

CARIBBEAN EXAMINATIONS COUNCIL

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN SECONDARY EDUCATION CERTIFICATE
JANUARY 2007**

PRINCIPLES OF ACCOUNTS

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PRINCIPLES OF ACCOUNTS

GENERAL COMMENTS

The Principles of Accounts examination is offered in 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 Candidate)

DETAILED COMMENTS

Paper 01 – Multiple Choice

Paper 01 consists of 60 multiple choice items of which 15 items are Knowledge, 30 Application and 15 Interpretation. The mean score was 35.63 out of 60. Seventy-seven per cent of the candidates earned at least 50 per cent of the maximum available marks.

Paper 02 – Extended Problem Solving

The overall quality of performance of candidates on this paper showed significant improvement over previous years. There continues to be marked improvement in certain specific areas of candidates' responses. For example, candidates are taking greater care in writing heading statements correctly. There is also improvement in the quality of responses to questions on Cooperatives.

The mean score on this paper was 43.77 out of 100. On this paper, 37 percent of the candidates earned at least 50 per cent of the maximum available marks.

Paper 03/2

Paper 03/2, the alternative to the School Based Assessment (SBA), 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 scenarios from which they are required to respond to questions.

The performance of candidates on the 03/2 paper showed marked improvement over previous years. The mean mark was 20.33 out of 40 marks and 54 per cent of candidates earned at least 50 per cent of the maximum available mark on this paper.

Section I Compulsory

Question 1

The question required candidates to prepare a trading and profit and loss account using the vertical style of presentation and to show the balance sheet extracts of the fixed assets only. Candidates were deliberately not asked to prepare a complete balance sheet because of the complexity and length of the trading and profit and loss account. However, some candidates wasted valuable time in completing a balance sheet. A few candidates used the horizontal style of presentation for which they lost marks.

Approximately 98 per cent of the candidates attempted the question.

Most candidates demonstrated an understanding of the general presentation of the trading and profit and loss account and balance sheet extract. Many candidates recognized the need to make adjustments to purchases and sales for returns outwards and inwards in order to arrive at net purchases and net sales. However, some candidates missed the further adjustment needed to purchases, for transportation inwards. This could have occurred because of unfamiliarity with the term “transport inwards”. Candidates may have been more familiar with the term “carriage inwards”.

Candidates tend not to get a lot of practice working with revenues. It was therefore encouraging to see several candidates not only recognizing the revenues, but correctly adding them to the gross profit.

The main areas of weaknesses demonstrated in this question were, recognizing and calculating the outstanding bank loan interest and treating the increase in provision for bad debts correctly. Many candidates calculated the 3 per cent of debtors and used that amount, instead of finding the difference between the new provision of \$690 and the old provision of \$600. Candidates also showed weakness in calculating the depreciation on building (cost value \$98 000/useful life 20 years), and in determining that rent received was outstanding by \$750.

Most candidates did not subtract the accumulated depreciation from the cost value of assets in the balance sheet. Instead, they subtracted the depreciation for the year.

Recommendations

Although candidates demonstrated a good working knowledge of how to prepare a trading and profit and loss account, it would be beneficial for teachers to give practice in problems which engage students in working with adjustments such as transportation costs, increase or decrease in provision for bad debts, treatment of revenues (together with amounts owing or received in advance) and calculating depreciation for the year as well as accumulated depreciation.

Question 2

This question required candidates to prepare the journal entry to record the start of the partnership and to give an advantage of moving from sole proprietorship to partnership. They were later required to prepare the trading and profit and loss account and the appropriation account of the partnership as well as the current accounts for each partner.

Approximately 88 per cent of the candidates attempted the question.

Many candidates demonstrated knowledge of how to enter the assets brought in by the partners in the appropriate journal, but failed to show the respective capitals represented by their assets. Some candidates failed to use the journal and opened accounts instead.

The trading and profit and loss account which was really a summary, was surprisingly not well done by a number of candidates. The Appropriation Account however, was fairly well done. Candidates showed an understanding of how to deal with interest on drawings, how to calculate interest on capital and how to share the residual profit.

Preparing the Current Accounts presented a challenge for many candidates. Entries which should have been debited were credited and vice versa. Much practice is needed in this area.

Recommendation

For examination purposes, it is much quicker to use columnar current accounts since the information does not have to be repeated for each partner. Teachers, who are still teaching individual current accounts for each partner, should consider introducing their students to the use of the columnar format in order to save time in examinations.

Question 3

This question tested candidates' ability to calculate the value of closing stock using the FIFO method of stock valuation. Candidates were provided with a worksheet on which they were to record the movement of stock through purchases and sales. Having arrived at total purchases and total sales and the value of closing stock, they were then required to prepare a trading account for the period.

Approximately 92 per cent of the candidates attempted this question.

Many candidates demonstrated an understanding of the FIFO method of stock valuation. However, candidates seemed to be unfamiliar with the worksheet that was provided. In this regard, although in many instances the correct calculations were done, amounts were entered in the wrong columns of the worksheet.

Most candidates calculated the purchase price of the items correctly, but a few candidates used the new cost value of stock to calculate the sale of items, even though the selling price was given. This resulted in an incorrect figure for the total sales for the period.

Candidates who attempted the trading account did a fairly good job of it, although in many instances the sales and ending stock amounts were incorrect because of the errors made earlier in filling out the stock form.

