

EXAMINER'S REPORT
LEVEL I EXAMINATION - JANUARY 2025
(101) FINANCIAL ACCOUNTING

SECTION A

Question No. 01

Question No. **1.1** to **1.10**, it was required to select the most correct answer out of the choices given and from question No. **1.11** to **1.15**, it was required to state “True” or “False” for the given statements and from question No. **1.16** to **1.20**, it was required to state the correct answer with the question number in the answer booklet provided.

The following are some of the common errors / weaknesses of the answers given by the candidates for each sub section:

- 1.1** This question tested students’ knowledge of the concept of “Going Concern”. Since this is a fundamental question, a significant number of candidates correctly attempted the question and answered successfully. However, it was noticed that some candidates lack proper knowledge of accounting concepts.
- 1.2** This question asked to state the stakeholder/stakeholders of business entity. Many candidates had given the correct answer correctly attempted it.
- 1.3** Based on the information provided, the candidates were instructed to calculate the depreciation charge for motor vehicle using diminishing balance method for the year ended 31st March 2024. It was observed that some candidates did not have sufficient understanding of the calculation of depreciation under diminishing balance method, answer No. (1) or (4) was submitted instead of the correct answer No.(2).
- 1.4** It was required to select the correct impact of accounting equation regarding a basic transaction. Many candidates had given answer. Some candidates had given the answer as No. (2) & (4) instead of (1).
- 1.5** It was asked to calculate the balance that appeared in the bank statement based on the information given. Majority of the candidates answered this question correctly.
- 1.6** Based on the information provided instructions were given to calculate total assets as at 31st March 2024. A significant number of candidates had correctly answered the question.
- 1.7** Accounting concept related to valuing inventory at lower of cost or net realizable value was questioned. Most of the candidates had identified the accounting concept as prudence concept and others had failed to give the correct answer.
- 1.8** It has requested to select the impact on the accounting equation due to monthly payment of office rent. The majority of the candidates answered this question correctly.

- 1.9** This question was to test the students' knowledge on Control Accounts. A significant number of candidates had correctly answered this question.
- 1.10** It was required to calculate adjusted cash balance based on the given information. A significant number of candidates have given correct answers to this question.

From Questions No. **1.11** to **1.15**, it was required to state on the answer booklet provided whether the given statements to the candidates are "True" or "False".

- 1.11** It was requested to mention True or False regarding to an example of General Accounting Software. Many candidates had correctly identified ACCPAC as a general accounting software.
- 1.12** The question tested the knowledge on Statements of Financial Position. Most of the candidates had correctly understood the given interpretation and submitted the correct answer as "False".
- 1.13** As this is a basic question about bank statement balance, most of the candidates had correctly submitted the answer as "False".
- 1.14** The statement given had tested the knowledge about accounting process. Most of the candidates had given the correct answer as "False".
- 1.15** This question is related to the principles of the code of ethics adopted by accounting technicians. Majority of candidates had mentioned the correct answer "True" by identifying integrity as a principal of the Code of Ethics.

From question No. **1.16** to **1.20**, it was required to state the answer with the question number in the answer booklet provided.

- 1.16** It was instructed to state two differences between Financial Accounting and Management Accounting. Most of the candidates attempted this question and answered correctly.
- 1.17** It was required to define the term of "Income" in Financial Accounting. Many candidates had defined the term correctly the explanation. However, some candidates had not given the complete definition.
- 1.18** It was required to state two examples of how the accrual concept is applied in preparing financial statement. The average number of candidates had given correct answers.
- 1.19** The candidates were required to briefly explain the "Entity Concept". Most candidates provided the correct explanation.
- 1.20** It was required to identify source documents used to record given transactions. The answers given for **part (a)** Journal Voucher was at satisfactory level. Candidates' performance for the **part (b)** – Sales invoice was not a satisfactory level. Some candidates had given purchase invoice as the answer for the **part (b)** instead of sales invoice.

SECTION B

This section consisted of 4 compulsory questions. Each question had been given 10 marks.

