

**EXAMINER'S REPORT**  
**LEVEL I EXAMINATION - JULY 2024**  
**(101) FINANCIAL ACCOUNTING**

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**SECTION A**

**Question No. 01**

Question No. **1.1** to **1.10** were required to select the most correct answer out of the choices given. Questions No. **1.11** to **1.15** were required to state “**True**” or “**False**” for the given statements, and from questions 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 identified with the answers given by the candidates for each sub-section:

- 1.1** It was asked on the residual interest in assets of the entity after deducting all its liabilities. Many candidates have given the correct answer as “Equity” while some of the candidates answered incorrectly as “Income” or “Expenses”.
- 1.2** This question was asked about the relevant environmental factor represented in the given statement. Many candidates had given the correct answer as “legal environment”, while some candidates incorrectly mentioned it as “Technical environment”.
- 1.3** The question was asked from candidates to select the correct source document raised by the storekeeper at the time of receiving goods, confirming that the goods were received. Most of the candidates had given the correct answer as Goods Received Note (GRN). However, some candidates gave wrong answers, such it as Purchase Order (PO).
- 1.4** It was asked to calculate the profit for the year ended 31<sup>st</sup> March 2024 from the information provided. Many candidates had mentioned Rs.1,650,000/- as the correct answer, while some candidates marked Rs.2,450,000/- incorrectly.
- 1.5** The question was asked to provide the prime entry book which is used to record by a seller for return of the goods sold on credit. Most of the candidates have given the correct answer as Returns Inwards Day Book, while some candidates answered as Sales Day Book or Purchase Day Book incorrectly.
- 1.6** It was requested to calculate the Carrying Value (Net Book Value) of the motor vehicle as at 31<sup>st</sup> March 2024 based on the given information. Most of the candidates have calculated this correctly and provided the correct answer as Rs.2,560,000/-. However, some candidates had given incorrect answers, such as Rs.2,400,000/- and Rs.3,200,000/-, due to calculation errors.

- 1.7** It was requested to select the correct impact of the given transaction on the accounting equation. Most of the candidates had selected answer 01 as the correct answer. However, some candidates had selected answer 04 incorrectly.
- 1.8** It was required to select appropriate accounting concepts with reference to the provision for doubtful debts from the debtors. Most of the candidates have given the Prudence Concept as the correct answer; however, some candidates selected the Materiality Concept and Consistency Concept incorrectly.
- 1.9** It was required to identify the transaction that is not recorded in the General Journal. Most of the candidates had selected answer 01 as the correct answer. However, some candidates had selected answer 02 and 04 incorrectly.
- 1.10** It was required to identify the relevant accounting concept relating to the given transaction. Most of the candidates had provided the Accrual Concept as the correct answer. However, some candidates had incorrectly given Going Concern Concept and Matching Concept as well.

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**”.

Most of the candidates correctly understood the statements under questions No.**1.11**, **1.12**, **1.13**, and **1.14** and were thereby given the correct answers.

- 1.14** Although the correct answer is “**False**”, due to a wrong understanding of the given statement, many of the candidates had incorrectly given the answer as “**True**”.

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** This question was instructed to list two reasons for accounting errors. Most of the candidates had given the correct answers.
- 1.17** Most of the candidates had defined the term “a Liability” correctly, while fewer candidates failed to provide a complete definition.
- 1.18** Most of the candidates had correctly explained the meaning of “specialized accounting software”, while some of the candidates had listed common software systems for this, For example, ACC PAC, Quick Book, and MYOB.
- 1.19** Most of the candidates stated two reasons why an entity prepares bank reconciliation statements.
- 1.20** Most of the candidates had clearly and correctly explained the “Money Measurement Concept”.

## SECTION B

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

### **Question No. 02**

This question tested candidates' understanding of the preparation of Trial Balance after preparing ledger accounts. The following weaknesses have been made by the candidates in general.

- (1) Instead of preparing a Trial Balance, some candidates had prepared ledger accounts.
- (2) When preparing the Trial Balance, amounts that should be credited have been debited, and amounts that should be debited have been credited.
- (3) Credit sales and credit purchases were not correctly calculated through the debtor's control account and creditors' control account.
- (4) Cash sales, credit sales and cash purchase, credit purchases were shown as separate items in the Trial Balance.
- (5) Depreciation charge for the machine, which was purchased on 1<sup>st</sup> January 2024, was not calculated correctly.
- (6) Expenses incurred using petty cash and the petty cash balance were not recognized correctly.
- (7) Prepaid office rent and office rent expenses for the period have not calculated correctly.

### **Question No. 03**

This question tested the candidates' understanding of preparing Manufacturing Accounts (Manufacturing Cost Statement) for the year ended 31<sup>st</sup> March 2024. Many candidates have answered this question satisfactorily, while the below weaknesses were identified.

- (1) Failed to present the answer using the structured format.
- (2) Work-in-progress adjustments were made on production costs instead of prime costs.
- (3) Direct wages paid to production employees were considered as office expenses by some candidates, although those should be considered as direct expenses.
- (4) The raw material opening and closing stock were transferred, and calculations were made.
- (5) The profit margin of 15% on the cost of production was not calculated.
- (6) Failed to write the calculated amount of raw material consumption, prime costs and total production costs.
- (7) Failed to allocate electricity, security charges, and rent among factory and office based on the given percentages, while the total amount presented under overhead costs.

## Question No. 04

This question consisted of two sections as **(a)** and **(b)**.

