

**CARIBBEAN EXAMINATIONS COUNCIL**

**REPORT ON CANDIDATES' WORK IN THE  
SECONDARY EDUCATION CERTIFICATE EXAMINATION**

**JUNE 2006**

**PRINCIPLES OF ACCOUNTS**

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## **PRINCIPLES OF ACCOUNTS**

### **GENERAL PROFICIENCY JUNE 2006**

#### **GENERAL COMMENTS**

In June 2006, 22 490 candidates registered for the Principles of Accounts (POA), General Proficiency examination. The examination consists of three papers:-

Paper 01	–	Multiple Choice Paper
Paper 02	–	Essay Paper
Paper 03/2	–	Alternative Paper to SBA (Private Candidates)

#### **Paper 01 – Multiple Choice**

Paper 01 consists of 60 multiple choice items taken from the three profiles (Knowledge, Application, Interpretation) of the syllabus. The performance of candidates on Paper 01 was fairly good.

The mean mark was 39.63 out of 60. Eighty-four per cent of the candidates scored at least 50 per cent of the available marks for this paper while 36 per cent of candidates scored the maximum marks of 60.

#### **Paper 02 – Essay**

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

The performance on Paper 02 was unsatisfactory. The mean mark for this paper was 34.89 out of 100. Less than 25 per cent of candidates earned 50 per cent or more of the maximum mark on this paper.

Too many candidates simply either wrote out the questions or instructions in their entirety, indicating a lack of preparation for the examination. A number of candidates wrote over their answer and in some cases tried out different versions of the answer several times. The heading of statements and accounts, that is, the name of organizations, the name of statements and appropriate periods or dates as well as balancing of accounts, remain areas of weakness.

#### **Paper 03/2 – Alternative to SBA**

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, and who are not eligible to carry forward a qualifying SBA mark from the previous year, typically registered as “private candidates”, would take this exam. The examination requires candidates to perform accounting functions in answering questions based on one or two cases.

Over the years, the performance on this paper has not been satisfactory, perhaps because of the unavailability of past papers to practise.

The mean mark was 17.89 out of 40 marks and 44 per cent of candidates earned at least 50 per cent of the maximum mark on this paper.

## DETAILED COMMENTS

### PAPER 02 – ESSAY

#### Section I – Compulsory

##### Question 1

This question tested the preparation of final accounts for a partnership, specifically the profit and loss and appropriation account, the current accounts and the balance sheet. This area of the syllabus is examined fairly frequently.

All candidates attempted the question, of which 37 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 7.49 out of 20.

##### Strengths

- Most candidates were able to correctly calculate the appropriations account for interest on capital and salary.
- Many candidates were able to treat correctly the appropriations in the current accounts, as well as drawings.
- The balance sheet was in most cases properly set out in terms of the classification of sections.

##### Weaknesses

- A large number of the candidates did not begin the profit and loss account with the gross profit figure. Many instead, did an arithmetical calculation to arrive at the net profit. This indicates a lack of understanding of the relationship between the trading account results and the profit and loss and appropriation account. It could also suggest that practice problems in the classroom always start at the appropriation account.
- Candidates continue to ignore additional information, especially information pertaining to depreciation. Where this was calculated, percentages were often 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.
- Less than 50 per cent of candidates used the correct profit-sharing ratio. Instead, many candidates shared the residual profits equally.
- Candidates failed to calculate interest on loan and provision for bad debts, neither did they use them in the profit and loss account or adjust them in the balance sheet.
- Candidates either ignored the opening balances in the current accounts or failed to discern that there was a credit balance and a debit balance.
- Generally candidates ignored the information about goodwill or placed it wherever they felt like placing it, including the appropriation account.

##### Recommendations

- Teachers are encouraged to use a range of questions in the classroom that clarify the link between:
  - the trading account, the profit and loss account and the appropriation account
  - the notes accompanying the trial balance and the balance sheet and
  - the appropriation account and the current accounts.
- Students should have at least a basic awareness of what goodwill is and how it should be treated in the balance sheet.

