

CARIBBEAN EXAMINATIONS COUNCIL

**REPORT ON CANDIDATES' WORK IN THE
CARIBBEAN SECONDARY EDUCATION CERTIFICATE[®] EXAMINATION**

JANUARY 2013

**PRINCIPLES OF ACCOUNTS
GENERAL PROFICIENCY EXAMINATION**

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GENERAL COMMENTS

The Principles of Accounts examination is offered in January and May/June each year.

The examination consists of three papers:

Paper 01	-	Multiple Choice
Paper 02	-	Essay Paper
Paper 032	-	Alternative to School Based Assessment (Private Candidates)

Paper 01 consists of 60 multiple-choice items taken from the three profiles of the syllabus; Knowledge, Application, Interpretation. The performance of candidates on Paper 01 was fair.

The mean mark was 34.86 out of 60 compared with 34.51 in 2012 and 32.34 in 2011. Approximately 67 per cent of the candidates scored at least 50 per cent of the marks for this paper. The highest mark scored was 58.

Paper 02 comprises two sections. Section I, the compulsory section, required candidates to answer three questions. Section II, the optional section, required candidates to answer two out of four questions.

The performance on Paper 02 declined significantly compared with 2012. The mean mark for this year's paper was 35.12 out of 100 compared with 43.69 in 2012 and 32.56 in 2011. Twenty -six per cent of the candidates earned at least 50 per cent of the maximum mark on this paper.

Paper 032, is an examination offered to private candidates. This examination attempts to simulate the skills tested in the School Based Assessment (SBA). This is achieved by presenting the candidates with one or two cases or situations from which they are required to respond to questions.

The performance of candidates on Paper 032 showed some improvement when compared with 2012 and 2011. The mean mark was 22.45 out of 40 marks compared with 19.57 in 2012 and 15.48 in 2011. Approximately 64 per cent of candidates earned at least 50 per cent of the maximum available marks on this paper.

DETAILED COMMENTS

Paper 02 – Problem Solving

Section I – Compulsory Questions

Question 1

This question consisted of three parts. Part (a) required candidates to interpret how a transaction resulted in changes in balance sheet information. For Part (b), candidates were required to prepare a classified balance sheet, using the order of permanence. The information provided included only assets and liabilities and therefore candidates were expected to apply the balance sheet equation in arriving at a value for capital. Part (c) tested candidates' application of the expanded capital section equation.

Approximately 100 per cent of candidates attempted the question, of which approximately 61 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 10.49 out of 20.

Strengths

In general, candidates

- recognized the effect of the first transaction on the bank account
- used proper headings/titles for the balance sheet and correctly labelled the different sections/headings in the balance sheet
- listed assets in the correct section of the balance sheet and entered a figure for capital.

Weaknesses

In general, candidates

- found it difficult to identify the most likely reason for the change in capital
- demonstrated inconsistencies in placing assets in the order of permanence
- did not recognize mortgage as a long term liability
- treated some items incorrectly.

Recommendations

Teachers might find it useful to vary their approach when teaching fundamental accounting concepts, rules and principles. For example, students' learning is likely to be strengthened in situations where they are engaged in activities which challenge them to provide explanations for each ledger entry, when moving transactions to the ledger. Providing opportunities for students to respond to situations which highlight unbalanced trial balances and incomplete records is likely to improve students' grasp of fundamental accounting principles and concepts.

Question 2

This question tested candidates' understanding of essential features of a partnership agreement. Candidates were required to construct a Profit and Loss Appropriation Account for a partnership. In doing this, they were to demonstrate their competency in calculating interest on drawings, interest on capital, partners' salaries, drawings and share of profit. In addition, candidates were required to draft current accounts using the appropriate figures, and to share the profit of business between the two partners, recognizing that there was no partnership agreement.

Approximately 87 per cent of the candidates attempted the question, 38 per cent scored 50 per cent or more of the available marks. The mean mark was 7.71 out of 20.

Strengths

In general, candidates

- applied proper accounting procedures in completing the preparation of the Partnership Appropriation Account and the calculation of interest on drawings and interest on capital
- applied the correct rate of appropriation to their residual profit
- correctly completed the appropriation and current accounts
- demonstrated their awareness of the need to share profit equally where a partnership agreement does not exist.

Weaknesses

In general, candidates

- ignored the fact that the partner's salary should be calculated on a yearly basis, although they were aware that it should be included in the appropriation account
- subtracted interest on drawings instead of adding
- found the preparation of current accounts challenging. From candidates' responses, it appeared that some candidates never prepared such accounts. Candidates, at times, did not bring down the opening balances on the accounts and when they did they treated the debit balance incorrectly
- failed to prepare separate current accounts for each partner. Some candidates did one account with the debit side being the value belonging to one partner and the credit balance belonging to the other partner
- chose to share their remaining profit rather than the original net profit.

