C A R I B B E A N   E X A M I N A T I O N S   C O U N C I L

REPORT ON CANDIDATES' WORK IN THE SECONDARY EDUCATION MAY/JUNE 2008

PRINCIPLES OF ACCOUNTS

PRINCIPLES OF ACCOUNTS

GENERAL PROFICIENCY EXAMINATION

MAY/JUNE 2008

GENERAL COMMENTS

In June 2008, 24,067 Candidates registered for the Principles of Accounts (POA), General Proficiency examinations. This is the first sitting of the revised syllabus. The examination consists of three papers:-

Paper 01	-	Multiple Choice Paper
Paper 02	-	Problem Solving Paper
Paper 03/2	-	Alternative paper to SBA (Private Candidates)

Candidates who achieved 50 per cent of the maximum available marks on the School-Based Assessment (SBA) may carry forward their marks to the next years sitting.

Paper 01 – Multiple Choice

Paper 01 consists of 60 multiple choice items covering the three profiles (Knowledge, Application, and Interpretation) of the syllabus. The performance of candidates on Paper 01 was consistent with that in 2007. This year, 42 per cent of candidates achieved a Grade I to III compared with 43 per cent in 2007. The mean mark for this paper was 34.25 out of 60.

Paper 02 – Problem Solving

Paper 02 comprises two sections. Section I (compulsory) required candidates to attempt all three questions. Section II (optional section) required candidates to attempt two of four questions.

The performance of candidates on Paper 02 showed improvement over the previous year. The mean mark for this paper was 39.49 out of 100 compared with 36.86 in 2007.

Paper 03/2

Paper 03/2 is designed to serve as an alternative evaluation mechanism, in lieu of the SBA Project. It is expected that only those candidates who are out of the regular Secondary School Education mainstream, typically registered as “private candidates”, would take this examination. The examination requires candidates to perform accounting functions in answering questions based on one or two cases.

In recent examinations, the performance on this paper has shown improvement. The performance of candidates in the 2008 examination was consistent with that in 2007. The mean mark on this year’s examination was 18.66 out of 40 marks compared with 18.83 in 2007.

DETAILED COMMENTS

Paper 02 – Problem Solving

Section I – Compulsory

Question 1

This question tested the preparation of final accounts for a sole trader, specifically the Profit and Loss Account and the Balance Sheet. This area of the syllabus is examined fairly frequently.

Ninety-six per cent of the candidates attempted the question, of these 58 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 10.22 out of 20.

Strengths

- Most candidates were able to present the Profit and Loss Account correctly using either the vertical or horizontal format. Accruals, prepayments and omissions were dealt with fairly well but few candidates were able to calculate the correct figure for provision for depreciation.

- The Balance Sheet was in most cases properly set out using the vertical format in terms of the classification of sections and statement heading. Candidates generally adjusted fixed assets for accumulated depreciation and debtors for at least one item.

Weaknesses

- Several candidates attempted to draw up a Trading Account despite the emphasis that it was unnecessary.

- Candidates continue to ignore additional information, particularly information pertaining to depreciation. Where depreciation was calculated, the percentage was applied to the accumulated depreciation figures and not the cost of the fixed assets. Furthermore, few candidates attempted to adjust for accumulated depreciation in the Balance Sheet. Instead, the tendency was to subtract the current year's depreciation from the cost of the fixed assets.

- Candidates seemed to have confused "increase to" with "increase by" in dealing with the provision for bad debts.

- Candidates did not deal with the effects of many of the additional notes on the Balance Sheet, for example, recognizing the accrued insurance as a liability.

- Several candidates demonstrated uncertainty in knowing whether to add or subtract some items such as drawings and provision for bad debt. For example, in the Balance Sheet, they wrote "less drawings" but in fact added the amount to capital.

Recommendations

Teachers are encouraged to expose students to different types of question formats. That is, they should vary the layout of the questions; particularly the way in which accompanying notes to the Trial Balance and Balance Sheet are provided as well as the type of information presented in the Trading and Profit and Loss Account.

