

Examiner's Report

Intermediate Examination - January 2014

(54) Accounting and Control Systems

SECTION – A

Multiple Choice Questions

QUESTION NO.01 – 30 MARKS

(Compulsory Question)

- (A) There were many instances where candidates have selected different answers instead of the correct answer, due to lack of understanding of the conceptual framework for the preparation and presentation of financial statements,.
- (B) Many candidates have selected the correct answer.
- (C) This question was asked about the errors which would not be detected by preparing the Trial Balance. It was clear that the knowledge in this area is good since many candidates have selected the correct answer.
- (D) This is a question where correct answer could be found through calculation. Most of the candidates have failed. It revealed that the understanding on calculation of VAT is poor. Incorrect answers were selected in many instances by applying 12/112 only on sales.
- (E) This question required only the understanding of purchase on credit is a liability, depreciation is an expense, and expenses will decrease equity. It was clear that many candidates have this knowledge, since selecting the correct answer.
- (F) This is a question where correct answer could be found through calculation. Many candidates have failed to select the correct answer. Poor knowledge in Bank Reconciliations is the reason for the failure.
- (G) Many candidates have identified that when closing stock is overstated, current year profit will be understated and next year's profit will be overstated and have selected the correct answer.
- (H) This is a simple question. It is required only to understand when accrued expenditure is settled in cash, both current liabilities as well as current assets will decrease. It was clear that many candidates have this knowledge, since selecting the correct answer.
- (I) This is a question where the correct answer could be found through calculation. It is required the knowledge of calculation of correct sales value and correct gross profit as well as calculation of percentages, knowledge of the way that errors in stock value effect on profit. Incorrect answers revealed that many candidates have faced difficulties due to lack of this knowledge.
- (J) A question where correct answer could be found through understanding. It is only required the understanding of purchase of fixed assets on credit cannot be recorded in a journal other than general journal. According to the successful answers provided, it was clear that many candidates have this understanding.

- (K) Many candidates have failed to select the correct answer. Poor knowledge regarding an internal auditor and internal auditing is the reason for this.
- (L) This is also a question where the answer could be found through understanding. Many candidates who had the knowledge about internal check have selected the correct answer.
- (M) (N) & (O) most of the candidates have answered successfully.

SECTION – B

QUESTION NO.02 – 25 MARKS

(Compulsory Question)

- (A) It was noticed that many candidates do not have proper understanding about documents to be submitted to incorporate a private limited company under the Companies Act No. 07 of 2007.
- (B) This question was to test the ability to prepare a set of accounts for the use of the management and following weaknesses were noted.
- (1) It was noted a low level of understanding on accounting of closing stock at cost or net realizable value whichever is lower. Most of the candidates have stated the cost in the accounts.
- (2) Many candidates have failed to account correctly the stock stolen on 20th March 2013 costing of Rs.1,700,000/- and they have not understood that the robbery had happened before the closing stock counting. Due to this reason many candidates have deducted the cost of stolen stocks from the closing stock. Further, there were instances where total insurance claim received has been accounted as an other income instead of showing the balance after deducting loss incurred from the agreed insurance claim.
- (3) Only few candidates have accounted correctly the disposal of motor vehicle and purchase of a new motor vehicle. Though the cost of the disposed vehicle and transfer value were accounted correctly, due to failure in calculation of correct accumulated depreciation relevant for the period, they failed to calculate the profit correctly.
- (4) When calculating depreciation on fixed assets, many candidates have calculated correctly for all assets other than motor vehicles. However, they failed to calculate the correct for the year depreciation and accumulated depreciation for motor vehicles.
- (5) As a result of failure in understanding that rent paid for the office is for the period from 01st July 2012 to 30th June 2013, total amount has been written off during the year, instead of showing prepaid rent of Rs. 750,000/- relevant for the period from 01st April 2013 to 30th June 2013.
- (6) Most of the candidates were unable to do the income tax adjustment correctly. When accounting for overprovision of Rs. 1,650,000/- which was arisen with the determination of income tax liability of the year 2011/12 as Rs. 4,350,000/- and estimated tax for the year of Assessment 2012/13 amounting to Rs. 8,500,00/-, some candidates have made provisions for total of both overprovision and the estimated tax. And some others have provided only for current year estimate omitting overprovision. Further, many candidates have not stated the correct balance tax payable as a current liability in the statement of Financial position. Balance tax payable is the amount adjusted for current year provision with income tax paid Rs. 8,370,000/- which was given in the trial balance after deducting Rs. 4,350,000/- paid for the prior year.
- (7) Some candidates have accounted for total interest as paid without paying attention to the payment date of debenture interest.

