

EXAMINER'S REPORT**LEVEL I EXAMINATION - JANUARY 2021****(101) FINANCIAL ACCOUNTING****SECTION A****Question No. 01**

From question No. **1.1** to **1.10**, it was required to select the most correct answer out of the 4 choices given and from question No. **1.11** to **1.15**, it was required to state **True** or **False** for the given sentences and from question No. **1.16** to **1.20**, it was required to state the answer with the question number in the answer booklet provided.

Common weaknesses identified under each of the sub questions are as follows:

Question No. 1.1

Inputs of an Accounting process have been tested. Some candidates without understanding "*what an accounting input is*" have selected answer (2) instead of the correct answer (3).

Question No. 1.2

It was to required to identify stakeholders of a business. Though this was a very simple question, some candidates have not correctly understood the content and selected answer numbers (2) and (3) as correct answer without selecting the correct answer (4).

Question No. 1.3

Application of Prudence concept has been tested. It was noted that candidates' understanding on Accounting concepts were not adequate. Most of them have selected answer number (3) or (4), instead of the correct answer number (1).

Question No. 1.4

It was required to define the term "an asset". Some candidates have not understood the question properly. Therefore, they have selected answer number (2) or (3) instead of the correct answer number (1).

Question No. 1.5

It was required to identify the transaction that leads to increase assets, from the given transactions. However, without understanding the question properly, some have selected the answer number (1) instead of the correct answer (3).

Question No. 1.6

This question tested on the Going Concern Concept. It was noted that candidates' knowledge on accounting concepts were poor and not adequate. Therefore, some have selected incorrect answers instead of correct answer number (2).

Question No. 1.7

It was required to identify the value of credit sales by preparing Debtors' Control Account. Some candidates have recorded the total of sales returns journal in the debit side of the control account instead of recording it in the credit side of it. Therefore, they have not arrived at the correct answer of number (1).

Question No. 1.8

This question required to compute the annual depreciation charge of a motor vehicle purchased on 01st April 2018 for Rs.2,000,000/- under the diminishing balance method of depreciation. However, some candidates have computed depreciation as per straight-line method of depreciation, and arrived at a wrong answer. Some others have computed depreciation for 2 years as per diminishing balance method and arrived at incorrect answer.

Question No. 1.9

It was tested the correct impact to the Accounting Equation due to obtaining a bank loan. Almost all the candidates have selected the correct answer for this question.

Question No. 1.10

It was required to identify the correct double entry when owner transfer his personal motor vehicle to business. Though the correct answer for this question was number (3), most of the candidates have selected answer (4).

Question No. 1.11

It was noted that candidates' knowledge on examples of accounting software were not adequate. Therefore, they have mentioned the given statement as "False" though it was "True".

Question No. 1.12

Most of the candidates have correctly identified that the given statement as "False".

Question No. 1.13

"There will be no impact to the business profit, when the owner is providing additional capital". This statement was "False", however, some candidates without understanding the meaning of it, have stated it as "True".

Question No. 1.14

“When Property, Plant and Equipment are purchased on credit, it will be recorded in the General Journal”. Though, this was a correct statement, candidates who had no adequate understanding on the transactions to be recorded in the General Journal, have stated that statement as “False”.

Question No. 1.15

“Credit Note is a source document used in a business entity”. Almost all the candidates have stated the correct answer of “True”.

For question Nos. **1.16**, **1.17** and **1.19**, it was required to write short answers and question Nos. **1.18** and **1.20**, it was required to provide answers based on the given facts.

The common weaknesses identified are as follows:

Question No. 1.16

It was required to state reasons for preparation of bank reconciliation statement. Some candidates have not attempted this question. Even the answers provided by other candidates were also not correct.

Question No. 1.17

Most of the candidates had no idea on the objectives of accounting. Therefore, they have provided irrelevant answers and were unable to obtain full marks.

Question No. 1.18

It was required to compute total assets as at 31st March 2020, based on the provided information. Though the correct answer was Rs.750,000/-, due to not using the given information correctly, some of the candidates have arrived at various incorrect answers such as, Rs.600,000/-, Rs.250,000/-, Rs.450,000/-, etc.

Question No. 1.19

It was required to mention limitations of financial information. Most of the candidates have not attempted this question. Those who attempted also were not able to provide correct answer.

Question No. 1.20

It was required to find the value of amount to be transferred to sales account by preparing the Sales Journal. Some have arrived at an incorrect answer of Rs.17,600/- due to not considering the trade discount when preparing the Sales Journal, instead of the correct answer of Rs.16,640/-.

SECTION B

Question No. 02

This question consisted of 2 **parts (a) and (b)**. From **part (a)** it was required to prepare Journal Entries to rectify errors and from **part (b)**, it was required to prepare Suspense Account. Most of the candidates have attempted well and were able to score very good marks for this.

