



CARIBBEAN EXAMINATIONS COUNCIL

ACCOUNTING UNIT 1



Subject Report with Exemplars

June/July 2023

CARIBBEAN EXAMINATIONS COUNCIL

REPORT ON CANDIDATES' WORK IN THE

CARIBBEAN ADVANCED PROFICIENCY EXAMINATION

JUNE/JULY 2023

ACCOUNTING

UNIT 1

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INTRODUCTION

This report focuses on three papers from the 2023 CAPE Accounting Unit 1 examination.

- Paper 01 consists of 45 compulsory multiple-choice items, 15 items from each of the three modules.
- Paper 02 consists of three questions, a mixture of computations and short essays. Each module is covered by a separate question.
- Paper 031 is a school-based assessment which is marked by the class teacher and moderated by CXC.

Overall, candidates performed satisfactorily on the examination.

PAPER 01 – MULTIPLE CHOICE

Candidates' performance on the 45 multiple choice items produced a mean of 65 per cent.

PAPER 02 – STRUCTURED ESSAY

This paper comprised three compulsory questions.

Question 1

The mean mark for this question was 46.34 per cent.

For Part (a) (i), candidates were given a table and were required to show the sequence of steps as they should occur in the accounting cycle. In the table, two steps in the sequence were pre-filled.

This question required that candidates have knowledge of basic accounting theory. Candidates did not need to recall the steps in the accounting cycle but were given the steps and had to place them in the correct order. Most candidates who completed the table earned one or two marks.

Weaknesses Identified

- A significant number of candidates misinterpreted the terms ‘post-adjusting entries’ and ‘end-of-period adjustment’.
- Some candidates failed to recognize that the fourth step in the sequence was pre-filled in the table.
- Some candidates did not understand the term ‘after-closing trial balance’.

Candidate’s Response to Part (a) (i)

Sample 1

Write your answer to Question 1 (a) (i) in the table below.

Steps	Sequence
Prepare a trial balance.	3
Prepare an after-closing trial balance.	8
Prepare financial statements and the appropriate notes.	6
Record or journalize the transactions.	1
Post to the ledger.	2
Prepare an adjusted trial balance.	5
Journalize and post adjusting entries.	7
Make end-of-period adjustments.	4

[3 marks]

Sample 2

Write your answer to Question 1 (a) (i) in the table below.

Steps	Sequence
Prepare a trial balance.	3
Prepare an after-closing trial balance.	8
Prepare financial statements and the appropriate notes.	6
Record or journalize the transactions.	1
Post to the ledger.	2
Prepare an adjusted trial balance.	5
Journalize and post adjusting entries.	7
Make end-of-period adjustments.	4

[3 marks]

Examiner’s Comments

These candidates identified and numbered all components of the accounting cycle correctly.

In Part (a) (ii), candidates were asked to distinguish between accrual basis accounting and cash basis accounting. In responding, most candidates were able to make a clear distinction between the two types of accounting. However, some candidates only focused on the cash basis and not the accrual basis. In some instances, candidates mentioned the accrual basis of accounting in a general sense and others stated it only specifically in relation to expenses. Also, some responses were vague.

Weaknesses Identified

- Some candidates used the term 'transaction' to represent both revenue and expenses.
- Several candidates used the term 'occurred' instead of 'incurred'.
- Some candidates were unable to explain the terms but provided examples.
- Some candidates were unable to distinguish between expenses and revenue. They mixed up the explanations.

Candidate's Response to Part (a) (ii) — Sample 1

Write your answer to **Question 1 (a) (ii)** on the lines below.

Accrual basis accounting is an accounting method where revenue is recorded when it is earned, and expenses recorded when they are incurred, whereas cash basis accounting is an accounting method where revenue is recorded when cash is received and expenses are recorded when a payment is made.

[4 marks]

Candidate's Response to Part (a) (ii) — Sample 2

Write your answer to **Question 1 (a) (ii)** on the lines below.

Accruals basis accounting whether it is paid or not it is recorded, Revenue is recognised when earned and Expense recognised when incurred. Whereas Cash basis it is not recorded unless paid, Revenue is recognised when received and Expense recognised when paid.

[4 marks]

Examiner's Comments

These candidates were able to distinguish correctly between cash basis and accrual basis accounting. They included both the terms *expense* and *revenue* as part of their definitions.

For Part (a) (iii), candidates were presented with transactions and asked to determine service revenue and expenses using the cash basis accounting system. Most candidates earned the two marks. The challenge came in identifying the treatment of the prepaid expenses at the end of the reporting period. It is noted that some candidates did not attempt this aspect of the question.

Candidate's Response to Part (a) (iii) — Sample 1

Write your answer to Question 1 (a) (iii) on the lines below.

