

**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.