

Examiner's Report

AA1 Examination - January 2016

(AA11) FINANCIAL ACCOUNTING BASICS

SECTION A

Objective Test Questions (OTQs)

(40 marks)

Question No. 01

This question consists of 15 sub questions. Given below are the general weaknesses identified in the answers for the sub questions:

Question No. 1.1 – 1.7

- Seven multiple choice questions of two mark each.
- Some candidates have not considered the instructions given in the question properly and have answered in the question paper itself without writing the answers in the answer booklets given, and have attached the question paper along with the answer booklet.
- It was noted some candidates have not answered all seven questions due to not attaching the question paper in which they have answered to the answer booklet.
- Some candidates have written the entire answer in the booklet instead of writing the relevant number of the correct answer.
- It was noted that some candidates do not have much understanding about the difference between financial accounting and management accounting as majority of them have provided wrong answers to question No. 1.2.
- Question No. 1.5 was to test the knowledge of the candidates' on the components of the financial statements and majority of the candidates have provided wrong answers. Even though the correct answer is No. 1, majority have selected No. 4 as the correct answer which states Non-current assets, Current assets, Non-Current liabilities and Current liabilities.

Question No. 1.8

Many candidates have failed to state the correct impact (increase / Decrease) to the accounting equation under the given transactions due to lack of knowledge regarding the accounting equation.

Question No. 1.10

Even the ledger can be classified as Property, Private and Nominal, some candidates who didn't understand this properly have not answered this question and some candidates mentioned this as Assets, Liabilities, Income and Expenses.

Question No. 1.14

Various methods have been followed by many candidates for the computation of additional capital introduced. But majority of them were unable to adjust the business profit of Rs.75,000/- and the owner's drawings of Rs.50,000/- correctly in the computation of additional income and as a result such candidates were not able to obtain the total marks allotted to this question.

Question No. 1.15

Many candidates have provided wrong answers for the part (a) of this question, out of the part (a), (b) & (c) of this question, as they do not have a clear idea about Credit Notes.

SECTION B**Question No. 02**

This question consists of two parts namely part (a) and (b). The knowledge on accounting concepts was tested in part (a) and preparation of petty cash book was tested in part (b). Even though, most of the candidates have answered this question, only a very few candidates have obtained the full marks. Most of them could score only a lesser marks.

Given below are the weaknesses identified when evaluating the answer scripts:

- (1) Many candidates have less knowledge on going concern and accrual concepts that are coming under accounting concepts.
- (2) Even though the candidates have correctly entered the petty cash transactions in respective columns of the petty cash book, they were confused with as to how they are going to record the petty cash re-imburement in the petty cash book.
- (3) It was mentioned in the question that the petty cash float is Rs.5,000/-. Some candidates have not considered this and have omitted the opening balance of Rs.1,500/- and entered the float as Rs.3,500/-.
- (4) Many have not correctly accounted for the brought forward opening balance of petty cash and the carried down closing balance of petty cash.
- (5) Those who have no clear idea about the format of the petty cash book have prepared the it in the format of a "T" account.

Question No. 03

This question is to test the knowledge of the candidates regarding the preparation of trial balance, and the general weaknesses identified are as follows:

- (1) Some have prepared only the ledger accounts. Non preparation of trail balance shows either they have no idea about the trail balance or weaknesses in managing time.
- (2) As some candidates do not have understanding about the trial balance, they have prepared it as a Statement of Financial Position or as a "T" account.
- (3) As the delivery van has been purchased on the last date of the financial year, it was not required to charge depreciation for it. Candidates, who have not considered this, have computed and charged the depreciation for the delivery van also.

- (4) Accrued building rent of Rs.12,500/- should be added to Rs.137,500/- which has already been recorded in the cash book and accordingly, the building rent for the period should be recorded as Rs.150,000/-in the trail balance. However, some have recorded only the cash payment of Rs.137,500/- in the trail balance.
- (5) As in the above instance, some candidates have not correctly adjusted and recorded the pre-paid electricity of Rs. 2,200/- and the entire cash payment of Rs.27,000/- has been recorded in the trial balance.
- (6) Candidates are required to find the balances of debtors and creditors through sales and purchase accounts. However, considerable number of candidates has not done this due to lack of knowledge.

