

Examiner's Report

AA3 EXAMINATION - JULY 2016

(AA31) FINANCIAL ACCOUNTING AND REPORTING

Most of the common mistakes made by the candidates have been identified. The unsuccessful candidates should take steps to avoid making mistakes in order to be successful at the future examinations:

PART A

Question No. 01

Objective: *Tested students' knowledge on recognition and measurement of revenue from the sale of goods.*

- (1) For part (a), considerable number of candidates correctly identified the revenue on 75 units and earned full marks allocated. The others recognized the Rs.50,000/- as revenue.
- (2) Part (b) of the question was poorly answered. Most of them recognized Rs.10,000/- or 12,000/- as revenue instead of recognizing revenue for 7 months.
- (3) It was observed that most candidates did not have the knowledge on revenue recognition. Candidates are advised to learn the basic principles on revenue recognition.

Question No. 02

Objective: *Tested the candidates' knowledge on definition of Going Concern Assumption and the knowledge on qualitative characteristics of useful financial information.*

- (1) Majority of the candidates answered this question well and scored full allocated marks.
- (2) But a few candidates who did not know the answer, wrote at length explaining qualitative characteristics when the question required only to state 2 qualitative characteristics.

Question No. 03

Objective: *Tested knowledge on specified Business Enterprises.*

- (1) Performance of candidates was very bad and majority of the candidates could not name even one specified business enterprise.
- (2) Candidates are required to read the study packs of AAT in preparing for the exams.

Question No. 04

Objective: Tested on candidates ability to calculate depreciation and the carrying value.

- (1) Although it was a straight forward question, many candidates made mistakes in calculating depreciation. This was due to candidates' failure to consider the information given in the question that the machinery could be used for further 3 years after the review and that there is a residual value at the end of 3rd year.
- (2) Most of the candidates showed Rs.800,000/- as the depreciation charge by dividing 4 million by 5 years ignoring the further information given in the question.

PART B

Question No. 05

Objective: *part (a) of the question tested on the knowledge on compliance with the Companies Act No.7 of 2007. Part (b) tested on reasons for fall on GP ratio and ROCE.*

- (1) For part (a) most of the candidates scored 4 marks out of 6.
- (2) It was observed from the answers that many of them mentioned that the payment of income tax is required by the Companies Act No. 7 of 2007.
- (3) Part (b) of the question was answered well by most of the candidates.

Question No. 06

Objective: *Part (a) of the question tested the knowledge on presentation of irredeemable preference shares and preference dividend in the financial statements. Part (b) of the question tested the knowledge on financial assets.*

- (1) Majority of the candidates stated that irredeemable preference shares should be shown as a long term liability and preference share dividend should be recognized as a financial expense.
- (2) Majority of the candidates identified financial assets correctly. The others identified inventory and prepayments also as financial assets.
- (3) However, most of them could not give the reasons for classifying each asset which was also a requirement given in the question.

Question No. 07

Objective: Knowledge on following areas were tested:

- (1) Part (a) Calculation of goodwill on consolidation.
- (2) Part (b) Balance of non-controlling interest account.
- (3) Part (c) Balance of consolidated retained earnings account.
- (4) Part (d) amount to be shown as PPE in the Consolidated Financial Position as at 31.03 2016.

Following points were noted from candidate's answers:

Part (a)

Most candidates were unable to arrive at the fair value of non-controlling interest at the date of acquisition and did not add the fair value of non-controlling interest to the investment in arriving at the goodwill on consolidation.

Part (b) & (c)

A few candidates were able to identify the share of post-acquisition profits applicable to non-controlling interest while majority could not separate post & pre acquisition profits correctly.

Part (d)

Most candidates added assets of **Pero PLC** and **Sara Ltd.** but failed to add the fair value adjustment relating to land.

PART C

Question No. 08

Objective: Test candidate's knowledge on the following areas:

- (1) Part (a) Preparation of Statement of Comprehensive Income.
- (2) Part (b) Preparation of Statement of Financial Position.
- (3) Part (c) Preparation of Statement of Changes in Equity.
- (4) Part (d) Tested the knowledge on LKAS 16 Property, Plant & Equipment and notes to PPE.

During the marking process Examiners observed the following weaknesses in candidates' answers:

PROPERTY PLANT AND EQUIPMENT

- (1) Most of the candidates have a poor knowledge on depreciation calculation, for example to compute depreciation for the additions made during the year, they have not considered the number of months correctly specially, with regard to the sold vehicle, where depreciation relevant to the six month period has not been taken into account. Some of the candidates calculated depreciation on the fully depreciated furniture amounting to Rs.400,000/-. A few candidates considered Rs.400,000/- as a disposal.
- (2) A few of the candidates were unable to correctly calculate depreciation on delivery van sold on 20.03.2016.
- (3) Some candidates enhanced the land value by Rs.18,000/- instead of Rs.2,000/-.

INVESTMENTS

A few candidates did not show the Investment balance at the fair value as at 31.03.2016.

TRADE RECEIVABLES

Some of the candidates made mistakes in arriving at the value of trade receivables as at 31.03.2016. The mistakes made in adjusting for bad debts written off caused arriving at incorrect year end trade receivable balance and incorrect provision for doubtful debtor balance.

TAX EXPENSE

A considerable number of candidates failed to show the Tax Expense correctly for the year. They showed only Rs.5,100,000/- without including the previous years under provision of Rs.500,000/-.

Considerable number of candidates also made mistakes in arriving at actual income tax liability as at 31.03.2016.

STATEMENT OF CHANGES IN EQUITY

A few candidates deducted interim dividends paid from Share capital instead of from retained earnings.

Some candidates instead of showing the revaluation adjustment under revaluation reserve column, showed the revaluation adjustment under retained earnings.

GENERAL COMMENTS

Considerable number of candidates had not attached their supporting calculations / workings with the answer sheet hence examiner was unable to give marks to those answers.

Overall Performance

Almost all the candidates attempted this question and majority of them got more than 15 marks. Candidates' answers were satisfactory.

In order to improve performance it is recommended to practice questions of this nature as much as possible and to learn to manage the time.

Question No. 09

Objective: Tested candidates' knowledge on preparation of cash flow statement under indirect method and calculation of ratios.

Comments:

Part (a)

When preparing the cash flow statement, the following mistakes were done by some candidates:

- (1) Arrived at incorrect loss on disposal.
- (2) Deducted loss on disposal from the profit before tax.
- (3) Incorrectly treated changes in movement of working capital.
- (4) Inability to arrive at amount spent on acquiring PPE.
- (5) Not showing the sale proceeds in the cash flow even after arriving at the figure in the workings.
- (6) Not arriving at the opening and closing cash equivalents.
- (7) Not including the bank overdraft in the cash equivalents.

Part (b)

- (1) When including ratios, some candidates made following mistakes:
 - (i) Some candidates mixed up the denominator and numerator in arriving at assets turnover ratio.
 - (ii) In working the quick assets ratio, both inventory and pre payments were deducted from current assets.
- (2) In general, this part was fairly easy and most candidates scored full marks or 90 % of the marks allocated.
- (3) But there were a few who could not even calculate GP ratio, Net profit ratio and current ratio.

- * * * -