Question No. 02

This question consists of two parts **(a)** and **(b)**. **Part (a)** tested the candidates' understanding of the impact of the given transactions on the accounting equation and **part (b)** tested the knowledge of prime entry books, i.e. Sales Journal.

Although most of the candidates had presented their answers satisfactorily, in general, the weaknesses and errors were identified as follows:

Part (a)

- (1) Some candidates did not have basic knowledge of the accounting equation and few of them had written the equation given in the paper for each transaction.
- (2) In third transaction of **Part (a)**, some candidates have deducted payment of shop rent from the liability instead of equity.
- (3) In forth transaction of **Part (a)**, some candidates had deducted Trade creditors from equity instead of liability.
- (4) Some candidates had only indicated the decrease or increase in total assets and liabilities without regard to the effects on each item in the equation related to the transaction.

Part (b)

- (1) It was noted that most of the candidates lack the proper knowledge of the Trade discount. Therefore, they have not calculated the net sales value after deducting the trade discounts.
- (2) Some candidates have named the trade discount as VAT.
- (3) Many candidates had not included a total of sales Journal.
- (4) Many Numerical errors were noted.

Question No. 03

Candidates' knowledge on the preparation of Trial Balance was tested from this question. Most of the candidates have attempted the question and the performance of candidates was at a satisfactory level.

- (1) Some candidates had prepared only the ledger accounts instead of preparation of the Trial Balance by extracting the closing balance from the individual ledger accounts.
- (2) Amounts that should be entered into the debit side of the Trial Balance had been entered in the credit side of the Trial Balance.
- (3) Credit sales and credit purchases were not correctly calculated through the debtors and Creditors control accounts.

- (4) Cash sales, Credit Sales and Cash purchases, credit purchases were shown as separate items in the Trial Balance.
- (5) Depreciation amount for the Motor Lorry was not calculated correctly by considering 3 months for the period.
- (6) Insurance Expense and Electricity Expense, Office Rent for the period were not calculated correctly with Pre-payments and accrued expense respectively.

Question No. 04

This question tested the knowledge and understanding of the candidates on the preparation of Manufacturing Cost Accounts for the year ended 31st March 2024

Most of the candidates had work out this question at a satisfactory level and the following weaknesses were observed:

- (1) The correct format was not submitted.
- (2) Most of the candidates did not have an understanding on the Prime Cost and the Overhead Cost so they have not separate the expenses accordingly.
- (3) Work-in-progress adjustments had been made to the overhead cost without adjusting to the prime cost.
- (4) Overhead expenses were not correctly calculated among Factory and Office by using the given percentages
- (5) Most of candidates used irrelevant expenses lines to the computation manufacturing cost such as motor lorry depreciation.
- (6) Raw materials consumed, prime cost and total manufacturing cost were not mentioned at the calculated values.
- (7) The profit margin of 15% on cost of production was not calculated accurately.

Question No. 05

This question consisted of 2 parts **(a)** and **(b)**. **Part (a)** required to prepare Journal Entries to rectify errors and **part (b)** required to prepare Suspense Account.

Most of the candidates had submitted answers at a satisfactory level, but the following common weaknesses were observed:

Part (a)

- (1) Preparation of ledger accounts instead of Journal Entries.
- (2) The debit and credit values relevant to the Journal Entry being inter-changed when writing the journal entry.
- (3) When preparing the journal entries, it was not mentioned debit and credit terms in front of the transaction in the journal.

- (4) Most candidates mentioned cash book in each Journal Entries.
- (5) Not identifying the errors that had to be corrected through the Suspense Account.
- (6) Journal entries had been submitted without correctly understanding the error referred to in item (2). The values of Rs.3,500/-and Rs.5,300/- had been included in the Journal Entry instead of Rs.1,800/- which is the difference of the two values.
- (7) The correction journal entry relating to Entry No.04 – Purchase of a computer worth of
- (8) Rs.250,000/- debited to office maintenance account had not been correctly recorded. Some candidates have debited purchase account instead of office equipment account.
- (9) Some candidates had failed to correctly indicate the correcting journal entries related to accounting of security bill payable adjustment received as interest expense.

