMMENTS**

The Principles of Accounts examination is offered in June and January each year.

The examination consists of three papers

Paper 01	-	Multiple Choice
Paper 02	-	Essay Paper
Paper 03/2	-	Alternative to SBA (Private Candidate)

#### **DETAILED COMMENTS**

##### **Paper 01 – Multiple Choice**

Paper 01 consists of 60 multiple choice items taken from the three profiles of the syllabus; Knowledge, Application, Interpretation. The performance of candidates on Paper 01 was satisfactory.

The mean mark was 37.21 out of 60. Approximately 81 per cent of the candidates scored at least 50 per cent of the marks for this paper. No one earned the maximum mark; however, 8 candidates scored 58 out of the possible 60 marks on this paper.

##### **Paper 02 – Essay**

Paper 02 comprises two sections. Section I, the compulsory section, required candidates to answer three questions. Section II, the optional section, required candidates to answer two out of four questions.

The performance on Paper 02 was unsatisfactory. The mean mark for this paper was 35.24 out of 100. Only 21 per cent of the candidates earned at least 50 per cent of the maximum mark on this paper.

##### **Paper 03/2**

Paper 03/2, the alternative to the School Based Assessment (SBA), is an examination offered to private candidates. The examination attempts to simulate the skills tested in the SBA. This is achieved by presenting the candidates with one or two cases or situations from which they are required to respond to questions.

The performance of candidates on the 03/2 paper continues to show improvement over previous years. The mean mark was 24.52 out of 40 marks and 75 per cent of candidates earned at least 50 per cent of the maximum available mark on this paper.

## Paper 02 - Essay

### Section I (Compulsory)

#### Question 1

Candidates were presented with a trail balance and were required to prepare a Trading and Profit and Loss Account and a Balance Sheet. Both requirements were fairly basic with very few complexities. The question required that candidates have a good understanding of how to deal with prepayments and accruals, adjust provisions for bad debts when the provision is reduced, and to adjust for provision for depreciation. There was also an interest revenue which had to be adjusted for an uncollected amount.

Approximately 97 per cent of the candidates attempted the question.

Most candidates demonstrated an understanding of the general presentation of the Trading and Profit and Loss Account and Balance Sheet. Many candidates recognized the need to make adjustments to purchases and sales for returns outwards and inwards in order to arrive at net purchases and net sales. However, some candidates missed the further adjustment needed to purchases, for transportation-in. Several candidates dealt with Transportation-in in the Profit and Loss Account instead of adding it to the cost of purchases.

Although, some candidates correctly added interest revenue to the gross profit, many seemed not to know what to do with the interest revenue which remained to be collected.

The main areas of weaknesses demonstrated in this question were:

- Treating uncollected revenue correctly.
- Treating the decrease in provision for bad debts correctly. Many candidates calculated the decrease of \$200 correctly but treated the amount as an expense rather than a revenue. Additionally, some candidates subtracted \$200 from debtors in the Balance Sheet, instead of the new provision of \$500.
- Determining the amount to be used for depreciation in the Profit and Loss Account. Some candidates added the current year's provision for depreciation to the accumulated amount and treated that amount in the Profit and Loss Account. There was also confusion as to which amount to use in the Balance Sheet.

#### **Recommendations**

Although candidates demonstrated a good working knowledge of how to prepare a Trading and Profit and Loss Account, it would be beneficial for teachers to give practice problems which would engage students in working with adjustments such as transportation costs, increase or decrease in provision for bad debts, treatment of revenues (together with amounts owing or received in advance) and calculating depreciation for the year as well as accumulated depreciation.

## Question 2

This question tested candidates' ability to open accounts in the General Ledger and record opening balances in the accounts; post correctly from various journals, including the Cash Book, to the General Ledger; and close and balance accounts appropriately.

Approximately 80 per cent of the candidates attempted the question.

Many candidates demonstrated knowledge of how to open accounts and record the opening balances in the accounts, though a few candidates did not record the balances on the correct side of the account. However, posting from the journals and closing and balancing the accounts presented major challenges.

The main areas of weakness demonstrated in this question were:

- Candidates demonstrated poor knowledge of how to post journals to the General Ledger.
- Though fairly good attempts were made at balancing asset and liability accounts correctly, very few candidates showed that they knew that expense and revenue accounts should be closed to the Trading and Profit and Loss Accounts.

## **Recommendation**

Many basic principles of accounting procedures, such as posting from Day Books, are taught very early in the sequence of topics and so it is easy for students to forget some of them. It therefore becomes necessary for teachers to revise frequently some of these basic principles so that they remain fresh in the minds of students.

The fact that most candidates balanced all accounts at the end of the period demonstrates that much practice is needed in the closing of the following accounts: Purchases, Sales, Return Inwards, Return Outward and Carriage Inwards. These accounts are closed off to the Trading Account at the end of the period. Other revenue and expense accounts are closed off to the Profit and Loss Account.

## Question 3

This question had three parts. In Part (a), candidates were presented with the opening journal entry of assets and liabilities of a sole trader. Candidates were required to use the information to find the capital. In Part (b), they were required to use that same information to prepare the Balance Sheet of the sole trader. In Part (c), candidates were presented with six transactions and were required to identify the accounts affected by each of the transactions and to state the new dollar value of the accounts in each case.

Approximately 96 per cent of the candidates attempted this question.

Most candidates were able to apply the Accounting Equation and calculate the capital correctly. Additionally, many candidates did a good job in preparing the Balance Sheet. Part (c) presented the biggest challenge for most of the candidates.

The main areas of weakness demonstrated in this question were:

- Candidates were not able to identify and name both of the accounts affected in the transactions. Most times they got one correct and the other incorrect.
- Calculating the dollar value of the accounts proved challenging.

### **Recommendations**

This question, (Part c), like question 2, tested basic principles. Teachers are again encouraged to revise basic accounting principles that are usually taught early in the course.

Though a pre-ruled response sheet was given for Part (c) of the question, some candidates wasted time in ruling up their own sheets. Students should be reminded that they need to maximize the time given in an examination by using response sheets and other help provided.

## **Section II (Optional Section)**

### Question 4

This question tested three distinctly areas of the syllabus. Part (a) tested candidates' ability to prepare Control Accounts. Part (b) tested candidates' knowledge of Payroll Accounting, and Part (c) tested candidates' ability to prepare a Manufacturing Account. This question was the most popular of the optional questions and was fairly well done.

Approximately 74 per cent of the candidates attempted this question.

Response to Part (b) of the question was excellent, with the majority of candidates obtaining full marks in preparing the pay slip. Many candidates did well in preparing the Control Account. Several candidates treated opening balances correctly, also items such as dishonoured cheques, and cash were entered correctly in the account. Part (c) which tested Manufacturing Account had some good responses as well.

The main areas of weakness demonstrated in this question were:

- Control Account – Candidates had difficulty in differentiating and treating interest charged and received on late payments.
- Pay slip – Some candidates had difficulty in calculating overtime pay and income tax. They failed to recognize that 20 cents on ever dollar is the same as 20 per cent. Also, mathematical computations proved difficult for some candidates.
- Manufacturing Account – Some candidates deducted the factory overheads from Prime Cost instead of adding it. Although most candidates knew that opening work in progress should be added and closing work in progress should be subtracted, many of them did not know where to treat the items.

## **Recommendations**

When preparing Control Accounts, more practice should be given to unusual items such as interest received and interest charged.

Many students tend to mindlessly practice a format for setting up the Manufacturing Account without understanding the rationale. Teachers should discourage this and explain the rationale behind the treatment of items in the Manufacturing Account.

### Question 5

This question had two parts. Part (a) required candidates to redraft a trail balance placing items in the correct columns. Having done this, any difference in the trail balance totals should be placed correctly in a Suspense Account. Part (b) required candidates to use proper journal entries to correct certain given errors and to state the type of error which occurred in three of the situations.

Approximately 67 per cent of the candidates attempted this question.

In redrafting the trail balance, most candidates identified the items fixed assets and bank overdraft as being incorrectly recorded and were able to correct the placement of these items. Other items seemed to have presented difficulty for different candidates. Most candidates identified the error of omission.

Journalizing the correction of errors presented the biggest challenge for most of the candidates.

The main areas of weakness demonstrated in this question were:

- Identifying the error of commission and the complete reversal error.
- The most common error made when redrafting the trail balance had to do with the revenue item. The revenue item was incorrectly debited in the question and many candidates did not recognize that it should have been credited.
- Many candidates did not open a Suspense Account. When they did, the balance was often placed on the incorrect side of the account.
- In general, the correction of errors in the General Journal was very poorly done and indicated that candidates were not comfortable with the concepts of the double entry system.

## **Recommendations**

In order for students to do corrections, whether in the trail balance or in the journal, they must first have a thorough understanding of the double entry system. Before teaching this section of the syllabus, teachers need to thoroughly revise the double entry system with the students. If they are properly grounded in the system, they will have a much better understanding of how to deal with errors.

### Question 6

This question tested the candidates' knowledge of Partnership Accounting. The first part of the question required candidates to combine the assets and liabilities of two separate sole traders who were forming a partnership. Candidates were required to use the General Journal to show their opening entries.

The second part of the question required candidates to prepare the Profit and Loss Appropriation Account for the partnership and to calculate the return on capital employed for each partner. Candidates were also required to identify two advantages of a partnership type of business over that of a sole trader.

Approximately 34 per cent of candidates attempted the question and it was generally not well done.

In attempting the Profit and Loss Appropriation Account, most candidates demonstrated a fair knowledge of what items should be included and how the profit should be shared. Additionally, many candidates were able to state the advantages which partnerships have over sole trading concerns.

The main areas of weakness demonstrated in this question were:

- Journalizing the opening entries for the partnership. In the majority of cases candidates, were not aware that they needed to combine the assets and liabilities, instead they listed them separately for each of the partners.
- Although many of the candidates correctly identified the items to be placed in the appropriation account, they did not know how to treat the items, that is, whether to add or subtract.
- Most candidates did not know how to calculate the return on capital employed for each of the partners. The few who attempted this part of the question used the share profit only, instead of including interest on capital and salary as returns made to the partner.

### **Recommendations**

From the poor attempt made at journalizing the opening entry for the partnership, it was evident that candidates had very little practice in dealing with converting from sole trader to a partnership.

In addition, to teaching how partnerships are formed, it is also important to show students how the entries should be recorded.

When teaching ratios, it is important to show how these apply in partnerships. In particular, with respect to ROCE, students need to realize that the appropriation of profits made to a partner represents his return, therefore items such as salaries, interest on capital, bonuses, etcetera, will be added to share profit when calculating the partners' return on capital employed.

### Question 7

This question tested candidates' knowledge of Company Accounts. Candidates were required to differentiate among different types of shares and debentures from given data. Candidates were also required to calculate interest on debentures, dividends on preference shares and the original amount of net profit. They were also required to prepare a Balance Sheet extract showing the liabilities and capital sections.

Very few candidates attempted this question, only 7 per cent. A very small number of candidates did extremely well while the majority of candidates did poorly.

There were only a few areas of good performance on this question. Most candidates were able to state the difference between ordinary shares and preference shares. Most candidates knew how to calculate the interest on debentures.

It is reasonable to conclude that the other areas of this question were poorly done by the majority of candidates.

### **Recommendations**

Candidates seemed ill-prepared for this topic of the syllabus. Teachers need to ensure that they cover the entire syllabus as any objective of the syllabus may be tested at any point in time.

## **PAPER 03/2 – Alternative to SBA**

Paper 03/2, the alternative paper to the School Based Assessment (SBA), is an examination offered to private candidates. The examination attempts to simulate the skills tested in the SBA. This is accomplished by presenting the candidates with one or two business cases or scenarios from which they are required to respond to questions.

This year, the paper presented one business case. The case required candidates to answer questions about the operations of the business, do some calculations, and carry out certain accounting functions, such as preparing a Cash Book and Profit and Loss Account.

Candidates' performance on this paper is commendable. The performance on this paper continues to show improvement.

### **Recommendations**

The CSEC Principles of Accounts Study Guide is now complete and available to the public. The study guide is a valuable self-teaching manual which both "in-school" students as well as private candidates will find extremely helpful. For teachers, it is an excellent tool for reinforcement and revision. The study guide was prepared in conjunction with the revised POA syllabus which will be tested for the first time in June 2008.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
SECONDARY EDUCATION  
MAY/JUNE 2008**

**PRINCIPLES OF ACCOUNTS**

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## **PRINCIPLES OF ACCOUNTS**

### **GENERAL PROFICIENCY EXAMINATION**

**MAY/JUNE 2008**

#### **GENERAL COMMENTS**

In June 2008, 24,067 Candidates registered for the Principles of Accounts (POA), General Proficiency examinations. This is the first sitting of the revised syllabus. The examination consists of three papers:-

Paper 01	-	Multiple Choice Paper
Paper 02	-	Problem Solving Paper
Paper 03/2	-	Alternative paper to SBA (Private Candidates)

Candidates who achieved 50 per cent of the maximum available marks on the School-Based Assessment (SBA) may carry forward their marks to the next years sitting.

#### **Paper 01 – Multiple Choice**

Paper 01 consists of 60 multiple choice items covering the three profiles (Knowledge, Application, and Interpretation) of the syllabus. The performance of candidates on Paper 01 was consistent with that in 2007. This year, 42 per cent of candidates achieved a Grade I to III compared with 43 per cent in 2007. The mean mark for this paper was 34.25 out of 60.

#### **Paper 02 – Problem Solving**

Paper 02 comprises two sections. Section I (compulsory) required candidates to attempt all three questions. Section II (optional section) required candidates to attempt two of four questions.

The performance of candidates on Paper 02 showed improvement over the previous year. The mean mark for this paper was 39.49 out of 100 compared with 36.86 in 2007.

#### **Paper 03/2**

Paper 03/2 is designed to serve as an alternative evaluation mechanism, in lieu of the SBA Project. It is expected that only those candidates who are out of the regular Secondary School Education mainstream, typically registered as “private candidates”, would take this examination. The examination requires candidates to perform accounting functions in answering questions based on one or two cases.

In recent examinations, the performance on this paper has shown improvement. The performance of candidates in the 2008 examination was consistent with that in 2007. The mean mark on this year’s examination was 18.66 out of 40 marks compared with 18.83 in 2007.

## **DETAILED COMMENTS**

### **Paper 02 – Problem Solving**

#### **Section I – Compulsory**

##### Question 1

This question tested the preparation of final accounts for a sole trader, specifically the Profit and Loss Account and the Balance Sheet. This area of the syllabus is examined fairly frequently.

Ninety-six per cent of the candidates attempted the question, of these 58 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 10.22 out of 20.

##### **Strengths**

- Most candidates were able to present the Profit and Loss Account correctly using either the vertical or horizontal format. Accruals, prepayments and omissions were dealt with fairly well but few candidates were able to calculate the correct figure for provision for depreciation.
- The Balance Sheet was in most cases properly set out using the vertical format in terms of the classification of sections and statement heading. Candidates generally adjusted fixed assets for accumulated depreciation and debtors for at least one item.

##### **Weaknesses**

- Several candidates attempted to draw up a Trading Account despite the emphasis that it was unnecessary.
- Candidates continue to ignore additional information, particularly information pertaining to depreciation. Where depreciation was calculated, the percentage was applied to the accumulated depreciation figures and not the cost of the fixed assets. Furthermore, few candidates attempted to adjust for accumulated depreciation in the Balance Sheet. Instead, the tendency was to subtract the current year's depreciation from the cost of the fixed assets.
- Candidates seemed to have confused “increase to” with “increase by” in dealing with the provision for bad debts.
- Candidates did not deal with the effects of many of the additional notes on the Balance Sheet, for example, recognizing the accrued insurance as a liability.
- Several candidates demonstrated uncertainty in knowing whether to add or subtract some items such as drawings and provision for bad debt. For example, in the Balance Sheet, they wrote “less drawings” but in fact added the amount to capital.

##### Recommendations

Teachers are encouraged to expose students to different types of question formats. That is, they should vary the layout of the questions; particularly the way in which accompanying notes to the Trial Balance and Balance Sheet are provided as well as the type of information presented in the Trading and Profit and Loss Account.

## Question 2

This question tested the preparation of a Three-Column Cash Book, an adjusted Cash Book and the Bank Reconciliation Statement. These concepts are assessed fairly frequently. The question was generally well done.

Ninety-six per cent of the candidates attempted the question, of which 61 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 10.43 out of 20.

### **Strengths**

- Most candidates recorded the opening cash balance on the correct side. Expenses and revenues and most discounts which involved application of a given percentage to a gross amount were also correctly calculated and dealt with. The adjustments of the Cash Book for bank charges, standing orders and returned cheques were fairly well done.
- A large number of candidates transferred the updated Cash Book balance to the Bank Reconciliation Statement.

### **Weakness**

- Many candidates did not treat the opening overdraft bank balance correctly.
- Candidates presented a variety of cash and bank account combinations demonstrating unfamiliarity with the three column format.
- Candidates appeared to have been confused when the figures to be entered for different days were similar.
- Most candidates did not recognize the actual payment of \$1800 and therefore did not calculate the discount correctly.
- Candidates failed to deal with contra entries. Most of them made one entry.
- Candidates continue to balance off the discount columns instead of totaling.
- Many candidates used either the original or new balance in the Cash Account rather than the new Bank Account Balance in updating the Cash Book.
- The treatment of unpresented cheques whether starting with the Cash Book Bank Account Balance or the Bank Statement Balance remains an area of weakness.

### Recommendation

Teachers are encouraged to give students varied practice in the use of the Three-Column Cash Book, the treatment of contra entries and the treatment of unpresented cheques.

## Question 3

This question tested the treatment of the start up of a partnership; the preparation of the Profit and Loss Appropriation Account and the Current Accounts after one year of trading, as well as the preparation of opening journal entries for partnerships. This area of the syllabus is not frequently tested but Part (b) is a syllabus area that is examined fairly frequently.

Eighty-four per cent of the candidates attempted the question, of which 40 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 7.92 out of 20.

### **Strengths**

- Many candidates recognized the need to debit assets brought in by partners in the journal.
- Most candidates were able to use the correct rate to appropriate profit.
- Many candidates were able to treat the appropriations and drawings in the Current Accounts correctly with many gaining full marks.

### **Weaknesses**

- Many candidates produced ledger accounts instead of journal entries.
- Candidates demonstrated weaknesses in applying the requirements for a correct journal entry, for example, the inclusion of dates and narrations. Many candidates did not recognize the credit to partners' Capital Accounts but instead used the partners' names.
- Candidates failed to distinguish one partner's capital contribution from the other partner's capital contribution.
- Too many candidates failed to include the terms "appropriation" and "for the period ending" in the heading of the statement requested. Some candidates omitted the names of the partners or gave the wrong date.
- Many candidates ignored the effect of time on the calculation of interest on drawings and salary, although this area is tested fairly frequently in the recent past.
- A few candidates included capital balances or did not transfer their balances in the Current Accounts.
- Some candidates treated the Net Profit amount of \$75 000 as the residual profit to be shared between the partners.

### **Recommendations**

Teachers are encouraged to give students practice in the opening of journal entries for different types of business organizations. They should also be exposed to calculations that are affected by part-year activity as this is seen as an authentic application of partnership agreements. Students should also be given extended practice in the use of appropriate stationery, in particular the journal.

## **Section II – (Optional Section)**

### **Question 4**

This question tested the accounting treatment, that is, adjusting entries and recognizing accruals and or prepayments of expenses and revenues. Candidates were given a choice of either preparing the journal entries or the Ledger Accounts. This is a fairly new emphasis in the syllabus although the area has been tested in the past. Students were also required to identify the placement of one adjustment in the Balance Sheet.

Thirty-seven per cent of candidates attempted this question, of which 22 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 7.14 out of 20.

### **Strengths**

- Those candidates who were well prepared were able to distinguish the expense and revenue amounts that should affect the Profit and Loss Account from the amounts that should be recognized as assets or liabilities. They were able to gain at least 90 percent of the available marks.
- Candidates who prepared Ledger Accounts recognized, for the most part, the correct placement of the opening balances and the cash amounts paid or received.

### **Weaknesses**

- Journalizing and adjusting entries appear to be unfamiliar to most candidates.
- Candidates demonstrated weaknesses in applying the requirements for a correct journal entry, for example, the inclusion of correct dates and appropriate narrations.
- Candidates appeared to be unsure of the details to be used in recording entries. Instead they inserted only dates and amounts or used descriptive terms such as 'amount owing' or 'received in advance'.
- Several candidates produced statements rather than journal entries or Ledger Accounts.
- Most candidates were unable to calculate the correct amounts to be transferred to the Profit and Loss Account.
- Candidates failed to recognize commissions receivable as a current asset.

### **Recommendations**

Teachers are encouraged to give students more practice in journalizing, adjusting and closing entries, in particular placing emphasis on students' understanding and application of the principles of double entry and accruals as these are fundamental concepts to the treatment of adjusting entries.

### **Question 5**

This question tested the preparation of the Manufacturing Account and the subsequent Trading and Profit and Loss Account. This area of the syllabus is tested frequently with variety being introduced in minor ways. This year, candidates were required to allocate two items of expenditure between the Manufacturing Account and the Profit and Loss Account, treat with purchases of finished goods from an outside supplier in the Trading Account and calculate the unit cost of production. This question proved to be very popular and was fairly well done.

Seventy-seven per cent of the candidates attempted this question, of which 49 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 9.13 out of 20.

### **Strengths**

- Many candidates demonstrated satisfactory knowledge of the components of both the Manufacturing and Trading and Profit and Loss Account in vertical style.

- Subtotals were clearly labeled for the most part.
- The treatment of opening and closing stocks of various types was well understood.

### **Weaknesses**

- Some candidates continue to use a format that does not clearly distinguish types of costs thus placing manufacturing costs and Trading and Profit and Loss Account items indiscriminately and ignoring information that distinguishes both concepts.
- Although labeling 'production cost transferred to Trading Account', a few candidates failed to do so. Instead they transferred other subtotals, for example, purchases of raw materials. Others ignored the production cost completely.
- Many candidates did not include the purchases of finished goods in the Trading Account.
- Candidates either omitted the calculation of unit cost of production or used other figures such as cost of sales. In some instances, the unit cost was not expressed in dollar (\$) terms.

### **Recommendations**

Teachers are encouraged to pay attention to the

- labelling of subtotals with the terms used in Manufacturing Accounts
- identification and allocation of costs between the manufacturing cost centre and the trading cost centre
- link between the Manufacturing Account and the Trading Account via the treatment of production cost of finished goods as well as the purchase of finished goods from an outside supplier should be made clearer
- calculation of unit costs and revenues

### **Question 6**

This question tested the preparation of the accounts of a sole trader from incomplete information. In particular candidates were required to calculate opening capital through the preparation of a Statement of Affairs and prepare a Trading and Profit and loss Account.

This area of the syllabus is tested fairly frequently.

Thirty-five per cent of candidates attempted this question, of which 22 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 5.86 out of 20.

### **Strengths**

- Many candidates attempted all parts of the question.
- Most candidates demonstrated their familiarity with the format of the Trading and Profit and Loss Account and adjustment for items therein.
- More candidates than in the past, demonstrated familiarity with the preparation of Total Accounts to derive credit sales and purchases.

### **Weaknesses**

- Some candidates used the closing values rather than the opening values for the Statement of Affairs; they did not deal with the opening balance in the Bank Account; they also treated the opening accrual as an asset and used information on depreciation rates.
- Candidates often placed opening and closing balances for debtors and creditors and other relevant information on the wrong sides of account demonstrating a tendency to treat these as if they were Sales or Purchases Accounts rather than summary of debtors and creditors accounts.
- Some candidates included irrelevant information in the accounts.
- Some candidates did not deal with both cash and credit sales in the Trading Account. Occasionally candidates added cash sales and receipts from debtors to arrive at total sales.
- The calculation of the correct figure for depreciation was affected by candidates ignoring the effect of the purchase of new equipment.

### **Recommendations**

- Teachers are encouraged to pay attention to developing students' ability to identify and use correctly all relevant data.
- The concept of control accounts to deduce credit sales and credit purchases should not be taught in isolation, but with specific connection to single entry accounting.

### **Question 7**

Part (a) of the question tested the preparation of a Classified Balance Sheet for a Limited Liability Company. Part (b) tested the calculation of ratios from final accounts of a Limited Liability Company as well as the provision of comments using commonly used descriptors of ratios, that is, 'good' and 'bad'. Part (b) assessed the same knowledge and skills utilized in the School-Based Assessment (SBA).

Twenty per cent of the candidates attempted this question, of which 18 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 5.28 out of 20.

### **Strengths**

- In general, candidates were able to label common section headings and include information appropriate to the question, for example, current assets, long-term liability and capital.
- Candidates were able to calculate the value of ordinary shares issued.
- The current ratio, gross profit margin and net profit margin appeared to be the most familiar ratios to most candidates.
- Many candidates utilized the skills derived from carrying out the tasks of the School-Based Assessment in doing the ratios.

## **Weakness**

- Many candidates failed to identify the effect of the issue of shares on the firm's Cash or Bank Account.
- Candidates frequently applied the dividend rate or percentage to the preference shares in units to arrive at the value of preference shares issued.
- The correct classification of debentures as a long-term liability continues to create a challenge for students.
- The return on capital invested ratio was the least familiar to candidates who perhaps did not make the link with the term 'capital employed'.
- In many instances, candidates cited the correct formulae but used the wrong figures in their calculations, for example, candidates divided sales rather than cost of sales by average stock in arriving at the stock turnover ratio.
- Candidates appeared to be unfamiliar with the correct way of expressing formulas other than as percentages; for example, expressing stock turnover ratio in terms of times per year or in days, was not common.
- In explaining the terms as 'good' or 'bad', candidates demonstrated a greater familiarity with evaluating a firm's performance in terms of profitability rather than through other criteria such as liquidity, ability to meet debts or efficiency in managing working capital.
- Some candidates focused on the ratios and treated each as the opposite of the other.
- Several candidates simply re-wrote the data given in the question

## **Recommendations**

Teachers are encouraged to:

- Expose students to practice in dealing with the issue of shares and debentures on the firm's Balance Sheet as well as recognizing debentures as a long term liability.
- Ensure that students are familiar with the calculation of ratios and how these answers are expressed.
- Assist students in making the link between ratios and what aspect (profitability, liquidity and efficiency) of the business they assess.
- Insist that students develop the habit of showing their workings and not just show their final answer.

## **SCHOOL BASED ASSESSMENT (SBA)**

### **GENERAL COMMENTS**

The primary aim of the SBA project is to allow students to synthesize and crystallize their knowledge and understanding of the application of accounting principles at an introductory level. The SBA project should provide students with opportunity to strengthen their working knowledge of the application of the Principles of Accounts, gaining depth and breadth in a real life situation.

Teachers would find it most helpful if they were to regard the SBA as an integral component of this course of study, rather than as an ‘additional task’ to culminate this subject area. From a holistic perspective, it is recommended that students assign various incremental stages of the SBA, at appropriate times to match completion of classroom teaching and learning progress, over the duration of their last two years, rather than in one ‘lump’ towards the end of their secondary school tenure. Teachers would also be afforded much better opportunity to supervise, monitor and assist candidates in progressing towards the successful completion of the final product.

### **DETAILED COMMENTS**

Of the 20,099 candidates who wrote the General Proficiency, School Based Assessment (SBA) Project, 95 per cent scored at least 50 per cent of the total available marks. The mean mark on this component was 31 out of 40.

#### **Strengths**

There was an improvement in the overall quality of project samples moderated this year, with almost all submissions being neatly and tidily presented. For the most part, projects that were moderated were generally good and in keeping with the expectations of the syllabus. The presentations were quite adequate in their focus and depth, and of acceptable length. The businesses, simulated or operated, were appropriate and interesting.

During the moderation process the following strengths were identified:

- Most samples displayed a high quality of presentation.
- Overall, the application of accounting principles was, for the most part, good.
- Balances were consistently transferred from ledger accounts to financial statements with a high degree of accuracy.
- Many ‘suggestions/recommendations’ made were reasonable, and related to the entities examined.
- In many cases, the accounting elements presented were appropriate to their choice of business entity. For example, for partnerships – Partnership Appropriation Accounts, Current Accounts, etcetera, were given, and for companies – Company Accounts, share capital, etcetera were correctly applied.

#### **Weaknesses**

There were, however, several weaknesses identified, that if improved upon, would make for better project output in the future. Some of these were:

- Some Tables of Contents were presented without corresponding page numbers. In addition, the pages in the project were not numbered.
- With regards to the aims, some candidates wrote ‘. . . to pass CXC . . .’ which is unacceptable. It is expected that aims be centred around the learning and/or application of accounting principles, or specific to the particular business presented in the SBA project.

- With respect to the description or activities of the business, the period under review was, at times, not stated and was left to be implied from the transactions and financial statements.
- Several incomplete source documents were presented. Other times, relationships between source documents and the actual transactions and/or accounts were missing; that is, source documents' data were not traceable through to accounts. In other cases, several copies of one type of source document were presented, rather than the desired one example of each of four different types of source documents, for example, one cheque, one receipt, one invoice, one other type (credit note, debit note, petty cash voucher, payslip, etc.)
- In the ledger, 'balancing off' accounts was poorly done. Most candidates carried down balances for every account, instead of transferring balances to the Trading and Profit and Loss Account where appropriate.
- The headings on the financial statements were often either not shown, or badly presented. For example, 'Trial Balance for the period ended' was given, with no business name, or date included.
- Some of the statements of performance were unsubstantiated. For example, candidates made statements such as, 'the company made a profit', without any reference to figures from their accounts, or their calculated ratios, or other substantiating factor from their SBA project.
- Ratios were accompanied by a description of what they possibly could measure, instead of how they actually related to the business presented in the project. In other words, the ratios given did not relate to the actual performance of the business at hand. For example, candidates calculated a 'Net Profit as a percentage of sales' ratio in cases where their financial statements indicated their business made a loss. There were many instances where the pages with calculated ratios were displayed as part of the appendices.
- Many of the diagrams presented were very inappropriate, actually measuring 'nothing meaningful'. For example, candidates' submitted bar or column charts that sought to compare 'sales' with 'purchases'. It is also noteworthy to mention the unacceptability of organisational chart of a business being given as an accounting diagram. It is also to be observed that it is preferable to have candidates locate their diagrams appropriately, that is, next to their calculations, or descriptions.
- Comparisons consisted of mere comments or general statements.
- Many of the conclusions given did not reflect any relationship to the 'aims' stated at the beginning of the project.

### Recommendations

Based on the foregoing review, the following are suggested to improve candidates' performance on future SBA submissions:

- Students should be encouraged, even where 'group work' strategies are employed, to produce projects that demonstrate some individuality, especially in their writings of sections such as description/activities of business and interpretation of results. Too many samples appear to be carbon copies of the others.
- Teachers should discourage the use of a business 'organizational chart' as a presentation diagram.

- The sequential arrangement is to be adhered to and students ought to be guided to avoid putting ratios, etcetera, in the appendices.
  - The transactions list (tl) should be placed immediately after the description/activities of business; and
  - This list is to be followed by the source documents.
  - Charts and diagrams are to be appropriately placed in the location where they apply and where they are discussed.

Adhering to these aspects of 'sequential arrangement' will greatly enhance the flow of the marking and moderation processes for both classroom teachers and CXC moderators.

- We continue to recommend increasing degrees of coordination and sharing of experience and expertise among teachers of POA in any one school or centre, in the standardizing and marking of SBA projects.
- We continue to highly recommend that students are encouraged to complete the SBA project following a logical sequence, in keeping with the steps in the accounting cycle. Foremost, we wish to emphasize the following.
  - Transactions list should be placed immediately after the description/activities of business.
  - Source documents should be placed immediately after the transactions list.
  - Diagrams and/or charts should be located in the immediate vicinity of the calculations, figures, or dialogue/discussion to which they relate.

### **Alternative to the School-Based Assessment**

#### **GENERAL COMMENTS**

##### **Paper 03/2**

Paper 03/2 is designed to serve as an alternative evaluation mechanism, in lieu of the SBA Project. However, only those candidates who are out of the regular Secondary School Education mainstream, typically registered as 'private candidates', are allowed to take this exam.

It is highly commendable and must be noted that the general quality of performance on this paper has shown marked improvement this year, over previous years.

#### **DETAILED COMMENTS**

The June 2008 Paper 03/2 comprised one case study developed in the context of the enterprise of a high school cafeteria. The case study had seven distinct parts, on which a total of fifteen questions were set.

Of the 3,665 candidates who wrote the General Proficiency, Paper 03/2, 47.23 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 18.65 out of 40.

In Part A, a list of assets and liabilities was presented. Candidates were required to apply the fundamental bookkeeping equation to arrive at the opening capital, after which they were required to prepare a Classified Balance Sheet, presented vertically.

In Part B a scenario of the purchase of shares, at a given price, by a given number of students was presented. Candidates were required to calculate the amount of additional capital to be raised, and to identify the type of business in operation.

Part C consisted of reports presented by various students on information they had collected. This formed the basis for the succeeding parts.

Part D provided details of four cash transactions for a given period. Candidates were required to prepare the corresponding Cash Account for these transactions.

A Bank Account report for a defined year was presented in Part E.

Information regarding the rate and method of depreciation on the fixed assets, as well as the quantum of closing stock was presented in Part F.

Candidates were required to prepare the Income Statement for the enterprise for its year of operation, drawing on all foregoing information. They were also required to calculate gross profit margin and stock turnover ratios, and to identify one method of stock valuation.

The report in Part G consisted of a list of current valuations on various assets and liabilities, from which candidates were required to calculate working capital.

This paper culminated with candidates being required to provide short explanations to six typical accounting concepts, including formula for calculating Net Profit, gross profit margin, stock turnover ratio and working capital ratio

### **Strengths**

#### Identification of Fixed Assets

- Classification of Balance Sheet section headings
- Calculation of additional capital invested
- Calculation of working capital
- Calculation of Net Profit
- Identification of a stock valuation method
- Justifying reasons for higher electricity expense

### **Weaknesses**

- 'Accounts Payable' posed a problem for some candidates, who classified it as an 'asset'.
- Many candidates did not recognise that the opening cash balance should be included in the Cash Account.
- Many candidates presented both a Bank and a Cash Account (when only a Cash Account was requested), and in some instances they presented a 'Cash Book', rather than a 'Cash Account'.
- Candidates encountered difficulties with the treatment of accruals and prepayments, often unable to identify whether they were dealing with assets or liabilities.

- Some candidates experienced difficulty in identifying expenses to be included in the Profit and Loss Account, especially 'wages'.
- Many candidates omitted 'accounting for depreciation' on fixed assets in the Profit and Loss Accounts. Where depreciation was included, it did not take into account the total depreciation amount on all equipment held during the year, omitting to account for the additional fixed assets acquired during the year.
- Calculation of ratios – Most candidates lacked knowledge of correct formulae to be utilized, more so for the stock turnover ratio. They were unable to identify the correct opening and closing inventories amounts, and also demonstrated difficulty in expressing the elements in the calculation of this ratio.
- Interpretation of ratios – Questions requiring the interpretation of information generally elicited very weak responses. Poor language skills were evident in candidates' attempts at providing explanations of ratios. At times, the answers given were not at all related to the given case study.

#### Recommendations

Teachers should expose students to a variety of 'commonplace accounting terms', of similar meaning. For example, 'accounts payable' and 'creditors', 'inventory' and 'stock'.

Teachers need to emphasize accounting aspects of the various business units, for example, sole traders, partnerships, etcetera.

- More time and effort should be devoted to working with ratios – both on calculation of a variety of ratios, as well as on the interpretation of the meaning of the result of such calculations.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
CARIBBEAN SECONDARY EDUCATION CERTIFICATE  
JANUARY 2009**

**PRINCIPLES OF ACCOUNTS**

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**PRINCIPLES OF ACCOUNTS**  
**GENERAL PROFICIENCY EXAMINATION**  
**JANUARY 2009**

**GENERAL COMMENTS**

The Principles of Accounts examination is offered in June and January each year.

The examination consists of three papers

Paper 01	-	Multiple Choice
Paper 02	-	Essay Paper
Paper 03/2	-	Alternative to SBA (Private Candidate)

**DETAILED COMMENTS**

**Paper 01 – Multiple Choice**

Paper 01 consists of 60 multiple choice items taken from the three profiles of the syllabus; Knowledge, Application, Interpretation. The performance of candidates on Paper 01 was fair.

The mean mark was 31.46 out of 60 compared to 37.21 in 2008 and 35.63 in 2007. Fifty-nine per cent of the candidates scored at least 50 per cent of the marks for this paper. No candidates scored the maximum of 60 marks

**Paper 02 – Problem Solving**

Paper 02 comprises two sections. Section I, the compulsory section, required candidates to answer three questions. Section II, the optional section, required candidates to answer two out of four questions.

The performance on Paper 02 showed improvement over January 2008, mainly due to the excellent performance on question 7. The mean mark for this paper was 41.17 out of 100 compared to 35.52 in 2008. Thirty-five per cent of candidates earned at least 50 per cent of the maximum mark on this paper.

**Paper 03/2**

Paper 03/2, the alternative to the School Based Assessment (SBA), is an examination offered to private candidates. The examination attempts to simulate the skills tested in the SBA. This is achieved by presenting the candidates with one or two cases or situations from which they are required to respond to questions.

The performance of candidates on Paper 03/ 02 this year showed a decline over the previous two years. The mean mark was 20.13 out of 40 marks compared to 24.52 in 2008 and 20.33 in 2007. Fifty-five per cent of candidates earned at least 50 per cent of the maximum available mark on this paper.

## **Paper 02 – Problem Solving**

### **Section I - Compulsory**

#### Question 1

This question tested the preparation of final accounts for a partnership, specifically the Profit and Loss and Appropriation Account and Current Accounts. There was a short theory section which required candidates to state the disadvantages of being a general partner in a partnership as well as to calculate the share of profit to each partner, in light of the Partnership Act of 1890.

Ninety-one per cent of candidates attempted the question, of which 36.19 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 7.67 out of 20.

#### STRENGTHS

##### The Appropriation Account

- Almost all candidates calculated and treated interest on capital correctly.
- Several candidates calculated and treated correctly the interest on drawings.
- The residual profit was shared in the correct ratio by many candidates.

##### The Current Accounts

- Most candidates transferred the credit and debit entries correctly from the appropriation account to the current accounts.
- There was a notable increase in the number of candidates who treated the closing current account balances correctly.

#### WEAKNESSES

##### The Appropriation Account

- Some candidates added, instead of subtracted the interest on drawings to the net profit.

- The salary of \$1 000 per month to Wildman should have been calculated got the year as \$12 000. Many candidates ignored this calculation and recorded \$1 000.
- Some candidates omitted the name of the business in heading up the Appropriation Account
- Some candidates seemed not to have the know how to arrive at the ratio for sharing the residual profit.

### The Current Accounts

- Too many candidates neglected to record the opening balances. In the case where they were recorded, they were entered on the wrong side of the account.
- Although most candidates debited drawings in the current accounts, some candidates credited, instead of debited, the interest on drawings.

### Theory Section

- Very few candidates attempted this section. Most of those who did, showed ignorance of the term “general partner”, as well as the Partnership act 1890, which stipulates that no interest should be charged on drawings or paid on capital and that the profits would be shared equally.

## RECOMMENDATIONS

In discussing Partnership as a business organization, it is always a good idea to compare the advantages and disadvantages of a partnership with these of a sole trader. The comparison should also be expanded to other types of business organizations when those topics are taught.

The Partnership act of 1890 should be included in the general discussion when this topic is taught and examples used to illustrate how the Act is applied in the Appropriation Account.

Treating interest on drawings seems to be a weak area. Teachers should spend a little extra time explain and demonstrating how to calculate the interest particularly how to count the months for which interest is due. Student should be reminded that because interest on drawings is a charge to the partner, such interest will swell the new profit, therefore it should be added.

Generally there has been improvement in the preparation of the current accounts. However, candidates still seem to have trouble recognizing the difference between a credit and debit balance in the partners’ current accounts. Teachers need to focus on this area.

### Question 2

This question had tree parts. Part (a) required candidates to demonstrate their knowledge of accounting principles by indicating whether certain statements were true or false. Part (b) tested candidates’ ability to record diverse types of journal entries including prepayments of an

expense, revenue earned but outstanding and provision for depreciation. Part (c) required the candidates to prepare a rates account which involved amounts prepaid for the period.