Question 2

This question tested the preparation of a Three-Column Cash Book, an adjusted Cash Book and the Bank Reconciliation Statement. These concepts are assessed fairly frequently. The question was generally well done.

Ninety-six per cent of the candidates attempted the question, of which 61 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 10.43 out of 20.

Strengths

- Most candidates recorded the opening cash balance on the correct side. Expenses and revenues and most discounts which involved application of a given percentage to a gross amount were also correctly calculated and dealt with. The adjustments of the Cash Book for bank charges, standing orders and returned cheques were fairly well done.

- A large number of candidates transferred the updated Cash Book balance to the Bank Reconciliation Statement.

Weakness

- Many candidates did not treat the opening overdraft bank balance correctly.

- Candidates presented a variety of cash and bank account combinations demonstrating unfamiliarity with the three column format.

- Candidates appeared to have been confused when the figures to be entered for different days were similar.

- Most candidates did not recognize the actual payment of $1800 and therefore did not calculate the discount correctly.

- Candidates failed to deal with contra entries. Most of them made one entry.

- Candidates continue to balance off the discount columns instead of totaling.

- Many candidates used either the original or new balance in the Cash Account rather than the new Bank Account Balance in updating the Cash Book.

- The treatment of unpresented cheques whether starting with the Cash Book Bank Account Balance or the Bank Statement Balance remains an area of weakness.

Recommendation

Teachers are encouraged to give students varied practice in the use of the Three-Column Cash Book, the treatment of contra entries and the treatment of unpresented cheques.

Question 3

This question tested the treatment of the start up of a partnership; the preparation of the Profit and Loss Appropriation Account and the Current Accounts after one year of trading, as well as the preparation of opening journal entries for partnerships. This area of the syllabus is not frequently tested but Part (b) is a syllabus area that is examined fairly frequently.

Eighty-four per cent of the candidates attempted the question, of which 40 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 7.92 out of 20.

Strengths

- Many candidates recognized the need to debit assets brought in by partners in the journal.
- Most candidates were able to use the correct rate to appropriate profit.
- Many candidates were able to treat the appropriations and drawings in the Current Accounts correctly with many gaining full marks.

Weaknesses

- Many candidates produced ledger accounts instead of journal entries.
- Candidates demonstrated weaknesses in applying the requirements for a correct journal entry, for example, the inclusion of dates and narrations. Many candidates did not recognize the credit to partners' Capital Accounts but instead used the partners' names.
- Candidates failed to distinguish one partner's capital contribution from the other partner's capital contribution.
- Too many candidates failed to include the terms "appropriation" and "for the period ending" in the heading of the statement requested. Some candidates omitted the names of the partners or gave the wrong date.
- Many candidates ignored the effect of time on the calculation of interest on drawings and salary, although this area is tested fairly frequently in the recent past.
- A few candidates included capital balances or did not transfer their balances in the Current Accounts.
- Some candidates treated the Net Profit amount of $75 000 as the residual profit to be shared between the partners.

<u>Recommendations</u>

Teachers are encouraged to give students practice in the opening of journal entries for different types of business organizations. They should also be exposed to calculations that are affected by part-year activity as this is seen as an authentic application of partnership agreements. Students should also be given extended practice in the use of appropriate stationery, in particular the journal.

Section II – (Optional Section)

<u>Question 4</u>

This question tested the accounting treatment, that is, adjusting entries and recognizing accruals and or prepayments of expenses and revenues. Candidates were given a choice of either preparing the journal entries or the Ledger Accounts. This is a fairly new emphasis in the syllabus although the area has been tested in the past. Students were also required to identify the placement of one adjustment in the Balance Sheet.

Thirty-seven per cent of candidates attempted this question, of which 22 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 7.14 out of 20.

Strengths

- Those candidates who were well prepared were able to distinguish the expense and revenue amounts that should affect the Profit and Loss Account from the amounts that should be recognized as assets or liabilities. They were able to gain at least 90 percent of the available marks.

- Candidates who prepared Ledger Accounts recognized, for the most part, the correct placement of the opening balances and the cash amounts paid or received.

