

EXAMINER'S REPORT

AA2 EXAMINATION - JANUARY 2016

(AA21) ADVANCED FINANCIAL ACCOUNTING

SECTION A

Objective Test Questions (OTQs)
(Total 20 marks)

Question 01

This question contains six (06) sub-questions and 20 marks have been allocated for the entire question. The following areas have been tested from this question

- Basic knowledge on Not for Profit organizations and accounting for members subscriptions.
- Knowledge on Value Added Tax (VAT).
- Knowledge on Companies Act.
- Knowledge on Partnership Ordinance.
- Understanding of the difference between equity instruments and debt instruments as well as the knowledge on Accounting Standards.

Some of the candidates' knowledge on accounting for members' subscriptions in arrears and members subscriptions pre-paid is at a lower level. Most of the candidates have failed to compute the annual subscriptions correctly. Majority of the candidates' knowledge on Partnership Ordinance and Companies Act is not satisfactory. Most of the candidates have not properly identified the difference between equity instruments and debt instruments. When considering the questions on Value Added Tax (VAT), it was observed that some of the candidates' knowledge on Input Tax and Output tax is very poor. Further, the Input tax has not been properly matched against the Output tax, therefore VAT payable/ refund amount has not been correctly computed. Some of the candidates have entirely skipped the sub-question on VAT. It has been observed that the candidates' knowledge on Accounting Standards in relation to cost formulas is at a very poor level and only a few candidates have correctly answered the question no. 1.6 that focused on this.

SECTION B

Five (05) compulsory questions
(Total 25 marks)

Question 02

The question was to prepare a statement reconciling the balance of the trade payable control account and the balance of the individual payable sub-ledger. Most of the candidates have not been able to earn the allotted marks for the preparation of reconciliation statement. It appears that the candidates do not have clear understanding of reconciling of balances of the control accounts. Candidates have prepared journal entries whereas the examiner has asked to prepare the ledger accounts. Some of the candidates have erroneously credited the trade payable control account though it should have been actually debited to the respective accounts. Due to the fact that the candidates' focus and knowledge have been limited only to the trade payable control account and individual payable accounts, the statement of reconciliation has been presented in the format of a "T" account.

Question 03

This question was to prepare the adjusted cash book and the bank reconciliation statement and five (5) marks have been allocated for this question. Most of the candidates have earned full marks for this question. From this question, the examiner has tested the theoretical knowledge of the candidates and has used different pattern of structure in setting the question. Most of the candidates have incorporated all of the adjusting entries in to the bank reconciliation statement. Therefore, they have lost the marks allocated for the Adjusted Cash Book. Some of the candidates have prepared the entire cash book as they have not properly focused on the question with proper understanding.

Most of the candidates have not taken the correct balance of the adjusted cash book in to the bank reconciliation statement, instead of that they have included all the adjustments in the bank reconciliation statement. In preparing the bank reconciliation statement, “the cheques issued but not presented” should be added to the adjusted cash book balance whereas the “cheques deposited but not realized” should be deducted from the adjusted cash book balance. However, there were a lot of candidates who have failed in making these adjustments properly. There were some candidates who have not gained expected level of theoretical knowledge on this area of the syllabus.

Question 04

Some of the candidates have prepared ledger accounts whereas the examiner required them to prepare the journal entries on salaries and some candidates have wasted time unnecessarily preparing both the journal entries as well as the ledger accounts. Some candidates have erroneously calculated the EPF and ETF contribution made by employer based on the net salary and there were some candidates without the knowledge of EPF and ETF percentages. Some candidates have prepared the journal entries without proper understanding of the Debit and Credit entries. The main weakness noticed is that the candidates have given the answers without understanding the question properly.

Question 05

It was required to prepare the partners’ capital account and current account in columnar form. Only a few candidates have earned the full marks for this question. Retiring partner’s current account balance had not been properly transferred to the partners’ capital account. Most of the students have failed to earned marks for computing revaluation gain and apportioning adjusted profit between partners based on the correct profit sharing ratio. Due to misunderstanding the statement “partners have agreed not to record the goodwill on the books”, some candidates have not made any entry in the ledger, though the amount of the goodwill has been correctly calculated. There were a lot of candidates who have recorded goodwill adjustment and revaluation adjustment in the current account.

