

Examiner's Report

Intermediate Examination - July 2014

(54) Accounting and Control Systems

SECTION – A

Multiple Choice Questions

QUESTION NO.01 – 30 MARKS

(Compulsory Question)

Section A consists of 15 Multiple Choice Questions. Most of candidates were able to score adequate marks to this. These questions were to test the subject knowledge such as A. knowledge on Accounting Standards, B. Understanding of preparation of Financial statements, C. Understanding on working capital, D. Knowledge on Bank Reconciliations, E. Measuring financial position, F. Accounting Concepts, G, I. Knowledge of ratios, H. Understanding on trial Balance, J. Knowledge of Accounting Equations, K. Knowledge on objectives of an internal control system, L. Appointment of internal auditor, M. Understanding of specific control procedures, N. Expression of audit Opinion, and O. Ways of verifying the bank balances.

Candidates who answered with understanding and knowledge have faced successfully to this question and scored more marks. One candidate has written the answers for multiple choice questions in the question paper itself and attached.

Question covered wide area of the syllabus. Most of them have answered successfully for A, C, D, F, G, H, I, J questions. Around 75% have failed to provide correct answer for E, O questions. Around 95% were able to provide correct answers for K, L, M, N, and auditing questions. Candidates who have practical auditing knowledge have provided the correct answer for O - ways of verifying the bank balances. There were two candidates who have not attempted to this question.

Section B

QUESTION NO.02 – 25 MARKS

(Compulsory Question)

This question was to test Basic knowledge about limited liability companies and accounting for issuing shares, issuing bonus shares, adjusting stocks damaged, disposal of Assets, Bank reconciliations, adjusting income tax. Most of the candidates have attempted to this question. There were candidates who scored full 25 marks. All candidates have attempted answer this question. It was required to prepare Company accounts, for the use of the management, Statement of Comprehensive Income and statement of Financial position (Balance Sheet).

As a whole, performance is unsatisfactory. Lack of basic knowledge on accounting is a weakness of candidates. When adjusting disposal of motor vehicle, attention was not paid to the depreciation for the year. It was expected to calculate stocks in accordance with accounting standards relating to depreciation and notes about damages. Damages to the stocks and compensation were not recorded correctly. Income tax adjustment was not recorded correctly. When resolving adjustments, basic understanding on debit and credit entries should be given to candidates. Some candidates have recorded items such as transfer to the general reserve , payment of dividends in the income statement due to lack of clear understanding whether it is declared in the profit and loss account or in the balance sheet. Around 50% of candidates have scored more than 12 marks. There were very weak candidates who scored marks between 0 – 5.

Students should have the understanding about basic accounting concepts, new accounting standards, new companies Act. Attention should be given specially for disposal of assets (LKAS 16) and valuation of stocks (LKAS 2).

QUESTION NO.03 – 25 MARKS

(Compulsory Question)

Candidates have failed to earn allotted marks due to not adjusting the conversion of a sole proprietorship into a partnership correctly and not adjusting amount invested by the partners on such date and not adjusting correctly the profit for the first 6 months, not apportioning salaries correctly on time basis and lack of understanding about entries relating to Current account and capital account. Only 2% of the candidates have correctly calculated the bonus, recorded it for first six months in the profit and loss account and showed it as bonus payable under current liabilities. About 75% of the candidates have not recorded the loan interest correctly in the profit and loss account. Though this is a very simple adjustment relevant for the first six months, they have not understood.

Marks were allotted to Gross profit and profit and loss account in columnar form. Some candidates have attempted to prepare the Trading account also in columnar form. Marks were lost due to not following the instructions to apportion expenses on sales basis and time basis. Though most of them have prepared the profit and loss account in columnar form correctly, there were instances where correct method to apportion expenses was not selected. Marks allotted to distribution of profits and correct calculation of salaries were not obtained by most of candidates.

Section C

QUESTION NO.04 – 10 MARKS

(Optional question)

10 marks were allotted to this question as 06 marks for part A and 04 marks for part B. part A was to test the knowledge on calculation of ratios. Many have calculated ratios by selecting relevant figure from the given table and obtained adequate marks. Tamil medium answers were not satisfactory. Sinhala and English medium candidates have calculated ratios correctly. Inventory Turnover Ratio and Stock Resident Period were not calculated correctly by most of them. The Presentation and knowledge about ratios should be improved. Candidates should ensure to present correctly the ratio analysis as percentages.

Most of them were able to score marks for Part B by preparing Value Added Tax Control Account with an understanding. Some candidates have given poor answers due to lack of understanding on the correct way of preparing this account and contents of it. It should be tried to obtain the correct answer by presenting correct accounting entries as expected. This is the question selected by most of the students.

QUESTION NO.05 – 10 MARKS

(Optional question)

- (A) 10 marks were allotted to this question as 04 marks for part A and 06 marks for part B. It was clearly stated to explain two methods that can be used to understand the internal control system of an entity. Most of the candidates were unable to provide the correct answer. Most of them have missed this question. Performance of majority of candidates who answered was very poor. The control environment and the control procedures have been defined.
- (B) It was required to state six internal control measures that can be applied by the management with respect to sales and debtors. Though most of the candidates have failed to show the correct answer directly, there were correct answers to some extent. English medium candidates have answered successfully. Practical understanding about the subject should be obtained and knowledge should not be limited to the class room.

QUESTION NO.06 – 10 MARKS

(Optional question)

10 marks were allotted to this question as 04 marks for part A , 04 marks for part B and 02 marks for part C. Part A was required to distinguish “Internal Audit” and “External Audit” and to state Appointment of the Auditor and Objective of the Audit. There were no satisfactory answers. Understanding about appointment of auditor is adequate. Theoretical knowledge on objectives was very poor.

For Part B, it was expected four (04) objectives of Accounting Controls. Correct answers have not been given. Theoretical knowledge of financial controls was very low. Many candidates have analyzed internal controls. It was not answered by explaining clearly the meaning.

For Part C, it was expected to distinguish between “Error of Omission” and “Error of Commission”. Short and clear answers could be given for two marks. Most of them have not scored high marks. There were candidates who have scored the full marks. Some candidates have answered with a very poor understanding. Theoretical knowledge of the candidates should be improved.

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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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