

EXAMINER'S REPORT
FINAL EXAMINATION – JANUARY 2015
(60) Advanced Financial Accounting

QUESTION NO: 01 (Marks Allotted 30)

Main objective of question one is *Preparation of Financial Statement of a company in accordance with the Sri Lanka Accounting Standards* and test prior period errors & Accounting policies. These are drawn from all sections of the syllabus. They are designed to examine breadth across the syllabus and thus cover many learning outcomes.

Candidates who 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 of preparation of final accounts of Athens PLC. The second part is a straight question in line with the LKAS 08 – Accounting Policies, Changes in Accounting Estimates and Errors.

Students' knowledge on format of comprehensive income statement as per SLFRS was good. Part A of this question was answered satisfactory, with many achieving reasonable marks. This was extremely positive as this question was a test of application of skills, the ability to use technical knowledge and apply to a scenario. Common issues regarding the answers for the question is given below:

(1) Right Issue:

- Cash received amounting to Rs.2,700,000/- from issue of shares not deducted from the sales value.
- Few Candidates had deducted the right issue value of Rs.2,700,000/- from the stated capital in the statement of changes in equity.

(2) Disposal Profit:

When calculating the disposal profit some candidates have not considered the insurance claim received amounting to Rs.50,000/-.

(3) Depreciation:

Most of the candidates haven't considered the timing when computing the depreciation.

(4) Revaluation Gain:

Rs. 3 million of revaluation gain is considered as other income instead of showing it under other comprehensive income.

(5) Gratuity:

Gratuity expense amounting to Rs.12,000/- considered as the gratuity liability.

(6) Bank Loan:

Short term and long term portion of bank loan is not separated by the few candidates.

(7) Bad debt provision:

Few candidates have not deducted the bad debt provision of Rs.10,000/- from the debtor balance.

(8) Ordinary and preference Share Dividend:

- Some candidates have not presented the note of ordinary share dividend proposal in notes to the financial statements.
- Preference share dividend payment decision is presented in the F/S instead of ordinary share dividend payment proposal.
- In the accrued expenses it is shown as Rs.204,000/- of preference share dividend payable rather than showing the accrued amount of Rs.34,000/-.
- Dividend paid of Rs.750,000/- was deducted from the stated capital.

(9) Gratuity:

Gratuity Adjustment was done very poorly. Except for a very few candidates others made various mistakes. Some candidates correctly charged the difference of opening and closing balance of Rs.12,000/- to Income statement as an expense but showed the closing gratuity provision balance of Rs.962,000/- as a non current asset. Some showed it as a current liability. There were some candidates who did not charge Rs.12,000/- to income statement but added the Rs.962,000/- to the TB balance of Rs.950,000/- and showed the total as a non current asset.

This shows candidates have to improve their knowledge on Gratuity Provision.

Part (b)

Identify the Prior period errors & Accounting policies:

Performance was very poor. Many did not attempt this part. Even those who answered were not able to explain both Prior period errors and Accounting policies correctly. *General answers were written by the candidates rather than giving the specific answers.*

- E.g. Prior period errors – written as errors reported in the previous years
 Accounting policies – Written as policies used in the preparation of financial statements.

GENERAL:

- Some candidates have not shown the pre workings.
- Categorization of expenses, income, assets & liabilities has not done correctly by few candidates.

HINT TO IMPROVE THE PERFORMANCE:

- Pre workings should be shown in the answers.
- Knowledge should be improved in the application of Sri Lanka Financial Reporting Standards.
- Candidates should pay more attention for the theory part in the syllabus.
- Knowledge should be given to compute the disposal profit or loss and considering the timing when computing the depreciation.

QUESTION NO: 02 (Marks Allotted 15)

This question was intended to test on conversion of partnership into Limited Liability Company.

This question required calculations and preparation of *Statement of Financial position of new partnership as at 01st April 2014 of LMN (Pvt.) Ltd.*

This question was attempted satisfactory by many candidates.

Common mistakes were:

- (a) Most of the candidates have prepared the cash account of the partnership correctly
- (b) Question clearly stated that all the liabilities to be settled by the partnership. However, fair numbers of candidates have transferred these items in to the company books.
- (c) Only few candidates were able to gain correct realization profit due to the erroneous entries passed.
- (d) In the question itself purchase consideration figure was stated but few students tried to recalculate the figure by considering the acquisition value of assets.
- (e) Most of the candidates were unable to calculate the correct goodwill amount.

GENERALLY:

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

QUESTION NO: 03 (Marks Allotted 15)

This question was intended to test on consolidation of accounts

Candidates' should have applied the new accounting standards applicable for calculating goodwill on acquisition.

