

## Examiner's Report

Foundation Examination - January 2014

(50) Basic Accounting

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### SECTION -A

**Question No. 01** – 30 Marks  
(Compulsory Question)

Though the instructions to answer this question were given clearly in the question paper, it was noted that some candidates have written answers in the question paper itself and attached to the answer booklet without considering the instructions given. Some candidates have answered with numbers instead of English letters. Some common weaknesses are mentioned below:

- (A) Knowledge of main objectives of preparing financial statements is poor. Many of them have selected answer (2) – To prevent fraud and error which is incorrect.
- (E) Most of candidates do not have a clear understanding on purchase of machine, depreciating and computing profit on disposal. Many candidates have selected answers (2) and (3) which are incorrect.
- (F) A very few candidates has identified clearly the error that affected to the debit balance of Rs.10,000/- in the Suspense account.
- (H) Less than 50% of candidates have calculated the value of opening stock correctly.
- (K) Knowledge about overheads is poor. Though answer (3) – rent and insurance of office premises was the correct answer, some candidates have selected answer (4) – Salaries paid to factory supervisors and foremen which is incorrect.
- (L) Many candidates who do not have proper understanding of costs have provided wrong answers to this question. Many have selected answers (3) and (4) which are incorrect.
- (O) It was noted that knowledge about prime cost also is very poor. Though the sum of all direct costs was the correct answer, many of them have selected answers (2) and (3) which are incorrect

## SECTION B

**Question No. 02** – 25 Marks  
**(Compulsory Question)**

According to the given answers, following are the common weaknesses noted in preparation of Income Statement and Statement of Financial Position.

**(a) Statement of Income ( Trading, Profits and Loss Account)**

- (1) Many candidates do not have proper understanding on the basis of computation of closing stock to the Trading account. Though the valuation of inventories should be based on the cost or net realizable value whichever is lower, most of them have stated the higher value as closing stock.
- (2) It was clear that the knowledge of Accrual concept is poor, since correct electricity payable and salaries payable were not considered.
- (3) Though the value of personal life insurance of the owner should be considered as drawings, some candidates have included to the income statement as an expense of the business.
- (4) Some have mentioned incorrect depreciation figures due to calculation mistakes.

**(b) Statement of Financial Position (Balance Sheet)**

- (1) Many have stated incorrect accumulated depreciation in the Statement of Financial Position due to incorrect calculation of depreciation.
- (2) Though the value of land was given clearly in the question paper, some candidates have depreciated the total value of land and buildings.
- (3) Though the value of closing stock should be the lesser amount of Rs.800,000/- from the Cost or net realizable value, some have mentioned the higher value of Rs.830,000/-.
- (4) Cash in hand balance was correctly recorded by a very few. Many have mentioned incorrect cash in hand balance due to calculation errors in identifying cash drawings.

**Common Weaknesses:**

- (1) It was clearly stated that the values of trial balance are in thousands ('000) and adjustments are in full values. However, some have found difficulties in converting to thousands and shown incorrect values.
- (2) Some candidates have not understood the format of Income Statement and Statement of Financial Position properly.

**Question No. 03** – 25 Marks  
(Compulsory Question)

Part A of this question tested the knowledge on preparation of Manufacturing Account and Part B tested on writing of Correction Journal Entries and preparation of Suspense Account.

The common weaknesses noted are given below:

**Part (A)** - preparation of Manufacturing Account

- (1) It was noticed that some candidates do not have an understanding about the format of manufacturing account. Some candidates have prepared it as a trial balance and some have prepared it as a profit and loss account.
- (2) Many candidates have not calculated the licence fee for manufacturing electrical circuits (royalty) correctly. Further, though it should be shown as a direct cost in the manufacturing account, many have stated it as a manufacturing overhead.
- (3) Electricity and telephone expenses should be apportioned as factory and office and labour cost should be apportioned as direct manufacturing and factory by applying relevant percentages. However, many candidates have not apportioned correct values.
- (4) Though it was clearly given in the question paper that work in progress is relevant to prime cost, some have adjusted it at the end of manufacturing account.

**Part (B)** - Journal Entries for correction

- (1) Many have gone wrong in writing number (3) – Journal entry relevant to Office maintenance expenses and office equipment account.
- (2) Though it was clearly instructed to prepare journal entries including entries for cash transactions, some have made the entry for number (4) only using suspense account and not mentioned the entry relevant to cash book.
- (3) Most of them have prepared the suspense account correctly. But some have scored low marks due to incorrect opening balance arising through incorrect journal entry for Number (3).

**SECTION C**

**Question No. 04** – 10 Marks  
(Optional Question)

Part A of this question was to test the knowledge on preparation of adjusted cash book and Part B was to test the knowledge on Goods Received Note (GRN). Following weaknesses were noted.

**Part (A)**

- (1) Many have taken an incorrect balance in the adjusted cash book due to mistakes done when preparing it.
- (2) Some who do not have proper understanding on preparation of adjusted cash book have mentioned the facts given in the question paper as it is in the cash book.
- (3) When preparing Bank Reconciliation statement some have deducted the items which are to be added and vice versa.

**Part (B)**

- (1) It was observed that most of them do not have clear understanding about Goods Received Note and contents of it.
- (2) Many have not attempted this part due to lack of knowledge.

**Question No. 05** – 10 Marks**(Optional Question)**

Part A of this question was to test the knowledge on Debtors control account and individual debtors' ledger accounts and Part B was to test the knowledge on classification of direct and indirect expenses.

The following common weaknesses were noted:

**Part A**

- (1) Though, total of all debtor balances should be stated as one figure in the Debtors control account as opening balance, some have stated individual debtor balances in the Debtors Control account.
- (2) Though discounts given should be recorded in the credit side of the debtors control account, some have debited it to the debtors control account.
- (3) Some candidates have credited the items which should have been debited to the Debtors Control Account and vice versa.
- (4) Some candidates have prepared the ledger accounts but, closing balances were not taken since it was not balanced.

**Part (B)**

- (1) Many candidates have mentioned the salaries for Machine operators - Rs. 850,000/- as a direct cost.
- (2) Purchase of buttons is a direct cost but, some have stated it as an indirect cost.

**Question No. 06** – 10 Marks**(Optional Question)**

Part A of this question tested the knowledge of preparation of stock ledger using FIFO method and Part B tested the knowledge of advantages of a labour incentive payment scheme.

**Part A**

- (1) It was evident that many of them do not have proper knowledge about the format of stock ledger and preparation of it.
- (2) Some candidates have not calculated the value of stock correctly, due to lack of knowledge on FIFO method.

**Part (B)**

Though some have mentioned about the labour Incentive scheme, majority have failed to state three advantages of labour Incentive scheme correctly.