

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

SECTION A

Question No. 01

The candidates were instructed to write the number corresponding to the most appropriate answer among the answers given for questions 1.1 to 1.10, whether each statement given for questions 1.11 to 1.15 is 'True' or 'False', and the correct answer for questions 1.16 to 1.20 along with the question number in the answer book.

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

Question No. 1.1

This question asked what is the "objective of Financial Accounting". Although a significant number of candidates had given the correct answer (2), some candidates had given the incorrect answer (1).

Question No. 1.2

It was asked which one of the given categories presented was the basic elements of the Statement of Financial Position. A significant number of candidates had given the correct answer (3), while some candidates had given the incorrect answers (1) or (2).

Question No. 1.3

It was asked what is the basic qualitative characteristic of financial information. Most of the candidates had given the correct answer number 2, "Relevance", while some candidates had given the incorrect answers (1), "Going Concern" and (3), "Accrual Basis".

Question No. 1.4

It was checked the accounting concept relevant to the given statement. Most of the candidates had submitted the correct answer (1) "Matching Concept" while some candidates had submitted the incorrect answer (2) "Accrual Concept" or (3) 0 "Going Concern Concept".

Question No. 1.5

Based on the information provided, the net profit of the business for the month ended March 31, 2025 was calculated and presented. Most of the candidates had correctly calculated the net profit and presented it as (1) Rs.2,700,000/- while some candidates had incorrectly calculated it as (2) Rs.1,700,000/- or (4) Rs.2,500,000/- based on their incorrect answer.

Question No. 1.6

The question asked which of the transactions given was the most suitable for the accounting equation presented. Most of the candidates had submitted the correct answer (2).

Question No. 1.7

The instructions were given to select the effect on the accounting elements due to a settlement to a trade creditor. Most of the candidates had given the correct answer (3) "Decrease in Assets and Decrease in Liabilities".

Question No. 1.8

The questions asked which one of the given transactions would be recorded in the General Journal. Most of the candidates had given the correct answer (2) , while some candidates had given the incorrect answers such as (3) or (4).

Question No. 1.9

This question tested the candidates' knowledge of source documents. Most of the candidates had given the correct answer (01) "Debit Note", while some other candidates had given the incorrect answer (3) "Credit Note".

Question No. 1.10

This question asked which of the statements given was correct regarding the Double Entry accounting system. Most of the candidates had submitted the correct answer (4), while some others had submitted incorrect answers (2) or (3).

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 had correctly understood the statements made in relation to questions **1.11**, **1.13** and **1.14** and written the correct answers.

Most of the candidates had not correctly understood the statements made in relation to questions **1.12** and **1.15** and therefore had submitted the correct answers as "**False**" instead of "**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.

Question No. 1.16

Instructions were given to state two possible reasons for the time differences between the balance of the Cash Control Account (Cash Book) and the balance appearing in the Bank Statement. Most of the candidates had submitted correct facts such as cheques deposited but not realized and cheques issued but not presented, etc., and some candidates had also submitted facts relevant to the adjustments of the Cash Book. For example, direct debits and credits received by the bank.

Question No. 1.17

Instructions were given to state the difference between a Current Asset and a Non-Current Asset. Since most of the candidates did not have a clear understanding of this, the complete correct answer was not submitted. A small number of candidates had correctly answered that assets realized within 12 months of the reporting date were Current Assets and Assets realized after 12 months were Non-Current Assets.

Question No. 1.18

Instructions were given to identify the correct source document used to record each transaction related to (1) and (2). For No. 1 and 2, the correct answers were given as Receipt and Purchase Invoice, while a small number of candidates had given incorrect answers. Examples (1) Cash Receipts Journal - Debit Note (2) Sales Invoice, Journal, General Ledger.

Question No. 1.19

Instructions were given to state two reasons why business ethics are important for an entity. Most candidates had given correct answers, while some candidates had given incorrect answers because they did not have a correct understanding of this.

Question No. 1.20

Instructions were given to list two reasons for the necessity of accounting concepts for an entity. A significant number of candidates had given correct answers, while a small number of candidates had given incorrect answers because they did not have a correct understanding of this.