## Question 2

This question had two parts. Part (a) tested the preparation of an adjusted cash book and the bank reconciliation statement. Part (b) tested the preparation of the provision for bad debts account and the adjustment for debtors in the balance sheet. In general, all parts of the question were attempted.

Ninety-five per cent of candidates attempted the question, of which 21 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 6 out of 20.

### Strengths

#### Part (a)

- Most candidates recorded the opening cash book balance on the correct side. The treatment of direct credit, bank charges, standing orders and dishonoured cheques was fairly well done.
- Candidates deduced the need to correct for the error of \$90. A large number of candidates carried down the updated cash book balance to the bank reconciliation statement and treated unrepresented cheques and unrecorded deposits correctly.

#### Part (b)

- The credit entry for the first year, 2003, in the provision for bad debts account was generally well done.

### Weaknesses

#### Part (a)

- Incorrect headings for both the updated cash book and the bank reconciliation statement were prevalent.
- Some candidates recorded items in both a bank and cash column. Candidates did not treat the overdraft cash book balance or the error correctly.

#### Part (b)

- A number of candidates simply calculated the provision for each year without attempting to draw up an account. Where an account was drawn up, candidates did not correctly name the profit and loss account as the account with the matching debit or credit entry. They were unable to present the adjustments that were necessary for the increase and decrease in the provision for bad debts. Instead they treated the provision for bad debts account as if it were a provision for depreciation account, by accumulating the provisions.
- Many candidates did not demonstrate an understanding of the relationship between the provision for bad debts account and the effect on debtors value in the balance sheet.
- Poor labelling also reduced the accuracy of treatment of debtors in the balance sheet. A few candidates showed only the net debtors figure.

### Recommendations

- Students should be made to practise the bank reconciliation statement by using the revised cash book balances as the starting point.
- Topics with which some students have difficulty, e.g. provision for bad debts, should be routinely assessed.

### Question 3

This question had two parts. Part (a) tested the use of the general journal to correct errors as well as record unusual transactions. Part (b) tested the use of information to calculate missing information. Both parts tested the candidates' knowledge, application and interpretation of the rules of entry.

Ninety-nine per cent of candidates attempted the question, of which 28 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 6.87 out of 20.

#### Strengths

##### Part (a)

- Many candidates provided satisfactory journal entries including starting date, making the debit entries before the credit entries, indenting their credit entries and outlining narrations.

##### Part (b)

- Some candidates used the appropriate information including the cash transactions to calculate total sales and purchases.
- Many candidates sought to make use of all relevant information including cash sales and cash purchases.
- Many candidates used the total account format and were able to record opening and closing debtors correctly.

#### Weaknesses

##### Part (a)

- Candidates tended to treat all items as errors to be corrected, reversed the correcting entries, demonstrating a real weakness in their grasp of the rules of entry and classified errors incorrectly in their narratives.
- Candidates tended to treat the return of the fixed asset as a return of stock, demonstrated very little familiarity with the recording of recovery of bad debts and very few recognized the need for a suspense account in item 5.
- Many candidates did not attempt to do narrations. When attempted, the narrations were vague.
- Several candidates attempted ledger accounts or even placed items in subsidiary journals as well as profit and loss statement format rather than general journal form.

##### Part (b)

- Few candidates used the statement format correctly with several attempting to restate given information in the form of a paragraph.
- Many candidates tended to treat opening and closing balances, especially creditors balances, wrongly or they failed to discriminate between debtors and creditors balances.
- Uncertainty as to where to place information led to candidates providing multiple responses with slight changes or completely reversed entries.
- Many candidates mixed up debtors and creditors information such as placing cash purchases in their sales account or cash paid to creditors in the debtors account.
- Some candidates opened cash accounts or attempted trading accounts with the information provided.
- Many candidates were unable to distinguish between cash paid to creditors and purchases, ignoring information on amounts owed to creditors. A similar misunderstanding affected the treatment of sales and debtors.

