

Examiner's Report

AA1 Examination - January 2018

(AA11) FINANCIAL ACCOUNTING BASICS

SECTION A

Objective Test Questions (OTQs)

Question No. 01 - 40 marks

(A Compulsory Question)

This question consists of 16 sub questions. Though all the candidates who sat for the examination had answered this question, some have not followed the instructions given in the question paper. Though the answers for the question numbers from 1.1 to 1.8 should have been written in the answer booklet, some candidates who ignored the instructions had marked the answers in the question paper itself and attached to the answer booklet.

Some others who had written answers for the question numbers from 1.9 to 1.16 in the answer booklet had not answered for the question numbers from 1.1 to 1.8. After marking the answers in the question paper, it may be forgotten to write the answers in the answer booklet. Thereby, easily earned marks for these questions have been lost.

Given below are the general weaknesses/errors identified in the answers for the sub questions:

Question No. 1.2

Though the correct answer for this question was number (1) "Accrual Concept", many candidates had selected number (3) "Entity Concept" as the answer.

Question No. 1.3

Knowledge about source documents was low for many candidates. Though the correct answer was number (1) "Purchase Order", many candidates had selected number (4) "Purchase Invoice".

Question No. 1.8

Due to lack of clear understanding on Accounting software packages, many candidates have selected incorrect answers instead of the correct answer number (2) "Quick Book".

Question No. 1.9

Some have explained about Entity concept instead of Going Concern Concept.

Question No. 1.14

Most of the candidates have provided incorrect answers for this question. Inability to calculate cost of sales correctly may be the reason for this.

Question No. 1.15

Though it was expected to state correct double entries, some candidates have presented ledger accounts. Some other have given the double entries but relevant figures have not been mentioned. There were instances where only one entry has been mentioned.

SECTION B

Question No. 02 - 10 marks

(A Compulsory Question)

This question was to test the knowledge of preparing the trial balance of a sole proprietorship.

Some common weaknesses observed are given below:

- (1) Due to lack of basic knowledge on trial balance, some candidates have prepared the Balance Sheet.
- (2) Though, the initial investment of Rs.1,000,000/- to start the business is the opening capital, some have considered this investment as an asset and stated in the debit side of the trial balance.
- (3) Due to lack of understanding in preparing trade debtors and trade creditors control accounts, some candidates have failed to find out the correct sales and purchases figures using those accounts. Candidates should improve the knowledge to calculate sales and purchases by adjusting given closing balances and transactions in cash book.
- (4) Some candidates have failed to adjust prepaid Shop rent and accrued electricity correctly and to state them in the trial balance.

Question No. 03 - 10 marks

(A Compulsory Question)

This question consists of 2 parts, (a) and (b). Part (a) was to test the knowledge of preparing journal entries to rectify errors and Part (b) was to test the knowledge of preparing Suspense Account.

Some common mistakes observed are given below:

(a) Preparation of journal entries to rectify errors

- (1) Some candidates who did not understand the question properly have prepared ledger accounts instead of journal entries and wasted time.
- (2) Some other candidates have mentioned debit balances in the credit side and vice versa.
- (3) In respect of transaction under item 4 of this question, suspense account has been debited correctly by many candidates, but total value of Rs. 40,000/- has been credited to Interest income account as the credit entry. Further some candidates have credited the total value to the interest expense account erroneously. Some candidates have tried to adjust this between interest income account and interest expense account without using the Suspense account.

(b) Suspense Account

- (1) Some candidates do not have a proper Knowledge to prepare Suspense Account. They have prepared only journal entries without Suspense account.
- (2) Debit balance of suspense account amounting to Rs.700,000/- has been recorded in the credit side of that account.
- (3) It was noted that some candidates have mentioned debit entries in the credit side of the suspense account and vice versa.
- (4) Some candidates have ignored the debit balance of Rs.700,000/- and only balances relevant to journal entries have been recorded in the suspense account.

Question No. 04 - 10 marks

(A Compulsory Question)

This question was to test knowledge on preparation of manufacturing account.

Some common mistakes observed are given below:

- (1) Due to lack of understanding on format of manufacturing account, some candidates have prepared the manufacturing account in the format of an income and expenditure account and some others as a balance Sheet.
- (2) Although in the question it was clearly stated that the work-in-progress should be valued at prime cost, some candidates had recorded it under production overheads at the end of manufacturing account.
- (3) Some candidates had recorded manager's salary related to factory under prime cost as a direct expense, though it should have been recorded under overhead costs.
- (4) Some have failed to correctly calculate the incentive paid for each wooden dining table produced. Though it should be recorded as a direct expense under prime cost, some have recorded it under overhead costs.

