



# CARIBBEAN EXAMINATIONS COUNCIL

## PRINCIPLES OF ACCOUNTS



## Subject Report

*January 2026*

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
CARIBBEAN SECONDARY EDUCATION CERTIFICATE<sup>®</sup>  
EXAMINATION**

**JANUARY 2026**

**PRINCIPLES OF ACCOUNTS  
GENERAL PROFICIENCY**

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## INTRODUCTION

This guide has been compiled using candidates' responses to the 2026 January sitting of the Caribbean Secondary Education Certificate (CSEC) Principles of Accounts examination. The Principles of Accounts is examination is offered biannually in January and May/June.

In January 2026, the examination comprised the following papers.

- Paper 01 — Multiple Choice
- Paper 02 — Extended Response/Problem-Solving
- Paper 032 — Alternative to SBA (Private Candidates)

A total of 348 candidates sat the examination. This represents a decrease when compared with the 470 candidates who sat the examination in January 2025.

In January 2026, candidates' performance improved significantly when compared with January 2025. Approximately 60 per cent of candidates achieved a passing grade (Grades I–III), compared with approximately 40 per cent in 2025.

## PAPER 01 — MULTIPLE CHOICE

Paper 01 consists of 60 multiple-choice items taken from the three profiles of the syllabus: Knowledge and Comprehension, Application, and Interpretation and Analysis. Candidates' performance on Paper 01 remained consistent with that of 2025. The mean score in 2026 was 32.68 out of 60 marks, compared with 31.44 out of 60 marks in 2025.

## PAPER 02 — EXTENDED RESPONSE/PROBLEM SOLVING

This paper comprised a total of five compulsory questions. Overall, there was an improvement in candidates' performance. The mean score in 2026 was 42.63, compared with 32.74 in 2025.

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### Question 1

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This question assessed candidates' foundational accounting skills and required them to

- prepare a source document from the information given
- make an entry from a given transaction in the petty cash book
- calculate the unit price of a product
- identify the type of discount and give a reason for the discount
- balance and replenish the petty cash book
- calculate mark-up percentage
- prepare ledger accounts relating to the petty cash book.

#### Part (a)

Generally, candidates were able to correctly identify a petty cash voucher as the appropriate source document. In addition, many candidates included the required information such as the date, description, amount and business name.

Most candidates prepared appropriate source documents, including petty cash vouchers, purchase requisitions and sales invoices. However, many of them prepared inappropriate documents, such as debit notes and cheques. Some candidates prepared general journal entries, while several candidates did not provide a response.

#### Part (b)

This part was generally well done. Many candidates were able to provide acceptable responses. In Part (b) (i), candidates used the correct formula ( $\text{cost} \div \text{quantity}$ ) to arrive at the correct answer.

For Part (b) (ii), candidates correctly identified the discount as a discount received.

In Part (b) (iii), candidates provided valid justifications for the discount identified in Part (b) (ii). Most candidates who correctly identified the type of discount were also able to give appropriate justifications for their responses.

### **Part (c)**

In Part (c) (i), candidates showed that they had good knowledge of the topic, as many of them were able to correctly record the transaction using the appropriate date, details, voucher number and total. They also placed the amount in the correct analysis column.

Many candidates recorded the transaction correctly; however, the following errors were observed.

- In the details column, many candidates recorded the items purchased rather than the name of the supplier.
- Many candidates placed the amount in the total column only and did not place any information in the analysis column, as required.

In Part (c) (ii), many candidates correctly totalled all columns, calculated the balance and brought down the balance, as required.

Most candidates were able to balance the account; however, several candidates did not total the analysis columns. Additionally, some candidates incorrectly identified the sum of the total column as the balance c/d, while others brought down the balance on the wrong side (credit side).

In Part (c) (iii), candidates were required to correctly identify that the total disbursements for the period represented the amount needed to replenish the petty cash fund and to record the replenishment amount in the receipts column (debit column).

Although many candidates were able to correctly replenish the petty cash fund, many of them omitted this step. A few candidates demonstrated limited understanding of the replenishment process, as they treated the balance on hand on March 1 as the replenishment amount rather than the total disbursements for the period.