Some of the candidates did not attempt the question and only few scored high marks from this question. Most of the candidates had not shown the workings properly. Candidates have to enhance the knowledge on the treatment of adjustments to consolidation especially on goodwill calculation, fair value approach in measuring non controlling interest. The common mistakes identified during the marking process are stated below for the benefit of candidates:

- Unrealized profit on stock on hand & goods in transits were calculated correctly by the candidates however, these amounts were not adjusted in the Financial Position.
- Few candidates did not adjust/ add cash in transits to cash & cash equivalent to Financial Position and further they have deducted CIT balance from current Liabilities & current assets.
- Some Candidates added back Rs.600,000/- stock received from Harin PLC again to the final inventory value where it is only adjustable to the unrealized profit.
- Adjustment relating to the revaluation of Land of Saman PLC was not done correctly, many candidates were utterly confused about the adjustment.
- Few candidates erroneously taken 75% of assets and liabilities of Saman PLC to prepare consolidated statement of Financial Position. Further, Current A/C balances of two companies accounted in the Consolidated Financial Position.
- Many candidates had directly shown the investment of Rs.15,500,000/- along with the goodwill under Non-Current Assets in the Consolidated Financial Position which is incorrect.
- Fair number of candidates have added Saman PLC stated Capital of Rs.10,000,000/- to the consolidated stated capital account balance which is incorrect.
- Majority of Candidates have erroneously taken 75% of Rs.1,200,000/- (Saman PLC) in the Consolidated revaluation reserve adjustment.

➤ Non-Controlling Interest

Question has clearly mentioned to use fair value approach to calculate non-controlling interest. But candidates calculated NCI as follows erroneously:

- * Rs.2,500,000/- (1,000,000 x Rs.10/-x 25%) taken as stated capital of non controlling interest.
- * Rs.2,100,000/- (8,400,000 x25%) taken as the retained earnings balance.
- * Rs.125,000/- (500,000 x 25%) which is revaluation reserve of Saman PLC existed before the acquisition was adjusted to non controlling interest, where the correct figure is Rs.3,975,000/- (3,500,000 + 300,000 + 175,000)

➤ Consolidated Retained Earnings:

Common mistakes as follows:

- Unrealized profit on stock on hand (Rs.120,000/-) and Goods in transits (Rs.30,000/-) was not deducted from Retained Earnings.
- Rs.1,200,000/- (8,400,000 - 7,200,000) without calculating 75%.

Overall, most of the candidate's performance was poor.

QUESTION NO: 04 (Marks Allotted 10)

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

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

This question was poorly attempted by many candidates. Candidates' have written number of irrelevant answers for the all the three parts of the question.

Many candidates have not answered Part (a) of the question and only able to score 0-1 marks.. However for the part (b) candidates were able to score 2-3 marks and in part (c) only able to gain ½ marks in most cases.

QUESTION NO: 05 (Marks Allotted 15)

REQUIRED:

Preparation of Cash Flow Statement using In-Direct method

This question tested the preparation of the cash flow statement in accordance with LKAS 07 using the indirect method.

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

This question was answered satisfactory by the candidates.

The main reasons for the poor performance are stated below:

- Many candidates have not calculated the correct outflow due to acquisition of Property, Plant & Equipment.
- Repayment of loan of Rs.240,000/- was not accounted as cash flow under financing activities.

- Without preparing cash flow statement under the indirect method, many candidates have prepared it under direct method. Some candidates 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.
- Some candidates have taken profit after taxation instead of profit before taxation.
- Few candidates considered other income as non cash item and deducted from the profit before tax as an adjustments.
- Few candidates erroneously identified the changes in working capital. Example: Decrease in inventories deducted as cash outflow.
- Opening and Closing balances of ledger accounts have not taken correctly by few candidates
- Candidates 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 15)

REQUIRED:

Prepare the Statement of Comprehensive Income for the year ended 31st March 2014 for the Head office and the branch and the entire company in columnar form.

This question tested the knowledge in branches and the head office accounting.

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

This question was answered satisfactory by the candidates.

Reasons for poor answers:

- (1) Some candidates prepare the Branch Financial Position even though the question does not require the same.
- (2) Some candidates had included the debtors and cash balances in the *Statement of Comprehensive Income under the other income caption.*
- (3) Few candidates prepared three *Statements of Comprehensive Income for the head office, branches and the both.*

General:

Majority of the candidates were able to gain marks for the Questions 1, 2, 5, 6 compared to the question numbers of 4, and 6.

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