

EXAMINER'S REPORT**AA2 EXAMINATION - JULY 2015****(AA21) ADVANCED FINANCIAL ACCOUNTING**

SECTION A

Objective Test Questions (OTQs)
(Total 20 marks)

Question 01

Section A consists of Eight (08) compulsory questions. Total marks allotted for this question is 20. This question was to test the candidates' knowledge on Sri Lanka Accounting Standards, preparation of financial statements with accumulated fund of not for profit organizations, issues relating to Value Added Tax, understanding the sole proprietorships and issues relating to closing inventory. Further, basic knowledge on partnerships and related acts were also tested.

Most of the candidates who has understanding and the knowledge had earned adequate marks. Candidates' knowledge in Sri Lanka Accounting Standards is very poor. Most of the candidates have not selected the correct answer for question 1.3 which was related to accounting standards. Further, correct answer was not selected for Question 1.8, which was to find out the value of closing inventory. It was noticed that the knowledge on registration requirement of a partnership under the Prevention of Frauds Ordinance is poor. Candidates must improve their knowledge on accounting standards and accounting concepts.

SECTION B

Five (05) compulsory questions
(Total 25 marks)

Question 02

This question was to test the knowledge on preparation of bank reconciliation statement. Majority of candidates have answered this question successfully, however few candidates have provided unsatisfactory answers. Following weaknesses were noted when marking the answer scripts.

1. Value of cheques issued, but not presented for payments was not added to the balance of the cash book.
2. Value of cheques deposited, but not realized during the month was not deducted.
3. Due to lack of basic theoretical knowledge, most of the candidates have not brought the correct balance to the bank reconciliation after the adjustments to the cash book balance. Instead, that adjustment was shown in the bank reconciliation statement itself. However, as a whole number of candidates who scored adequate marks were in a satisfactory level.

Question 03

This question was to test the knowledge on reconciliation of Receivables Control Account of the general ledger with the Receivables Ledger balance. Most of the candidates were able to score marks successfully by preparing Receivables Control Account correctly. Candidates did not have a clear understanding to reconcile the balance of Receivables Control Account. Answers given revealed that the knowledge of candidates was limited to the Receivables Control Account of the general ledger and individual accounts in Receivables ledger.

Question 04

This question was to test the knowledge on calculation of Carrying Value and Depreciation for the year for the machinery acquired. This question was to assess the knowledge relating to calculation of cost and depreciation of fixed assets and very limited number of candidates has scored full marks for this. However, many candidates were able to score more than half of marks allotted. It was noted that the question was not read carefully, and the presentation of answers is also very poor. Direct answers were not provided to the questions. Knowledge should be improved in adjustment of cost and calculating depreciation to the relevant date.

Question 05

This question was to test the knowledge on preparing Partners' Current Accounts in columnar form as at the date of financial statements. Though this was a very simple question, few candidates were able to get full marks allotted. Majority of candidates have made mistakes in apportioning the profits. Some candidates have adjusted drawings also to the profit appropriation statement, due to lack of understanding.

Question 06

This was also a question related to partnerships. This question expected to test the knowledge on change in profits and losses sharing ratio after joining of a new partner, sacrificing ratio of the existing partners and calculating the value of investment to be invested by the new partner. Though, most of the candidates have calculated new profits and losses sharing ratio correctly, a handful of candidates were able to calculate the sacrificing ratio correctly. Though the question has been required to compute the total value of investment inclusive of share of goodwill to be invested by **Reen**, majority of the candidates have missed it and given erroneous answers.

SECTION C

Three (03) compulsory questions
(Total 25 marks)

Question 07

This question was to test the knowledge on preparation of Statement of Income and Profit or Loss Appropriation Account of a partnership. Many candidates have scored total marks allotted to this question. Further, all the candidates have attempted this question. However, few candidates have not used the correct format. Also, some have recorded partners' salaries in the Statement of Income instead of Profit or Loss Appropriation Account. Some candidates have tended to prepare the balance sheet of the partnership, current accounts and capital accounts without reading the question properly, therefore valuable time has been wasted.