Question 06

Five (05) marks could have been earned preparing the profit or loss appropriation account of a partnership. Candidates have earned full marks for this question which has been structured to test basic knowledge of the issues in the partnership accounting. The question focused on appropriating profit or loss as per the partnership agreement, interest on capital and interest on drawings. There were candidates who have incorporated the balances of capital account, balances of current account and drawings into the profit and loss appropriation account. There were instances where interests on drawings have been debited to the profit and loss appropriation account as an expense. It was noted that some candidates do not have knowledge of the plus and minus adjustments that should be made to the net profit. There were instances where interest has not been calculated correctly. Some candidates have wasted their time in preparing the capital account and current account though the examiner has not requested to do so.

SECTION C

Three (03) compulsory questions
(Total 30 marks)

Question 07

This question has been structured to test the knowledge on preparing the Statement of Income as well as the Profit or Loss Appropriation Account of a partnership. Most of the candidates have answered this question and have earned total marks. Some students have drafted "T" accounts instead of correct format of the Statement of Income. Partners' salary which should have been recorded in the appropriation account had been incorrectly recorded in the Statement of Income. They have wasted their time to prepare the irrelevant accounts, such as capital accounts, current accounts and statement of financial position.

Question 08

This question was to test the knowledge on preparing the Statement of Financial Position of a sole proprietorship. Answers have been given without understanding the question properly. Marks have been lost as the essential workings have not been submitted. The percentage of the candidates who have scored full marks is very low.

Most of the candidates have not attempted this question. The examiner has expected candidates to focus on calculating the NRV of the stock and profit on disposal of an asset. However, the candidates have not shown the workings to support these calculations and as a result relevant marks have been lost.

Question 09

This question was to prepare the Income & Expenditure Account and Statement of Financial Position of a Sports Club. Candidates should improve their knowledge in preparing the financial statements of societies. Those candidates who attempted this question have earned reasonable marks for this. Some candidates have failed to identify the opening balance of the accumulated depreciation and to calculate the depreciation amount correctly. Most of the candidates have not been able to accurately show the calculation of subscriptions, though it required a very simple calculation. It was observed that marks have been lost as the candidates have not submitted the workings for the adjustments for which the final answer is incorrect.

SECTION D

A compulsory question
(25 marks)

Question 10

25 marks have been allocated for this question and examiner has asked to prepare the Statement of Comprehensive Income and the Statement of Financial Position for the purpose of management information. This question focused to test the candidates' knowledge in addressing issues with regard to provision for bad and doubtful debts, accrued expenses, and calculating the depreciation on assets, computation of income tax and matters in relation to right issue of shares and knowledge of book keeping with regard to those areas. Most of the candidates have answered this question. Some candidates have prepared the accounts in the format that is used for presenting to the shareholders. Most of the candidates have followed the correct format and correct pattern. Some of the candidates have scored full marks. As a whole, the question has been structured to test the knowledge of company Accounts.

Most of the candidates have failed to identify the expenses which should be charged to Administration Expenses and as a result awarding marks have been a very difficult exercise. However, those candidates who have shown the workings properly were able to earn the allocated marks. The common weakness is that the candidates do not have the basic knowledge of the accounting standards. Dividend adjustments have not been correctly recorded. The candidates should gain the basic understanding of debit and credit entries in relation to adjustments of accrued expenses. They should focus on the presentation of statement of financial position and statement of comprehensive income. Those candidates who have submitted workings correctly and showed the correct amounts in the face of the statements have earned full marks. There were candidates who did not give attention to the right issue of shares. Some candidates have prepared the statement of changes in equity and the statement of cash flows though it is not required, and as a result, candidates have wasted their time.

Further, candidates should improve their knowledge on Fundamental Accounting Principles, new accounting standards and new Companies Act. Writing of question numbers incorrectly, showing the workings not close to the answers and avoiding writing answers part by part in different pages have a risk of losing marks.

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Common factors to be considered to improve the level of knowledge of candidates:

- (1) New syllabus should be study thoroughly and in full and to give more attention to new subject matters.
- (2) Knowledge on new accounting standards (LKASs) should be improved.
- (3) Hand writing should be legible and question numbers should be properly written.
- (4) Instructions given in the question paper should be correctly followed.
- (5) Past question papers and their answers should be referred to improve the knowledge.
- (6) Time should be properly managed.
- (7) It should be checked that the question numbers have been correctly written in the answer script before handing it over.
- (8) It is required to attend the exam with good intention of getting through the exam.

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