QUESTION NO.03 – 25 MARKS

(Compulsory Question)

This question was to test the knowledge on accounting transactions of the retirement of a partner during the year. Since this is a compulsory question, most of the candidates have answered correctly. Following were noted during the evaluation.

Preparation of Trading Account

- (1) Information required to prepare the trading account on columnar basis was not provided and it was expected to divide gross profit between two periods on sales basis. But, there were instances where the trading account prepared for two periods.
- (2) There were answer scripts where gross profit was divided on time basis instead of sales basis.

Preparation of Income Statement

- (1) There were instances where depreciation on buildings was calculated without removing the value of land.
- (2) Though salaries of partners were stated correctly, there were many instances where partners' loan interest have not been calculated correctly. Specially, they have failed to calculate retired partner's loan amount and his loan interest for the subsequent period.
- (3) Due to mistakes in income statement, net profit for both periods was not calculated correctly. Therefore there were few answer scripts where profits were apportioned to partners correctly.

Preparation of Statement of Financial Position (Balance Sheet)

- (1) Due to failure in calculation of depreciation of vehicles, there were few answer scripts where value of the remaining vehicles and accumulated depreciation as at balance sheet date have been stated correctly.
- (2) There were instances where total amount receivable was shown in the balance sheet without deducting bad debts written off.
- (3) There were many instances where erroneous amounts were shown as Retired partner-Dayal's loan and also not shown the loan amount. Further, his loan interest is also incorrect in many instances.
- (4) Capital account balances and Current account balances shown in the balance sheet by many candidates were not correct due to errors in adjusting Net profit, Retired partner Dayal's Loan, Loan Interest, Partners Salaries and Goodwill.

Preparation of capital account and current account

- (1) There were instances where transactions which should be in capital account were recorded to current account and vice versa. Specially, though the value of the vehicle (Rs.800,000/-) transferred to retired partner- **Dayal** and the amount paid at the retirement (Rs.900,000/-) should have been recorded in Capital account, some have taken them to current account.
- (2) Entries recorded from income statement to current account were incorrect in many instances. (e.g. Partners salaries, Profits apportioned, etc.)
- (3) When balancing capital account and current account, some have made mistakes.

Apart from the above, there were errors made by showing figures in thousands.

SECTION – C

QUESTION NO.04 – 10 MARKS

(Optional Question)

- (A) This question was to test the ability of candidates to prepare a Salary Control account correctly for 6 marks. Though this is an optional question, many have answered the same. However, full marks were not obtained due to the following reasons.
- (1) Crediting the items to the salary control account which should have been debited to the Salary Control Account and vice versa.
 - (2) Not recording overpaid salary in the previous month correctly.
 - (3) Some candidates have included employer's contribution of the Employees Provident Fund to the Salary Control Account.
 - (4) Further, there were instances where contribution to the Employees Trust Fund was recorded in Salary Control Account.
- (B) This question was to test the knowledge of calculating various ratios using the information given in financial statements. Many candidates have answered successfully and some have stated the current assets as percentages instead of ratios.

QUESTION NO.05 – 10 MARKS

(Optional Question)

Following were noted in the answer scripts of those who have selected this question.

- (1) Some have given answers without knowing the limitations of internal controls correctly.
- (2) Some candidates have answered considering the business environment instead of control environment.
- (3) Many candidates have provided correct answers in respect of reasons for the security of stocks.

QUESTION NO.06 – 10 MARKS

(Optional Question)

- (A) Though most of the candidates have provided correct answers in identifying activities of an Internal Auditor, some candidates have mentioned “expressing an opinion on financial statements” as a major activity of the Internal Auditor.
- (B) Though most of candidates have understood the question and answered accordingly, some others have mentioned advantages of accounting instead of functions of an Accounting System.
- (C) Many candidates have answered this question successfully, but some candidates have explained Internal Control Systems.

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General comments to improve performance of candidates:

- Read properly the “instructions to candidates” given in the question paper and follow them.
- Study entire syllabus.
- Knowledge could be improved by practicing past question papers.
- Be aware of new Sri Lanka Accounting Standards (LKAS & SLFRS) relevant to the syllabus.
- Legible hand writing and question numbers should be written correctly.
- Time management.
- Workings relevant to each question should be clearly shown and attached to the answer script.

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