

CARIBBEAN EXAMINATIONS COUNCIL

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

JANUARY 2012

**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 032	–	Alternative to School-Based Assessment (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 satisfactory. The mean mark was 34.51 out of 60. The standard deviation was 8.45. Approximately 66 per cent of the candidates scored at least 50 per cent of the available marks for this paper.

Paper 02 – Problem Solving

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

The overall quality of performance of candidates on this paper showed a significant improvement compared with 2011. There is encouraging improvement in certain specific areas of candidates' responses. For example, candidates are taking greater care in heading statements and sections correctly. However, certain topics such as accounting for companies and co-operatives continue to present challenges to candidates and remain unpopular.

The mean mark was 43.69. The standard deviation was 20.03. Approximately 36.94 per cent of candidates earned at least 50 per cent of the maximum mark on this paper. The highest mark was 95 out of 100. This was achieved by two candidates.

Paper 032 – Alternative to School-Based Assessment (SBA)

Paper 032 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.

There were improvements in the performance of candidates on Paper 032. The mean mark was 19.57 out of 40 marks. The standard deviation was 8.39. The means in 2011 and 2010 were 15.45 and 15.49 respectively. Approximately 51.31 per cent of candidates earned 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 tested candidates' knowledge of income statements and balance sheets as well as accounting ratios.

Candidates were presented with a trial balance in which the processes of adjusting and closing of accounts had been completed. Candidates were required to prepare a simplified, summarized income statement (having been given a figure for cost of sales, and a total for miscellaneous expenses); and a classified balance sheet in vertical style, with clear identification of the business' working capital. The question also required candidates to calculate two ratios: stock turnover, and return on opening capital employed (ROCE). Candidates were required to demonstrate knowledge of the formula as well as the calculations involved.

Approximately 38 per cent of candidates attempted the question. The mean mark was 7.67 out of 20. The standard deviation was 4.40.

The main strengths demonstrated by candidates were:

- using the correct headings and recognition of expenses in the income statement.
- knowledge of the vertical style presentation of the balance sheet which was generally well done — statement headings were correctly completed, classifications were included and items, including net income and drawings, were properly classified.

The main areas of weakness demonstrated were:

- failure to recognize that items such as cost of sales, accrual and prepayments needed no further adjustment

- failure to recognize the ‘bank deposit’ as a fixed asset and capital introduced during the year as additional capital to be placed in the ‘Financed by’ section of the balance sheet
- incorrect calculation and placement of working capital
- an inability to record the formulae for ratios such as the return on capital employed, using the correct elements in calculations as well as stating the answer using the appropriate terms, for example, ‘times’ or percentage (%).

Recommendations

- Teachers need to help students to differentiate between an ‘adjusted trial balance’ and an ‘unadjusted trial balance’. This differentiation impacts on the preparation of income statements and balance sheets. Unadjusted trial balances usually consist of longer lists of items with accompanying notes outlining required adjustments. In such cases, candidates would have had to ensure that the actual nominal accounts are accounted for in the income statement as well as the resulting real account in the balance sheet. This must be done in respect of each adjustment arising from the accompanying notes. However, in an adjusted trial balance, all items appearing on a trial balance, were extracted from the general ledger and, therefore, would have already been processed and treated as exemplified by such account titles as *‘prepaid insurance’* and *‘rent wing’*. Thus, when drawing up the income statement and balance sheet from an ‘adjusted trial balance’, amounts given on the ‘adjusted trial balance’ are to be entered directly in the income statement and balance sheet — no further adjustments are required.

Question 2

This question tested candidates' knowledge of partnership agreements, their ability to prepare partnership accounts including an income statement and appropriation account, as well as their understanding and interpretation of a partner's current account.

Approximately 39 per cent of candidates attempted the question. The mean mark was 7.88 out of 20. The standard deviation was 5.54.

The main strengths demonstrated by candidates were:

- knowledge of items to be included in a partnership agreement
- recognition and treatment of expenses including cost of sales
- knowledge of the elements of a partnership’s appropriation account.

The main areas of weakness demonstrated in this question were:

- failure to recognize rental revenue as income
- failure to treat the value of office supplies in hand as an item requiring adjustment in the profit and loss section as with any other expense
- incorrect treatment of appropriation items
- failure to recognize that the balance on a partner's current account can be immediately withdrawn by the partner.

