

Examiner's Report

AA1 Examination - July 2017

(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. It was instructed to select the most suitable answer for question numbers **1.1** to **1.8** and write them in the answer booklet with the respective question number. However, it was observed that some candidates who ignored the instructions had marked the answers in the question paper itself and attached to the answer booklet and full answer has been written instead of relevant number of the answer. Candidates should follow the instructions given in the question paper as it is.

Further some candidates have written answers for the question number **1.9** to **1.16** in the booklet, but answers for questions from **1.1** to **1.8** have not been mentioned. It might be that though the answers for those questions had been marked in the question paper, they have failed to write in the booklet. Thereby, candidates have not obtained marks for 08 sub questions which could have been easily earned.

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

Question No. 1.1

Though the correct answer for qualitative characteristic of financial information according to the Conceptual Framework for Financial Reporting was number (2) "relevance", many candidates have selected number (3) "Going Concern" as the answer.

Question No. 1.2

It was noted that many candidates have failed to calculate net profit correctly based on information provided. Though the correct answer was number (3) Rs.85,000/- , considerable number of candidates have selected number (2) Rs.35,000/-.

Question No. 1.6

Most of the candidates have failed to calculate the impact to the profit correctly by understating the opening inventory balance of a business while overstating the closing inventory balance. Many candidates have provided incorrect answers for this question. Though the correct answer was number (1) "Overstating of gross profit by Rs.55,000/-", most of the candidates have selected number (3) "Overstating of gross profit by Rs.5,000/-" and number (4) "Understating of gross profit by Rs.5,000/-" which is incorrect.

Question No. 1.7

It was noted that the knowledge on General Accounting software packages was at a low level. Most of candidates had given incorrect answers for this question too. Though number (1) "Payroll system" is not a General Accounting software package, many candidates have selected number (3) "ACCPAC" and number (4) "Tally" as the correct answer. This kind of incorrect answers could be given due to misunderstanding the words "is not" as "is" since the question was not read properly.

Question No. 1.10

Due to lack of knowledge on Goods Received Note (GRN), considerable number of candidates have failed to mention two important matters that has to be included in a Goods Received Note.

Question No. 1.11

It was observed that many candidates did not have a proper understanding on Computerized Accounting System. More than a half of candidates have failed to mention two disadvantages of it. Some candidates have mentioned advantages instead of disadvantages.

Question No. 1.12

Incorrect answers represents that the knowledge on accounting concepts is very low. Some candidates have failed to identify the accounting concept relevant to "(a) Recording cash withdrawn by the owner amounting to Rs.5,000/- as drawings" as entity concept. Also, considerable number of candidates have failed to identify the accounting concept relevant to "(b) Depreciate machinery on the basis of expected useful life" as Going Concern concept.

Question No. 1.16

When stating the double entries for given transactions, many candidates have not stated the correct double entry for part (b). A considerable number of candidates have not considered the discounts allowed of Rs.5,000/- and some candidates have not completed the relevant double entry.

SECTION B**Question No. 02** - 10 marks

(A Compulsory Question)

This question consists of 2 parts (a) and (b). Part (a) was to test the knowledge of preparing Purchases Day Book and Part (b) was to test the knowledge of accounting equation.

Some common weaknesses observed are given below.

(a) Preparation of Purchases Day Book

- (1) Due to lack of basic knowledge to prepare Purchases Day Book, some candidates have not answered for this part. Thereby, they have lost 04 marks, which could have been earned easily.
- (2) Some candidates have prepared ledger accounts instead of Purchases Day Book due to lack of knowledge on prime entry books.
- (3) In respect of first transaction, it was required to show 2% trade discount as a deduction from purchase value of Rs.9,000/- in the Purchases Day Book. However, most of the candidates have mentioned the net value of Rs.8,820/- without showing the trade discount deducted.

- (4) In respect of first transaction, some candidates have stated total value of Rs.9,000/- in the Purchases Day Book without considering the trade discount. Some other candidates have not done the calculation (90 x 100) correctly. Value has been incorrectly stated as Rs.900/-. Thereby, the trade discount figure was also incorrect.
- (5) It was noted that some candidates did not have the knowledge about the format of Purchases Day Book.

(b) Impact to the accounting equation

- (1) Some candidates who did not have basic knowledge related to accounting equation have not answered for this part. Thereby, they have lost 06 marks which could have been easily obtained.
- (2) Some candidates have considered purchased goods for resale for Rs.750,000/- on credit on 05.03.2017 as a cash purchase and have added to inventories and deducted from cash. A considerable number of candidates have considered it as credit sales instead of credit purchases and have deducted from inventories and added to debtors.
- (3) When recording the transaction of sale of stocks costing of Rs.300,000/- for Rs.330,000/- with a profit margin of 10% on cost, some candidates have deducted total value including the profit margin from inventories.
- (4) Payment of electricity bill of Rs.10,000/- should be deducted from cash and equity. Though many candidates have shown the deduction from cash correctly, Some have deducted it from liabilities incorrectly.
- (5) A very few candidates have shown the impact only to one side of the accounting equation.

Question No. 03 - 10 marks

(A Compulsory Question)

This question also 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 calculating adjusted profit (loss).