### **Part (d)**

Most candidates correctly calculated the percentage mark-up by

- calculating the cost of the two samosas and one drink (\$7.50)
- calculating the gross profit by subtracting the cost from the selling price (\$7.50 – \$5.50)
- applying the correct formula to calculate the percentage markup ( $\$2/\$5.50 \times 100$ ).

Many candidates were able to perform this task. However, there were common errors such as the following.

- Basing the total cost on the cost of only one samosa, rather than two as specified in the question
- Successfully calculating gross profit but not proceeding to compute the markup percentage
- Calculating the markup percentage using the selling price rather than the cost as the denominator ( $\$2/\$7.50$ ) rather than ( $\$2/\$5.50$ ).

## Part (e)

Candidates who performed well correctly identified and named all relevant accounts and were awarded full marks.

These candidates demonstrated a sound understanding of the double-entry system and competence in making entries in ledger accounts. They correctly credited the cash account and debited at least four expense accounts with the appropriate amounts.

Overall, candidates' performance was weak. Most candidates were unable to correctly identify the accounts in which the entries should be recorded. Some candidates created accounts labelled 'sales ledger', 'purchases ledger', 'general ledger' and 'purchase book'. Additionally, some candidates who correctly identified the relevant accounts reversed the entries, crediting the expense accounts and debiting the petty cash account.

## Recommendations

Teachers should

- provide practical exercises in which students relate transactions to source documents and accounting records.
- provide opportunities for students to practice posting from one book/account to the corresponding account. This could include exercises in which students are presented with ledger entries and asked to make the corresponding entry.
- Encourage students to
  - read questions thoroughly and focus on interpretation of the information provided
  - review and practise calculating and interpreting accounting ratios.

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## Question 2

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This question presented information relating to Seagulls Water Sports Club for the year ended December 31, 2024.

### Part (a)

Candidates were required to prepare a receipts and payments account for the period and bring down the closing balance. Candidates who performed well demonstrated that they had comprehensive understanding of the preparation of receipts and payments accounts for non-profit organizations and they earned the maximum marks for this part. These candidates did the following.

- Opening Balances — accurately debited the opening cash-in-hand balance and credited the opening bank overdraft
- Transaction Recordings — correctly identified and recorded all debit and credit entries
- Calculations — accurately calculated the total amount for subscriptions received and the final closing cash balance
- Closing Procedures — successfully brought down the closing cash balance to the start of the new period (January 1, 2025)

### Part (b)

This part required candidates to calculate the updated cash balance using information provided from the bank statement. Candidates who performed well demonstrated a clear understanding of the relationship between the organization's internal cash records and the bank statement information and earned full marks. These candidates did the following.

- Initial balance — correctly started the process with the closing cash-on-hand balance from Part (a)
- Additions — accurately treated direct deposits by adding them to the opening balance
- Deductions — correctly identified and deducted the dishonoured cheque, the standing order payment for insurance and bank charges
- Final accuracy — successfully arrived at the correct adjusted amount for the updated cash balance

Many candidates incorrectly included late lodgments and outstanding cheques in the calculation of the updated cash-in-hand balance. This indicated that candidates lacked the understanding that these items would have already been recorded in the receipts and payments account.

## Part (c)

Part (c) required candidates to prepare a bank reconciliation statement to arrive at the bank statement balance.

Candidates who performed well demonstrated a clear understanding of the reconciliation process by

- using the correct heading and acceptable overall layout
- correctly starting with the updated cash balance
- accurately adding unpresented cheques and deducting bank lodgments (uncredited deposits).

Many candidates did not use the updated cash balance from Part (b) when preparing the bank reconciliation statement. Instead, some erroneously used the opening cash-in-hand balance provided, while others incorrectly used the cash balance calculated in their response to Part (a).

Additionally, some candidates included items in the bank reconciliation statement that should have been used in the calculation of the updated cash balance.

## Recommendations

Teachers should train students to determine where items should be applied when preparing cash and bank records by asking the guiding question Who knows first?

- If the bank knows first, the item should be used to update the available cash-on-hand balance.
- If the business knows first, the item should be included in the preparation of the bank reconciliation statement.

