

CARIBBEAN EXAMINATIONS COUNCIL

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

JANUARY 2005

PRINCIPLES OF ACCOUNTS

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GENERAL PROFICIENCY

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GENERAL COMMENTS

The Principles of Accounts examination administered in January 2005 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 with 87 per cent of candidates scoring 30 marks or above.

Paper 02 – Problem Solving

There continues to be notable improvement in heading up statements correctly as well as the correct use of the general journal.

Section I (Compulsory)

Question 1

The question provided the candidates with a trial balance for a sole trader and required them to prepare the trading and profit and loss account and balance sheet for the sole trader. The balance sheet should have been prepared using the vertical format.

The trial balance was routine. However, additional information was provided, and candidates had to make adjustments to the purchases, the amount of goods which were withdrawn by the trader and the record of salesmen's commission which had not been paid.

The question was attempted by 96 per cent of the candidates. Overall performance was good with some candidates scoring full marks. More than half the number of candidates who attempted this question, scored marks of 10 and above.

The majority of candidates followed the instructions for using the vertical format of presentation for the balance sheet. Depreciation was calculated and used correctly, as well as the calculations of prepayments and accruals by a large number of candidates.

Despite the many areas of strengths demonstrated, there were some areas of weaknesses. Several candidates did not adjust the carriage inwards for the accrued amount and some candidates continue to add the gross purchases to opening stock, then make adjustments for items such as carriage and returns on the total amount. The preferred approach would be to adjust the gross purchase figure, then add the net purchases to the opening stock.

Several candidates did not recognize returns in the credit column of the trial balance as returns outwards, and instead, treated them as returns inwards by adjusting gross sales with the amount. Some candidates did not know what to do with the withdrawal of stock from the business by the owner and even those who correctly subtracted it from purchases, failed to increase drawings on the balance sheet by the amount of goods withdrawn. Several candidates did not calculate the salesmen's outstanding commission correctly. A few showed the accrued amount on the profit and loss account but failed to follow through by showing the item as an accrual in the balance sheet.

Candidates would benefit from practice with various adjustments to purchases and sales of the trading account. Also, candidates must be able to easily recognize items such as returns inwards/outwards, carriage inwards/outwards, interest paid/received by their location in the trial balance, instead of these items being pointed out continuously to them.

Question 2

This question had two parts. In Part (a) candidates were presented with extracts from the bank columns of a cash book together with a bank statement covering the same period as the cash book. Candidates were required to update the cash book and then reconcile the bank statement. They were also asked to give reasons for the difference in the cash book and the bank statement balances.

In Part (b), candidates were provided with data to enable them to calculate two profitability ratios and one liquidity ratio. Candidates were also required to interpret the ratios.

The question was attempted by 90 per cent of the candidates. Overall performance on this question was unsatisfactory. Some of the common errors made by candidates in Part (a) included using the bank statement balance to update the cash book, confusing unpresented cheques with late lodgements, incorrect application of the bank error, adding instead of subtracting or debiting instead of crediting. Instead of explaining the reason for the difference in the cash book and bank statement balances, several candidates gave a definition of the bank statement.

Not many candidates attempted Part (b) of the question. Several of those who made the attempt were able to calculate the ratios but only a few were able to provide a satisfactory interpretation.

Candidates would benefit from greater emphasis being placed on the interpretation of ratios and not just the calculation of them. Practice in responding to errors, whether in the cash book or on the bank statement, would also be helpful. Proper headings on all financial statements are important and although candidates, for the most part, headed up trading and profit and loss accounts and balance sheets on other questions correctly, they were sloppy in the heading of the bank reconciliation statement.

Question 3

In this question, candidates were presented with the assets and liabilities of two separate sole traders who were combining to form a partnership. Candidates were required to calculate the capital of each partner and to record the opening entries of the partnership in the general jour-

nal. Further, candidates were required to use the additional information provided to prepare the partnership's profit and loss appropriation account for the first six months and to identify items which are normally recorded in partners' current accounts.

The question was attempted by 78 per cent of the candidates and was satisfactorily answered by approximately half of them. Most candidates were able to calculate the capitals of the partners as well as prepare the appropriation account. Several candidates were also able to identify the items which are usually recorded in partners' current accounts.

On the other hand, several candidates demonstrated an inability to record the journal entries to combine the two sole traders' assets and liabilities. In addition, several candidates worked with one year's amounts of salaries, interest on capital and interest on drawings instead of amounts representing six months as indicated in the question.

Candidates must have more practice in the reading of questions in order to identify what the examiner has asked. Though it was obvious that candidates knew what they were doing in the appropriation account, they lost marks because they did not observe the examiner's instructions to do their calculations for six months.

Candidates need to get more practice in journalizing the formation of a partnership and especially with simple mergers of two sole traders.

Section II (Optional Questions)

Question 4

In this question, candidates' ability to prepare a profit and loss and appropriation account for a cooperative was tested. Additionally, candidates were tested on their knowledge of the kinds of records cooperatives are expected to keep and what information members of a cooperative society should receive at annual general meetings.