### Recommendations

- Candidates need more practice on the principles of double entry, as this forms the basis for making journal entries.
- Teachers need to consider dealing with the correction of simple errors such as the errors of omission, commission, original entry and reversal of entry, immediately after candidates have grasped the rules of entry.
- Students need to practise to write appropriate journal entries.

## **Section II – Optional**

### Question 4

This question tested the preparation of the manufacturing account and the subsequent trading and profit and loss account. The manufacturing account focused on testing candidates' understanding of the components of prime costs of using more than one type of raw material while providing a guiding worksheet.

Seventy-five per cent of candidates attempted the question, of which 52 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 9.7 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 labelled for the most part.
- The treatment of opening and closing work in progress was well understood.

### Weaknesses

- Candidates demonstrated a lack of clarity in distinguishing prime cost elements from factory overheads and this was further compounded when they had to deal with more than one element of prime costs.
- Many candidates treated factory wages as overheads and many more ignored information about the allocation of rent expense and the need to calculate depreciation on factory equipment.
- Several candidates placed work in progress between the prime cost section and the overheads section.
- Many candidates did not distinguish between stocks used in the manufacturing account and the trading and profit and loss account.
- Although labelling production cost transferred to trading account, many candidates failed to do so and picked up on the term purchases of sports pictures as part of the cost of goods sold in the trading account. Others ignored the latter cost completely, although it was logically part of the raw materials costs.

### Recommendations

- Candidates need more exposure to, and explanations of, the terminology used in manufacturing accounts as well as the situation where manufacturers wish to distinguish the costs of processing two or more raw material elements.
- Emphasis should be placed on the prevalence of allocating and apportioning costs between cost centres.
- The link between the manufacturing account and the trading account via the treatment of production cost of completed goods as well as the adjustments made for stocks of completed goods should be made clearer.
- Teachers may consider emphasizing the idea that traders or the trading department of a manufacturer is selling finished or completed goods when they first introduce the concept of stock, that is, items bought for resale.

### Question 5

This question comprised two parts. Part (a) tested the preparation of a classified balance sheet for a limited liability company in vertical style from a poorly prepared, mis-classified balance sheet presented in the horizontal style. Part (b) tested the candidates' understanding of percentage figures placed before debentures and preference shares.

Sixty-six per cent of candidates attempted the question, of which 58 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 9.74 out of 20.

### Strengths

- In general, candidates were able to label correctly the sections of the balance sheet, including information appropriate to the sections, such as fixed assets, current assets and current liabilities.
- Most candidates used the vertical style of presenting the information.
- Many candidates were able to interpret the 6 per cent before debentures as the interest rate.

### Weaknesses

- The correct classification of debentures, proposed preference dividends and debenture interest owing continues to baffle students.
- Students did not connect the 7 per cent before preference shares with the rate of return or rate of dividend.
- The inclusion of authorized share capital information in the balance sheet appears to be a major area of weakness. Where it was included it was not ruled off but treated as part of the capital data and added to the issued capital.
- The section for capital and reserves was the weakest area of performance as students either included irrelevant items or placed relevant items elsewhere.

### Recommendations

- Students may benefit from practice questions focusing on the capital sections of various business organizations with a view to recognizing the differences.
- Emphasize the difference between authorized share capital and issued share capital and the treatment of each in the balance sheet.

### Question 6

This question tested the preparation of the statement of affairs, a refreshment account and an income and expenditure account of a club. Candidates were also asked to classify three balance sheet items by identifying where they would be recorded.

Twenty-five per cent of candidates attempted the question, of which 36 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 7.76 out of 20.

### Strengths

- Candidates continue to recognize the importance of labelling statements properly, that is, name of organization, name of statement and appropriate date.
- Most candidates made use of the correct information at the start of the year.
- Many candidates recognized that subscriptions in advance is a current liability.