Weaknesses

- Journalizing and adjusting entries appear to be unfamiliar to most candidates.

- Candidates demonstrated weaknesses in applying the requirements for a correct journal entry, for example, the inclusion of correct dates and appropriate narrations.

- Candidates appeared to be unsure of the details to be used in recording entries. Instead they inserted only dates and amounts or used descriptive terms such as 'amount owing' or 'received in advance'.

- Several candidates produced statements rather than journal entries or Ledger Accounts.

- Most candidates were unable to calculate the correct amounts to be transferred to the Profit and Loss Account.

- Candidates failed to recognize commissions receivable as a current asset.

<u>Recommendations</u>

Teachers are encouraged to give students more practice in journalizing, adjusting and closing entries, in particular placing emphasis on students' understanding and application of the principles of double entry and accruals as these are fundamental concepts to the treatment of adjusting entries.

<u>Question 5</u>

This question tested the preparation of the Manufacturing Account and the subsequent Trading and Profit and Loss Account. This area of the syllabus is tested frequently with variety being introduced in minor ways. This year, candidates were required to allocate two items of expenditure between the Manufacturing Account and the Profit and Loss Account, treat with purchases of finished goods from an outside supplier in the Trading Account and calculate the unit cost of production. This question proved to be very popular and was fairly well done.

Seventy-seven per cent of the candidates attempted this question, of which 49 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 9.13 out of 20.

Strengths

- Many candidates demonstrated satisfactory knowledge of the components of both the Manufacturing and Trading and Profit and Loss Account in vertical style.

- Subtotals were clearly labeled for the most part.

- The treatment of opening and closing stocks of various types was well understood.

Weaknesses

- Some candidates continue to use a format that does not clearly distinguish types of costs thus placing manufacturing costs and Trading and Profit and Loss Account items indiscriminately and ignoring information that distinguishes both concepts.

- Although labeling 'production cost transferred to Trading Account', a few candidates failed to do so. Instead they transferred other subtotals, for example, purchases of raw materials. Others ignored the production cost completely.

- Many candidates did not include the purchases of finished goods in the Trading Account.

- Candidates either omitted the calculation of unit cost of production or used other figures such as cost of sales. In some instances, the unit cost was not expressed in dollar ($) terms.

Recommendations

Teachers are encouraged to pay attention to the

- labelling of subtotals with the terms used in Manufacturing Accounts

- identification and allocation of costs between the manufacturing cost centre and the trading cost centre

- link between the Manufacturing Account and the Trading Account via the treatment of production cost of finished goods as well as the purchase of finished goods from an outside supplier should be made clearer

- calculation of unit costs and revenues

Question 6

This question tested the preparation of the accounts of a sole trader from incomplete information. In particular candidates were required to calculate opening capital through the preparation of a Statement of Affairs and prepare a Trading and Profit and loss Account.

This area of the syllabus is tested fairly frequently.

Thirty-five per cent of candidates attempted this question, of which 22 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 5.86 out of 20.

Strengths

- Many candidates attempted all parts of the question.

- Most candidates demonstrated their familiarity with the format of the Trading and Profit and Loss Account and adjustment for items therein.

- More candidates than in the past, demonstrated familiarity with the preparation of Total Accounts to derive credit sales and purchases.

Weaknesses

- Some candidates used the closing values rather than the opening values for the Statement of Affairs; they did not deal with the opening balance in the Bank Account; they also treated the opening accrual as an asset and used information on depreciation rates.

- Candidates often placed opening and closing balances for debtors and creditors and other relevant information on the wrong sides of account demonstrating a tendency to treat these as if they were Sales or Purchases Accounts rather than summary of debtors and creditors accounts.

- Some candidates included irrelevant information in the accounts.

- Some candidates did not deal with both cash and credit sales in the Trading Account. Occasionally candidates added cash sales and receipts from debtors to arrive at total sales.

- The calculation of the correct figure for depreciation was affected by candidates ignoring the effect of the purchase of new equipment.