Recommendations

- Teachers should provide opportunities for students to practise recognizing and treating revenue items as well as uncommon expenses in different types of businesses.
- Teachers should emphasize the fact that in a partnership partners both gain from the partnership and occasionally have to pay into the business as part of the partnership agreement. The resultant effects on partners' balances can be shown in current accounts and should be shown in both T-account and statement form.

Question 3

This question tested candidates' knowledge of the concept of depreciation.

Part (a) required candidates to define the term *depreciation*, to identify the double entry used to record depreciation and to state three causes of depreciation. In Part (b), candidates were required to calculate the depreciation on equipment over a three-year period and draw up the balance sheet extract for the equipment at the end of the third year of use.

Approximately 49 per cent of candidates attempted this question. The mean mark was 9.75 out of 20. The standard deviation was 5.37.

The main strengths demonstrated by candidates were:

- knowledge of the causes of depreciation
- the ability to calculate the annual depreciation expense and the net book value of fixed assets.

The main areas of weakness demonstrated in this question were:

- an inability to define the term *depreciation* or to correctly record the double entry treatment for depreciation

- an inability to distinguish between the straight line method and the reducing balance method of depreciation and to recognize that the net book value at the end of one year is the net book value for the start of the following year
- an inability to summarize calculations in the balance sheet (extract)
- an inability to express ideas fluently.

Recommendations

- Teachers need to encourage students to familiarize themselves with theoretical aspects of the subject such as the meaning of depreciation, the causes and the effects.
- Candidates also need to be competent in applying the various methods of depreciation.
- Teachers need to reinforce the concepts of accumulated depreciation and the net book value of assets and have students practise expressing themselves in writing their responses.

Section II – Optional Questions

Question 4

This question tested candidates' competencies and knowledge of accounting for co-operatives. The question was divided into four parts. Part (a) required candidates to outline two principles or essential features of co-operatives. For Part (b), candidates were required to calculate the return on investment (ROI) for the co-operative. Part (c) instructed candidates to prepare the appropriation account at the end of the fiscal period while Part (d) required them to prepare only the capital section of the balance sheet for the co-operative.

Approximately 24 per cent of candidates attempted this question. The mean was 4.89. The standard deviation was 4.98.

The main strengths demonstrated by candidates were

- knowledge of the proper headings for the appropriation account and the balance sheet as well as items to be included in the appropriation account
- knowledge of the formula for calculation of the return on investment (ROI).

The main areas of weakness demonstrated in this question were:

- an inability to provide the features which make a co-operative distinct from other business types
- an inability to apply the ROI formula to co-operatives

- the mistreatment of undistributed surplus and previous transfers to reserves or fund account.

Recommendations

- Candidates need to be more familiar with the principles and distinctive features of cooperatives.
- The topic should be taught in terms of the similarities and differences in final statement presentations among the different types of businesses. For example, ROI can be explored in terms of recognizing the value of capital employed for various types of businesses, for example, the investment or share value owned by members is the capital employed in a co-operative.

Question 5

This question tested candidates' knowledge of computerization in accounting, source documents and cash books. Part (a) required candidates to state two benefits of using computerized accounting processes. In Part (b), candidates were presented with a list of transactions and were required to identify the type of source document generated in each situation. Part (c) required candidates to complete a cash book page, beginning with an overdraft balance.

Approximately 49 per cent of candidates attempted this question. The responses were generally satisfactory. The mean mark was 9.84. The standard deviation was 4.50.

The main strengths demonstrated by candidates were

- knowledge of the benefits of using computerized accounting processes
- the ability to interpret and apply accounting treatments for most receipts and payments in the cash book.

The main areas of weakness demonstrated were:

- a lack of knowledge of the difference between source documents and books of original entry
- a lack of knowledge of the treatment of opening balances in the three-column cash book
- an inability to apply discount rates to gross amounts and interpret contra entries and record them appropriately
- an inability to calculate the discount when the net amount (the amount after applying the discount) is provided

- a lack of knowledge of cash book usage including its headings and the appropriate names of accounts to be used in the details columns

Recommendation

In preparation for the examination, candidates need to ensure that they have covered the objectives of the syllabus. Some objectives are explicitly stated such as heading up accounts, entering opening balances, cash transactions and contra entries in cash and bank accounts whereas others are implied — these include recognition of the difference between gross amounts (amounts before deduction of discounts) and net amounts (amounts after deduction of discounts).

Question 6

This question tested candidates' knowledge of accounting for corporations. Candidates were required to prepare (a) the income statement, (b) the appropriation account and (c) the balance sheet extract showing the capital and reserve section.

