

Examiner's Report

Final Examination – January 2014

(60) Advanced Financial Accounting

QUESTION NO: 01 (Marks Allotted 30)

Rationale

Question one consists of main objective “Preparation of Financial Statement of a company” in accordance with the Sri Lanka Accounting Standards test adjusting & non adjusting events. These are drawn from all sections of the syllabus. They are designed to examine breadth across the syllabus and thus cover many learning outcomes.

Suggested Approach

Candidates that used the information given in part (i) to justify their answer scored well in this question. Ideally each adjustment in the question should have been taken in to consideration in preparation of final accounts of Full Moon PLC. The second part is a direct question, to identify event as adjustable non adjustable.

Examiner’s Comments

Both parts of this question were answered satisfactory, with many achieving reasonable marks. This was extremely positive as this question was to test application of skills – the ability to use technical knowledge and apply to a scenario.

(1) Damaged Inventory:

Majority of candidates added Rs.650,000/- to the cost of sales given in the trial balance but failed to deduct Rs.250,000/- from the same account. Few candidates was taken net amount of Rs.400,000/- as expenses in the income statement.

(2) Redemption of preference shares:

3/5 of Non Redeemable Preference Shares (Rs.6 million) were shown in the part of equity statement instead of non-current liability account. In addition to this Rs.200,000/- of the share premium expense was not recognized as expense in the income statement.

(3) Additions and disposals of PPE:

(3.1) Most of the candidates were not removed the Rs.800,000/- from the administration expenses where this was erroneously debited to the administration expenses. Further, the amount payable to elevator supplier of Rs.400,000/- is not accounted as account payable.

(3.2) Few mistakes were observed in Timing for depreciation for filing cupboard for Rs.18,000/-.

(3.3) Most of the candidates did not deduct disposal of 2 old computers for Rs.12,000/- from the sales account. This amount should be treated as other income since computers being fully depreciated at the time of disposal.

(4) Income tax provision:

Most of the candidates did not arrived the tax charge (Rs.125,000/-) for the current year and showed Rs.160,000/- as current liability for prevailing period. Further, tax over provision for 2011/12 was not correctly accounted.

(5) Bank loan:

Even though the question specifically mentioned that bank loan outstanding as 31/03/2013 should be settled in the following year bank loan was shown as non-current liability. Few candidates provided bank loan interest even though the question specifically mentioned that interest has been already provided. This reflects that candidates are not reading the question carefully.

(6) Dividend on preference share capital has not been identified as finance expenses as per SLFRS.

(7) Board decisions:

Majority of the candidates did not provide for dividend payable of Rs.250,000/- on preference shares. Few candidates has identified ordinary dividends as liability instead of showing as note to the financial statements.

Part (b)

Adjusting and Non-adjusting events after the reporting period:

Most of the candidates were in dilemma when they recognize of adjusting and non adjusting events. Adjusting events: Those are provided evidence of conditions that existed at the end of the reporting period. An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting period. Whereas Non-adjusting events after the reporting period are the indicatives of conditions that arose after the reporting period. An entity shall not adjust the amount recognized in its financial statements.

General

1. There were number of students who had used the headings of “profit and loss account” and “Balance sheet” instead of “Comprehensive Income Statements” & “Financial Position Statement”
2. Most of the students had not followed the format given under the new standards.
3. Most of the students showed their inability to select correct categorization of assets, liabilities and expenses.

Hint to improve the performance

- Notes to the financial statements have to be provided whenever necessary,
- The relevant workings to the final answer to be shown appropriately in order to earn more marks. Eg: some candidates had not given the supporting calculations of disposal of vehicle, calculation of depreciation, arriving the final figure of each expenditure category.
- The opening balance, additions during the year, carrying value of the cost and accumulated depreciation of the PPE should be clearly stated in the PPE statement.
- Disposal of assets should be done correctly identifying insurance claim receivable, sales proceeds, etc.
- Students should understand about LKAS / SLFRS.

QUESTION NO: 02 (Marks Allotted 15)

Objective is to test the following areas;

Rationale

This question was intended to test two distinct areas of the syllabus; *Methods of accounting for life insurance and Amalgamation of two partnerships*

The first part required candidates to state two methods of accounting for life insurance out of three methods available. The second part required calculations and preparation of *Partner’s accounts and Statement of Financial position of new partnership as at 01st April 2014.*

Examiners' Comments

This question was poorly attempted by many candidates. Majority did not know about methods of life insurance policy and entries relating to the amalgamation of partnership.

Following were observed during the marking of answer scripts:

- (1) Identification of new partnership capital was done correctly by majority, however some students has stated the capital balance of old partnership accounts.
- (2) Some students use only one realization account for two partnerships and they could not get correct profit or loss amount. Few candidates have passed entries in wrong side of the capital account. A significant number of students could not apply profit sharing ratio in arriving at profit or loss in partnership realization accounts.
- (3) Majority of students has not properly accounted for current assets and current liabilities as mentioned in the question.
- (4) Although most of students have correctly mentioned new partnership capital, individual partners capital, could not been shown correctly.
- (5) Student's knowledge on preparation of partners current and capital accounts was very weak. Few candidates had no idea of debit and credit balances in the capital and current accounts. Most of students could not arrive at cash amount to be adjusted in current and capital account.
- (6) Most of the students could not understand that current account balance in new partnership is as zero.