Recommendations

Teachers are encouraged to guide students to develop strategies that they can use to aid them in becoming more conscious of their actual calculations. Students need much practice in calculating the salaries of partners in a partnership. Attention also needs to be given to assisting students in preparing current accounts with special emphasis on guiding them to recognize that debit balances must be brought down on the debit side and credit balances on the credit side.

Question 3

This question tested candidates' ability to prepare a statement of affairs; calculate total credit purchases and total credit sales for the accounting year and prepare an income statement. Of the three compulsory questions, candidate performance was the worst on this one.

Approximately 82 per cent of the candidates attempted the question; 16 per cent scored 50 per cent or more of the available marks. The mean mark was 5.05 out of 20.

Strengths

In general, candidates

- used proper headings for both the statement of affairs and the income statement.
- identified working capital as requested, and knew that capital was an essential end to the statement of affairs.
- treated accumulated depreciation correctly
- included all current assets in the statement of affairs.
- demonstrated familiarity with the format of the income statement
- recognized that rent and wages needed to be adjusted.

Weaknesses

In general, candidates

- omitted the opening bank balance from the statement of affairs
- lacked the skill to calculate total purchases and total sales
- in drawing up the income statement, often omitted the effect of the difference in accumulated depreciation and were therefore unable to make the necessary adjustments for wages and rent.

Recommendations

Teachers are urged to encourage students to recognize the relevance of all opening balances even when they are not placed with other balances. Students should be given opportunities to develop the practice of making the link between placing items in debtors and creditors control accounts and placing similar (and usually fewer) items in the accounts created to find missing figures for the final accounts. Students also need practice in calculating total credit purchases and total credit sales.

Section II - Optional Questions

Question 4

This question tested candidates' ability to prepare a vertical-style balance sheet; apply their knowledge of basic accounting ratios (net income margin, return on capital invested and current ratio) to assess the performance of two businesses. Candidates were also required to calculate the value of a business ending inventory using the FIFO method.

Approximately 66 per cent of the candidates attempted the question; 38 per cent scored 50 per cent or more of the available marks. The mean mark was 8.44 out of 20.

Strengths

In general, candidates

- demonstrated familiarity with the vertical-style format of the balance sheet.
- used appropriate headings to label the balance sheet
- were able to classify most items properly
- calculated the current ratio accurately in Part (b).

Weaknesses

In general, candidates

- failed to identify figures such as *working capital* in the balance sheet
- appeared unfamiliar with the formulae used to calculate *net income margin* and *return on capital invested*
- showed an inability to comment appropriately on the liquidity position of the company or to accurately compare the performance of the two businesses
- rarely attempted Part (e) of the question. The few who did were not able to value the closing stock correctly.

Recommendations

Teachers might consider it useful to introduce students to basic accounting formulae and their interpretations at the same time the students are learning concepts related to the final accounts of sole traders. Students need practice in applying formulae to calculate *net income margin* and *return on capital invested*. The calculation of amounts in closing stock and application of the appropriate values for the particular items for businesses of any size are useful skills that students should be exposed to as early as possible.

Question 5

This question consisted of two parts. It required candidates to prepare a manufacturing account in which they were to clearly show the cost of raw materials, prime cost, factory overheads and cost of production. Additionally, candidates were required to prepare an income statement (Trading and Profit and Loss Account). This question was very popular and in general candidates performed creditably.

Approximately 74 per cent of the candidates attempted the question; 54 per cent scored 50 per cent or more of the available marks. The mean mark on this question was 10.21 out of 20

Strengths

In general, candidates

- used appropriate headings for both statements
- were able to indicate *prime cost* in the manufacturing account, and *gross* and *net* profits in the income statement
- appeared to have some knowledge of the formats used for both the manufacturing and the trading and profit and loss accounts
- were able to calculate cost of goods sold in the trading accounts, and list expenses in the profit and loss account
- treated opening and closing work-in-progress correctly.

Weaknesses

In general, candidates

- failed to **add** factory overheads to prime cost in the manufacturing account.
- did not treat *wages* as a prime cost in the manufacturing account
- omitted or incorrectly treated *transportation-in* as a factory overhead although it was supposed to be added to purchases in the manufacturing account
- omitted or treated *electricity* and *rent* expenses incorrectly. some candidates included them in one statements only; either as *factory overheads* in the manufacturing account or *expenses* in the profit and loss account without apportioning the expense between them
- combined the two businesses and used combined figures or prepared two manufacturing accounts and two trading and profit and loss accounts.

