

**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**

**MAY/JUNE 2009**

**PRINCIPLES OF ACCOUNTS**

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**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.