By cash basis accounting:
Service revenue = $150000 - 30000 = \$120000$
Expenses = $90000 - 15000 + 3000 = \$78000$

Candidate's Response to Part (a) (iii) — Sample 2

Write your answer to Question 1 (a) (iii) on the lines below.

revenue = $\$150000 - \30000
 $= \$120000$
expenses = $\$90000 - (\$150000 - \$3000)$
 $= \$90000 - \$12000 = \$78000$

Examiner's Comments

These candidates calculated the revenue and expense correctly using cash basis accounting.

In Part (b), candidates were given information about cash paid in a lump-sum purchase (basket transaction) for land, building and machinery. The market value for each asset was also provided.

For Part (b) (i), candidates were asked to calculate the amount allocated to each non-current asset resulting from this lump-sum transaction. Most candidates calculated the lump-sum payment correctly, using either a fraction or a percentage in their responses, and demonstrating that they could distinguish between market value and lump sum cost.

Candidate's Response to Part (b) (i) — Sample 1

Write your answer to **Question 1 (b) (i)** on the lines below.

$$\text{Land: } \frac{50,000}{400,000} \times 300,000 = \$37,500$$

$$\text{Building: } \frac{250,000}{400,000} \times 300,000 = \$187,500$$

$$\text{Machinery: } \frac{100,000}{400,000} \times 300,000 = \$75,000$$

Candidate's Response to Part (b) (i) — Sample 2

Write your answer to **Question 1 (b) (i)** on the lines below.

$$\text{Land} = \frac{50,000}{400,000} \times 100 = 12.5\% \quad \text{Market Value Allocation}$$

$$\text{Building} = \frac{250,000}{400,000} \times 100 = 62.5\%$$

$$\text{Machinery} = \frac{100,000}{400,000} \times 100 = 25\%$$

$$\text{Land} = \frac{300,000}{1} \times 12.5\% = \$37,500 \quad \text{Jump Sum Allocation}$$

$$\text{Building} = \frac{300,000}{1} \times 62.5\% = \$187,500$$

$$\text{Machinery} = \frac{300,000}{1} \times 25\% = \$75,000$$

Examiner's Comments

These candidates correctly applied the basket transaction to each asset purchased.

For Part (b) (ii), candidates were required to prepare journal entries (without narratives) to record the purchase of fixed assets based on details given in the scenario. The journal entries were poorly done. Some candidates prepared T accounts instead of journal entries.

Candidate’s Response to Part (b) (ii) — Sample 1

Write your answer to Question 1 (b) (ii) on the lines below.

Dr Land	37,500	Cr Cash	37,500
Building	187,500		
Machinery	75,000		
Cr Cash			300,000

Candidate’s Response to Part (b) (ii) — Sample 2

Write your answer to Question 1 (b) (ii) on the lines below.

Date	Details	Dr	Cr
	Land	37,500	
	Cash		37,500
	building	187,500	
	Cash		187,500
	machinery	75,000	
	Cash		75,000

[2 marks]

Examiner’s Comments

These candidates completed the journal entries correctly.

In responding to Part (c), most candidates were able to able to earn 10 out of the 13 marks allotted by calculating the figures and journalizing the entries correctly.

Weaknesses Identified

- Several candidates used the term ‘treasury stock’ instead of the term *investment*.
- Many candidates separated the brokerage fee from the investment.
- Some candidates failed to separate the share premium in the relevant transaction.
- Very few candidates treated the interest and principal payments correctly; they applied the semi-annual payment.

In Part (c) (i), candidates were presented with transactions relating to the issue of two classes of shares — receipt and repayment of loan (principal and interest) and purchase of short-term investment. Candidates were required to prepare journal entries (without narratives) to record the transactions.

Candidate's Response to Part (c) (i) — Sample 1

Write your answer to Question 1 (c) (i) on the lines below.

Date	Details	Dr	Cr
Jan 1	Cash	130000	
	Common Stock		45000
	Shares Preferred Shares		25000
	Share Premium		60000
July 1	Cash Loan (10 Year)	100000	
	Loan Loan Proceed	5000	100000
	Loan Repayment	5000	
	Loan Repayment	10000	
	Loan Interest	2500	
	Cash	5000	
	Cash		7500
Dec 31	Loan Repayment	5000	
	Loan Interest	2500	
	Cash		7500

Workings	Jan 1 = Common Stock = 15000 x 3 = 45000	Share Premium = 15000 x 4 = 60000	Preferred Stock = 50000 x 5 = 25000	Cash = 130000	July 1: 5% x 100000 = 5000 Principal: 5000 Interest: 2500	Dec 31: 2500 Interest Principal: 5000

Oct 1	Short Term Investment	60000	
	Brokerage Fees	850	
	Cash		60850

Workings
Oct 1: to Investment = 1000 x 60 = 60000
Brokerage = 850 [13 marks]

Candidate's Response to Part (c) (i) — Sample 2

Write your answer to **Question 1 (c) (i)** on the lines below.