Question 08

Preparation of Members' Subscription Account and, Life Membership Fee Account of a sports club were expected in this question. This includes showing clearly the workings for the calculations for Ordinary membership fee income for the year 2014, Ordinary membership fee received during the year, Ordinary membership fee in arrears for 2013 and 2014 and the amount of life membership fee to be recognized as an income of the year 2014. Most of the candidates have not attempted this question. It was evident that the knowledge on accounts of clubs and societies is at a very minimal level. Further, marks of candidates who attempted to this are also at a very low level. Workings were not shown clearly by majority of candidates though the question specially mentioned it. Majority of the candidates were failed to score marks for this question due to incorrect adjustments and not showing workings, though the required accounts were prepared.

Question 09

- (a) Though it was very easy to gain marks by stating four(04) criteria that need to be satisfied for a liability to become a current liability, many have failed. It was noted that this part was omitted due to not reading the question paper with an understanding. Answers provided were also very poor.
- (b) Eight (08) marks were allotted for the preparation of Statement of Comprehensive Income. Very poor answers were seen for calculation of EPF and ETF. Contributions were not calculated at standard rates. Majority of candidates have lost marks due to failure in this adjustment. Some candidates have used 14% for EPF incorrectly. When calculating cost of sales, opening and closing inventory were not recorded correctly. Easily obtainable marks were lost due to lack of knowledge and lack of understanding on correct format of the Statement of Comprehensive Income. Candidates have wasted time by preparing unnecessary things such as preparation of accounts, in addition to the things required by the question. For example, some candidates have prepared even balance sheet without reading and understanding the question. Even some candidates have failed to record discount received and discount allowed in the statement of income correctly.

SECTION D

A compulsory question
(25 marks)

Question 10

- (a) This question required to state three (03) advantages of issuing equity shares. However, as earlier this part have been omitted by many candidates due to paying more attention to part (b). Moreover, answers given are not that much successful. Very few candidates were able to score full marks by answering successfully. Some have stated various incorrect facts based on assumptions without the book knowledge.
- (b) This question expected to test the knowledge on preparation of financial statements of a private limited company for the use of the management. Adjustments such as bad and doubtful debts, accrued expenses, stock losses, depreciation of assets, income tax and employee compensation were included and the accounting treatment for such adjustments were expected in this question. Though many candidates have attempted this question, some candidates have prepared financial statements for the use of shareholders and it shows that many candidates do not have a clear understanding on preparation of financial statements for the use of the management. Further, candidates have failed to present their answers using a correct format and a pattern. However, majority of the candidates have scored more than half of marks allotted. Further, considerable number of candidates has earned full marks.

Lack of Basic knowledge on accounting standards was a common weakness. Gross profit calculated by majority of candidates was not correct. Though the purpose of the question was to present the adjustments on employee compensation, depreciation adjustments and income tax adjustments as per the accounting standards, majority of candidates have not done these adjustments correctly. Most of the candidates have not presented the financial statements as required. Candidates must do the workings correctly and must show relevant figures in the correct place of statement of income and the statement of financial position. Though the statement of financial position was not required, some have ignored the time management by presenting it too. Further, relevant workings to some figures of statement of income should be shown correctly.

For example, when showing one figure as Selling and Distribution Expenses without workings, if there is an error in the figure written, marks allotted to other values included in it get also lost.

Candidates should have much understanding about accounting concepts, new accounting standards and provisions of Companies Act.

General Comments to Improve the Performance:

- (1) Study the New Syllabus well and pay more attention to new subject matters.
- (2) Knowledge of new Accounting Standards should be improved further.
- (3) Legible hand writing and correct numbering
- (4) Follow the instructions given in the question paper correctly.
- (5) Knowledge can be improved by practicing past papers
- (6) Time Management
- (7) Before handing over the answer script, check whether the question numbers etc. have been written correctly.
- (8) Face the examination with a good preparation and with the utmost hope of passing the examination.

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