

**CARIBBEAN EXAMINATIONS COUNCIL**

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

**JANUARY 2011**

**PRINCIPLES OF ACCOUNTS  
GENERAL PROFICIENCY EXAMINATION**

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## **GENERAL COMMENTS**

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

The examination consists of three papers:

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

### **Paper 01 – Multiple Choice**

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

The mean mark was 32.34 out of 60 compared to 30.66 in 2010 and 31.46 in 2009. Approximately, 63 per cent of the candidates scored at least 50 per cent of the marks for this paper.

### **Paper 02 – Problem Solving**

Paper 02 comprises two sections. Candidates were required to answer three compulsory questions in Section 1 and two of four optional questions in Section II.

The performance on Paper 02 has declined over the past two years. The mean mark for this paper was 32.56 out of 100 compared to 38.84 in 2010 and 41.17 in 2009. Approximately 20 per cent of candidates earned at least 50 per cent of the maximum mark on this paper.

### **Paper 03/2 – Alternative to School-Based Assessment (SBA)**

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

The performance of candidates on the 03/2 paper remained stagnant over 2010 but was a severe decline over previous years. The mean mark was 15.48 out of 40 marks compared to 15.48 in 2010 and 21.13 in 2009. Approximately 28.79 per cent of candidates earned at least 50 per cent of the maximum available marks on this paper.

## **DETAILED COMMENTS**

### **Paper 01 – Multiple Choice**

The performance of candidates on this paper reflects certain weaknesses in the preparation of candidates. These are shown again in candidate responses in the other papers. Teachers and students are asked to pay special attention to the following.

1. Familiarity with terminology is necessary for appropriate responses. Terms such as ‘net sales’ and ‘net assets’ should be interpreted to mean that some amount is to be subtracted from another amount. On the other hand, the calculation of ‘net worth’ of owners suggest the addition of various forms of investment, for example, capital and current account balances of partners, shares and reserves of shareholders less any of the forms of withdrawal.
2. Topics such as the application of the rules of entry for transactions involving capital receipts or expenditures (for example, repayment of a loan) appear unfamiliar to candidates. Correction of errors and adjustments (tested frequently via subscription accounts) and accounting theory (for example, the violation of the accrual concept) also need exploration.
3. Candidates should be able to think beyond a mechanical reproduction of relationships between items in summary accounts. For example, Cost of Goods Sold can be computed from the following information:
  - Opening Stock plus Net Purchases minus Closing Stock
  - Sales minus Gross Profit
  - Cost of Goods Available for Sale minus Closing Stock
  - 10 times Gross profit where the mark-up is 25%
  - 75% of Sales
4. Candidates must be prepared to identify relevant from irrelevant data in question stems, for example, direct costs from indirect costs.

### **Paper 02 – Problem Solving**

#### **Section I – Compulsory**

##### Question 1

This question presented the General Journal entries for a sole trader in his first month of activity. Candidates were asked to complete the use of the General Journal through preparation of suitable narratives; identify and explain other useful subsidiary journals and prepare a Trading and Profit

and Loss Account from information in the Journal. Finally candidates were asked to recognize debtor and creditor relationships from the data provided. Overall, this question was well done.

Approximately 98.32 per cent of candidates attempted the question, of which 61.08 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 10.82 out of 20.

### **Strengths**

In general, candidates

- presented acceptable narrations for the payment of wages
- identified journals other than the general journal and explained the purpose of both returns day books clearly
- identified items relevant to the Trading and Profit and Loss Account including the expense items
- listed the debtors and creditors and classified them correctly

### **Weaknesses**

In general, candidates

- did not recognize the first bit of data dated May 1 as an example of an Opening Entry
- did not take note that a sale may involve both cash and credit transactions and be recorded as a compound entry
- did not limit the use of the Sales and Purchases Day Books to credit transactions and did not explain the use of the Cash Book for *both* receipts and payments
- ignored Returns Outwards or treated it incorrectly in the Trading and Profit and Loss Account
- included capital expenditure items in the Trading and Profit and Loss Account
- included Real and Nominal Accounts in their list of debtors and creditors

### **Recommendations**

Teachers are encouraged to focus on the use of the General Journal as the first step in the accounting cycle as well as the main tool in the accounting system of small businesses. Emphasis should be placed on the reason for the use of various day books and ledgers as well as on providing practice in using these documents. Drawing up Trading and Profit and Loss Accounts for different business entities is an area that is frequently tested and students are to be taught to recognize the link between the General Journal and the final accounts.