Part (b)

The weaknesses below were noticed in preparing the suspense account:

- (1) Opening credit balance in the suspense account has been recorded to debit side of that account and opening credit balance in the suspense account has not been recorded.
- (2) Entries that should have been debited to Suspense Account have been credited.

SECTION C

Question No. 06

This question consists of two parts **(a)** and **(b)**. The knowledge of candidates in the presentation of Statement of Comprehensive Income was tested in **part (a)**, while the presentation of Statement of Financial Position was tested in **part (b)**. The overall performance was at a satisfactory level.

Commonly observed errors and omissions are as follows:

(a) Preparation of Statement of Comprehensive Income:

- (1) Some candidates had deducted the opening stock at the beginning of the year and added the closing stock in order to calculate the Gross Profit.
- (2) Although some candidates had calculated depreciation correctly, when preparing the income statement, they had only shown the total amount of depreciation without showing separate depreciation for each asset class and some have not taken the depreciation into Statement of comprehensive Income.
- (3) Rs.100,000/- written off as bad debt during the year and provision for bad debts had not been recorded.
- (4) It was also observed that the refundable deposit of Rs.600,000/- paid to the owner of the rented building was deducted from office expenses and shown as a refundable deposit in the statement of financial position, but it was written off as an expense for the year in the income statement.

- (5) Although interest on bank loans should be calculated and shown in the accounts for only one month, some candidates had shown interest for the entire year.
- (6) Some candidates had identified sales commission expenses as income.
- (7) Depreciation of building has not been computed correctly. Some candidates have calculated depreciation for both land and building value without deducting the land value.
- (8) In the Statement of Comprehensive Income, items of the Trial Balance were shown in thousands and figures of items relating to adjustments in normal figures.
- (9) Due to lack of understanding of items that should be included in the Statement of Comprehensive Income, items that should have been included in the Statement of Financial Position had also been included in the Statement of Comprehensive Income.
- (10) The statement of Comprehensive Income was not submitted in the recommended format and most candidates did not have proper knowledge to categorize expenses correctly.
- (11) Candidates should correctly identify the related expenses to be classified under Selling and Distribution Expenses and Administration Expenses.
- (12) Detailed workings for the Administration Expenses, Distribution Expenses and Finance Expenses were not attached by some candidates. Therefore, they could not earn full marks.

(b) Preparation of Statement of Financial Position:

- (1) Depreciation for the year was recorded instead of accumulated depreciation.
- (2) It is observed that some candidates did not have proper understanding of bad debt write-off and bad debt provision. Furthermore, some candidates had not deducted bad debt and bad debt provision from Trade Receivables balance.
- (3) Values related to accrued electricity, sales commission and bank loan interest were not included under current liabilities in the Statement of Financial Position.
- (4) Bank loan was recorded under current liabilities instead of non-current liabilities.
- (5) The refundable deposit of office rent was not recorded under current assets.
- (6) Purchases, sales, opening stock, rent expense and other expenses were included in the Statement of Financial Position due to lack of basic understanding of the items to be included in the Statement of Financial Position.
- (7) Some candidates had entered all the items together without classifying the items in the Statement of Financial Position.
Examples: - Non-current Assets, Current Assets, Capital and Liabilities, Current Liabilities.
- (8) Trade receivables were recorded under current liabilities and trade payables under current assets.

General points to be considered to improve the performance level of candidates:

- (1)** Study the new syllabus fully and thoroughly. Pay more attention to new subject matters.
- (2)** Read the question several times and answer only what is asked in the question. Do not write unnecessary things.
- (3)** Refer Self-Study Texts, Pilot Papers, letters, Journals, etc. relevant to this subject.
- (4)** Identify basic theoretical concepts correctly and build necessary skills to answer questions.
- (5)** Hand writing should be legible and question numbers should be written correctly.
- (6)** Follow the instructions given in the question paper and exhibit calculations and workings correctly.
- (7)** Improve the knowledge by practicing more past papers.
- (8)** Manage your time efficiently.
- (9)** Before handing over the answer script, check whether the question numbers, etc. have been stated correctly.
- (10)** Face the examination with a good preparation and with the utmost hope of passing the examination.

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