<u>Recommendations</u>

- Teachers are encouraged to pay attention to developing students' ability to identify and use correctly all relevant data.

- The concept of control accounts to deduce credit sales and credit purchases should not be taught in isolation, but with specific connection to single entry accounting.

<u>Question 7</u>

Part (a) of the question tested the preparation of a Classified Balance Sheet for a Limited Liability Company. Part (b) tested the calculation of ratios from final accounts of a Limited Liability Company as well as the provision of comments using commonly used descriptors of ratios, that is, 'good' and 'bad'. Part (b) assessed the same knowledge and skills utilized in the School-Based Assessment (SBA).

Twenty per cent of the candidates attempted this question, of which 18 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 5.28 out of 20.

Strengths

- In general, candidates were able to label common section headings and include information appropriate to the question, for example, current assets, long-term liability and capital.

- Candidates were able to calculate the value of ordinary shares issued.

- The current ratio, gross profit margin and net profit margin appeared to be the most familiar ratios to most candidates.

- Many candidates utilized the skills derived from carrying out the tasks of the School-Based Assessment in doing the ratios.

Weakness

- Many candidates failed to identify the effect of the issue of shares on the firm's Cash or Bank Account.
- Candidates frequently applied the dividend rate or percentage to the preference shares in units to arrive at the value of preference shares issued.
- The correct classification of debentures as a long-term liability continues to create a challenge for students.
- The return on capital invested ratio was the least familiar to candidates who perhaps did not make the link with the term 'capital employed'.
- In many instances, candidates cited the correct formulae but used the wrong figures in their calculations, for example, candidates divided sales rather than cost of sales by average stock in arriving at the stock turnover ratio.
- Candidates appeared to be unfamiliar with the correct way of expressing formulas other than as percentages; for example, expressing stock turnover ratio in terms of times per year or in days, was not common.
- In explaining the terms as 'good' or 'bad', candidates demonstrated a greater familiarity with evaluating a firm's performance in terms of profitability rather than through other criteria such as liquidity, ability to meet debts or efficiency in managing working capital.
- Some candidates focused on the ratios and treated each as the opposite of the other.
- Several candidates simply re-wrote the data given in the question

Recommendations

Teachers are encouraged to:

- Expose students to practice in dealing with the issue of shares and debentures on the firm's Balance Sheet as well as recognizing debentures as a long term liability.
- Ensure that students are familiar with the calculation of ratios and how these answers are expressed.
- Assist students in making the link between ratios and what aspect (profitability, liquidity and efficiency) of the business they assess.
- Insist that students develop the habit of showing their workings and not just show their final answer.

SCHOOL BASED ASSESSMENT (SBA)

GENERAL COMMENTS

The primary aim of the SBA project is to allow students to synthesize and crystallize their knowledge and understanding of the application of accounting principles at an introductory level. The SBA project should provide students with opportunity to strengthen their working knowledge of the application of the Principles of Accounts, gaining depth and breadth in a real life situation.

Teachers would find it most helpful if they were to regard the SBA as an integral component of this course of study, rather than as an 'additional task' to culminate this subject area. From a holistic perspective, it is recommended that students assign various incremental stages of the SBA, at appropriate times to match completion of classroom teaching and learning progress, over the duration of their last two years, rather than in one 'lump' towards the end of their secondary school tenure. Teachers would also be afforded much better opportunity to supervise, monitor and assist candidates in progressing towards the successful completion of the final product.

DETAILED COMMENTS

Of the 20,099 candidates who wrote the General Proficiency, School Based Assessment (SBA) Project, 95 per cent scored at lest 50 per cent of the total available marks. The mean mark on this component was 31 out of 40.

Strengths

There was an improvement in the overall quality of project samples moderated this year, with almost all submissions being neatly and tidily presented. For the most part, projects that were moderated were generally good and in keeping with the expectations of the syllabus. The presentations were quite adequate in their focus and depth, and of acceptable length. The businesses, simulated or operated, were appropriate and interesting.