### Weaknesses

- Many candidates did not use the opening bank balance or deal with subscriptions in advance as a liability in drawing up the statement of affairs.
- Few candidates used information about depreciation in the income and expenditure account.
- Candidates did not recognize the difference between
  - (i) refreshment purchases as a trading account item and purchase of refreshments as a receipts and payments account item
  - (ii) subscriptions received as a receipts and payments account item and subscriptions income as an income and expenditure account item.
- Many candidates did not recognize the balance in the receipts and payments account as the closing bank balance nor did they make the connection between surplus/deficit and the usual placement of net profit/loss in the balance sheet.

### Recommendations

- Students need to be guided as to the importance of dates in compiling statement of affairs.
- A clear distinction must be made between receipts and payments and income and expenditure items.
- Teachers need to re-inforce the vocabulary of a non-profit organization versus a profit making entity.
- Students must be alert to the need to go beyond the data presented to arrive at the information expected.

### Question 7

This question tested the interpretation of data through the calculation of ratios from data provided as well as the provision of comments using benchmarks.

Thirty-four per cent of the candidates attempted the question, of which 29 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 6.64 out of 20.

### Strengths

- Many candidates utilized the skills derived from carrying out the tasks of the School-Based Assessment (SBA) to calculate the current ratio, the acid test ratio and the net profit percentage ratios showing workings clearly.
- Candidates were strong in their responses to part (b) (i) - (iii).

### Weaknesses

- Candidates were less confident in calculating the ratios for return on capital invested and rate of stock turnover.
- Candidates were weak in their responses to part (b) (iv) - (v).
- Many candidates simply re-wrote the data given in the question.

### Recommendations

- Teachers should ensure that candidates are familiar with more than one ratio that allows assessment of the profitability, liquidity and efficiency of an organization.
- Students are to be encouraged to show the process and not just show their final answer.
- Students are expected to both calculate ratios and interpret them through contrast and comparison with benchmarks.
- Students are expected to have a certain amount of theoretical understanding that will afford them the opportunity to pursue accounting as a profession.



## GENERAL COMMENTS

### BASIC PROFICIENCY

In June 2006, 332 candidates registered for the Principles of Accounts, Basic Proficiency examination. The 2006 sitting is the final for the Basic Proficiency.

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)

### DETAILED COMMENTS – PAPER 02

This paper comprises two sections. Section I consisted of three compulsory questions and Section II consisted of four questions of which candidates were required to answer any two. All questions carried 18 marks each.

#### Section I – Compulsory

##### Question 1

This question required candidates to prepare a receipts and payments account and an income and expenditure account from a list of balances given. There were three additional notes associated with the items in the list.

Eighty-two per cent of candidates attempted the question of which 41 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 8 out of 18.

##### Strengths

The receipts and payments account was well done. The account was also balanced correctly for the most part.

##### Weaknesses

The income and expenditure account was poorly done. Candidates did not demonstrate a clear understanding of capital and revenue expenditures or how to treat prepayment and accrual of expenses. Many candidates were not able to calculate the amount of subscription which should be recorded in the income and expenditure account.

Many candidates did not calculate the surplus correctly, nor did they label it correctly.

##### Recommendations

Students need practice in preparing the income and expenditure account. It might help if teachers reminded students that preparing the receipts and payments account is similar to preparing a cash account, while the income and expenditure account is similar to preparing a profit and loss account. This may cause them to be more conscious of adjustments to expenses as well as differentiating between capital and revenue expenses.

## Question 2

This question had three parts:

Part (a) required candidates to construct a classified balance sheet from a given trial balance. Part (b) required the candidates to identify given transactions as being either capital expenditure/receipts or revenue expenditure/receipts. Part (c) required the candidates to prepare an updated balance sheet after certain transactions occurred.

All candidates attempted the question of which 6 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 4.81 out of 18.

### Strengths

The opening balance sheet was well done. Items were classified correctly for the most part.

