

**CARIBBEAN EXAMINATIONS COUNCIL**

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

**JANUARY 2004**

**PRINCIPLES OF ACCOUNTS**

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## **PRINCIPLES OF ACCOUNTS**

### **GENERAL PROFICIENCY JANUARY 2004**

#### **GENERAL COMMENTS**

The Principles of Accounts examination administered in January 2004 consists of three papers. Paper 01 is a 60-item Multiple Choice paper. Paper 02 is an extended paper divided into two sections. Section I consists of three questions which are compulsory and Section II consists of four questions of which candidates are required to attempt any two. Paper 03/2 is the alternative to the School Based Assessment.

This report gives details of candidates' performance on each Paper.

#### Paper 01 - Multiple Choice

Paper 01 consists of 60 multiple choice items of which 15 are Knowledge items, 30 Application items and 15 Interpretation items. The performance on this paper was good. The mean score was 38.40 and the standard deviation was 8.58. On this paper 93 per cent of the candidates achieved Grade III or higher.

#### Paper 02 - Problem Solving

Although the overall performance of candidates on this paper has not improved significantly over the years, it should be noted that there is some improvement in certain aspects of their responses. For example, candidates are taking greater care in heading statements correctly and there is improvement in recording transactions in the general journal.

#### **Section I (Compulsory)**

##### Question 1

The question had two parts. Part (a) required the candidates to rewrite a given Trial Balance correctly, thereby testing their understanding of how to classify items and determine whether the item should be debited or credited.

Part (b) tested candidates' understanding of how to use the general journal by requiring them to record transactions with appropriate narrations.

Most candidates demonstrated from their workings, that they were very comfortable with the preparation of a Trial Balance. Items on the Trial Balance with which some candidates had difficulty were: (i) Provisions (ii) Discounts (iii) Carriage.

Some candidates did not know which stock should be in and which should be out of the Trial Balance.

Part (b) of the question presented difficulty for some candidates. The transaction which proved to be most challenging was item (v) which required the candidates to correct an error where receipt from a revenue had been debited to an Expense Account and credited to cash. Although candidates recognized the need to remove the item from the expense account by crediting the account, very few candidates recognized the corresponding need to double the amount when adjusting the Cash Account.

Candidates would benefit from additional practice in recording transactions in the general journal, especially those which require them to correct errors.

## Question 2

This question tested the candidates' ability to prepare a set of Final Accounts from incomplete records. In order to prepare the Trading and Profit and Loss Account, candidates would have had to use the information given to determine the amounts for items such as Purchases, Sales and certain expense items. Similarly, calculations were required to arrive at opening capital, cash and some other items of assets in order to prepare the Balance Sheet.

Ninety-six per cent of the candidates attempted this question. Most candidates had difficulty calculating the correct sales amount, failing to include the \$800 000 deposit from cash sales. Similar difficulty was encountered in calculating purchases, cash balance and capital.

Candidates demonstrated a clear understanding of how to set up and do a Trading and Profit and Loss Account and Balance Sheet, but because the calculations were, for the most part, incorrect. The overall performance on the question was disappointing.

Candidates would benefit from additional practice in using the Control Accounts to calculate missing figures of Purchases and Sales. In determining amounts to go to the Profit and Loss Account for expense items, it would be helpful if students actually wrote up the Expense Account.

### Question 3

This question tested the candidates' ability to prepare the Final Accounts and the Current Accounts of a partnership. Candidates were required to demonstrate an understanding of how to calculate and treat items such as interest on capital, interest on loans (when the loan is made by a partner), salaries paid to partners and profits when the agreement is silent about how they are to be shared.

Eighty-one per cent of the candidates attempted this question, but only a small percentage did very well on it. For the most part, the preparation of the Current Account was well done. The majority of candidates calculated the interest on capital correctly. This item, as well as salaries, was dealt with correctly in the Appropriation Account.

Although most candidates calculated the interest on the loan correctly, very few recognized that as a business expense, it should have been dealt with before the preparation of the Appropriation Account. Most treated it as a part of the appropriation of profits. Additionally, as an outstanding expense item, it should have been carried to the Balance Sheet as a current liability. Many candidates missed this.

In preparing the Balance Sheet, many candidates carried the detailed workings from the partners' Current Accounts instead of simply transferring the closing balances.

Candidates attempted to share the residual profits by various means other than sharing equally as stated in the Partnership Act.

Candidates would benefit from additional practice in those areas where weakness was evident, for example how to treat interest on loans, transferring balances from the Current Account to the Balance Sheet and the Partnership Act with respect to sharing of profits.

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

### Question 4

This question tested candidates' ability to use information from the Bank Statement to update the Cash Book and prepare a Bank Reconciliation Statement. Candidates were also required to give brief responses to questions which tested their understand-

ing of how to treat with the bank balance on the Balance Sheet and outstanding cheques.

Forty-four per cent of the candidates attempted this question. Most candidates demonstrated a clear understanding of how to prepare a Bank Reconciliation Statement and selected the correct items from the question in preparing it.