The question was not a popular one and was attempted by only 16 per cent of the candidates. The responses were, for the most part, unsatisfactory. Most of the marks were scored in the section which required candidates to prepare the profit and loss account. Many candidates demonstrated an inability to prepare the appropriation account. Although some candidates were able to identify the records which a cooperative

society needs to keep, very few candidates indicated the need to provide members with information such as profits made, dividends proposed and paid, and the names of persons who comprise the Board of Directors.

Candidates would benefit from practice in preparing the appropriation account of a cooperative. Additionally, discussions on the workings of a cooperative society would also be helpful.

Question 5

This question provided straightforward data for a manufacturing concern and required candidates to prepare the manufacturing, trading and profit and loss accounts. Sixty-four per cent of the candidates attempted the question and the responses tended to be either very good or unsatisfactory.

Most candidates identified and correctly treated items belonging to the "Overheads" section in the manufacturing account. They were also able to make the distinction between carriage inwards which they correctly added to purchases of raw materials and carriage outwards which they correctly treated as an expense in the profit and loss account.

On the other hand, headings continue to be sloppily written with parts missing, such as the name of the organization or using terms such as "as at" in the heading of the trading and profit and loss account. Very few candidates demonstrated an understanding of how to calculate the depreciation charge for the year on the cutting saw. Most candidates simply used the provision for depreciation of \$2 000 which was given in the list of balances without taking into consideration the cost and book values of the cutting saw. Many candidates did not recognize the need to debit the profit and loss account with bad debts for the bankrupt debtor.

Candidates tend to gravitate towards the topic, manufacturing account. However, it should be emphasized that in order for them to score high marks in the examination, they must pay attention to details such as complete headings and the proper grouping of items especially in the manufacturing account.

Question 6

In this question, candidates' knowledge on the correction of errors was tested. Three aspects of this topic were presented using the general jour-

nal to correct errors, preparing the suspense account to determine the original difference on the trial balance and identifying the nature of the errors.

This question was popular with 63 per cent of the candidates attempting it but generally was not satisfactorily answered. Areas of strength were demonstrated by a number of candidates who recognized when to use the suspense account to correct an error as well as how to use the journal to correct the errors. Many candidates were also able to identify the nature of the errors.

Areas, which require attention, are posting from the journal to the suspense account and correcting errors which require that the amount be doubled. There were instances where candidates doubled the amounts, though none of the transactions required them doing so. Only a few candidates recognized that the balance in the suspense account represents the difference on the trial balance.

Question 7

In this question three distinct areas of the syllabus were assessed. In Part (a), candidates were examined on company accounts with specific reference to the issue of ordinary shares and preference shares. The application of the straight line method of depreciation on a month-by-month basis was assessed in Part (b). Candidates were also required to post entries to the fixed asset account over a continuous three-year period. Candidates' basic knowledge of accounting terms was assessed in Part (c).

The question was attempted by 30 per cent of candidates and less than half responded satisfactorily on Part (a). Candidates gained at least 40 per cent of the available marks. Almost all candidates attempted Part (b) of the question but the overall performance on this section was unsatisfactory. Approximately 75 per cent of responses included an attempt at Part (c) of the question with good results.

Most candidates were able to calculate the number of unissued shares. The major weakness was in the calculation of dividends on preference shares. In addition, the concept of 'par value' and its application to the valuation of issued and unissued shares appears to be not clearly understood.

Candidates tended to provide a full year's depreciation on assets bought during the year. Many candidates prepared a separate fixed asset account for each year. Furthermore, they demonstrated a weakness in their understanding of the matching entry to be made in recording the purchase of a fixed asset. Many tended to make entries using the model name or number of the vehicle or made credit entries for cash/bank. The account was often balanced incorrectly. Candidates appeared unable to manipulate the formula used to calculate annual depreciation to arrive at the useful life of an asset.

For Part (c), candidates seemed clear about the purpose of the journals, appropriation account and suspense account. However, they were not sure about the use of the trial balance and were unable to state the accounting equation. In responding to the statement "write out the accounting equation", candidates gave on average three contradictory equations.

The focus of this question was on theoretical aspects of examinable topics. Candidates need more exposure to the concepts and theory underlying the practice of accounting.

Paper 03/2

This paper comprised a case study which required the candidates to demonstrate their knowledge of certain accounting concepts and principles. Many candidates scored 50 per cent of the marks and more. The candidates who performed well displayed competence in:

- (1) Identifying and calculating fixed and current assets
- (2) Identifying the day book required to enter particular transactions
- (3) Calculating revenues and expenditures
- (4) Preparing a balance sheet

The weaker candidates experienced great difficulties in:

- (1) Calculating the working capital, depreciation and the net loss
- (2) Preparing an account to show provision for depreciation and profit and loss
- (3) Explaining the effect of a negative working capital on the business
- (4) Classifying subscriptions in the balance sheet
- (5) Dealing with the net loss in the balance sheet