SECTION B

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

Question No. 02

This question tested the knowledge and understanding of the candidates regarding the preparation of the Manufacturing Cost Statement (Manufacturing Account) for the year ended 31st March 2025. Most of the candidates had submitted correct answers to this question and the following weaknesses were observed:

- (1) The correct format had not been used.
- (2) Work in progress adjustments had been made to the manufacturing cost without adjusting to the primary cost.
- (3) Though the direct wages and the incentives paid to employees on production need to be adjusted under the direct cost, some candidates had been adjusted into the Overhead cost.
- (4) The closing stock of raw materials had been mixed up with the opening stock of raw materials and submitted.
- (5) The profit margin of 18% had not been calculated on the cost of production.
- (6) Cost of Raw materials consumed were not mentioned in the calculated primary cost and total production costs.
- (7) The given percentages had not been used to apportion the electricity, water and rent in between factory and office Production Overheads had not been expenses between the factory and the office.

Question No. 03

This question tested the candidates' knowledge on preparing the Trial Balance after preparing the Ledger Accounts. Most of the candidates had submitted correct answers and the following weaknesses were generally observed.

- (1) Instead of preparing the Trial Balance, some candidates had prepared only the ledger account.
- (2) The figures that should have been debited in the Trial Balance were recorded as credits and the figures that should have been credited were recorded as debits.
- (3) Sales on credit and purchases on credit were not correctly calculated through the Trade Debtors and Trade Creditors control accounts.
- (4) Cash sales, sales on credit and cash purchases and purchases on credit were recorded as separate items in the Trial Balance.
- (5) Depreciation of the delivery van purchased for 03 months on 01 January 2025 had not been calculated correctly.

- (6) The correct petty cash balance of Rs.75,000 /- after deducting petty expenses paid from the amount transferred to the Petty Cash Book had not been stated in the Trial Balance.
- (7) The petty cash expenses had not been classified individually and had been stated in the trial balance as a total of those expenses.
- (8) The interest income for 06 months in respect of the Fixed Deposit opened on 01st October 2024 at an annual interest rate of 10% had not been calculated correctly and stated in the Statement of Financial Position.
- (9) Telephone and internet charges had not been correctly calculated with the accrued expenses for the accounting period.

Question No. 04

This question consists of two parts as **(a)** and **(b)**.

Part (a) requested to prepare the journal entries to correct the errors and prepare the Suspense Account. Most of the candidates had submitted satisfactory answers, but the following weaknesses and errors were commonly found:

(a)

- (1) Ledger accounts had been prepared instead of journal entries.
- (2) The debit and credit values related to the journal entry had been transferred and presented while writing the journal entries.
- (3) The journal transactions had not been recorded as debits and credits in front of them while preparing the journal entries.
- (4) The incorrect entries to be corrected by the Suspense Account had not been identified.
- (5) In relation to item number 1, depreciation at the rate of 25% per annum on the straight line basis for office equipment purchased for Rs.60,000/- on 01st April 2024 had not been correctly calculated, and some candidates had not submitted the journal entry for depreciation.
- (6) The error mentioned in item number 3 had not been correctly understood and the journal entry had been given only for the rent expense account and the rent income account.
- (7) The error mentioned in item number 6 had not been correctly understood and the difference between the values of Rs.4,500/- and Rs.5,400/- had been presented in the journal entry instead of Rs.900/-.

(b) The following weaknesses were observed in the preparation of the Suspense Account:

- (1) The opening debit balance of the Suspense Account had been recorded as a credit in the account.
- (2) The opening balance of the Suspense Account was not recorded on the debit side of the Suspense Account.
- (3) The debit entries related to the Suspense Account were recorded on the credit side of that account and the credit entries were recorded on the debit side of that account.
- (4) The opening debit balance of the Suspense Account was recorded as the balance carried down in the Suspense Account.

Question No. 05

This question consists of two sub-parts **(A)** and **(B)**.

Part (A) tested the candidates' knowledge of the effect of each transaction on the accounting equation.

Based on the information presented in **part (B)**, instructions were given to prepare **(a)** the adjusted cash control account and **(b)** the bank reconciliation statement as of 31st March 2025:

Part (A) Effects on the accounting equation:

- (1) Some candidates had not properly understood the effect of each transaction on the accounting equation, i.e. the increase or decrease in assets, liabilities, income, expenses and equity, and had shown the entries in the equation without positive and negative values.
- (2) Some candidates had presented the effect of the relevant transactions on the accounting equation as a single entry only on the asset side or the liability side.
- (3) In the accounting equation, instead of recording the monetary values of the given transactions, the words "increase" and "decrease" were mentioned.