### Weaknesses

Determining whether a transaction was a capital expenditure/receipt or revenue expenditure/receipt was an area of weakness. This would also explain why candidates did poorly on the preparation of the income and expenditure account in question 1, part (b).

While candidates were able to adjust the balance of items such as machinery and land, many had great difficulty in adjusting correctly stock and bank. As a result, the updated balance sheet was poorly done. Very few candidates recognized the connection between the stock sold at a profit and the effect on capital.

### Recommendations

Students should be given more practice in distinguishing between capital expenditure/receipts and revenue expenditure/receipts.

## Question 3

This question essentially required candidates to show two separate accounts of someone who was a customer as well as a supplier. They were therefore to show the accounts of the person as a debtor and a creditor.

Ninety-five per cent of candidates attempted the question of which 5 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 3.46 out of 18.

Overall performance on the major part of this question was very poor. However, several candidates scored full marks on the short answers.

### Recommendations

It was very evident from the responses to this question, that students are unaccustomed to doing these types of questions. Practice in a few such problems could be very helpful. It would also enhance their understanding of "set offs" in control accounts.

## **Section II – Optional**

Candidates were required to answer two of four questions from this section.

### Question 4

This question required candidates to demonstrate their knowledge on use of the general journal in recording opening entries as well as the withdrawal of stock by the owner. Candidates were also required to show the capital account for a two year period. The performance on this question was very poor.

Eighteen per cent of the candidates attempted the question of which none of them scored 50 per cent or more of the available marks. The mean mark on this question was 2.47 out of 18.

### Strengths

Most candidates were able to record the opening entries in the journal, although the writing of a narration presented difficulty. They also demonstrated that they knew how to balance an account.

### Weaknesses

The capital account was not well done. Candidates did not know whether to use the debit or credit side of the account for entering the transactions.

### Question 5

This question required candidates to prepare a manufacturing, trading and profit and loss account for an organization.

Six per cent of candidates attempted the question of which 45 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 8 out of 18.

### Strengths

Candidates were quite clear on the format of a manufacturing account. Calculations of the various cost elements – raw material used, prime cost, total factory overhead were all shown, even if the amounts were not correct.

### Weaknesses

Several candidates were not able to make the distinction between direct and indirect wages. Instead of including direct wages in arriving at the prime cost, both wages were included in factory overheads.

Depreciation of plant which is a factory overhead, was very often treated in the profit and loss account.

Although candidates demonstrated that they knew how to arrive at the production cost, in many instances, this cost was not taken to the trading account in arriving at the cost of goods sold.

### Recommendations

The areas of weakness clearly need practice. Explaining why certain costs are dealt with in specific areas of the manufacturing, trading and profit and loss account will prove to be more helpful, than if students try to learn rote form.

### Question 6

This question tested the candidates' knowledge of subsidiary ledgers, source documents, identifying books of original entry and the preparation of ledger accounts.

Fifty-six per cent of candidates attempted the question of which 6 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 3.69 out of 18.

### Strengths

The only strong area of this question was the candidates' ability to identify the books of original entry.

### Weaknesses

Candidates were not able to explain clearly the purpose of the books of original entry. Nor were they able to associate the source document with the book of original entry. The preparation of the ledger account was also weak.

### Question 7

This question had two parts:

Part (a) required candidates to prepare a provision for depreciation account as well as the asset account.

Part (b) tested candidates' knowledge on Payroll Accounting by requiring candidates to provide definitions for certain terms.

Twenty per cent of candidates attempted the question of which 4 per cent scored at least 50 per cent of the available marks. The mean mark on this question was 3.17 out of 18.

### Strengths

Most candidates were able to provide suitable definitions for the terms relating to Payroll Accounting.

### Weaknesses

The calculation of depreciation using the Reducing Balance Method proved to be a challenge for most candidates.

The preparation of the provision for depreciation account and the diving equipment account were equally challenging.

### Recommendations

Students need practice in the preparation of the provision for depreciation account using both the Reducing Balance Method as well as the Straight line Method.