### Question 2

This question tested candidates' knowledge of Partnership Accounting through preparation of the partners' Appropriation of Profits Account from balances in a Trial Balance, drafting of Current Accounts (columnar style) and the calculation of the net worth of each partner.

Approximately 73.12 per cent of candidates attempted the question, of which 26.85 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 6.20 out of 20.

### **Strengths**

In general, candidates

- demonstrated improved attention to the heading of the Appropriation Account
- added or subtracted the different forms of appropriations correctly
- were able to calculate interest on drawings and capital correctly
- used the columnar style as instructed

### **Weaknesses**

In general, candidates

- did not adjust profit before interest for the annual interest on the loan from the partner
- did not credit the partners' current account for the interest earned and where they did, it was often calculated incorrectly
- did not recognize the need to calculate salaries for a full year when given the monthly salary
- appeared unaware that remaining profits should be shared equally in the absence of an agreement about profit sharing ratio
- were unaware that net worth is the total of a partner's capital and current account balances

### **Recommendations**

Teachers are encouraged to use a range of questions that include slight variations from the norm such as adjusting profit for interest on loans and calculating annual salaries as well as calculating partners' net worth. These variations require more than application of accounting principles. Candidates must pay attention to differences between profit before interest and net profit which results after all expenses have been accounted for. Careful reading by students and the highlighting of key concepts by teachers are necessary activities in the classroom.

### Question 3

This question tested two distinct areas of the syllabus. Part (a) required the posting of entries in subsidiary journals for the preparation of the personal accounts of a debtor and a creditor and two nominal accounts, namely Sales and Purchases. Part (b) presented a Trial Balance with six balances placed incorrectly. Candidates were asked to determine the correct placement of these items. Approximately 94.64 per cent of candidates attempted the question, of which 20.47 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 5.82 out of 20.

### **Strengths**

In general, candidates

- were able to open and name the four accounts
- debited and credited the accounts correctly, for example, matching entries in the Sales Account with entries in Marshall's Account
- were able to balance accounts properly

- recognized that Bank Overdraft and Purchases Returns were to be placed in the credit column and that Carriage Outwards should be placed in the debit column.
- included an amount for Capital as the difference between the debit and credit sides

### **Weaknesses**

In general, candidates

- did not start any account with the appropriate opening balance or where they did, opening balances in the personal accounts were written as c/d and the closing balances were written as b/d
- did not use the appropriate terms in the details columns, for example, total credit sales in the Sales Account. Instead, they wrote Marshall twice.
- did not post the returns day books and ignored some of the entries in the Cash Book
- were unfamiliar with the procedure for closing nominal accounts, for example, transferring values to the Trading Account or the Income Statement
- did not use the correct heading for the Trial Balance which lists the account values as at a particular date
- placed item balances in the Trial Balance using either column indiscriminately

### **Recommendations**

Teachers are encouraged to reinforce the following accounting procedures which are important for the School-Based Assessment. Asset and liability accounts frequently begin with opening balances and candidates should be alert to the need to treat them as brought down balances (b/d). These same accounts need to be balanced correctly and completely using the appropriate labels of c/d and b/d. Expense and revenue accounts are not balanced but have their values transferred or closed off to summary accounts such as the Income Statement. Teachers should also have students develop criteria for recognizing the type of balance (debit or credit) an account is likely to have.

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

### Question 4

This question had two parts. Part (a) required the preparation of Control Accounts from data provided. Part (b) required the preparation of a Suspense Account after the discovery of errors in a Trial Balance. Approximately 42 per cent of candidates attempted the question, of which 39.35 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 7.95 out of 20.

### **Strengths**

In general, candidates

- labelled opening balances correctly and placed them on the correct sides of the control accounts
- were able to enter opening balances, sales, purchases, discounts and returns in the respective control accounts correctly
- placed the trial balance difference on the correct side of the suspense account

### **Weaknesses**

In general, candidates

- omitted to carry down the closing balances so that they would become the opening balance to begin the next month's transactions
- mis-labelled the closing balances provided and entered them on the wrong sides of the Control Accounts
- reversed the entries in the Control Accounts or omitted them entirely
- appeared to be unfamiliar with the set-off amount and its treatment
- prepared journal entries in place of the Suspense Account
- debited the Suspense Account with items to be credited and vice versa
- used incorrect terms in the correcting entries

### **Recommendations**

Teachers are encouraged to have students practice more complex questions on Control Accounts such as those which include set-off entries and unusual closing balances. Labelling of entries in accounts (whether common ledger accounts, control accounts or suspense accounts) as well as completion of balancing of accounts (c/d to b/d) also require much practice. Control Accounts can usefully be thought of as similar to ordinary ledger accounts and therefore the application of the appropriate rule of entry can be emphasized. Teachers are asked to emphasize the difference between the preparation of an account and the preparation of journal entries which may only assist in arriving at the final answer.

