

EXAMINER'S REPORT

FINAL EXAMINATION – JULY 2014

(60) Advanced Financial Accounting

The following common mistakes, deficiencies were identified during the marking process. The unsuccessful candidates to be successful in the future examinations should address the following weaknesses carefully.

QUESTION NO: 01 (Marks Allotted 30)

Rationale

Question one consists of main objective *Preparation of Financial Statement of a company in accordance with the Sri Lanka Accounting Standards*. These are drawn from all sections of the syllabus. They are designed to examine breadth across the syllabus and thus cover many learning outcomes.

Suggested Approach

Candidates who used the information given in parts of a to d 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 White Flower PLC.

Marking Guide

Preparation of	
Comprehensive Income Statement for the 31 st March 2014	- 12 marks
Statement of Financial position	- 10 marks
Statement of Changes in equity	- 03 marks
Notes to Property, Plant and Equipment	- <u>05 marks</u>
Total	- 30 marks

Examiner's Comments that 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.

The following were observed during the marking process:

Adjustment : 1 Construction in contracts

Construction contract adjustment was attempted by 50% of the candidates but most of the candidates did not get full marks. Therefore they could not arrive at contract revenue correctly. Majority of candidates did not considered the stock balance of contract of Rs.225,000 as carried down from the contract account hence the Contract cost carried down cost went wrong. The implication such adjustments caused in calculating the % of completion of contract as at 31st March 2014, handful of candidates calculated the contract revenue correctly.

Adjustment : 2 Lease rentals

Lease creditor between within one year and after one year was completely wrong in almost all the candidates' scripts. Lease interest for the financial year was also calculated wrongly in numerous scripts. Many students had still applied old accounting standards when calculating lease adjustments.

Adjustment : 3 Additions and disposals of PPE

Few mistakes were observed in Timing for depreciation for office equipment.

Most of the candidates did not remove disposal of office equipment for Rs.200,000/-.

Adjustment : 4 Depreciation of PPE

Candidates were careless on removing Rs.200,000 from the office equipments which was fully depreciated and sold during the year.

Most of the candidates calculate the correct depreciation amount attributable for the financial year and majority did not consider depreciation amount for the leased asset.

Adjustment : 6 Income tax provision

This adjustment was answered well.

Adjustment : 7 Loan settlements

Even though the question specifically mentioned that $\frac{1}{2}$ of bank loan is to be settled in the following year candidates did not show as noncurrent liability portion separately. Few candidates were correctly provided bank loan interest.

Adjustment : 8 Dividend declarations

Many candidates did not provide for dividend payable of Rs.250,000/- on preference shares. Few candidates had identified the same but shown on the Equity statement instead of Finance expenses of Income Statement.

Some candidates had shown the ordinary dividends paid in the equity statement under caption of Ordinary share column instead of Retained profit column.

Notes to the Financial statement stating that payment of a final dividend of Rs.1.50 per ordinary share for the shares held on 31st March 2014 were not mentioned by many candidates.

General

- (1) There were number of candidates who had used the headings of "profit and loss account" and "Balance sheet" instead of "Comprehensive Income statements" & "financial position statements"
- (2) Most of the candidates had not followed the format given under the new standards.
- (3) Most of the candidates showed their inability to select correct categorization of assets, liabilities, expenses.

Hint to improve the performance

- Understand the accounting in construction contracts.
- Notes to the financial statements to be provided whenever necessary,
- The relevant workings to the final answer to be shown appropriately in order to earn more marks. Eg: some candidates had not given the supporting calculations of Disposal of vehicle, Calculation of Depreciation, arriving the final figure of each expenditure category.
- The opening balance, additions during the year, carrying value of the cost and accumulated depreciation of the PPE should be clearly stated in the PPE statement.
- Disposal of assets is to be done correctly identifying insurance claim receivable, sales proceeds etc.

QUESTION NO: 02 (Marks Allotted 15)

Objective is to test the following areas;

- a) Student's knowledge on methods of dissolution of partnership.*
- b) Preparation of Realization Account*
- c) Knowledge on preparation of partner's capital accounts.*
- d) Partnership cash book with dissolution transactions.*

Following were observed during the marking of answer scripts.

1. Most of the student attempted the question and scored very good marks.
2. Most of students has written incorrect methods of dissolution and very few answered correctly part (a) of the question.
3. Majority could not get correct amount for loss on dissolution of partnership to be shared among partners according profit or loss sharing ratio.
4. Preparation of cash account was satisfactory.
5. Very few students had shared closing balance of cash book according to profit sharing ratio.
6. Settlements of Harris loan was not done correctly. It has been adjusted in the Partners' Account, whereas question was requested to consider loan as settlement of current liability.
7. Some students recorded transactions in wrong side of the realization accounts for eg. Debit entries in credit sides and vice versa.
8. Most of the students could not understand that partners account balance should be zero at the year end.