Ninety-nine per cent of candidates attempted the question, of which 10.73 per cent scored 50 per cent or more of marks. The mean mark on this question was 6.84 out of 20.

### STRENGTHS

- Many candidates demonstrated a fair understanding of the accounting principles tested, by responding correctly to the statements.
- Many candidates correctly adjusted the 'writing off' of bad debts in the journal

### WEAKNESSES

- Although at least two of the five required journal entries were fairly straight forward transactions, only the 'write off' of bad debts was well done. The other four transactions poorly done indicating that candidates do not understand the double entry principle of book keeping and therefore could not correctly record these transactions in journal form.

### RECOMMENDATIONS

Teachers may find it helpful to teach journal entries while they are teaching double entry accounting. For example, if an expense which involves prepayments or accruals is being taught and the transactions are shown in account format, the teacher could then show, at the same time, how this transaction would be recorded in the journal. Some students also find it helpful to record transactions using the ledger format first (since there are more familiar with that format) and then record the journal entry, being guided by the information in the ledger. This is a useful strategy when students are unsure about how to record a transaction in the journal.

Teachers need to explain why balances on expense or revenue accounts are to be debited or credited. For example, if students understand that an expense amount paid before is due is regarded as an asset, they are more likely to correctly debit that balance since they already know that assets have debit balances. Additionally, teachers need to assist students and give them practice in calculating the portion of an expense amount which has been paid in advance or is in fact outstanding.

### Question 3

This question tested candidates' ability to convert accounting information recorded in Single Entry Style to Double Entry Accounting. The question had three parts requiring candidates to prepare a Statement of Affairs, calculate Purchases and Sales for the year, and prepare a Trading and Profit and Loss Account for the year.

This is an area of the syllabus which is tested quite frequently with gradual improvement being shown in certain areas.

Eighty-six per cent of candidates attempted the question, of which 26.54 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 7.40 out of 20.

#### STRENGTHS

- Most candidates did very well on part (a) of the question, they were able to correctly identify the assets and liabilities and arrive at a capital amount, though in some instances, the capital was incorrect because these candidates deducted the depreciation from the fixed asset.
- Several candidates recognized that the calculation of sales is related to the debtors account and the calculation of purchases is related to the creditors account. However, many candidates continue to have problems with the opening and closing balances of these accounts and as a result frequently do not arrive at the correct amounts for sales and purchases.
- The approach and format of the Trading and Profit and Loss Account in the majority of cases was correct.

#### WEAKNESSES

- A frequent mistake was the inclusion of the depreciation in the opening Statement of Affairs.
- Candidates failed to correctly treat adjustments to both the debtors and creditors accounts in part (b). The most frequent mistakes included recording entries on the wrong side of the accounts, using the wrong 'particulars' and confusing opening balances with closing balances.
- A number of candidates failed to recognize that inventory is stock and therefore did not include opening and closing inventories in the Trading account part (c).
- Some candidates failed to make the adjustments necessary to rent expense account and to include depreciation among the expenses.

#### RECOMMENDATIONS

Teachers are encouraged to acquaint themselves with the May/June 2008 revised syllabus which introduces new terminologies such as inventory (stock), accounts receivable (debtors) accounts payable (creditors) etcetera and to use these terms frequently even if the prescribed text does not use them.

Students should be reminded that depreciation is dealt with at the end of the accounting period, and not at the beginning and therefore would not be included in an opening Statement of affairs or Balance Sheet.

Students need to be given ample practice in using the Debtor and Creditors Accounts to arrive at missing sales and purchases.

## Section II (Optional Section)

### Question 4

This question required candidates to demonstrate their knowledge of the preparation of a Manufacturing Account. Part (a) of the question consisted of a simple manufacturing account which required candidates to show amounts for cost of material available for use, cost of material consumed, prime cost, factory overheads, and cost of production. Parts (b), (c) and (d) required the candidates to calculate unit cost of the items produced, revenue earned from the sale of the items and the trading profit made on the sale of the items.

This was a popular option, with 65 per cent of the candidates attempting the question of these 53.54 per cent scored 50 per cent or more of the available mark. The mean mark on this question was 10.39 out of 20.

#### STRENGTHS

- Most candidates were able to identify the various sections of the manufacturing account e.g. cost of material consumed, prime cost, etcetera even if the amount were incorrect.
- The formula for calculating the unit cost of the benches was most often correct
- The treatment of Work in Progress was very often correct
- Several candidates included Direct expenses in arriving at the prime cost
- Several candidates demonstrated their abilities in arriving at the sale revenue in part (c).

#### WEAKNESSES

- The adjustment of purchases with Returns outwards and carriage was often incorrectly done.
- Although the majority of candidates recognized direct expenses as an item of prime cost, far fewer candidates realized that factor wages was also an item of prime cost and therefore included it among the factor overheads.
- A large number of candidates were unable to calculate the profit in part (d)

#### RECOMMENDATIONS

Although manufacturing account is usually a popular topic and the majority of candidates usually do well on it, there are still areas which teachers need to pay attention

### Question 5

This question tested candidates' knowledge of Income and Expenditure Accounts. Candidates were required to copy and balance a Receipts and Payments Account, which was given. They were also required to use the additional information provided to prepare a Bar Trading Account, a Subscriptions Account, and then to prepare the Income and Expenditure Account for the year.

33 per cent of candidates attempted the question, of which 24.19 per cent scored 50 per cent or more of marks. The mean mark on this question was 6.45 out of 20.

### STRENGTHS

- Almost all candidates balanced the Receipts and Payments Account correctly.
- In preparing the Income and Expenditure Account, most candidates were able to distinguish between revenues and expenses, including rent of the clubhouse which most candidates treated correctly as revenue.

### WEAKNESSES

- Both the Bar Trading Account and the Subscriptions Account presented problems for several candidates. In the case of the Bar Trading Account, many candidates did not calculate purchases correctly, also wages to bar attendant was often not included in the account.
- Subscriptions Account presented the usual problems for candidates. Many candidates seemed unsure as to whether to debit or credit the account with amounts owing and amounts in advance.
- In addition to the errors which would naturally carry over from the Bar Trading Account and the Subscriptions Account to the Income and Expenditure Account, there were other additional mistakes. For example, several candidates transferred the bar takings, instead of the bar profit to the Income and Expenditure Account. Similarly, Subscriptions received, rather than the amount for the year was transferred to the account.
- Several candidates did not calculate an amount for depreciation.

### RECOMMENDATIONS

The 2008 revised syllabus emphasizes the importance of students having a lot of practice in the preparation of these various profit making accounts, such as bar trading, events (concerts, barbecues etcetera) also the preparation of the Subscriptions Account. When students are comfortable with the preparation of these accounts, then they should be reminded that only balances/profits and losses should be transferred to the Income and Expenditure Account.

### Question 6

This question presented candidates with the trial balance of a limited liability company and required them to prepare the Profit and Loss Appropriation Account and a Classified Balance Sheet in vertical style. There were two short questions on the meaning of negative working capital and ways of financing a business other than by issuing shares.

Sixteen per cent of candidates attempted the question, of which 15.57 per cent scored 50 per cent or more of marks. The mean mark on this question was 6.66 out of 20.

This question was generally not well done. Candidates demonstrated very little knowledge of Company Accounts.

## RECOMMENDATIONS

Candidates seemed ill-prepared for this topic of the syllabus. Teachers need to ensure that they cover the entire syllabus as any objective of the syllabus may be tested at any point in time.

### Question 7

This question tested Payroll Accounting. In part (a) candidates were presented with a time card of hours worked by four employees. They were given the rate of pay as well as the deductions to be made and were required to prepare the payroll on an answer sheet provided. Part (b) required candidates to provide brief definitions of terms associated with Payroll Accounting.

This was an extremely popular optional question. Seventy-eight per cent of candidates attempted the question, of which 81 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 14.24 out of 20.

## STRENGTHS

- The majority of candidates who attempted this question seemed to have a good understanding of the subject matter, with most candidates showing familiarity with the various deductions.
- Candidates gave acceptable definitions for most of the terms.

## WEAKNESSES

Although this question was well done, for the most part, a few weak areas were observed.

- Some candidates had problems calculating overtime, or did not take the overtime into consideration at all.
- The calculation of income tax presented a challenge to some candidates.
- Some candidates had difficulty defining bonus and voluntary deductions.

## RECOMMENDATIONS

It was evident from the responses that many candidates were comfortable with this topic. Teachers should, however, work with students on those weak areas indicated, that is, calculation of overtime and income tax. Also revision of terms would be helpful.

### **PAPER 03/2 – Alternative to SBA**

Paper 03/2, the alternative paper to the School Based Assessment (SBA), is an examination offered to private candidates. The examination attempts to simulate the skills tested in the SBA. This is accomplished by presenting the candidates with one or two business cases or scenarios from which they are required to respond to questions.

This year, the paper presented one business case. The case required candidates to answer fourteen questions about the operations of the business, do some calculations including different ratios and carry out certain accounting functions such as preparing a Trading Account.

Candidates' performance on this paper over the past six examinations (January and June) have showed continuous improvement. This year, however, there was a decline in performance. The mean mark on this year's examination was 20.13 out of 40. Approximately 62 per cent of the candidates achieved Grade III or higher on this paper.

#### **RECOMMENDATIONS**

The CSEC Principles of Accounts Study Guide is now complete and available to teachers and students. The study guide is a valuable self-teaching manual which both 'in-school' students as well as private candidates will find extremely helpful. For teachers, it is an excellent tool for reinforcement and revision. The study guide was prepared in conjunction with the revised 2008 POA syllabus.

Another helpful tool in preparing for the Paper 03/2 is for candidates to acquaint themselves with the format of the examination. Instructors can guide them on the best approaches to use to respond to questions in an efficient way. Quite often candidates spend time providing extraneous information and hence do not complete the examination.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
SECONDARY EDUCATION CERTIFICATE EXAMINATION**

**MAY/JUNE 2009**

**PRINCIPLES OF ACCOUNTS**

**PRINCIPLES OF ACCOUNTS**  
**GENERAL PROFICIENCY EXAMINATION**  
**MAY/JUNE 2009**

**GENERAL COMMENTS**

The number of candidates who registered for the Principles of Accounts (POA), General Proficiency examinations in June 2009 was 27 844. The examination consisted of three externally marked papers.

Paper 01	–	Multiple Choice Paper
Paper 02	–	Problem Solving Paper
Paper 03/2	–	Alternative paper to SBA (Private Candidates)

and Paper 03/1 – School-Based Assessment marked internally and moderated by CXC.

Candidates who achieved 50 per cent of the maximum available marks on the School-Based Assessment (SBA) may carry forward their marks to the next year's sitting.

Each paper comprised three profiles, Knowledge, Application and Interpretation of the Syllabus Content.

**Paper 01 – Multiple Choice**

Paper 01 consisted of 60 multiple choice items covering the three profiles. The performance of candidates on Paper 01 was satisfactory. The mean mark for this paper was 33 out of 60.

**Paper 02 – Problem Solving**

Paper 02 comprised two sections. Section I (compulsory) required candidates to answer three questions. Section II (optional section) required candidates to attempt two of four questions.

The performance of candidates on Paper 02 was disappointing. The mean mark for this paper was 36 per cent.

**Paper 03/2**

Paper 03/2 was designed to serve as an alternative evaluation mechanism, in lieu of the SBA Project. It is expected that only those candidates who are out of the regular Secondary School Education mainstream, typically registered as "private candidates", would take this examination. The examination required candidates to perform accounting functions in answering questions based on one or two cases.

In recent examinations, the performance on this paper has shown improvement. However, this year's results were disappointing with a mean mark of 15 out of 40.

## DETAILED COMMENTS

### Paper 02 – Problem Solving

#### Section I - Compulsory

##### Question 1

This question consisted of two parts. Part (a) tested candidates' ability to prepare a three column Cash Book using given transactions. Part (b) required candidates to use the information in the Cash Book, together with additional transactions, to prepare a Trading and Profit and Loss Account for the month. Although the three-column Cash Book and the Trading and Profit and Loss Account are syllabus areas that are examined fairly frequently, the connection between the two has not been explored before.

Ninety-nine per cent of candidates attempted the question, of which 63 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 9 out of 20.

##### Strengths

- Most candidates were able to head up the Cash Book columns correctly and use the appropriate stationery.
- Many of the basic entries, such as payment of expenses, were done correctly.
- Most candidates understood the principle of balancing off the Cash Book.
- Most candidates were able to correctly head up the Trading and Profit and Loss Account, although some candidates did not recognize that it was for a one month period.
- Generally, candidates recognized the items needed to prepare the Trading and Profit and Loss Account. For example, they knew that they had to arrive at amounts for sales, purchases and expenses, though only a minority of the candidates arrived at the correct amounts.
- Most of the candidates were able to correctly include expenses, together with the accrual of wages and arrive at a net profit/loss amount.
- Candidates labelled appropriate amounts as gross and net profits.

##### Weaknesses

- Most candidates did not recognize the first transaction in the Cash Book as "Capital", although the entry was on the correct side.
- Most candidates had difficulty identifying and recording "contra" entries.
- Calculation and treatment of discounts allowed and discounts received posed a challenge to most candidates. They were unable to identify the difference of \$400 as being discounts received for the transaction on January 22.
- Some candidates did not recognize the interest paid on the loan as an expense to be included in the Cash Book, while others recorded the accrued wages as an expense in the Cash Book.
- Most candidates had difficulty arriving at the correct amounts to be used in preparing the Trading and Profit and Loss Account. For example, interest paid was generally incorrect.
- Most candidates did not add discounts received to the gross profit amount.
- Some candidates included Balance Sheet items in the Trading and Profit and Loss Account, and even used the Balance Sheet format in preparing the Trading and Profit and Loss Account.

##### Recommendations

Teachers are encouraged when teaching the Cash Book to emphasize matters such as – identification and treatment of contra entries, calculation and treatment of discounts allowed and received and the recording of the correct detail as being the other account affected.

In teaching the preparation of Final Accounts, much practice should be given in identifying and separating Balance Sheet items from those to be used in the Profit and Loss Account. Correct and complete headings should always be used in the preparation of statements, and students should be reminded that statements can be prepared for any period of time so they should be careful to observe the dates required for a particular statement.

### Question 2

This question tested candidates' ability to correct accounting errors using the general journal. Candidates were also required to prepare a statement to adjust the net income after making the necessary corrections.

Ninety-six per cent of candidates attempted the question, of which 61 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 8 out of 20.

### Strengths

- Most candidates were able to identify the accounts that were affected by the error.
- Many candidates demonstrated some knowledge as to how to correct an error of commission, as indicated in transaction (1), complete omission of a transaction, as indicated in transaction (2), and an error of principle as indicated in transaction (3).

### Weaknesses

- Most candidates had difficulty correcting the errors for transactions (4), (5) and (6) which were more challenging than transactions (1), (2) and (3). These errors – recording amounts on the wrong sides of the accounts or recording an amount on the wrong side of the wrong account, require not only a clear understanding of how to correct the error, but also a lot of practice. Similarly, errors which require the use of the Suspense account, as in transaction (5), also require a lot of practice.
- The preparation of the statement to adjust the net income was poorly done. Candidates demonstrated very little knowledge of which items affected the net income, and even when they were able to identify the items, they did not know whether they should add or subtract (debit or credit) the amount.

### Recommendations

Although candidates were able to identify the accounts that were affected by the error, writing appropriate narrations posed a challenge for most. Teachers should therefore treat the identification of errors and narrations with equal importance when teaching the use of the general journal.

Teachers should emphasize the correct format for recording entries in the journal, since often, the sequence of having the credit entry follow the debit entry was not adhered to.

Students must understand that in writing up the journal entries, ledger accounts are not to be included since they are only utilized as working papers in the classroom.

There is need for more classroom practice on how to correct the net income after corrections have been made. The correct use of terms such as “Revised Net Income”, and “Statement of Revised Net Income” should be encouraged.

### Question 3

This question provided candidates with a Balance Sheet in the horizontal style, together with some transactions. Candidates were required to prepare a revised Balance Sheet in vertical style, based on the transactions given.

Eighty-four per cent of candidates attempted the question, of which 40 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 7 out of 20.

#### Strengths

- Most candidates correctly used the vertical style presentation.
- Most candidates labelled the sections in the Balance Sheet correctly and were able to classify the items in the correct sections.
- Many candidates recognized the adjustment necessary for prepaid insurance even though the wording was unusual.
- Most candidates correctly adjusted the inventory based on the revaluation.

#### Weaknesses

- When using the vertical style presentation of the Balance Sheet, it is usual to show the working capital. This was not done by the majority of candidates.
- Many candidates did not recognize the loan as a long term liability.
- Most candidates missed the adjustments needed for capital - the loss on sale of the machinery, the revaluation of the inventory and the insurance expense.
- Most candidates treated the loss on sale of the machinery as depreciation.
- Candidates failed to show workings in arriving at adjusted figures either in the main response or as separate workings.
- Candidates sometimes did not recognize the dual nature of the transactions and adjusted only one account.

#### Recommendations

This particular question is an excellent exercise in teaching students about the effects of transactions on assets and liabilities. It is important in the early stages, and throughout the teaching, that students grasp the dual effect of accounting transactions. Of equal importance, students should be shown how some transactions will not only affect assets and liabilities but will also bring about an increase or decrease in the proprietor's capital. A helpful aid in teaching this concept is to have students show their workings, using the plus (+) and minus (-) signs to show the effects of the transactions on items.

## **Section II - (Optional Section)**

### Question 4

This question tested candidates' ability to close accounts using the journal, and to employ the accrual concept to adjust expense and revenue accounts, transferring appropriate amounts to the Profit and Loss Account.

Thirty-seven per cent of candidates attempted the question, of which 22 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 7 out of 20.

### Strengths

- Most candidates were able to open the expense and revenue accounts and to make some basic entries, such as payment or receipt of cash.
- Most candidates recognized the need to transfer the given items to the Trading Account.

### Weaknesses

- Journalizing of closing entries appeared to be unfamiliar to most candidates. This section was very poorly done.
- Candidates demonstrated weaknesses in applying the requirements for a correct journal entry, for example, the inclusion of correct dates and appropriate narrations.
- Most candidates were unable to calculate the correct amounts to be transferred to the Profit and Loss Account.
- Many candidates had problems recording the opening and closing balances in the Expense and Revenue Accounts.
- Candidates seemed not to know when to use the terms “c/d” and “b/d” as they were frequently used incorrectly.
- Candidates failed to recognize the accrual concept which is used when adjusting expenses and revenues at the end of the year.

### Recommendations

Teachers are encouraged to place greater emphasis on journalizing, adjusting and closing entries. In particular more emphasis must be placed on students’ understanding and application of the principles of double entry and accruals, as these are fundamental concepts to the treatment of closing and adjusting accounts.

### Question 5

This question tested the preparation of the Profit and Loss and Appropriation Account of a limited company. Additionally, candidates were required to prepare a Balance Sheet extract showing the liabilities and capital sections only.

Seventy-seven per cent of candidates attempted the question, of which 49 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 7 out of 20.

### Strengths

- Candidates were able to identify the expense items which belonged in the Profit and Loss Account.
- Most candidates knew how to transfer the net profit from the Profit and Loss Account to the Appropriation Account.
- A fair number of candidates were able to calculate the preference dividend.
- Most candidates headed up the Balance Sheet correctly.
- Candidates treated general reserves correctly both in the Appropriation Account and the Balance Sheet.

### Weaknesses

- Some candidates showed a lack of knowledge of the vertical format of the Balance Sheet.
- Candidates were generally unable to do the calculation required for items such as, depreciation, provision for bad debts and debenture interest.

- Some candidates neglected to do the Profit and Loss Appropriation Account, indicating a possible lack of knowledge.
- Some candidates included the net profit amount instead of the retained earnings on the Balance Sheet.
- A few candidates lost valuable time by attempting to do a complete Balance Sheet, though this was not a requirement.

### Recommendations

There is need for a lot more practice in the preparation of final accounts of Limited Liability Companies. The vertical format presentation is encouraged.

Students should be encouraged to read questions carefully and to follow instructions. Very often, questions are shortened by requiring candidates to do only a part presentation in order to allow sufficient time for the completion of the examination.

### Question 6

This question tested the candidates' knowledge of the steps in calculating ratios, specifically liquidity and profitability ratios, and their ability to utilize ratio analysis, to compare one firm's performance with that of another.

Thirty-eight per cent of candidates attempted the question, of which 63 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 8 out of 20.

### Strengths

- Many candidates were able to associate the profitability ratios (stock turnover and profit margin) and liquidity ratios (current ratio and acid test ratio) appropriately and arrive at correct conclusions about profitability and financial position.

### Weaknesses

- Candidates either omitted the formulae and calculations for stock turnover and profit margin or stated them badly.
- Candidates appeared to be unfamiliar with the correct way to express answers to ratio calculations. For example, a current ratio of 3.4:1 was expressed as 1:3.4 or even 3:4:1 and profit margin was not stated as a percentage but as a decimal.

### Recommendations

Teachers are encouraged to use a range of questions in the classroom that focus on:

- Strengthening this area of the requirements of the SBA especially encouraging candidates to show their workings and not just show their final answer
- Ensuring students express formulae and calculations of ratios using standard formats
- Deepening appreciation for ratio analysis as a tool in assessing business performance

### Question 7

This question required the preparation of a Classified Balance Sheet for a Co-operative in vertical style. Although the preparation of Balance Sheets is frequently tested, candidates were faced with some unfamiliar assets and liabilities that are characteristic of the accounts of co-operatives. Additional short questions required familiarity with liquidity ratios and an understanding of the relationship between dividends and share capital.

Twenty per cent of candidates attempted the question, of which 18 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 8 out of 20.

### Strengths

- Most candidates used the vertical presentation of the Balance Sheet.
- Suitable classification headings were used in the Balance Sheet.
- Most candidates were able to identify and classify the current liabilities and current assets items.

### Weaknesses

- Classifying long term investments, interest on investments and mortgage, seemed challenging for most candidates.
- The calculation of the share capital of the co-operative proved problematic for many candidates.
- In many instances, provision for bad debts was not treated correctly.
- Many candidates did not attempt Part (b) of the question, and some of those who did, seemed unfamiliar with the ratio needed to assess the liquidity position of the co-operative and the relationship between share value and dividend as determined by the dividend rate.

### Recommendations

Much practice is needed in calculating share capital and presenting the capital section of the balance sheet of a Co-operative. “Unfamiliar” items such as mortgage, investments, interest on investments, members’ deposits, etcetera, could be isolated for discussion and emphasis on their classification.

Teachers should frequently test students’ knowledge of the most common ratios used to assess profitability, liquidity and efficiency of all types of businesses.

## **The School-Based Assessment (SBA)**

The Principles of Accounts (POA) SBA Project provides candidates with an opportunity to consolidate knowledge and skills gained in the subject, allowing them to synthesize and crystallize concepts and competencies relevant to the application of Principles of Accounts at an introductory level. Not only does the SBA Project provide candidates with the opportunity to bring to fruition their working knowledge of POA at this stage, but it also serves to enhance understanding and sensitivity to real-life applications of POA for prospective entry-level employees.

As has been suggested in the past, it may prove most beneficial if teachers were to regard the SBA as an 'integral component', rather than an 'additional task' at culmination of the subject. Working from such a holistic perspective, the SBA components would be assigned sequentially, in incremental stages, at various times throughout the final two years, rather than as 'one lump' task towards the end of Secondary School Education period. The overriding advantage would be improved opportunity for supervising, assisting and managing candidates' progress towards successful final completion.

### **DETAILED COMMENTS**

#### **School-Based Assessment (SBA)**

##### **Paper 03/1**

Of the 20 486 candidates who did the General Proficiency, School Based Assessment (SBA) Project, 95 per cent scored at least 50 per cent of the available marks. The mean mark on this component was 32 out of 40.

##### Strengths

The sample of SBA projects moderated revealed that the candidates exhibited a good grasp of the accounting concepts in the syllabus. The overall performance was good.

- Overall, presentation of SBA Projects was commendable. Candidates exhibited a great level of effort in compiling the project.
- Most candidates were able to follow the accounting cycle, particularly relating to collecting, recording and analysing accounting data.
- The use of diagrams to capture accounting data and to further explain calculated ratios was very commendable.
- Most samples revealed that candidates were able to apply the relevant principles required for the preparation of the following:
  - Books of Original Entry
  - Trial Balance
  - Trading and Profit & Loss Accounts
  - Balance Sheet

##### Weaknesses

- Most candidates were unable to construct clear and achievable aims.
- Candidates failed to link their aims (given at start), with their conclusions.
- A large percentage of candidates presented table of contents without page numbers.
- Many SBA Projects omitted a listing of transactions.
- Failure to include four, different types of source documents.
- In cases where source documents were included, there was an inability to trace these source documents to the actual accounting records presented by candidates.
- Source Documents were not optimally placed – were presented as a component of the appendix.

- A minority of candidates (10 per cent of moderated sample) showed little understanding of the ‘*comparison*’ component. Candidates failed to identify two different items, and instead compared the same item over two different time frames.
- Students duplicated the presentation of the Cash and Bank Accounts, by preparing a Cash Book, as well as individual accounts for Cash and Bank.
- In completing ledger accounts, most candidates failed to follow the ‘balancing off’ principles:
  - Balance c/d and Balance b/d were incorrectly entered
  - In some cases, no single line and double line rulings were evident
- Candidates used the ‘Balance c/d’ and ‘Balance b/d’ for periodic, temporary accounts such as sales, purchases and expenses, instead of transferring them to the Trading and Profit & Loss Accounts at the end of the fiscal period.

### Recommendations

- Candidates should be encouraged to ensure that the SBA Project is securely bound, for example, spiral binding, to ensure document keeps together through its several rounds of subsequent handling. With this end in mind, it may be prudent to reconsider the merits versus demerits of using plastic cover jackets which fasten with “slide-on” spines. It is strongly recommended, in these cases, that all pages in projects first be securely fastened together, for example, use of staples, before sliding on the outer plastic jacket.
- Aims should illustrate what candidates hope to achieve from completing the project.
- “Aims”, outlined at start, must be linked with the “conclusion”, given at the end of project.
- Four (4) different types of Source Documents are required. These may, for example, include (1) Receipt, (2) Any Bank Document, for example, Cheque, (3) Invoice – Sales or Purchases, & (4) Debit or Credit Note. Other possibilities include petty cash voucher or a payslip. Candidates are discouraged from including source documents for all transactions listed in their project.
- Any Source Document presented must be traceable through the accounting records. That is, they are to be directly traced to their respective Book of Original Entry, and subsequent posting from Book of Original Entry to relevant Ledger Account.
- Candidates should use the Accounting Cycle, along with the SBA Syllabus outline as a guide in ensuring the sequential arrangement of SBA Project material is adhered to. For example:
  - The *Transactions List* (TL) should be placed immediately after the *Description/Activities* of business.
  - The TL is to be followed by the *Source Documents*.
  - *Charts* and *Diagrams* are to be appropriately placed in the immediate vicinity to which they apply and where they are discussed, and/or figures and calculations given.
- Adhering to these aspects of ‘sequential arrangement’ will greatly enhance the reading and marking flow for both classroom teachers and CXC Moderators.
- It has been observed that candidates who presented SBA Projects with two sets of Final Accounts experienced serious challenges with the ‘analysis of the performance’ of their business. It is recommended that special attention be paid to these cases, that students develop the necessary competencies to meaningfully compare, contrast and analyse the results from the two different Final Accounts. However, the preparation of only one single set of Final Accounts for their SBA Project is adequately within the demands of the syllabus.

We continue to recommend increasing degrees of collaboration and coordination among teachers of POA intra and inter school/centre, in the standardizing and marking of SBA projects, to continue to develop and reinforce experience and expertise in this area.

## GENERAL COMMENTS

### School-Based Assessment (SBA)

#### Paper 03/2

Paper 03/2 is designed to serve as an alternative evaluation mechanism to the SBA Project. However, only those candidates who are out of the regular Secondary School Education mainstream, and who are not eligible to carry forward a qualifying SBA mark from the previous year, who are typically registered as “Private Candidates”, are allowed to take this exam.

## DETAILED COMMENTS

#### Paper 03/2

Paper 03/2, in May 2009, was based on the trading affairs of a mini-mart, owned and operated by a sole proprietor who had little knowledge of Principles of Accounts and who was desirous of gaining certain pertinent information. Candidates were required to answer ten questions based on the case study.

Questions 1 & 2 required candidates to identify one example of revenue expenditure and capital expenditure respectively.

Question 3 provided candidates with a detailed, semi-completed inventory/stock card, and directed candidates to use the FIFO method of inventory/stock valuation to calculate and arrive at the value of closing inventory at the end of the fiscal period.

Question 4 tested candidates’ knowledge of methods of valuing inventory.

Question 5 required candidates to list one book of original entry and one ledger which could be used for recording transactions with suppliers.

Question 6 presented a list of account titles with end-of-year (EOY) amounts and required candidates to prepare a Trial Balance for the business at the given date.

Question 7 tested candidates’ knowledge of one factor influencing determination of depreciation provision considerations at year end.

Question 8 required candidates to draw up the Trading and Profit & Loss Accounts for the business, taking into consideration the listing of account titles and EOY balances previously given, and five additional items of information which were presented to candidates.

Questions 9 & 10 addressed calculation of ratios and their subsequent analytical interpretations. Candidates were given specific ratio results for the previous fiscal period, and asked to calculate Gross Profit Percentage and Current Ratio for the current fiscal period in Question 9. Question 10 required candidates to provide comments, based on their computations, about the performance of the business for the current fiscal year.

Of the 3 419 candidates who did the General Proficiency, Paper 03/2, 28 per cent scored at least 50 per cent of the available marks. The mean mark on this paper was 15 out of 40.

### Strengths

- Identification of suitable examples for revenue and capital expenditure.
- Identification of another method of valuing inventory – most selected LIFO as their alternative method.
- Most candidates were able to prepare the Trial Balance and distinguished between the debit and credit entries.
- Most candidates were able to list a factor for consideration in the determination of provision for depreciation.
- The majority of candidates used the vertical presentation format in the preparation of the Final Accounts and correctly adjusted Gross Profit with the addition of discounts received.
- Most candidates were able to correctly state formulae to be used for the calculation of both ratios. They used their own figures to calculate Gross Profit Percentage, for which they were rewarded.

### Weaknesses

- Some examples of revenue expenditure given by candidates did not relate to the context of the given case study.
- “Loans” and “mortgages” were frequently cited as examples of Capital Expenditure.
- Inventory/stock card preparation presented a major challenge, in many instances demonstrating inability to utilize the answer sheet provided, which basically followed the popular format for ‘stock card’ preparation. Many candidates were unable to calculate closing balance for units column, and proceeded to use an average of the opening and purchases cost to determine the value of closing stock. Hence the overall value of closing stock was ultimately incorrect.
- In some cases, the example of a Book of Original Entry and a Ledger provided by candidates did not relate to the scenario presented in Question 5.
- Heading for Trial Balance was incorrect in the manner of dating, with several candidates using “*For the Year Ended ...*” instead of “*As at ...*”.
- Regarding the preparation of Final Accounts:
  - The Heading was incorrect at the ‘date’ line, with candidates omitting “*For the Year Ended ...*”.
  - The adjustment for Returns Outwards presented a challenge. Some candidates adjusted Sales Account rather than the Purchases Account with Returns Outwards; and others added the Returns Out to Purchases Account, instead of deducting it.
  - Closing Stock value was totally ignored, and was not incorporated in the Trading Account from Question 3.
  - Balance Sheet items were brought into the Final Accounts; in some cases Accounts Receivable amount was used to adjust the Gross Profit in the Trading Account.
  - The five items of additional information given were ignored, and no adjustments were made in the Profit & Loss Account for Provision for Bad Debts, Provision for Depreciation, Interest Expense on Bank Loan and prepayment of land and water rates amount.
- Some candidates wasted time on the preparation of a full Balance Sheet, which was not required.
- Inability to arrive at the correct current ratio result.
- Performance statements of an analytical nature continue to be major challenges.
  - Few candidates were able to make valid comparisons between the given ratios for the previous fiscal year and those calculated for the current period.
  - Few were able to correctly recognize what performance aspect each type of ratio addressed and, accordingly, appropriately direct their comments to address the performance of the business – in this case ‘profitability’ and ‘liquidity’ performances.

### Recommendations

- Candidates need to be coached to *contextualize responses* appropriately to case studies and scenarios presented in questions.
- Differentiate clearly between revenue and capital expenditure and practice coming up with examples suitable to different business types.
- Increase practical workouts on completion of *Inventory/Stock Cards*, and the calculation of Closing Inventory values using different Inventory/Stock Valuation Methods. At this juncture, special emphasis is being placed on the necessity to marry and enhance pedagogical activities with critical thinking skills. Having learnt “the basics”, candidates should be trained to recognize and apply these “basics” to varied situations. The “application of common sense” may not necessarily exist as a specific chapter in POA textbooks, but it is a necessary ingredient for development of critical skills needed for future successes, and is to be encouraged.
- Increased practice workouts for the computation of *Cost of Sales* in the Trading Account, such that candidates would readily recognize the need for inclusion of *Closing Inventory Valuation*.
- Increased practice such that candidates appreciate ‘Returns Outwards’ as a deduction from ‘Purchases’ and, conversely, that ‘Returns Inwards’ is a deduction from ‘sales’.
- Increased practice in *adjustments for accruals and prepayments* and correct inclusion in Final Accounts and Balance Sheet to present a ‘true and fair view’ at end of fiscal period.
- Final Revision sessions should also emphasize statement presentation formats, including appropriate headings and other basic accounting skills.
- More work is required to *develop competency re interpretation of ratios*. Firstly, the uses of the various ratios should be clear – which ratio addresses which performance aspect. The ability to make comparative deductions between consecutive periods and express meaningful analytical judgements is to be encouraged.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
CARIBBEAN SECONDARY EDUCATION CERTIFICATE**

**JANUARY 2010**

**PRINCIPLES OF ACCOUNTS  
GENERAL PROFICIENCY EXAMINATION**

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## GENERAL COMMENTS

The Principles of Accounts (POA) examination is offered in June and January each year.

The examination consists of three papers:

Paper 01	-	Multiple Choice
Paper 02	-	Essay Paper
Paper 03/2	-	Alternative to School Based Assessment (SBA)

In January 2010, 2,081 candidates wrote the examination. Of these, 46 per cent obtained Grades I–III. This represented a significant decline in the number of candidates attaining Grades I–III when compared with 2009 (54 per cent) and 2008 (58 per cent). The decline over the period 2009–2010 was largely due to a 5 per cent decline in Grades A–C on Paper 01 over that period.

## DETAILED COMMENTS

### Paper 01 – Multiple Choice

Paper 01 consists of 60 multiple choice items taken from the three profiles of the syllabus; Knowledge, Application, Interpretation.

The mean mark was 30.66 out of 60 compared to 31.46 in 2009 and 37.21 in 2008. The performance of candidates on Paper 01 though fair represented a steady decline of about 7 per cent over the three year period 2008–2010. Fifty-four per cent of the candidates scored at least 50 per cent of the marks for this paper. No candidate scored the maximum of 60 marks.

### Paper 02 – Problem Solving

Paper 02 comprised two sections. Section I, the compulsory section, required candidates to answer three questions. Section II, the optional section, required candidates to answer two out of four questions.

The performance on Paper 02 was unsatisfactory, despite the excellent performance on Question 6. The mean mark for this paper was 38.84 out of 100 compared to 41.17 in 2009 and 35.52 in 2008. Twenty-five per cent of candidates earned at least 50 per cent of the maximum mark on this paper.

### Paper 03/2 – Alternative to SBA

Paper 03/2, the alternative to the School Based Assessment (SBA), is an examination offered to private candidates. The examination attempts to simulate the skills tested in the SBA. This is achieved by presenting the candidates with one or two cases or situations from which they are required to respond to questions.

The performance of candidates on the 03/2 paper showed a significant decline (9 per cent) over the three year period 2008–2010. The mean mark was 15.48 out of 40 marks compared to 21.13 in 2009 and 24.52 in 2008. Thirty-two per cent of candidates earned at least 50 per cent of the maximum available marks on this paper.

## **Paper 02 – Problem Solving**

### **Section I – Compulsory**

#### Question 1

This question consisted of two parts. Part (a) tested candidates' ability to prepare a Trial Balance from a list of balances. Part (b) required the candidates to post four entries from the Sales Day Book to the appropriate ledgers.

Ninety-nine per cent of candidates attempted the question, of which 40.23 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 9.28 out of 20.

#### **Strengths**

Part (a) of the question was more competently answered than Part (b). Most candidates demonstrated knowledge of how to do a Trial Balance although a few candidates ignored the instructions and prepared either an Income Statement or a Balance Sheet.

Some competence was demonstrated in posting the Personal Accounts to the Sales Ledger, though many candidates either did not label the ledger, or labelled it incorrectly.

#### **Weaknesses**

There was the usual confusion about which item to debit and which to credit in the Trial Balance. Items to be credited seemed to present more of a challenge.

Although several candidates posted the Personal Accounts correctly, very few posted the Total Sales correctly. Even when this was done correctly, it was posted in the same ledger as the Personal Accounts instead of in the General Ledger. Additionally, many candidates posted the items individually in the Sales Account, instead of posting the total only.

#### **Recommendations**

In order for students to develop competence in preparing a Trial Balance, they must first be very comfortable with classifying accounts as assets, liabilities, incomes, expenditures and capital. They should then, with ease, determine whether the account has a debit or credit balance. This comes with practice and a great deal of repetition in the early stages of learning the subject.

The use of flash cards can be very helpful for these repetitive exercises. Students tend to find this a fun activity while it allows them to recognize accounts and determine their balances.

If subsidiary ledgers are taught at the same time as day books, students tend to better understand the use of the Sales and Purchases Ledgers as separate from the General Ledger. When the books and ledgers are taught in isolation, some amount of confusion is created.

If teachers wait until they teach Control Accounts to introduce subsidiary ledgers, then it is too late for the students to make the connection. Additionally, when posting from the day books

to the subsidiary ledger, teachers should post the totals of the day book at the same time, and it should be pointed out that the posting of the total is in the General Ledger and not the same ledger as the debtors (creditors). Labelling the ledgers may help.

### Question 2

This question comprised two parts. Part (a) required candidates to write up a three-column Cash Book from a set of transactions. Candidates were to balance the Cash Book and to determine the significance of the overdrawn bank balance at close. Part (b) required candidates to write up the appropriate day book from a set of credit purchase transactions. The matter of trade discounts and cash discount had to be dealt with appropriately.

Ninety-eight per cent of candidates attempted the question of which 44.84 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 9.49 out of 20.

### **Strengths**

Part (a): Many candidates demonstrated a fair understanding of how to write up a three-column Cash Book. Discount columns and the simple calculation of cash discounts were generally dealt with appropriately. Those candidates who balanced the cash book correctly recognized that the bank balance was an overdraft and were able to explain what an overdrawn amount means.

Part (b): Most candidates correctly calculated the gross amounts of the purchases.

### **Weaknesses**

Part (a): Most candidates had difficulty calculating the correct discount amount for May 26. This was because of how the transaction was worded. Unlike May 17 where they were told how much was outstanding and to calculate the discount on the whole amount, the transaction on May 26 required the candidates to determine what the discount amount was *after* it was already deducted. The amount of \$2,940 paid to Quashie therefore represented 98 per cent since the discount taken was 2 per cent. Most candidates calculated 2 per cent of \$2,940 instead of 2 per cent of \$3 000 (100 per cent).

Another area of weakness was the transaction of May 29 where the proprietor purchased a car for his personal use. Many candidates did not recognize this as drawings.

Part (b): Although most candidates recognized that the day book to be used was the Purchases Book, not many candidates wrote up the book properly, transferring the total to the Purchases Account.

Several candidates did not subtract out the trade discount before recording the amount in the Purchases Book. Consequently the total purchase was incorrect. Also, when they calculated the 3 per cent cash discount for L. J. Enterprises, it was calculated on the gross amount instead of on the net amount.

