

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.