

EXAMINER'S REPORT**LEVEL II EXAMINATION - JULY 2026****(2801) FINANCIAL & COST ACCOUNTING**

SECTION A**Question No. 01**

This question consisted of 10 sub-Questions out of ten 5 Questions are Multiple Choice Questions (MCQ) for 25 marks. The knowledge has been tested covering Financial and Cost Accounting under the 2025/30 syllabus. Most of candidates could not obtain full marks and only a very few candidates were able to earn higher marks for this Question.

The following common weaknesses and mistakes were observed during the process of evaluation of answer scripts:

- 1.1** This question tested the knowledge of identifying the elements of financial statements. Most of the candidates' answers were correct. Candidates clearly identified the elements of Financial Position. However, some candidates were unable to identify this properly.
- 1.2** This question tested the candidates knowledge on "Specific Order Costing Method" among the various costing methods. A fair number of candidates provided correct answers to this part.
- 1.3** This question tested on reconciliation between the profit in the Cost Accounts and Financial Accounts was examined. A fair number of candidates provided correct answers. However, some were unable to provide the correct answer due to a lack of adequate knowledge on necessary adjustments.
- 1.4** This question tested the knowledge in calculating the profit and loss on disposal of a motor vehicle (fixed asset). Most of the candidates answered correctly. A few candidates were unable to correctly calculate the profit on disposal of a motor vehicle, due to the fact that the residual value, useful life and useful life of the asset were not correctly identified before calculating depreciation.
- 1.5** This question tested the knowledge regarding the absorption of production overheads. Most of the candidates answered correctly. However, some were calculating the correct figure but failure to identify whether it was under absorbed or over absorbed.
- 1.6** This question directly checked the provisions of section 24 of the Partnership Ordinance of 1890. Many candidates provided correct answers' While other wrote down whatever come to their mind.
- 1.7** This question directly asked objectives of materials control. Many candidates obtained full marks. Some candidates lacked sufficient knowledge regarding the objectives as the material controls.
- 1.8** This question directly asked the deference between Financial Accounting Vs Cost accounting. This is a straight forward question is that frequently asked in past question papers. Some candidates did not provide a complete answer.

- 1.9** This question tested to calculate the sacrificing ratio of “X” and “Y”. Most of the candidates successfully provided the correct ratio and few candidates were unable to calculate the sacrificing ratio due to poor knowledge and skills for mathematics subject.
- 1.10** This question tested candidates’ knowledge of inventory valuation using the First in First out (FIFO) method. Most of the candidates answered Rs.17,320/- correctly. But, noted that few candidates were unable to identify the correct answer due to a lack of theoretical knowledge of the subject area. Some candidates showed a basic understanding of the method, but, errors occurred when identifying the quantities remaining from the earliest purchases.

Overall performance for this question was at a satisfactory level.

SECTION B

Question No. 02

This question tests the ability of the calculates on the profit or loss for the year and the owners' equity at the end of the year by preparing the Financial Statements of a sole proprietorship, using incomplete entries. A considerable number of candidates performed well in this question and obtained a satisfactory level of marks, demonstrating a reasonable understanding of the principles and procedures of Single-Entry Accounting.

Further, the following weaknesses of some candidates were observed:

- (1) Some candidates had failed to account the accrued expenses correctly. They had failed to make the correct adjustments to the amount paid for electricity and water to determine the actual electricity and water charges for the year, resulting in the final profit and capital balance at the end of the year being incorrect. They had lost marks for this.
- (2) Some candidates incorrectly recorded the opening and closing inventories in the Trading Account. These errors affected the calculation of gross profit and consequently resulted in incorrect final profit figures and loss of marks.
- (3) Some candidates made unnecessary adjustments to sales and purchases, even though such adjustments were not required by the information given in the question. This indicates that some candidates did not adequately identify which adjustments were relevant to the specific transaction.
- (4) Some candidates incorrectly recorded owners’ drawings in the Income Statement. Candidates should clearly distinguish between items affecting profit and items relating to the owner’s capital.
- (5) A number of candidates experienced difficulties in correctly calculating the year-end capital balance. Errors in determining closing capital subsequently affected the final answer and resulted in the loss of marks

Overall performance for this question was at satisfactory level.