Students should be encouraged to consistently apply this principle to improve accuracy when calculating updated cash balances and preparing bank reconciliation statements.

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## Question 3

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This question assessed candidates' knowledge of payroll accounting.

### Part (a)

Candidate demonstrated a sound knowledge of payroll-related documentation. Most candidates were able to correctly identify at least one source document used in payroll preparation. Many candidates listed two correct documents and earned full marks. This indicates that candidates had a general understanding of the basic documentation required in the payroll process. Overall, candidates' performance on this item was satisfactory.

### Part (b)

In this part, candidates were asked to name an accounting software programme that could be used to prepare payroll. Many candidates knew the technology used in the payroll process. Most candidates successfully identified one acceptable accounting software programme used in payroll preparation and were awarded the mark.

Overall, candidates' performance was good. Many candidates provided responses beyond traditional accounting software packages such as *QuickBooks* and *Peachtree*, identifying more modern, technology-driven solutions such as *Bookipi* and *Xero*, as well as region-specific software such as *TTPay*. This suggests that candidates are becoming increasingly aware of emerging technological trends and the evolving tools used in payroll preparation.

### Part (c)

Part (c) presented information relating to a driver, including basic hours and rate of pay, overtime rate, and tax details. Candidates were required to calculate the gross pay, income tax payable and net pay for the week.

In Part (c) (i), candidates who performed well correctly calculated the basic pay using the appropriate process — basic rate  $\times$  basic hours, demonstrating an understanding of how to compute regular earnings.

Overall, many candidates were able to correctly calculate the basic pay. Many candidates also accurately determined the overtime hours worked by subtracting regular hours from total hours worked and correctly calculated the overtime rate ( $1.5 \times \$80 = \$120$ ). Several candidates were then able to apply the correct procedure to calculate total overtime pay (for example,  $20 \text{ hours} \times \$120 = \$2,400$ ).

However, some candidates did not calculate the overtime pay correctly, which indicated that candidates lacked full understanding of how the overtime rate should be derived and applied. While most candidates demonstrated knowledge of how to calculate gross pay (basic pay + overtime pay), many of them were unable to arrive at the correct gross pay figure of \$5600.

Although candidates generally understood the required processes, errors in overtime calculations negatively affected their ability to compute the correct gross pay.

For Part (c) (ii), candidate showed competence in treating tax exemptions to arrive at the income tax figure.

While many candidates were able to correctly calculate the pension contribution (5 per cent of gross pay) and apply the 10 per cent tax rate, an evaluation of their responses revealed that candidates had a significant misunderstanding in the handling of tax exemptions. Most candidates incorrectly applied the tax percentage directly to the gross pay without first deducting the exemptions. Consequently, only a few candidates were able to accurately determine the income tax payable.

This indicates that while candidates understand the application of rates and allowances, greater emphasis is needed on teaching them how to treat tax exemptions and deductions to ensure that they can calculate income tax accurately.

In Part (c) (iii), candidates who performed well applied the correct procedure to calculating net pay by deducting income tax and national insurance contributions. However, some candidates incorrectly included the personal allowance as a deduction.

Most candidates demonstrated an understanding of the correct procedure for calculating net pay (gross pay – deductions). Nevertheless, some candidates treated the personal allowance as a deduction. This suggests that there is a need to reinforce the distinction between tax allowances (used to determine taxable income) and actual deductions from gross pay when calculating net pay.

#### **Part (d)**

Candidates who performed well were able to state one correct difference between a statutory and a non-statutory deduction. Overall, this part was very well answered. Many candidates demonstrated that they had sound knowledge of the distinction between the two types of deductions.

### **Recommendations**

- Teachers should place greater emphasis on ensuring that students can accurately determine and apply overtime rates in payroll calculations.

- Teachers are encouraged to incorporate error-analysis exercises into their teaching by presenting students with incorrect payroll calculations and requiring them to identify and explain the errors. This approach reinforces students' conceptual understanding and enhances accuracy in payroll computations.

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## Question 4

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### Part (a)

Most candidates were able to correctly state a valid duty performed by an accountant. Overall, this part was well done. Most candidates demonstrated sound knowledge of accounting functions by correctly identifying an appropriate duty of the accountant.