## **Recommendations**

The matter of calculating cash discount allowed or received after it has been deducted frequently presents a challenge for students. Students should be reminded that if the discount has already been deducted, then the money being paid or received represents 100 per cent minus the percentage discount. For example, if the amount being paid is \$3,800 after a 5 per cent discount has been taken, then \$3 800 represents 100 per cent minus 5 per cent (95 per cent). To find how much 100 per cent represents, we must divide \$3,800 by 95 and then multiply by 100. This is \$4,000. The 5 per cent discount must therefore be calculated on \$4,000. Exercises of this nature should be practiced several times until students get it and can therefore make the distinction between when the discount should be calculated on the amount given, and when they have to find the amount on which the discount is to be calculated.

When a proprietor uses cash or other assets for his personal use, this must be treated as drawings and that account title must be used.

The fact that most teachers complete the teaching of day books in the first year of the POA course, suggests that revision of this activity could be done in the final year. Also, if the SBA is approached in a meaningful way, this in itself becomes the revision for these earlier topics taught.

### Question 3

This question consisted of two parts, each dealing with Control Systems. Part (a) tested candidates' ability to recognize the kinds of errors which affect the Suspense Account and those which do not. Transactions with errors were given and candidates were expected to prepare the Suspense Account correcting those errors which affect the Suspense Account and to determine by how much the Trial Balance was off. Candidates were also required to prepare correcting journal entries for those errors which do not affect the Suspense Account and to determine what the revised net profit should be after all corrections were made.

Part (b) required candidates to prepare a Debtors Control Account from information given.

Seventy-seven per cent of candidates attempted the question, of which 14.4 per cent scored 50 per cent or more of marks. The mean mark on this question was 6.05 out of 20.

### **Strengths**

Most candidates did fairly well in preparing the Debtors Control Account. They recorded the opening balances correctly and were able to state the need for control accounts.

In preparing the correcting journal entries, most candidates were able to correct items 1 and 4 - error of principle and error of commission.

**Weaknesses**

Many candidates did not use the accounting stationery effectively. Ledgers, journals and even cash book pages were used inappropriately.

Many candidates did not prepare a Suspense Account and attempted to correct all of the errors directly in the journal.

Some candidates who prepared a Suspense Account could not differentiate between those errors which affected the Suspense Account and those which did not.

**Recommendations**

This aspect of control systems seemed to have been an overall weak area which needs a lot of attention and practice.

**Section II (Optional Section)****Question 4**

This question consisted of three parts, all with a focus on year-end adjustments. Part (a) tested candidates' ability to calculate and prepare an account for the provision of bad debts. Part (b) tested candidates' ability to correctly record prepayments and accruals in Expense and Revenue Accounts and Part (c) tested whether candidates knew how to record these prepayments/accruals at the end of the period, in the Balance Sheet.

Thirty-seven per cent of candidates attempted the question of which 13.27 per cent scored 50 per cent or more of the total marks. The mean mark on this question was 5.06 out of 20.

**Strengths**

Most candidates were able to calculate the first year's Provision for Bad Debts correctly.

Most candidates treated the Rent Expense properly and recognized the treatment of bank receipts.

**Weaknesses**

Although most candidates were able to calculate the first year's provision for bad debts, they were unable to calculate the net increase or decrease for the subsequent periods. Additionally, candidates were unable to link the net increase or decrease in Provision for Bad Debts to the Income Statement.

Candidates were unable to treat the Commissions Revenue and recognize the accruals as a debit balance.

In recording the prepayments/accruals in the Balance Sheet, candidates neglected to label the classification of assets to which these items belong. Those candidates who included headings in the Balance Sheet treated Accrued Commissions Revenue as a liability rather than a current asset.

### **Recommendations**

The May/June 2008 revised syllabus emphasizes the need to use the internationally accepted terms such as Income Statement instead of Profit and Loss account. Many candidates are still using Profit and Loss account.

There is an obvious need to reinforce the treatment of Provision for Bad Debts adjustments in the account as well as on the Income Statement. The balancing off of the provision for Bad Debts Account also needs to be reviewed.

The treatment of year-end adjustments of revenues needs to be reviewed. Although there has been some improvement shown with year-end adjustments of expenses, there is still a great deal of confusion when revenues are adjusted.

### Question 5

This question tested candidates' knowledge of the preparation of accounts for non-trading organizations. Candidates were required to prepare a Statement of Affairs to find the Accumulated Fund; prepare a Subscriptions Account; prepare a statement showing the profit or loss made on refreshments and to use the information from the previous statements/accounts to prepare the Income and Expenditure Account for the year.

Twenty-seven per cent of candidates attempted the question of which 29.62 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 7.25 out of 20.

### **Strengths**

Several candidates were able to correctly prepare the Refreshment Trading Account.

In the preparation of the Income and Expenditure account, candidates were able to identify the expense and revenue items.

### **Weaknesses**

In calculating the accumulated fund, candidates included both income and expense items together with assets and liabilities suggesting that they did not identify the formula for finding the accumulated fund as the same formula for finding capital.

Several candidates used the closing date for the opening Statement of Affairs, and in some instances also used the amounts associated with the end of the period. Most candidates did not correctly treat either subscriptions due at start or subscriptions in advance at start.

In the Income and Expenditure Account, Rent Expense was not adjusted for the prepayment and in several cases, the depreciation was not included. Many candidates did not use the appropriate term (surplus/deficit) to denote the difference between the expenditure and the income.

### **Recommendations**

The 2008 revised syllabus emphasizes the importance of students having a lot of practice in the preparation of these various profit-making accounts, such as Bar Trading, events such as concerts and barbecues and also the preparation of the Subscriptions Account. When students are comfortable with the preparation of these accounts, then they should be reminded that only the balance/profit/loss needs to be taken to the Income and Expenditure Account.

Preparation of the Subscriptions Account, like other revenue accounts, continues to pose a challenge for students. More emphasis should be placed on the correct preparation of revenue accounts with opening balances and year-end adjustments. Because there is usually more expense than revenue accounts in most problem exercises, there is a temptation on the part of teachers to focus mainly on the treatment of expenses. A deliberate effort should be made to work with revenues in classroom exercises.

### Question 6

This question tested candidates' ability to:

- (1) Distinguish between statutory and non-statutory deductions and to give examples of each.
- (2) Prepare a time card with regular hours and overtime hours.
- (3) Prepare a payroll for an individual.
- (4) Identify and calculate payroll deductions.

Eighty-nine per cent of candidates attempted the question of which 72.88 per cent scored 50 per cent or more of marks. The mean mark on this question was 13.51 out of 20.

This was by far the most popular optional question and candidates performed very well.

### **Strengths**

The majority of candidates who attempted this question seemed to have a good understanding of the subject matter, with most candidates showing familiarity with calculating regular and overtime hours as well as deductions.

Candidates gave an acceptable definition of statutory deductions together with suitable examples.

## Weaknesses

Although an answer sheet was provided which cued the candidates where responses should be placed, the sheet was not used effectively and answers were put in inappropriate places.

Many candidates had difficulty defining voluntary deductions, even though they were able to give appropriate examples.

Some candidates had difficulty calculating income tax as a percentage of gross pay after deductions.

## Recommendations

It was evident from the responses that many candidates were comfortable with this topic. Teachers should, however, work with students on those weak areas indicated, for example calculation of income tax and definition of terms.

### Question 7

This question tested candidates' knowledge of Co-operatives.

- Part (a): In two short-answer questions, candidates were required to identify features of co-operatives and to state similarities between co-operatives and limited liability companies.
- Part (b): Candidates were required to use journal entries to show the start-up of a co-operative.
- Part (c): Candidates were required to prepare the Appropriation of Profits Account for a co-operative. Using the information from the Appropriation of Profits Account, candidates were asked to calculate the dividend paid on each share and to calculate the Return on Capital Employed.

Fifteen per cent of candidates attempted the question of which 5.1 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 3.23 out of 20.

This question was generally not well done. Candidates demonstrated very little knowledge of Co-operatives.

## Recommendations

Candidates seemed ill-prepared for this topic of the syllabus. Teachers need to ensure that they cover the entire syllabus as any objective of the syllabus may be tested at any point in time.

### **PAPER 03/2 – Alternative to SBA**

Paper 03/2, the alternative paper to the School Based Assessment (SBA), is an examination offered to private candidates. The examination attempts to simulate the skills tested in the SBA. This is accomplished by presenting the candidates with one or two business cases or scenarios from which they are required to respond to questions.

This year the paper presented one business case. The case required candidates to answer 15 questions about the operations of the business, do some calculations and carry out certain accounting functions such as preparing an Income Statement for the business.

Candidates' performance was disappointing, bearing in mind that over the last four or five examinations, there has been fairly good performances on this paper. The mean mark on this year's examination was 15.48 out of 40. Approximately 39 per cent of the candidates achieved Grade III or higher on this paper.

#### *Principles of Accounts Study Guide*

The CSEC Principles of Accounts Study Guide is now complete and available to teachers and students. The study guide is a valuable self-teaching manual which both 'in-school' students as well as private candidates will find extremely helpful. For teachers, it is an excellent tool for reinforcement and revision. The study guide was prepared in conjunction with the revised 2008 POA syllabus.

Another helpful tool in preparing private candidates for the Paper 03/2 is to go over past papers to acquaint students with the format of the examination and to guide them as to how best to approach the paper. For example, sometimes candidates do not complete the paper and miss out on scoring marks to some easy questions.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
SECONDARY EDUCATION CERTIFICATE EXAMINATION**

**MAY/JUNE 2010**

**PRINCIPLES OF ACCOUNTS  
GENERAL PROFICIENCY**

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## **GENERAL COMMENTS**

The Principles of Accounts Examination is offered in May/June and January each year. This year, 23,951 candidates registered for the examination. The examination consists of three externally marked papers —Paper 01- Multiple Choice, Paper 02 - Essay Paper, Paper 03/2 - Alternative to School-Based Assessment (SBA) (Private Candidates) — and Paper 03/1- School-Based Assessment, which is marked by teachers and moderated by CXC.

Candidates who achieve 50 per cent or more of the maximum available mark on the School-Based Assessment (SBA) may carry forward their marks to the next sitting.

Each paper comprised three profiles, Knowledge, Application and Interpretation.

### **Paper 01 – Multiple Choice**

Paper 01 consisted of 60 multiple choice items taken from the three profiles of the syllabus. The performance of candidates on this paper was fair.

The mean mark was 32.4 out of 60 compared with 33.5 in 2009 and 34.38 in 2008. Approximately 46 per cent of the candidates scored at least 50 per cent of the maximum available marks for this paper. Four candidates scored the maximum of 60 marks.

### **Paper 02 – Problem Solving**

Paper 02 comprised two sections. Section I, the compulsory section, required candidates to answer three questions. Section II, the optional section, required candidates to answer two out of four questions.

Performance on Paper 02 has improved significantly over the past two years. The mean mark for this paper was 40.75 out of 100 compared to 36.14 in 2009 and 39.45 in 2008. Approximately 35 per cent of candidates scored at least 50 per cent of the maximum mark on this paper.

### **Paper 03/1 – School-Based Assessment (SBA)**

Of the 19,322 candidates who did the SBA Project, 95 per cent scored 50 per cent or more of the available marks. The mean mark on this component was 31.81 out of 40.

### **Paper 03/2 – Alternative to School-Based Assessment**

Paper 03/2, the Alternative to the School-Based Assessment is an examination offered to private candidates. The examination attempts to simulate the skills tested in the SBA. This is achieved by presenting the candidates with one or two cases or situations from which they are required to respond to questions.

The performance of candidates on Paper 03/2 showed much improvement over the previous two years. The mean mark was 21.52 out of 40 marks compared with 15.35 in 2009 and 18.6 in 2008. Approximately 62 per cent of candidates scored at least 50 per cent of the maximum available marks on this paper.

## DETAILED COMMENTS

### Paper 02 – Problem Solving

#### Section I – Compulsory Questions

##### Question 1

This question consisted of two parts. Part (a) tested candidates' ability to prepare a Classified Balance Sheet (from a given list of assets and liabilities) using the order of permanence. Part (b) tested candidates' knowledge of the double entry principle. Candidates were given a worksheet and six transactions. They were required to identify, on the worksheet, the accounts affected in each transaction and to show the effect of the transaction (whether increase or decrease) that the transaction had on each account.

Approximately 99.7 per cent of candidates attempted the question, 70 per cent of whom scored 50 per cent or more of the available marks. The mean mark for this question was 11.05 out of 20.

#### Strengths

In general, candidates

- appeared familiar with headings of the classes of accounts used in a Balance Sheet
- were able to identify the most liquid asset
- used the form provided accurately
- applied the rules of entry correctly to straightforward transactions

#### Weaknesses

In general, candidates

- misclassified items
- did not sustain the application of the order of permanence throughout the asset list
- found great difficulty with unusual transactions such as those which affect three or more accounts simultaneously or can cause an increase or decrease in two accounts at the same time

#### Recommendations

Teachers are encouraged to provide opportunities for regular scheduled practice of questions which assess students' understanding of fundamental knowledge and skills. Students should also practise drawing up the Balance Sheet with a particular order in mind. Questions requiring the application of the rules of entry should also be practised frequently.

## Question 2

This question tested candidates' knowledge of Partnership Accounts. Candidates were provided with the Partnership Agreement of two partners, together with their Current Accounts. The information missing from the Current Accounts were 'interest on drawings' and 'closing balances'. Part (a) required that candidates use the information from the agreement to calculate and enter the interest on drawings and to balance the partners' Current Accounts. Part (b) required candidates to use the same information to prepare the partners' Appropriation of Profits Account and to provide the missing net profit amount, while Part (c) required them to calculate each partner's opening capital.

Approximately 97 per cent of candidates attempted the question, 47 per cent of whom scored 50 per cent or more of the available marks. The mean mark for this question was 8.86 out of 20.

### **Strengths**

In general candidates

- demonstrated improvement in the treatment of headings of the Appropriation Account
- treated the different forms of appropriations correctly
- calculated interest on drawings and original capital investments of the partners correctly

### **Weaknesses**

Some candidates

- found simple calculations to be challenging
- did not follow the instructions to copy the Columnar Current Accounts and calculated the interest on drawings outside the account
- failed to balance the Current Accounts properly
- were generally unable to interpret the 'brought down' balances whether they were opening or closing balances and were unable to determine whether they were on the same side or not
- appeared to be unaware of the general objectives of the features of partnership agreements
- did not recognize the link between the total appropriations of net profit to the starting net profit figure

## **Recommendations**

Teachers are encouraged, in their delivery of the subject matter, to use a range of questions that explore the principles which govern partnership agreements and their effects on partners' net worth. Students should be encouraged to engage in systematically thinking through the accounting process thereby recognizing the link between inputs such as net profit and total appropriations.

### Question 3

This question tested candidates' knowledge of 'single entry' and how to convert from the single entry to the double entry system of accounting. The concept was tested in two parts. Part (a) required candidates to state the limitations of single entry records and to use information provided for the start and close of the period to prepare an opening Statement of Affairs.

Part (b) provided additional information regarding debtors, credit purchases, a loan and other expenses. Candidates were required to use the information to calculate credit sales using a Debtors Control Account and then to prepare the Income Statement for the organization.

Approximately 84 per cent of candidates attempted the question, 19 per cent of whom scored 50 per cent or more of the available marks. The mean mark for this question was 5.46 out of 20.

## **Strengths**

In general, candidates

- presented a vertical style, classified Statement of Affairs and indicated capital clearly
- treated bad debts correctly in the Sales Control Account
- who prepared the Income Statement demonstrated good knowledge of the correct heading, treatment of sales, purchases, stocks and other expenses

## **Weaknesses**

In general, candidates

- were unable to list the drawbacks to single entry accounts
- demonstrated lack of knowledge in distinguishing between opening and closing amounts for assets and liabilities in the Statement of Affairs
- who were unclear about the classification of accounts into assets and liabilities provided incorrect capital figures
- found the placement of relevant entries on the correct sides of control accounts to be challenging
- did not recognize depreciation, bad debts and interest on loan as expenses in the Income Statement

## **Recommendations**

Teachers should ensure that students are aware of the alternative terminologies such as 'inventory' for 'stock' and 'Income Statement' for 'Trading and Profit and Loss Account' as stated in the 2008 revised syllabus. They are encouraged to develop questions that examine the advantages of double entry accounting and the disadvantages of single entry accounts. Students should be required to practise classifying assets and liabilities for the preparation of the Statement of Affairs as well as the preparation of Control Accounts for the purpose of arriving at missing figures such as purchases and sales. Students should be reminded that single entry accounting will require that they search for information, for example, depreciation expense, in order to complete accounting statements.

## **Section II Optional Questions**

### Question 4

This question tested candidates' ability to prepare the financial reports of a company, specifically the Appropriation Account together with a Classified Balance Sheet. The company was a small guest house and therefore the list of items given included stock of sheets and towels as well as stock of breakfast supplies.

Company Accounts is not usually a popular choice for candidates, so it was not surprising to find that only 17 per cent of candidates attempted the question of which 35 per cent scored 50 per cent or more of available marks. The mean mark for this question was 7.3 out of 20.

### **Strengths**

In general, candidates

- demonstrated satisfactory knowledge of the treatment of items to be included in the Appropriation Account including the retained earnings figure
- were able to calculate the dividend on ordinary shares correctly
- attempted to classify items appropriately especially in the 'financed by' section
- treated with depreciation correctly

### **Weaknesses**

In general, candidates

- experienced difficulty calculating debenture interest and the dividend on preference shares
- did not treat with or adjust figures provided such as provision for depreciation
- did not recognize the link between the Appropriation Account and the Balance Sheet by including interest on debentures and dividends as current liabilities or adjusting the figure for general reserve.

## **Recommendations**

Teachers are encouraged to focus on accounting for company transactions earlier in the school year by introducing topics such as appropriation of profits immediately after students gain an understanding of net profit. The connection between adjusting figures and items in the Appropriation Account and their effects on the relevant sections in the Balance Sheet should be emphasized for all types of organizations.

### Question 5

This question tested candidates' knowledge of the preparation of a Manufacturing Account. This topic is usually a popular one and therefore a large number of candidates chose this question as one of their options. Approximately 64 per cent of candidates attempted the question of which 49 per cent scored 50 per cent or more of the available marks. The mean mark for this question was 9.69 out of 20.

## **Strengths**

In general, candidates

- demonstrated satisfactory knowledge of the heading, layout and components of both the Manufacturing Account and Income Statement, including the transfer of the Cost of Production figure
- labelled subtotals clearly
- treated knowledgeably with opening and closing work in progress

## **Weaknesses**

In general, candidates

- labelled the incorrect subtotals as Cost of Raw Materials Consumed or Prime Cost
- were unable to distinguish prime cost elements from factory overheads or factory costs from office expenses, for example, factory wages were sometimes mistaken for factory salaries
- misinterpreted information about the allocation of rent and rates expense, the calculation of depreciation on machinery and the adjustment for prepaid insurance
- appeared unfamiliar with the term Income Statement and as a result provided a Trading and Profit and Loss Account and then attempted to do an Income Statement

## **Recommendations**

Teachers are encouraged to familiarize themselves with the current syllabus (2008) which provides the terminologies in current use such as 'inventory' for 'stock' and 'Income Statement' for 'Trading and Profit and Loss Account'. Teachers should have students practise a range of questions requiring explanations of and distinctions between direct and indirect costs as used in Manufacturing Accounts.

Students must be made aware of the different costs to be found in the Manufacturing Account and the Income Statement as well as the link between the Manufacturing Account and the Income Statement in terms of the transfer of the Cost of Production figure as well as adjusting, allocating and apportioning costs between cost centres.

### Question 6

This question tested candidates' ability to calculate remaining stock using the LIFO method. Candidates were provided with information regarding opening stock balance as well as the purchase and sale of stock over a monthly period. On a given stock form, candidates were required to show the value of the remaining stock at the end of the period. They were then required to use the information to prepare a Trading Account at the end of the month.

Approximately 75 per cent of the candidates attempted the question of which 42 per cent scored 50 per cent or more of the available marks. The mean mark for this question was 9.04 out of 20.

### **Strengths**

In general, candidates

- demonstrated a good understanding of the LIFO method of inventory valuation
- were able to complete the given inventory form including stating the opening balance
- used the cost price to calculate inventory values
- labelled the Trading Account correctly
- treated correctly with items in the Trading Account by transferring totals for sales and purchases from the inventory form

### **Weaknesses**

In general, some candidates

- used cost price to arrive at a value for sales
- included opening inventory value in the purchases figure
- did not label subtotals and totals in the Trading Account (for example, gross profit)
- did not treat with closing inventory from the stock form in the Trading Account

### **Recommendations**

In their classroom assessment, teachers are encouraged to use a range of questions that would vary the format of the stock cards used. This would prepare students to deal with forms provided in the examination. Students should distinguish sale price from cost price and apply the figures appropriately. They should also be made aware of the link between the preparation of the Trading Account and the activity that arrives at a value for closing inventory.

### Question 7

This question tested an early section of the syllabus which deals with the theoretical aspects of accounting critical to application. It comprised four parts. Part (a) required candidates to identify internal and external users of accounting information and to state how the information is used. Part (b) described five types of business organizations and required candidates to identify each type. Part (c) tested accounting concepts and principles. Candidates were given four examples of a concept or principle being violated and were required to state which concept or principle was being violated. Part (d) required candidates to draw a labelled diagram of the six stages of the accounting cycle.

Approximately 33 per cent of candidates attempted the question of which 29 per cent scored 50 per cent or more of the available marks. The mean mark for this question was 7.17 out of 20.

### **Strengths**

In general, candidates

- were aware of the uses of accounting information
- were able to link descriptors provided with sole traders, partnerships and non-trading (non-profit) organizations
- were able to provide a diagram and identified at least four of the steps in the accounting cycle

### **Weaknesses**

In general, candidates

- were unable to distinguish between the internal user and the external user and their different needs from accounting information
- appeared to be unfamiliar with the descriptors of co-operatives and private limited companies
- treated the violations provided as errors without recognizing the concept or principle which was being violated
- appeared to be unfamiliar with the correct sequence of the stages in the accounting cycle

### **Recommendations**

Teachers are encouraged to clarify and reinforce students' understanding of the theories which govern accounting practices when teaching key topics. Reference should be made periodically to Section One of the current syllabus.

### **Paper 03/1 – School-Based Assessment (SBA)**

An SBA project is completed by all candidates being examined for the first time in Principles of Accounts (POA) at the CSEC level, in the May/June examination session. Those who register for the SBA are usually full-time candidates attending a recognized institution and who are supervised by a course instructor. Candidates who achieve 50 per cent of the moderated mark may transfer their SBA mark to the next examination sitting.

The completion of the SBA Project provides candidates with the opportunity to consolidate knowledge and skills gained in the subject, allowing them to synthesize and crystallize concepts and competencies relevant to the application of POA at an introductory level. Not only does the SBA Project provide candidates with the opportunity to bring to fruition their working knowledge of POA at this stage, but it also serves to enhance understanding and sensitivity to real-life applications of POA for prospective entry-level employment.

As has been suggested in the past, it may prove most beneficial if teachers were to regard the SBA as an 'integral component', rather than an 'additional task' at culmination of the subject. Working from such a holistic perspective, the SBA components could be assigned sequentially, in incremental stages, during Forms 4 and 5, rather than as a 'one lump' task toward the end of the secondary school education period. The overriding advantage would be improved opportunity for supervising, assisting and managing students' progress towards successful completion of the final product.

The moderated SBA samples revealed that candidates exhibited a good grasp of the accounting concepts in the syllabus. The overall performance could be rated as good.

#### **Strengths**

- The majority of projects were neatly presented.
- The language used in the SBA projects was generally good.
- Candidates stated the business information, general activities and operational time frame properly.
- Most candidates completed the debit and credit entries in the ledger.
- Financial statements were well presented.
- Most candidates were able to calculate relevant ratios. However, some candidates used the total sales figure instead of the net sales amount.

#### **Weaknesses**

- Aims were often not related to the project but related to the business.
- A 'transactions listing' was not included in the business information given.
- Totals were not properly transferred from source documents to the journals.
- Too often, the dates given on source documents did not correspond with the dates shown in the records.

- For many projects, it was not possible to trace source documents presented through the journals and ledgers.
- A large number of candidates were not awarded marks for the Cash Book because they used the 'Two-Column', rather than the Three-Column Cash Book.
- Nominal accounts were not closed off. Closing entries (in the General Journal) did not have nominal account balances to be transferred to the relevant Final Accounts.
- Many candidates failed to use either the order of permanence or liquidity in their Balance Sheet.
- Some candidates made bad choices with regard to their comparisons.
- In many instances, candidates gave a graph but with no accompanying explanation or discussion.
- Many candidates were unable to correctly interpret the ratios which they calculated.

### **Recommendations**

- Students need to relate the 'aims' to the project, for example, by answering such questions as the purpose for undertaking the SBA Project. This would help them to write suitable 'aims'.
- A 'transactions listing' should be included with the SBA Project. Such a listing should be the guide, a 'control list' as it were, of the actual transactions that are included in the project.
- The inclusion of only one example of each type of source document is inadequate. The May/June 2008 Syllabus (p 29) advises that four different types of source documents are to be used. With regard to chosen source documents, the key word to bear in mind is 'traceability'. Therefore, amounts, dates, names and all other pertinent data found on the presented source documents should be an exact match and should be traceable through journals and ledger accounts and, of course, identified in the transactions listing which, as previously noted, is the initial 'control list'.
- At the CSEC POA level, candidates are expected to master the preparation of a Three-Column Cash Book — that is, to provide for cash, bank and discount columns. Teachers need to help students to progress from the Two-Column to the Three-Column Cash Book and this progression should be evident in their presentation of the SBA Project.
- Students need to bear in mind that the Nominal Accounts are, in fact, temporary accounts, which are 'closed off', that is, their balances are transferred out, at the end of the fiscal period, to the Final Accounts. It is therefore the posting of closing entries (from the General Journal) that generates the Final Accounts and (Trading and Profit and Loss Accounts).
- In the presentation of Balance Sheets, students need to be reminded that the convention has always been that some specific order is observed, namely permanence or liquidity.
- All graphs presented should be accompanied by suitable descriptive or explanatory dialogue.
- Once ratios have been calculated, they should be accompanied by suitable analytical commentary.

- In addition, due care must be taken in the sequential arrangement of SBA Project material. In particular, the following must be noted:
  - The Transactions List (TL) should be placed immediately after the description/activities of business.
  - The TL is to be followed by the actual source documents.
  - Charts and diagrams are to be appropriately placed in the immediate vicinity to which they apply and where they are discussed, and/or figures and calculations presented.
  - Ratios calculated should be presented on the same page as the descriptive and analytical discussions.
- Adhering to these aspects of ‘sequential arrangement’ will greatly enhance the projects and allow for better readability and more efficient marking for both classroom teachers and CSEC moderators.
- Concerns are still being raised about the use of the correct and up-to-date mark scheme and syllabus guidelines in the preparation and assessment of SBA projects by teachers. It has become apparent to moderators that, in some cases, classroom teachers are still using mark schemes from the 2000 syllabus. Please note that an updated syllabus has been in effect for examinations from May/June 2008.
- We continue to recommend increasing degrees of collaboration and coordination among teachers of POA (intra and inter-school/centre), in the standardizing and marking of SBA projects so as to continue to develop and reinforce experience and expertise in this area.

### **Paper 03/2 – Alternative to SBA**

The Paper 03/2 serves to provide candidates with a multi-faceted experience in the completion of the requirements for certification in Principles of Accounts.

The candidates writing this paper were required to answer 14 questions based on a case study.

The case study was based on a non-profit organization in a school setting — a woodwork shop whose goals were cost savings for the school and the provision of earn-as-you-learn opportunities for students. The case was divided into three sections. Candidates were required to respond to a series of question relating to the sections.

#### **Section A**

In this section candidates were given detailed information on start-up capital for the business.

##### Question 1

This question required candidates to identify the type of business organization to which the school’s wood workshop belonged. This was well done by most candidates.

##### Question 2

For this question, candidates were required to identify the classification of accounts for the items donated by the Ministry of Education. Most candidates were able to correctly classify the accounts.

##### Question 3

In this question, candidates were required to determine the ‘net worth’ of the workshop at the specified ‘start up’ date. Many candidates were unable to arrive at the correct ‘net worth’ of the organization.

Question 4

This question required the preparation of a Classified, Opening Balance Sheet. Many candidates did not correctly identify the capital, hence it was not included in the balance sheet. Many candidates were unable to recognize the dual aspect, or double entry, of a loan which had been received, that is, cash/bank (increase in asset) and also an increase in long-term liability.

Question 5

In this question, candidates were required to determine the value of the workshop's working capital. Many candidates were unable to differentiate between 'capital' and 'working capital'. They also had difficulty calculating the working capital.

**Section B**

In this section, candidates were presented with a list of materials purchased over three years and the cost of the materials.

Question 6

In this question, candidates were required to identify two books of original entry which were relevant for the woodwork shop's use. This question was fairly well done.

Question 7

For this question, candidates were required to calculate the total cost of materials used by the woodwork shop for each of the three years. This question was well done by most candidates.

Depreciation information, which was required for the next three questions was then given.

Question 8

In this question, candidates were required to identify the financial report in which the annual depreciation would be recorded.

Question 9

This question required that candidates identify the financial report in which the accumulated depreciation would be recorded.

For both Questions 8 and 9, candidates were generally unable to differentiate between annual depreciation and accumulated depreciation. They demonstrated little knowledge of how these are dealt with in the financial statements.

### Question 10

In this question, candidates were required to calculate, on a given worksheet, the annual depreciation amounts for each of the three years on the workshop's machinery, tools and work benches, as well as the total depreciation for each year. Most candidates found the calculation of the depreciation to be manageable. However, some candidates gave 'net book' values instead of the depreciation amounts requested.

Data regarding savings and sales of wooden toys for each of three years were presented.

### Question 11

This question required candidates to calculate, on a given worksheet, the revenue earned by the woodwork shop for the three years. This was satisfactorily done.

## **Section C**

In this section, data were provided about three distinct items of expenditure for the woodwork shop for the three years of operation. This stimulus data was required to answer the next three questions.

### Question 12

In this question, candidates were required to identify the ledger for posting salary and miscellaneous expenses. Candidates were able to differentiate between the uses of the various ledgers.

Two worksheet forms were provided for the last two questions.

### Question 13

This question required candidates to calculate the total costs of operating the woodwork shop for each of the three years. It was well done by most candidates. However, some candidates omitted depreciation and student wages from the calculation of the total operating costs.

### Question 14

Required a summary Income Statement for each of the three years to show the profit or loss made by the woodwork shop for each of the three years. This question was poorly done. Many candidates demonstrated an inability to use the existing costs and revenue to compute the correct profit or loss.

Of the 3,405 candidates who wrote Paper 03/2, 62 per cent scored at least 50 per cent of the maximum available mark. The mean mark on this question paper was 21.52 out of 40.

## **Recommendations**

The following recommendations should enhance the performance of private candidates on Paper 03/2.

- Candidates need to be familiar with alternative terms and names used in the 'accounting world'. In POA, for example, 'net worth' means the same as 'capital'. The meaning of 'non-profit', and 'non-trading' organization should be clarified. It must be recognized that these two terms are not mutually

exclusive as, indeed, non-profit organizations may legitimately engage in 'trading' or 'service-type' or 'non-trading' activities.

- Since it is customary for examination questions requiring the preparation of a balance sheet to be without a clearly identified 'capital figure' in the question, candidates should practise different techniques for finding that all-important capital figure.
- It should be emphasized that the 'balance sheet equation', is 'assets equal liabilities plus capital', the guiding principle by which any balance sheet is constructed or prepared. Students, therefore, should be made aware that a balance sheet is not complete if the 'capital' section has been omitted.
- Double entry accounting should be practised and reviewed on a regular basis. For example, a 'loan' was received by the woodwork shop at 'start up'. This means that 'cash/bank' was received and therefore there was an increase in 'assets', (the debit side). However, many candidates failed to also recognize the dual nature of this transaction and the double entry involved —a 'long-term liability', (the credit side of the entry) was also involved because of the four-year repayment period indicated.
- Candidates need adequate exposure and practice in working with different aspects of capital and working capital in the balance sheet.
- Having familiarized themselves with the concept of 'end of period adjustments', candidates should then use multiple opportunities to practise dealing with and clarifying the treatments for the annual depreciation amount in an Annual Profit and Loss Account as part of that year's expenses vis-à-vis the accumulated depreciation figure which is the contra-asset and which is reported on the balance sheet as a deduction from the fixed assets concerned.
- It was heartening to see that many candidates knew how to calculate depreciation using the reducing balance method and were able to arrive at the correct 'net book value' for the fixed asset from one year to the next. However, the question required candidates to calculate the annual depreciation and not the 'net book value' as was given. Candidates need to read the questions carefully and respond to what is asked and not work by rote, doing what they normally do in previous practice assignments.
- The case study was divided into sections to make it more user friendly. Stimulus data were introduced at various points throughout the case study, immediately followed by the specific questions related to that data. However, periodically, especially towards the end of the case study, a question may arise requiring candidates to consolidate answers from the various sections. Many candidates failed to consolidate and include such relevant responses from previous question items appropriately. For example,
  - the depreciation amounts that were calculated in Question 10 were not included in the computation of total operating costs in Question 13.
  - computation of student wages (data for which was given in Question 12) was not included in the computation of total operating costs in Question 13.
  - total revenue arrived at in Question 11 and the total operating costs from Question 13, were not transferred and used in Question 14 to find the profit or loss from operations for each of the three years.

In summary, candidates need to remember that all the data presented is related to a single case which is broken up into sections for easy comprehension. They therefore need to maintain a holistic approach, centred on the sound application of Principles of Accounts.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
SECONDARY EDUCATION CERTIFICATE EXAMINATION**

**JANUARY 2011**

**PRINCIPLES OF ACCOUNTS  
GENERAL PROFICIENCY EXAMINATION**

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## **GENERAL COMMENTS**

The Principles of Accounts examination is offered in May/June and January each year.

The examination consists of three papers:

Paper 01	–	Multiple Choice
Paper 02	–	Essay Paper
Paper 03/2	–	Alternative to SBA (Private Candidates)

### **Paper 01 – Multiple Choice**

Paper 01 consists of 60 multiple choice items taken from the three profiles of the syllabus — Knowledge, Application and Interpretation. The performance of candidates on Paper 01 was fair.

The mean mark was 32.34 out of 60 compared to 30.66 in 2010 and 31.46 in 2009. Approximately, 63 per cent of the candidates scored at least 50 per cent of the marks for this paper.

### **Paper 02 – Problem Solving**

Paper 02 comprises two sections. Candidates were required to answer three compulsory questions in Section 1 and two of four optional questions in Section II.

The performance on Paper 02 has declined over the past two years. The mean mark for this paper was 32.56 out of 100 compared to 38.84 in 2010 and 41.17 in 2009. Approximately 20 per cent of candidates earned at least 50 per cent of the maximum mark on this paper.

### **Paper 03/2 – Alternative to School-Based Assessment (SBA)**

Paper 03/2 is an examination offered to private candidates. The examination attempts to simulate the skills tested in the SBA. This is achieved by presenting the candidates with one or two cases or situations from which they are required to respond to questions.

The performance of candidates on the 03/2 paper remained stagnant over 2010 but was a severe decline over previous years. The mean mark was 15.48 out of 40 marks compared to 15.48 in 2010 and 21.13 in 2009. Approximately 28.79 per cent of candidates earned at least 50 per cent of the maximum available marks on this paper.

## **DETAILED COMMENTS**

### **Paper 01 – Multiple Choice**

The performance of candidates on this paper reflects certain weaknesses in the preparation of candidates. These are shown again in candidate responses in the other papers. Teachers and students are asked to pay special attention to the following.

1. Familiarity with terminology is necessary for appropriate responses. Terms such as ‘net sales’ and ‘net assets’ should be interpreted to mean that some amount is to be subtracted from another amount. On the other hand, the calculation of ‘net worth’ of owners suggest the addition of various forms of investment, for example, capital and current account balances of partners, shares and reserves of shareholders less any of the forms of withdrawal.
2. Topics such as the application of the rules of entry for transactions involving capital receipts or expenditures (for example, repayment of a loan) appear unfamiliar to candidates. Correction of errors and adjustments (tested frequently via subscription accounts) and accounting theory (for example, the violation of the accrual concept) also need exploration.
3. Candidates should be able to think beyond a mechanical reproduction of relationships between items in summary accounts. For example, Cost of Goods Sold can be computed from the following information:
  - Opening Stock plus Net Purchases minus Closing Stock
  - Sales minus Gross Profit
  - Cost of Goods Available for Sale minus Closing Stock
  - 10 times Gross profit where the mark-up is 25%
  - 75% of Sales
4. Candidates must be prepared to identify relevant from irrelevant data in question stems, for example, direct costs from indirect costs.

### **Paper 02 – Problem Solving**

#### **Section I – Compulsory**

##### Question 1

This question presented the General Journal entries for a sole trader in his first month of activity. Candidates were asked to complete the use of the General Journal through preparation of suitable narratives; identify and explain other useful subsidiary journals and prepare a Trading and Profit

and Loss Account from information in the Journal. Finally candidates were asked to recognize debtor and creditor relationships from the data provided. Overall, this question was well done.

Approximately 98.32 per cent of candidates attempted the question, of which 61.08 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 10.82 out of 20.

### **Strengths**

In general, candidates

- presented acceptable narrations for the payment of wages
- identified journals other than the general journal and explained the purpose of both returns day books clearly
- identified items relevant to the Trading and Profit and Loss Account including the expense items
- listed the debtors and creditors and classified them correctly

### **Weaknesses**

In general, candidates

- did not recognize the first bit of data dated May 1 as an example of an Opening Entry
- did not take note that a sale may involve both cash and credit transactions and be recorded as a compound entry
- did not limit the use of the Sales and Purchases Day Books to credit transactions and did not explain the use of the Cash Book for *both* receipts and payments
- ignored Returns Outwards or treated it incorrectly in the Trading and Profit and Loss Account
- included capital expenditure items in the Trading and Profit and Loss Account
- included Real and Nominal Accounts in their list of debtors and creditors

### **Recommendations**

Teachers are encouraged to focus on the use of the General Journal as the first step in the accounting cycle as well as the main tool in the accounting system of small businesses. Emphasis should be placed on the reason for the use of various day books and ledgers as well as on providing practice in using these documents. Drawing up Trading and Profit and Loss Accounts for different business entities is an area that is frequently tested and students are to be taught to recognize the link between the General Journal and the final accounts.

### Question 2

This question tested candidates' knowledge of Partnership Accounting through preparation of the partners' Appropriation of Profits Account from balances in a Trial Balance, drafting of Current Accounts (columnar style) and the calculation of the net worth of each partner.

Approximately 73.12 per cent of candidates attempted the question, of which 26.85 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 6.20 out of 20.

### **Strengths**

In general, candidates

- demonstrated improved attention to the heading of the Appropriation Account
- added or subtracted the different forms of appropriations correctly
- were able to calculate interest on drawings and capital correctly
- used the columnar style as instructed

### **Weaknesses**

In general, candidates

- did not adjust profit before interest for the annual interest on the loan from the partner
- did not credit the partners' current account for the interest earned and where they did, it was often calculated incorrectly
- did not recognize the need to calculate salaries for a full year when given the monthly salary
- appeared unaware that remaining profits should be shared equally in the absence of an agreement about profit sharing ratio
- were unaware that net worth is the total of a partner's capital and current account balances

### **Recommendations**

Teachers are encouraged to use a range of questions that include slight variations from the norm such as adjusting profit for interest on loans and calculating annual salaries as well as calculating partners' net worth. These variations require more than application of accounting principles. Candidates must pay attention to differences between profit before interest and net profit which results after all expenses have been accounted for. Careful reading by students and the highlighting of key concepts by teachers are necessary activities in the classroom.

### Question 3

This question tested two distinct areas of the syllabus. Part (a) required the posting of entries in subsidiary journals for the preparation of the personal accounts of a debtor and a creditor and two nominal accounts, namely Sales and Purchases. Part (b) presented a Trial Balance with six balances placed incorrectly. Candidates were asked to determine the correct placement of these items. Approximately 94.64 per cent of candidates attempted the question, of which 20.47 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 5.82 out of 20.

