

## Examiner's Report

### AA3 EXAMINATION - JANUARY 2017

#### **(AA31) FINANCIAL ACCOUNTING AND REPORTING**

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Most of the common mistakes made by the candidates have been identified. The unsuccessful candidates should take steps to avoid making mistakes in order to be successful at the future examinations:

#### PART A

##### **Question No. 01**

- (a) It was required to define an asset.

Most of the candidates has scored marks for this part by correctly defining an asset by stating all elements included in the definition, while few of them scored half marks due to omitting some elements included in the definition.

- (b) It was tested 3 key areas covered in the conceptual framework.

Most of the candidates have poorly answered this part of the question, due to not understanding the question correctly.

Eg: Most of the candidates have mentioned "key elements of the financial statements" (Income statements / Statement of financial position / cash flow) instead of key areas.

**Areas to be improved:** Knowledge on conceptual framework.

##### **Question No. 02**

- (a) It was required to state three benefits of cash flow statement for an entity in making business decisions.

Fair number of candidates had produced satisfactory answers for this part, while noticeable number of candidates had produced answers by sub dividing the three main elements of the cash flow statement as follows:

- To understand the operating cash flows.
- To understand the investing cash flows.
- To understand the financing cash flows.

- (b) It was required to state two items that could be considered as cash and cash equivalents as per the LKAS 07.

Most of the candidates have earned full marks allocated for this part, while only a fewer number of candidates had mentioned negotiable instruments also as answers for this.

**Areas to be improved:** Knowledge on Accounting Standards.

### **Question No. 03**

This question tested the candidates knowledge regarding identification of Intangible assets. Candidates were required to identify the given items as Intangible assets.

Overall performance for this question was not satisfactory due to candidates' lack of knowledge regarding the area tested. Candidates should study Accounting Standards adequately to face any technical question successfully.

**Areas to be improved:** Technical knowledge and application on accounting standards.

### **Question No. 04**

It was required to compute the cost of the raw material stock as at 30<sup>th</sup> June 2016 under WAC method. Most of the candidates have correctly computed the cost of the raw material stock and earned full marks allocated to the question. However, a handful of candidates have applied FIFO method to compute the cost of the raw material stock due to not reading the requirement of the question carefully.

**Areas to be improved:** Presentation of the answer.

## **PART B**

### **Question No. 05**

It was required to prepare the Net Cash Flows from Operating Activities for the year ended 31<sup>st</sup> March 2016 using indirect method. Most of the candidates have scored satisfactory marks for this question, while a considerable number of candidates have scored full marks for this question.

Some of the mistakes made by candidates are as follows:

- Most of the candidates have attempted to complete the full cash flow statement instead of preparing Net Cash Flows from operating activities.
- Most of the candidates have not arrived at the correct profit before tax.
- Even though the candidates have arrived at correct figures through computations (eg: tax paid, interest paid) they have not adjusted those correctly.

**Areas to be improved:** Understanding the question and Presentation of the answer.

## Question No. 06

It was required to compute some of the ratios from the given information. Most of the candidates have correctly computed Gross Profit Ratio, Quick Assets Ratio and Current Ratio and were able to obtain full marks allocated for those ratios.

However, Stock Residence Period, EPS and ROCE have not been correctly computed by majority.

Some of the common mistakes made by candidates are as follows:

- Some candidates had mixed the denominator and numerator when calculating ratios.
- Even though the question tested the ratios for the year ended / as at 31<sup>st</sup> March 2016, candidates have tried to calculate those for the year ended / as at 31<sup>st</sup> March 2015 as well by devoting an extra effort and time.

**Areas to be improved:** Understanding of Ratios.

## Question No. 07

From part (a) of the question, it was required to prepare the extracts of the financial statements in respect of the given lease transactions. It was observed that most of the candidates have not attempted this question. Further, those who have attempted also have not earned satisfactory marks. Overall performance for this question was at a very poor level compared to other questions.