Recommendations

Although candidates demonstrated knowledge of the stock valuation method, they seemed unfamiliar with the use of the form. Teachers should allow students to practice the various methods of stock valuation on forms similar to the one which was used in this examination.

Section II - Optional Section

Question 4

This question tested candidates' ability to enter opening balances in the accounts of expenses, revenues and provisions accounts, make adjusting entries and close the accounts appropriately. Candidates were further required to respond to specific theory questions about some of the accounts.

Approximately 15 per cent of the candidates attempted this question.

The low percentage of candidates opting to attempt this question is probably indicative of the lack of confidence about this topic. Even the few candidates who attempted the question, generally did not do well on it. From the very outset, it was obvious that many candidates were unsure about how to treat the opening balances. Most candidates opened the appropriate accounts, but balances which should have been debited were credited and vice versa.

Very limited knowledge of how to adjust revenues and expenses for prepayments and accruals was demonstrated. Some candidates did not recognize that there were prepayments or accruals and those who did, did not know whether to debit or credit the account with the adjustment. The provision for depreciation account and the provision for bad debts accounts were not adjusted correctly for the new provisions.

Recommendations

The newly revised Principles of Accounts syllabus re-emphasizes the correct treatment of adjusting and closing entries especially for revenues, expenses and provisions accounts. Teachers should therefore ensure that these areas are carefully taught. It is not sufficient for students to know how to deal with prepayments and accruals in the preparation of the profit and loss account and balance sheet. They need to know how to deal with prepayments and accruals in the individual accounts.

An approach that some teachers are now using, and which the CAPE Accounting syllabus uses, is to treat the expense account separate from the prepayment or accrual account. Prepaid expense account is treated as an asset account while accrued expense account is treated as a liability account. Adjusting entries are therefore made between the expense account and the prepayment and/or accrued account. The expense account is closed to the profit and loss account and the prepayment and accrued accounts are balanced like any other asset or liability account. Revenues are treated in a similar fashion where advanced receipts are kept in a liability account of that name and outstanding revenues are kept in a separate asset account of that name. Adjusting entries are between the revenue account and the advanced receipts and/or outstanding revenue account. Revenues are closed to the Profit and loss account and advanced receipts and outstanding revenues accounts are balanced.

Question 5

This question required candidates to calculate the cost of two different sets of raw material used in a manufacturing concern. Having arrived at the two separate costs, candidates then needed to sum these costs to arrive at an overall cost of raw material used and then to prepare the manufacturing account for the business. Candidates were required to show total prime cost, total factory overhead and total cost of goods manufactured.

This question was very popular with approximately 61 per cent of candidates attempting it.

The majority of candidates were able to calculate the cost of the two sets of raw materials. Many candidates failed to add both sets of raw materials used to arrive at the overall cost of raw materials in the preparation of the manufacturing account. Most candidates correctly identified and calculated correctly, factory overhead expenses. Proper labeling of the costs was also done. However, some candidates were still unable to calculate the correct prime cost as they seem not to be able to distinguish between direct and indirect costs.

Some candidates wasted time in preparing the trading and profit and loss account although this was not required. Candidates need to read instructions carefully and do only what is required of them.

Question 6

This question had two parts. Part (a) required candidates to record transactions in a three column cash book and to balance the cash book appropriately. Part (b) required candidates to update a cash book with appropriate transactions and to prepare a bank reconciliation statement.

This was another popular question with approximately 77 per cent of candidates attempting it.

The cash book was well done by most candidates, although several candidates did not include the opening balances. This may have been an oversight since the balances were given in the opening statement and not at the beginning of the transactions. Most candidates balanced the cash book appropriately and totaled the discount columns. A few candidates treated drawings as a contra entry.

Although updating the cash book presented a challenge for some candidates, many of them entered the credit transfer, dishonoured cheque and the standing order correctly. The items which presented the biggest challenge were the cheque debited in error and the bank fees.

Candidates failed to use the updated cash book balance when reconciling the bank statement. Most candidates tended to use the original cash book balance which resulted in the bank statement not being reconciled. Many candidates are still unsure of how to treat un-presented cheques and outstanding deposits when the balance is an overdrawn amount.

Recommendations

Teachers need to emphasize the need to use the updated cash book balance when reconciling the bank statement. Much practice in the use of overdrawn balances would help to develop confidence in students when they are doing the bank reconciliation statement.

Question 7

This question tested candidates' knowledge of co-operatives and their ability to prepare trading, income and expenditure, and appropriation accounts for co-operative societies.

Approximately 20 per cent of candidates attempted this question.

The overall response to this question was satisfactory. Candidates approached the trading account confidently although a few candidates included expenditure items in the trading account. Where the income and expenditure account was attempted, the item surplus/deficit was correctly identified. Instructions regarding the appropriation of the profits were carefully followed by most candidates.

Several candidates were unable to calculate the dividend applicable to the shareholder of the \$1 000 shares.

Recommendations

Many candidates are attempting and doing a fairly good job of questions on co-operatives. Teachers are encouraged to continue to give students practice on this topic. Weak areas such as the calculation of dividend to individual shareholders as well as identifying items to be included in the trading account, income and expenditure account and appropriation account should be attended to.

PAPER 03/2

Paper 03/2, the alternative paper to the School Based Assessment (SBA), attempts to simulate the skills tested in the SBA. 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 such as preparing a cash book, sales book, purchases book and the account of a debtor and the account of bad debts. Candidates were also required to identify parts of a sales invoice.

Candidates' performance on this paper, continue to show improvement.