### Part (b)

In Part (b) (i), most candidates correctly stated one internal user of a company's financial information. The most common response was *manager*. However, a few candidates incorrectly identified external users instead of internal users, suggesting these candidates could not distinguish between these types of stakeholders.

For Part (b) (ii), candidates who performed well correctly identified one external user of a firm's financial information. Most candidates provided acceptable responses. *Government* and *banks* were the most frequently identified external users.

In Part (b) (iii), candidates correctly stated one reason why the external user identified in Part (b) (ii) would have an interest in the firm's financial information. Many candidates gave appropriate reasons for an external user's interest in a business's financial statements. However, several candidates provided reasons that did not correspond to the external user identified in Part (b) (ii).

### Part (c)

Many candidates correctly identified the statement affected by each transaction. Very few candidates correctly classified all four transactions. Most were able to correctly classify at least two transactions. The *installation cost* and *the legal cost* were most frequently misclassified.

### Part (d)

For Part (d) (i), candidates who performed well prepared an opening statement of financial position that was generally well presented. These candidates demonstrated the following strengths.

- Using correct and complete headings
- Correctly classifying assets as non-current and current
- Correctly classifying liabilities as current
- Presenting assets and liabilities in the correct order of permanence, both between and within categories

- Correctly identifying the equity section and positioning it appropriately
- Presenting partners' capital balances as separate accounts

However, some candidates omitted the net assets total, which is required for this format.

Many candidates classified items as assets or liabilities but did not further classify assets as fixed or current. Additionally, many candidates misclassified items or failed to adhere to the correct order of permanence.

A few candidates presented the statement in trial balance format, with assets shown in the debit column and liabilities in the credit column. Others prepared separate statements for each partner, while some produced a single statement but listed each partner's inventory and receivables separately.

Very few candidates included a clearly defined capital section showing each partner's capital balance. In many instances, candidates applied the accounting equation and identified the balancing figure as capital or net Assets. Several candidates also incorrectly included the profit earned during the first year of partnership in the opening statement of financial position.

In Part (d) (ii), candidates who performed well

- correctly calculated each partner's capital
- correctly determined the proportion of total capital attributable to Lennie
- correctly applied this proportion to the year's profit to calculate Lennie's share of profit
- used the correct formula to calculate return on investment (ROI)
- accurately calculated Jennie's ROI using her share of profit and capital invested.

Many candidates were able to calculate the profit-sharing ratio using the capital contributions of each partner and apply it to determine the selected partner's share of profit. However, this section proved challenging for some candidates.

Several candidates were unable to derive the correct profit-sharing ratio from the capital contributions, while others did not attempt to calculate it. Additionally, some candidates calculated the firm's overall return on investment (ROI) instead of Jennie's individual ROI. Many candidates used an incorrect ROI formula, often reversing the ratio. Some candidates either made no attempt to calculate the ROI or omitted this part entirely.

## Recommendations

Teachers should implement targeted instructional strategies to strengthen students' understanding of the preparation of the statement of financial position and the calculation of ROI.

To improve performance on the preparation of statements of financial position, teachers should

- use classification drills to give students practice
- use rearrangement exercises where students are asked to organize an unstructured list of items in order of permanence
- design exercises in which students practice preparing sections of the statement of financial position (including section headings and totals)
- emphasize the concept of the balance sheet equation to reinforce the importance of the capital section of the statement
- provide practice in preparing complete statements in good form.

To strengthen candidates' understanding of ROI, teachers should

- ensure that students clearly understand the meaning and purpose of ROI before introducing the formula
- provide practice in applying the formula in simple scenarios (identify profit, identify investment, apply the formula and multiply by 100)
- provide opportunities for students to interpret the results of the calculation.

Students should also be given practice in classifying and justifying the treatment of real-world examples of capital and revenue expenditure. They should be encouraged to self-prompt by asking questions such as Does this expenditure improve the useful life, capacity, efficiency, or quality of the asset?