²⁰²¹ Date	Details	Dr. (\$)	Cr. (\$)
1 Jan.	Bank	130 000	
	Common Ordinary Stock Capital (15000 × 3)		45 000
	Preference Share Capital (5000 × 5)		25 000
	Share Premium (15000 × 4)		60 000
1 July	Bank	100 000	
	Note Loan Payable		100 000
1 October	Investment in Roots Corporation ($(1000 \times 60) + 850$)	60 850	
	Bank		60 850
31 Dec.	Interest expense ($(5\% \times 100\,000) \times \frac{1}{2}$)	2 500	
	Note Payable (5000 $\frac{1}{2} \times 10000$)	5 000	
	Bank		7 500

Examiner's Comments

These candidates completed the journal entries correctly and calculated all the relevant figures required.

For Part (c) (ii), candidates were required to outline three ways by which a company can improve the effectiveness of its internal control system in a newly converted electronic computer environment. In responding, candidates did not apply their knowledge of internal controls to an electronic computer environment. Instead, general and sometimes vague responses relating to internal controls were provided.

Candidate's Response to Part (c) (ii) — Sample 1

Write your answer to Question 1 (c) (ii) on the lines below.

The first way to improve the effectiveness of its internal control system in an electronic environment would be to make a password or passcode to limit easy access by unauthorised users, another control would be to use internal ~~#~~ independent verification to know who, when and why was someone accessing or needed this information. In the case of fraud it could help to figure out who made changes. The third way is to limit authorization, therefore, only allowing personels in a high level to ^{have} access and change the password every 2 weeks.

[6 marks]

Candidate's Response to Part (c) (ii) — Sample 2

Write your answer to Question 1 (c) (ii) on the lines below.

- ① Have passwords for laptops - To prevent unauthorised people from accessing data. Ensures accuracy of information, since it has limited access.
- ② Encryption - Encrypt data whereby only the person with the key can access the code ^{and} understand the information, ^{success from} prevents hacking.
- ③ Back-up systems - Regularly back-up information, so in the event the computers malfunction / are tampered with, original information remains.

Examiner's Comments

These candidates correctly identified three ways the improvement could be realized.

Recommendations

Teachers/instructors should do the following to help better prepare students in the highlighted areas

The Accounting Cycle

- Create visual aids such as flowcharts, diagrams, or mind maps that illustrate the different steps of the accounting cycle. Visual representations can cement the sequence of events.
- Engage students in practice activities in a simulated accounting environment to reinforce learning and develop a better understanding of how the accounting cycle works.
- Reinforce the accounting cycle while teaching other topics.
- Use gamification to turn learning into a game by creating challenges or quizzes regarding the accounting cycle.

Cash and Accrual Basis of Accounting

- Give clear explanations regarding the nature of expenses and revenues and how each relates to the income statement, and provide specific examples. This could help solidify students' understanding.
- Utilize interactive teaching methods such as quizzes or group activities to reinforce understanding.
- Use review sessions, practice exercises, and formative assessments to reinforce key differences and correct any misconceptions.
- Enlist subject experts to guide students on how to structure responses to conceptual questions.
- Engage students in classroom activities or group discussions centred around prepayment, using scenarios to help them analyse situations and determine treatment. This may be done using both cash basis and accrual basis accounting.
- Provide practice exercises that involve recording prepayment transactions and adjusting the relevant accounts within a cash basis accounting system.

Journal Entries

- Introduce this topic early in the teaching/learning schedule so that it can be thoroughly dissected, and issues identified and rectified.
- Use multiple textbooks with different examples that would inform students of alternative names used for specific accounts.
- Give students more practice in preparing journal entries and provide multiple worksheets of varying complexity.

Internal Controls

- Use case studies or scenarios after introducing internal control procedures so that students can apply their knowledge to different business environments.
- Engage in interactive discussions on internal controls and electronic computer environments.
- Use role play, visual aids and flowcharts to illustrate the components of internal controls in an electronic computer environment.

Question 2

The mean mark for this question was 22.31 per cent.

Part (a) required candidates to

- list three characteristics of a company
- distinguish among a public company, a private company, and a statutory corporation as it relates to ownership
- explain what is meant by 'economic results returned to members', as an operating principle of a co-operative.

Responses to Part (a) (i) were good. Most candidates were able to identify and explain at least two characteristics of a company. These included the following.