Part (B)

(a) Common weaknesses observed in the preparation of the Cash Control Account (Cash Book):

- (1) Some candidates did not have a correct understanding of the transactions that should be adjusted in the Cash Book and the transactions that should be shown in the Bank Reconciliation Statement.
- (2) Transactions that should be credited to the Cash Control Account were debited, and transactions that should be debited were credited.

- (3) Some candidates had included the opening debit balance of Rs. 26,500/- in the Cash Book as a credit while preparing the Adjusted Cash Book.
- (4) The Adjusted Cash Book was not balanced and the closing balance was not carried forward.

(b) Common weaknesses observed in the preparation of the bank reconciliation statement:

- (1) Due to the lack of a clear understanding among the candidates as to what types of transactions should be included in the Bank Reconciliation Statement, transactions that should have been recorded in the Cash Book were recorded in the Bank Reconciliation Statement.
- (2) In the Bank Reconciliation Statement prepared by some candidates, “cheques not presented” were deducted instead of added, and “cheques deposited but not realized” were added instead of subtracted, as per the debit balance of the revised cash book.

SECTION C

Question No. 06

This question consists of two parts **(a)** and **(b)**. **Part (a)** tested the candidates' knowledge on preparing a Statement of Comprehensive Income and **part (b)** on preparing a Statement of Financial Position. The overall performance was good.

The errors and shortcomings observed in general are as follows:

(a) Preparation of Statement of Comprehensive Income:

- (1) The correct amount of depreciation for the year was not calculated under the straight-line basis and taken to the Income Statement.
- (2) Due to the lack of understanding about the items to be included in the Comprehensive Income Statement, some items that should have been included in the Statement of Financial Position were included in the Comprehensive Income Statement.
- (3) The amount of Rs. 80,000/- written off during the year as bad debts had not been recorded.
- (4) Some candidates had deducted the opening stock of the year and added the closing stock to calculate the gross profit.
- (5) The items in the Trial Balance were stated in thousands and the items in the reconciliations as whole values in the Comprehensive Income Statement.

- (6) The Stores rent of Rs.150,000/- relating to the month of March 2025 had not been properly adjusted to the expenditure for the year.
- (7) Although the depreciation of the building should have been calculated by deducting the value of the land of Rs.2,400,000/- from Rs.8,400,000/- (the value of the building is Rs.6,000,000), the candidates had calculated the depreciation for the entire value of Rs.8,400,000/-.
- (8) Bad debt written off of Rs.80,000/- from trade receivables had not been adjusted.
- (9) 6 months interest of Rs.180,000/- on Rs.3,000,000/- bank loan obtained on 01 October 2024 at 12% annual interest had not been recorded.
- (10) 3 months Insurance expense of Rs.30,000/- relating to the cost of fire insurance policy obtained by paying Rs.120,000/- for the period from 01 January 2025 to 31 December 2025 had not been adjusted as required.

(b) Preparation of Statement of Financial Position:

- (1) Provisions for bad and doubtful debts written off during the year had not been deducted from trade receivables.
- (2) Accumulated depreciation as of 01 April 2024 had not been included, and only the depreciation for the year had been shown as accumulated depreciation.
- (3) Stores rent payable had not been recorded.
- (4) Accrued bank loan interest had been incorrectly calculated due to not considering the relevant period for the bank loan obtained on 01st October 2024.
- (5) Although the bank loan obtained on 01 October 2024 should have been presented under non-current liabilities, some candidates had presented it under current liabilities.
- (6) Due to the lack of basic understanding of the items to be included in the Statement of Financial Position, purchases, sales, opening stock, rent income and other expenses had been included in the Statement of Financial Position.
- (7) Some candidates did not classify the items in the statement of Financial Position and recorded all the items together. For example: Non-Current Assets, Current Assets, Inventory and Liabilities, Current Liabilities.
- (8) Trade receivables were recorded under Current Liabilities and Trade Payables under Current Assets.
- (9) Some candidates did not present the prepaid insurance expenses under the Current Assets.
- (10) Land and Buildings were presented as individual items under Non-Current Assets without presenting them separately.

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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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