Question No. 03

This question tested the basic knowledge that how to prepare the Partners' Current Accounts and Capital Accounts. Also, this question has tested the candidate's knowledge on the adjustments at the retirement of a partner from the business. Average number of candidates performed well for this question.

Some candidates did not perform well due to the following reasons:

- (1) A significant number of candidates distributed the partnership profit before deducting / appropriating partners' salaries and interest on capital. This indicates insufficient understanding on the correct sequence for determining the profit available for distribution among partners.
- (2) Some candidates experienced difficulties in correctly recording debit and credit entries in Partners' Capital and Current Accounts. This weakness was particularly evident in the recording of goodwill adjustments, resulting in the loss of marks.
- (3) Some candidates demonstrated weaknesses in applying the double-entry principles to partnership adjustments. Candidates should improve their understanding of the corresponding debit and credit effects of transactions involving capital, current accounts and goodwill.
- (4) Some candidates made numerical errors when recording large monetary amounts, particularly amounts expressed in millions. Some candidates recorded incorrect figures due to omitting or adding zeros, which subsequently affected their calculations and final answers.
- (5) Candidates are advised to pay greater attention to the accuracy of figures, particularly the number of zeros, and to check all monetary amounts before proceeding with subsequent calculations.

Overall performance for this question was at an average level.

Question No. 04

The examiner has tested the knowledge and the understanding about the preparation of Membership Subscription Account and Income and Expenditure Account of a "Non-Profit Organization". Most of the candidates have attempted this question and identifies the under mentioned weakness.

Common mistakes observed were as follows:

- (1) Most candidate were failed to understand the question, it is seemed that the lack of knowledge about the accounting on Non-Profit organization.
- (2) Most candidates were failed to record the brought forwarded and carried forwarded balances in the membership subscription account.
- (3) It was noted that most of the candidates were failed to segregate activities relating to the get together and the association activities.
- (4) Some candidates were failed to transfer the relevant balances such as Membership Subscription fees and Profit on the get-together to the Income Expenditure Account.

- (5) Most candidates have tried to mentioned the transactions without proper understanding. However, they did not have basic understand on the transactions. As an example, most candidates are fails to calculate gross profit of the Restaurant where as they have recorded the transaction in different captions in the account.
- (6) Most of the candidates were failed to compute balances such as salaries and wages, Water and Electricity and Rent expenses based on the given scenario.
- (7) Most of the candidates were failed to compute the depreciation properly and some were recognized the asset value in the income statement.

Overall performance for this question was at an average level.

Question No. 05

The examiner has tested the knowledge and the understanding about the Inventory Management (Management Accounting) of an Organization. Most of the candidates have attempted the question and very few were answered in a satisfied level.

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

Part (A):

In this part, the examiner was tested how to calculate the ratios.

- (1) Most candidates have failed to compute ratios due to lack of knowledge.
- (2) It was noted the poor knowledge of the equations and arithmetical accuracy.
- (3) Some candidates have calculated the ratios without reading the question properly. As an example, examiner has tested the knowledge about the minimum stock balance. But, candidates have prepared maximum stock balance.

Part (B):

In this part the examiner tested how to calculate employment expenses.

- (1) Candidates have not adequate knowledge on the basis on wages are paid and bonus elements.
- (2) Most of the candidates have failed to understand actual hours worked.
- (3) Candidates did not have an adequate knowledge on the calculation of standard hours'.

Overall performance for this question was at an average level.

Question No. 06

Based on the given data, **part (A)** was required to prepare a statement showing how the overheads were allocated and apportioned to each production department and **part (B)** to calculate the estimated production cost of a product.