### **Strengths**

In general, candidates

- were able to open and name the four accounts
- debited and credited the accounts correctly, for example, matching entries in the Sales Account with entries in Marshall's Account
- were able to balance accounts properly

- recognized that Bank Overdraft and Purchases Returns were to be placed in the credit column and that Carriage Outwards should be placed in the debit column.
- included an amount for Capital as the difference between the debit and credit sides

### **Weaknesses**

In general, candidates

- did not start any account with the appropriate opening balance or where they did, opening balances in the personal accounts were written as c/d and the closing balances were written as b/d
- did not use the appropriate terms in the details columns, for example, total credit sales in the Sales Account. Instead, they wrote Marshall twice.
- did not post the returns day books and ignored some of the entries in the Cash Book
- were unfamiliar with the procedure for closing nominal accounts, for example, transferring values to the Trading Account or the Income Statement
- did not use the correct heading for the Trial Balance which lists the account values as at a particular date
- placed item balances in the Trial Balance using either column indiscriminately

### **Recommendations**

Teachers are encouraged to reinforce the following accounting procedures which are important for the School-Based Assessment. Asset and liability accounts frequently begin with opening balances and candidates should be alert to the need to treat them as brought down balances (b/d). These same accounts need to be balanced correctly and completely using the appropriate labels of c/d and b/d. Expense and revenue accounts are not balanced but have their values transferred or closed off to summary accounts such as the Income Statement. Teachers should also have students develop criteria for recognizing the type of balance (debit or credit) an account is likely to have.

## **Section II (Optional Section)**

### Question 4

This question had two parts. Part (a) required the preparation of Control Accounts from data provided. Part (b) required the preparation of a Suspense Account after the discovery of errors in a Trial Balance. Approximately 42 per cent of candidates attempted the question, of which 39.35 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 7.95 out of 20.

### **Strengths**

In general, candidates

- labelled opening balances correctly and placed them on the correct sides of the control accounts
- were able to enter opening balances, sales, purchases, discounts and returns in the respective control accounts correctly
- placed the trial balance difference on the correct side of the suspense account

### **Weaknesses**

In general, candidates

- omitted to carry down the closing balances so that they would become the opening balance to begin the next month's transactions
- mis-labelled the closing balances provided and entered them on the wrong sides of the Control Accounts
- reversed the entries in the Control Accounts or omitted them entirely
- appeared to be unfamiliar with the set-off amount and its treatment
- prepared journal entries in place of the Suspense Account
- debited the Suspense Account with items to be credited and vice versa
- used incorrect terms in the correcting entries

### **Recommendations**

Teachers are encouraged to have students practice more complex questions on Control Accounts such as those which include set-off entries and unusual closing balances. Labelling of entries in accounts (whether common ledger accounts, control accounts or suspense accounts) as well as completion of balancing of accounts (c/d to b/d) also require much practice. Control Accounts can usefully be thought of as similar to ordinary ledger accounts and therefore the application of the appropriate rule of entry can be emphasized. Teachers are asked to emphasize the difference between the preparation of an account and the preparation of journal entries which may only assist in arriving at the final answer.

### Question 5

This question tested candidates' knowledge of the Manufacturing Account. The focus of this question was on classifying costs (manufacturing costs vs non-manufacturing; direct cost vs indirect costs) through an identification of totals. Another useful concept tested here was the calculation of unit costs. Approximately 55 per cent of candidates attempted the question, of which 52 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 9.77 out of 20.

### **Strengths**

In general, candidates

- demonstrated satisfactory knowledge of the heading and the calculation of cost of raw materials consumed **of the** Manufacturing Account
- omitted non-relevant items such as stocks of finished goods
- deducted purchase returns and added carriage outwards to purchases of raw materials
- labelled subtotals clearly
- adjusted for the allocation of rent and electricity
- treated knowledgeably with opening and closing work in progress

### **Weaknesses**

In general, candidates

- did not include wages of factory workers in the calculation of prime costs
- tended to include all expenses, manufacturing and non-manufacturing, in the Manufacturing Account
- did not complete the adjustments for rent and electricity as part of office expenses neither did they show a total for items identified as office expenses shown
- did not indicate a formula for the calculation of unit cost

### **Recommendations**

Teachers are encouraged to have students practise a range of questions requiring the classification of different categories of costs, direct from indirect costs, manufacturing from non-manufacturing, office expenses from marketing expenses. Students must practise the apportioning of costs between cost centres with the appropriate labelling of subtotals (usually requested in the question). The advantage of showing how one arrives at an answer (working) should be emphasized, for example, calculations of totals should include a list of the amounts to be totalled. Presentation of the formula used would also be helpful.

### Question 6

This question tested techniques relevant to incomplete records such as the ability of candidates to prepare Total Accounts and the application of ratios. In this instance, the preparation of the Total Creditors Account and the application of a given margin to arrive at missing figures tested the ability of candidates to prepare a Trading Account from incomplete information.

Approximately, 26 per cent of candidates attempted the question, of which 13 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 5.23 out of 20.

### **Strengths**

In general, candidates

- were able to prepare the Total Creditors Account and the Trading Account
- applied the given margin (rate) to a figure
- included both cash and credit purchases in the Trading Account

### **Weaknesses**

In general, candidates

- entered values in the total creditors account without regard for correct treatment
- did not recognize the relationship among sales, profit and cost of sales
- did not recognize the relationship among cost of sales, cost of goods available for sale and closing inventory
- did not recognize the relationship between gross profit and cost of sales as mark up

### **Recommendations**

Teachers are encouraged to point out the need for finding missing accounting information especially for small businesses and non-profit organizations such as clubs to which candidates belong. They should use a range of situations that allow the practice of various techniques to arrive at missing figures, for example, Total Accounts and the application and interpretation of ratios. Emphasis should also be placed on recognizing relationships between items which can be expressed as income statement equations, for example, cost of goods available for sale = opening inventory + net purchases.

### Question 7

This question tested candidates' knowledge of basic accounting concepts and principles. Five examples of a concept or principle being violated were given and candidates were required to state which concept or principle was being violated. The question then required candidates to treat these violations as errors to be corrected and prepare a statement of corrected net profit. Candidates were also required to identify internal and external users of accounting information and to state one need of each user.

Approximately, 32 per cent of candidates attempted the question, of which 24 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 5.88 out of 20.

### **Strengths**

In general, candidates

- demonstrated competence in the application of the accrual and consistency principles
- recognized that additional wages reduced profit and that recording sales revenue not yet received would have falsely increased profit
- were able to list a number of users of accounting information

### **Weaknesses**

In general, candidates

- were unable to identify the principles by name and tended to give explanations instead
- tended to explain the violations in terms of errors
- listed expenses without showing the effects of their correction on profit
- were unable to distinguish between the internal user and the external user of accounting information
- listed users but omitted or mis-identified their needs

### **Recommendations**

Teachers are encouraged to clarify and reinforce candidates' understanding of the concepts and other theoretical constructs which form the background to accounting practice.

**PAPER 03/2 – Alternative to SBA**

This examination caters to private candidates — those persons who are not a part of the full-time, main stream, secondary school education system and, therefore, would not have the benefit of ‘internal teacher/school assessment’.

Paper 03/2 consisted of a case study presented in four sections, from which candidates were required to answer 12 questions.

**Question 1**

This question tested candidates’ knowledge of types of business entities. This question was generally well done.

**Question 2**

For this question, candidates were required to prepare an opening entry. The question was reasonably well done. However, some candidates reversed entries, omitted to calculate capital to complete the credit entry or produced ledger accounts instead of a journal entry. A number of candidates did not label the book being used nor did they identify the name of the business.

**Question 3**

This question tested candidates’ ability to prepare journal entries for purchase of fixed assets, paid for partly by cheque and partly by means of a long-term loan. Generally, candidates were able to account for the payment by cheque but omitted the completion of the credit to a loan or named creditor account. The majority appeared to be unfamiliar with compound entries.

**Question 4**

This question tested candidates’ knowledge of the components of the balance sheet, directing them to classify a particular liability. Most of the candidates were able to identify the liability but a large percentage indirectly classified the loan as a current account.

**Question 5**

This question tested candidates’ ability to distinguish between the uses of different ledgers. A large percentage of candidates recognized and named the general ledger as the correct ledger to account for the purchase of fixed assets. A number of candidates appeared to have focused on the term ‘purchase’ in the stimulus material.

**Question 6**

For this question, candidates were required to calculate total revenue earned where assets received earning at different rates. Many candidates were able to calculate at least two of the items of revenue correctly but were unable to arrive at a correct total figure.

**Question 7**

This question required candidates to identify appropriate books of original entry that are likely to be used by this service-type business. Candidates confused ledgers with journals and ignored the nature of the business in identifying purchases and returns journals as possible answers.

Question 8

This question required candidates to calculate five different types of expenses, some of which required adjustments to reflect that only three months of operation had been undertaken. Although most candidates who attempted this question were able to calculate the individual expenses, very few adjusted insurance, road licence and depreciation for the three-month period. Some candidates calculated the commission as a percentage of drivers' salaries rather than a percentage of deliveries earnings.

Question 9

This question required a calculation of gross pay for one particular driver. Most candidates recognized that commissions earned by a driver should be included in the calculation of gross pay.

Question 10

In this question, candidates required to use totals from previous calculations of revenue and expenses, in preparation of an income statement for the business, for the three-month period. Although most candidates correctly equated income statement with the traditional profit and loss account, others simply expressed an opinion on the business' operations. A few candidates presented a balance sheet. Those who presented an income statement frequently omitted the revenue from trucks d and e as well as some expenses such as depreciation.

Question 11

This question tested candidates' ability to identify and distinguish between revenue and capital expenditure. While most responses correctly identified a form of revenue expenditure, few named the purchase of any of the fixed assets as a form of capital expenditure. A few candidates suggested the repayment of the loan. Although this is a form of capital expenditure, there was no indication that this had occurred in the business. Candidates are to note that earnings are a form of revenue receipt and that a loan taken, or capital introduced into the business is a form of capital receipt.

Question 12

This question tested calculation of ratios, for which candidates needed to have knowledge of the correct formula and the ability to select and use the appropriate figures from their previous working. Few candidates appeared to know the net profit percentage (net profit margin) ratio and fewer appeared to know the return on capital employed ratio (net profit over opening capital). Candidates should show the formula they are using (show working) as well as express their answers as percentages.

Examiners have made note of the fact that many candidates were able to compute figures for earnings or revenue and expenses but appeared to be weak in basic accounting concepts and examination skills such as

- naming business entities
- distinguishing between journals and ledgers in purpose and format
- drafting up journal entries
- equating Income Statements with Trading Accounts or Profit and Loss Accounts

- distinguishing between an Income Statement and a Balance Sheet
- showing working
- computing figures for part of the year
- including previous data and computations in later questions
- being aware of the particular accounting features of a service-oriented business such as using earnings or revenue as the equivalent to sales

Candidates are urged to use past questions and case-type exercises in textbooks to practise for this type of assessment.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
SECONDARY EDUCATION CERTIFICATE EXAMINATION**

**MAY/JUNE 2011**

**PRINCIPLES OF ACCOUNTS  
GENERAL PROFICIENCY EXAMINATION**

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## GENERAL COMMENTS

The Principles of Accounts (POA) examination is offered in January and May/June each year. This year, 26, 246 candidates registered for the examination in May/June. As usual, the POA examination consisted of three externally marked papers as follows —

Paper 01: Multiple Choice;  
Paper 02: Extended Response;  
and either Paper 031: School Based Assessment (SBA), which is marked by classroom teachers and moderated by CXC; or Paper 032: the Alternative to the School Based Assessment (SBA), which is offered to private candidates.

Each paper allows candidates to garner marks under three profile dimensions: Knowledge, Application and Interpretation, in the ratio 1:2:1 respectively.

### Paper 01 – Multiple Choice

Paper 01 consisted of 60 multiple-choice items reflecting wide syllabus coverage and testing the three profiles dimensions of Knowledge, Application and Interpretation in the ratio 1:2:1. The performance of candidates on this paper was fair.

The mean mark was 35.49 out of 60. A comparative table showing mean mark for the last three years is given below.

<b>Paper 01</b>	
<b>Year</b>	<b>Mean Mark</b>
2010	32.4
2009	33.5
2008	34.38

Approximately 70.73 per cent of the candidates scored at least 50 per cent of the maximum available marks for this paper. Eight candidates scored the maximum of 60 marks.

### Paper 02 – Extended Response

Paper 02 comprised two sections. Section I, the compulsory section, required candidates to answer three questions. Section II, the optional section, required candidates to answer two out of four given questions.

Performance on Paper 02 was consistent with that of 2010. The mean mark for this paper was 40.95 out of 100. A comparative table showing mean mark for the last three years is given below.

<b>Paper 02</b>	
<b>Year</b>	<b>Mean Mark</b>
2010	40.75
2009	36.14
2008	39.45

Approximately 33.06 per cent of candidates scored at least 50 per cent of the maximum mark on this paper.

### **Paper 031 – School-Based Assessment (SBA)**

A School Based Assessment (SBA) project is completed by all candidates being examined for the first time in Principles of Accounts (POA) at the CSEC level, in the May/June examination session. Those who register for the SBA are usually full-time candidates attending a recognized institution and who are supervised by a course instructor. Repeat candidates who achieved 50 per cent of the moderated marks for their SBA project may transfer this mark to the succeeding sitting.

The completion of the POA SBA Project provides candidates with the opportunity to consolidate knowledge and skills gained in the subject, allowing them to synthesize and crystallize concepts and competencies relevant to the application of POA at an introductory level. Not only does the SBA Project provide candidates with the opportunity to bring to fruition their working knowledge of POA at this stage, but it also serves to enhance understanding and sensitivity to real-life applications of POA for prospective entry-level employees.

As has been suggested in the past, it may prove most beneficial if teachers were to regard the SBA as an ‘integral component’, rather than an ‘additional task’ at culmination of the subject. Working from such a holistic perspective, the SBA components could be assigned sequentially, in incremental stages, during Forms 4 and 5, rather than as ‘one lump’ task towards the end of the secondary school and education period. The overriding advantage would be improved opportunity for supervising, assisting and managing candidates’ progress towards successful final completion.

Of the 19,452 candidates who did the SBA Project, 95.31 per cent scored 50 per cent or more of the available marks. The mean mark on this component was 32.28 out of 40.

### **Paper 032 – Alternative to School-Based Assessment**

Paper 032 is the alternative to the School Based Assessment (SBA) and forms a part of the compilation of candidates’ final mark in POA.

Candidacy for this exam is limited to those persons who are out of the formal, secondary-level school system and would not, therefore, be considered as full-time, secondary school students benefiting from the internal school-based assessment programme. These candidates are normally referred to as ‘private candidates’.

As per the POA syllabus guidelines, private candidates are tested for a duration of 90 minutes, the exam taking the form of a case study, with about 10 to 15 questions derived from that case study. Paper 032, like the SBA, is worth a total of 40 marks, and contributes 20 per cent to candidates’ final mark.

For this paper, candidates were required to answer questions based on a given case study. Like the SBA, the case study tested objectives and content from Sections two to six of the syllabus.

The performance of candidates on Paper 032 showed a decline over 2010. The mean mark was 12.54 out of 40 marks compared with 21.52 in 2010, 15.35 in 2009 and 18.6 in 2008. Approximately 18.92 per cent of candidates scored at least 50 per cent of the maximum available marks on this paper.

## DETAILED COMMENTS

### Paper 02 – Extended Response

#### Section I – Compulsory

##### Question 1

This question tested candidates ability to construct a classified Statement of Financial Position (Balance Sheet), using the order of permanence, from a given list of short descriptive items and scenarios.

Approximately 82 per cent of candidates attempted the question, 70.5 per cent of whom scored 50 per cent or more of the available marks. The mean mark for this question was 12.51 out of 20.

#### Strengths

In general, candidates

- identified the classification headings (*Non-Current (Fixed) Assets, Current Assets, Current Liabilities, Long-Term Liabilities, Capital*)
- correctly classified assets as *Non-Current* or *Current*
- used appropriate presentation format for the Balance Sheet
- correctly treated *Accummulated Provision for Depreciation* on the Balance Sheet as a deduction from corresponding Non-Current Asset
- calculated total amount for *Rent Owing* correctly

#### Weaknesses

In general, candidates

- did not show subtotals of various sections of the classified Balance Sheet
- were unable to calculate Net Book Value of the Non-Current (Fixed) Asset
- did not identify *Rent Owing* and *Interest Owing* as Current Liabilities
- were unable to identify *Loan* as a Long-Term Liability
- lacked thorough knowledge of the *Financed By:* or Capital Section, for example, failed to identify *Capital* when calculated
- added *Long-Term Liabilities* to *Capital* section in cases where the Vertical Style of presentation was used

#### Recommendations

Teachers are encouraged to provide more opportunities for regular, detailed practice on questions which require students to apply fundamental knowledge and skills of accounting principles. For example, the basic accounting equation,  $Assets = Liabilities + Capital$ , provides the framework for construction of any *Statement of Financial Position* (Balance Sheet). Students should understand and know this, to the extent that they ought to recognize the need to insert and clearly identify the missing 'Capital' amount, to complete this equation, as this is the backbone for the construction of this statement.

It would be very beneficial to review and highlight the treatment of the Long-Term Liabilities section when presenting the Statement of Financial Position (Balance Sheet).

Candidates should be able to clearly distinguish between the *horizontal* format for presenting Balance Sheets, as opposed to the *vertical* style or format. At least one of these two presentation styles should be well known, but preferably the vertical style.

## Question 2

This question tested candidates' knowledge of Partnership Accounts. This year, the 'partnership' question involved the admission of a new partner halfway through the fiscal period, and it targeted three specific areas of Partnership Accounts:

- (a) Drawing up of a journal entry to record the admission of a partner;
- (b) Preparation of partners' Appropriation Account, up to the total share of remaining profit; and
- (c) Preparation of Current Accounts of partners.

A worksheet was provided, as an extension to the Appropriation Account, which candidates were required to use to show detail working for the share of the remaining income or profit earned by each partner.

Approximately 74 per cent of candidates attempted the question, 34.58 per cent of whom scored 50 per cent or more of the available marks. The mean mark for this question was 7.41 out of 20.

### (a) The Journal Entry

#### **Strengths**

In general, candidates demonstrated

- knowledge of which items were to be debited in the journal entry for recording the admission of a partner to the business
- competence in totalling listed assets in their journal entry for recording the admission of a partner to the business and also recognized this total as 'capital'.

#### **Weaknesses**

- Some candidates' responses revealed a lack of knowledge of the format for a journal entry. Assets were presented as a list, with no recognizable 'journal' format. Debit entries were presented with no corresponding credit entries.
- Respondents who used the journal format did not know which items were to be debited and which ones were to be credited. Consequently, assets were credited and capital was debited.
- Some candidates did not include the total amount as the capital contribution of the new partner.
- In some cases where the total amount was correctly included as a credit entry, candidates simply used the name of the partner, 'Telford', to label that amount, without the use of the word 'capital' to identify that total amount as partner's 'capital' contribution.

### (b) The Appropriation Account

#### **Strengths**

In general, candidates demonstrated knowledge of the

- format for presenting the Appropriation Account

- correct treatment for Interest on Drawings, Interest on Capital and Partner's Salary vis-à-vis Net Income
- fact that Net Income or Profits are shared in the Appropriation Account, then transferred to partners' Current Accounts

### **Weaknesses**

Some candidates

- were unable to correctly compute Telford's total capital
- were unable to correctly compute Telford's Interest on Capital, due to non-application of the required pro-rating of the annual figure for a half year
- used one month's salary, rather than compute and use the 'annual' salary
- did not present the Appropriation Account in an acceptable format
- were challenged in completing the worksheet, particularly in transposing the appropriation of profits to the worksheet. Many candidates avoided this part of the question altogether

### (c) The Current Accounts

#### **Strengths**

In general, candidates

- were quite knowledgeable of the format for presenting Current Accounts. Several styles were used, including the columnar and individual 'T' account formats.
- demonstrated a high level of knowledge of items to be debited and credited in the Current Account

#### **Weaknesses**

- Opening Balances were incorrectly posted to the Current Accounts, or often omitted altogether
- Some candidates failed to balance off the Current Account at the end of the accounting period
- Where the Current Account was 'balanced off at the end' of the accounting period, approximately half of the number of candidates who did failed to record the balances brought down for the start of the next accounting period

#### **Recommendations**

Teachers are encouraged, in their delivery of the subject matter, to use a range of questions that explore the principles which govern the keeping of partnership accounts. The emphasis should be on teaching relevant 'principles', and the range of questions used should stretch students' application of the principles. The use of worksheets could be incorporated freely, across the board, to have students practise detailing their analyses and computations in a systematic manner. The application of principles in different scenarios which require interpretative skills should also be regularly practised, for example, recognizing when adjustments of amounts for half year are required in an annual report.

#### Question 3

This question tested candidates' knowledge of Books of Original Entry, specifically the Cash Book and the Petty Cash Book. This was tested in three parts. Part (a) required candidates to draw up a three-column Cash Book for a month.

Part (b) provided a worksheet which candidates were required to use to draw up the Petty Cash Book for a month.

Part (c) required candidates to post totals from the Petty Cash Book to the appropriate ledger.

Approximately 84 per cent of candidates attempted the question, 45.61 per cent of whom scored 50 per cent or more of the available marks. The mean mark for this question was 9.85 out of 20.

(a) The Three-Column Cash Book

**Strengths**

In general, candidates were able to

- record opening balances correctly
- differentiate between cash and bank transactions
- post items correctly to either the debit or credit side of the Cash Book
- identify and correctly record the contra entry in the Cash Book

**Weaknesses**

- Lack of demonstrable knowledge of how to restore petty cash imprest in the Cash Book
- Closing off the Cash Book at the end of period. In some cases closing balances in the Cash Book were omitted altogether. Other candidates showed 'Balance c/d' and 'Balance B/d' on the same side
- Incorrect handling of the dishonoured cheque in the Cash Book, for example
  - the dishonoured cheque was debited to the Cash Book
  - in cases where the dishonoured cheque was credited, the *Discount* was also included in recording the transaction
- Recording of Petty Cash items in the three-column Cash Book

(b) The Petty Cash Book

**Strength**

- This part of the question was generally very well done with most candidates scoring high marks.

**Weaknesses**

- In many cases, the worksheet provided was not used
- Opening balance figure and the amount of the restored imprest were recorded under the 'total' column, instead of in the 'amount' column on the left hand side
- Some candidates used check marks (✓) under the analyses columns, instead of recording the actual amounts
- Some expenses were incorrectly classified
- In some cases, the Petty Cash Book was not balanced at end of period

(c) Posting of Totals from Petty Cash Book to Appropriate Ledger

**Strength**

- Some candidates transferred totals correctly to appropriate General Ledger Accounts

### **Weaknesses**

- Failure to identify the appropriate ledger as the 'General Ledger'
- Failure to give the accounts posted to a title
- Posting incorrectly to the credit side of accounts
- Posting individual entries to accounts, instead of posting totals

### **Recommendations**

Teachers should emphasize the relationship between the Cash Book and the Petty Cash Book, especially as it relates to the process of restoring the petty cash imprest. Thus, for example, the amount taken from the Cash Book (to restore the Petty Cash Book) must also be reflected as being received in the Petty Cash Book.

The process of handling Petty Cash expenditures for restoring the imprest need to be addressed by teachers. They should emphasize to students that Petty Cash expenditures are, in effect, 'expenses' of the business, and are generally posted in total to relevant accounts affected in the General Ledger.

### **Section II — Optional Questions**

#### Question 4

This question tested candidates in the preparation and analysis of financial statements, with adjustments, of a sole trader. Objectives tested related to determination of the amount of expenses and revenue to be transferred to final accounts, and included two methods of depreciation, treatment of accumulated depreciation, bad debts, provision for doubtful debts and prepayment of revenue.

The concepts were tested in two parts. Part (a) provided candidates with a worksheet on which they were required to identify the items to be adjusted, with corresponding analysis of the appropriate treatment and amount required.

Part (b) requested the preparation of a partial Balance Sheet to reflect the updated financial position.

Approximately 85 per cent of candidates attempted the question, 30.06 per cent of whom scored 50 per cent or more of the available marks. The mean mark for this question was 8.79 out of 20.

#### (a) Worksheet

### **Strength**

- The majority of candidates were able to correctly list the items affected by the stated adjustments.

### **Weaknesses**

- Incorrect treatment of items, as the given adjustment required
- In some cases, incorrect amounts were arrived at, for example, in calculating depreciation using the reducing balance method

(b) Balance Sheet Extract

**Strength**

- In general, candidates demonstrated good knowledge of the section headings in the Balance Sheet and an acceptable format or presentation

**Weaknesses**

- Not all Current Assets were correctly classified, for example *Accounts Receivable* and *Inventory*
- Accounts Receivable was not adjusted for the Bad Debts, such that the Bad Debts amount should have been deducted from the Accounts Receivable amount
- Accounts Receivable was not correctly treated with the Provision for Doubtful Debts
- Provision for Depreciation was not increased with the current amount of depreciation to reflect the *Accummulated* Provision for Depreciation

**Recommendations**

Teachers are encouraged to focus on accounting for adjustments affecting expenses and revenues at the end of a financial period. The connection between items and adjusting figures in the 'Profit and Loss Account', and their link with and corresponding effects on relevant sections in the 'Balance Sheet' should be emphasized. Specific mention is made here of the need to focus on correct procedures in accounting for 'Provision for Depreciation' and 'Provision for Doubtful Debts' on the Balance Sheet.

Equal emphasis should be given to the calculating of depreciation by the reducing balance method, as is given to the straight line method of calculating depreciation on fixed assets.

Also, more extensive practice should be undertaken on adjustments of other revenues besides sales, such as commissions, rent, income, fees, fares and so on.

The use of alternative terms is to be encouraged in order to reinforce students' familiarity with all modern accounting terminologies such as Accounts Receivable (Debtors), Accounts Payable (Creditors), Inventory (Stock), Non-Current Assets (Fixed Assets), Statement of Financial Position (Balance Sheet) and Income Statement (Trading and Profit & Loss Account). Increased familiarity with such alternative terms would be an asset to prospective candidates.

Question 5

This question tested candidates' knowledge of the preparation of Manufacturing Accounts. The question was divided into in three sub-parts: Part (a) required candidates to prepare the Manufacturing Account section. Part (b) required candidates to prepare the Income Statement with costs appropriately classified. Part (c) tested candidates' interpretative skills, requiring a computation of the total number of units produced for the year.

Approximately 50 per cent of candidates attempted the question, 17.31 per cent of whom scored 50 per cent or more of the available marks. The mean mark for this question was 5.90 out of 20.

(a) Manufacturing Account

**Strengths**

In general, candidates performed well in that they were able to

- present the Manufacturing Account in an acceptable format
- identify the three major items as requested
- correctly apportion the electricity expense between the Manufacturing Account and the Income Statement

**Weaknesses**

- Some candidates did not recognize the given 'cost of raw materials used' amount as the direct material cost already calculated. Rather than just adding on the direct labour/wages to it, to arrive at prime cost, candidates tried to use 'Opening Stock', 'Purchases' and 'Closing Stock' to calculate a 'Cost of Raw Materials Consumed/Used' figure
- Many candidates failed to include the cost of kitchen boxes as indirect or factory overheads and incorrectly charged this item to the Income Statement

(b) Income Statement

**Strengths**

Candidates' areas of good performance on this part included their ability to

- show the transfer of 'Production Cost' from the Manufacturing Accounting to the Trading Account section
- apportion the correct amount of Electricity Expense to the Profit & Loss section
- identify and include the expenses in the Profit & Loss section

**Weaknesses**

- In many cases the heading of the Income Statement was incomplete — either the name of the business or the date was often omitted
- Where the date was included, this was improperly stated as covering a period of time, for example, some candidates used the phrase 'As at ...' instead of 'For the Year Ended ...'
- Some candidates were apparently unfamiliar with the term 'Income Statement', thus producing a 'Balance Sheet' instead of 'Final Accounts'
- Some candidates added Production Cost to Sales, instead of deducting it from Sales to arrive at the Gross Profit
- The expenses/costs presented in the Profit & Loss section were, in some instances, not classified at all; in other cases they were incorrectly classified
- Candidates incorrectly calculated and treated depreciation, which resulted in 'Net Book Value' of assets (which belong in the Balance Sheet) being treated as a loss or 'expense' and recorded in the Profit & Loss section
- Candidates also confused the treatment of 'Provision for Depreciation' amounts with that of annual depreciation amounts. The former are contra-assets which are reported on the Balance Sheet, while the latter are expenses which are reported in the Profit & Loss section of Income Statement

(c) Computation of Total Units Produced

**Strength**

- Many candidates correctly used the Production Cost arrived at in the Manufacturing Account, to calculate the total number of items produced for the year.

**Weakness**

- Some candidates used the 'Sales' figure, rather than the 'Production Cost' figure, to calculate the number of items produced.

**Recommendations**

Teachers are once again encouraged to familiarize themselves with the current syllabus (2008) which provides updated accounting terminologies, for example, *Income Statement* replaces 'Trading and Profit & Loss Account'.

When providing students with practice questions, teachers should use different styles and layout of questions, and should focus on teaching the principles of accounts, rather than just work by rote. Thus, students would readily recognize and correctly classify items as 'direct' versus 'indirect' costs, as used in Manufacturing Accounts, even when the item introduced is 'new' or unfamiliar. Consequently, candidates will be able to correctly treat the novel item.

Adjusting, allocating and apportioning of costs between cost centres (Manufacturing Account vs Income Statement) continue to demand focused attention, as well as classification of costs in the Income Statement.

Question 6

This question tested candidates' knowledge of accounting for cooperative societies. The question was sub-divided into four parts. Part (a) focused on methods of raising capital for cooperatives and required candidates to compute and prepare General Journal entries to record monies collected by two different methods.

Part (b) tested candidates' ability to prepare the Appropriation Account for a cooperative. Part (c) tested candidates' ability to calculate patronage refund and account for one member's shareholding returns. Part (d) tested candidates' knowledge of the essential features of a cooperative.

Approximately 9 per cent of candidates attempted this question, 13.32 per cent of whom scored 50 per cent or more of the available marks. The mean mark for this question was 5.48 out of 20.

(a) Journal Entries

**Strengths**

- In general, most candidates were able to correctly calculate the amount of monies collected for registration fees and share purchase.

### **Weaknesses**

Candidates were unable to

- distinguish between 'journal entries', which were required, and 'ledger account entries' which were not
- place entries in the correct column of journal entries
- provide double entries in the General Journal. That is, only one single entry was presented in each case. General Journal entries require that there be a 'debit' part and a 'credit' part to each entry
- provide suitable narrations for entries made in the General Journal

### (b) Cooperative Appropriation Account

#### **Strengths**

- This part of the question was the most popular and was attempted by all candidates who were able to gain significant portions of the available marks. Candidates demonstrated quite comfortably, good knowledge of the appropriate items for the Appropriation Account and correct treatments.

#### **Weaknesses**

Candidates responses revealed the following shortcomings:

- Appropriate headings were not used for the statement
- The previous year's 'undistributed profits' were omitted and not included as an addition to surplus
- The final amount was not labelled to indicate 'retained' or 'undistributed profits' for the current period

### (c) Patronage Refund and Dividend Earnings for One Member

#### **Strength**

- Most candidates who attempted this part of the question gave reasonable responses.

#### **Weaknesses**

- Many candidates substituted the total sales of the cooperative for the purchases of the single member
- Rarely were candidates able to accurately calculate dividends accrued to the single member
- Only a minority of candidates were able to culminate with an accurate computation of the total amount that should be paid to the member

### (d) Essential Features of a Cooperative

#### **Strength**

- This part of the question was fairly well done by most candidates who attempted it.

## **Weakness**

- Many candidates stated an objective for the formation of a cooperative, rather than identifying a benefit to members of joining a cooperative, as required.

## **Recommendations**

The cooperative movement is a growing sector of the region's financial landscape, providing a wide range of services to members and enjoying increasing importance for the economic viability and stability of the social fabric of Caribbean societies. This being so, teachers are well advised to plan for and focus on this topic as early as possible in the delivery of the syllabus so as to allow students more time to assimilate concepts and more opportunities for practise. Practice questions for this topic should be sufficiently varied to allow for a holistic and dynamic approach that encompasses associated General Journal and Ledger Account(s) entries.

### Question 7

This question tested candidates' knowledge of accounting activities related to inventory (stock) valuation. The question was presented in two sub-parts. Part (a) required various computations to arrive at

- (i) closing stock in units
- (ii) closing stock valuations by both FIFO and LIFO valuation methods
- (iii) Gross Profit using the LIFO stock valuation method

Candidates were then tested for knowledge of the effect of different methods of inventory (stock) valuation on profit. Candidates were required to compute AVCO value applicable to the closing stock and to identify the ratio which measures the rate of stock depletion.

Part (b) tested candidates' knowledge of uses of ratios as determinants of performance (profitability) of a business and required them to use some ratio analysis and interpretation skills, based on data provided, to write a short, comparative report about the business' performance vis-à-vis its competitor.

Approximately 33 per cent of candidates attempted this question, 19.26 per cent of whom scored 50 per cent or more of the available marks. The mean mark for this question was 6.20 out of 20.

#### (a) Stock Valuation Computations

## **Strengths**

In general, candidates who attempted this part of the question performed very well.

- Many candidates were able to correctly calculate closing inventory (stock) valuation using both the FIFO and LIFO valuation methods.
- In calculating Gross Profit for the business, using the LIFO value for closing inventory (stock), most candidates started with the correct computed amount for 'sales', and also arrived at the correct amount for Gross Profit.

## Weaknesses

- Although the question clearly required candidates to ‘Show working for ALL calculations’, some candidates performed calculations ‘elsewhere’, and simply put down one final answer as a response to the computation of the amount of units held as unsold stock.
- Some candidates were unable to differentiate between computations using the FIFO and LIFO methods of inventory (stock) valuation.
- Some candidates who presented the calculation of Gross Profit in an Income (Trading Account) Statement failed to include a proper heading for the statement.
- With respect to Part (a) (iv), which assessed candidates’ knowledge of the effect of different methods of inventory (stock) valuation on profit, the results clearly indicated this to be a challenge for the majority of candidates.
- The AVCO inventory (stock) valuation method is clearly under-taught and under-practised as very few candidates were able to compute AVCO cost price for closing inventory (stock) correctly. For example, many candidates divided the sum of the two cost values by 2, rather than dividing by the total number of units available for sale.
- The main use of ‘Stock Turnover Ratio’, as a measure of how quickly a business sells its inventory (stock), was generally not well known.

## (b) Ratio Analyses

### Strength

- In general, most candidates were able to correctly identify the uses of the ‘current ratio’ and the ‘expenses to sales ratio’.

### Weakness

- A proper comparison of the business’ performance with that of its competitor eluded most candidates. Many candidates expressed the view that a higher percentage amount for the ‘expenses to sales ratio’ indicated a ‘better performance’, which is incorrect.

### Recommendations

Teachers should encourage students to carefully read and follow given instructions. It is always a very good idea to expose students to a wide variety of questions designed to provide them with targeted practice on computation of closing inventory (stock) valuation using all **three** methods outlined in the syllabus — that is, FIFO, LIFO and AVCO.

However, besides developing the ability to carry out various computations correctly, it is equally important to develop analytical and interpretative skills for assessing the significance of the various valuations on the business’ reported profits.

Teachers should also focus on the development of analytical and interpretative skills in candidates, by helping them to intelligently analyse various ratios demonstrating the financial position of a business, and to make succinct recommendations emanating from such ratio analyses.

## **Paper 031 — School-Based Assessment (SBA)**

The moderated SBA samples revealed that candidates exhibited a good grasp of the accounting concepts in the syllabus. The overall performance could be rated as good.

### Strengths

- The majority of projects were neatly presented.
- The language used in the SBA projects was generally good.
- Candidates stated the business information, general activities and operational time frame properly.
- Most candidates completed the debit and credit entries in the ledger.
- Financial statements were well presented.
- Most candidates were able to calculate relevant ratios.

### Weaknesses

- Aims were often not related to the project, but instead related to candidates' personal desires.
- A 'transactions listing' was not included.
- Totals were not properly transferred from source documents to the journals.
- Too often, the dates given on source documents did not correspond with dates shown in accounting records.
- For many projects, it was not possible to trace source documents presented through the journals and ledgers.
- Nominal accounts were not closed off. Closing entries (in the General Journal) were not made to have nominal account balances transferred to the relevant Final Accounts. Many candidates failed to use either the 'order of permanence' or 'liquidity' in their Balance Sheet.
- In many instances, candidates presented a graph, but with no accompanying explanations.
- Many candidates were unable to correctly interpret the ratios which they calculated.

### Recommendations

- The stated 'aims' should be related to the project — the purpose for undertaking the SBA Project.
- A 'transactions listing' should be included with the SBA Project. Such a listing should be the guide, a 'control list' as it were, to the actual transactions included in the project.
- The inclusion of only one example of each type of source document is inadequate. The May/June 2008 Syllabus (p 29) advises that four different types of source documents are to be used. With regard to chosen source documents, the key word to bear in mind is *traceability*. Therefore, amounts, dates, names and all other pertinent data found on the presented source documents should be an *exact match* and traceable through journals and ledger accounts, and, of course, identified too in the 'transactions listing' which, as previously noted, is the initial 'control list'.
- The POA syllabus at the CSEC level expects candidates to master the preparation of a three-column Cash Book — that is, to provide for cash, bank and discount columns. At the appropriate time, students should progress from the two-column to the three-column Cash Book, and this progress should be reflected in the SBA Project.
- It must be remembered that the Nominal Accounts are, in fact, temporary accounts, which are 'closed off' at end of fiscal period that is, their balances are transferred to the Final Accounts. It is the posting of closing entries (from the General Journal) that generates the Final Accounts (Trading and Profit & Loss Accounts).
- In the presentation of Balance Sheets, the convention has always been that some specific order is observed, namely Permanence or Liquidity.
- All graphs should be accompanied by suitable descriptive/explanatory write ups.

- Similarly, once ratios have been calculated, they should be accompanied by suitable, analytical commentary. Time would be well spent helping students to develop the aptitude for critical thinking and analysis with regard to this dimension of the syllabus.

In conclusion, special mention must be made in relation to the sequential arrangement of SBA Project material. The specific recommendation and points to be noted are:

- The transactions list should be placed immediately after the description/activities of business.
- The transaction list is to be followed by the actual source documents.
- Charts and diagrams are to be appropriately placed in the immediate vicinity to which they apply and where they are discussed, and/or figures and calculations given.
- Ratios calculated should be presented on the same page as the descriptive and analytical discussions.

Adhering to these aspects of 'sequential arrangement' will greatly enhance the reading and marking flow for both classroom teachers and CXC's moderators.

Finally, concerns were raised over the use of the correct and up-to-date mark schemes and syllabus guidelines in the preparation and assessment of SBA projects by teachers. It became apparent to moderators that, in some cases, classroom teachers were using mark schemes from the 2000 syllabus. Please note that an updated syllabus has been in effect for examinations from May/June 2008.

We continue to recommend increasing degrees of collaboration and coordination among teachers of POA intra and inter school/centre, in the standardizing and marking of SBA projects, to continue to develop and reinforce experience and expertise in this area.

### **Paper 032 — Alternative to SBA**

The case study for this paper was based on a sole proprietorship, small business operation, which specialized in the sale of materials for building houses.

The case study tested specific objectives and content taken from the syllabus, as follows:

- Section 2 (S.2): The Classified Balance Sheet
- Section 3 (S.3): Books of Original Entry
- Section 4 (S.4): Ledgers
- Section 5 (S.5): Preparation and Analysis of Financial Statements of Sole Trader
- Section 6 (S.6): End of Period Adjustments

#### Question 1

In this question, candidates were given the start date of the business and were required to state the closing date. The majority of candidates were unable to determine the accounting period's annual closing date for business operations, even when the start date of the new accounting year was given.

#### Question 2

This question tested candidates' knowledge of 'source documents'. They were presented with a list of source documents and were required to state why the documents were called source documents. This question proved challenging for most candidates.

### Question 3

In this question, candidates were provided with a customized, tabular worksheet and were required to complete this worksheet by linking and matching source documents to their respective journals.

### Question 4

This question required candidates to draw up the opening entry in the business' General Journal, using a given list of assets and liabilities with corresponding amounts. Candidates were required to derive the start-up capital amount for the business from the given assets and liabilities. Many candidates were unable to correctly prepare the required general journal entry. There was little regard for the rule requiring that there be a 'debit' part and a 'credit' part to every general journal entry.