It was observed that total building rent has been recorded under production overheads erroneously though only building rent related to the factory should be adjusted to the overhead cost.

Question No. 05 - 10 marks

(A Compulsory Question)

This question consists of 2 parts (a) and (b). Part (a) was to test the effect to the accounting equation and Part (b) was to test the preparation of sales day book.

Common weaknesses observed are given below:

(a) Effect to the accounting equation

- (1) It was observed that some candidates did not have a clear understanding about the accounting equation. Some have mentioned the values of transactions without (+/-) signs.
- (2) Some candidates have considered goods worth of Rs.650,000/- purchased on credit for resale as a cash purchase and have added to inventories and deducted from cash. Some others have considered that transaction as a credit sale and have deducted Rs.650,000/- from inventories and added Rs.650,000/- to debtors.
- (3) For transaction stated under item (3), some candidates have considered as cash drawings instead of goods drawings and it has been adjusted under cash.
- (4) In respect of item (4), many candidates have provided incorrect answers for the telephone bill of Rs.5,000/- as payment of Rs.4,000/-. Some have ignored accrued telephone charge of Rs.1,000/- and have recorded only the payment of Rs.4,000/-. Some others have not deducted the monthly telephone bill of Rs.5,000/- from equity considering as an expense.
- (5) Sale of goods for Rs.220,000/- on credit term, which costed Rs.200,000/-, stated in item (5), has been considered as a cash sale by some candidates and recorded -200,000 in the inventory column, +220,000 in the cash column and +20,000 in the equity column.

(b) Preparation of Sales Day book

- (1) It was noted that some candidates do not have an understanding of the basic format of the sales day book. Some have answered without using the relevant format.
- (2) Though the deduction of trade discounts should be stated clearly in the sales day book, most of candidates have recorded only the value after deducting trade discount.
- (3) Though the trade discount is applicable only for transaction number (2), some have applied trade discounts for all sales.

SECTION C

Question No. 06 - 20 marks

(A Compulsory Question)

This question was to test the preparation of final accounts of a sole proprietorship and consists of 2 parts as (a) and (b). Part (a) was to test the preparation of Statement of Comprehensive Income and Part (b) was to test the preparation of Statement of Financial Position.

Some common mistakes observed are given below:

(a) Preparation of Statement of Comprehensive Income

- (1) Due to lack of understanding on items to be included in Statement of Comprehensive Income, some have stated the items that should be recorded in Statement of Financial Position such as land, Buildings, computers, and delivery lorries.
- (2) Though sales commission is an expense some have considered it as an income and recorded in the income statement. Also, bank overdraft interest has been recorded as an income by some candidates.
- (3) Most of the candidates have not correctly adjusted the insurance prepayment.
- (4) Though the 10% general provision for doubtful debts should be made on balance trade receivables after deducting bad debt of Rs.50,000/-, some have ignored it and provided for doubtful debts on total value of trade receivables.

(b) Preparation of Statement of financial position

- (1) Purchases, sales, opening stocks and some other expenses were included in the statement of financial position due to lack of basic understanding on entries to be included in statement of financial position.
- (2) Prepaid insurance and accrued electricity have not been recorded correctly in the statement of financial position.
- (3) Bad debts written off and provision for doubtful debts have not been calculated correctly.
- (4) Some candidates scored low marks due to not calculating depreciation on straight line method correctly and not stating correct cumulative depreciation figures.
- (5) Statement of financial position has not been prepared in accordance with the accepted format.

General points to be considered to improve performance level of candidates:

- (1) Study the new syllabus fully and thoroughly. Pay more attention to new subject matters
- (2) Read the question several times and answer only what is asked in the question. Do not write unnecessary things.
- (3) Refer books, hand books, letters, Journals etc. relevant to this subject.
- (4) Identify basic theoretical concepts correctly and build necessary skills to answer questions.
- (5) Legible hand writing and correct numbering of questions.
- (6) Follow the instructions given in the question paper and exhibit calculations and workings correctly.
- (7) Improve the knowledge by practicing more past papers.
- (8) Manage your time efficiently.
- (9) Before handing over the answer script, check whether the question numbers etc. have been stated correctly.
- (10) Face the examination with a good preparation and with the utmost hope of passing the examination.

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