

Examiner's Report

AA1 Examination - January 2017

(AA11) FINANCIAL ACCOUNTING BASICS

SECTION A

Objective Test Questions (OTQs)

Question No. 01

This question consists of 15 sub questions. Given below are the general weaknesses identified in the answers for the sub questions:

- (1) Some candidates have not considered the instructions given in the question paper properly and have answered in the question paper itself without writing the answers in the answer booklets given, and have attached the question paper along with the answer booklet.
- (2) Some candidates wasted time by writing the entire answer in the booklet instead of writing the relevant number of the correct answer.

(3) **Question No. 1.4**

Some candidates who have not identified the items not to be recorded in general ledger have given incorrect answers. Though the correct answer was No. (3) Recording of opening balances, many candidates have selected No. (4) Sale of goods on credit.

(4) **Question No. 1.5**

Total assets were calculated correctly by very few candidates. Many candidates have given incorrect answers due to lack of proper understanding on calculation of total assets using Opening Capital, Drawings during the year, Profit and Liabilities at the year end.

(5) **Question No. 1.7**

It was observed that considerable number of candidates did not have a proper understanding on petty cash reimbursement. Though the amount to be reimbursed is Rs.1,275/- which is equal to the amount spent, many have stated Rs.3,725/- as reimbursement which is the amount equal after deducting expenses Rs.1,275/- from petty cash float of Rs.5,000/- .

(6) **Question No. 1.8**

Most of the candidates have given incorrect answers for this question. It was noted that the knowledge on calculation of the Net Profit / (Loss) of the firm by using the profit equation is at a lower level. Though the correct answer was no. (4) Rs.28,000/-, many candidates have selected No. (3) Rs.52,000/-.

(7) **Question No. 1.9**

Most of the candidates have given incorrect answers for this question also. It was noted that the knowledge on master files used in a computerized accounting system is at a very low level. Many candidates have written names of accounting packages.

(8) **Question No. 1.11**

Even though, most of the candidates have identified Capital Expenditure and Revenue Expenditure correctly, they were failed to explain them.

(9) **Question No. 1.14**

Some have mentioned the prime entry books due to lack of knowledge on source documents.

(10) **Question No. 1.15**

Though it was clearly mentioned in the question paper to state the double entry for the transaction, some candidates who have ignored it have recorded in ledger accounts. Further, most of the candidates have not mentioned the double entry for Rs.2,000/- discount received at the full settlement of a creditor by paying Rs.30,000/-.

SECTION B

Question No. 02

This question consists of 2 parts (a) and (b). Part (a) tested the knowledge of accounting equation and Part (b) tested the knowledge of accounting concepts.

Some common weaknesses observed are given below.

- (1) Though the relevant accounting equation was given in the question paper itself, some candidates have tried to record the effect of transactions in their own equation. Some others have written the effect of the transactions to the accounting equation in the form of sentences instead of stating in the equation.
- (2) Although staff salary paid for the month of June Rs.45,000/- should have been recorded as (-45,000) under cash and (-45,000) under capital. However, some candidates have recorded under liabilities instead of capital.
- (3) Although purchasing of office equipment for Rs.10,000/- on credit should have been recorded under fixed assets and liabilities, some have recorded under cash and fixed assets as a cash purchase.
- (4) Although the profit of Rs.20,000/- arisen from sale of goods costing Rs.40,000/- for Rs.60,000/- on credit basis has to be recorded under capital, most of the candidates have missed it.
- (5) Investment of additional capital of Rs.90,000/- should have been recorded under cash and capital. Some have recorded under liabilities though they have correctly recorded in the cash column.
- (6) It was noticed that more than 90% of the candidates have a very poor knowledge on accounting equation.
- (7) Most of the candidates have not answered for Entity concept and those who answered also have provided incorrect answers without having an understanding.

Question No. 03

This question was set to test the knowledge on preparation of Trial Balance.

Some common weaknesses observed are given below.