During the moderation process the following strengths were identified:

- Most samples displayed a high quality of presentation.
- Overall, the application of accounting principles was, for the most part, good.
- Balances were consistently transferred from ledger accounts to financial statements with a high degree of accuracy.
- Many 'suggestions/recommendations' made were reasonable, and related to the entities examined.
- In many cases, the accounting elements presented were appropriate to their choice of business entity. For example, for partnerships – Partnership Appropriation Accounts, Current Accounts, etcetera, were given, and for companies – Company Accounts, share capital, etcetera were correctly applied.

Weaknesses

There were, however, several weaknesses identified, that if improved upon, would make for better project output in the future. Some of these were:

- Some Tables of Contents were presented without corresponding page numbers. In addition, the pages in the project were not numbered.
- With regards to the aims, some candidates wrote '. . . to pass CXC . . .' which is unacceptable. It is expected that aims be centred around the learning and/or application of accounting principles, or specific to the particular business presented in the SBA project.

- With respect to the description or activities of the business, the period under review was, at times, not stated and was left to be implied from the transactions and financial statements.

- Several incomplete source documents were presented. Other times, relationships between source documents and the actual transactions and/or accounts were missing; that is, source documents' data were not traceable through to accounts. In other cases, several copies of one type of source document were presented, rather than the desired one example of each of four different types of source documents, for example, one cheque, one receipt, one invoice, one other type (credit note, debit note, petty cash voucher, payslip, etc.)

- In the ledger, 'balancing off' accounts was poorly done. Most candidates carried down balances for every account, instead of transferring balances to the Trading and Profit and Loss Account where appropriate.

- The headings on the financial statements were often either not shown, or badly presented. For example, 'Trial Balance for the period ended' was given, with no business name, or date included.

- Some of the statements of performance were unsubstantiated. For example, candidates made statements such as, 'the company made a profit', without any reference to figures from their accounts, or their calculated ratios, or other substantiating factor from their SBA project.

- Ratios were accompanied by a description of what they possibly could measure, instead of how they actually related to the business presented in the project. In other words, the ratios given did not relate to the actual performance of the business at hand. For example, candidates calculated a 'Net Profit as a percentage of sales' ratio in cases where their financial statements indicated their business made a loss. There were many instances where the pages with calculated ratios were displayed as part of the appendices.

- Many of the diagrams presented were very inappropriate, actually measuring 'nothing meaningful'. For example, candidates' submitted bar or column charts that sought to compare 'sales' with 'purchases'. It is also noteworthy to mention the unacceptability of organisational chart of a business being given as an accounting diagram. It is also to be observed that it is preferable to have candidates locate their diagrams appropriately, that is, next to their calculations, or descriptions.

- Comparisons consisted of mere comments or general statements.

- Many of the conclusions given did not reflect any relationship to the 'aims' stated at the beginning of the project.

<u>Recommendations</u>

Based on the foregoing review, the following are suggested to improve candidates' performance on future SBA submissions:

- Students should be encouraged, even where 'group work' strategies are employed, to produce projects that demonstrate some individuality, especially in their writings of sections such as description/activities of business and interpretation of results. Too many samples appear to be carbon copies of the others.

- Teachers should discourage the use of a business 'organizational chart' as a presentation diagram.

- The sequential arrangement is to be adhered to and students ought to be guided to avoid putting ratios, etcetera, in the appendices.

  - The transactions list (tl) should be placed immediately after the description/activities of business; and
  - This list is to be followed by the source documents.
  - Charts and diagrams are to be appropriately placed in the location where they apply and where they are discussed.

  Adhering to these aspects of 'sequential arrangement' will greatly enhance the flow of the marking and moderation processes for both classroom teachers and CXC moderators.

- We continue to recommend increasing degrees of coordination and sharing of experience and expertise among teachers of POA in any one school or centre, in the standardizing and marking of SBA projects.

- We continue to highly recommend that students are encouraged to complete the SBA project following a logical sequence, in keeping with the steps in the accounting cycle. Foremost, we wish to emphasize the following.

  - Transactions list should be placed immediately after the description/activities of business.
  - Source documents should be placed immediately after the transactions list.
  - Diagrams and/or charts should be located in the immediate vicinity of the calculations, figures, or dialogue/discussion to which they relate.

