

## Examiner's Report

AA1 Examination - July 2016

### (AA11) FINANCIAL ACCOUNTING BASICS

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#### SECTION A

Objective Test Questions (OTQs)

#### **Question No. 01**

This question consisted of 16 sub questions. A few weaknesses generally observed from the answers given to these sub questions are shown below:

- (1) Some candidates, without paying attention to the instructions given, have written the answers in the question paper itself and attached it to the answer script booklet instead of writing the answers in the answer booklet provided.
- (2) Some candidates not answering 7 questions from question No.1.1 to 1.7 suggests that they have answered those in the question paper itself and had forgotten to attach the question paper to the answer booklet.
- (3) Some other candidates, instead of writing only the relevant number, had written the full answer in the answer booklet and wasted their time.

#### **Question No. 1.4**

It was clear from the answers given that the knowledge of most candidates on accounting concepts was at a low level. Though the correct answer to this question was (2) consistency concept, most candidates had written (3) money measurement concept, as the correct answer.

#### **Question No. 1.8**

It was seen that the knowledge of candidates on basic qualitative characteristics of General Purpose Financial Statements was at a low level.

#### **Question No. 1.10**

Most candidates had failed to write the definition of equity. Some had understood equity as weighting and written incorrect answers.

#### **Question No. 1.11**

Without an understanding of the materiality concept some candidates had written incorrect explanations.

**Question No. 1.12**

Most candidates had failed to state three (3) examples for general accounting software packages. Candidates should update their knowledge associated with current computerized accounting.

**Question No. 1.13**

Some candidates who did not understand the question properly, instead of the relevant prime entry books, had identified the source documents of the given transactions.

**Question No. 1.14**

It was seen from the classification of expenses that the knowledge level of some of the candidates was at a low level regarding capital expenditure and revenue expenditure. Most of the candidates had indicated that the installation cost of Rs.100,000/- at (i) was revenue expenses, which is incorrect.

**Question No. 1.16**

Although it had been very clearly stated in the question paper that the correct double entry should be stated, some candidates who did not understand it had prepared ledger accounts for those transactions while some others had prepared accounting equations.

**SECTION B****Question No. 02**

This question had been set to test the knowledge about preparation of Trial Balance.

A few weaknesses observed in the process of evaluation of answer scripts are given below:

- (1) It was seen that some candidates had recorded items that should have been debited as credits, and credited as debits.
- (2) Most candidates had incorrectly recorded the balances of cash book, capital account and purchases account in the trial balance. They had not received some marks which could have been easily earned because workings had not been shown / attached.
- (3) Certain candidates who had no idea of the trial balance had prepared the balance sheet.
- (4) Although depreciation should have been calculated for the accounting period of one month only a considerable number of candidates, had calculated depreciation for the whole year and recorded it in the trial balance.
- (5) Some other candidates had prepared ledger accounts only and not prepared the trial balance.
- (6) Although rent of office buildings and payment of rent advance should have been shown separately some candidates had not done so, but added them together.
- (7) Some candidates had treated only the original investment in cash of Rs.2,500,000/- as capital but not the value of the van costing Rs.720,000/- transferred to the business by the owner.
- (8) The fixed deposit of Rs.600,000/- at 10% per annum interest was opened on 31<sup>st</sup> May, the last day of the accounting period. Accordingly no interest earned should have been included, but some candidates had included interest.

### Question No. 03

This question consists of 2 parts (a) and (b). Part (a) was relating to rectification of errors by journal entries and part (b) was relating to preparation of statement showing adjusted profit.

Some common weaknesses of candidates observed relating to both parts are as follows:

- (1) It was noted that some candidates who did not understand the question properly had prepared ledger accounts instead of journal entries.
- (2) Although drawings account should have been debited and purchases account credited for goods costing Rs.62,500/- taken by the proprietor for his personal use, some had erroneously credited capital account instead of purchase account.
- (3) It was necessary to debit suspense account with Rs.224,800/- and credit both rent expense account and rent income account with Rs.112,400/- each in order to correct debiting rent income of Rs.112,400/- to rent expense account. Some candidates erroneously had debited rent income account with Rs.112,400/- and credited rent expenses account with Rs.112,400/- without making use of the suspense account.
- (4) Only a small number of candidates had prepared the journal entry to correct under-stating of credit purchases by Rs.9,000/- in the purchases account and trade payables account. Some candidates had recorded that erroneously using the suspense account.
- (5) Most of the candidates did not seem to have an understanding as to how a statement showing the adjusted profit should be prepared. Some candidates failed to clearly identify which items should be added to and deducted from the draft profit of Rs.250,000/-. As such, as a result of adding items that should be deducted and deducting items to be added they had failed to calculate the correct adjusted profit.