Question No. 04

This question was to check the knowledge of the candidates' regarding the Journal Entries to correct the errors by part (a), preparation of suspense account by part (b) and the preparation of statement showing revised net profit by part (c). Most of the candidates have answered this question, however most of them have obtained less marks. The general weaknesses identified are as follows:

- (a) A fewer number of candidates out of those who have attempted this question, have provided the answer for this part of the question and most of them have provided wrong answers due to lack of knowledge in basic double entries.
 - (i) Many candidates have failed to record the corrective journal entry to record the direct bank deposit of Rs.123,000/- which has been erroneously recorded as an interest.
 - (ii) Many candidates have failed to record the corrective journal entry to account for the discount allowed of Rs.46,000/- erroneously recorded as a discount received of Rs.46,000/- due to lack of understanding of the double entry accounting system.
 - (iii) Some of the candidates were unable to correct the miscellaneous expenses of Rs.1,125,000/- which has been erroneously recorded in the Trial Balance as Rs.112,500/- . The amount recorded in the trail balance should be corrected only through the suspense account. However, it was observed that some of the candidates have corrected the entry through suspense account and miscellaneous expenses account.
- (b) Some candidates have recorded the debit balance of Rs.505,500/- to the credit side of the suspense account. Another set of candidates have recorded the debit entries in the credit side and credit entries in debit side of the suspense account. Some of the candidates had a balance to carried forward in the suspense account, though it needs to be cleared after correcting the errors. It is because they have done the adjustments incorrectly.
- (c) Candidates who had no knowledge in the preparation of statement of revised net profit, have answered only the part (a) and (b) of the question. Some other candidates have recorded the additions as deductions and the deductions as additions to the net profit of Rs.12,657,300/- in the statement of revised net profit.

Question No. 05

The objective of this question is to test the candidates' knowledge in preparation of Manufacturing Account. The general weaknesses identified are as follows.

- (1) Non identification of direct and indirect expenses correctly.
- (2) Some of the candidates have arrived at the value of primary cost, after adjusting for opening and closing work in progress (WIP). If the question is silent, the opening and closing WIP should be adjusted at the end of the manufacturing account.
- (3) It was mentioned in the question that the depreciation for machinery and factory building as Rs. 2,400,000/- and 3,000,000/- respectively. Accordingly, depreciation for only three months to be adjusted in the manufacturing account, whereas some candidates have recorded the annual depreciation charge in the manufacturing account prepared for three months.
- (4) Those candidates, who had not considered the 20% profit margin when transferring to the sales division, have transferred the cost of the product as it is in the manufacturing account to the sales division.
- (5) Some candidates have recorded primary cost, WIP, direct and indirect costs in various places in the manufacturing account due to lack of knowledge of the format of the manufacturing account.

SECTION C

Question No. 06

The knowledge on preparation of comprehensive income statement and the statement of financial position have been tested in this question. The general weaknesses identified during the evaluation of answer scripts are as follows:

- (1) The closing stock should be valued at the lower of cost and the net realizable value (NRV). However, some candidates have valued the stock at the highest of cost and NRV.
- (2) The three wheeler which was owned by the owner of the business have transferred it to the business at Rs.175,000/- and this should have been recorded as an introduction of capital by the owner. However, some candidates have not recorded it in that manner and some others have deducted the value of the three wheeler from the motor vehicle account.
- (3) Those who have not identified the motor vehicle acquired for Rs.1,200,000/- on 01/07/2015 from the trail balance as at 31/12/2015, have recorded it as an introduction of capital by the owner.
- (4) Even though it is required only to depreciate the value of building of Rs.7,000,000/- out of the total land and building value of Rs.10,000,000/- (Value of the land and building less value of the land), some of the candidates have considered the total value of land and building to calculate the depreciation.
- (5) The three wheeler is not subjected to depreciation, as it has been transferred to the business at the end of the financial year i.e, 31/12/2015. However, considerable number of candidates has computed the depreciation for the same.
- (6) Some have charged depreciation for the motor vehicle which was acquired in the middle of the financial year for one year whereas it should have been depreciated only for six months.

- (7) Carriage outwards should be accounted as an expense in the comprehensive income statement but, some have added this to purchases in the trading account erroneously.
- (8) Some have considered sales commission as an income.
- (9) Some have deducted the damaged stocks of Rs.185,000/- from stocks whereas this should have been shown as an expense.
- (10) Though the bank overdraft should be recorded under the current liabilities of the statement of financial position, some have recorded it as a finance cost in the statement of comprehensive income.
- (11) Even though, some have correctly adjusted the prepaid electricity in the statement of comprehensive income, the prepaid amount had not been recorded under the current assets in the statement of financial position.
- (12) It was observed that many candidates have less knowledge regarding the import duty. Some have recorded that as an income tax expense in the statement of comprehensive income. But this should have been added to purchases in the trading account.

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