

Examiner's Report

AA1 Examination - July 2015

(AA11) FINANCIAL ACCOUNTING BASICS

SECTION A

Objective Test Questions (OTQs)

Question No. 01 – 40 Marks

This question consists of 18 sub questions covering whole syllabus and all candidates had answered except few. More than 50% of candidates have scored more than half of the marks allotted. However, according to the answers of some candidates it was noted that knowledge on basic elements of accounting is very poor. Following common weaknesses were observed during the marking of answers to this question.

- (1) Most of the candidates do not have an understanding on difference between financial accounting and management accounting. Therefore very few candidates have selected the correct answer for question number 1.2.
- (2) Candidates who did not understand that “Statement of Financial Position” is prepared to represent the financial position of the entity as at a specified date, have selected incorrect answers.
- (3) When stating whether the statements given in Question No. 1.10 and 1.11 are “true” or “false”, it was observed that many candidates have not understood those statements properly. Most of them have stated that statement given in Question No. 1.11 is “false”.
- (4) It was noted that many candidates did not have proper understanding to identify correctly the “Real Account”, “Personal Account” and “Nominal Account”:
- (5) Most of the candidates have failed to identify the accounting concepts relevant to question no. 1.14 and only 10% of the candidates have given correct answer. Incorrect answers given to this question indicate very clearly the poor knowledge of candidates on accounting concepts.
- (6) Some candidates have failed to classify expenses as capital expenses and revenue expenses due to lack of understanding of the same.
- (7) In question number 1.17, due to lack of understanding on petty cash float, majority of the candidates have failed to calculate the correct amount receivable as reimbursement.
- (8) For the question number 1.18, qualitative characteristics of General Purpose Financial Statements were correctly stated by very few candidates and it shows that knowledge of candidates relating to this area is very minimal.
- (9) Some candidates had marked the answers in the question paper itself without properly reading the instructions given in respect of question number 1. There were instances where the selected answer has been written in full instead of writing the number of the answer. In doing so, the candidates have wasted their time.

SECTION B

Question No. 02 - 08 marks

This question was aimed to test the knowledge of accounting equation that indicates the relationship between the resources, a business possess and the bond of those parties, who supplied resources, have in the business. Though all candidates were attempted to this question, most of them have failed to score higher marks from the marks allotted. Following weaknesses were observed.

- (1) Some candidates have not understood that the goods worth of Rs.250,000/- which were purchased from the money deposited by **Sanath** included in the first transaction, has been adjusted to the capital considering it as a stock brought by **Sanath** to the business separately.
- (2) Though a column for income and expenses was included separately in the equation given at the end of the question, without considering this income and expenses were adjusted to the capital.
- (3) When stating values, it should be shown either as thousands or the full value. However, some candidates have recorded transactions relating to this question in both the ways.
- (4) Cost of goods sold was not calculated correctly.
- (5) Some candidates have prepared even trial balance due to lack of understanding of what accounting equation is.

Question No. 03 - 08 marks

This question was to test the knowledge on clearing of suspense account by correcting errors where the difference of a trial balance was recorded in a suspense account. Most of the candidates have answered this question successfully and some candidates were able to score full marks. However, some candidates have scored low marks and following common weaknesses were noted.

- (1) Some candidates have not understood that the suspense account should be cleared after correcting the errors. Therefore there were instances where the balance of suspense account has been carried forward, even after correcting the errors.
- (2) Many candidates have failed to show the correct journal entry for the Sundry income which has been erroneously recorded as a sundry expense.
- (3) Some candidates have prepared ledger accounts and even the trial balance instead of preparing journal entries.

Question No. 04 - 08 marks

This question was set to test the knowledge on double entry system and book keeping. Most of the candidates have attempted this question and earned higher marks from allotted marks. Following common weaknesses were observed.

- (1) Some candidates have failed to prepare the trial balance correctly.
- (2) Though many candidates have prepared other ledger accounts correctly, they have failed to prepare the double column cash book correctly.

- (3) Some candidates do not have proper understanding on principles of double entry.
- (4) Though the question clearly asked to prepare the general ledger, some candidates have prepared journal entries instead of ledger accounts without reading the question properly.
- (5) There were instances where some candidates have prepared only the trial balance, without preparing the general ledger. However, marks were given appropriately to those candidates.

Question No. 05 - 08 marks

This question was to test the knowledge on calculating cost to be capitalized, depreciable value, the annual depreciation charge of an asset and preparing ledger accounts related to them. Most of the candidates have not attempted this question. The candidates who attempted also scored low marks. Following weaknesses were observed from the answers given to this question.

- (1) When calculating cost of the machinery to be capitalized, most of them have not deducted the recoverable value added tax (VAT) amount included in the purchase price.
- (2) It was clear that most of the candidates have not understood that all expenses up to usable condition should be considered when capitalizing an asset.
- (3) Many candidates have failed to calculate the depreciable value correctly, due to not understanding the fact that when calculating depreciable value of the machinery, selling expenses to be incurred should be deducted from the estimated selling price.

SECTION C

Question No. 06 - 14 marks

This is a simple question with few adjustments to test the ability to prepare final accounts of a sole proprietorship. All the candidates except few have attempted this question. Majority of the candidates have answered fully and some have answered some parts only. However, most of the candidates were scored higher marks. However, following common weaknesses were noted when marking this question.

- (1) Though the value of inventories should be the lower of cost or Net Realizable Value (NRV), most of the candidates have adjusted the net realizable value (Higher value) as the value of inventory.
- (2) Some candidates have calculated the interest on fixed deposits correctly, but failed to account it correctly. Though some have identified the interest on fixed deposit as an income, they have not accounted for it as interest receivable.
- (3) Many candidates have failed to account provision for doubtful debts correctly. Here, increase in the doubtful debts provision was not identified correctly and it was not understood that only increase should be accounted as an under provision.

- (4) When accounting the fixed deposit balance, some candidates have recorded capital portion under long term liabilities, interest income under income and interest receivable under current liabilities.
- (5) Though the bank overdraft should be recorded under current liability, there were instances where it has been recorded under current assets.
- (6) Most of the candidates except few have not completed the answer. Some have completed several parts of the answer. Some have included the relevant items in the financial statements but not calculated the final outcome.

Question No. 07 - 14 marks

This question was set to test the knowledge on preparation of manufacturing account. This question consists of two parts and part one was to test preparation of manufacturing account and calculation of total cost of manufacturing. Part two was to test the calculation of value at which the goods are transferred to the sales division with a markup of 25%.

Though a substantial number of candidates have scored high marks for this question, a considerable number of candidates have not attempted this question.

As a whole candidates were not very much successful when answering this question. Except few candidates, all others were failed to score full marks for this question.

However, in general terms many candidates have answered successfully for part (a). Following common weaknesses were noted when marking answers.

- (1) Most of the candidates were failed to identify direct cost and factory overheads correctly.
- (2) Higher number of candidates lost marks due to failure in calculating prime cost correctly.
- (3) Some have stated figures directly in the manufacturing account without showing workings. If those figures were incorrect, they lost the marks allotted to calculations. For example, direct cost, depreciation etc.
- (4) Number of candidates were failed to calculate the factory manager's salary, staff salaries and deprecation on factory building correctly.

Very few candidates attempted Part (b) of this question and most of them have failed to provide the correct answer. This indicates that the knowledge on transferring goods to the sales division with a markup is very poor.