In cases where candidates did present debit and credit entries, there were observed weaknesses in the inability to recognize the existing inequality between debits and credits in that combined entry, which was to be redressed with the inclusion of capital to complete the opening entry. Some candidates experienced difficulty in distinguishing between journal entries and entries in a ledger account.

### Question 5

This question tested candidates' competencies in calculating and recording depreciation of fixed assets. They were required to interpret given information and calculate the net book value of a fixed asset, using the straight line method of depreciation. The majority of candidates demonstrated competency in calculating the annual amount of depreciation, using the straight line method of depreciation. The formula of  $(\text{Cost Price} - \text{Scrap or Residual Value}) / \text{Number of Years of Expected Service}$  was well known and applied. However, some candidates experienced difficulty in arriving at the net book value of an asset. Candidates who were successful at calculating the annual depreciation amount failed to proceed to use that information to arrive at the net book value of the asset.  $\text{Annual depreciation amount} \times \text{No. of years asset in use} = \text{Accumulated depreciation amount}$ .  $\text{Cost price of asset} - \text{Accumulated depreciation amount} = \text{net book value of asset}$ .

### Question 6

This question tested candidates' competencies in preparing a three-column Cash Book, using a targeted list of transactions. Preparation of a three-column Cash Book was generally well done by most candidates.

### Question 7

This question required candidates to draw up a Sales Account in the business' General Ledger and balance that account at the end of the month. Information for completion of this task was derived from the aforementioned transactions listing. Many candidates were unable to prepare and balance the required Sales Account.

### Question 8

This question tested candidates' knowledge of the source document used for return of goods by a debtor. Many candidates were unable to correctly identify the source documents that record returns inwards.

### Question 9

This question required candidates to prepare a debtor's account in the Sales Ledger. It was generally not well done.

### Question 10

For this question, candidates were provided with a short, descriptive list of different types of accounts. They were required to use their interpretative skills and give one example of an account for each item to be found in this proprietor's ledger, extrapolated from previously given information. Most candidates demonstrated good knowledge and understanding of different types of accounts and were able to correctly select one example of the different types of accounts, for example, prepaid was differentiated from accrued expense, long-term liability and account affecting capital.

#### Question 11

For this question, candidates were provided with a further list of accounts with amounts, typically found in a Trading Account. From this, they were required to calculate Cost of Goods Sold, Gross Profit, Gross Profit Margin (on Sales) and Stock Turnover Ratio. This question was well done. Of the 3, 087 candidates who wrote the paper 032, 15.92 per cent scored at least 20 of the available marks. The mean mark on this question paper was 12.34 out of 40.

#### **Recommendations**

- Candidates need to have more exposure to source documents, with emphasis placed not only on defining them, but on the practical application of their impact on other business records, for example, the reflection of purchases invoices in the purchases journal.
- The Balance Sheet equation, otherwise referred to as the fundamental Accounting Equation, must, at all times, be emphasized, not only in a theoretical sense, but in a practical sense as well, so that assets and liabilities can be identified and, if necessary, computed the capital. Included in the instructions on the Accounting Equation should be practical exercises on journalizing opening entries of assets and liabilities and from these, the computation of capital.
- Candidates should be given more exposure to the use of ledgers, including sales, purchases and general ledger. This will help them to become more familiar with the information that is captured in the accounts found in the respective ledgers.
- Candidates should be given practical exercises in the use of all books of accounts, that is, the books of original entry and the ledgers. One of the important outcomes of these exercises would be an emphasis on the difference between journals and ledgers.
- The basic concepts of double-entry accounting should be reinforced, as this will not only ensure that candidates are aware of what would be correct debit and credit entries, but will also aid in giving a clue as to the type of balance that is expected in each account. A further spinoff would be the emphasizing of the correct use of 'c/d' and 'b/d'.
- In most cases, various elements of data were introduced, followed immediately by specific questions relating to that data. However, there were instances where information from previous sections were required to answer questions in subsequent questions. Some candidates lost valuable marks when pertinent items were omitted because they failed to recognize and include the relevant data from a previous question. For example, information from Question 4 was required for preparing the cash book in Question 6. In addition, the preparation of a debtor's account in Question 9 required input from transactions in Question 6.
- Candidates should be advised to approach the answering of questions on the case from a more holistic perspective, seeing each section as a sub-section of a whole, which is in keeping with the sound principles of accounting.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
SECONDARY EDUCATION CERTIFICATE EXAMINATION**

**JANUARY 2012**

**PRINCIPLES OF ACCOUNTS  
GENERAL PROFICIENCY EXAMINATION**

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## **GENERAL COMMENTS**

The Principles of Accounts examination is offered in May/June and January each year. The examination consists of three papers:

Paper 01	–	Multiple Choice
Paper 02	–	Essay Paper
Paper 032	–	Alternative to School-Based Assessment (Private Candidates)

### **Paper 01 – Multiple Choice**

Paper 01 consists of 60 multiple-choice items taken from the three profiles of the syllabus – Knowledge, Application and Interpretation. The performance of candidates on Paper 01 was satisfactory. The mean mark was 34.51 out of 60. The standard deviation was 8.45. Approximately 66 per cent of the candidates scored at least 50 per cent of the available marks for this paper.

### **Paper 02 – Problem Solving**

Paper 02 comprises two sections. Candidates were required to answer three compulsory questions in Section I and two of four optional questions in Section II.

The overall quality of performance of candidates on this paper showed a significant improvement compared with 2011. There is encouraging improvement in certain specific areas of candidates' responses. For example, candidates are taking greater care in heading statements and sections correctly. However, certain topics such as accounting for companies and co-operatives continue to present challenges to candidates and remain unpopular.

The mean mark was 43.69. The standard deviation was 20.03. Approximately 36.94 per cent of candidates earned at least 50 per cent of the maximum mark on this paper. The highest mark was 95 out of 100. This was achieved by two candidates.

### **Paper 032 – Alternative to School-Based Assessment (SBA)**

Paper 032 is an examination offered to private candidates. The examination attempts to simulate the skills tested in the SBA. This is achieved by presenting the candidates with one or two cases or situations from which they are required to respond to questions.

There were improvements in the performance of candidates on Paper 032. The mean mark was 19.57 out of 40 marks. The standard deviation was 8.39. The means in 2011 and 2010 were 15.45 and 15.49 respectively. Approximately 51.31 per cent of candidates earned at least 50 per cent of the maximum available marks on this paper.

## **DETAILED COMMENTS**

### **Paper 02 – Problem Solving**

#### **Section I – Compulsory Questions**

##### Question 1

This question tested candidates' knowledge of income statements and balance sheets as well as accounting ratios.

Candidates were presented with a trial balance in which the processes of adjusting and closing of accounts had been completed. Candidates were required to prepare a simplified, summarized income statement (having been given a figure for cost of sales, and a total for miscellaneous expenses); and a classified balance sheet in vertical style, with clear identification of the business' working capital. The question also required candidates to calculate two ratios: stock turnover, and return on opening capital employed (ROCE). Candidates were required to demonstrate knowledge of the formula as well as the calculations involved.

Approximately 38 per cent of candidates attempted the question. The mean mark was 7.67 out of 20. The standard deviation was 4.40.

The main strengths demonstrated by candidates were:

- using the correct headings and recognition of expenses in the income statement.
- knowledge of the vertical style presentation of the balance sheet which was generally well done — statement headings were correctly completed, classifications were included and items, including net income and drawings, were properly classified.

The main areas of weakness demonstrated were:

- failure to recognize that items such as cost of sales, accrual and prepayments needed no further adjustment

- failure to recognize the 'bank deposit' as a fixed asset and capital introduced during the year as additional capital to be placed in the 'Financed by' section of the balance sheet
- incorrect calculation and placement of working capital
- an inability to record the formulae for ratios such as the return on capital employed, using the correct elements in calculations as well as stating the answer using the appropriate terms, for example, 'times' or percentage (%).

### **Recommendations**

- Teachers need to help students to differentiate between an 'adjusted trial balance' and an 'unadjusted trial balance'. This differentiation impacts on the preparation of income statements and balance sheets. Unadjusted trial balances usually consist of longer lists of items with accompanying notes outlining required adjustments. In such cases, candidates would have had to ensure that the actual nominal accounts are accounted for in the income statement as well as the resulting real account in the balance sheet. This must be done in respect of each adjustment arising from the accompanying notes. However, in an adjusted trial balance, all items appearing on a trial balance, were extracted from the general ledger and, therefore, would have already been processed and treated as exemplified by such account titles as *'prepaid insurance'* and *'rent wing'*. Thus, when drawing up the income statement and balance sheet from an 'adjusted trial balance', amounts given on the 'adjusted trial balance' are to be entered directly in the income statement and balance sheet — no further adjustments are required.

### Question 2

This question tested candidates' knowledge of partnership agreements, their ability to prepare partnership accounts including an income statement and appropriation account, as well as their understanding and interpretation of a partner's current account.

Approximately 39 per cent of candidates attempted the question. The mean mark was 7.88 out of 20. The standard deviation was 5.54.

The main strengths demonstrated by candidates were:

- knowledge of items to be included in a partnership agreement
- recognition and treatment of expenses including cost of sales
- knowledge of the elements of a partnership's appropriation account.

The main areas of weakness demonstrated in this question were:

- failure to recognize rental revenue as income
- failure to treat the value of office supplies in hand as an item requiring adjustment in the profit and loss section as with any other expense
- incorrect treatment of appropriation items
- failure to recognize that the balance on a partner's current account can be immediately withdrawn by the partner.

### **Recommendations**

- Teachers should provide opportunities for students to practise recognizing and treating revenue items as well as uncommon expenses in different types of businesses.
- Teachers should emphasize the fact that in a partnership partners both gain from the partnership and occasionally have to pay into the business as part of the partnership agreement. The resultant effects on partners' balances can be shown in current accounts and should be shown in both T-account and statement form.

### Question 3

This question tested candidates' knowledge of the concept of depreciation.

Part (a) required candidates to define the term *depreciation*, to identify the double entry used to record depreciation and to state three causes of depreciation. In Part (b), candidates were required to calculate the depreciation on equipment over a three-year period and draw up the balance sheet extract for the equipment at the end of the third year of use.

Approximately 49 per cent of candidates attempted this question. The mean mark was 9.75 out of 20. The standard deviation was 5.37.

The main strengths demonstrated by candidates were:

- knowledge of the causes of depreciation
- the ability to calculate the annual depreciation expense and the net book value of fixed assets.

The main areas of weakness demonstrated in this question were:

- an inability to define the term *depreciation* or to correctly record the double entry treatment for depreciation

- an inability to distinguish between the straight line method and the reducing balance method of depreciation and to recognize that the net book value at the end of one year is the net book value for the start of the following year
- an inability to summarize calculations in the balance sheet (extract)
- an inability to express ideas fluently.

### **Recommendations**

- Teachers need to encourage students to familiarize themselves with theoretical aspects of the subject such as the meaning of depreciation, the causes and the effects.
- Candidates also need to be competent in applying the various methods of depreciation.
- Teachers need to reinforce the concepts of accumulated depreciation and the net book value of assets and have students practise expressing themselves in writing their responses.

### **Section II – Optional Questions**

#### Question 4

This question tested candidates' competencies and knowledge of accounting for co-operatives. The question was divided into four parts. Part (a) required candidates to outline two principles or essential features of co-operatives. For Part (b), candidates were required to calculate the return on investment (ROI) for the co-operative. Part (c) instructed candidates to prepare the appropriation account at the end of the fiscal period while Part (d) required them to prepare only the capital section of the balance sheet for the co-operative.

Approximately 24 per cent of candidates attempted this question. The mean was 4.89. The standard deviation was 4.98.

The main strengths demonstrated by candidates were

- knowledge of the proper headings for the appropriation account and the balance sheet as well as items to be included in the appropriation account
- knowledge of the formula for calculation of the return on investment (ROI).

The main areas of weakness demonstrated in this question were:

- an inability to provide the features which make a co-operative distinct from other business types
- an inability to apply the ROI formula to co-operatives

- the mistreatment of undistributed surplus and previous transfers to reserves or fund account.

### **Recommendations**

- Candidates need to be more familiar with the principles and distinctive features of cooperatives.
- The topic should be taught in terms of the similarities and differences in final statement presentations among the different types of businesses. For example, ROI can be explored in terms of recognizing the value of capital employed for various types of businesses, for example, the investment or share value owned by members is the capital employed in a co-operative.

### Question 5

This question tested candidates' knowledge of computerization in accounting, source documents and cash books. Part (a) required candidates to state two benefits of using computerized accounting processes. In Part (b), candidates were presented with a list of transactions and were required to identify the type of source document generated in each situation. Part (c) required candidates to complete a cash book page, beginning with an overdraft balance.

Approximately 49 per cent of candidates attempted this question. The responses were generally satisfactory. The mean mark was 9.84. The standard deviation was 4.50.

The main strengths demonstrated by candidates were

- knowledge of the benefits of using computerized accounting processes
- the ability to interpret and apply accounting treatments for most receipts and payments in the cash book.

The main areas of weakness demonstrated were:

- a lack of knowledge of the difference between source documents and books of original entry
- a lack of knowledge of the treatment of opening balances in the three-column cash book
- an inability to apply discount rates to gross amounts and interpret contra entries and record them appropriately
- an inability to calculate the discount when the net amount (the amount after applying the discount) is provided

- a lack of knowledge of cash book usage including its headings and the appropriate names of accounts to be used in the details columns

### **Recommendation**

In preparation for the examination, candidates need to ensure that they have covered the objectives of the syllabus. Some objectives are explicitly stated such as heading up accounts, entering opening balances, cash transactions and contra entries in cash and bank accounts whereas others are implied — these include recognition of the difference between gross amounts (amounts before deduction of discounts) and net amounts (amounts after deduction of discounts).

### Question 6

This question tested candidates' knowledge of accounting for corporations. Candidates were required to prepare (a) the income statement, (b) the appropriation account and (c) the balance sheet extract showing the capital and reserve section.

Approximately 34 per cent of candidates attempted the question. The mean mark was 6.81. The standard deviation was 5.27.

The main strengths demonstrated by candidates were:

- knowledge of appropriate headings and expenses as income statement items
- recognition of gross profit and general reserve as part of the appropriation account
- knowledge of the treatment of dividends and the placement of share types in the balance sheet.

The main areas of weakness demonstrated in this question were:

- an inability to treat provision accounts (depreciation and bad debts) and the revenue accounts correctly
- an inability to calculate preference dividends
- an inability to distinguish between share capital and dividends on shares.

### **Recommendations**

- Teachers need to expose students to the preparation of accounts for corporations and should provide opportunities for them to practise as with other, more popular types of businesses.

- The areas that are common to the preparation of accounts for any type of business should be taught using a common approach.
- After students have a general understanding of the preparation of accounts, then the specifics relating to the different types of businesses should be introduced. These include sharing of profits in a partnership business, the calculation and paying of dividends in a co-operation.

### Question 7

This question tested candidates' knowledge of payroll accounting. The question was divided into two parts. Part (a) required candidates to identify terms used in relation to payroll. Part (b) required candidates to complete a pay slip for an employee, using given data.

Approximately 59 per cent of candidates attempted this question. Performance on this question was satisfactory. The mean mark was 11.73. The standard deviation was 4.34.

The main strength demonstrated by candidates was their ability to complete the worksheet correctly using commonly known payroll treatments such as normal pay and overtime pay

The main areas of weakness demonstrated in this question were:

- an inability to identify and distinguish specific payroll terms
- an inability to differentiate between income tax and taxable earnings resulting from tax-free allowances.

### **Recommendations**

- Teachers need to encourage students to focus on accuracy in entering payroll information. Many organizations have computerized their payroll function, and standard calculations and processes are automatically completed, following initial data entry. The payroll clerk, who enters an incorrect 'rate of pay' into the system, would find the computer automatically proceeds to return an incorrect final 'net pay'. Consequently, students who wrote the total overtime earnings amount in the overtime pay rate cell, for example, were not rewarded.
- With regard to payroll terms, a clear distinction needs to be made between *commission* and *bonus*. *Commission* is paid out in relation to the earnings of an employee, as this is directly related to an employee's specific, individual efforts. On the other hand, *bonus* is not related to a specific employee's earnings but, rather, is paid out of the overall profits of the organization.

- Teachers need to provide opportunities for students to practise completing payroll forms. This can be done for an assimilated business or an actual business and the consequences of inputting incorrect information should be discussed to give students a better appreciation for the importance of accuracy.

### **Paper 032 – Alternative to School-Based Assessment**

Paper 032 is the alternative paper to the SBA which assesses similar knowledge and competencies. Candidates were presented with a case study organized into three parts with questions immediately following each part.

The case was based on a sole trader restaurateur. The case required candidates to answer questions about the elements and operations of the business, do some calculations and carry out certain accounting functions such as preparation of a balance sheet and income statement.

Candidates' performance on this paper continues to show improvement. The mean on the paper was 19.57 out of 40 and the standard deviation was 8.39. Approximately 47 per cent of the candidates achieved at least 50 per cent of the available marks for this paper.

The main strengths demonstrated by candidates were:

- the ability to distinguish assets from liabilities and long term liabilities from current liabilities
- knowledge of the balance sheet formula
- the ability to correctly prepare a balance sheet including accurate labelling of heading and sections
- the ability to prepare an income statement
- knowledge of the accounts affected by a transaction.

The main areas of weakness demonstrated were:

- a lack of knowledge of basic accounting concepts, principles and formats
- unfamiliarity with the current terminology, for example, receivables for debtors, inventory for stock
- uncertainty about the application of the double entry rule
- an inability to work through the principles and processes involved in adjusting nominal accounts including recognition of the resultant assets and liabilities
- a lack of knowledge of formula and application steps in the area of accounting ratios specifically the return on investment

- an inability to pay attention to details, follow directions and provide appropriate responses to questions.

### **Recommendations**

- Candidates are encouraged to revise basic accounting concepts, principles and formats such as order of permanence and liquidity, application of the balance sheet equation, vertical style presentation with labelling and calculation of working capital, matching source documents with the books of prime entry and appropriate ledgers, treatment of returns and closing inventory.
- Candidates need practice in looking at the principles and processes involved in adjusting entries in a variety of ways.
- Accounting for the performance of a business through the application of accounting ratios is a major focus of the SBA and must be taught comprehensively to maintain parity.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION**

**MAY/JUNE 2012**

**PRINCIPLES OF ACCOUNTS  
GENERAL PROFICIENCY EXAMINATION**

## GENERAL COMMENTS

The Principles of Accounts examination is offered in May/June and January each year. The examination consists of the following papers:

Paper 01	-	Multiple Choice
Paper 02	-	Essay Paper
Paper 031	-	School-Based Assessment (SBA)
Paper 032	-	Alternative to SBA (Private Candidates)

Paper 01 consists of 60 multiple-choice items based on the three profiles of the syllabus: Knowledge, Application and Interpretation. The performance of candidates on Paper 01 was fair. The mean mark was 34.53 out of 60 compared with 35.49 in 2011 and 33.12 in 2010. Approximately 65 per cent of the candidates scored at least 50 per cent of the marks for this paper. The highest mark on this paper was 59 out of 60. This was achieved by one candidate.

Paper 02 comprises two sections. Section I, the compulsory section, required candidates to answer three questions. Section II, the optional section, required candidates to answer two of four questions.

The performance on Paper 02 declined significantly compared with 2011. The mean mark for this paper was 31.63 out of 100 compared with 40.96 in 2011 and 40.75 in 2010. Eighteen per cent of candidates earned 50 per cent or more of the maximum marks on this paper.

Paper 031 takes the form of a report on a business prepared to demonstrate a candidate's grasp of basic accounting concepts, rules and principles as applied to a simulated business. Reports are marked by class teachers in accordance with the detailed mark scheme and rubrics found in the syllabus. Students are expected to benefit from teacher feedback and opportunities to improve their final report.

Paper 032, the Alternative to the SBA, is an examination offered to private candidates. The examination attempts to simulate the skills tested in the SBA. This is achieved by presenting candidates with one or two cases or situations from which they are required to respond to questions. The performance of candidates on Paper 032 was consistent with that of 2011 but represents a decline from 2010. The mean mark was 13.27 out of 40 compared with 12.53 in 2011 and 21.52 in 2010. Approximately 14 per cent of candidates earned 50 per cent or more of the maximum available marks on this paper.

## DETAILED COMMENTS

### Paper 02 – Problem Solving

#### Section I – Compulsory Questions

##### Question 1

The question was presented in two parts. Part (a) required candidates to prepare a corrected trial balance and therefore tested their ability to identify whether the account typically had a debit or a credit balance. Part (b) required candidates to post information provided in three day books to an account receivable in the appropriate ledger and one other account. The question also required candidates to demonstrate knowledge of the link between the journals and the debtors control account.

Approximately 99 per cent of candidates attempted the question, 42 per cent of whom scored 50 per cent or more of the maximum available marks. The mean mark on this question was 8.49 out of 20. The standard deviation was 4.60. Eighty-eight candidates scored the maximum mark while 477 scored zero.

## **Strengths**

In general, candidates

- were familiar with the concept; most of them attempted to construct a trial balance
- recognized that the balancing figure was capital
- treated correctly cash in hand, loan, bank overdraft, motor vehicle at cost and bad debts.

## **Weaknesses**

In general, candidates

- did not know the difference between assets and liabilities, and expenses and revenue accounts; as a result, several accounts were often misplaced
- could not link assets and expenses with debit balances and liabilities, contra-asset accounts and revenues with credit balances
- drew up a list of balances placing all accounts in a single column or simply reproduced the question data
- failed to provide totals for the trial balance
- prepared final accounts instead of correcting the trial balance.

## **Recommendations**

Teachers are encouraged to maintain a regular schedule of practice questions which ensures that students continue to be aware of knowledge and skills acquired earlier in the course. Students should practice drawing up the trial balance from a given list of assets, contra-assets (for example, provision of depreciation), liabilities, expenses and revenues. The examples of different kinds of accounts should become more varied and complex. Alternatively, students can be encouraged to disaggregate a correct detailed trial balance into the categories earlier referred to with a focus on allocating the terms to those with debit balances and those with credit balances.

(a) Account in the ledger

### **Strengths**

In general, candidates

- treated the sales and return inwards correctly in the accounts receivable
- were able to balance the account correctly
- were able to open new accounts

### **Weaknesses**

In general, candidates

- often excluded the cash book information in preparing the account receivable
- did not separate one account receivable's transactions from another and recordings were done for both parties in the one account.

(b) Control Account

**Weaknesses**

In general, candidates

- failed to use information from the cash book to prepare the control account
- used irrelevant information such as cash purchases in the debtors' control account
- recorded incorrect terms in the details column of the control account, for example, Plumber and Henry were used instead of total sales
- recorded the information on the wrong side of the account.

**Recommendations**

Teachers are encouraged to emphasize the link between journals and ledgers as this continues to be an area of poor performance despite its fundamental role in the practice of accounting. Teachers should also pay attention to the concept of control accounts as a summary of items which affect debtors or creditors as well as the link with journal totals.

Question 2

This question tested candidates' knowledge and application of the concept and rules that guide adjustments to financial statements. Part (a) tested candidates' ability to record the "write off" of bad debts in the journal and the calculation and recording of changes in the provision for doubtful debts in both the journal and the ledger. Part (b) tested candidates' knowledge of the relevant concept underlying adjustments to the final accounts.

Approximately 77 of the candidates attempted the question, 19 per cent of whom scored 50 per cent or more of the maximum available marks. The mean mark was 5.62 out of 20. The standard deviation was 4.24. Forty candidates scored the maximum marks while 1 218 candidates scored zero.

**Strengths**

In general, candidates

- demonstrated some knowledge of the general journal format including the use of narratives and the application of the rules of entry
- calculated the initial amount for the provision for doubtful debts account and the new amount
- balanced the ledger account correctly
- stated plausible reasons for adjustments to financial statements.

**Weaknesses**

In general, candidates

- prepared ledger accounts instead of journal entries
- reversed entries frequently

- were unaware that the matching debit would be made to the Profit and Loss Account
- did not adjust correctly for the difference in provision amounts
- were unable to identify or explain which of the concepts was the one that guided adjustments to financial statements.

### **Recommendations**

Teachers are urged to emphasize the role and use of the general journal and the correct application of the rules of entry in diverse accounting transactions. The accounting principles which underlie accounting transactions may help students better understand the application of the rules.

### **Question 3**

This question tested candidates' ability to make the connection between the correction of errors in the journal and the correction of the cash account for errors affecting it. Candidates' knowledge and understanding of the link between the corrected and updated cash book and its reconciliation with the bank statement were also examined.

Approximately 83 per cent of candidates attempted the question, 28 per cent of whom scored 50 per cent or more of the maximum available marks. The mean mark on this question was 6.71 out of 20. The standard deviation was 4.68. Ninety-eight candidates achieved the maximum mark while 1030 candidates scored zero.

### **Strengths**

In general, candidates

- were familiar with the use of the journal for the correction of errors
- recognized that correction of errors may require finding differences or doubling the amounts in entries made previously
- were familiar with the treatment of common items which are used to update the cash book.

### **Weaknesses**

In general, candidates

- did not provide proper headings for the journal or statements
- were unfamiliar with certain types of errors, especially the kind requiring the use of the suspense account
- did not follow instructions to start with the given opening balance
- seemed unaware that the corrections in the journal would be used to amend amounts in accounts in the ledger
- tended to treat with all items indiscriminately, in either updating the cash book or building the bank reconciliation statement.

## **Recommendations**

Teachers should ensure that students are aware of the processes used to determine the entries to correct errors of all kind. For example, students should be aware of the effects of a transaction – which accounts should be debited and which should be credited. Students should also be aware of the adjustment that is required to correct these accounts. This requires that students have a strong grasp of the rules of entry for transactions of all types. The link between the correction of errors in the journal and amendments of the affected accounts should be clarified for students. Although the updating of bank entries in the cash book and reconciling the balance with the bank statement has become very familiar, students should be able to distinguish the terms, for example, unrecorded deposits from un-presented cheques rather than simply be trained to fit items in. If students do not understand the transaction, then they will not be able to perform when the same information is presented in a different scenario.

## **Section II — Optional Questions**

### Question 4

This question tested candidates' understanding of how the accounting cycle is applied to the formation of a partnership. Candidates were required to prepare the opening entries to record sole traders' contribution of their individual assets and liabilities to a partnership. They were asked as well to demonstrate their understanding that a classified balance sheet using the order of permanence is in effect a re-formatting of an opening entry and in this case a summary of the two opening entries. Candidates were also required to calculate and apportion each partner's share of profit after a period of operation, using two ratios. In addition, they were required to list two features of a partnership agreement.

Approximately 67 per cent of the candidates attempted the question, 42 per cent of whom scored 50 per cent or more of the maximum available marks. The mean mark was 8.94 out of 20. The standard deviation was 4.99. Three hundred and seventeen candidates score the maximum mark while 275 scored zero.

## **Strengths**

In general, candidates

- calculated or identified at least one of the partner's capital by applying the accounting equation
- correctly prepared headings including appropriate dates
- correctly classified current and fixed (non-current) assets
- used an appropriate format for the balance sheet
- identified mortgage as a long-term liability
- calculated each partner's share of profit using the ratio 3:7
- calculated and recorded the combined cash amount
- identified at least two features of the partnership agreement, namely
  - salaries
  - interest on capital
  - interest on drawings.

## Weaknesses

In general, candidates

- were unable to prepare opening journal entries providing ledger accounts, capital accounts and statement of affairs instead
- appeared to be unfamiliar with the terms *receivables* and *payables* and therefore struggled to classify them
- were unable to list assets in the order of permanence
- interpreted the word *summarized* as totals of each section in the balance sheet rather than itemizing the elements of each section
- appeared to be unfamiliar with the capital sharing ratio and the features which are to be found in a partnership agreement identifying instead terms such as the acid test ratio and the liquidity ratio.

## Recommendations

Teachers are encouraged to have students practice opening journal entries while exposing them to alternative terms such as *receivables* (debtors), *payables* (creditors), *inventory* (stock) and how these terms are to be classified and treated. These modern terms should replace the traditional terms from the introduction to POA. Students should also be familiar with both the order of permanence and the order of liquidity when classifying the balance sheet. Students should be aware of the terms and conditions that potential partners must agree to prior to forming the partnership. They need to be aware that when profits (or losses) are to be apportioned, the partnership may agree on different methods.

### Question 5

This question tested candidates' knowledge of some theoretical areas with respect to limited liability companies. Candidates were required to prepare journal entries to record increases in two types of shares within the authorized share capital as well as the reduction of debentures. This increase required that candidates recognize the creation of a share premium account as well as the effects on the cash/bank account. Finally, the question required the preparation of an appropriation account to show the division of the profits based on the changes in debentures and shareholdings.

Approximately 16 per cent of the candidates attempted the question, with only 5 per cent of them scoring 50 per cent of the maximum available marks. The mean was 3.00 out of 20. The standard deviation was 3.07. The highest mark on this question was 19 out of 20. This was achieved by 2 candidates. Six hundred and eighty-four candidates scored zero.

## Strengths

In general, candidates

- correctly interpreted the term *limited liability* and stated at least one role of the board of directors
- calculated the new share capital for ordinary and preference shares and showed the new total of \$21 000 for debentures

- showed an appropriation entry for the transfer to reserve in the appropriation account.
- applied the correct dividend rate and provided a correct heading for the appropriation account.

### **Weaknesses**

In general, candidates

- did not provide specific explanations, in addition they appeared to be unaware of the role of the registrar of companies
- were unfamiliar with the use of the journal and were unable to complete the double entry with an entry for cash/bank
- were unable to differentiate between the ordinary share capital amount and the share premium added
- did not make the link between the reduced debenture total and the calculation of interest on debentures or the increased share capital items and the dividend rate.

### **Recommendations**

Teachers are encouraged to focus on accounting for company transactions earlier in the school year. The application of the rules of entry via the journal may include concepts such as the purchase and sale of shares and debentures and the decrease in the latter earlier in the delivery of the syllabus than it is presently done. Students who are new to accounting principles should be exposed to the concept of shares and the undertaking of liabilities such as loans in a variety of forms. Students are usually aware that loans attract interest and if the amount paid in interest exceeds the amount owed then the interest is applied to the reduced amount. Teachers can then introduce the theories behind company accounts later in the period of instruction referring to previous knowledge as appropriate. Teachers may consider introducing topics such as appropriation of profits immediately after students gain an understanding of the concept of net profit.

### Question 6

This question tested candidates' knowledge of the preparation of information that is of interest to a manufacturing firm. The knowledge and skills assessed are routinely tested as part of the topic, manufacturing account. This question was very popular and in general candidates performed creditably.

Approximately 72 per cent of candidates attempted the question, 46 per cent of whom scored 50 per cent or more of the maximum available marks. The mean mark was 8.72 out of 20. The standard deviation was 4.79. Sixty-two candidates achieved the maximum mark while 593 candidates scored zero.

### **Strengths**

In general, candidates

- correctly calculated direct materials consumed
- correctly calculated indirect materials used

- prepared the manufacturing account showing clearly cost of direct materials consumed, prime costs, factory overheads, cost of production
- correctly calculated the cost of goods sold
- attempted all parts of the question
- demonstrated increased attention to proper heading of statements including the name of the business, the statement being prepared and the appropriate wording for the date
- identified all the sections required
- recognized the difference between the two terms, *production costs* and *cost of goods sold*
- transferred the production costs in determining cost of goods sold.

### **Weaknesses**

In general, candidates

- did not include all elements in arriving at the values for direct and indirect materials consumed, especially transportation costs
- failed to apportion the transportation costs correctly and many times included the direct figure but omitted the indirect figure
- failed to transfer calculated figures to the manufacturing account or recalculated them anew in the account
- did not include factory wages as part of prime cost
- did not include indirect material as overhead costs
- placed opening and closing stocks of work in progress in the wrong section of the manufacturing account.

### **Recommendations**

Teachers should have students practise a range of questions distinguishing between cost elements: material from labour; labour from other types of expenses; direct from indirect costs. Students need to be made aware of the importance of individual cost elements, for example, the cost of raw materials used to a manufacturer and the examples of cost items that will be included, for example, transportation costs in that costing exercise. The transfer of the cost of production figure to the cost of sales should be practised so that students are more aware of the link between the manufacturing account and the trading account.

### Question 7

This question required candidates to prepare final accounts for a co-operative at various points of its operational life. Candidates were also required to demonstrate knowledge of the structure and operations of co-operatives.

Approximately, 14 per cent of candidates attempted the question, 13 per cent of whom scored 50 per cent or more of the maximum available marks. The mean mark was 4.87 out of 20. The standard

deviation was 3.73. The highest mark on this question was 19 out 20. This was achieved by two candidates, while 288 candidates scored zero.

### **Strengths**

In general, candidates

- prepared the income statement using the correct items and by applying the correct treatment
- showed the correct headings and classified the fixed and current assets, and identified the loan from the co-operative bank as a long term liability in the balance sheet.

### **Weaknesses**

In general, candidates

- appeared unable to calculate dividends or transfer amounts to reserves
- added the figures for both years (December 2010 and December 2011) and then prepared the income statement
- have a poor grasp of the structure and operations of a co-operative entity
- were unable to classify the loan to members as a fixed asset and interest due from members as a current asset and dividends owing as a current liability
- found the term *portable stalls* unfamiliar and hence many of them were unable to classify it as a fixed asset
- failed to prepare the capital section of the balance sheet properly, omitting key items such as the members education fund and the undistributed profits.

### **Recommendations**

Teachers are encouraged to treat with co-operatives with the same due care and attention as other organizations. Students should be exposed to the assets, liabilities and capital items that are peculiar to co-operative accounts to enable them to differentiate these items. Finally, teachers are advised to treat with final accounts as a topic across the range of organizations using an integrated approach rather than in isolation where the concept is taught all over again when a new type of business is introduced.

### **Paper 031 – School-Based Assessment (SBA)**

Paper 031 allows students to experience the workings of the accounting cycle in a simulated or experiential environment. Students develop business and accounting records, using real or pretend transactions including the production of source documents, entering information into appropriate journals, posting to the relevant ledgers including the cash book, totalling and drawing up the trial balance. From this, students are required to produce final accounts for a minimum of two periods and use the application of simple ratios to enable an evaluation of performance.

The resulting reports (no accompanying appendices) are marked by class teachers out of 40 marks using the detailed mark scheme provided in the syllabus. These marks are submitted for moderation through re-marking process that focuses on ensuring adherence to the mark scheme as well as tracing the links between the various stages of the accounting cycle.

Whereas, many teachers support students with valuable feedback and opportunities to produce excellent and detailed SBA projects, other teachers may not be as aware of the obligation to ensure that the marks awarded to students for their project reflect the quality of work produced.

The following report focuses on the strengths and weaknesses of SBAs presented for moderation. Teachers and students should become more aware of what is expected at every step of the process. This will support the production of an SBA that is closely aligned to the guideline, and to which the mark scheme can be applied.

In general, students

- consistently included a table of contents but a significant number of them failed to do proper page numbering or used chapter numbering without identifying individual pages
- cited aims which were too general in nature or reflective of the examination and which lacked a focus specific to the project. There were also frequent instances of overlapping aims
- provided comprehensive descriptions of the simulated business including supporting data such as the type of business and the nature of the business activities but many failed to include the precise time periods during which the business was simulated
- included appropriate diagrams from an accounting perspective but did not always provide labels or explanations of purpose for items on the diagrams presented
- included the transaction listing but did not take care to maintain the sequence that was reflected in their accounts
- included source documents that were written up to reflect transactions from the listing. These documents were not always placed immediately after the transaction listing as expected. Students are reminded that three of these source documents are compulsory, namely
  - cash receipt
  - banking documents (withdrawal/lodgement slips, cheque or cheque counterfoil)
  - sales/purchases invoice

The fourth source document may be drawn from the following list:

- internal memo
- debit note/credit note
- petty cash voucher
- demonstrated mastery in the preparation and presentation of the cash book in terms of cash/bank and discount columns, however, few of them used the three-column cash book
- demonstrated competence in drafting the books of original entry but did not post totals to ledgers, as expected, but posted individual items unnecessarily
- balanced and closed accounts appropriately but some of them did not treat nominal accounts (expenses and revenue accounts) correctly using c/d and b/d when they should have been closed to the trading account or the profit and loss account
- presented trial balances where the given totals usually agreed

- presented income statements with net profit/loss figures which were traceable to the balance sheet
- presented the balance sheet with correct headings and correct ordering of assets in terms of liquidity or permanence with totals agreeing
- gave a statement of performance, but a large percentage failed to substantiate the statement with the net profit/loss figure drawn from the financial statements
- gave accurate computations of ratios with supporting interpretations and provided recommendations/suggestions that were related to the interpretation
- failed to correctly interpret the *further interpretation* component of the SBA project. Students are required to compare two different items over two different time frames within the period of simulation. For example:
  - Week 1 cash sales figure against week 2 cash sales figure  
(cash sales cannot be compared with credit sales)
  - Opening cash/bank balance against closing cash/bank balance  
(sales cannot be compared with purchases)

While it is admirable that attempts were made by students to include all sections of the project; no mark was awarded for completeness as students failed to complete the project in accordance with the revised SBA mark scheme. The mark for sequential arrangement was also not awarded in most cases due to students' failure to arrange projects in accordance with the sequence stipulated by the revised SBA mark scheme. No component of the project should be placed in an appendix as there is no need for such a section in the project report.

### **Recommendations**

- Students should be guided in selecting the type of business activities and the time frame during which the business will be simulated.
- The following are examples of aims that were **not** accepted by the examiners:
  - To fulfill the requirements of CXC
  - To fulfill and satisfy the needs of the customers/people
  - To make a profit
  - To become independent and to be my own boss

The following are some aims which were accepted:

- To gain practical experience in the application of accounting procedures
- To complete the accounting cycle for the simulated business
- To analyse and interpret the performance of the business
- To assess the financial position of the business

However, students should ensure that their stated aims do not overlap.

- Students need to be advised that if a cash book is included, there is no need for separate accounts for cash and bank in the general ledger.

### **Paper 032 – Alternative to School-Based Assessment (SBA)**

Candidacy for Paper 032 is limited to those persons who are out of the formal, secondary-level school system and would not, therefore, be considered as full-time, secondary school students benefiting from the internal school-based assessment programme. Normally referred to as *Private Candidates*, this also includes persons who have exited the secondary school system without a passing grade on the SBA component of their Principles of Accounts evaluation, as well as persons who may have earned a passing grade on the SBA component but failed the Principles of Accounts Paper 02, more than two years previously.

As per Principles of Accounts syllabus guidelines, private candidates are tested for a duration of 90 minutes, the exam taking the form of a case study, with a minimum of ten and a maximum of fifteen questions. Paper 032 is worth 40 marks, and contributes 20 per cent to the final mark.

The 2012 case study was based on a sole trader, with a small agri-business operation. It tested specific objectives and content taken from the syllabus as follows:

- Section 2 (S.2): The Classified Balance Sheet
- Section 3 (S.3): Books of Original Entry
- Section 4 (S.4): Ledgers
- Section 5 (S.5): Preparation and Analysis of Financial Statements of Sole Trader
- Section 6 (S.6): End of Period Adjustments

Of the 3002 candidates who wrote the paper 032, 22 per cent scored 20 or more of the 40 available marks. The mean was 13.27 out of 40. The standard deviation was 6.72. The highest mark was 39 out of 40. This was achieved by two candidates. Twenty-four candidates scored zero on this paper.

The paper comprised of ten compulsory questions. The following comments reflect the overall strengths and weaknesses of candidates' responses.

#### Question 1

In this question, candidates were required to state the ledgers in which the debtors' accounts and the capital account would appear. In most cases, candidates provided the names of journals rather than ledgers.

#### Question 2

This questions required candidates to use the balances presented to prepare a classified balance sheet in vertical style. The majority of candidates was able to prepare a balance sheet (whether classified or vertical). However, candidates frequently misclassified the bank loan as a current liability, did not subtract the provision for bad debts which should be treated as a contra-asset account, and appeared neither to understand the concept of *working capital* nor that the persons owing for gardening jobs were accounts receivable and the persons owed for gardening jobs would be accounts payable of the business.

### Question 3

In this question, candidates were required to suggest the importance of presenting the balance sheet of the business to a lender or investor. Candidates provided good reasons for using the balance sheet as a decision-making tool.