Recommendations

Teachers might find it useful to engage students in a range of practice activities where they are challenged to distinguish between different cost elements referred to in manufacturing accounts. Students could be asked to distinguish between material cost and labour costs; labour costs and other types of expenses; direct cost and indirect costs. There is also a need for students to develop an understanding of the importance of individual cost elements, and how they are used to determine other costs. For example, students could be asked to identify the cost of raw materials used by a manufacturer and examples of cost items that might be included in that costing exercise. The transfer of the cost of production figure to the cost of sales should be practised so that students develop a deeper awareness of the link between the manufacturing account and the trading account.

Question 6

This question tested candidates' ability to prepare a subscription account; a creditors' account and a club's income and expenditure account. Additionally, candidates were required to identify the section of the balance sheet that indicated arrears in subscriptions; to state the term used to mean capital and; to determine the total value of the club's non-current assets.

Approximately 23 percent of the candidates attempted the question; 19 per cent scored 50 per cent or more of the available marks. The mean mark was 5.48 out of 20.

Strengths

In general, candidates

- recorded a number of items accurately in the subscription account to the extent that a number of accounts *were perfect*.
- recorded *payments to suppliers for bar purchases* properly.
- demonstrated an understanding of the format for the income and expenditure account.
- recorded revenue and expense items on the correct sides in the income and expenditure account.

Weaknesses

In general, candidates

- were unable to put opening balances of the Subscription Account on the correct sides and even fewer entered the appropriate closing balances
- were unable to incorporate all relevant information in arriving at an amount for bar purchases and even fewer used the information to arrive at a figure for bar profit for the Income and Expenditure Account
- tended to use cost and/or valuation figures for club furniture in the Income and Expenditure Account instead of treating the difference as depreciation

- were unfamiliar with terms used in accounting for non-trading organizations
- made little distinction between current and non-current assets; included every asset in their calculation and even some liabilities such as subscription in advance.
- omitted Part (d) from their response.

Recommendations

Teachers are urged to emphasize to students the importance of being able to identify the assets and liabilities for different types of entities. As well, there is a need for students to be engaged in practical activities capable of facilitating a strengthening of their understanding of how assets and liabilities are recorded in summary accounts at the beginning and end of accounting periods.

Question 7

This question tested candidates' ability to prepare Journal entries to record the issuance of two types of shares within the authorized share capital. The question also required candidates to prepare an appropriation account to show the division of profits based on information provided. Finally, the question required students to calculate two accounting ratios and to use these ratios to interpret the performance of a company.

The question was very unpopular and the majority of those attempting it appeared unfamiliar with the topic.

Approximately 10 percent of the candidates attempted the question, 2 percent of whom scored 50% or more of the available marks. The mean mark on this question was 3.30 out of 20.

Strengths

In general, candidates

- used a journal entry format with debit and credit columns
- were able to state one difference between ordinary and preference shares with a focus on the right of the preference share holder to a fixed rate of dividend.
- made the entry for the transfer to Reserve in the Appropriation Account.
- applied the correct dividend rate and provided a correct heading for the appropriation account.

Weaknesses

In general, candidates

- were unable to complete the double entry with an entry for cash/bank
- did not recognize the share premium amount
- mixed up the preference share rate or did not use it at all
- were unable to calculate the correct amount of dividends on the share capital items and the company's dividend rate.

Recommendations

Teachers are again encouraged to begin to expose students to the principles governing accounting for company transactions earlier in the school year. There is a need for instructional strategies which can help students acquire the necessary knowledge and skills relating to the treatment of purchase of shares, sale of shares and liabilities. Students who are new to accounting principles often possess some awareness of the concept of shares and the undertaking of liabilities such as loans. They are also usually aware that interest has to be paid on a loan and, if one owes less, the interest is applied to the reduced amount. Teachers might find it useful to utilize such previous knowledge as a starting point when introducing students to theories governing accounts. In addition, teachers may consider introducing topics such as appropriation of profits immediately after students have gained an understanding of the concept of net profit.

Paper 032 – Alternative to SBA

Paper 032 forms part of the compilation of candidates' final mark in Principles of Accounts (POA).