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## Question 5

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This question consisted of two parts. Part (a) presented eight scenarios and candidates were required to identify the form(s) of business to which each scenario related. Part (b) provided the trial balance, along with additional information, of a farmers' cooperative. Candidates were required to use the forms provided to prepare the income and expenditure account and the appropriation account.

### Part (a)

In Part (a) (i), most candidates attempted to provide an answer; however, many candidates did not indicate the correct type of business in relation to the description outlined.

In Part (a) (ii), some candidates were able to accurately identify a limited liability company as the correct form of business.

For Part (a) (iii), most candidates correctly selected at least one type of business for this description.

In Part (a) (iv), some some candidates were able to correctly identify cooperatives as the appropriate form of business.

In Part (a) (v), the description applied to both cooperatives and non-profit organizations. Most candidates were able to correctly identify at least one of these forms of business.

For Part (a) (vi), marks were awarded for identifying all three forms of business. However, most candidates selected only two, while a few selected only one form of business.

In Part (a) (vii), the description referred to organizations that are run by individuals who are not necessarily owners. Candidates were awarded marks for giving answers such as *limited liability companies* and *non-profit organizations*. Many candidates identified only one of the acceptable forms of business.

Overall, most candidates attempted Part (a) and were generally able to select the appropriate columns.

### Part (b)

In Part (b) (i), candidates were able to prepare the income and expenditure account in good form. Membership fees, motor vehicle running costs and office expenses were appropriately adjusted and depreciation expenses were correctly calculated and treated. The correct principle was applied in calculating the surplus of income over expenditure, which was accurately identified. However, some candidates excluded the honorarium, which should have been treated as an expense.

Overall, candidates' performance on this part was fair. Most candidates included at least one income item and many others included at least four of the seven expenditure items. While several candidates recognized the honorarium as an expense, many did not treat it correctly. In addition, several candidates were unable to accurately format and complete an income and expenditure account.

Many candidates experienced difficulty when correctly adjusting membership fees and calculating the appropriate amounts for depreciation on equipment and depreciation on motor vehicles. A few candidates also failed to correctly treat adjustments to motor vehicle running costs and office expenses.

For Part (b) (ii), most candidates prepared a well-formatted appropriation account. The undistributed surplus for the year and interim dividends were treated appropriately and the transfer to statutory reserve was correctly calculated as 20 per cent of the current year's surplus and accurately recorded. Candidates who did such also correctly accounted for the undistributed surplus at the beginning of the year when determining the closing undistributed surplus. However, some candidates treated the honorarium as an appropriation rather than as an expense, which affected the accuracy of their responses.

The following weaknesses were observed.

- Although the question stated that 20 per cent of the current year's surplus should be transferred to the statutory reserve, many candidates calculated 20 per cent of the previous year's surplus, the existing statutory reserve or another incorrect figure.
- Many candidates completely omitted the transfer to statutory reserve or did not deduct it from the current year's undistributed surplus.
- Most candidates did not correctly account for interim dividends or the undistributed surplus at the beginning of the year.

## Recommendations

Teachers should do the following.

- Incorporate activities or research techniques to emphasize and differentiate the features of businesses.
- Use more practice exercises and worksheets which require students to create income and expenditure accounts.
- Reinforce the preparation of the appropriation account, placing emphasis on the treatment of surpluses brought forward from the previous period and transfers to reserves.

## PAPER 032 — ALTERNATIVE TO THE SCHOOL-BASED ASSESSMENT (SBA)

Paper 032, the Alternative to School-Based Assessment (SBA), is an examination offered to private candidates. The examination is designed to simulate the skills assessed in the SBA and is structured around a case or a series of mini-cases that describe various accounting situations. In the January 2026 sitting, candidates were required to respond to all questions.

Candidates' performance on Paper 032 improved when compared with the January 2025 examination. The mean score in 2026 was 23.19, compared with 15.58 in 2025.

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## Question 1

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This question presented a list of balances for a manufacturer who owned a wholesale business as at January 1, 2025. Part (a) required candidates to identify the type of business organization owned. Part (b) asked candidates to identify one book of original entry, other than the general journal, that the owner was likely to use. Part (c) required candidates to calculate the total assets, total liabilities and capital of the business.