### Question 5

This question tested candidates' knowledge of the Manufacturing Account. The focus of this question was on classifying costs (manufacturing costs vs non-manufacturing; direct cost vs indirect costs) through an identification of totals. Another useful concept tested here was the calculation of unit costs. Approximately 55 per cent of candidates attempted the question, of which 52 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 9.77 out of 20.

### **Strengths**

In general, candidates

- demonstrated satisfactory knowledge of the heading and the calculation of cost of raw materials consumed **of the** Manufacturing Account
- omitted non-relevant items such as stocks of finished goods
- deducted purchase returns and added carriage outwards to purchases of raw materials
- labelled subtotals clearly
- adjusted for the allocation of rent and electricity
- treated knowledgeably with opening and closing work in progress

### **Weaknesses**

In general, candidates

- did not include wages of factory workers in the calculation of prime costs
- tended to include all expenses, manufacturing and non-manufacturing, in the Manufacturing Account
- did not complete the adjustments for rent and electricity as part of office expenses neither did they show a total for items identified as office expenses shown
- did not indicate a formula for the calculation of unit cost

### **Recommendations**

Teachers are encouraged to have students practise a range of questions requiring the classification of different categories of costs, direct from indirect costs, manufacturing from non-manufacturing, office expenses from marketing expenses. Students must practise the apportioning of costs between cost centres with the appropriate labelling of subtotals (usually requested in the question). The advantage of showing how one arrives at an answer (working) should be emphasized, for example, calculations of totals should include a list of the amounts to be totalled. Presentation of the formula used would also be helpful.

### Question 6

This question tested techniques relevant to incomplete records such as the ability of candidates to prepare Total Accounts and the application of ratios. In this instance, the preparation of the Total Creditors Account and the application of a given margin to arrive at missing figures tested the ability of candidates to prepare a Trading Account from incomplete information.

Approximately, 26 per cent of candidates attempted the question, of which 13 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 5.23 out of 20.

### **Strengths**

In general, candidates

- were able to prepare the Total Creditors Account and the Trading Account
- applied the given margin (rate) to a figure
- included both cash and credit purchases in the Trading Account

### **Weaknesses**

In general, candidates

- entered values in the total creditors account without regard for correct treatment
- did not recognize the relationship among sales, profit and cost of sales
- did not recognize the relationship among cost of sales, cost of goods available for sale and closing inventory
- did not recognize the relationship between gross profit and cost of sales as mark up

### **Recommendations**

Teachers are encouraged to point out the need for finding missing accounting information especially for small businesses and non-profit organizations such as clubs to which candidates belong. They should use a range of situations that allow the practice of various techniques to arrive at missing figures, for example, Total Accounts and the application and interpretation of ratios. Emphasis should also be placed on recognizing relationships between items which can be expressed as income statement equations, for example, cost of goods available for sale = opening inventory + net purchases.

### Question 7

This question tested candidates' knowledge of basic accounting concepts and principles. Five examples of a concept or principle being violated were given and candidates were required to state which concept or principle was being violated. The question then required candidates to treat these violations as errors to be corrected and prepare a statement of corrected net profit. Candidates were also required to identify internal and external users of accounting information and to state one need of each user.

Approximately, 32 per cent of candidates attempted the question, of which 24 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 5.88 out of 20.

### **Strengths**

In general, candidates

- demonstrated competence in the application of the accrual and consistency principles
- recognized that additional wages reduced profit and that recording sales revenue not yet received would have falsely increased profit
- were able to list a number of users of accounting information

### **Weaknesses**

In general, candidates

- were unable to identify the principles by name and tended to give explanations instead
- tended to explain the violations in terms of errors
- listed expenses without showing the effects of their correction on profit
- were unable to distinguish between the internal user and the external user of accounting information
- listed users but omitted or mis-identified their needs

### **Recommendations**

Teachers are encouraged to clarify and reinforce candidates' understanding of the concepts and other theoretical constructs which form the background to accounting practice.

