

## Examiner's Report

Foundation Examination - July 2014

### (50) Basic Accounting

#### 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 the answers in the question paper itself and attached to the answer booklet without considering the instructions given. The following common weaknesses were noted, when answering multiple choice questions (A), (D), (E), (F), (H) and (I).

- (A) Though number (3) – relevance, is the answer for the qualitative characteristic of financial statements, most of the candidates have selected answer (1) – Going concern and answer (4) All of the above which are incorrect.
- (D) It was noted that the knowledge on accounting concepts of many candidates was poor. Incorrect answers show poor understanding on accounting concept on valuing inventory at lower of cost or Net Realizable Value (NRV).
- (E) Only a few candidates has identified the correct profit calculated using information given. Most of candidates have selected answer (2) and answer (3) which are incorrect.
- (F) Some candidates have selected answer (3) and answer (4) which are incorrect instead of the correct answer due to lack of knowledge on calculating credit sales using debtors and related information.
- (H) Profit on disposal of the vehicle was identified correctly by few candidates. Most of candidates have selected answer (2) and answer (3) which are incorrect instead of the correct answer.
- (I) It was clear that many candidates do not have the basic knowledge on errors that could be detected by preparing the Trial Balance. Therefore, about half of candidates have selected incorrect answers.

#### Section B

**Question No. 02** – 25 Marks

**(Compulsory Question)**

More than 50% of the candidates have answered successfully to this question which was to test the knowledge about preparation of final accounts of a sole proprietorship and some candidates have scored full marks. However, the following weaknesses were observed in answers of some candidates.

- (1) Though most of the candidates have understood that closing stock should be the lower value of cost and net realizable value, various methods were followed for accounting.

Though the lower of cost and net realizable value should be considered, some candidates have adjusted the cost which was higher value as stock.

- (2) More than 60% of the candidates were failed to do depreciation adjustment correctly. It was observed that some candidates have stated accumulated depreciation in the profit and loss account and depreciation for the year in the balance sheet instead of accumulated depreciation. Further, some have calculated depreciation on balance remaining after deducting accumulated depreciation at the beginning of the year from the cost.
- (3) About 40% of the candidates have failed to adjust the credit sale invoice of Rs.125,000/- which has not been recorded in the books of account. Though some candidates have taken correctly that amount to the sales, it has not been considered to the debtors.
- (4) Most of them were unable to adjust correctly Dickman's loan written off as bad debts. Though some candidates have deducted that amount from the debtors, it has not been taken to the income statement as bad debts.
- (5) Some candidates who did not consider accrued expenses relating to telephone and electricity, have stated only the values in the trial balance in the profit and loss account.
- (6) Most of them have failed to identify and account the amount relevant for the year from insurance premium of Rs. 120,000 paid for 12 months from 01<sup>st</sup> January 2014 and account the balance as a prepayment.
- (7) Some have failed do adjust the bank charges which has not been recorded in the books of accounts. Though some have stated correctly it as an expense, it has not been adjusted to the cash balance and there were instances where it has been stated as bank charges payable.
- (8) Some candidates did not have the basic knowledge on items which should be adjusted to the income statement and items which should be adjusted to the balance sheet.

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

- (A) This question was set to test the knowledge on preparation of manufacturing account and marks allotted were 12. More than 90% of the candidates have attempted to this question and more than 50% of them were able to score more than 50% of marks allotted. But, it was observed that some candidates do not have sufficient knowledge on manufacturing accounts. Common weaknesses which could be observed are given below:
- (1) Many candidates have very poor knowledge about the format of manufacturing account and classification of expenses and they have stated prime cost, factory cost and work in progress in various places in the account.
  - (2) As per the question, though the work in progress should be adjusted to the factory cost, some candidates have adjusted it to the prime cost.
  - (3) Some of them have classified expenses correctly, but insurance, rent and electricity attributable to office and factory were not apportioned correctly. Some of them have recorded full amount in the manufacturing account.
  - (4) Some candidates were unable to calculate prime cost and factory cost correctly, due to failing to classify direct and indirect cost correctly.
  - (5) Cost per unit was incorrect due to incorrect manufacturing account.

- (B) This question was given to test the ability to show business transactions in an accounting equation. Though most of the candidates have answered correctly to this question, many have failed to show the equation for credit sales of Rs.11,000/-, cash collected Rs.4,000/- and the profit of Rs.2,000/- which was occurred on 17.10.2013. Further, most of them have prepared the equation but, balance sheet was not done. Some others have prepared the trial balance instead of the balance sheet without understanding the question properly.

### Section C

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

- (A) Common weaknesses noted in correction Journal entries are given below.
- (1) More than 50% of the candidates have not mentioned the relevant narration for the journal entries.
  - (2) Effect to the suspense account was not calculated correctly when correcting accounting errors. For example, an identifying suspense balance arisen due to stating interest expense of Rs. 2,500/- as an interest income of Rs. 25,000/- and identify in omission of credit sales of Rs.250,000/- as a suspense balance.
- (B) This question was given to test the knowledge on valuing stocks using First In First Out method and most of them have answered correctly. But, about 10% have failed to do the valuation correctly.

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

- (A) This question was given to test the knowledge about preparation of prime entry books and many have answered correctly. But, some candidates have prepared two prime entry books correctly and balances of them were not transferred to the relevant accounts. Further, though balances of prime entry books were transferred correctly to the relevant account, debtors' ledger was not prepared.
- (B) Though most of candidates have identified direct and indirect cost correctly, about 25% of candidates were unable to classify the costs correctly.

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

- (A) Most of candidates have prepared the adjusted cash book correctly. But, some candidates have failed to identify the reasons for the difference between opening balance of the bank statement and opening balance of the cash book. Further, some candidates have included bank charges and cheque book charges to the bank reconciliation statement.
- (B) Many candidates have poor knowledge in explaining cost centre.