The following common mistakes were observed:

- (1) Some candidates omitted the allocation of indirect materials and indirect labour to the respective departments.
- (2) Several candidates used incorrect bases when apportioning overhead costs such as rent, electricity, staff welfare and depreciation.
- (3) Due to numerical inaccuracies and errors in decimal place, allocation of Service Department overheads to the Production Departments was inaccurate.
- (4) Some candidates incorrectly redistributed 55% of the total cost of Production **Department P** and 45% of the total cost of Production **Department A**, instead of redistributing the Service Department cost to Production **Departments P** and **A** according to the given 55% : 45% ratio.
- (5) Some candidates incorrectly added number of direct labour hours as direct labour cost to the departmental production overhead cost.
- (6) A few candidates have correctly prepared the overhead statement but did not present the final answer. Therefore, they were unable to earn full marks.
- (7) Some candidates did not attempt to complete **Part (B)**, which required the calculation of the estimated production cost of a product. Most of the candidates did not consider the given direct labour hours when calculating the production cost per unit.
- (8) Some candidates divided the total production cost by total prime cost instead of using the appropriate direct labour hours.

Overall performance for this question was at an average level.

SECTION C

Question No. 07

This question tested the preparation of Financial Statements of a Private Limited Company and consists of 2 parts **(a)** and **(b)**. **Part (a)** tested the preparation of the Statement of Comprehensive Income and **part (b)** tested the preparation of Statement of Financial Position.

Most of the candidates had attempted to answer this question and some candidates were able to score full marks.

The following weaknesses were observed:

(a) Preparation of Statement of Comprehensive Income:

- (1) Generally Accepted format for the Statement of Comprehensive Income was not followed by very few candidates.
- (2) Tax adjustment had not been done correctly by some candidates.
- (3) Correct allowance for trade receivables had not been taken into accounts by some candidates.

- (4) Some candidates had not attached the workings and therefore, they couldn't score some more marks allocated for workings.
- (5) Debenture interest for the year had not been properly taken into the accounts by very few candidates.
- (6) Pre-paid insurance and accrued audit fee had not been adjusted by some candidates.
- (7) Some candidates had forgotten to adjust the fully damaged stock on 02nd April 2026.
- (8) Sales commission paid had been taken as an income by some candidates.

(b) Preparation of Statement of Financial Position:

- (1) Some candidates had not deducted the provision for bad debts from the Trade Receivables.
- (2) Some students were not aware of the difference between Current and Non-Current Assets and Liabilities.
- (3) Very few candidates had not used the Generally Accepted format for the Statement of Financial Position.
- (4) Accumulated depreciation of Machinery, Furniture and fittings and Motor Vehicles had not been correctly taken into accounts by some candidates.
- (5) Income Tax payable had not shown in the accounts by few candidates.
- (6) Inventory value shown in the Trial Balance as at 31st March 2026 had been taken to the Statement of Financial Position without considering the fully damaged stocks on 02nd April 2026.
- (7) Adjustments to the ordinary share issue, had not been done by some candidates and therefore, the correct amount of equity had not been taken to the accounts. Further noted that excess fund received for the share issues had not been adjusted as per the instructions given.

Overall performance for this question was at satisfactory level.

Suggestions to enhance the Competency Level of Candidates in order to Improve the Performance at the Examination:

- (1)** Candidates must study the study text and understand its contents.
- (2)** Understand the definition of action verbs and practise to answer the questions based on the action verb list given at the end of the question paper.
- (3)** Study the contents of the past papers and practise at least last 2 - 3 examination papers and try to understand the way in which the questions are being set.
- (4)** The candidates should work out the past paper questions on timely basis before the examination, it will improve the time management at the examination.
- (5)** Candidates should write legible hand writing at the examination.
- (6)** The candidates should carefully read the instructions given in the examination paper prior to start answering the questions in the paper.
- (7)** The candidates should have a clear and balance mind set at the examination in order to understand the question and provide with appropriate and accurate answers required in the question.
- (8)** The candidates should allocate the time for the questions based on the marks given and accordingly, the candidate should be able to answer all the questions given in the paper effectively.
- (9)** Check twice whether all required questions were answered and appropriately numbered prior to hand over the answer scripts.

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