### Part (a)

Candidates were able to correctly identify the type of business formed as a sole trader. Several of them, however, incorrectly identified the business as a 'manufacturer', 'retailer' or 'wholesaler', rather than stating the form of business organization. Other candidates identified the business as a 'private or public limited liability company'.

### Part (b)

Candidates who performed well were able to correctly identify another book of original entry, other than the general journal. Most candidates provided acceptable responses, with the most common being the *sales journal*, *purchases journal* and *cash book*.

### Part (c)

In Part (c) (i), most candidates were able to accurately calculate the total assets from the accounts listed. However, many candidates did not include petty cash in the asset total.

For Part (c) (ii), while most candidates correctly identified and totalled the liabilities, many candidates incorrectly treated petty cash as a liability.

In Part (c) (iii), most candidates were able to apply the balance sheet equation to calculate capital for the total assets and liabilities calculated in Parts (c) (i) and (ii).

## Recommendations

Students should be given opportunities to classify items by testing whether they conform to the definitions provided in the conceptual framework.

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## Question 2

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In Question 2, the firm's accounting clerk presented three source documents identified as Source Documents I, II, and III. Part (a) required candidates to identify any two source documents. Part (b) (i) required candidates to calculate the total discounted price for Document II, assuming that the trade discount was applied. Part (b) (ii) required candidates to use the forms provided to record all transactions related to Documents II and III.

### Part (a)

Many candidates were able to correctly identify at least one source document. However, several candidates identified Document I or II simply as an 'invoice' rather than specifying *sales invoice* or *purchases invoice*. Most candidates were unable to correctly identify Document III as a *debit note*, and many others made no attempt to identify it.

### Part (b)

In Part (b) (i), candidates were able to accurately calculate the invoice price due on Document II by applying the discount percentage to the invoice price.

For Part (b) (ii), many candidates correctly identified Document II as the *Purchases Daybook*, recorded the supplier's name (*Pedro Footwear*) in the details column and entered the discounted invoice amount. They also correctly recorded the transfer to the general ledger.

However, some candidates were unable to calculate the correct discounted invoice amount for the returns. Although the transfer to the general ledger was correctly identified, the gross amount was often recorded instead of the amount net of discount.

Overall, candidates' performance was weak. Many candidates incorrectly identified Documents II and III. Common responses included the following.

- Purchases account
- Purchases ledger
- General ledger
- General journal
- Invoice
- Sales journal

Most candidates who attempted this section recorded the details incorrectly in both daybooks, listing the items purchased (for example, red sneakers, etc.), rather than the name of the supplier's account. In most cases, entries did not reflect the trade discount.

## Recommendations

- Teachers should provide opportunities for students to match source documents with activities. Students should be encouraged to ask themselves
  - What happened? (for example, sale, purchase return or payment)
  - Who issued the document? (for example, business or supplier)

Students should be provided with opportunities to record transactions in books of original entry using the information contained in source documents. Emphasis should be placed on the correct treatment of trade discounts and the identification of the relevant accounts.

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## Question 3

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This question presented a scenario in which a sole trader decided to expand his operations by securing a loan and purchasing a vehicle. Part (a) required candidates to calculate the down payment for the vehicle. Part (b) required candidates to prepare general journal entries, including narrations, to record the loan and the purchase of the van.

### **Part (a)**

Candidates who performed well correctly calculated the down payment for the panel van by applying the given down-payment percentage to the purchase cost. Most candidates were able to accurately calculate the down payment for the asset purchased.

### **Part (b)**

For Part (b) (i), many candidates correctly used the general journal to record the loan from the financial institution, including the appropriate date and a suitable narration. Some candidates were able to use the information provided to correctly record the loan. However, most candidates experienced difficulty with this item. While many candidates correctly identified the debit entry to bank, several others omitted the corresponding credit entry, recorded only the credit entry or reversed the entries. Many candidates also failed to include the required narration and a few candidates presented the credit entry before the debit entry.

In Part (b) (ii), candidates who performed well correctly recorded the purchase of the fixed asset in the general journal. These candidates accurately recognized the down payment required by the supplier and the balance payable to the creditor.