QUESTION NO: 03 (Marks Allotted 15)

Required:

Calculate the amounts that appear in the consolidated statement of financial position of the Hamilton PLC as at 31 March 2013 for: (i) Goodwill on consolidation; (ii) Consolidated Statement of Financial Position.

Rationale:

This question tested the treatment of consolidated accounts. This type of questions had been tested in a past exam papers.

Suggested Approach

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

They should have addressed the additional information given in the question regarding fair value adjustment and the impact on identifiable net assets taken over for calculation of goodwill

Performance:

This question was attempted satisfactory by many candidates except goodwill. The common mistakes identified during the marking process are stated below for the benefit of candidates.

- Most of the students did not have knowledge on calculation of goodwill on fair value basis.
- Intercompany sales were treated correctly identified but the recognition of unrealized profit of Rs.160,000 was wrong due to the incorrect percentage of margins.

- Even though marks can be awarded for the workings in case where the final answer is incorrect, some candidates have not clearly shown their workings in the answer scripts.
- Lot of failures on elimination of interim dividend of Rs.500,000/-
- Question was specific on calculation of non controlling interest based on fair value. However, most of the candidates deviated from such calculation.
- Only few candidates correctly calculated unrealized profit on goods in transits. Some of them adjusted to the non controlling interest.

QUESTION NO: 04 (Marks Allotted 10)

Required:

Constitutional provision of public finance, explanation of COPA and functions/ roles of treasury

Rationale:

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.

Suggested Approach

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

Performance:

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

When candidates are writing answer to a question like *Constitutional* provisions they should elaborate the relevant sections to earn maximum marks. Some candidates had described the functions of COPE instead of COPA therefore they lost 4 marks unnecessarily. In part c of the question most of the candidates explain the role of central bank instead of General Treasury

QUESTION NO: 05 (Marks Allotted 15)

Required:

Calculation of ratios for the Black Bolt PLC and preparation of a report to the board of management describing the consequences of the ratios.

Rationale:

This question tested the preparation of a report to the management based on the calculation of ratios.

Suggested Approach

Candidates' should have applied their theory knowledge on ratios and construct comparison report on two financial years to describe the consequences of the operations.

Performance:

This question was answered satisfactory by the candidates.

The main reasons for the poor performance by some candidates are stated below:

- Most of the candidates interchange the denominator and numerator and arrived at wrong ratios
- For the calculation of GP ratio few candidates taken cost of sales instead of gross profit.
- Current ratio was calculated as a percentage of a ratio
- Few candidates erroneously has taken profit after loan and interest and tax to calculate Return on total capital employed.
- Most of the candidates did not interpreted the ratio in the report to the management.
- Most of the Candidates interpreted ratios as business scenario without explaining usefulness to the management of the company

QUESTION NO: 06 (Marks Allotted 15)***Required:***

Preparation of cash flow statement based on direct method.

Rationale:

This question was tested the knowledge in LKAS 7- cash flow statement

Suggested Approach

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

This question was answered well by the candidates.

Performance:

Most of the candidates have done the said question & most of them were able to get correct figures for the adjustments. Workings were helped to get correct answers & many of the candidates have showed / submitted their workings.

Reasons for poor answers:

- Some candidates were confused with debenture redemption adjustment & loan interest calculation.
- Only few candidates were able to answer cash paid for operating expenses. Depreciation (non-cash item) was not deducted to get cash outflow from operating expenses.
- Loan interest paid was not calculated correctly.
- Many of the candidates have confused with accounting of income/expenses & entering opening balances to ledger accounts. i.e. they have changed the credit & debit side of the accounts.

- Some candidates forgot to take cash sales & cash purchase amounts into cash flow statements. Some candidates have incorrectly applied % figures to calculate cash sales & purchases.
- Some candidates forgot to mention the minus mark or brackets to present cash flows. Many of them have taken share issue as a cash outflow. Further interest paid on redemption was not mentioned in the cash flow statement.
- Some candidates did not present the correct format for Direct method, though the figures are correct.
- Some candidates have not categorized cash inflows and outflows under correct heading such as cash flows from operational activities, cash flows from investing activities, cash flows from financing activities.
- Few candidates have prepared cash flow statement under indirect method instead of direct method.
- Most of the candidates have not adjusted the depreciation amount, and opening and closing accrued expenses balances when calculating the operating expenses payment.
- When calculating the interest payments most of the candidates have not deducted premium paid on debentures. They have considered whole amount of finance expense as interest expense, This shows that the candidates have not read the question paper well.

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