- Limited liability of owners
- Separate legal entity
- Continuous/perpetual life
- Shareholders do not participate in day-to-day management
- Management is by a board of directors

Weaknesses Identified

- Several candidates identified characteristics that apply to a particular type of company, as opposed to companies in general. These included the following.
 - The ability to sell shares on the stock exchange
 - Restrictions on the ability to transfer shares
 - An upper limit on the number of shareholders
 - The profit motive
- Some candidates erroneously stated that 'shareholders have unlimited liability'.
- Several candidates stated that companies were 'separate entities' (the entity concept that relates to all businesses) as opposed to *separate legal entities* (which relates to incorporated bodies).
- Some candidates stated that 'companies suffer from double taxation' when in fact, *it is the shareholders who experience double taxation*.
- Some candidates mentioned that 'democratic control is a characteristic of a company'.
- Many candidates were unable to express themselves clearly.

Candidate's Response to Part (a) (i)

Write your answer to **Question 2 (a) (i)** on the lines below.

1. A company has limited liability.
2. A company is a separate legal entity from its owners, that is, the business and the owners are separate legal entities.
3. Companies are controlled by a board of directors on behalf of shareholders.

[3 marks]

Examiner's Comments

This candidate was able to correctly identify three general characteristics of a company, as opposed to characteristics that apply only to public or private companies.

In responding to Part (a) (ii), most candidates were able to distinguish among public companies, private companies, and statutory corporations. Characteristics cited included the following.

Public Companies	Private Companies	Statutory Corporations
<ul style="list-style-type: none"> • Able to sell shares on the stock exchange 	<ul style="list-style-type: none"> • Not able to sell shares to the general public 	<ul style="list-style-type: none"> • Established by Act of Parliament
<ul style="list-style-type: none"> • No restrictions on the ability to transfer shares 	<ul style="list-style-type: none"> • Shareholding restricted to family and friends 	<ul style="list-style-type: none"> • Owned by the government/state
<ul style="list-style-type: none"> • No upper limit on number of shareholders 	<ul style="list-style-type: none"> • Limited ability to transfer shares 	<ul style="list-style-type: none"> • Accountable to a minister of government

Weaknesses Identified

- Misconceptions included the following.
 - Public companies are owned by the public sector/government while private companies are owned by private individuals.
 - Public companies cannot sell shares on the stock exchange, while private companies can.
 - Shareholders in public companies have limited liability while shareholders in private companies have unlimited liability.
 - Statutory corporations are owned by the public.
- Some candidates identified characteristics that were not unique to the relevant type of business. These included the following.
 - Public companies raise capital by issuing shares.
 - Public companies are managed by a board of directors
- Candidates were not able to express themselves clearly.

Candidate's Response to Part (a) (ii)

Write your answer to Question 2 (a) (ii) on the lines below.

A public company is one open to the public and shares^s are sold on the stock exchange, therefore ~~the~~ ^{the} ownership of a public company can be transferred to any persons in or out of the business who have bought shares. A private company sells shares among its members who are made up of friends and families, ^{members} therefore, if ownership were to be transferred, it would still be within the company unlike public companies.

(Continued on pg 18) [3 marks]

Question No. 2 (a) (ii)

A statutory corporation however is owned by the Government on behalf of state ~~app~~ regarded by an Act of Law. The Government then appoints a Board of Directors to oversee its day to day operations all while still under the ownership of the Government.

Examiner's Comments

This was a comprehensive response. The candidate contrasted the ability of the stated types of companies to sell shares on the exchange versus selling to friends and family. The candidate also distinguished between the ability of shareholders in public and private companies to transfer shares. For statutory companies, the candidate identified ownership by the government and formation by an Act of Parliament.

Overall, responses to Part (a) (iii) were poor. Some candidates were able to identify the patronage refund as an example of economic benefits returned to members. Some candidates referred to dividends paid to members. Several candidates referred to activities such as education and training which are undertaken to benefit the members.

Weaknesses Identified

- Many candidates did not attempt the question.
- There were many responses that were not worth any marks.
- Many candidates made general statements such as “economic benefits returned to members refers to benefits/rewards received by members of the cooperative” without offering any further development.
- Many responses referred to ‘profits’ rather than *surplus*.
- Several candidates stated that all profits would be shared among members.
- Several candidates stated that profits are shared equally among members.
- Several candidates referred to other characteristics of cooperatives.
- Many candidates gave a general overview of cooperatives and emphasized that the aim was not to make a profit but rather to benefit members. However, no specific examples were provided.
- Candidates were not able to express themselves clearly.

Candidate’s Response to Part (a) (iii)

Write your answer to **Question 2 (a) (iii)** on the lines below.

A cooperative is an economic entity formed for the main purpose of performing services to its members. As such, any surplus or “economic results” obtained from trading activities, is given back to members whether it is through a patronage refund, invested to provide more educational services to members or even as a return on the shares held. This ensures that any surplus made by a cooperative is re-invested or redistributed to benefit members.

[4 marks]

Examiner’s Comments

The candidate identified several ways in which a co-operative returns economic benefits to its members.