Approximately 34 per cent of candidates attempted the question. The mean mark was 6.81. The standard deviation was 5.27.

The main strengths demonstrated by candidates were:

- knowledge of appropriate headings and expenses as income statement items
- recognition of gross profit and general reserve as part of the appropriation account
- knowledge of the treatment of dividends and the placement of share types in the balance sheet.

The main areas of weakness demonstrated in this question were:

- an inability to treat provision accounts (depreciation and bad debts) and the revenue accounts correctly
- an inability to calculate preference dividends
- an inability to distinguish between share capital and dividends on shares.

Recommendations

- Teachers need to expose students to the preparation of accounts for corporations and should provide opportunities for them to practise as with other, more popular types of businesses.

- The areas that are common to the preparation of accounts for any type of business should be taught using a common approach.
- After students have a general understanding of the preparation of accounts, then the specifics relating to the different types of businesses should be introduced. These include sharing of profits in a partnership business, the calculation and paying of dividends in a co-operation.

Question 7

This question tested candidates' knowledge of payroll accounting. The question was divided into two parts. Part (a) required candidates to identify terms used in relation to payroll. Part (b) required candidates to complete a pay slip for an employee, using given data.

Approximately 59 per cent of candidates attempted this question. Performance on this question was satisfactory. The mean mark was 11.73. The standard deviation was 4.34.

The main strength demonstrated by candidates was their ability to complete the worksheet correctly using commonly known payroll treatments such as normal pay and overtime pay

The main areas of weakness demonstrated in this question were:

- an inability to identify and distinguish specific payroll terms
- an inability to differentiate between income tax and taxable earnings resulting from tax-free allowances.

Recommendations

- Teachers need to encourage students to focus on accuracy in entering payroll information. Many organizations have computerized their payroll function, and standard calculations and processes are automatically completed, following initial data entry. The payroll clerk, who enters an incorrect 'rate of pay' into the system, would find the computer automatically proceeds to return an incorrect final 'net pay'. Consequently, students who wrote the total overtime earnings amount in the overtime pay rate cell, for example, were not rewarded.
- With regard to payroll terms, a clear distinction needs to be made between *commission* and *bonus*. *Commission* is paid out in relation to the earnings of an employee, as this is directly related to an employee's specific, individual efforts. On the other hand, *bonus* is not related to a specific employee's earnings but, rather, is paid out of the overall profits of the organization.

- Teachers need to provide opportunities for students to practise completing payroll forms. This can be done for an assimilated business or an actual business and the consequences of inputting incorrect information should be discussed to give students a better appreciation for the importance of accuracy.

Paper 032 – Alternative to School-Based Assessment

Paper 032 is the alternative paper to the SBA which assesses similar knowledge and competencies. Candidates were presented with a case study organized into three parts with questions immediately following each part.

The case was based on a sole trader restaurateur. The case required candidates to answer questions about the elements and operations of the business, do some calculations and carry out certain accounting functions such as preparation of a balance sheet and income statement.

Candidates' performance on this paper continues to show improvement. The mean on the paper was 19.57 out of 40 and the standard deviation was 8.39. Approximately 47 per cent of the candidates achieved at least 50 per cent of the available marks for this paper.

The main strengths demonstrated by candidates were:

- the ability to distinguish assets from liabilities and long term liabilities from current liabilities
- knowledge of the balance sheet formula
- the ability to correctly prepare a balance sheet including accurate labelling of heading and sections
- the ability to prepare an income statement
- knowledge of the accounts affected by a transaction.

The main areas of weakness demonstrated were:

- a lack of knowledge of basic accounting concepts, principles and formats
- unfamiliarity with the current terminology, for example, receivables for debtors, inventory for stock
- uncertainty about the application of the double entry rule
- an inability to work through the principles and processes involved in adjusting nominal accounts including recognition of the resultant assets and liabilities
- a lack of knowledge of formula and application steps in the area of accounting ratios specifically the return on investment

- an inability to pay attention to details, follow directions and provide appropriate responses to questions.

Recommendations

- Candidates are encouraged to revise basic accounting concepts, principles and formats such as order of permanence and liquidity, application of the balance sheet equation, vertical style presentation with labelling and calculation of working capital, matching source documents with the books of prime entry and appropriate ledgers, treatment of returns and closing inventory.
- Candidates need practice in looking at the principles and processes involved in adjusting entries in a variety of ways.
- Accounting for the performance of a business through the application of accounting ratios is a major focus of the SBA and must be taught comprehensively to maintain parity.