### Question 4

This question was based on information given for net profit and drawings, candidates were required to prepare the opening capital. Candidates were also required to calculate the return on opening capital employed (ROCE). Both parts of the question proved to be challenging for the majority of candidates. The calculation of opening capital required knowledge of the capital section of the balance sheet applied in reverse. The calculation of ROCE required a statement of the formula and the application of figures, given and calculated.

### Question 5

This question required candidates to identify the name of the source document used when receiving or making payments by cheque. Candidates identified many documents which were incorrect. The correct response was receipt.

### Question 6

A list of payments and receipts was presented for candidates to prepare a bank account to be balanced at the end of three months. The bank account was prepared correctly in most cases except when candidates included the opening balance and completed the balancing of the account like any other account.

### Question 7

Candidates were required to name one item of capital expenditure and one item of revenue expenditure shown in the cash book. They were able to differentiate between revenue and capital expenditure, however many identified others not found in the cash book.

### Question 8

Using the given table, candidates were required to calculate: units available for use; units used; units unused and the value of units unused, by the First-In-First-Out (FIFO) method. Candidates were challenged in interpreting this question although this is thought processes required in order to arrive at closing stock.

### Question 9

This question tested candidates' competency in calculating depreciation of fixed assets and provision for bad debts for part of one year. They were required to interpret given information and calculate the net book value of a fixed asset, using the straight line method of depreciation, as well as the increase in provision for bad debts. Candidates were able to use the formula to calculate the annual depreciation amount but they generally failed to prorate the figure. They also failed to calculate the increase in the provision for bad debts for the year matching the two figures given.

### Question 10

Candidates were given information on the payment of insurance over a nine month period. From this, they were required to prepare accounts for a three-month period. Candidates were required to use the statement given, in order to calculate: the amount paid; the adjustment to be made and the closing

entry to the account. Candidates were challenged in treating with adjustments for prepayments at the end of a period.

### **Recommendations**

- Candidates need to have more exposure to source documents, especially in practical applications of their impact on business records.
- The balance sheet equation, otherwise referred to as the fundamental accounting equation, must be emphasized – so that candidates will be able to identify assets, identify liabilities and compute the capital.
- Candidates should be given more exposure to the use of ledgers, so that they are more familiar with the accounts found in the respective ledgers.
- The basic concepts of double entry accounting should be reinforced. The correct use of ‘c/d’ and ‘b/d’ should also be emphasized.
- Various data were introduced prior to specific questions. Candidates were required to answer questions which required the inclusion of data previously given. Some candidates lost valuable marks when pertinent items were omitted because they failed to recognize and include the relevant data from a previous question. Examples include:
  - Opening balance for the preparation of the bank account in Question 6 was introduced in Question 2.
  - Capital calculated in Question 2 was to be used in Question 4 (a).
- More emphasis should be placed on the calculation and the preparation of double entry for adjustment entries.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
CARIBBEAN SECONDARY EDUCATION CERTIFICATE<sup>®</sup> EXAMINATION**

**JANUARY 2013**

**PRINCIPLES OF ACCOUNTS  
GENERAL PROFICIENCY EXAMINATION**

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## GENERAL COMMENTS

The Principles of Accounts examination is offered in January and May/June each year.

The examination consists of three papers:

Paper 01	-	Multiple Choice
Paper 02	-	Essay Paper
Paper 032	-	Alternative to School Based Assessment (Private Candidates)

Paper 01 consists of 60 multiple-choice items taken from the three profiles of the syllabus; Knowledge, Application, Interpretation. The performance of candidates on Paper 01 was fair.

The mean mark was 34.86 out of 60 compared with 34.51 in 2012 and 32.34 in 2011. Approximately 67 per cent of the candidates scored at least 50 per cent of the marks for this paper. The highest mark scored was 58.

Paper 02 comprises two sections. Section I, the compulsory section, required candidates to answer three questions. Section II, the optional section, required candidates to answer two out of four questions.

The performance on Paper 02 declined significantly compared with 2012. The mean mark for this year's paper was 35.12 out of 100 compared with 43.69 in 2012 and 32.56 in 2011. Twenty -six per cent of the candidates earned at least 50 per cent of the maximum mark on this paper.

Paper 032, is an examination offered to private candidates. This examination attempts to simulate the skills tested in the School Based Assessment (SBA). This is achieved by presenting the candidates with one or two cases or situations from which they are required to respond to questions.

The performance of candidates on Paper 032 showed some improvement when compared with 2012 and 2011. The mean mark was 22.45 out of 40 marks compared with 19.57 in 2012 and 15.48 in 2011. Approximately 64 per cent of candidates earned at least 50 per cent of the maximum available marks on this paper.

## **DETAILED COMMENTS**

### **Paper 02 – Problem Solving**

#### **Section I – Compulsory Questions**

##### Question 1

This question consisted of three parts. Part (a) required candidates to interpret how a transaction resulted in changes in balance sheet information. For Part (b), candidates were required to prepare a classified balance sheet, using the order of permanence. The information provided included only assets and liabilities and therefore candidates were expected to apply the balance sheet equation in arriving at a value for capital. Part (c) tested candidates' application of the expanded capital section equation.

Approximately 100 per cent of candidates attempted the question, of which approximately 61 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 10.49 out of 20.

#### **Strengths**

In general, candidates

- recognized the effect of the first transaction on the bank account
- used proper headings/titles for the balance sheet and correctly labelled the different sections/headings in the balance sheet
- listed assets in the correct section of the balance sheet and entered a figure for capital.

#### **Weaknesses**

In general, candidates

- found it difficult to identify the most likely reason for the change in capital
- demonstrated inconsistencies in placing assets in the order of permanence
- did not recognize mortgage as a long term liability
- treated some items incorrectly.

#### **Recommendations**

Teachers might find it useful to vary their approach when teaching fundamental accounting concepts, rules and principles. For example, students' learning is likely to be strengthened in situations where they are engaged in activities which challenge them to provide explanations for each ledger entry, when moving transactions to the ledger. Providing opportunities for students to respond to situations which highlight unbalanced trial balances and incomplete records is likely to improve students' grasp of fundamental accounting principles and concepts.

## Question 2

This question tested candidates' understanding of essential features of a partnership agreement. Candidates were required to construct a Profit and Loss Appropriation Account for a partnership. In doing this, they were to demonstrate their competency in calculating interest on drawings, interest on capital, partners' salaries, drawings and share of profit. In addition, candidates were required to draft current accounts using the appropriate figures, and to share the profit of business between the two partners, recognizing that there was no partnership agreement.

Approximately 87 per cent of the candidates attempted the question, 38 per cent scored 50 per cent or more of the available marks. The mean mark was 7.71 out of 20.

### **Strengths**

In general, candidates

- applied proper accounting procedures in completing the preparation of the Partnership Appropriation Account and the calculation of interest on drawings and interest on capital
- applied the correct rate of appropriation to their residual profit
- correctly completed the appropriation and current accounts
- demonstrated their awareness of the need to share profit equally where a partnership agreement does not exist.

### **Weaknesses**

In general, candidates

- ignored the fact that the partner's salary should be calculated on a yearly basis, although they were aware that it should be included in the appropriation account
- subtracted interest on drawings instead of adding
- found the preparation of current accounts challenging. From candidates' responses, it appeared that some candidates never prepared such accounts. Candidates, at times, did not bring down the opening balances on the accounts and when they did they treated the debit balance incorrectly
- failed to prepare separate current accounts for each partner. Some candidates did one account with the debit side being the value belonging to one partner and the credit balance belonging to the other partner
- chose to share their remaining profit rather than the original net profit.

### **Recommendations**

Teachers are encouraged to guide students to develop strategies that they can use to aid them in becoming more conscious of their actual calculations. Students need much practice in calculating the salaries of partners in a partnership. Attention also needs to be given to assisting students in preparing current accounts with special emphasis on guiding them to recognize that debit balances must be brought down on the debit side and credit balances on the credit side.

### Question 3

This question tested candidates' ability to prepare a statement of affairs; calculate total credit purchases and total credit sales for the accounting year and prepare an income statement. Of the three compulsory questions, candidate performance was the worst on this one.

Approximately 82 per cent of the candidates attempted the question; 16 per cent scored 50 per cent or more of the available marks. The mean mark was 5.05 out of 20.

### **Strengths**

In general, candidates

- used proper headings for both the statement of affairs and the income statement.
- identified working capital as requested, and knew that capital was an essential end to the statement of affairs.
- treated accumulated depreciation correctly
- included all current assets in the statement of affairs.
- demonstrated familiarity with the format of the income statement
- recognized that rent and wages needed to be adjusted.

### **Weaknesses**

In general, candidates

- omitted the opening bank balance from the statement of affairs
- lacked the skill to calculate total purchases and total sales
- in drawing up the income statement, often omitted the effect of the difference in accumulated depreciation and were therefore unable to make the necessary adjustments for wages and rent.

### **Recommendations**

Teachers are urged to encourage students to recognize the relevance of all opening balances even when they are not placed with other balances. Students should be given opportunities to develop the practice of making the link between placing items in debtors and creditors control accounts and placing similar (and usually fewer) items in the accounts created to find missing figures for the final accounts. Students also need practice in calculating total credit purchases and total credit sales.

## Section II - Optional Questions

### Question 4

This question tested candidates' ability to prepare a vertical-style balance sheet; apply their knowledge of basic accounting ratios (net income margin, return on capital invested and current ratio) to assess the performance of two businesses. Candidates were also required to calculate the value of a business ending inventory using the FIFO method.

Approximately 66 per cent of the candidates attempted the question; 38 per cent scored 50 per cent or more of the available marks. The mean mark was 8.44 out of 20.

### **Strengths**

In general, candidates

- demonstrated familiarity with the vertical-style format of the balance sheet.
- used appropriate headings to label the balance sheet
- were able to classify most items properly
- calculated the current ratio accurately in Part (b).

### **Weaknesses**

In general, candidates

- failed to identify figures such as *working capital* in the balance sheet
- appeared unfamiliar with the formulae used to calculate *net income margin* and *return on capital invested*
- showed an inability to comment appropriately on the liquidity position of the company or to accurately compare the performance of the two businesses
- rarely attempted Part (e) of the question. The few who did were not able to value the closing stock correctly.

### **Recommendations**

Teachers might consider it useful to introduce students to basic accounting formulae and their interpretations at the same time the students are learning concepts related to the final accounts of sole traders. Students need practice in applying formulae to calculate *net income margin* and *return on capital invested*. The calculation of amounts in closing stock and application of the appropriate values for the particular items for businesses of any size are useful skills that students should be exposed to as early as possible.

## Question 5

This question consisted of two parts. It required candidates to prepare a manufacturing account in which they were to clearly show the cost of raw materials, prime cost, factory overheads and cost of production. Additionally, candidates were required to prepare an income statement (Trading and Profit and Loss Account). This question was very popular and in general candidates performed creditably.

Approximately 74 per cent of the candidates attempted the question; 54 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 10.21 out of 20

### **Strengths**

In general, candidates

- used appropriate headings for both statements
- were able to indicate *prime cost* in the manufacturing account, and *gross* and *net* profits in the income statement
- appeared to have some knowledge of the formats used for both the manufacturing and the trading and profit and loss accounts
- were able to calculate cost of goods sold in the trading accounts, and list expenses in the profit and loss account
- treated opening and closing work-in-progress correctly.

### **Weaknesses**

In general, candidates

- failed to **add** factory overheads to prime cost in the manufacturing account.
- did not treat *wages* as a prime cost in the manufacturing account
- omitted or incorrectly treated *transportation-in* as a factory overhead although it was supposed to be added to purchases in the manufacturing account
- omitted or treated *electricity* and *rent* expenses incorrectly. some candidates included them in one statements only; either as *factory overheads* in the manufacturing account or *expenses* in the profit and loss account without apportioning the expense between them
- combined the two businesses and used combined figures or prepared two manufacturing accounts and two trading and profit and loss accounts.

## Recommendations

Teachers might find it useful to engage students in a range of practice activities where they are challenged to distinguish between different cost elements referred to in manufacturing accounts. Students could be asked to distinguish between material cost and labour costs; labour costs and other types of expenses; direct cost and indirect costs. There is also a need for students to develop an understanding of the importance of individual cost elements, and how they are used to determine other costs. For example, students could be asked to identify the cost of raw materials used by a manufacturer and examples of cost items that might be included in that costing exercise. The transfer of the cost of production figure to the cost of sales should be practised so that students develop a deeper awareness of the link between the manufacturing account and the trading account.

### Question 6

This question tested candidates' ability to prepare a subscription account; a creditors' account and a club's income and expenditure account. Additionally, candidates were required to identify the section of the balance sheet that indicated arrears in subscriptions; to state the term used to mean capital and; to determine the total value of the club's non-current assets.

Approximately 23 percent of the candidates attempted the question; 19 per cent scored 50 per cent or more of the available marks. The mean mark was 5.48 out of 20.

## Strengths

In general, candidates

- recorded a number of items accurately in the subscription account to the extent that a number of accounts *were perfect*.
- recorded *payments to suppliers for bar purchases* properly.
- demonstrated an understanding of the format for the income and expenditure account.
- recorded revenue and expense items on the correct sides in the income and expenditure account.

## Weaknesses

In general, candidates

- were unable to put opening balances of the Subscription Account on the correct sides and even fewer entered the appropriate closing balances
- were unable to incorporate all relevant information in arriving at an amount for bar purchases and even fewer used the information to arrive at a figure for bar profit for the Income and Expenditure Account
- tended to use cost and/or valuation figures for club furniture in the Income and Expenditure Account instead of treating the difference as depreciation

- were unfamiliar with terms used in accounting for non-trading organizations
- made little distinction between current and non-current assets; included every asset in their calculation and even some liabilities such as subscription in advance.
- omitted Part (d) from their response.

## **Recommendations**

Teachers are urged to emphasize to students the importance of being able to identify the assets and liabilities for different types of entities. As well, there is a need for students to be engaged in practical activities capable of facilitating a strengthening of their understanding of how assets and liabilities are recorded in summary accounts at the beginning and end of accounting periods.

### Question 7

This question tested candidates' ability to prepare Journal entries to record the issuance of two types of shares within the authorized share capital. The question also required candidates to prepare an appropriation account to show the division of profits based on information provided. Finally, the question required students to calculate two accounting ratios and to use these ratios to interpret the performance of a company.

The question was very unpopular and the majority of those attempting it appeared unfamiliar with the topic.

Approximately 10 percent of the candidates attempted the question, 2 percent of whom scored 50% or more of the available marks. The mean mark on this question was 3.30 out of 20.

## **Strengths**

In general, candidates

- used a journal entry format with debit and credit columns
- were able to state one difference between ordinary and preference shares with a focus on the right of the preference share holder to a fixed rate of dividend.
- made the entry for the transfer to Reserve in the Appropriation Account.
- applied the correct dividend rate and provided a correct heading for the appropriation account.

## **Weaknesses**

In general, candidates

- were unable to complete the double entry with an entry for cash/bank
- did not recognize the share premium amount
- mixed up the preference share rate or did not use it at all
- were unable to calculate the correct amount of dividends on the share capital items and the company's dividend rate.

## **Recommendations**

Teachers are again encouraged to begin to expose students to the principles governing accounting for company transactions earlier in the school year. There is a need for instructional strategies which can help students acquire the necessary knowledge and skills relating to the treatment of purchase of shares, sale of shares and liabilities. Students who are new to accounting principles often possess some awareness of the concept of shares and the undertaking of liabilities such as loans. They are also usually aware that interest has to be paid on a loan and, if one owes less, the interest is applied to the reduced amount. Teachers might find it useful to utilize such previous knowledge as a starting point when introducing students to theories governing accounts. In addition, teachers may consider introducing topics such as appropriation of profits immediately after students have gained an understanding of the concept of net profit.

### **Paper 032 – Alternative to SBA**

Paper 032 forms part of the compilation of candidates' final mark in Principles of Accounts (POA).

Candidacy for this exam is limited only to those persons who are out of the formal secondary-level school system and would not, therefore, be considered as full-time secondary school students benefiting from the internal school-based assessment programme. Normally referred to as 'private candidates', this category of candidates may also include persons who have exited the secondary school system without a passing grade on the SBA component of their POA evaluation, as well as persons who may have earned a passing grade on the SBA component but failed the Paper 02 exam, more than two years previously.

As per POA syllabus guidelines, private candidates are tested for a duration of 90 minutes. The exam takes the form of a case study, with a minimum of 10 and a maximum of 15 questions. Paper 032 carries a total of 40 marks, and is weighted at twenty per cent 20% per cent of the POA final mark.

The 2013 Paper 032 case study was based on a sole trader with a small beauty supply retail business operation. The case study tested specific objectives and content taken from the POA syllabus, as follows:

- Section 2 (S.2): The Classified Balance Sheet
- Section 3 (S.3): Books of Original Entry
- Section 4 (S.4): Rules of entry
- Section 5 (S.5): Analysis of Financial Statements of Sole Trader
- Section 8 (S.): Depreciation

Of the candidates who did the General Proficiency, Paper 032 sixty four 64 per cent scored 50 per cent or more of the available marks. The mean mark on this question paper was 22.45 out of 40.

There were 12 compulsory questions and the following comments reflect the overall strengths and weaknesses of candidates' responses.

- Questions 5, 6 and 7 were not done by the majority of the candidates and some of those who made an attempt showed no knowledge of accounting ratios. In Question seven, the reasons given were not consistent with the ratios identified.
- Question 8 was problematic for candidates because the term/word *type* was used instead of *class* and this appeared to create confusion in the minds of candidates. Candidates were weak in their interpretation of the effect of the transactions on net income.
- In Question 10, the payment terms appeared to create difficulty so that the discount received was either ignored or miscalculated
- The depreciation figure of \$2500 given in Question 11 was not used appropriately, with some candidates calculating depreciation using 25 per cent of the \$2500.

## **Specific Comments**

### Question 1

This question required candidates to state the name of one type of journal. Unsuccessful candidates provided the names of ledgers rather than journals.

### Question 2

In candidates were required to identify different classes of assets and to calculate total values. Candidates tended to treat mortgage as a current liability although it should have been omitted. The term *non-current assets* appeared to be unfamiliar to some candidates.

### Question 3

This question required candidates to state the balance sheet equation. Some candidates showed unfamiliarity with the term *balance sheet equation*.

#### Question 4

For this question candidates were required to calculate capital using the totals in Question 2 as well as additional information provided. Most candidates were able to use the balance sheet equation even where they did not get it right in Question 2.

#### Questions 5, 6 and 7

These questions required candidates to identify a ratio to measure liquidity; to use the named ratio to calculate the liquidity position of the business and; to use the answer to evaluate the firm's liquidity position. Most candidates who provided an answer identified the current ratio with a few indicating the acid-test ratio. Where a ratio was provided, candidates were able to answer Question 6 using their own totals from Question 2. However, only a few candidates were able to give a reason for their answer to Question 7 in terms of the standard benchmarks for liquidity.

#### Questions 8 and 9

These questions required candidates to apply their knowledge of rules of entry to transactions to complete a given table. In completing the table, candidates were required to name the type of account each given entry represents and to interpret the effect of the given transaction on net income. Candidates were able to interpret the straightforward transactions on 2 and 4 June but struggled to identify the effect of the transactions on net income.

#### Question 10

This question required candidates to draw up a simple account for the creditor for purchases. Candidates again struggled with naming the accounts appropriately as well as placing the entries on the right sides of the account. The greatest challenge encountered was reflected in candidates' inability to correctly interpret the terms of trade *5/10, n/30*. The correct interpretation required candidates to note that a 5 per cent discount would be given to the payer if payment is made within 10 days of the credit transaction but the whole amount would have to be paid if payment was made within or after 30 days.

#### Questions 11 and 12

These question tested candidates' competencies in calculating depreciation and the net book value of fixed assets using the reducing balance method. Successful candidates were able to use the formula to calculate the annual depreciation amount but others failed to subtract the previous year's depreciation before applying the 25 per cent depreciation for the second year. This also affected their calculation of net book value.

### **Recommendations**

- Candidates need to know the difference between journals and ledgers. They should strive to familiarize themselves with this information.
- Knowledge of the balance sheet equation, otherwise referred to as the fundamental accounting equation, is critical – for candidates to be able to identify assets and liabilities and, compute the capital.
- Candidates need to become familiar with ratio analysis from formula application to interpretation.

- The effect of the application of rules of entry on net figures such as net profit/net income should be reinforced.
- The calculation of depreciation using a method other than the straight-line depreciation method should be practised.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION**

**MAY/JUNE 2013**

**PRINCIPLES OF ACCOUNTS  
GENERAL PROFICIENCY EXAMINATION**

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## GENERAL COMMENTS

The Principles of Accounts (POA) examination is offered in May/June and January each year.

The examination consists of the following components:

Paper 01	–	Multiple Choice
Paper 02	–	Essay Paper
Paper 031	–	School-Based Assessment (SBA)
Paper 032	–	Alternative to SBA (For Private Candidates)

## DETAILED COMMENTS

### Paper 01 — Multiple Choice

Paper 01 consists of 60 multiple choice items assessing the three profiles of the syllabus: Knowledge, Application and Interpretation. The performance of candidates on Paper 01 was fair.

The mean mark was 38.09 out of 60, compared to 34.53 in 2012 and 35.49 in 2011. Approximately, 82.56 per cent of the candidates scored at least 50 per cent of the maximum marks for this paper. Five candidates scored the maximum of 60 marks.

### Paper 02 — Problem Solving

Paper 02 comprises two sections. Section I, the compulsory section, required candidates to answer three questions. Section II, the optional section, required candidates to answer two out of four questions.

The performance on Paper 02 improved significantly compared with last year. The mean mark for this paper was 44.65 out of 100 as against 31.63 in 2012 and 40.96 in 2011. Approximately 41.26 per cent of candidates earned at least 50 per cent of the maximum mark on this paper.

### Paper 031 – The School-Based Assessment

Paper 031 takes the form of a report on a business prepared to demonstrate candidates' grasp of basic accounting concepts, rules and principles as applied to a simulated business. The report is marked by the class teacher in accordance with the detailed mark scheme and rubrics found in the syllabus. Candidates are expected to benefit from teacher feedback and use the opportunities to revise and improve on their preliminary drafts before submitting their final report.

The performance on Paper 031 remains consistent with that of the last two years. This year the mean score was 32.27 out of 40, compared with 32.10 in 2012 and 32.28 in 2011. Approximately 95.21 per cent of the candidates scored 50 per cent or more of the maximum mark.

### Paper 032 – The Alternative to the School-Based Assessment

Paper 032, the alternative to the School Based Assessment, is offered to private candidates. The paper attempts to simulate the skills tested in the SBA. This is achieved by presenting the candidates with one or two cases or situations based on which they are required to respond to questions.

The performance of candidates on this paper improved significantly compared with the two previous years. The mean mark was 18.71 out of 40 marks, compared with 13.27 in 2012 and 12.53 in 2011. Approximately 44.88 per cent of candidates earned at least 50 per cent of the maximum available marks on this paper.

## Paper 02 — Problem Solving

### Section I — Compulsory

#### Question 1

Question 1 required candidates to prepare an Income Statement and a classified Balance Sheet from a list of balances. The information provided included an accrued revenue item, an accrued expense item and a prepaid expense item. Candidates were also asked to calculate depreciation expense for the year, using the reducing balance method, and to adjust the net book value of the delivery van accordingly.

Approximately 93.60 per cent of candidates attempted the question, of which approximately 41 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 8.01 out of 20 with a standard deviation of 5.19. Two hundred and sixty eight candidates scored the maximum mark, while 1037 candidates scored zero.

#### **Strengths**

In general, candidates were able to:

- correctly organize the different sections in the classified balance sheet
- subtract the provision for depreciation from the delivery van account
- recognize the 5-year loan item as a long-term liability.

#### **Weaknesses**

In general, candidates

- failed to correctly label the financial statements, omitting terms such as, “as at the” for the Balance Sheet and “for the year ending” for the Income Statement
- treated the effects of adjustments in the Income Statement and the Balance Sheet incorrectly
- ignored the effect of existing accumulated depreciation when calculating depreciation and did not adjust the provision for depreciation account in the Balance Sheet.

#### **Recommendations for Teachers**

1. Emphasize to students the need for them to pay careful attention to the headings for all financial statements (for example, the correct name of business, name of statement and correct date).
2. Provide opportunities for students to practise responding to questions that involve businesses that offer services as well as those that trade in goods. This will guide students to readily recognize where the trading account is not required.
3. Engage students in many activities where they are required to calculate depreciation of assets using various methods.
4. Expose students to situations where they are required to apply an understanding of the principle of accruals in the treatment of accrued expenses and revenues in the Income Statement and Balance Sheet.
5. Engage students in situations which allow them to interface with the correct presentation of the financial statements and the difference between the vertical and horizontal formats.

## Question 2

This question required that candidates

- copy and complete a table to match a source of accounting information with the appropriate Book of Original Entry
- prepare a Purchases Ledger Control Account
- correct errors, using the General Journals.

Approximately 99.70 per cent of candidates attempted the question, of which approximately 43.50 per cent or more of the available marks. The mean mark on this question was 8.70 out of 20 with a standard deviation of 4.70. Eighty four candidates scored the maximum mark while 505 candidates scored zero.

### **Strengths**

In general, candidates

- attempted to answer each section of the question
- entered both opening balances correctly in the Purchases Ledger Control Account and placed familiar items on the correct side.

### **Weaknesses**

In general, candidates

- used the terms “ledger” and “account” rather than the correct terms *journal* or *day book*
- appeared unfamiliar with the use of the cash book to record the reversal of entry for a dishonoured cheque and the use of the general journal to record bad debts
- did not know how to treat with items such as overpayment, set-off and refund and did not balance the account correctly
- misplaced the accounts to be debited and the accounts to be credited especially the error which required the use of a suspense account.

### **Recommendations**

Students’ engagement in activities which guide them to develop practical use of the various journals should form a central part of teaching instructions during students’ early initiation into their study of accounting. Teachers can use the opportunity to introduce all kinds of transactions that are authentic and varied, including correction of errors. In an effort to guide students to construct meaningful understanding of frequently used terms such as *overpayment*, *set-off*, *refund*, *dishonoured (bounced) cheque* and *bad debts*, teachers may find it useful to have students develop their personal accounting dictionary. Students can build on this document as they progress in their study of the subject.

### Question 3

This question required candidates to demonstrate their understanding of several accounting ratios. These ratios which are used by candidates to complete their School-Based Assessment project include *current ratio*, *the stock turn ratio*, *the gross profit percentage* and *the return on capital employed ratio*. Candidates were also asked to prepare a summarised Balance Sheet mainly from figures provided and to comment on performance of a business.

Approximately 90.10 per cent of candidates attempted the question, of which approximately 31 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 7.47 out of 20 with a standard deviation of 5.03. One hundred and fifty five candidates scored the maximum mark, while 1474 scored zero.

#### **Strengths**

In general, candidates correctly

- applied the formula for the current ratio and the gross profit percentage
- prepared the summarized Balance Sheet.

#### **Weaknesses**

In general, candidates

- displayed weaknesses in manipulating simple mathematical operations. For example, many candidates' work reflected poor attempts at adding, subtracting, multiplying and dividing. An area of particular weakness is candidates' inability to manipulate mathematical equations of the form  $a/b = c$  to deduce one term where the other two terms are known
- produced comments on performance that did not express much thoughtfulness or did not match the ratios calculated in the earlier part of the question.

#### **Recommendations**

Teachers are encouraged to work in conjunction with teachers of mathematics to assist students in developing relational (meaningful) understanding of basic mathematical concepts that are applied in the field of accounting. Specific attention needs to be paid to concepts, skills and procedures relating to basic mathematical operations such as addition, subtraction, division, multiplication, percentages, decimal placement, ratios and comparison.

### **Section II (Optional Section)**

#### Question 4

This question tested candidates' competencies on concepts relating to the Manufacturing Account. Candidates were required to:

- prepare an account which reflected the calculations of the cost of different kinds of raw materials and different kinds of labour used in the business
- prepare statements of costs for raw materials consumed and cost of direct labour

Approximately 48.90 per cent of candidates attempted the question, of which approximately 86.77 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 14.75 out of 20 with a standard deviation of 4.38. One thousand one hundred and nine candidates scored the maximum mark, while 75 candidates scored zero.

### **Strengths**

In general, candidates

- were able to calculate the costs of the various types of raw materials and direct labour
- correctly completed the headings for both statements
- correctly labelled figures such as Raw Materials Consumed and Prime Cost in both statements
- demonstrated familiarity with the formats of the Statements and the summarized Manufacturing Account.

### **Weaknesses**

In general, candidates

- incorrectly treated Direct Expenses as a factory overhead
- incorrectly treated or omitted Opening and Closing Work-in-Progress.

### **Recommendations**

Teachers should continue to have students practise responding to a range of questions where they are required to distinguish between cost elements (for example, distinguishing direct from indirect costs). Students should be made aware of the importance of individual cost elements and what makes a direct cost different from an indirect cost.

### **Question 5**

This question, consisting of three parts, tested candidates' competencies on concepts related to the completion of payroll documents. In Part (a), candidates were required to distinguish between basic hours and overtime hours; and basic pay and overtime pay. In Part (b), candidates were required to complete a pay sheet to show calculations of deductions for social security and income tax. In Part (c) candidates were asked to differentiate between voluntary and statutory deductions.

Approximately 83.40 per cent of candidates attempted the question, of which approximately 75.02 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 13.74 out of 20 with a standard deviation of 5.71. Three thousand one hundred and ninety-seven candidates scored the maximum mark, while 213 scored zero.

### **Strengths**

In general, candidates correctly

- calculated the normal gross pay for both employees
- deduced the number of overtime hours worked
- completed the payroll form
- stated one difference between statutory deductions and voluntary deductions.

## **Weaknesses**

In general, candidates

- did not show working to allow the examiners to get an understanding of their thought processes
- appeared unable to calculate the overtime pay correctly, due to a lack of knowledge or understanding of the term 'time and a half'
- did not follow instructions of applying the five per cent calculation on gross pay in order to calculate the Social Security amount payable.

## **Recommendations**

Teachers should continue to address this topic. Students will benefit further if teachers expose them to different pay rates, pay sheet forms, examples and the terminologies used in connection with payroll information. Teachers need to emphasize to students the need for them to show their working to support all calculations.

## **Question 6**

This question consisted of two parts. Part (a) required candidates to use a given set of account balances as recorded in the books of a credit union to list the items which are fixed assets and the items which are current liabilities. Part (b) required candidates to demonstrate their understanding of accounting concepts connected with a co-operative credit union. The question was unpopular and the majority of those attempting it appeared unfamiliar with some terminologies relevant to meaningful understanding of the topic.

Approximately 35.20 per cent of candidates attempted the question, of which approximately 12.27 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 4.96 out of 20 with a standard deviation of 3.79. Seventeen candidates scored the maximum mark, while 220 candidates scored zero.

## **Strengths**

In general, candidates were able to

- correctly treat equipment as a fixed asset; unpaid bill as a current liability; and advertisement and office expenses as credits in the bank account
- demonstrate a fair knowledge of the journal format, by organizing their journals to include debit and credit columns as well as a column for the date
- correctly calculate the value of receipts from sales of shares and registration fees.

## **Weaknesses**

In general, candidates

- included current assets and long-term liabilities in their totals
- appeared unfamiliar with the term 'balance sheet extract' and with the inclusion of reserves in the capital section
- attempted to use the balance sheet equation to arrive at a figure for capital

- encountered difficulties in posting the sales of shares and receipt of registration fees correctly in the general journal where this was used. In many instances the accounts were debited instead of credited or the double entry was not completed, especially in terms of the bank entry
- sometimes treated the items as a sale of goods and used a sales journal or even a purchases journal
- did not enter the opening balance in the bank account even though the structure of the question prompted them to do so.

### **Recommendations**

Teachers are encouraged to focus on exposing students to a variety of examples across different types of enterprises. Students, while learning about the use of journal entries to start businesses, can be exposed to the rules in relation to the start-up of partnerships, non-profit organisations, manufacturers, companies and co-operatives. For example, the application of the rules of entry to journals may include concepts such as the purchase and sale of shares and receipts from registration fees as applied in this question. Activities designed to provide practice for students in dealing with summary bank accounts may be so structured to allow students to develop an awareness of the similarity between summary bank accounts and receipts and payments accounts. There is also a need for students to be engaged in exercises which allow them to deal with receipts and payments for different scenarios across enterprises. This approach to teaching aspects of the syllabus may prove useful to teachers in

- reducing some of the challenges teachers encounter with covering the whole syllabus
- providing opportunities for students to reinforce understanding of concepts developed in earlier aspects of the syllabus.

### Question 7

This question required candidates to explain a difference between a capital expenditure item and a revenue expenditure item; to prepare ledger entries to record transactions between creditors and debtors and to balance each account at the end of a given transaction period.

Approximately 27.30 per cent of candidates attempted the question, of which approximately 35.20 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 7.75 out of 20 with a standard deviation of 4.76. Forty-seven candidates scored the maximum mark, while 118 scored zero.

### **Strengths**

In general, candidates were able to

- identify an item of revenue expenditure
- use the T-account format with debit and credit columns appropriately
- correctly calculate the discounts allowed and discount received based on a given situation.

### **Weaknesses**

In general, candidates

- were unable to identify correctly an item of capital expenditure
- were unable to identify the ledger that is appropriate for the creditor's and debtor's accounts
- omitted dates and did not complete the balancing of the necessary accounts

- recorded items incorrectly, such as crediting the discount received and debiting purchases in the creditor's account or putting purchases in the debtor's account although using the correct dollar amounts.

## **Recommendations**

Teachers are encouraged to provide opportunities which allow students to practise basic accounting skills on a regular and continuous basis. Such activities may focus on skills such as journalising, posting to the ledger, drafting of trial balances and preparation of statements. All questions tend to test these skills in greater or lesser depth since they are considered as fundamental to a thorough understanding of accounting.

### **Paper 031 — School-Based Assessment (SBA)**

The SBA that allows students to experience the workings of the accounting cycle in a simulated or experiential environment. Students develop business and accounting records, using a list of real or simulated transactions. The project requires the production of source documents, entering information into appropriate journals, posting to the relevant ledgers, including the cash book, totalling and drawing up the trial balance. From this engagement, students are required to produce final accounts that reflect a clearly stated start date and end date, and apply simple ratios to enable an evaluation of performance.

The resulting reports (no accompanying appendices) are marked by class teachers out of 40 marks using the detailed mark scheme provided in the syllabus. These marks, together with a sample of responses, are submitted for moderation through a re-marking process that focuses on ensuring adherence to the mark scheme. The moderator will focus on tracing the links between the transaction list and various stages of the accounting cycle.

The SBA process allows for teachers to support students by giving them continuous formative feedback and multiple opportunities to facilitate the production of excellent and detailed SBA reports. The essence of this activity is to twin assessment with learning in a manner that allows for all students to optimise their true potential as related to the concepts they are exposed to in their study of Principles of Accounts.

The following report focuses on the strengths and weaknesses of SBA reports presented for moderation. Teachers and candidates should become more aware of what is expected at every step of the process. This will support the production of an SBA report that is closely aligned to the mark scheme. It is unfortunate, however, that knowledge and skills that appear to be strong in the reports submitted for moderation are sometimes not readily seen in candidates' responses to questions on the Paper 02.

## **Strengths**

In general, candidates demonstrated the following strengths:

- Included a table of contents as part of their SBA projects.
- Demonstrated a high level of competence in providing a comprehensive Description of the simulated business. They provided supporting data such as the type of business and the nature of the business activities.
- Demonstrated mastery in their preparation and presentation of the cashbook in terms of the use of cash and bank columns.
- Demonstrated mastery in terms of their presentations of the books of original entry.

- Made appropriate use of trial balances which reflected agreement between given totals. This illustrated candidates' high level of understanding of concepts relating to the double entry accounting system.
- Included income statements with cited net profit/loss figures which, in most cases, were traceable to the balance sheet.
- Presented the balance sheets with correct headings and correct ordering of assets in terms of liquidity or permanence. Additionally, most candidates presented balance sheets with given totals agreeing.
- Demonstrated a high degree of accuracy in their computations of accounting ratios with supporting interpretations.
- Included appropriate diagrams which accurately illustrated accounting concepts and principles.
- Provided recommendations and suggestions which were related to the issues covered in the project presented.

### **Weaknesses**

In general, candidates demonstrated the following weaknesses:

- Supplied tables of content which did not accurately match the organization of the project. For example, in some cases, pages were not numbered at all, or significant pages had no corresponding page numbers listed for them in the Table of Contents. Moderators found that in some instances inappropriate numbering was utilized, apparently based on 'chapters', which left several pages unnumbered in the SBA projects.
- Listed aims which were not specific to the project. In several instances, the stated aims were largely related to general conduct of a business, instead of to the specific focus of the SBA project. There were also many instances where two or more aims reflected the same focus.
- Failed to include the precise time period during which the business was simulated. In the majority of the projects, candidates stated the commencement date of the simulated business but failed to cite the ending date. This situation poses challenges to any attempt by the moderators to cross-check dates on documents such as balance sheets.
- Submitted projects which did not include a list of transactions. In some cases where a list of transactions was included, these transactions were not properly sequenced.
- Failed to meet the requirement of including four different types of traceable source documents. It is important to note that three of these source documents are compulsory, namely:
  - Cash Receipt
  - Banking documents (withdrawal/lodgement slips, cheque or cheque counterfoil)
  - Sales/Purchases Invoice.

The fourth source document may be drawn from the following list:

- Internal Memo
- Debit note/Credit note
- Petty Cash Voucher.

- Failed to correctly transfer the total from the sales, purchases and returns journals to the individual accounts concerned in the general ledger. Candidates incorrectly posted individual transactions from these journals to the general ledger accounts affected, rather than posting the total in each case to the appropriate general ledger accounts affected.
- Failed to properly utilize the three-column cashbook as a 'book of original entry'. In many projects, candidates failed to include and record transactions involving discounts received or discounts allowed. The total of these two columns should also be accurately transferred to the discount received and discount allowed accounts in the general ledger.
- Included '*Balance c/d*' and "*Balance b/d*" in nominal accounts (for example, sales a/c and salary a/c), instead of effecting a transfer to trading account or profit and loss account as appropriate, at the end of the fiscal period, according to traditional conventions. In other cases, some candidates failed to treat these accounts as periodic figures, by still recording a "*Balance B/d*" in the account, despite their indicating that amounts had already been transferred to appropriate final accounts at the end of the fiscal period.
- Failed to include the time frame of the simulation in the *description of business* component of their project. This made it difficult to cross-check the dates on the financial statements for the specific period criterion.
- Although including a *statement of performance*, failed to substantiate statements made with the necessary references to the net profit/loss figure, drawn from the financial statements which they presented.
- Failed to correctly interpret the '*further interpretation*' component of the SBA project.

Candidates are required to compare two different items over two different time frames within the period of simulation. Good examples for comparison include:

- (i) Week 1 Cash Sales figure compared with week 2 Cash Sales figure. NB: '**Cash** sales' cannot be compared with '**credit** sales', as these are two completely different items.
  - (ii) Opening Cash/Bank balance compared with closing Cash/Bank balance. NB: '**Sales**' cannot be compared with '**Purchases**', as these items are not the same.
- Failed to arrange their project in accordance with the order prescribed in the POA Syllabus. As mentioned previously, the credited and preferred arrangement for presenting supplementary material, including source documents, charts, diagrams, and other such "appendices", would be to have these placed and located at the point where they are applicable, that is where they are applied, discussed and/or explained.
  - Submitted what appeared to be a draft, rather than a finished product. Thus, some components were missing or the submission had a number of grammatical errors.

## Recommendations

Teachers and students should work together to develop a checklist which students could use to check the description of their simulated business. Care should be taken to ensure that the description of the simulated business includes the following: the name of the business, the nature of the business activities and the time frame for which the business is being simulated (a start-up date and an end date).

Students might find it useful to work in pairs or small groups to have students check each other's projects to ensure that each meets the requirement of identifying four source documents that have been drawn up for the transactions listed in the project. Blank source documents are unacceptable. The source documents should be placed immediately after the *list of transactions* and not in an appendix at the end of the project. (All appendices for the SBA project are to be attached and **best located at the point where they become applicable**, and/or are discussed.)