- (1) It was noted that some candidates had stated items in debit side which should have been credited and vice versa.
- (2) According to the question, sales and purchases should have been found through debtors and creditors control accounts and recorded in the trial balance. However, some candidates who did not have such an understanding have prepared trial balance without sales and purchases.
- (3) Since Office equipment was purchased at the last day of the year, depreciation for that year is not required. But, some candidates have calculated depreciation for the whole year at 10%.
- (4) Statement of Financial Position had been prepared by some candidates who had not understood that the trial balance should be prepared.
- (5) Some candidates who had omitted accrued electricity have recorded only electricity paid of Rs.45,000/- in the trial balance.
- (6) Bank loan interest was calculated correctly by very few.

Question No. 04

This question also consists of 2 parts (a) and (b). Part (a) tested knowledge on preparation of Journal Entries to rectify the errors and Part (b) tested the knowledge on preparation of suspense account. Some common weaknesses observed are given below.

- (1) It was noted that some candidates who did not understand the question properly had prepared ledger accounts instead of journal entries.
- (2) Although drawings account and suspense account should have been debited and credited respectively for Rs.175,000/- cash withdrawn by the owner of the business for his personal use, some have debited the capital account erroneously instead of drawings account.
- (3) It was required to debit suspense account with Rs.110,000/- and credit both rent expense account and rent income account with Rs.55,000/- each in order to correct debiting rent income of Rs.55,000/- to rent expense account. Some candidates erroneously had debited rent expenses account with Rs.55,000/- and credited rent income account with Rs.55,000/.
- (4) Some candidates have recorded the opening debit balance of Rs.197,000/- in the credit side.

Question No. 05

This question consists of 2 parts (a) and (b). Part (a) tested knowledge on preparation of Manufacturing Account and Part (b) tested the knowledge on calculation of manufacturing cost per hand bag. Some common weaknesses observed are given below:

- (1) It was seen that the knowledge of candidates about the format of the manufacturing account and classification of expenses was at a very low level.
- (2) Although the question specifically stated that work-in-progress should be valued at prime cost, some candidates had disregarded that fact and recorded at the end of manufacturing account.

- (3) It was seen that some candidates had included factory manager's salary in the prime cost as a direct expense, it should have to be recorded under factory overheads.
- (4) Some have arrived at an incorrect total production cost due to errors in manufacturing cost. Therefore they have failed to get the correct manufacturing cost per hand bag which was test in part (b).
- (5) Although the total manufacturing cost should be divided by number of bags manufactured to get the manufacturing cost per hand bag, some have ignored part (b) due to lack of knowledge.

SECTION C

Question No. 06

This question also consists of 2 parts (a) and (b). Part (a) tested the preparation of Statement of Comprehensive Income and Part (b) tested the preparation of Statement of Financial Position. Some common weaknesses observed are given below.

(a) Statement of Comprehensive Income

- (1) Though the sales commission is an expense, some have shown it as an income.
- (2) Though the sales commission should be shown as a separate item, some candidates have deducted it from sales.
- (3) Some candidates have recorded expenses in the statement of comprehensive income without classifying them as distribution, administration and finance.
- (4) Provision for doubtful debts was incorrect since many has omitted written off of bad debts.
- (5) Some candidates have not shown over-provision of doubtful debts as an income.
- (6) Though only the value of building should be considered for depreciation some have calculated depreciation on total value of land and buildings.
- (7) Though the Insurance expense is relevant for the next financial year, some candidates have included it into the current year income statement.

(b) Statement of Financial Position

- (1) Insurance expense relevant for the next financial year has not been shown in the Statement of Financial Position.
- (2) Though Bad debt amounting to Rs.150,000/- should have been deducted from receivable amount, some candidates had not taken it to consideration.
- (3) Some candidates who have not identified that the figures in the Trial balance are in thousands (Rs.'000) and figures in the adjustments are in total values, have shown incorrect figures in the statement of financial position and statement of comprehensive income.

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

1. When you get the question paper, read carefully the instructions given on it.
2. Read the question several times and answer only what is asked in the question. Do not write unnecessary things.
3. Manage your time efficiently at the examination.
4. Before handing over the answer script, check whether the question numbers and your index number have been written correctly.
5. By answering past question papers, you can improve the subject knowledge as well as the ability to write answers well.
6. Action verb Check List with definitions is attached to the question paper itself and each question will begin with an action verb excluding Objective Test Questions (OTQs). Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.
7. Sit for the examination with the main intention of passing.

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