**PAPER 03/2 – Alternative to SBA**

This examination caters to private candidates — those persons who are not a part of the full-time, main stream, secondary school education system and, therefore, would not have the benefit of ‘internal teacher/school assessment’.

Paper 03/2 consisted of a case study presented in four sections, from which candidates were required to answer 12 questions.

**Question 1**

This question tested candidates’ knowledge of types of business entities. This question was generally well done.

**Question 2**

For this question, candidates were required to prepare an opening entry. The question was reasonably well done. However, some candidates reversed entries, omitted to calculate capital to complete the credit entry or produced ledger accounts instead of a journal entry. A number of candidates did not label the book being used nor did they identify the name of the business.

**Question 3**

This question tested candidates’ ability to prepare journal entries for purchase of fixed assets, paid for partly by cheque and partly by means of a long-term loan. Generally, candidates were able to account for the payment by cheque but omitted the completion of the credit to a loan or named creditor account. The majority appeared to be unfamiliar with compound entries.

**Question 4**

This question tested candidates’ knowledge of the components of the balance sheet, directing them to classify a particular liability. Most of the candidates were able to identify the liability but a large percentage indirectly classified the loan as a current account.

**Question 5**

This question tested candidates’ ability to distinguish between the uses of different ledgers. A large percentage of candidates recognized and named the general ledger as the correct ledger to account for the purchase of fixed assets. A number of candidates appeared to have focused on the term ‘purchase’ in the stimulus material.

**Question 6**

For this question, candidates were required to calculate total revenue earned where assets received earning at different rates. Many candidates were able to calculate at least two of the items of revenue correctly but were unable to arrive at a correct total figure.

**Question 7**

This question required candidates to identify appropriate books of original entry that are likely to be used by this service-type business. Candidates confused ledgers with journals and ignored the nature of the business in identifying purchases and returns journals as possible answers.

Question 8

This question required candidates to calculate five different types of expenses, some of which required adjustments to reflect that only three months of operation had been undertaken. Although most candidates who attempted this question were able to calculate the individual expenses, very few adjusted insurance, road licence and depreciation for the three-month period. Some candidates calculated the commission as a percentage of drivers' salaries rather than a percentage of deliveries earnings.

Question 9

This question required a calculation of gross pay for one particular driver. Most candidates recognized that commissions earned by a driver should be included in the calculation of gross pay.

Question 10

In this question, candidates required to use totals from previous calculations of revenue and expenses, in preparation of an income statement for the business, for the three-month period. Although most candidates correctly equated income statement with the traditional profit and loss account, others simply expressed an opinion on the business' operations. A few candidates presented a balance sheet. Those who presented an income statement frequently omitted the revenue from trucks d and e as well as some expenses such as depreciation.

Question 11

This question tested candidates' ability to identify and distinguish between revenue and capital expenditure. While most responses correctly identified a form of revenue expenditure, few named the purchase of any of the fixed assets as a form of capital expenditure. A few candidates suggested the repayment of the loan. Although this is a form of capital expenditure, there was no indication that this had occurred in the business. Candidates are to note that earnings are a form of revenue receipt and that a loan taken, or capital introduced into the business is a form of capital receipt.

Question 12

This question tested calculation of ratios, for which candidates needed to have knowledge of the correct formula and the ability to select and use the appropriate figures from their previous working. Few candidates appeared to know the net profit percentage (net profit margin) ratio and fewer appeared to know the return on capital employed ratio (net profit over opening capital). Candidates should show the formula they are using (show working) as well as express their answers as percentages.

Examiners have made note of the fact that many candidates were able to compute figures for earnings or revenue and expenses but appeared to be weak in basic accounting concepts and examination skills such as

- naming business entities
- distinguishing between journals and ledgers in purpose and format
- drafting up journal entries
- equating Income Statements with Trading Accounts or Profit and Loss Accounts

- distinguishing between an Income Statement and a Balance Sheet
- showing working
- computing figures for part of the year
- including previous data and computations in later questions
- being aware of the particular accounting features of a service-oriented business such as using earnings or revenue as the equivalent to sales

Candidates are urged to use past questions and case-type exercises in textbooks to practise for this type of assessment.