Alternative to the School-Based Assessment

GENERAL COMMENTS

Paper 03/2

Paper 03/2 is designed to serve as an alternative evaluation mechanism, in lieu of the SBA Project. However, only those candidates who are out of the regular Secondary School Education mainstream, typically registered as 'private candidates', are allowed to take this exam.

It is highly commendable and must be noted that the general quality of performance on this paper has shown marked improvement this year, over previous years.

DETAILED COMMENTS

The June 2008 Paper 03/2 comprised one case study developed in the context of the enterprise of a high school cafeteria. The case study had seven distinct parts, on which a total of fifteen questions were set.

Of the 3,665 candidates who wrote the General Proficiency, Paper 03/2, 47.23 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 18.65 out of 40.

In Part A, a list of assets and liabilities was presented. Candidates were required to apply the fundamental bookkeeping equation to arrive at the opening capital, after which they were required to prepare a Classified Balance Sheet, presented vertically.

In Part B a scenario of the purchase of shares, at a given price, by a given number of students was presented. Candidates were required to calculate the amount of additional capital to be raised, and to identify the type of business in operation.

Part C consisted of reports presented by various students on information they had collected. This formed the basis for the succeeding parts.

Part D provided details of four cash transactions for a given period. Candidates were required to prepare the corresponding Cash Account for these transactions.

A Bank Account report for a defined year was presented in Part E.

Information regarding the rate and method of depreciation on the fixed assets, as well as the quantum of closing stock was presented in Part F.

Candidates were required to prepare the Income Statement for the enterprise for its year of operation, drawing on all foregoing information. They were also required to calculate gross profit margin and stock turnover ratios, and to identify one method of stock valuation.

The report in Part G consisted of a list of current valuations on various assets and liabilities, from which candidates were required to calculate working capital.

This paper culminated with candidates being required to provide short explanations to six typical accounting concepts, including formula for calculating Net Profit, gross profit margin, stock turnover ratio and working capital ratio

Strengths

Identification of Fixed Assets

- Classification of Balance Sheet section headings
- Calculation of additional capital invested
- Calculation of working capital
- Calculation of Net Profit
- Identification of a stock valuation method
- Justifying reasons for higher electricity expense

Weaknesses

- 'Accounts Payable' posed a problem for some candidates, who classified it as an 'asset'.
- Many candidates did not recognise that the opening cash balance should be included in the Cash Account.
- Many candidates presented both a Bank and a Cash Account (when only a Cash Account was requested), and in some instances they presented a 'Cash Book', rather than a 'Cash Account'.
- Candidates encountered difficulties with the treatment of accruals and prepayments, often unable to identify whether they were dealing with assets or liabilities.

- Some candidates experienced difficulty in identifying expenses to be included in the Profit and Loss Account, especially ‘wages’.

- Many candidates omitted ‘accounting for depreciation’ on fixed assets in the Profit and Loss Accounts. Where depreciation was included, it did not take into account the total depreciation amount on all equipment held during the year, omitting to account for the additional fixed assets acquired during the year.

- Calculation of ratios – Most candidates lacked knowledge of correct formulae to be utilized, more so for the stock turnover ratio. They were unable to identify the correct opening and closing inventories amounts, and also demonstrated difficulty in expressing the elements in the calculation of this ratio.

- Interpretation of ratios – Questions requiring the interpretation of information generally elicited very weak responses. Poor language skills were evident in candidates’ attempts at providing explanations of ratios. At times, the answers given were not at all related to the given case study.

Recommendations

Teachers should expose students to a variety of ‘commonplace accounting terms’, of similar meaning. For example, ‘accounts payable’ and ‘creditors’, ‘inventory’ and ‘stock’.

Teachers need to emphasize accounting aspects of the various business units, for example, sole traders, partnerships, etcetera.

- More time and effort should be devoted to working with ratios – both on calculation of a variety of ratios, as well as on the interpretation of the meaning of the result of such calculations.