Teachers need to provide guidance to students in the formulation of appropriate *Aims* for the SBA project. The following are examples of aims that are **not** accepted by the moderators:

- (i) To fulfil the requirements of CXC.
- (ii) To fulfil and satisfy the needs of the customers/people.
- (iii) To make a profit.
- (iv) To become independent and to be my own boss.

The following are some aims which were acceptable:

- (i) To gain practical experience in the application of accounting procedures.
- (ii) To complete the accounting cycle for the simulated business.
- (iii) To analyse and interpret the performance of the business.
- (iv) To assess the financial position of the business.

Teachers are encouraged to challenge students to check their stated aims to ensure that two distinct and separate aims are stated.

- Candidates need to be reminded that the *Transactions List* should follow the *Description of the Business*, and not placed in an appendix at the back of the report.
- Teachers need to consistently remind students that where a cashbook has been presented in the project, there is no need for a separate cash account and bank account to be included in the general ledger.
- Teachers will find it necessary to encourage students to make adequate use of the three-column cashbook and to take special care in ensuring that the discounts columns are used, and also accurately totalled and transferred to the relevant discount accounts in the general ledger at month end.

## **Paper 032 — Alternative to SBA**

### **GENERAL COMMENTS**

The examination for Paper 032, the alternative paper to the SBA, takes the form of a case study, with a minimum of ten and a maximum of 15 questions. The paper carries a total of 40 marks, and is worth 20 per cent of the final mark.

## DETAILED COMMENTS

The May/June 2013 Paper 032 case study was based on a sole trader who started business with assets and liabilities inherited from his grandparents.

This case study tested specific objectives and content taken from POA syllabus, as follows:

- Section 2 (S.2): The Classified Balance Sheet
- Section 3 (S.3): Books of Original Entry
- Section 4 (S.4): Rules of Entry
- Section 5 (S.5): Analysis of Financial Statements of Sole Trader
- Section 8 (S.): Depreciation

The mean mark on this question paper was 18.71 and the standard deviation was 6.67. One candidate scored full marks and one candidate scored zero.

The paper consisted of thirteen (13) compulsory questions. The following comments reflect the overall strengths and weaknesses of candidates' responses.

### General comments

Generally, candidates attempted all questions. The format of the paper required that candidates submit their responses to questions within the question booklet in the space provided immediately following the question. This structure seemed to have benefitted a significant number of candidates. There were, however, some candidates who did not use information provided in earlier pages although they were prompted to do so. This affected the correctness of some of their calculations such as total revenue and total expenses. When asked to calculate values, for example, total expenses or ratios, candidates would do well to list the items that they choose to include in their calculation. Candidates appeared to be unfamiliar with the use of correct formats for journal entries and T-accounts. Candidates also displayed some weaknesses in the mathematical knowledge and skills needed to answer some questions.

### Specific Comments

Question 1 required candidates to use a list of items (assets and liabilities) to calculate total assets, total liabilities and opening capital. Candidates were able to identify and calculate assets, but encountered some difficulties in doing the same for liabilities and opening capital.

Question 2 required candidates to identify one book of original entry that the owner of the business was likely to use in his business and to state the name of a journal. Unsuccessful candidates provided the names of ledgers and even final accounting statements rather than journals.

### Question 3

Candidates were given information on a loan arrangement between a credit union and the business owner. The loan was used to purchase two similar items, each for the same cost. Based on this information, candidates were required to calculate the down payment as a percentage of the total cost of the two items. In too many cases, it appeared that candidates did not read the question properly. Common responses reflected the cost of each item or the application of the rate to the cost of one item.

Question 4 required candidates to record the journal entries of several related transactions based on the information they were given in Question 3. Candidates seemed unfamiliar with the format of the general journal or even the format of a proper T-account as they omitted the details or used the wrong details entirely. The rules of entry for the receipt of loan monies or the expenditure of funds on fixed assets were often reversed. Very few candidates utilized a compound entry format for their answer.

Questions 5, 7, 8, 10 and 12 required candidates to apply the principle of the accounting period.

Question 5 required candidates to use information given in Questions 3 and 4 to explain why the debt to the borrower of the loan was recorded in parts as current liabilities and long-term liabilities. The responses of many candidates reflected their inability to distinguish between current and long-term liabilities.

Question 6 required candidates to prepare the receipts and payments account of the owner of the business, using a list of cash transactions. Although candidates' responses showed their ability to record the given receipts and payments, they failed to include

- the opening balance which was given at the start of the question
- the amount brought into the business via the loan from the credit union
- the down payment and subsequent monthly payments on the fixed asset.

Question 7 required candidates to use the information given for the preparation of the receipts and payments account along with information on an advanced payment to calculate the revenue earned by the business. Many candidates reversed the required treatment of the revenue item.

Question 8 required candidates to use the information given for the preparation of the receipts and payments account along with information on an outstanding debt in respect of vehicle maintenance and a prepaid amount in respect of sundry expenses to calculate the amounts to be shown in the expenses for vehicle maintenance and sundry. Candidates' responses showed misunderstandings in the treatment of the prepaid expenses.

Question 9 required candidates to calculate straight-line depreciation, using given rates. In a number of cases, candidates used the correct rates but the wrong value of the asset. This question also revealed some deficits in candidates' ability to apply basic mathematical skills.

Question 10 required candidates to calculate the total expenditure of the business for the year. The responses of many candidates reflected poor basic mathematical skills.

Question 11 required candidates to calculate the net profit of the business for the year. Many candidates did not include accruals and payments and depreciation calculations.

Question 12 required candidates to identify the correct placement in the balance sheet of two given items. Many candidates were correct in their responses to this item.

Question 13 required candidates to calculate the net income (net profit) margin of the business. Candidates appeared unfamiliar with the formula used for calculating net income margin. In many cases, candidates failed to use either total revenues or total expenses in their attempt at computing the net profit margin. Candidates also failed to give their answer as a percentage.

## **Recommendations**

This case study, in many instances, required candidates to read carefully and to utilize information presented or calculated earlier. Candidates lost marks by failing to include relevant data from previous questions. For example, the opening balance for the preparation of the Receipts and Payments Account was presented in stimulus material for Question 1. The calculation of total revenue in Question 7 should have included information presented in stimulus material for Question 6. The calculation of depreciation expense in Question 9 should be part of the list of expenses in response to Question 10.

Candidates need to be engaged in activities which challenge them to consistently apply concepts learnt in the earlier part of the syllabus on a continuous basis. Some concepts and skills which candidates need to be challenged to utilize in their responses to questions on a regular basis include:

- the recognition of different types of assets and liabilities including those arising from adjustments to the accounts (for example prepaid expense as a current asset).
- the application of the balance sheet equation, otherwise referred to as the fundamental accounting equation, must be regularly emphasized – to enable students to reach to a point where they can readily identify assets and liabilities; and use them to compute the capital.
- the application of the rules of entry.
- communicating using common accounting terms.
- distinguishing between expense and expenditures; receipts and revenues including capital revenues and expenditures; and journals and ledgers.

Generally, candidates' learning will be strengthened through practice which includes the utilization of creative ways of performing accounting tasks. For example, candidates can be guided to calculate net income from summary figures or creation of combined cash and bank accounts. Candidates' understanding of basic mathematical operations needs strengthening. Some basic areas which need to be looked at immediately include skills in addition, subtraction, division, multiplication, application of percentages, working with decimals, ratios and comparison.

**C A R I B B E A N E X A M I N A T I O N S C O U N C I L**

**REPORT ON CANDIDATES' WORK IN THE  
CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION**

**MAY/JUNE 2014**

**PRINCIPLES OF ACCOUNTS  
GENERAL PROFICIENCY EXAMINATION**

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**GENERAL COMMENTS**

The Principles of Accounts examination is offered in May/June and January each year. The examination consists of three papers:

- Paper 01 — Multiple Choice
- Paper 02 — Essay Paper
- Paper 032 — Alternative to SBA (Private Candidate)

## **DETAILED COMMENTS**

### **Paper 01 – Multiple Choice**

Paper 01 consists of 60 multiple choice items taken from the three profiles of the syllabus; Knowledge, Application, Interpretation. The performance of candidates on Paper 01 was fair.

The mean mark was 36.11 out of 60 compared to 38.09 in 2013 and 34.53 in 2012. Approximately, 73.64 per cent of the candidates scored at least 50 per cent of the marks for this paper. Four candidates scored the maximum of 60 marks.

### **Paper 02 – Problem Solving**

Paper 02 comprises two sections. Section I, the compulsory section, required candidates to answer three questions. Section II, the optional section, required candidates to answer two out of four questions.

The performance on Paper 02 also saw a drop in candidates' overall performance. The mean mark for this paper was 39.84 out of 100 compared to 44.64 in 2013 and 31.62 in 2012. 31.54 per cent of candidates earned at least 50 per cent of the maximum mark on this paper.

### **Paper 032 – The Alternative to the School-Based Assessment**

Paper 032, the alternative to the School Based Assessment (SBA), is an examination offered to private candidates. The examination attempts to simulate the skills tested in the SBA. This is achieved by presenting the candidates with one or two cases or situations from which they are required to respond to questions.

The performance of candidates on the Paper 032 remained steady when compared to last year. The mean mark was 19.39 out of 40 marks compared to 18.70 in 2013 and 13.28 in 2012. Approximately 43.18 per cent of candidates earned at least 50 per cent of the maximum available marks on this paper.

### **Paper 02 – Problem Solving**

#### **Section I – Compulsory**

The following comments which indicate strengths and weaknesses in the performance of candidates also help to identify the areas of focus when marks are being awarded.

#### Question 1

The main focus of this question tested candidates' application of the features of a partnership agreement, including interest on drawings, interest on capital, partner's salary and share of profit to arrive at an Appropriation Account. Candidates were also asked to draft Current Accounts using the appropriate figures. In addition, candidates were asked to calculate the amount of capital brought in by one partner, treat with additional revenue for appropriation as well as recognise the effects of a partnership agreement that was only enforced for half of the accounting year.

Approximately 38.85 per cent of candidates attempted the question, of which approximately 64.31 scored 50 per cent or more of the available marks.

### **Strengths**

In general, candidates were able to

- calculate the partner's capital accurately.
- demonstrate proper heading style when preparing the Partnership Appropriation Account and the Partners' Current Accounts
- apply the given profit sharing ratio.
- treat with drawings, interest on drawings, interest on capital, partner's salary and profit share properly in the Current Accounts.

### **Weaknesses**

In general, candidates were unable to

- treat with the additional revenue item
- recognise that the appropriation account was for a six-month period and not a full year
- calculate interest on drawings, interest on capital and salary for a six-month period
- treat with drawings, interest on drawings, interest on capital, partner's salary correctly in the Appropriation Account prepare columnar style Current Accounts.
- balance the Current Account

### **Recommendations**

Teachers are asked to note that candidates would automatically and correctly write "Add" but proceed to subtract and vice versa in treating with appropriations of the net profit. Students need to be impressed with understanding the **accounting period** rather than only the **accounting year**. The implications of different sources of profit/revenue for appropriation should be considered as scenarios are made more realistic. Teachers are urged to emphasize that working must be shown e.g. the profit sharing ratio used should be recorded rather than implied.

### **Recommendations for teachers**

Candidates continue to display weaknesses in fundamental concepts, formats and rules of accounting. For example, candidates continue to present Balance Sheet formats when an Income Statement is required.

### Question 2

This question was designed to test candidates' knowledge of the reasons why Control Accounts, are prepared. They were then asked to demonstrate their ability to prepare Control Accounts for Purchases Ledger (also known as Accounts Payable or Creditors) and Sales Ledger (also known as Accounts Receivable or Debtors) respectively from two separate lists. The main skills required were the correct recording of opening and closing balances, the treatment of 'set off' in these two accounts and the debit/credit effect of unusual items such as late payment charge imposed by an accounts payable (creditor).

Approximately 49.10 per cent of the candidates attempted the question – 53.86 per cent of whom scored 50 per cent or more of the available marks.

## **Strengths**

In general, candidates were able to

- Provide reasonable responses to the purpose of Control Accounts such as, arriving at total amounts owed or owing, the location of errors and the detection of fraud.
- Record opening balances correctly.
- Make correct debit entries in the Purchases Ledger Control Account (PLCA) for the following items: payment to suppliers, purchases return, and discount received.
- Make correct credit entries in the Sales Ledger Control Account (SLCA) for the following items: sales return, receipts from customers, and discount allowed.

## **Weaknesses**

In general, candidates were unable to

- Record the closing balances correctly and remember to bring down both of the closing balances.
- Maintain the separate figures for the PLCA and the SLCA although the stimulus material was laid out in that fashion.
- Treat with the set off correctly as this required a debit entry in the PLCA and a credit entry in the SLCA for the amount of \$375 since this is the amount that can be cancelled by mutual agreement.
- Demonstrate understanding of the effect of unusual items on the PLCA and the SLCA such as the increase in indebtedness to creditors of the late payment charge or decrease in amount owed when a prepayment is made to suppliers. Candidates frequently reversed entries or omitted them from their responses.

## **Recommendations for teachers**

Teachers are asked to share the reasons for certain activities in the accounting system such as the preparation of control accounts. Teachers are also asked to make the link for students between the single T-account for one creditor/debtor and the total figures for several creditors/debtors. The application of the rules of entry should move beyond rote learning and application to a discussion of effects of transactions using authentic scenarios such as an agreement to “set off” a debt against a credit amount.

## Question 3

This question tested candidates’ grasp of basic accounting knowledge in recovering information from incomplete records. Candidates were required to calculate the firm’s Capital by categorising opening account values appropriately in a Statement of Affairs, calculate sales when given accounts receivable information and prepare an Income Statement from information on expenses.

Approximately 26.30 per cent of the candidates attempted the question – 84.12 per cent of whom scored 50 per cent or more of the available marks. The mean mark on this question was out of 20.

## **Strengths**

In general, candidates were able to

- Identify assets from liabilities
- Use the appropriate information to calculate sales
- Prepare an Income Statement

## **Weaknesses**

In general, candidates were unable to

- Focus on opening values instead of closing values for accounts
- Include accounts payable as a liability
- Apply the accounting equation to calculate capital
- Recognize the Statement of Affairs as an unclassified Balance Sheet
- Use the correct account names in calculating sales for the period
- Treat with prepaid expense and depreciation in the Income Statement

## **Recommendations for teachers**

The need for return to topics covered early in the syllabus cannot be over-emphasised. The application of the accounting equation, the application of debit and credit entries in calculating missing figures, adjustment of accounts for depreciation, prepayments and accruals should be tested frequently using different scenarios.

## **Section II (Optional Section)**

### Question 4

This question tested candidates' knowledge of terms, calculation methods and presentation of information as applied to the topic of Depreciation.

Approximately 37.55 per cent of the candidates attempted the question – 79.03 per cent of whom scored 50 per cent or more of the available marks.

## **Strengths**

In general, candidates were able to

- Define the terms “fixed asset” in terms of available for use over more than one year and provide an example.
- Define the term “net book value”
- Apply the straight line method in calculating depreciation expense on the delivery van.
- Set out the parts of the depreciable fixed asset section of a Balance sheet

## **Weaknesses**

In general candidates were unable to

- Define the term “useful life” and exemplify its application to depreciable assets.
- Apply the reducing balance method in calculating annual depreciation expense on the industrial stove by utilizing the current net book value. Many candidates applied the rate to either the cost or the accumulated depreciation figure.
- Head the Balance Sheet correctly with the term “as at”.
- Prepare the Provision for Depreciation Account for the industrial stove by
  - entering relevant dates
  - entering the opening accumulated depreciation figure on the credit side
  - entering the annual depreciation on the credit side
  - balancing the account and bringing down the balance on the credit side

## **Recommendations**

Teachers are asked to pay some attention to theoretical explanations of terms in accounts. They are also asked to continue their emphasis on the topic of adjustments to accounts especially where basic techniques such as entering balances and applying the rules of entry continue to be areas of weakness. When exploring the application of rules of entry to depreciate assets the notion of contra-asset accounts might be useful to justify the relevant double entries to be made. Encourage students to practice the reducing balance method of calculating depreciation and distinguish it from the straight-line method.

### Question 5

This question focused on preparation of a Manufacturing Account with its usual assessment of candidates' ability to classify manufacturing costs and calculate cost of raw materials consumed, Prime Cost, Total Factory Overheads and Cost of Production using the given information. A few expenses were to be shared between the manufacturing concern and the non-manufacturing part of the business. In Part (b), candidates were required to transfer the Cost of Production and prepare a Trading Account for the manufacturer.

Approximately 55.95 per cent of candidates attempted the question, of which approximately 41.18 per cent scored 50 per cent or more of the available marks.

## **Strengths**

In general, candidates were able to

- Head and draw up the Manufacturing Account and identify the main sub-totals, i.e. Cost of Raw Materials Consumed, Prime Cost, Total Factory Overheads and Cost of Production appropriately
- calculate correctly, the Cost of Raw materials consumed
- treat with opening and closing work in progress.

## **Weaknesses**

In general, candidates were unable to

- Classify all items correctly which resulted in placement of direct costs in overheads or indirect costs in the Prime Cost section
- Compute and/or classify the Power, Rent and Janitor Wages figures which required allocation between the manufacturing and non-manufacturing concern.
- Recognize the need to transfer the Cost of Production figure to the Trading A/C to use in the calculation of Gross Profit and instead used the Purchases of raw materials figure
- Treat appropriately with stocks of finished goods by using them in the income Statement
- Label their Gross Income figure

## **Recommendations for teachers**

Candidates must be taught the criteria to be used to distinguish types of costs in various scenarios. There are criteria used to distinguish manufacturing material, labour and expense costs from material, labour and expense types that appear in income statements. There are criteria used to distinguish direct costs from indirect costs. The discussion should include examples taken from as many industry sectors as possible. Finally, candidates should be familiarized with the creation of statements, where every amount is properly labelled.

### Question 6

This question required candidates to demonstrate the opening journal entries for the membership fees and share capital of a cooperative. The question also required candidates to account for economic activity in the form of a fund-raising activity by preparing an income statement to show profits made as well as income from all sources. Although the popularity of this question was low, as is usual with the topic of Co-operatives, there was an improvement in the quality of responses from candidates who attempted Parts (b) (i) and (ii) of the question.

Approximately 34.75 per cent of the candidates attempted the question, 79.44 percentage of whom scored 50% or more of the available marks.

### **Strengths**

In general, candidates were able to

- include a date and a narrative and calculate correct values for membership fees and shares
- include closing and opening inventory of drinks in arriving at the cost of drinks sold
- label the Income Statement properly
- treat with sales revenue and expenses, inclusive of purchase of meat, properly in the income statement
- include all forms of interest earned in the calculation of total income

### **Weaknesses**

In general candidates were unable to

- name relevant accounts, such as cash/receipts and payments, debit and credit accounts or use the correct format for opening journal entries.
- distinguish which of the closing and opening inventory of drinks should be added and which should be subtracted
- remember to include the Income Statement amount in the calculation of total income.

### **Recommendations for teachers**

This optional topic requires the application of accounting principles for Co-operatives as well as the skills used in arriving at information. Teachers are again advised to revise using various techniques such as control accounts, and trading accounts or statement formats. Interpreting the meaning of items in Receipts and Payments/Cash and Bank Accounts, Income Statements and Balance Sheets showing how they are linked are useful exercises.

### Question 7

This question tested mainly, candidates' competencies on concepts related to the completion of a payroll document. Two categories of employees; hourly and daily paid were represented. Part (a) required candidates to list two basic source documents used in preparing payrolls. In Part (b), candidates were requested to differentiate between 'voluntary' and 'statutory' deductions. Part (c) required candidates to complete a Payroll Sheet showing calculations for: Normal Pay, Overtime Pay, Gross Pay, Social Security, Pension Fund and Income Tax.

Approximately 56.60 of the candidates attempted the question – 34.61 per cent of whom scored 50 per cent or more of the available marks.

## **Strengths**

In general, candidates were able to

- List at least one basic source document.
- State one difference between 'voluntary' and 'statutory' deduction.
- Calculate the Normal Pay for both employees.
- Deduce the number of overtime hours worked.
- Calculate Gross Pay by adding Normal Pay and Overtime Pay.
- Complete the Payroll Sheet

## **Weaknesses**

In general candidates were unable to

- Think of a second source document
- Calculate Income Tax by applying 10% on Taxable Income.

## **Recommendations**

Teachers should continue their strategies used to prepare candidates to answer questions that require a familiarity with spreadsheets. Questions that are supported with forms to be filled are attempts to reflect the world of work, its ubiquitous computerized environment and the assessment style of this examination from this point forward.

### **Paper 031 – School-Based Assessment (SBA)**

Paper 031 affords students the opportunity to gain concrete practical experience in the application of a limited amount of the principles of the accounting cycle in a simulated or real-life business environment. Students record business transactions in appropriate journals, post amounts and totals to relevant ledgers including the cash book, balance off accounts, draw up the trial balance, prepare at least one set of final accounts and compute related ratios to facilitate an evaluation of the business performance.

The following are some of the strengths and weaknesses found in the SBAs presented for moderation for the June 2014 examinations.

In general, students

- consistently included a table of contents but a significant number of them failed to do proper page numbering or chapter numbering was used without the identification of individual pages
- cited aims which were too general in nature or reflected the needs of the examination and therefore lacked a focus specific to the project. There were also frequent instances of overlapping aims
- provided comprehensive descriptions of the simulated business including supporting data such as the type of business and the nature of the business activities but failed to include the precise time period/s during which the business was simulated
- included appropriate diagrams from an accounting perspective but did not always provide labels or explanations for items on the diagrams presented

- included the transaction listing but did not ensure the sequence was followed in their accounts. There are several instances where no transaction listing was provided.
- included source documents to reflect transactions from the listing. These documents were frequently placed immediately after the transaction listing as expected. However, in several instances, students placed the source documents in an appendix which is not a required component of the SBA project. Students are reminded that three of these source documents are compulsory, namely
  1. cash receipt
  2. banking documents (withdrawal/lodgment slips, cheque counterfoil)
  3. sales/purchases invoice

The fourth source document may be drawn from the following list:

- internal memo
- debit note/credit note
- petty cash voucher
- demonstrated mastery in the use of the cash/bank information and the calculation of discounts but too few used the three-column cash book format.
- demonstrated competence in the use of books of original entry but did not post totals to ledgers but posted individual transactions unnecessarily.
- balanced and closed most accounts correctly except for those who did not treat nominal accounts (expense and revenue accounts) correctly but instead balanced the accounts (c/d, b/d) rather than close them to the Trading account or the profit and loss account.
- presented trial balances which showed agreement of debit and credit columns
- presented income statements with net profit/loss figures which were traceable to the balance sheet
- presented the balance sheet with correct headings and correct ordering of assets in terms of liquidity or permanence with totals agreeing
- gave a statement of performance, but a large percentage failed to substantiate the statement with the net profit/loss figure drawn from the financial statements
- gave accurate computations of ratios with supporting interpretations and provided recommendations/suggestions that were related to the interpretation
- failed to correctly interpret the *further interpretation* component of the SBA project.

Students are required to compare two different items over two different time frames within the period of simulation. For example:

- Week 1 cash sales figure against week 2 cash sales figure  
(cash sales cannot be compared with credit sales)
- Opening cash/bank balance against closing cash/bank balance  
(sales cannot be compared with purchases)

While it is admirable that attempts were made by students to include all sections of the project; in most cases no mark was awarded for completeness as students failed to complete the project in accordance with the revised SBA mark scheme. Similarly the mark for sequential arrangement was also not awarded in most cases as students failed to arrange projects in accordance with the sequence stipulated by the revised SBA mark scheme. No component of the project should be placed in an appendix as there is no need for such a section in the project report.

### **Recommendations**

Students should be guided in selecting the type of business activities and the time frame during which the business will be simulated.

Students should be guided in writing concise explanation and or interpretation of the accounting records in keeping with the 1200 word limit.

The following are some aims which were accepted:

- To gain practical experience in the application of accounting procedures
- To complete the accounting cycle for the simulated business
- To analyze and interpret the performance of the business
- To assess the financial position of the business

The following are examples of aims that were not accepted by the examiners and as such must be discouraged:

- To fulfill the requirements of CXC
- To fulfill and satisfy the needs of the customers/people
- To make a profit
- To become independent and to be my own boss

Students should however ensure that their stated aims do not overlap.

Students need to be advised that if a cash book is included, there is no need for separate accounts for cash and bank in the general ledger.

Students need not present accounting records for two months as CXC currently recommend 6-20 transactions which can represent one month's worth of transactions.

There were a few occasions when moderated scores were significantly below the teacher's scores. Such samples were subjected to further moderation. It is apparent that some teachers need to spend much more time and care in ensuring that all marks awarded are justified as per the SBA mark scheme.

### **Paper 032 – Alternative to School-Based Assessment**

Paper 032 is the alternative to the School-Based Assessment (SBA) and forms a part of the compilation of candidates' final mark in Principles of Accounts (POA).

Candidacy for this exam is limited to those persons who are out of the formal, secondary-level school system and would not, therefore, be considered as full-time, secondary school students benefiting from the internal school-based assessment programme. Normally referred to as “Private Candidates”, this also includes persons who have exited the secondary school system without a passing grade on the SBA component of their POA evaluation; as well as persons who may have earned a passing grade on the SBA component but failed the POA Paper 02 exam, more than two years previously.

As per POA syllabus guidelines, Private Candidates are tested for ninety (90) minutes. The examination takes the form of a case study, with a minimum of ten (10) and a maximum of fifteen (15) questions. From January 2014, the examination was set out with lines and spaces for responses immediately under stimulus material. Paper 032 carries a total of forty (40) marks, and is weighted at 20 per cent of the POA final mark.

### **DETAILED COMMENTS**

The May/June 2014 Paper 032 case study was based on a sole trader who owned a car parts dealership. This case study tested specific objectives and content taken from POA syllabus, as follows:

- Section 2 (SO.3, 4, 5, 6 & 9): The Petty Cash Book
- Section 4 (SO.5 & 7): Ledger Accounts
- Section 5 (SO.7): Preparation of Financial Statements of Sole Trader

The mean mark on this question paper was 48.48 and the standard deviation was 7.98. One candidate scored full marks and ten candidates scored zero.

The paper consisted of eleven (11) compulsory questions. The following comments reflect the overall strengths and weaknesses of candidates' responses.

## **General Comments**

Generally, candidates attempted all questions. The format of the paper required that candidates submit their responses to questions within the question booklet, in the space provided immediately following the question. This structure seemed to have benefitted a significant number of candidates. There were, however, some candidates who did not use information provided in earlier pages although they were prompted to do so. This affected the correctness of some of their calculations, such as total amount of petty cash expenditure, total amount of Cash Discount Allowed, and the Bad Debts Expense figure, all of which were to be accounted for in the calculation of Net Profit. When asked to calculate values, for example, the total amount of cash discount allowed for the month, candidates would do well to list and label the items that they choose to include in their calculation.

## **Specific Comments**

Question 1 required candidates to name one source document that would be used in drawing up a Petty Cash Book. Some candidates were unable to name an applicable source document.

Question 2 required candidates to calculate the amount needed to restore the petty cash imprest. This question was generally well done. Most candidates were able to arrive at the correct amount required to restore the imprest with.

Question 3 Candidates were given a list of small expenditures for a month, including the opening balance of cash on hand. Using this data, candidates were required to draw up the sole trader's Petty Cash Book for the month.

In many instances, the opening balance amount was not correctly shown on the Receipts side of the Petty Cash Book.

The "Total" column on the Expenditure side of the Petty Cash Book was frequently not used for each transaction recorded.

Columns used for the analysis of petty cash expenditure were not totalled at the end.

A foremost weakness for the majority of candidates was the inability to show the restoration of the imprest correctly, at month end.

Too many candidates were unable to balance and rule the Petty Cash Book at month end, indicating both "Balance c/d" and "Balance B/d" correctly.

However, classifying and entering transaction amounts in expense analyses columns were generally well done.

Question 4 required candidates to state one reason why a sole trader would offer a cash discount to debtors.

Candidates seemed unfamiliar with reasons for offering cash discounts to credit customers. The reasons given for the cash discount showed a misunderstanding of how discounts are used in business organizations.

Question 5 presented candidates with a full outline of bank account transactions for a month, as it related to the sole trader in question. Candidates were required to use this information, in conjunction with data on debtors' outstanding account balances at start of the month, to calculate the total amount of Cash Discount Allowed for the month.

Many candidates performed creditably on this question and were able to arrive at the amounts for Cash Discounts Allowed - \$435 and \$175 – or the total of \$610.

Question 6 referred candidates to two specific entries in the Bank Account data presented in the previous question, namely a standing order and a bank transfer, and required candidates to state the difference between these two items (apart from the dollar amounts in the entries).

Very few candidates were able to clearly differentiate between a standing order and a bank transfer.

Question 7 required candidates to draw up a Bad Debts Account for a specific debtor, whose information previously appeared in question numbers 4 and 5, and who is presently discovered as ‘unable to pay’. Candidates were also specifically asked to close off the Bad Debts A/c at the end of the month.

Some candidates presented some other account, instead of the requested Bad Debts A/c. Of those candidates who did name the drawn up account appropriately, many failed to close the Bad Debts A/c off to the Income Statement (or to the Profit & Loss A/c) at month end.

Question 8 required candidates to state one reason why cheques are returned by the bank to a business, apart from the debtor having gone out of business.

The reason often given for “returned cheque” was frequently stated as “bounced cheque” which, by itself, provides no explanation at all. Many candidates were unable to state a specific reason or cause for a cheque being returned by a bank to a business.

Question 9 required candidates to draw up the Bank Account, on the form provided, using the data provided in Questions 5 and 8.

This question revealed some deficiencies in candidates’ ability to draw up an asset account, in this case “Bank”, in accordance with fundamental accounting principles.

- i. Entries for receipts and payments were presented on the reversed sides of the Bank Account – i.e., receipts were credited, and payments were debited; instead of debiting the receipts and crediting the payments as per conventional norms.
- ii. There were several instances where the opening balance of cash on hand was correctly debited, using the correct accounting side of the Bank A/c, but then all the other entries in the Bank A/c were presented incorrectly on the reversed sides, as explained above.
- iii. With regards to the cheque received on March 21 from the debtor, W. Fisher, for \$4 800, and which was later dishonoured by bank on March 31, these two entries were frequently altogether omitted from the Bank Account, leaving no record that a cheque was received on the 21<sup>st</sup>, and dishonoured on the 31<sup>st</sup>.
- iv. The Bank A/c was not balanced correctly.

Question 10 presented candidates with detailed information from which to extract Opening and Closing Inventory figures, as well as Returns In and Out figures. Other data for cash sales and cash purchases were also introduced to candidates at this point. Candidates were directed to use the presented information to prepare the sole trader’s Trading Account for the month.

The preparation of the Trading Account was generally not properly done. Of significance were:

- i. The calculation of the total Sales figure was not correctly done; candidates were required to combine cash sales amounts from the business' cash register records, with sales amounts deposited directly into Bank. Frequently, the four separate incidence of such sales were not aggregated to find the correct overall gross sales figure.
- ii. In the case of calculation to find the total Net Purchases figure, which involved the necessity to aggregate only two cash purchases amounts, and deduction of the Returns Out figure, the majority of candidates arrived at the correct Net Purchases amount.
- iii. The Sales Returns entry was poorly treated, with some candidates adding to sales, rather than deducting to arrive at Net Sales figure.
- iv. Treatments for Opening Inventory and Closing Inventory were poorly rendered.

Question 11 required candidates to calculate the Net Income (Profit) of the business for the month, starting with the Gross Profit figure from Question 10. They were also directed to use relevant information from Questions 3, 5, 7 and 9 in the calculation of the Net Income.

Candidates did not start the calculation with their Gross Income (Profit) amount and end the statement with the Net Income (Profit) figure.

Candidates could not correctly determine the expenses to be accounted for in the calculation of the Net Income or Net Profit.

Petty Cash expenses were not accounted for, or treated correctly, in the Net Income statement.

### **Recommendations**

This case study, in many instances, required candidates to read carefully and to utilize information presented or calculated earlier. Candidates lost marks by failing to include relevant data from previous questions. For example, the petty cash expenses of Question 3, the Cash Discount Allowed of Question 5 and the Bad Debts Expense of Question 7, were not accounted for in Question 11's Net Income calculation. Candidates therefore need to strengthen their ability to

- *read carefully*; because candidates are prompted at the appropriate points, which previous questions are to be referenced; and
- *follow through*; synthesizing, blending and consolidating as it were, all relevant details to present a full and comprehensive account or report at end.

Candidates need to be engaged in activities which challenge them to consistently apply concepts learnt in the earlier part of the syllabus on a continuous basis. Some examples include:

- the recognition of different types of source documents used for making entries in the books of account;
- preparation of different types of accounts, observing the fundamental accounting principles in the application of rules for entry of debits and credits in various types of accounts (e.g., for any asset account, e.g. "Bank", receipts are debited and payments are credited);
- balancing and ruling of journals (books) and ledger accounts at month end – Bank A/c, Petty Cash Book, Nominal accounts such as Bad Debts Expense.

It would augur well for the future, if candidates were to be encouraged in critical thinking and analytical skills, even as they are exposed to and encouraged to apply *learnings* to real life situations. That being so, we look to improvement in candidates abilities to:

cite various examples of source documents for all types of transactions, regardless of the type of sole trader identified; articulate and show understanding of how cash discounts are used by different types of businesses; explain reasons why banks may return cheques as 'dishonoured'; and explain the difference between standing orders and bank transfers with clarity.

It is not just a question of candidates expressing themselves poorly, but more a concern of candidates appearing to be completely devoid of an understanding of the issues at play in the concepts being tested – and this needs to be developed and strengthened with targeted exercises which involve and apply to real-life world situations. A pointed example refers to the poor handling of data presented in Question 10, where candidates were required to calculate the Net Sales figure, primarily using *cash sales amounts taken from the cash till* on stated days, and *cash sales amounts deposited directly into the bank account* on other indicated days. It is apparent that many candidates did not recognize and understand what was happening there, and therefore were unable to decipher that all these figures were to be added together to arrive at the total gross sales, from which a deduction of the Returns Inwards amount is to be made, to find and arrive at the Net Sales.

Generally, candidates' learning will be strengthened through practice; more so, practice which relates to and constantly references real life situations, to develop deep understanding and true learning of issues and concepts, rather than rote and conditioned recitation of some facts.

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION**

**JANUARY 2015**

**PRINCIPLES OF ACCOUNTS  
GENERAL PROFICIENCY EXAMINATION**

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## GENERAL COMMENTS

The Principles of Accounts examination is offered in May/June and January each year.

The examination consists of three papers:

Paper 01	–	Multiple Choice
Paper 02	–	Essay Paper
Paper 032	–	Alternative to School-Based Assessment (Private Candidates)

Paper 01 consists of 60 multiple-choice items taken from the three profiles of the syllabus: Knowledge, Application, Interpretation. The performance of candidates on Paper 01 was fair.

The mean mark was 35.14 out of 60 compared with 37.89 in 2014 and 34.86 in 2013. Approximately, 71.68 per cent of the candidates scored at least 50 per cent of the marks for this paper.

Paper 02 comprises two sections. Section I, the compulsory section, required candidates to answer three questions. Section II, the optional section, required candidates to answer two out of four questions.

Performance on Paper 02 saw a significant improvement. The mean mark for this paper was 43.87 out of 100 compared with 36.7 in 2014 and 35.12 in 2013; 36.94 per cent of candidates earned at least 50 per cent of the maximum mark on this paper.

Paper 032 is offered to private candidates. The examination attempts to simulate the skills tested in the SBA. This is achieved by presenting the candidates with one or two cases or situations from which they are required to respond to questions.

Candidate performance on Paper 032 showed a further decline year on year. The mean mark was 17.81 out of 40 marks compared with 21.59 in 2014 and 22.45 in 2013. Approximately 37.10 per cent of candidates earned at least 50 per cent of the maximum available marks on this paper.

## **DETAILED COMMENTS**

### **Paper 02 – Problem Solving**

The following passages which indicate strengths and weaknesses in the performance of candidates also help to identify the areas of focus when marks are being awarded.

#### **Section I – Compulsory**

##### Question 1

This question examined candidate's knowledge and approach to three common accounting tasks. These were completion of the Cash Book, identification of the source of information for Control Accounts, and correction of errors through the General Journal. Listed below are strengths and weaknesses observed in marking the scripts.

Approximately 100 per cent of candidates attempted the question; about 44.43 per cent scored 50 per cent or more of the available marks. The mean mark was 9.93 out of 20.

#### **Strengths**

In general, candidates were able to

- correctly record both opening balances in the Cash Book as well as identify correct debit and credit entries for cash-related transactions
- correctly identify the source of information in the preparation of Control Accounts
- properly journalize the simpler errors, for example, candidates were able to correctly debit K. Hosein and credit P. Hussain.

#### **Weaknesses**

In general, candidates were unable to

- treat with Discounts Allowed, Discounts Received, Drawings, the contra entry and balance the Cash Book properly
- correct the error requiring use of the Suspense Account, (debit the Sales Account; credit the Suspense Account for the difference in the actual amount and the amount recorded).

## **Recommendations to Teachers**

Teachers are advised to spend as much time as possible in ensuring that students grasp the application of the rules of entry as this supports both preparation of the Cash Book as well as the thought process that supports the correction of errors. In the case of treating with discounts, the application of mathematical concepts underlying the calculation of percentages before and after subtraction must be clarified for students. For example, students must recognize when the amount provided in the question represents perhaps 95 or 98 per cent of the original amount owed to creditors or owed by debtors in working out the amount that will appear in the relevant column.

### Question 2

This question required candidates to prepare the opening journal entry for the startup of a partnership. This was followed by appropriation of the partnership profit after a six-month period of operation and the effect of appropriation on the net worth of one of the partners.

Approximately 96 per cent of candidates attempted the question: roughly 28.21 per cent scored 50 per cent or more of the available marks. The mean mark was 7.75 out of 20.

### **Strengths**

In general, candidates were able to

- calculate the correct capital amounts for each partner and prepare the entry in the General Journal
- prepare the Appropriation Account for the six-month period showing the correct treatment for Interest on Drawings, Interest on Capital and Salary.

### **Weaknesses**

In general, candidates were unable to

- set out an acceptable narrative to accompany the opening entry.
- take the six-month timeline into consideration as few responses used a 50 per cent computation for Interest on Drawings, Interest on Capital and Salary. The effect was an inability to arrive at the correct share of remaining profits for each partner.
- demonstrate familiarity with the term *net worth* although this has been tested before. The effect was a neglect of this part of the question and its related request for commentary on a partner's investment performance.

## **Recommendations to Teachers**

A narrative is an integral part of a journal entry as it seeks to explain to interested parties the background to the application of the rules of entry. Although many examination questions requiring journal entries may not ask for the narrative, students should be well versed in formulating narratives. In the case of the need to prorate items in the Appropriation Account, teachers should present more opportunities for students to work such examples so that students are more alert to that scenario. Teachers are reminded that accounting has its own jargon and students should become familiar with, and be provided with links to more familiar terms such as Net Worth being the sum of Capital Account balances and Current Account balances. Students should also feel able to apply simple mathematical formulae to compare like with like.

### Question 3

This question tested candidates' ability to prepare a Statement of Financial Position (Balance Sheet) using the order of permanence in classifying assets.

Approximately 94 per cent of candidates attempted the question: about 31.22 per cent scored 50 per cent or more of the available marks. The mean mark was 8.25 out of 20.

### **Strengths**

- Most candidates headed the statement correctly.
- Section headings were evident.
- Fixed Assets were identified and listed.
- Most candidates were able to identify bank overdraft as a current liability.
- Most candidates treated the financed by section correctly, that is, they added Net Income to Capital and deducted Savings.

### **Weaknesses**

- The order of permanence of the asset section was hardly displayed.
- Depreciation for motor vehicles was not correctly calculated.
- In most cases, the depreciation charge for the year was not added to the accumulated depreciation.
- Few candidates correctly calculated drawings. In most cases they did not include the \$800 for inventory.
- Most candidates failed to adjust the Net Income figure for the Depreciation Expense.

- The \$8000 of the loan that became payable within the year was hardly included as current liabilities. Instead, many candidates added the \$8000 to the \$68000 thereby increasing the amount in the long-term liabilities.
- Candidates hardly adjusted debtors for Provision for Bad Debts and in some cases the Provision for Bad Debts was treated as a current liability.