Candidacy for this exam is limited only to those persons who are out of the formal secondary-level school system and would not, therefore, be considered as full-time secondary school students benefiting from the internal school-based assessment programme. Normally referred to as 'private candidates', this category of candidates may also include persons who have exited the secondary school system without a passing grade on the SBA component of their POA evaluation, as well as persons who may have earned a passing grade on the SBA component but failed the Paper 02 exam, more than two years previously.

As per POA syllabus guidelines, private candidates are tested for a duration of 90 minutes. The exam takes the form of a case study, with a minimum of 10 and a maximum of 15 questions. Paper 032 carries a total of 40 marks, and is weighted at twenty per cent 20% per cent of the POA final mark.

The 2013 Paper 032 case study was based on a sole trader with a small beauty supply retail business operation. The case study tested specific objectives and content taken from the POA syllabus, as follows:

- Section 2 (S.2): The Classified Balance Sheet
- Section 3 (S.3): Books of Original Entry
- Section 4 (S.4): Rules of entry
- Section 5 (S.5): Analysis of Financial Statements of Sole Trader
- Section 8 (S.): Depreciation

Of the candidates who did the General Proficiency, Paper 032 sixty four 64 per cent scored 50 per cent or more of the available marks. The mean mark on this question paper was 22.45 out of 40.

There were 12 compulsory questions and the following comments reflect the overall strengths and weaknesses of candidates' responses.

- Questions 5, 6 and 7 were not done by the majority of the candidates and some of those who made an attempt showed no knowledge of accounting ratios. In Question seven, the reasons given were not consistent with the ratios identified.
- Question 8 was problematic for candidates because the term/word *type* was used instead of *class* and this appeared to create confusion in the minds of candidates. Candidates were weak in their interpretation of the effect of the transactions on net income.
- In Question 10, the payment terms appeared to create difficulty so that the discount received was either ignored or miscalculated
- The depreciation figure of \$2500 given in Question 11 was not used appropriately, with some candidates calculating depreciation using 25 per cent of the \$2500.

Specific Comments

Question 1

This question required candidates to state the name of one type of journal. Unsuccessful candidates provided the names of ledgers rather than journals.

Question 2

In candidates were required to identify different classes of assets and to calculate total values. Candidates tended to treat mortgage as a current liability although it should have been omitted. The term *non-current assets* appeared to be unfamiliar to some candidates.

Question 3

This question required candidates to state the balance sheet equation. Some candidates showed unfamiliarity with the term *balance sheet equation*.

Question 4

For this question candidates were required to calculate capital using the totals in Question 2 as well as additional information provided. Most candidates were able to use the balance sheet equation even where they did not get it right in Question 2.

Questions 5, 6 and 7

These questions required candidates to identify a ratio to measure liquidity; to use the named ratio to calculate the liquidity position of the business and; to use the answer to evaluate the firm's liquidity position. Most candidates who provided an answer identified the current ratio with a few indicating the acid-test ratio. Where a ratio was provided, candidates were able to answer Question 6 using their own totals from Question 2. However, only a few candidates were able to give a reason for their answer to Question 7 in terms of the standard benchmarks for liquidity.

Questions 8 and 9

These questions required candidates to apply their knowledge of rules of entry to transactions to complete a given table. In completing the table, candidates were required to name the type of account each given entry represents and to interpret the effect of the given transaction on net income. Candidates were able to interpret the straightforward transactions on 2 and 4 June but struggled to identify the effect of the transactions on net income.

Question 10

This question required candidates to draw up a simple account for the creditor for purchases. Candidates again struggled with naming the accounts appropriately as well as placing the entries on the right sides of the account. The greatest challenge encountered was reflected in candidates' inability to correctly interpret the terms of trade *5/10, n/30*. The correct interpretation required candidates to note that a 5 per cent discount would be given to the payer if payment is made within 10 days of the credit transaction but the whole amount would have to be paid if payment was made within or after 30 days.

Questions 11 and 12

These question tested candidates' competencies in calculating depreciation and the net book value of fixed assets using the reducing balance method. Successful candidates were able to use the formula to calculate the annual depreciation amount but others failed to subtract the previous year's depreciation before applying the 25 per cent depreciation for the second year. This also affected their calculation of net book value.

Recommendations

- Candidates need to know the difference between journals and ledgers. They should strive to familiarize themselves with this information.
- Knowledge of the balance sheet equation, otherwise referred to as the fundamental accounting equation, is critical – for candidates to be able to identify assets and liabilities and, compute the capital.
- Candidates need to become familiar with ratio analysis from formula application to interpretation.

- The effect of the application of rules of entry on net figures such as net profit/net income should be reinforced.
- The calculation of depreciation using a method other than the straight-line depreciation method should be practised.