### Question No. 04

This question had been set to test the understanding on the preparation of manufacturing accounts. A few common weaknesses observed from the answers given are set out below:

- (1) It was seen that the knowledge of candidates about the format of the manufacturing account and classification of expenses was at a low level.
- (2) Although wages of machine operators and accrued bonus should have been shown under direct expenses, some had shown those under overhead.
- (3) It was seen that though salaries paid to administration staff was not relevant to manufacturing account, some candidates had included that in the manufacturing account.
- (4) Although the question specifically stated that work-in-progress was valued at total production cost, some candidates had disregarded that fact and included that value under prime cost.
- (5) It was seen that some candidates had no idea about adjusting opening and closing stocks.

## Question No. 05

This question comprises of 2 parts (a) and (b). Testing of knowledge on accounting equations was expected by part (a) while knowledge on preparation of financial position was done by part (b).

General weaknesses of candidates observed from their answers are given below:

- (1) It was observed that the knowledge of candidates about accounting equation and how to record in it was low. The fact that assets are equal to liabilities in the accounting equation was not taken into consideration by many candidates.
- (2) Although the format of the accounting equation was clearly given in the question many candidates failed to record relevant transactions within the equation.
- (3) Some candidates had not been able to arrive at the final result because of failure to indicate plus (+) or minus (-) against the values while recording transactions in the equation.
- (4) It was observed that some candidates lacked the knowledge to prepare the statements of financial position in association with the information included in the accounting equation.

## SECTION C

## Question No. 06

This question also consisted of 2 parts (a) and (b). part (a) tested the knowledge of candidates on preparation of the Statement of Comprehensive Income, while part (b) tested the knowledge relating to preparation of Statement of Financial Position.

Weaknesses generally observed while evaluating the answers are set out below:

- (1) Some candidates who could not comprehend the difference between arithmetical values shown in '000 in the trial balance and full values in the adjustments had shown incorrect values in the Statement of Comprehensive Income as well as in the Statement of Financial Position.
- (2) It was observed that some candidates did not possess theoretical knowledge about the Statement of Financial Position.

### **(a) Statement of Comprehensive Income**

- (1) It could be seen that although drawings had to be deducted from the capital, some candidates had treated as "drawings in goods" and deducted it from the purchases in the trading account.
- (2) Although carriage inwards should be recorded in the trading account, some candidates had recorded it in the Profit and Loss account.
- (3) Some candidates had failed to calculate the sales commission correctly. Though its correct value was Rs. 1,090,000/-, some candidates had recorded Rs.930,000/- only that appeared in the trial balance.
- (4) Some other candidates had shown the value of sales commission deducted from sales.
- (5) Though interest on bank loan was relevant only for one month, the total annual interest of Rs.540/- had been recorded in the statement of comprehensive income by some candidates.

- (6) Although the correct value of provision for doubtful debts was Rs.192,000/- in the comprehensive income statement, some candidates had included Rs.215,000/- calculated as the provision without giving consideration to the provision for doubtful debts of Rs.23,000/- that existed and shown in the trial balance.
- (7) Though sales commission is an expense, some candidates had treated it as an income.

**(b) Statement of Financial Position**

- (1) Though bank loan is a liability some had recorded it as an asset.
- (2) Since bank loan had to be settled in one year, though it should be shown as a current liability, some had shown it under non-current liabilities.
- (3) Although only value of buildings should have been depreciated at 5%, some candidates had depreciated values of land and buildings of 5% and shown it added to the accumulated depreciation.

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

1. When you get the question paper, read carefully the instructions given on it.
2. Read the question several times and answer only what is asked in the question. Do not write unnecessary things.
3. Manage your time efficiently at the examination.
4. Before handing over the answer script, check whether the question numbers and your index number have been written correctly.
5. By answering past question papers, you can improve the subject knowledge as well as the ability to write answers well.
6. Action verb Check List with definitions is attached to the question paper itself and each question will begin with an action verb excluding Objective Test Questions (OTQs). Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.
7. Sit for the examination with the main intention of passing.

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