Candidates, however, had difficulty in updating the Cash Book. Items which presented the most challenge were item (1), which involved the recording of an incorrect amount in the Cash Book, and item (3), where the amount was debited instead of credited in the Cash Book. In the case of item (3), very few candidates recognized the necessity to double the figure when making the correction.

In attempting the theory questions in part (c), candidates had difficulty in determining which bank balance would appear in the Balance Sheet. However, most candidates knew how cash at bank would be classified on the Balance Sheet and that cheques which were not cancelled and returned by the bank represented cheques not yet credited by the bank.

“Correction of Errors” is a section of the syllabus which warrants a great deal of practice.

### Question 5

This question required candidates to journalize the entries of a newly formed company and to prepare the opening Balance Sheet. Further, given an assumed profit made by the company at the end of the year, candidates were required to prepare a Profit and Loss Appropriation Account and show extracts from the end-of-year Balance Sheet.

Only nine per cent of the candidates attempted this question and the responses were unsatisfactory.

In recording the journal entries, a large number of candidates demonstrated a lack of understanding of the difference between share capital and loan capital. The question required that they show the entries for share capital but almost all candidates included the 11 per cent debentures. In preparing the opening Balance Sheet, very few candidates attempted to show the distinction between shares and debentures by using the label “Long Term Liability” for the debentures. However, the calculation for the ordinary and preference shares was, for the most part, correct.

Part (b) of the question required candidates to prepare a Profit and Loss Appropriation Account on the assumption that the company made a \$70 000 profit at the end of the year. Candidates were also required to show the liability side of the end-of-year Balance Sheet.

The section of the question dealing with the Appropriation Account was well done. The majority of candidates correctly prepared the Appropriation Account of a company. However, they experienced difficulties with the preparation of the Balance Sheet extract.

In preparing the extract, some common errors which occurred were:

- not including the retained profit among the reserves. Some candidates did not include it in the balance sheet.
- not using the term “retained profit” for the balance in the Appropriation Account.
- not treating the dividends payable as current liabilities.
- not grouping items correctly. Some candidates did not attempt to group the items under sub-sections with appropriate headings. Items were simply listed anywhere in the balance sheet.

### Question 6

Part (a) of this question tested the candidates’ ability to differentiate between capital expenditure and revenue expenditure, given five separate transactions. Part (b) tested candidates’ knowledge of depreciation by requiring them to calculate annual depreciation and net book values over a three-year period using the Straight-line and Reducing Balance methods. A form was provided for candidates’ responses. A few candidates did not use the form in their response.

Seventy-six per cent of candidates attempted this question. Most candidates were strong on the calculation of annual depreciation using both the Straight-line and Reducing Balance methods. Calculating the net book value of the fixed assets was also an area of strength.

Identifying whether a transaction represented revenue or capital expenditure proved challenging for candidates. Candidates need to understand that remodeling a building and the cost of installing a fixed asset represent a capital expenditure in contrast to repairs which come under building maintenance.

Another area of difficulty was determining the difference in the net fixed asset totals if one method of depreciation were used instead of another. This simply required that candidates totalled the assets in both methods and find the difference. However, very few candidates attempted this section or came up with the correct answer.

### Question 7

This question tested candidates' ability to prepare a set of Final Accounts for non-profit organizations. Candidates were required to prepare a Bar Trading Account, Income and Expenditure Account and a Balance Sheet from data given.

Forty-four per cent of the candidates attempted this question. Candidates seemed to be reasonably capable in identifying the revenue and expense items to be used in the Income and Expenditure Account. In many instances though, the calculation of the amount was incorrect – an indication that they were not sufficiently able to deal with prepayments and accruals.

The purchase of library books presented a challenge for many of the candidates. Since library books are to remain in the library for some time, the purchase should be treated as a capital expenditure and the item should appear among the current assets on the Balance Sheet. Many candidates treated the purchase as a revenue expenditure and reported it on the Income and Expenditure Account.

Finding the correct purchases to include in the Bar Trading Account was a challenge for many candidates, as they did not factor in the closing creditors' balance. Candidates should be encouraged to prepare total creditors'/debtors' accounts when they are required to determine purchases or sales in a problem.

Other areas of difficulty identified were:-

- not recognizing loan as a long-term liability
- inability to either calculate or recognize depreciation on equipment
- not showing sub-sections in the Balance Sheet

**PAPER 03/2 (For Private Candidates only)**

Paper 03/2, as the alternative paper to the School based Assessment, attempts to simulate what students do for the SBA. In order to do this, the paper presents one or two business cases or situations and requires the candidates to perform accounting functions in answering questions asked.

This year the paper presented one business case. The case required candidates to answer questions about the operations of the business, carry out certain accounting functions and make simple business decisions.

The case presented a community centre engaging in fund-raising activities to improve facilities within the community. Candidates were asked to determine profit or loss made on the activities, draw up and record an expense account, answer simple questions about the business and make simple recommendations.

Candidates' performance on this paper continues to improve. The mean on this paper was 13.59 and the Standard Deviation was 6.27; and 26 per cent of the candidates achieved Grade III or higher.

The Examining Committee is of the view that the difficulties candidates experience with this paper may be due to their unfamiliarity with answering questions on case studies and therefore continues to recommend that candidates work through past papers when preparing for this examination.