Some candidates correctly identified the debit entry to the panel van/motor vehicle account. However, many candidates experienced difficulty with the credit entries. Most of them were unable to correctly record both the down payment (\$5000) and the amount payable to the supplier (\$45 000). In several cases, candidates combined both amounts and recorded a single credit entry of \$50 000. Others recorded only one of the required credit entries or omitted the credit entry entirely.

Additionally, many candidates described the transaction in the details column instead of stating the name of the account to be credited. Many candidates also failed to include the required narration.

## Recommendations

Teachers should provide regular practice for students in recording a variety of transactions in the general journal, applying the rules of double entry to correctly identify the accounts to be debited and credited.

Emphasis should be placed on making complete journal entries. The information entered should include the

- date
- details (the name of the account to be debited or credited, not a description of the transaction)
- amount
- narration.

Teachers should also reinforce the convention that the debit entry must always precede the credit entry when recording transactions.

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## Question 4

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This question presented an extract from the books of a firm as at March 31, 2025. Part (a) required candidates to use the information provided to prepare a trading account, showing sales and gross profit. Part (b) required candidates to calculate the gross profit percentage on sales and the rate of inventory turnover.

### Part (a)

Candidates demonstrated competence in preparing a trading account and were able to correctly calculate the gross profit. Many candidates were able to

- include an appropriate heading
- treat opening inventory, closing inventory, carriage inwards and returns outwards
- use the appropriate presentation, clearly identifying cost of goods available for sale, cost of goods sold and gross profit
- calculate gross profit.

Many candidates were able to correctly treat opening and closing inventory, carriage inwards and returns outwards. However, the format used by some candidates did not allow for the clear identification of net purchases and cost of goods available for sale.

Several candidates were unable to present the trading account using the standard format. In addition, some candidates incorrectly deducted returns outwards from sales when calculating net sales.

### Part (b)

In Part (b) (i), candidates who performed well were able to accurately calculate the gross profit percentage using data obtained from the trading account prepared in Part (a). Most candidates were able to correctly identify the components of the gross profit as a percentage of sales ratio.

In Part (b) (ii), many candidates accurately calculated the rate of stock turnover by calculating average stock and using that information in the appropriate formula. However, most candidates were unable to calculate the inventory turnover due to

- the inability to calculate average inventory
- the use of incorrect elements in the turnover ratio (for example, using sales and purchases as the denominator, rather than cost of sales).

Many candidates did not attempt this part.

## Recommendations

Teachers should provide students with regular practice in the preparation of financial statements, placing particular emphasis on presentation and clear identification of key elements such as net purchases and cost of sales.

Students should be encouraged to consider whether goods are entering or leaving the business by using guiding prompts such as the following.

- Returns outwards → goods returned to suppliers → related to purchases
- Returns inwards → goods returned by customers → related to sales.

This approach would help to reinforce correct classification and improve accuracy in financial statement preparation.

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## Question 5

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This question presented a scenario in which two sole traders agreed to form a partnership. Part (a) required candidates to state one benefit of forming a partnership. In Part (b), candidates were given a list of assets and liabilities introduced by each partner and were required to prepare the opening journal entry, including an appropriate narration, to record the formation of the partnership.

### Part (a)

Candidates who performed well were able to correctly state one advantage of forming a partnership. Most candidates provided acceptable responses. Benefits frequently listed included

- access to additional capital
- sharing of responsibilities
- access to a wider range of expertise.

### Part (b)

Candidates were able to accurately prepare the opening journal entry to record the formation of the partnership. Debit entries for inventory, accounts receivable and bank accounts reflected the combined contributions of the partners, while the entries to the individual capital accounts accurately represented the net assets contributed by each partner. These candidates also included an appropriate narrative.

Most candidates were able to list the partners' assets and liabilities under the correct debit and credit columns and calculate the combined totals for assets. However, many candidates did not calculate or include the partners' capital balances and failed to include a narrative to indicate the commencement of the partnership.

## Recommendations

Teachers should provide students with regular opportunities to journalize opening entries for partnerships. Emphasis should be placed on the application of the accounting equation to accurately calculate each partner's capital contribution.