Some common weaknesses observed were given below:

(a) Preparation of journal entries to rectify errors

- (1) Some candidates who do not have the knowledge on journal entries have not attempted for this part.
- (2) Some candidates who did not understand the question properly have prepared ledger accounts instead of journal entries and wasted time.
- (3) The journal entry to rectify the error of recoding telephone expenses of Rs.1,200/- as Rs.2,100/- in electricity expenses account has been made correctly by very few candidates. Though this has to be corrected using suspense account, some candidates have made incorrect entries using only telephone expenses and electricity expenses accounts.

- (4) The journal entry to rectify the error of crediting Interest expense of Rs.5,000/- to interest income account has been made correctly by very few candidates. Most of candidates have rectified a part of the error by debiting Rs.5,000/- to Interest expense and crediting Rs.5,000/- to suspense account.

(b) Calculating adjusted profit (loss)

- (1) Knowledge of many candidates about the format of calculating adjusted profit (loss) was at a low level. Most of them had prepared suspense account.
- (2) Some candidates have ignored the profit as per the draft financial statements for the year ended 31st March 2017 was Rs.175,000/- and profit/ loss has been calculated by adjusting only income and expenses given in the correction of journal entries.
- (3) Some other candidates have prepared journal entries for part **(a)** but schedule of adjusted profit/loss for part **(b)** has not been prepared.
- (4) When computing adjusted profit/(loss), some candidates have deducted some items which should have been added and vice versa.

Question No. 04 - 10 marks

(A Compulsory Question)

This question was to test knowledge on preparation of trial balance of a sole proprietorship. Some common weaknesses observed are given below:

- (1) Some candidates have prepared statement of financial position as at 31st March 2017 instead of trial balance.
- (2) Some candidates have done correct adjustments in workings but those balances were not taken to the trial balance.
- (3) Some other candidates have mentioned debit balances in the credit side and vice versa. It witnesses that understanding on double entry principle is low.
- (4) In order to find out the balances as at 31st March 2017, relevant ledger accounts for Cash book, trade debtors and trade creditors must be prepared and record relevant transactions. But some candidates have not done that and opening balances stated in the statement financial position were taken directly to trial balance.

Question No. 05 - 10 marks

(A Compulsory Question)

This question was to test the knowledge of preparation of Manufacturing Account and calculation of unit price and it consists of 2 parts **(a)** and **(b)**. Part **(a)** was to test knowledge on preparation of Manufacturing Account for the year ended 31st March 2017 and Part **(b)** was to test the knowledge on calculation of manufacturing cost per glass bottle. Some common weaknesses observed are given below:

(a) Preparation of manufacturing account

- (1) It was noted that the knowledge of candidates about the format of the manufacturing account was at a very low level. Some candidates have prepared the manufacturing account as income and expenditure account and some others as statement of financial position.

- (2) Although the question specifically stated that work-in-progress should be valued at total production cost, some candidates had recorded the same under prime cost.
- (3) It was noted that some candidates had included production manager's salary under the direct expenses, though it should have been recorded under overhead costs.
- (4) Though incentive paid to production workers should have been recorded under direct expenses, some candidates have stated under overhead costs.
- (5) Although the question clearly stated that building rent, security expenses and electricity expenses should be apportioned between factory and office at given percentages, some candidates have ignored it and have recorded the total expense under production overhead.

(b) Calculation of manufacturing cost per glass bottle

- (1) Some candidates who did not have an understanding on calculation of unit cost, have not answered for this part.
- (2) To calculate the manufacturing cost per glass bottle, total production cost should be divided by the number of bottles manufactured during the year. But some candidates have not done that and forgone marks, which could have been easily obtained.
- (3) Even some candidates who have calculated the total production cost correctly through correct manufacturing account, have failed to answer for this part.

SECTION C

Question No. 06 - 20 marks

(A Compulsory Question)

This question also consists of 2 parts (a) and (b). Part (a) was to test the preparation of Statement of Comprehensive Income for the year ended 31st March 2017 and Part (b) was to test the preparation of Statement of Financial Position as at 31st March 2017. Some common weaknesses observed are given below:

(a) Preparation of Statement of Comprehensive Income

- (1) Though the closing stocks should have been valued at the cost or net realizable value whichever is lower, some have recorded net realizable value which was the higher value in the trading account.
- (2) Incorrect depreciation figures have been obtained due to errors in calculation of depreciation.
- (3) Though only the value of building should be considered for depreciation some have calculated depreciation on total value of land and buildings.
- (4) Though bad debts written off should be deducted from trade receivables, when making provision for doubtful debts, some candidates have calculated the provision of doubtful debts on trade receivable balance stated in the trial balance.
- (5) Some candidates have not correctly calculated showroom rent for the year.

(b) Preparation of Statement of financial position

- (1) It was revealed that some candidates' knowledge on format of statement of financial position was at a low level.
- (2) Carrying amount and accumulated depreciation were incorrect due to the calculation of depreciation including lands.
- (3) Closing stocks was shown with a wrong value due to considering net realizable value.
- (4) Though doubtful debts should be provided on balance after deducting bad debts written off from trade receivables, some candidates have provided for doubtful debts on total value.

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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) Use 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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