- Patronage refund
- Dividends
- Supporting other activities approved by the membership (the provision of educational services to members)
- Reinvestment of surplus to develop the cooperative (to allow for future growth and improved ability to service members)

Part (b) presented the equity account balances of a company as at 31 December 2021, and a list of equity transactions for 2022. Candidates were required to prepare the statement of changes in equity for the year ended 31 December 2022, in accordance with the provisions of Section 6 of the International Financial Reporting Standards (IFRS) for SMEs.

Responses to Part (b) were fairly good. Many candidates were able to prepare the statement in good form.

- The heading was appropriate.
- Each capital element was presented separately.
- Opening and closing balances are correctly presented.
- Transactions were clearly identified.
- The values of the rights issue and issue of preference shares were correctly calculated and presented.
- The ordinary share dividend was correctly calculated and presented.
- The transfer to the general reserve was recorded in its own column.

Weaknesses included the following.

- The total column was not included.
- Many candidates did not prepare the statement required. Instead, they prepared the following.
 - An extract of the statement of financial position
 - Journal entries
 - Working only
- Several candidates did not attempt the question.
- Supporting workings for the share issues and dividends were often not presented.
- A few candidates did not show descriptions of the transactions. Instead, they recorded the transaction dates.
- The preference shares dividend was calculated based on all preference shares issued as at 31 December, as opposed to prorating as follows.

$$\$67,500 \times 0.04 = \$2,700$$

$$\$37,500 \times 0.04 \times 6/12 = \$ 750$$

$$\underline{\$3,450}$$

- The preference shares dividend was calculated based on the opening number of preference shares.
- The transfer to the general reserve was shown as an increase in the reserve, but no deduction was made from retained earnings.
- Net income and the transfer to the general reserve were not treated as separate transactions. Instead, they were net off against each other.

Candidate's Response to Part (b)

Write your answer to **Question 2 (b)** on the lines below.

Workings

$$\text{Common shares} = \frac{200,000}{4} = 50,000 \text{ shares}$$

$$\text{Preference shares} = \frac{67,500}{1.5} = 45,000 \text{ shares}$$

$$1. \frac{1}{5} \times 50,000 = 10,000 \text{ shares}$$

$$4 \times 10,000 = \$40,000$$

$$200,000 + 40,000 = \$240,000$$

$$10,000 + 50,000 = 60,000 \text{ shares}$$

$$2. 45,000 - 25,000 = 20,000 \text{ shares}$$

$$25,000 \times 1.5 = \$37,500$$

$$67,500 - 37,500 = \$30,000$$

$$4. \frac{30,000}{1.5} = 20,000 \text{ shares}$$

$$30,000 \times 0.04$$

$$5. 0.35 \times 60,000 = \$21,000$$

Statement of Changes in Equity for Morello Ltd for year ended Dec 31 2022

	Common Shares	Preference Shares	Retained Earnings	General Reserve	Share Premium	Total
Bal b/f	200,000	67,500	560,000	120,000	26,000	973,500
Rights Issue of Common share	40,000	(37,500)	(14,000)		(26,000)	-
Issue of 25,000 Pref. shares		(37,500)	37,500			-
Profit After Tax			280,000			280,000
Transfer to Gen. Res			(30,000)	30,000		-
Pref. shares divid			(12,000)			(12,000)
Common shares divid			(21,000)			(21,000)
	<u>240,000</u>	<u>30,000</u>	<u>811,300</u>	<u>150,000</u>	-	<u>1,231,300</u>

[15 marks]

Examiner's Comments

This candidate's statement was well-formatted and included the following.

- An appropriate heading
- Each capital element presented separately
- A total column
- Opening and closing balances presented correctly
- Transactions clearly identified
- The transfer, showing both the deduction from retained earnings and the transfer to the general reserve
- The use of appropriate headings and correct calculations of the effects of the transaction (except for the preference dividend)
- The number and class of shares in the opening balances and in each transaction correctly calculated and clearly stated
- Supporting workings

This response could have been improved if the candidate had done the following.

- Presented the number of shares as the first column in the body of the statement
- Prorated the preference dividend to reflect the share issue partway through the year

In Part (c), candidates were presented with a statement of financial position for a partnership. They were required to prepare the capital account for the partnership after the admission of a new partner, using the goodwill method.

In responding to Part (c), most candidates were able to use the goodwill method, successfully calculating

- the implied capital
- capital after the introduction of the new partner
- goodwill
- goodwill apportioned between the original partners.

Many candidates were able to prepare the capital accounts. Most of them used the columnar format, and many were able to record the transactions correctly.