Some of the common mistakes made by candidates are as follows:

- Incorrect calculation of lease interest.
- Incorrect treatment for initial deposit made.
- Incorrect calculation of depreciation in respect of the leased asset.
- Incorrect segregation of current and non-current portions of the lease creditor.
- Incorrect presentation in the financial statements.

From part (b) of the question, it was required to explain the accounting treatment for the given instance according to LKAS 08 – Accounting Policies, Changes in Accounting Estimates and Errors. Most of the candidates have not attempted this part. Those who attempted also have not earned satisfactory marks due to lack of knowledge on the relevant accounting standard.

**Areas to be improved:** Knowledge on relevant accounting standards and fair presentation.

## PART C

### **Question No. 08**

Preparation of financial statements of a company including Income statement, Statement of Financial Position, Statement of Changes in Equity and Notes to Property, Plant and Equipments.

Some of the mistakes made by candidates are as follows:

#### **Property, Plant and Equipment:**

- Considerable number of candidates have shown poor knowledge in calculating depreciation.
- Majority of the candidates have not done the opening balance adjustment to property plant and equipment.
- Considerable number of candidates were unable to identify the disposal loss of motor vehicle.

#### **Prepayments:**

Considerable number of candidates have accurately calculated the prepayment amount as at 31.03.2016, but they were unable to present it in the Income Statement and Statement of Financial Position accurately.

#### **Borrowing cost:**

Majority of the candidates have not attempted the borrowing cost adjustment due to lack of knowledge of LKAS 23.

#### **Tax Liability:**

Only a fewer number of candidates have correctly computed the tax payable as at 31.03.2016.

#### **Proposed Dividend:**

Most of the candidates had not correctly disclosed the proposed dividend under disclosures instead they have adjusted it in the Statement of Changes in Equity.

#### **In General:**

Considerable number of candidates had not attached their supporting calculations with the answer sheet hence unable to locate steps followed to those points.

#### **Overall Performances:**

Overall performances for this question was satisfactory and majority of the candidates had scored reasonable marks for this question.

## Question No. 09

From Part (a) of the question, it was tested the computation of goodwill arising from the consolidation and preparation of Consolidated Statement of Financial Position.

Most of the candidates who attempted this question had scored reasonable marks for this part.

Some of the mistakes made by candidates are as follows:

- Fair Value of NCI has not been treated correctly when computing the goodwill.
- Incorrect application for general reserve and retained earnings.
- Some candidates had just added the figures of two companies without making any adjustments when preparing the Consolidated Statement of Financial Position and accordingly lost marks allocated.  
Eg. PPE, Inventories, Trade Receivables, Trade Payables, etc.
- Lack of knowledge on basic consolidation Principals. Treatment for NCI computation of Goodwill, removal of Intercompany transactions, etc.

### **Areas to be improved:**

Basics of consolidation and basic adjustment like intercompany transaction, unrealized profit, NCI, etc.

From part (b) of the question, it was tested to explain two actions that could be taken by the Accounting and Auditing standards Monitoring Board in exercising its investigation powers in relation to specified Business Enterprises. Most of the candidates had not attempted this part of the question and as a result they had lost marks allocated for this part.

Those who had attempted also had produced irrelevant answers.

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### **General points to be considered in developing the level of Understanding of candidates**

1. Studying well the full contents of the syllabus completely and develop a thorough understanding about the level of knowledge expected for each unit or area.
2. Candidates should read the question carefully several times and should show all the relevant workings related to the computations with clarity.
3. State the assumptions clearly if there are any assumptions involved in answering the questions.
4. Handwriting should be legible and the numbers of questions should be correctly written. Re-checking of question numbers etc. before handing over answer script is a must.
5. Following correctly the instructions given in the question paper.
6. Perusal of past question papers and suggested answers would help sharpening of knowledge, skills and experience. It is always advantageous because the similar patterns and the structures may repeat in the real examination papers.
7. Refer Accounting Standards, Articles and Magazines in relation to this subject and other reading materials related to the relevant subject areas.
8. Time Management is crucial in the examination. By looking at the marks allocated to each question candidates can make an estimation of the time they require to spend in answering.
9. Appearing for the examination with a firm determination of passing the examination with due preparation.

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