

EXAMINER'S REPORT

AA2 EXAMINATION - JULY 2016

(AA21) ADVANCED FINANCIAL ACCOUNTING

SECTION A

Objective Test Questions (OTQs)
(Total 20 marks)

Question 01

Section A consists of 8 compulsory questions for a total of 20 marks. 8 objective test questions had been set to test the knowledge of Sri Lanka Accounting Standards, Sole proprietorship, Payroll, Partnership Ordinance, Limited liability companies and Valuation of stock.

Only a few candidates were able to score the full 20 marks. Majority of them had not provided the correct answer to question number 1.5. Instead of methods of valuation of goodwill of a partnership, a majority of candidates had written about method of recording goodwill in the books. Candidates have to ensure their knowledge by studying the syllabus and perusal of self-study texts.

SECTION B

Five (05) compulsory questions
(Total 25 marks)

Question 02

This question relating to preparation of an adjusted cash book and bank reconciliation had 5 marks allocated to it. This was the question to which most of the candidates had scored full marks. However, certain candidates who did not identify the entries relevant to the adjusted cash book could not score the marks allotted. Some candidates had adjusted the error by the bank in the cash book.

Most candidates had avoided to arrive at the cash book balance and bring the correct balance to the bank reconciliation. Adjustments to be recorded to the cash book have also been recorded in the bank reconciliation. Answers of a majority of students revealed that they had not confirmed most of their theoretical knowledge. However, the number who scored all 5 marks were at a high level.

Question 03

This question tested on the preparation of Debtors control and creditors control accounts. Majority of the candidates managed to score full marks. However, a few candidates who failed to understand the entries correctly had mixed up and entered in the 2 control accounts. Some candidates had not entered the opening balance of control accounts. Further, there were instances in which entries relating to transactions had not been correctly identified as debits and credits and recorded in the control accounts.

Question 04

This was a single question relating to the goodwill of partnership. It expected to test the knowledge of candidates to adjust the goodwill in an occasion when the profit / loss ratios among partners change. Although majority of the candidates had correctly recorded journal entries to record the goodwill in the books, they had not been able to written off the goodwill from the books of accounts correctly. Some had not recorded at all entries relating to write-off. Some candidates who had not properly read and understood the question had recorded goodwill only in the ledger accounts but not shown in the journal entries. Instances of adjusting goodwill through current accounts due to lack of theoretical knowledge were also observed. Although entries relating to goodwill had been correctly shown, some candidates could not score marks because they had failed to record entries relating to capital accounts. On the whole, a majority had been able to obtain full marks for this question.

Question 05

The marks scored by a majority of candidates for this question relating to accounts of a non-profit oriented club were at a moderate level. A majority had been able to identify correctly the subscriptions and salaries that should be recorded in the Receipts and Payments account. There were candidates who made theoretical mistakes in adjusting accrued expenses and receipts in advance in the Receipts & Payments account instead of Income and Expenditure account.

It was appeared from the answers that candidates have attempted the question without reading and understanding it.

Question 06

This question tested about preparation of Journal Entries relating to sale of Fixed Assets. Many candidates had to forgo 5 marks for the preparation of Journal Entries due to their weaknesses in writing them. Although the profit on sale of assets and the relevant depreciation had been calculated correctly, certain candidates failed to record the journal entries for the transactions. Even where journal entries were prepared correctly there were answers without the narrations. There were some who prepared ledger accounts and did not receive marks. Certain candidates had failed to deduct the depreciation applicable to the motor vehicle sold from the provision for depreciation account. There were instances where the vehicle purchased on credit had been erroneously recorded in the cash book. Recording of adjustments on the sale of motor vehicles in the motor vehicles account instead of the motor vehicle disposal account is an error of basic principles. There were candidates who calculated depreciation for the whole year disregarding the date of purchase and the date of disposal. Satisfactory answers for the question were at a low level.

SECTION C

Three (03) compulsory questions
(Total 30 marks)

Question 07

Preparation of partners current and capital accounts in columnar form was expected in this question. Only a limited number of candidates were able to earn full marks. A majority of candidates had not correctly adjusted the transfer of the share of the partner who retired. Also, only of few candidates had correctly calculated and distributed the revaluation profits. Although most of the candidates had correctly recorded the goodwill adjustment, due to lack of understanding had recorded it the current account. There were scripts in which the revaluation profit had also been recorded in the current account.

Taken as a whole, the performance level for this question was not at a satisfactory level. Candidates should practice in answering questions relating to partnerships associated with problems of revaluations and retirements and prepare themselves to face the examination successfully.

Question 08

This question tested the ability to prepare the income and expenditure account and statement of financial position of a sports club. Although the balances to be included in the income and expenditure account had to be decided from the information that has been given in the receipts and payments account and other additional information, certain candidates had included all without any adjustments. Majority of candidates failed to calculate the subscription income correctly. A majority of the candidates had not attached workings clearly.

Overall, performance for this question is not that satisfactory.

Question 09

This question required preparation of the statement of financial position of a sole trader from incomplete records.

Only a very few candidates were able to score full marks for this question. Preparation of the statement of Financial Position without understanding what was required in the question, not showing the workings properly could be considered as reasons for the poor performance. A few candidates had not attempted this question at all. Although preparation of a cash book was a pre-requisite as workings to arrive at the values, only a few candidates approached the question in that manner. Similarly, although the capital balance could be arrived at by correct adjustment of opening and closing balances, a majority of the candidates had not done it properly.

On an overall assessment, the performance for this question was at an unsatisfactory level.

SECTION D

A compulsory question
(25 marks)

Question 10

This question required preparation of the statement of comprehensive income and the statement of financial position of a private limited company. Most of the candidates had provided satisfactory answers. Candidates had attempted to answer using correct formats which indicates a good trend. Majority of candidates had scored marks successfully.

Most candidates had failed to identify items coming under Administrative expenses. However, those who had shown those under workings were able to score several marks. Lack of basic knowledge on accounting standards can be indicated as a general weaknesses. Only a small number had correctly recorded the income tax adjustment. It was revealed that most candidates did not possess basic knowledge regarding debit and credit in their adjustment of accrual expenses. Certain candidates had mixed up items relating to statement of financial position and statement of income. They should gain correct understanding to show those as per the proper format. Those candidates who had correctly done their workings relating to statements of comprehensive income and financial position were able to get full marks. Although the changes in equity had not been required some had worked out that also. It indicates that they have wasted time and written answers without understanding the question.

Considering the importance of time management answering only what has been requested will help to score more marks.

Candidates should gain understanding further on basic Accounting Principles, new Accounting Standards and the new Companies Act. It will be possible to earn all the marks allotted to a question by writing the question numbers correctly and avoiding writing answers to parts of the question on various pages and showing the workings as close as possible to the answers for easy identification.

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General points to be considered in developing the level of understanding 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 examination with the main intention of passing.

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