Weaknesses Identified

- Candidates used the bonus method to calculate goodwill.
- Several candidates calculated 10% interest on capital.
- Several candidates presented partners' capitals in one account, making no distinction between the partners.
- Several candidates treated the capital introduced by the new partner as a balance b/d.
- Many candidates did not use the appropriate details when recording transactions in the capital account. They described the transactions rather than provide the name of the corresponding account. For example, in recording the capital contributed by Xavier, descriptions such as 'capital introduced/injected' or 'admission of partner' were used, rather than *Cash* or *Bank*.
- Goodwill was only recorded as a debit entry in the capital account.
- A few candidates showed goodwill on both sides of the account.
- A few candidates credited a share of goodwill to the incoming partner.
- In some cases, no supporting workings were shown.

Candidate's Response to Part (c)

Write your answer to **Question 2 (c)** on the lines below.

N/A: 50,000 for 10%, 5,000
50,000

Working's

Capital = 700,000
IF 10% of x = \$90,000, x = \$900,000 to join partnership.

X is paying them

900,000
- 700,000

200,000 ~~600,000~~

J = 1 B = 3

90,000

70,000

4

4

- 70,000

- 90,000

L = 20,000 = 5,000 20,000 - 5,000 = 15,000

20,000 (Goodwill)

(20,000) Goodwill

15,000

Answer:

J = 5,000 B = 15,000

Dr Capital Accounts for Johanna, Bertie and Xavier

Detail	J £	B £	X £	Detail	J £	B £	X £
Bal b/d				Bal b/d	175,000	525,000	90,000
				Goodwill	5,000	15,000	
Bal c/d	180,000	540,000	90,000				
	180,000	540,000	90,000		180,000	540,000	90,000
				Bal b/f	180,000	540,000	90,000

Examiner's Comments

This candidate was able to

- use the goodwill method to calculate the implied capital, the value of the partnership and the goodwill
- apply the relevant profit-sharing ratio to apportion the goodwill between the original partners
- prepare the partners' capital accounts in proper form, indicating balances b/d and c/d, and for each transaction, clearly identifying the account in which the corresponding entry should be recorded
- apply the relevant profit-sharing ratio to apportion the goodwill between the original partners.

Recommendations

- It is recommended that teachers require students to do research and make presentations on areas such as the forms of business. Class discussions would help to promote understanding. The module does not only require numerical responses, so students should be given greater opportunities to respond to theoretical questions and improve their writing skills.
- Students should be given rigorous practice in the preparation of financial statements for all forms of business in accordance with the provisions of the International Financial Reporting Standards (IFRS) for SMEs. Special attention should be given to proper presentation, and the need to show supporting workings where calculations are required.

Question 3

The mean mark for this question was 28.71 per cent.

Part (a) required candidates to list five limitations of evaluating the financial performance between two companies in the same industry, using return on asset ratio.

In responding to Part (a), candidates provided an average response with three marks being the modal score. Many candidates were able to list at least three limitations. The three most common responses were the use of historical costs, estimates and different accounting policies/methods.

Weaknesses Identified

- Some candidates did not list the responses as required; instead, they provided extended responses.
- Some candidates had repetition in their responses, for example, they would provide two limitations and in each, they addressed the same three points — estimates, policies/methods, and the accuracy of underlying data.

Candidate's Response to Part (a) — Sample 1

Write your answer to **Question 3 (a)** on the lines below.

Five ~~final~~ limitations are:
- Historical cost
- Inflation
- Estimates and aggregation
- Accounting policies
- Aggregation
.....
.....

Examiner's Comments

The response was concise and met the examiner's expectations.

Candidate's Response to Part (a) — Sample 2

Write your answer to **Question 3 (a)** on the lines below.

- ① Ratio analysis using uses historical cost.
- ② Ratio analysis relies on the use of estimates
- ③ Ratio analysis does not account for external factors such as worldwide recession
- ④ Ratio analysis is ineffective if the companies are not of the same size and type.
- ⑤ Profits may be overstated due to inflation.

[5 marks]

Examiner's Comments

This response met the criteria of accuracy and clarity. It was indicative of an exemplary response.

Parts (b) (i)–(iv) required candidates to calculate the following ratios.

- Earnings per share
- Price earnings ratio
- Dividend pay-out ratio
- Return on capital employed

Performance was average; most candidates achieved five out of the ten marks for partially calculating the earnings per share and return on capital employed.

Weaknesses Identified

- Many candidates did not adjust the earnings for preference dividends when calculating earnings per share and dividend payout ratio.
- Many candidates inverted the formula for the dividend payout ratio.
- Some candidates added the preference dividend to the net income when calculating the dividend payout ratio.
- Some candidates were unfamiliar with the formulae for some ratios, and the correct units.
- Some candidates were unable to calculate the capital employed figure as all the components were not included.