### **Recommendations to Teachers**

- Teachers should continue to emphasize the expected presentation of financial statements (order of permanence or liquidity) as well as proper heading, in particular, the name of the business, the name of the statement and the relevant date.
- More practice should be given to students in the calculation and treatment of depreciation and provision for bad debts.

### **Section II – Options**

#### Question 4

This question had three parts which focused on adjustments to final accounts. In Part (a), candidates were asked to account for accruals and prepayments of a revenue (Commissions) and an Expense Account (Rent). Candidates were also asked to apply, in Part (b), both the reducing balance and straight line methods to calculate depreciation expense for two non-current assets and arrive at the net book values. Finally, Part (c) required candidates to show the effects of the above adjustments as part of the Balance Sheet extract.

Approximately 81 per cent of candidates attempted the question: roughly 50 per cent scored 50 per cent or more of the available marks. The mean mark was 10.16 out of 20

### **Strengths**

In general, candidates were able to:

- open the Rent and Commissions Accounts
- calculate depreciation expense using the straight line method and arrive at the NBV
- classify the sections of the Balance Sheet
- identify the non-current assets.

## **Weaknesses**

In general, candidates were unable to

- make the correct entries in the Rent Expense and Commissions Revenue Accounts. Specifically, they were unable to debit the Rent Expense Account with amounts owing or the Commissions Revenue Account with the amount prepaid. The credit for the commissions to be collected (earned, but not yet received) was also omitted.
- balance either account.
- apply the reducing balance method of depreciation to arrive at the correct NBV for Year 2, that is,  $[\$200\,000 - \$50\,000 - (\$200\,000 - \$50\,000 \times 25\%)] = \$112\,500$ .
- make the connection between information provided in Parts (a) and (b), for example, appropriately categorizing NBV of Fixed Assets; Commissions Outstanding, Commissions Received in Advance, and Rent Owing in Part (c).

## **Recommendations to Teachers**

Teachers should continue to encourage students to become familiar with Revenue Accounts and the effects of accruals and prepayments on these accounts. The application of the accounting procedures for calculating depreciation using the reducing balance method should be practised more frequently using different scenarios. Adjustments invariably result in the creation of assets and/or liabilities and changes in the value of existing non-current assets. Candidates should be exposed to making the connection between adjustment accounts and the Balance Sheet.

## Question 5

Candidates were required to name two jobs which would be treated as direct labour costs in a manufacturing account and state two methods of payment used by the manufacturer. Candidates were then provided with specific information relevant to a named business and asked to calculate the total cost of all labour used and the average cost of labour for each unit manufactured. Further information was provided about the work activity of a specific employee and the calculation of the employee's gross pay as well as net pay for the month were required. The need to show working was emphasized.

Approximately 81 per cent of candidates attempted the question; about 83.44 per cent scored 50 per cent or more of the available marks. The mean mark was 13.41 out of 20.

## **Strengths**

In general, candidates were able to

- list two jobs which would be likely to be treated as direct labour in the Manufacturing Account for a particular industry and two of the common methods of payment (fixed rate, hourly rate, piece rate) used by manufacturers
- include all of the costs associated with calculating total labour cost in the scenario given
- use the correct amount for overtime pay rate (\$36) and the amount for decorating one unit (\$200)
- identify and label an amount as gross pay/net pay.

## **Weaknesses**

In general, candidates were unable to

- calculate the total cost of all labour ( $\$72\,000 + \$100\,800 + \$144\,000 = \$316\,800$ )
- calculate the number of units produced (3 decorators x 40 cakes x 6 months)
- calculate the cost of labour per unit.

## **Recommendations to Teachers**

Teachers are reminded that accounting's prime purpose is to provide information for decision-making. Students should therefore be encouraged to develop an understanding of the importance of individual cost elements, and how they are used to determine total cost. As such, more emphasis should be placed on the practical use of the information in manufacturing accounts such as categorizing costs, and calculating total and unit costs of various kinds. Teachers should try to engage students in a range of practice activities where they are challenged to distinguish between the total cost of an expense such as labour and the per unit cost of such an expense.

### Question 6

This question tested candidate's ability to arrive at missing figures from incomplete records. Candidates were asked to make use of the traditional methods of preparing an Opening Statement of Affairs, and to calculate Income Statement items such as Credit Sales, Credit Purchases and Depreciation Expenses for the year. Finally, candidates were to demonstrate an understanding of the effect of profit on the owner's capital through the preparation of a Balance Sheet Extract (Capital Section).

Approximately 12 per cent of candidates attempted the question; roughly 13.27 per cent scored 50 per cent or more of the available marks. The mean mark was 4.54 out of 20.

## **Strengths**

In general, candidates were able to

- prepare a Statement of Affairs wherein they subtracted liabilities from assets
- treat with bank correctly in using the statement format to arrive at credit sales or credit purchases
- use both the opening and closing net book values in the calculation of the depreciation expense for the year.

## **Weaknesses**

In general, candidates were unable to

- distinguish between the opening and closing values for assets and liabilities and often employed both in drawing up the Statement of Affairs. The correct amount for Opening Capital (\$73 980) was not often arrived at.
- recreate control type accounts for payables and receivables to arrive at credit purchases (\$51 800) and credit sales (\$131 670) by utilizing the appropriate figures, including beginning and ending balances, in the correct accounts.
- calculate depreciation expense for the year correctly especially when required to take the purchase of new machinery into consideration.
- calculate Closing Capital correctly (\$110 810) by adding Net Income to the Opening Capital and subtracting Drawings in their Statement of Change in Capital.

## **Recommendations to Teachers**

The recreation of accounts to arrive at important figures such as capital balances and credit sales and purchases is a major test of the understanding of accounting principles and techniques such as the accounting equation and control accounts respectively. What is also noticeable is that students perform much better on items such as these when they are stated in the form of multiple choice questions (MCQs). Teachers might consider moving students from MCQs (with the usual four options – A, B, C, D) on this section of the syllabus to working on finding missing figures by removing the options. They can then test students with longer, more complex questions where information for more than one purpose is combined.

## Question 7

This question tested candidates' ability to tell the difference between authorized and issued Share Capital and Preference Shares and Ordinary Shares; outline advantages to partners in becoming a limited liability company; and preparing opening journal entries to record the conversion of a partnership into the world of Share Capital and Debentures. Candidates were also asked to prepare an Appropriation Account for the new company.

Approximately 15 per cent of candidates attempted the question; about 8.39 per cent scored 50 per cent or more of the available marks. The mean mark was 3.76 out of 20.

### **Strengths**

In general, candidates were able to

- describe the meaning of Issued Share Capital and Ordinary Shares
- prepare the heading for the Appropriation Account
- transfer an amount to general reserve in the Appropriation Account.

### **Weakness**

In general, candidates were unable to

- distinguish between Authorized Share Capital and Issued Share Capital; Preference Shares and Ordinary Shares
- list advantages of partners becoming a limited liability company
- transition to company accounts (where Ordinary Shares should have been credited) and instead, credited the partners' capital accounts
- provide the narratives necessary for the journal entries.
- subtract debenture interests from net income but instead treated it as a transfer in the Appropriation Account
- identify and label Retained Earning Account.

Candidates seemed to feel that by having two journals, one was for each person.

### **Recommendations to Teachers**

Teachers are advised to teach opening entries for all types of business entities, whether sole traders, partners, cooperatives or companies. When teaching opening entries, attention should be paid to explaining the differences between business types as well as the different related jargon such as types of shares and the difference between authorized and issued capital. Practice in the preparation of appropriation accounts for companies and other types of business entities can also be linked as they are simply differences in instruction as to how to share profits.

### **Paper 032 – Alternative to School-Based Assessment (SBA)**

Paper 032 forms a part of the compilation of candidates' final mark in Principles of Accounts (POA). Candidacy for this exam is limited to those persons who are out of the formal, secondary-level school system and would not, therefore, be considered as full-time, secondary school students benefiting from the internal SBA programme. Normally referred to as 'private candidates', this cohort also includes persons who have exited the secondary school system without a passing grade on the SBA component of their POA evaluation; as well as persons who may have earned a passing grade on the SBA component but failed the POA Paper 02 examination more than two years previously.

The paper consisted of 11 compulsory questions constrained by the objectives found in Sections 2–6 of the current syllabus. As per POA syllabus guidelines, private candidates are tested for 90 minutes. The examination takes the form of a case study using one or more scenarios on which to base questions. Paper 032 carries a total of 40 marks, and is weighted at 20 per cent of the POA final mark. The January 2015 Paper 032 case study was based on a sole trader – a travelling salesman of plastic goods.

Generally, candidates attempted all questions. The format of the paper required that candidates submit their responses to questions within the question booklet, in the space provided immediately following the questions. This structure made it easier for candidates to present their responses to the questions.

Approximately 37.10 per cent of candidates scored 50 per cent or more of the available marks. The mean mark was 17.81 out of 40. The following comments reflect the overall strengths and weaknesses of candidates' responses to these questions.

#### Question 1

Candidates were required to name one book of original entry that could be used in Jack's business but a few candidates were unable to name an appropriate book of original entry.

#### Question 2

Candidates were required to record the value of assets and liabilities at the start of the business. This question was generally well done. Most candidates were able to arrive at the correct amounts for the two assets. Some candidates did not Dr Cash \$10 000 and Cr Loan \$10 000. In some cases, both entries were omitted and the correct capital would be arrived at.

### Question 3

Candidates were given a list of transactions for the month following the start up of the business. Using the data, candidates were required to prepare the sole trader's two-column cash book for the month. While dates were entered and debit entries usually indicated, the following weaknesses in candidates' responses were noted:

- The contra entry was not properly shown.
- Candidates were unable to indicate both *Balance c/d* and *Balance b/d* correctly.
- Candidates are still reversing entries in the accounts; debiting what should be credited and vice versa.

### Question 4

Candidates were required to identify the depreciation method that Jack preferred to use and calculate the book value of the asset at the end of the second year of operation. Most candidates were able to identify the depreciation method to be used but in some cases used the other method, the straight line method, for the calculation. Generally, candidates calculated the book value.

### Question 5

Candidates were given the balances on Jack's books on 31 December 2013 and were required to prepare the Trading, Profit and Loss Account for the year ending 31 December, 2013. Candidates were also required to calculate the Gross Profit percentage. The following were observed among candidates' responses:

- The advanced payment on sales was added rather than subtracted.
- Rent was not adjusted for the prepayment made.
- Commission was not properly treated.
- The cost of sales section was in most cases done even though the ending inventory may have been omitted.
- The expenses section contained the expense items.
- The Gross Profit percentage was not properly done.

### Question 6

Candidates were required to identify the section of the Balance Sheet under which Prepaid Revenue and Prepaid Expenses would be included but some candidates appeared to misunderstand what was required of them and named the sections by other names instead of Current Liabilities and Current Assets.

Question 7

Candidates were required to name the account which Jack would need to create to provide for the possibility of some customers who may not meet their debts when they fall due. Some candidates named the account Bad Debts Account rather than use terms such as *provision for* or *allowance for*. In most instances, the account was not named at all.

Question 8

Candidates were required to determine Jack's working capital using the balances at the year ended 31 December 2014. This question was reasonably well done with most candidates arriving at the working capital without the appropriate account statement. The totals for assets and liabilities were given and then the working capital shown.

Question 9

Candidates were required to use the balances given in Question 8 to calculate the current ratio and acid test ratio. This question revealed some deficiencies in candidates' ability to use the data. The formula for the ratios was presented but the calculation was not properly done.

Question 10

Candidates were required to define the term *favourable working capital*. The responses to this question were far removed from what can be interpreted as an understanding of working capital. This showed that candidates could not relate the term *favourable* to a real-life situation or did not understand what working capital really is.

### Question 11

Candidates were required to calculate the closing capital for the year using the net income (profit) and drawings of the business for the year and starting with the opening capital as calculated in Question 1. Candidates showed some figures unrelated to the question to arrive at a solution. Candidates placed a number of figures in their responses and did not label the figures. Labelling was almost totally non-existent in the responses to this question. Thus, the question was not well done and there was a lack of linkage to Question 1.

### **Recommendations**

This case study, in many instances, required candidates to read carefully and to utilize information presented or calculated earlier. Candidates lost marks by failing to determine what was required and to include relevant data from a previous question when required so to do. Candidates can improve their ability to answer questions more appropriately by reading the question and then linking all relevant data. It is suggested that candidates spend time reading the entire question paper to gain insight into where linkages may appear. Candidates need to be familiar with applying basic concepts in the preparation of accounts, namely, debit and credit entries and properly balancing accounts.

Generally, candidates' learning can be improved by using a teaching and learning environment which constantly makes reference to real-life situations, taking the concepts and showing how they can be applied to the real world of business. The calculation of opening and closing capitals must be known as well as the proper preparation of a Cash Account. These are basic to any business and must be treated as such. There is much evidence of rote learning in the preparation of accounts – namely the Trading, Profit and Loss Account. This was evident in candidates' placement of a format and then slotting in some figures from the question and where a figure should not have appeared something was put in its place even if it was a zero.

**C A R I B B E A N E X A M I N A T I O N S C O U N C I L**

**REPORT ON CANDIDATES' WORK IN THE  
CARIBBEAN SECONDARY EDUCATION CERTIFICATE® EXAMINATION**

**MAY/JUNE 2015**

**PRINCIPLES OF ACCOUNTS  
GENERAL PROFICIENCY EXAMINATION**

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## GENERAL COMMENTS

The Principles of Accounts examination is offered in May/June and January each year.

The examination consists of the following papers:

Paper 01	–	Multiple Choice
Paper 02	–	Essay Paper
Paper 031	–	School-Based Assessment (SBA)
Paper 032	–	Alternative to SBA (Private Candidates)

Paper 01 consists of 60 multiple-choice items taken from the three profiles of the syllabus: Knowledge, Application, Interpretation. The mean mark out of 60 was 36.63, which was consistent with candidates' performance on the paper over the previous two years.

Paper 02 comprises two sections. Section I, the compulsory section, required candidates to answer three questions. Section II, the optional section, required candidates to answer two out of four questions.

Paper 032, the Alternative to School-Based Assessment (SBA), is an examination offered to private candidates. The examination attempts to simulate the skills tested in the SBA. This is achieved by presenting candidates with one or two cases or situations from which they are required to respond to questions.

The number of candidate entries fell slightly compared with 2014 with 18 574 candidates writing the examination. The performance of candidates in this year's examination has declined slightly compared with that of 2014, there was a drop in the number of candidates achieving acceptable grades from 68.12 per cent in 2014 to 66.32 per cent in 2015. Candidates continue to have difficulty responding to questions requiring experience and knowledge gained from working with specialized equipment.

## **DETAILED COMMENTS**

It should be noted that June 2015 was the first opportunity for most candidates to use the revised booklet for their responses. These booklets portray a structured question approach where stimulus material is combined with spaces allocated for candidates' responses. Some responses showed the effects of candidates' unfamiliarity with the new format. For example, the proper delineation and use of labels and headings may have been dispensed with since they were seen immediately above where candidates were expected to respond. Secondly, the use of pre-formatted forms such as the T-account form may have disconcerted some candidates. Other than that, the usual weaknesses and lack of popularity of some topics remained as in previous years.

### **Paper 02 – Problem Solving**

The following passages which indicate strengths and weaknesses in the performance of candidates also help to identify the areas of focus when marks are being awarded.

#### **Section I – Compulsory**

##### Question 1

This question assessed candidates' grasp of basic accounting principles which include the identification of accounts by name, the application of the rules of entry including dates, particulars and amounts, and balancing of accounts in order to draft the Trial Balance for a sole trader. Transactions were laid out as they are in most of the textbooks used by candidates of the region. The transaction types included both the investment and withdrawal of capital, examples of revenue receipts and expenditures, and capital expenditure. Candidates were required to demonstrate understanding of the different effects of trade discounts and cash discounts on amounts recorded as well as real life actions such as a return of equipment to the selling company.

##### **Strengths**

- The majority of candidates opened all the correct accounts in the ledger and balanced off correctly to trial balance stage.
- Candidates were aware that goods taken for personal use was referred to as drawings.
- The heading of the trial balance was written correctly and totals were shown by most candidates.
- Entries in most accounts were recorded with date, particulars and amount.
- A significant number of candidates were able to record the correct debit entry of \$290 in Jon's account.

### **Weaknesses**

- A number of candidates reversed the entries to be made in the accounts, for example, making a debit entry in an account when the account should have been credited.
- Some candidates appeared unable to distinguish between discount allowed and discount received, and between returns inwards and returns outwards.
- Several candidates did not attempt to balance the accounts whereas others balanced off accounts but failed to bring down the balances.
- Although candidates recognized the taking of goods by the owner as drawings, most were unaware that this withdrawal would affect the Purchases Account as there would be fewer items for sale by the firm. Instead, many candidates opened an account labelled 'Len Hanson' to treat with the drawings.
- Candidates found it difficult to correctly calculate that the value of purchases from Yazmin Company was \$1620 representing the amount after deduction of the trade discount. The additional effect of such recognition was that the value of the amount to be shown as returns outwards was \$144 and the amount for discount received would be rounded off to \$74/\$73.
- A similar incorrect treatment occurred when most candidates regarded the return of equipment as a type of returns outward and the discount allowed by the equipment seller as the familiar discount received as given by a trade account payable.
- Some candidates chose to draw up a profit and loss account instead of a trial balance and sometimes a trial balance was attempted without T-accounts being opened.
- In many cases, ledgers were opened instead of T-accounts and where there were no T-accounts a trial balance appeared.
- In many trial balances, account balances were placed in the opposite columns and the trial balance itself was not totalled.

### **Recommendations for Teachers**

The recurring weaknesses of responses to questions of this type indicate a need for teachers to revisit the basic double entry aspect of the course throughout and not just in the beginning of the course. Furthermore, practice in interpreting the words in the transactions to recognize the unusual event should be part of this review. There is also a need to make concrete the link between early transaction information such as that of 5 April and later transactions such as 16 April and 25 April as well as brought forward balances of accounts and the Trial Balance.

### Question 2

This question tested candidates' knowledge of several aspects of the topic 'Partnership'. Firstly, candidates were asked to list two features that distinguish a partnership from other business forms, and secondly they were asked to interpret the significance of balances on partners' current accounts. Finally, candidates were to prepare the Appropriation and Current Accounts based on given information. This question was popular amongst candidates, as it did not test any new subject material. It appeared to have been both interesting and challenging to candidates based on the range of responses offered.

### Strengths

- The features stated by strong responses identified aspects of a well-thought-out partnership agreement as well as conditions in the Partnership Act of 1850.
- Other features identified were those to be found in well-written textbooks or reflected candidates' experiences and observations.
- A significant percentage of candidates discerned that an opening balance amount on a partner's current account in parentheses (brackets) was a *debit or negative balance*, which meant that the partner owed the partnership, having withdrawn more than his or her share of profits for the previous period. In contrast, an opening balance that was not in parentheses represented a *credit or positive balance* and meant that the partner had not withdrawn all the share of profits that he or she was entitled to do.
- Drafting of the appropriation account showed good practice especially in
  - the use of the vertical layout
  - the sections requiring calculation and treatment of interest on capital and salary to partner
  - stating the ratio to be used for sharing remaining profits.

### Weaknesses

- Several candidates provided no response to this compulsory question, did not attempt Parts (a) and (b) or did so very poorly.
- A significant percentage of candidates confused characteristics of a partnership with those of limited liability companies, making mention of shares, shareholders, and company registration as being requirements.
- Many responses were confined to what may have been applicable to one specific partnership arrangement, rather than what was relevant to all types of partnerships. For example, responses offered included 'interest on capital' and 'interest on drawings', 'one partner is to receive a salary' and 'profits are to be shared equally'.
- Responses to Part (b) showed that candidates could not give an interpretation of the meaning of the balances but simply
  - copied the given information
  - calculated the difference between the balances
  - sought to predict the effect of these balances on future profit-sharing methods for the partners.
- A minority of candidates did not commence the Appropriation Account with the net income.
- The calculation and treatment (add to net income) of interest on drawings pro-rated to reflect the period of use by each partner appeared to be the most challenging aspect of preparing the Appropriation Account. Furthermore, partner's salary, drawings and even capital balances were also included and added to net income.
- Some candidates stated the correct ratio to be used to share remaining profit but applied a different ratio (usually 1:1).
- The appropriate treatment of appropriation items (drawings, interest on drawings, interest on capital, partner's salary, share of remaining profits) in the Current Accounts remains a challenge, with candidates showing these items on the incorrect sides. In addition, candidates included

unnecessary items such as capital balances in the Current Accounts. Finally, candidates did not always balance the accounts or complete the balancing activity.

### **Recommendations for Teachers**

Teachers should include a focus on reasons for partnership formation and the features that set this business form apart from all other business forms. Topics for discussion should include voluntary association, mutual agency, membership number restriction, limited and unlimited liability, contractual relationship, profit-sharing agreements, capital contributions and shared ideas and responsibilities. Students should be supported in understanding what is meant by significance in various situations. In this particular case, significance refers to the partner's relationship with the business in terms of whether the partner owes the business (excessive withdrawal of current funds) or the business owes the partner (moderate withdrawal of current funds). Finally, in having students practise their interpretation of instructions in a partnership question, teachers should make the link between the Appropriation Account and the Current Accounts clear. This would emphasize the application of rules of entry for achieving the match between two sets of accounts since some common items appear in both the Appropriation Account and the Current Accounts but on opposite sides.

### Question 3

This question provided candidates with a scenario that included a list of account balances and required the preparation of a well-labelled Income Statement and three sections of a balance sheet (fixed assets, current assets, current liabilities). In light of the scenario, candidates were asked to use a suitable profitability ratio to determine whether a loan should be granted. They also had to give one advantage and one disadvantage of using a computer to prepare accounts.

### **Strengths**

- In preparing the Income Statement, candidates were able to identify and treat with unadjusted expenses such as interest, salaries and wages as well as the adjustment for the accrual for the miscellaneous expenses.
- The Balance Sheet sections were fairly well done except for the occasional treatment of mortgage as an expense in the Income Statement and Accounts Receivable as a current liability.
- Many candidates knew at least one profitability ratio and expressed an appropriate recommendation.
- A large percentage of candidates were able to list one advantage and one disadvantage of using a computer to prepare accounts correctly.

### **Weaknesses**

- Generally, the Income Statement was poorly done.
- Candidates did not include the name of the company in the heading and often used 'as at' instead of *for the year ended*.
- Some candidates did not prepare a statement, and rather, they calculated the items asked for: insurance, miscellaneous expenses, cost of goods sold etc. In the case of the latter, some

candidates did not know that the inventory should have been deducted from the cost of goods available for sale figure rather than from sales or capital.

- Few candidates treated with the prepayment correctly.
- A major weakness was revealed by those candidates who attempted to build the traditional trading and profit and loss account entering amounts for purchases and returns outwards etc. even though there were no such amounts given in the question.
- In the Balance Sheet sections, the omission of prepaid insurance as a current asset and miscellaneous expenses owing as a current liability was most prevalent.
- The small percentage of candidates who mentioned the acid test ratio as a measure of profitability omitted the deduction of closing inventory in its calculation. Some candidates did not use the information calculated in the ratio to make their decision about the loan.

### **Recommendations for Teachers**

Teachers are advised that the topics tested in this question will continue to be assessed as they represent for the most part, key areas of knowledge and skills in accounting. As such, students must pay close attention to correct headings and labels and should be provided with the reasons for so doing. Building an accurate dictionary of accounting terms with examples should be undertaken from the beginning of one's studies in Principles of Accounts.

## **Section II – Optional Section**

### Question 4

Question 4 tested two topics — bank reconciliation in Parts (a) and (b) and making entries in identified day books in Part (c). In Part (a), candidates were asked to update the Bank Account in the Cash Book with relevant information from the Bank Statement. Candidates were expected to begin with the overdraft balance of (\$1780) in the Bank Account and balance the account after making the adjustments.

### **Strengths**

Generally, candidates were able to

- treat correctly with the three credit entries in the updated cash book, in particular the standing order of \$1000, the debit transfer of \$825 and the bank charges of \$400
- complete the effort by finding the balancing figure and bringing down that balance to the next period
- start the bank reconciliation statement with an acceptable heading
- recognize that they had to start the bank reconciliation statement with the closing balance found in the updated Cash Book.

### **Weaknesses**

Generally, candidates were unable to:

- Start with the opening overdraft balance but instead brought down the balance on the debit side of the updated bank account or started with the total of \$4180. Quite a few candidates copied the

entire bank account before attempting the update. Some also entered every item from the bank statement into the Cash Book.

- Recognize that a debit in the Bank Statement should be credited in the bank account in the Cash Book.
- Treat properly with the credit transfer for \$4000 shown in the Bank Statement.
- Complete an updated cash book but headed up a bank reconciliation statement with different balances, for example, the opening bank statement balance. Even in the heading, the date was often omitted.
- Treat with the unpresented cheque and the outstanding deposit as required. There were those who treated the figures correctly but used the wrong names in labelling the figures.
- Prepare the Bank Reconciliation Statement while others set it out in a bank statement format.

### **Recommendations for Teachers**

Teachers need to have their students pay more attention to the opening and closing balances in a bank account. There is no difference in treatment of items for adjustment but the effect on the closing balance and therefore the reconciliation is significant when the Cash Book (bank column) balance is an overdraft.

In Part (c), candidates were asked to record credit sales, credit purchases and the return of goods sold in the appropriately identified day books and to total up these books at the end of the period.

### **Strengths**

Generally, candidates were able to

- enter the transactions in the day books
- include the dates correctly
- total the month's transactions.

### **Weaknesses**

Generally, candidates were unable to:

- Name the day books correctly using just Sales or Purchases or Sales ledger and Purchases Ledger instead of the correct headings of Sales Day Book/Journal and Purchases Day Book Book/Journal. Some candidates labelled the Returns Inwards Day Book as the Return Outwards Day Book.
- Identify the folio of the ledgers to which the information from the day books would be posted. In many cases the folio columns were ignored or some candidates provided invoice and not folio numbers, rather than using SL with a number (for example, SL4) to identify the location of the particular debtor's account in the Sales Ledger.
- Indicate that the totals of the three day books would be transferred to the summary accounts (Sales Account, Purchases Account etc.) in the General Ledger rather than the Trading Account, or the Profit and Loss Account.

## **Recommendation for Teachers**

Teachers need to stress the importance of the folio number and the transfer of the total amount in each day book to the appropriate account in the general ledger, when practising use of the books of original entry.

### Question 5

This question had two disparate sections. Part (a) was designed to test candidates' knowledge, understanding and ability in the preparation of control accounts from a single list of transactions. Part (b) focused on the preparation of accounts for a manufacturer, in particular, a manufacturing account and a trading account.

Part (a) tested candidates' ability to:

- Recognize opening balances and closing balances and record them correctly
- Correctly record credit sales and purchases
- Correctly record debit and credit entries

### **Strengths**

Generally, candidates were able to

- record at least one of the balances and credit sales and credit purchases correctly
- place at least two correct debit or credit entries.

### **Weaknesses**

Generally, candidates were unable to:

- Differentiate between the items to be recorded in the Accounts Receivable Control Account and the Accounts Payable Control Account.
- Recognize that interest on late payment received must be entered as a debit entry first to record the increase in accounts receivable and then entered as a credit to record the receipt. In other words, it required a compound entry.
- Record the refund for overpayments correctly.
- Recall that the act of balancing an account is incomplete if the b/d is not shown below the total and double lines.

## **Recommendations for Teachers**

Teachers are advised to introduce this topic earlier, perhaps immediately after the practice of preparing T-accounts. Furthermore, particular attention should be given to how candidates record opening and closing balances, including bringing down closing balances.

Part (b) tested candidates' ability to:

- Correctly record direct expenses and factory overhead expenses
- Treat beginning or ending work in progress correctly

- Arrive at a sales figure by adding a mark up to the cost of production figure

### **Strengths**

Generally, candidates were able to

- place proper headings to both accounts
- treat some direct and factory overhead expenses correctly
- treat with the beginning and ending work in progress figures correctly.

### **Weaknesses**

Generally, candidates were unable to

- recognize the difference between the two terms, *production costs* and *cost of goods sold*
- include the cost of production in calculation of the gross profit
- correctly calculate the sales figure.

### **Recommendations for Teachers**

Teachers are advised that some emphasis should be placed on making the preparation of accounts more authentic by having students see the link between a business' manufacturing account and its trading accounts. Assessment questions with genuine scenarios will do more to prepare the student for both the world of work and advanced accounting studies.

### Question 6

This question required candidates to calculate subscriptions in advance and subscriptions in arrears at the beginning and end of the financial period, and to prepare the Subscription Account. In addition candidates were required to differentiate between *revenue expenditure* and *capital expenditure*, and to identify the account or statement where they should be reported. Finally, candidates were required to prepare a receipt and payment account.

### **Strengths**

Generally, candidates were able to

- calculate subscriptions in advance and subscriptions in arrears amounts correctly
- bring forward the opening balances in the subscription account for subscription outstanding and in advance
- place at least one correct debit or credit entry correctly in the subscription account
- differentiate between capital and revenue expenditure and the account or statement where they should be reported
- make at least one debit and one credit entry where the Receipt and Payment Account was attempted.

### **Weaknesses**

Generally, candidates were unable to

- correctly prepare the Subscription Account with the cash and the income and expenditure figures or placed correct amounts on the wrong side of the account

- place the closing advance and arrears (c/d) balances correctly in the Subscription Account or add or subtract the subscription in advance and in arrears balances correctly when submitting it in statement form
- prepare the receipts and payments account correctly, there was a lot of arbitrary placement of items.

### **Recommendations for Teachers**

Teachers are asked to pay attention to the preparation of the Subscription Account with opening and closing balances and to continue to make the link between this scenario and the topic of adjustments for accruals and prepayments. Although fairly well done, the difference between expenditure that increases fixed asset value (capital expenditure) and expenditure that is incurred to bring in revenue (revenue expenditure) should not be a guessing game. Teachers are also urged to draw the attention of students to the resemblance of the receipts and payment account to a combined cash and bank account.

### Question 7

This question tested the drafting of final statements for cooperative enterprises, in particular the Appropriation Account, Part (a), and the Balance Sheet, Part (b). The question was highly unpopular.

### **Strengths**

Generally, candidates were able to

- use the correct heading for the Appropriation Account and start with at least one and in many cases, both the current surplus and undistributed surplus thereby arriving at a total surplus available for distribution
- both identify all the appropriations and calculate at least two out of the four amounts (Members' Education Fund and the Disaster Relief Fund) correctly
- include the ordinary share capital and at least one of the three reserve accounts (Undistributed Surplus, Members' Welfare Fund and Flood Relief Fund)
- identify the buildings at cost and the investment as fixed assets.

### **Weaknesses**

Generally, candidates were unable to

- calculate the appropriation amounts correctly especially the calculation of dividends of \$50 000 ( $[\$500\ 000/\$5]/2$ ) and the patronage refunds (5% of \$350 000) which were particularly poorly done
- make attempts at preparing the balance sheet extract capital section
- provide the correct balance sheet heading, using 'for the year ended' instead of *as at* as well as omitting the word 'Extract'. Although the item, buildings at cost, was identified as a non-current (fixed asset), few candidates deducted the accumulated depreciation to arrive at a net book value and indeed some candidates added the two figures.

Candidates experienced difficulty with the identification of current assets, and in particular the item equipment rental fees receivable.

### Recommendation for Teachers

Opportunities should be provided for students to engage in more practice sessions involving the identification of terms in accounts including terms with special application to different types of business organizations. Students' attention should be drawn to the clues that tell of the nature of something. For example terms such as *long-term*, *receivable* and *outstanding* provide clues to whether items should be considered non-current or current, an asset or a liability.

### Paper 031 – School-Based Assessment (SBA)

An SBA is a project completed by all full-time students attending a recognized institution and being supervised by a course instructor. It provides students with an opportunity to consolidate knowledge and skills gained by relating what was done in class to that of an actual or simulated business. The moderated SBA samples showed that most students exhibited a good grasp of the accounting concepts outlined in the syllabus. Outlined below are general remarks indicating strengths and weaknesses of students as seen in samples presented for moderation. Generally, recommendations are based on these and other observations for the enlightenment of students and course instructors.

- Students consistently included a table of contents but a significant number of them failed to ensure that it was reflected by proper page numbering or used chapter numbering without identifying individual pages;
- Students cited aims which were too general in nature or unreflective of the examination and which lacked a focus specific to the project. There were also frequent instances of overlapping aims; The following are examples of aims that were **not** accepted by the examiners:
  - To fulfill the requirements of CXC
  - To fulfill and satisfy the needs of the customers/people
  - To make a profit
  - To become independent and to be my own boss

It is recommended that students align their aims to the following examples, which were accepted by the examiners:

- To gain practical experience in the application of accounting procedures
  - To complete the accounting cycle for the simulated business
  - To analyse and interpret the performance of the business through the use of appropriate accounting tools
  - To gain practical experience in applying the principles learnt in Principles of Accounts class
- Students provided comprehensive descriptions of the simulated business including supporting data such as the type of business and the nature of the business activities but many failed to include the **precise time periods** during which the business was simulated.
  - Students included the transaction listing but did not take care to maintain the sequence that was reflected in their accounts, thus dates recorded in the accounts did not correspond with dates in the transaction listing.

- Students included source documents that were written up to reflect transactions from the listing. These documents were not always placed immediately after the transaction listing as expected. Students are reminded that three of these source documents are compulsory, namely, the cash receipt, banking documents (withdrawal/deposit slips, cheque or cheque counterfoil) and a sales/purchases invoice. The fourth source document may be drawn from the following list: an internal memo, a debit note/credit note or a petty cash voucher. Blank source documents will be awarded no marks, therefore source documents are to be completed, signed where applicable (invoices, cheques and receipt), and traceable to the transactions and accounting records.
- Students demonstrated mastery in the preparation and presentation of the Cash Book in terms of cash/bank and discount columns; however, few of them used the three-column cash book which is the expected format for presentation and not separate cash accounts and bank accounts.
- Students demonstrated competence in drafting the books of original entry but did not post totals to ledgers, as expected, but posted individual items unnecessarily.
- Students balanced and closed accounts appropriately but some of them did not treat nominal accounts (expenses and revenue accounts) correctly using carried down (c/d) and brought down (b/d) when they should have been closed to the Trading Account or the Profit and Loss Account.
- Students presented trial balances where the given totals usually agreed.
- Students presented income statements with net profit/loss figures which were traceable to the Balance Sheet.
- Students presented the Balance Sheet, however, in a few instances the heading was incorrect especially in terms of the use of 'for the year ending' rather than the correct *as at*.
- Assets and liability sections were not ordered in either of the accepted patterns that is, in terms of liquidity or permanence.
- Students gave a statement of performance and substantiated the same with the correct net profit/loss figure drawn from the financial statements.
- Students gave accurate computations of ratios with supporting interpretations and provided recommendations/suggestions that were related to the interpretation. However, some candidates presented only general explanations of what each ratio seeks to measure and these are not awarded marks.
- Students failed to correctly interpret the *further interpretation* component of the SBA project. They are required to compare two different items over two different time frames within the period of simulation. For example:
  - Week 1 cash sales figure against Week 2 cash sales figure  
(Cash sales are not to be compared with credit sales)
  - Opening cash/bank balance against closing cash/bank balance  
(Sales are not to be compared with purchases.)

While it is admirable that attempts were made by students to include all sections of the project; no mark was awarded for completeness as students failed to complete the project in accordance with the revised SBA mark scheme. The mark for sequential arrangement was also not awarded in most cases due to students' failure to arrange projects in accordance with the sequence stipulated by the revised SBA mark scheme. No component of the project should be placed in an appendix as there is no need for such a section in the project report.

## Recommendations

- The current CXC grading criteria (mark scheme) must be utilized and followed according to its outlined sequence.
- There is **no need for an appendix** since this provides students with the opportunity to place items, such as source documents, out of sequence and this results in them losing the marks for sequential arrangement.
- Some classroom teachers must note that an updated syllabus has been in effect for examinations from May/June 2008 and should be used by all Principles of Accounts teachers preparing students for the CSEC examination.

### Paper 032 – Alternative to SBA

Paper 032, the Alternative to SBA forms part of the compilation of candidates' final mark in Principles of Accounts (POA).

Candidacy for this examination is limited to those persons who are out of the formal, secondary-level school system. These persons would not, therefore, be considered as full-time, secondary school students who would benefit from the SBA programme. Normally referred to as 'private candidates', they also include persons who have exited the secondary school system without a passing grade on the SBA component of their POA evaluation, as well as persons who may have earned a passing grade on the SBA component but failed the POA Paper 02 examination, more than two years previously.

As per POA syllabus guidelines, private candidates are tested for 90 minutes. The examination takes the form of a case study, with a minimum of 10 and a maximum of 15 questions. From January 2013, the examination was set out with lines and spaces for responses immediately under stimulus material. Paper 032 carries a total of 40 marks, and is weighted at 20 per cent of the POA final mark.

The Paper 032 case study required candidates to recall their knowledge of the Subsidiary Books; Preparing and Analysing Financial Statements; Balancing and Closing Accounts and the Balance Sheet. This paper seeks to pattern itself against the Paper 031 which is submitted by school-based candidates. However, performance is generally poor and it can be concluded that the areas tested were not as familiar as would have been hoped, either because they were not sufficiently drilled, revised and practised or the candidates failed to prepare themselves adequately to answer the questions.

The mean mark on this question was out of 40. Below are comments on the strengths and weaknesses displayed by candidates in the 2015 Paper 032.

Question 1 required candidates to identify the source documents presented. Candidates were able to identify the two invoices. The credit note took on many labels.

Question 2 required candidates to record the information from the documents identified in Question 1 in the appropriate books of original entry. Candidates were able to correctly label two books and enter the

dates. However, candidates failed to record the transaction in the name of the creditor or debtor. Transferal of totals to the general ledger was not generally seen.

Question 3 required candidates to prepare a classified balance sheet from a list of items provided. The marks for the statement heading and section headings were easily attained but in many cases the capital figure was calculated but not labelled or labelled incorrectly as working capital, gross profit or some invented name.

Question 4 required candidates to prepare a ledger account and balance off at month end. In many cases, the account to be opened was identified but treatment of the opening balance, credit purchases and returns outwards was incorrect, bank was usually omitted and the figure for discount received proved difficult to calculate or was not present in the account.

Question 5 required candidates to prepare the journal entry that would result in a provision for bad debts account. Generally, candidates earned marks for entering the heading, the date or the narration correctly and calculated the provision for bad debts amount (\$325) but the entries in the account were inappropriately done.

Question 6 required candidates to draw up a provision for bad debts account to arrive at the adjusting figure for the Income Statement. This question was poorly done with poor treatment of the opening balance, miscalculation and non-transfer of the adjusting figure of \$75 to the Income Statement. Few candidates balanced the account.

Question 7 required candidates to state how the provision of bad debts affect (a) the Income Statement and (b) the Balance Sheet. While candidates generally answered this question well, the effect of the provision on the Income Statement was better known.

Questions 8 and 9 required candidates to (a) state the meaning of the gross profit margin and net profit margin ratios; (b) comment on the business results versus that of the industry in terms of gross profit margin and net profit margin ratios; and (c) make a recommendation to the business based on these ratios. Candidates did poorly on these questions displaying the following weaknesses:

- The interpretation of the results — ratio or percentage — showed a misunderstanding of what were the requirements of the questions.
- Candidates did not have a clear understanding as to what gross profit margin or net profit margin means.
- Candidates could not relate the business results to that of the industry.
- Recommendations showed no relation to the topics.
- The interpretations were varied but not related to the questions at hand.

Question 10 required candidates to calculate the number of days the business average inventory remained on hand before being sold. Candidates had difficulty in arriving at the correct formula to calculate the rate of inventory turnover and in several cases introduced their own figures in order to arrive at a solution.

Question 11 required candidates to comment on the business performance by comparing the industry average for the rate of inventory turnover with their results from the previous question. The comments of the few candidates who attempted this question were not linked to the results from Question 10.

### **Recommendations**

The areas covered by the case study are not the most popular in terms of accounting topics and so the recommendation is that candidates place some emphasis on these unpopular areas. This will mean much more practice which will lead to greater familiarity and ultimately a better performance.