

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.