Candidate's Response to Part (b) (i-iv)

Write your answer to Question 3 (b) (i-iv) on the lines below.

$$\begin{aligned} \text{i. Earnings per share} &= \frac{\text{Net Income Available to Ordinary Shareholders}}{\text{Number of ordinary shares issued}} \\ &= \frac{171,600 - (0.06 \times 500,000)}{200,000} = \frac{168,600}{200,000} = \frac{0.843}{1} = 0.843 \end{aligned}$$

$$\therefore \text{Earnings per share} = \underline{0.84}$$

$$\begin{aligned} \text{ii. Price Earnings Ratio} &= \frac{\text{Market Price per Share}}{\text{Earnings per Share}} = \frac{5.50}{0.84} = \underline{6.55} = 6.548 \end{aligned}$$

$$\therefore \text{Price Earnings Ratio} = \underline{6.55 : 1}$$

$$\begin{aligned} \text{iii. Dividend Pay-out Ratio} &= \frac{\text{Total Common Share Dividends}}{\text{Net Income Available to Common Shareholders}} \\ &= \frac{0.05 \times 200,000}{168,600} = \frac{10,000}{168,600} = \underline{0.06} = 0.059 \end{aligned}$$

$$\therefore \text{Dividend pay-out ratio} = \underline{0.06 : 1}$$

$$\begin{aligned} \text{iv. Return on Capital Employed} &= \frac{\text{Net Income}}{\text{Capital Employed (Capital + reserves + long term liabilities)}} \times 100 \\ &= \frac{171,600}{(250,000 + 583,600 + 150,000)} \times 100 \\ &= \frac{171,600}{993,600} \times 100 \\ &= \underline{17.446} \end{aligned}$$

$$\therefore \text{Return on Capital Employed} = \underline{17.45\%}$$

Examiner's Comments

The candidate stated the formula for each ratio and followed through with the calculations and final answer, stating the correct units. This is one of the few candidates who correctly adjusted the net income for the preference dividends for the earnings per share and dividend payout ratio.

Part (c) required candidates to explain the concept *events after the reporting period* according to Section 32 of the IFRS or SME's. The responses were satisfactory. Most candidates were able to identify at least one of the two types of events after the reporting period.

Weaknesses Identified

- Many candidates were unable to define adjusting and non-adjusting events and state how they are treated.
- Many candidates referred to adjusting entries instead of adjusting events. These are different concepts.

Candidate's Response to Part (c)

Write your answer to **Question 3 (c)** on the lines below.

Events after the reporting period are those events that occur after the reporting date but before the day when the financial statements are authorised for issue. These events can be adjusting events that provide evidence of conditions existing at the reporting date ^{and require adjustments to records}. Conditions existing at the reporting date refer to any information about assets, liability, capital, revenue and expenses that occurred on or before the reporting date. Events after the reporting period also refer to non-adjusting events that are indicative of conditions arising after the reporting date ^{if material, these are disclosed in notes}. Adjusting events include settlements of ^{litigations} ~~liabilities~~ existing while non adjusting events include losses due to natural disaster [5 marks] after the reporting period.

Examiner's Comments

This candidate defined the concept as outlined in the standard. There was a distinction between the two types of events.

For Part (d) (i), a mini case study was presented and candidates were required to outline the treatment of events after the reporting period. Candidates' performance was average; most candidates scored at least three marks, stating that three of the five events presented were adjusting events.

Weaknesses Identified

- Several candidates did not indicate that, for adjusting events, a disclosure is also required.
- Inconsistent use of accounting terminology.

- Many candidates used expressions such as “do not include in the financial statements” as non-adjusting events; however, financial statements also include notes to the financial statements. There is a disclosure requirement.
- In reference to non-adjusting events, some candidates stated that ‘nothing should be done’; however, a disclosure note is required.
- Some candidates provided adjusting entries, which were often incorrect, instead of stating the treatment of the events.
- Some candidates described the treatment for the following year instead of the current year.

Candidate’s Response to Part (d) (i) — Sample 1

Write your answer to **Question 3 (d) (i)** on the lines below.

1. This should be adjusted and noted in the financial statements. → Adjusting event.

2. This should be adjusted in the financial statement and disclosed in notes to the financial statements. → adjusting event.

3. This should be adjusted in the financial statement and disclosed in the notes to the financial statements. → Adjusting event

4. Non adjusting event → should be disclosed in note to financial statement.

5. Non-adjusting event → should be disclosed in the notes to financial statements.

[10 marks]

Examiner’s Comments

The response was clear and concise. The candidate utilized the appropriate accounting terminology.

Candidate's Response to Part (d) (i) — Sample 2

Write your answer to **Question 3 (d) (i)** on the lines below.

- ① This is to be adjusted in the financial statements. It requires an adjustment for uncollectable debts of \$350,000. It must also be disclosed in the notes.
- ② This is to be adjusted in 2021 financial statements. It requires an adjustment as an accrued loss liability. It also requires disclosure in the notes of the financial statement.
- ③ This is to be adjusted in 2021 financial statements. It is to be settled before presentation of statements. It must also be disclosed in the notes to the financial statements.
- ④ This should not be adjusted in the 2021 financial statements as it does not relate to the current period. However, the accountant can disclose it in the notes.
- ⑤ This is a non-adjusting event so it does not affect financial statements. It can, however, be disclosed in the notes.