Generally:

Students are advised to read the question more carefully and workout the required calculations only.

QUESTION NO: 03 (Marks Allotted 15)

Rationale:

This question was required students to prepare Consolidated Statement of Financial position as at 31st March 2013 with goodwill calculation.

Suggested Approach

Candidates should have applied the new rules for calculating goodwill on acquisition.

Candidates should have provided two or three relevant points using the information that is given stating how investment is to be treated and method of accounting to be used. They should have addressed the additional information given in the question regarding fair value adjustment and the impact on depreciation and goodwill

Examiners' Comments

- (1) Majority has calculated goodwill on acquisition based on old method which is not used now. They do not know how to calculate goodwill based on new standards.
- (2) Even though marks can be awarded for the workings in case where the final answer is incorrect, some candidates have not clearly shown their workings in the answer scripts.
- (3) Majority has calculated goodwill based on book value instead of fair value.
- (4) Lot of failures on calculation of revaluation of lands and that figure was not taken into the goodwill calculation.
- (5) Question was specific on calculation of non controlling interest based on fair value. However, most of the candidates deviate from such calculation.

- (6) Only few candidates correctly calculated unrealized profit on goods in transit. Some of them adjusted to the non-controlling interest account.
- (7) Recognition of inter-company balances was very poor in this examination too.

Overall, most of the candidates' performance is poor.

QUESTION NO: 04 (Marks Allotted 10)

Form of warrant for withdrawal of money from consolidated fund in which the Minister of Finance grants authority, describe the process of preparing expenditure estimates of the Government budget, describe the process involved in releasing advances from the contingencies fund.

Rationale:

This question tested the regulatory and institutional framework in public sector and parliamentary control of Public Finance which are very straightforward question tests on the said area.

Suggested Approach:

Candidates should have applied their theory knowledge in public sector to answer these three parts of the question.

Examiners' Comments:

This question was poorly attempted by many candidates. Candidates wrote a number of irrelevant answers for the all three parts of the question.

In part B of the question handful of candidates identified the activities performed by each department classified under two programs, i.e. Operational programmes and Development programmes. Further, the expenditure can be classified under objectives of a project as revenue expenditure and capital expenditure.

Most of the candidates did not mention that prior approval of the President is required to obtain advances from the contingencies fund etc.

QUESTION NO: 05 (Marks Allotted 14)

Preparation of Cash Flow Statement using In-Direct method

Rationale:

This question tested the preparation of the cash flow statement using indirect method.

Suggested Approach

Candidates should have applied their technical and application skills to prepare the cash flow statement in accordance with LKAS 7.

Examiners' Comments:

This question was answered satisfactorily by the candidates.

Many students have scored between above 7-9 marks out of the total marks of 14.

The main reasons for the poor performance are stated below:

- (1) Without preparing cash flow statement under indirect method, some candidates have prepared it under direct method. Some students have not followed the correct format of cash flow statement and as a result they have not correctly stated the cash flow arising from operating activities, investing activities and financing activities.
- (2) Some candidates have taken profit after taxation instead of profit before taxation.

- (3) Few students considered other income as non cash item and deducted from the profit before tax as an adjustments.
- (4) Few candidates erroneously identified the changes in working capital. Example: Decrease in inventories has deducted as cash outflow.
- (5) Opening and Closing balances of ledger accounts have not been taken correctly by few candidates
- (6) Students are advised to pay more attention on adjustments such as disposal proceeds, Tax payments, investment recording, loan interest payment etc.

Overall, most of the candidates have an understanding on preparation of cash flow statements.

QUESTION NO: 06 (Marks Allotted 16)

Define the terms of revenue and fair value, accounting entries of leasing transactions, calculation of borrowing cost.

Rationale:

This question tested the knowledge of LKAS 18- Revenue, LKAS 23- Borrowing costs, accounting entries of buyers' book in leasing transaction.

Suggested Approach

Candidates' should have applied their technical and application skill to score marks in the relevant LKAS and relevant accounting entries of leasing transaction

Examiners' Comments

This question was answered very poorly by the candidates.

Reasons for poor answers;

- (1) Most of the candidates were unable to give the correct definition of revenue and fair value. Therefore, they spelt out bunch of words which are totally irrelevant for the definition of the two technical terms.
- (2) (i) Some candidates wrote both journal entries and T accounts and lost their valuable examination time.
(ii) There were four lease installments relevant for the prevailing financial period whereas some candidates considered only three installments.
(iii) Only few candidates were able to calculate lease interest correctly.
(iv) Most of the candidates computed depreciation for the full year of the asset where it should have been depreciated for four months for the financial year 2012/2013
- (3) Treasury bill interest and loan interest were not calculated for the relevant period of the prevailing financial year.

General:

Students are advised to learn lease interest calculation as per LKAS 17 because most of the students has no idea about new accounting standards.