**Part (a)** of the question requested the journal entries be written to rectify the errors, while part **(b)** instructed the preparation of the suspense account. Although most of the candidates had presented their answers satisfactorily, in general, the weaknesses and errors were identified as follows:

- (a)**
- (1) Instead of journal entries, the ledger accounts were prepared.
  - (2) The relevant debit and credit journal entries were transferred and written.
  - (3) When preparing journal entries transactions were not entered as debit and credit in the journal.
  - (4) The errors that should have been corrected through the suspense account were not identified.
  - (5) The correction of the journal entry on the error of recording interest on the bank loan to the interest income account was not recorded correctly.
  - (6) Although the candidates have properly corrected the error in recording the purchase of a printer into the printer repair account, they could not present the journal entry to record depreciation of Rs.4,000/- on it.
  - (7) Failed to correctly recognize the error in recording Rs.12,500/- worth of discount given to debtors to the discount received account and present the relevant journal entry.
  - (8) Instead of adjusting the difference of Rs.24,000/- and Rs.42,000/-, the journal entry was made on the total amount for rent expenses.
- (b)** The below weaknesses were noticed in preparing the suspense account:
- (1) The opening debit balance of the suspense account was recorded as a credit balance of the account.
  - (2) The opening debit balance of the suspense account had not been recorded on the debit side of the account.
  - (3) The entries of the suspense account were transferred and recorded as credit entries to the debit side of the account and credit entries to the debit side of the account.

## Question No. 05

This question consists with two sections **(A)** and **(B)**.

**(A)** This section of the question tested candidates' understanding of the impact of the given transaction on the accounting equation.

Based on the information provided, section **(B)** of the question was instructed to,

- (a)** Prepare the Adjusted Cash Control Account.
- (b)** Bank Reconciliation Statement as at 31<sup>st</sup> January 2024.

**(A) Impact on the Accounting Equation**

- (1) Lack of proper understanding of candidates regarding the impact of the given transaction on the accounting equation was noticed. Such as an increase or decrease in assets, liabilities, income, expenses, and equity. Further, the entries had been made without specifying the positive or negative signs.
- (2) Some candidates had presented the impact of the relevant transactions in the accounting equation only on the assets side or liability side.
- (3) Instead of recording the impact of transactions using financial values, they have mentioned as “increase” or “decrease” in words.

**(B) (a) Preparation of Adjusted Cash Control Account**

- (1) The opening debit balance of Rs.25,000/- had not been recorded on the cash control account.
- (2) Some candidates did not identify the differences affecting the cash control account (for adjustments 1, 2 and 3) from the reasons for the change given in 1 to 5 and did not adjust the cash control account.
- (3) Some other candidates have credited the items that should have been debited to the adjusted cash control account and debited the items that should have been credited to the cash control account.
- (4) The cash book was not properly balanced, and the final balance was not calculated properly.

**(b) Bank Reconciliation Statement as at 31<sup>st</sup> January 2024**

- (1) Some candidates had prepared the Bank Reconciliation Statement, including all the adjustments given in 01 to 05, due to the lack of understanding on “deposited but not realized” and “issued but not presented” cheques that should be included only in the Bank Reconciliation Statements.
- (2) The wrong values for adjusted cash-control account had been taken as some of the amounts that should have been added had been deducted from the balance as per the Bank Statement as of 31<sup>st</sup> January 2024.

**SECTION C**

**Question No. 06**

This question consisted of two sections **(a)** and **(b)**. **Part (a)** tested the candidates' understanding of the preparation of a Statement of Comprehensive Income, and **part (b)** tested their understanding of the preparation of the Statement of Financial Position. Overall performance was good.

In general, the below weaknesses and errors have been identified:

**(a) Preparation of the Statement of Comprehensive Income:**

- (1) The correct amount of annual depreciation has not been calculated using the straight-line method and not taken to the Income Statement.

- (2) Due to a lack of understanding of the items that should be presented on the Statement of Comprehensive Income, some items that should be presented on the Statement of Financial Position have been presented on the Statement of Comprehensive Income.
- (3) Did not record the bad debts write-offs Rs.50,000/- during the year.
- (4) Some candidates had added the closing stock and deducted the opening stock when calculating the gross profit.
- (5) The items in the Trial Balance had been taken in thousands, while the adjustments had been taken as complete numbers when preparing the Statement of Comprehensive Income.
- (6) Electricity expenses of Rs.32,000/- relevant for the month of March 2024, had not been correctly taken for the annual electricity expenses.
- (7) The rent advance paid for six months had not been correctly deducted from the rent expense of the year.
- (8) Interest expenses for the last 3 months on the Rs15,000/- bank loan obtained on a monthly interest basis had not been calculated.
- (9) 5% provision for doubtful debts had not been adjusted.

**(b) Preparation of Statement of Financial Position**

- (1) Bad debts written off and provisions for doubtful debts for the year were not deducted from the total amount due from trade receivable.
- (2) Annual depreciation charge has presented as accumulated depreciations as at 31<sup>st</sup> March 2024, without adding annual depreciation to the opening balance of accumulated depreciation as of 1<sup>st</sup> April 2023.
- (3) The accrued electricity amount was not recorded.
- (4) Accrued interest on bank loan was incorrectly calculated without considering the time period on the bank loan obtained on 01<sup>st</sup> January 2024.
- (5) Some candidates have presented the bank loan obtained for a period of 12 months under non-current liabilities, even though it should have been listed under current liabilities.
- (6) Key money paid for six months was not recorded as a current asset.
- (7) Purchases, sales, opening stocks, rent income and other expenses were taken into the Statement of Financial Position due to the lack of understanding of the items that should be presented on the Statement of Financial Position.
- (8) Some candidates presented all the items in the Statement of Financial Position without classifying them as non-current assets, current assets, equity and liabilities, and current liabilities.
- (9) Trade receivable was presented under current liabilities while trade payable was presented under the 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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