[10 marks]

Examiner's Comments

The candidate clearly understood that for a non-adjusting event, a note disclosure is required.

Part (d) (ii) required candidates to determine the revised net income based on the treatment of events after the reporting period in d (i). Candidates performed best on this part of the question. The average candidate was able to score four out of five or full marks. Most candidates were able to adjust the net income using adjusting events.

Weakness Identified

- Inclusion of non-adjusting events when adjusting the net income.

Candidate's Response to Part (d) (ii)

Write your answer to **Question 3 (d) (ii)** on the lines below.

Original: Net Profit	6 000 000
less: Bankruptcy	(350 000)
less: loss liability (241 000 + 45 000)	(702 000)
	4 948 000
Add: Receipt from insurance	1 500 000
Revised net profit	<u>6 448 000</u>

Examiner's Comments

Candidate was able to correctly treat the events in Part (i) to arrive at the adjusted net income.

Recommendations

- Teachers should provide students with more opportunities to identify events after the reporting period and practice, adjusting the financial statement and preparing disclosure notes.
- Teachers should use a balanced approach when teaching concepts and computations. Emphasis should be placed on theory and not just the practical questions. Students should be given more practice answering restricted response and scenario and case base questions.
- Candidates are reminded to note two things that should guide their responses — the marks and the verb used in the instruction.
- Teachers should use more case studies in teaching concepts and problem-solving.
- For areas where definitions are required, direct reference should be made to the standard when teaching.
- Students should be encouraged to always show their work.

Strengths

- Projects were generally done to the requirements of the syllabus.
- In most cases, the table of contents was aligned with the page numbers in the project.
- Many students correctly completed a title, aim and objectives, making recommendations from findings and making a conclusive statement.
- Topics were generally well chosen, allowing for effective investigation.
- Teachers generally marked within the guidelines of the syllabus.
- Data presented was generally related to the project's aim(s) and objectives.
- Diagrams utilized to represent summarized data collected were generally suited, well done and correctly labelled.
- In-text citation followed an acceptably recommended style such as APA and the bibliography was generally in alphabetical order.

Weaknesses

- In many cases, the literature review was filled with definitions and explanations of a syllabus topic and was not aligned to the project's title, aim(s) and objectives.
- Students seem challenged to distinguish between presented and analysed data. On many occasions, students generally re-stated in words the data already on the diagram or table instead of comparing it to set standards or previous data to identify trends, significant changes, compliance, or other significant outcomes.
- Many students were challenged in the evaluation of the data analysed because of the following.
 - The data had not been previously analysed, resulting in the analysis being done in this section of the project.
 - On many occasions, the evaluation was not based on the data analysed nor supported by the literature review, so the inferences were not appropriate.
- Statements used from the literature review to support inferences of the evaluation generally had no in-text citation.
- The bibliography was generally not done in an acceptable manner.

Recommendations

- All topics must be within the scope of the syllabus and lend themselves to research. The syllabus has a few suggestions that students, guided by their teachers, can use.
- Students should be trained in the preparation of a literature review during class sessions and/or as small projects to gain a better understanding of this part of the project. In-class peer review may help with this.
- Students should be guided to understand the difference between data collection methods and the tools used to collect data.
- Students should be encouraged to analyse data already presented or to collect data, present (using diagrams and/or tables) and analyse it. The analysis should be assessed through teacher-guided classroom discussion and peer reviews so that feedback can be given regarding ways in which the analysis can be enhanced.
- Students are reminded that the use of diagrams and tables can assist in reducing a project's word count.
- Teachers should consider guiding and supporting students with exercises on evaluation of data already presented and analyzed and providing the appropriate timely feedback.
- Students should be allowed to practise researching and presenting bibliographies.
- Teachers should seek access to CXC webinars which go further in-depth of the SBA preparation as a refresher, for teachers in the system for a while and new insight for new teachers.
- Groupwork should be encouraged.
- Students should be encouraged to be succinct, as the word limit is 1500 and a penalty is associated with exceeding it.
- Teachers should show students that every section of the project is linked.
 - Aim(s) are to be drawn from the topic.
 - Specific and clear objectives are to be drawn from the aim(s).
 - Literature review should focus on the aims and objectives.
 - Data collection methods are to be best suited for the research topic.
 - Data from the data collection tools should be presented on diagrams and/or tables and summarized with highlights/findings.
 - Evaluative statements are to be drawn from the findings and supported by cited comments from the literature review.
 - Recommendations should be drawn from issues identified in the evaluation.