However, the following weaknesses have also been noticed:

(a) Preparation of General Journal:

- (1) Some have prepared ledger accounts instead of Journal Entries.
- (2) Not identified the entries to be corrected through the Suspense Account.
- (3) When recording entries, Debits and Credits have been interchanged.
- (4) As per entry number (4), Rs.427,500/- should have been debited to salary account, whereas Rs.475,000/- has been debited to salary account by majority.
- (5) As per entry number (6), the suspense account should be debited by Rs.70,000/-. But most of the candidates have adjusted it only by Rs.35,000/-, being value applicable either for interest income or interest expense.

(b) Preparation of Suspense Account:

- (1) Opening debit balance in the suspense account has been recorded to credit side of that account.
- (2) Not recording the opening balance of the Suspense Account.
- (3) Entries that should have been debited to Suspense Account have been credited and vice versa.
- (4) Though, Rs.70,000/- should have been debited to Suspense Account for interest income and expense, only Rs.35,000/- has been debited to Suspense Account.

Question No. 03

It was required to prepare the Trial Balance after preparing ledger accounts. The performance of candidates were at a satisfactory level.

However, the following weaknesses were also observed:

- (1) Some candidates have shown capital, additional capital, cash sales, credit sales, cash purchases, credit purchases as separate accounts in the trial balance.
- (2) Though, it was required to prepare the trial balance, some have only prepared the ledger accounts.
- (3) Without computing the depreciation for the motor lorry for one month, some have computed Rs.480,000/- being the annual depreciation and have recorded in the respective accounts.
- (4) Some have interchanged Debit accounts with Credit accounts.
- (5) Unable to identify the credit sales and credit purchases through respective control accounts.
- (6) Accrued electricity of Rs.25,000/- has not been adjusted in the Trial balance.

Question No. 04

This question tested knowledge on preparation of Manufacturing Account. Candidates' performance were at a satisfactory level.

However, following weaknesses were also observed:

- (1) Though, it was clearly mentioned in the question that work-in-progress should be adjusted to prime cost, some candidates have adjusted it after factory overheads.
- (2) Expenses have not been divided correctly among office and factory, considering the percentages provided in the question to allocate electricity and depreciation.
- (3) Some candidates have recorded direct labour under factory overheads.
- (4) Some candidates had no idea as to what the format of the Manufacturing Account is.
- (5) Some have not computed 10% profit on cost.
- (6) Further, some others were not correctly identified direct and indirect expenses.

Question No. 05

This question consisted of 2 sub parts, **(A)** and **(B)**.

From **part (A)**, accounting equation has been tested from **part (B)**, adjusted Cash Control Account and Bank Reconciliation Statement have been tested. Most of the candidates have attempted this question and were able to obtain full marks allocated.

(A) Impact to Accounting Equation:

- (1) It was noted from the answers that candidates understanding on the impact of each transaction to the Accounting Equation was poor.
- (2) They were confused as to how to record when assets, liabilities, income and expenses are increased or decreased.
- (3) Some have recorded without minus (-) signs.
- (4) Some have stated "increased" or "decreased" without recording the financial value of the transaction.
- (5) Some have recorded a single entry, without showing the double entry.

(B) Part (a) Adjusted cash control account

- (1) Some have not recorded the opening debit balance of this account.
- (2) Some have recorded some values that should have been recorded to Bank Reconciliation also into this account.
- (3) Some have inter-changed debits and credits in recording the Cash Control Account.
- (4) However, majority of the candidates have scored good marks for this part.

Part (b) Preparation of Bank Reconciliation:

- (1) Some have recorded some items that should have been recorded in the Cash Control Account also in the Bank Reconciliation Statement.
- (2) Some have subtracted unrealized cheques from bank balance, whereas those should have been added to bank balance.
- (3) Further, some have added unrealized deposits to bank balance, whereas those should have been subtracted from the statement balance.
- (4) However, most of the candidates have answered this question satisfactorily.

SECTION C

Question No. 06

This question consisted of 2 parts as; **(a)** and **(b)**. From **part (a)**, it was required to prepare Statement of Comprehensive Income and from **part (b)** it was required to prepare Statement of Financial Position. Overall performance was satisfactory.

Some common weaknesses observed are as follows:

(a) Preparation of Statement of Comprehensive Income:

- (1) Most of the candidates have considered the amount of interest income received in cash, but not the amount applicable.
- (2) Amount of the annual showroom rent (Rs.100,000/- x 12) of Rs.1,200,000/- has not been considered and only Rs.1,100,000/- has been considered, which was shown in the Trial Balance.
- (3) Depreciation has not been computed correctly.
- (4) Most of the candidates have not identified the date of the Fixed Deposit correctly and therefore, they have computed interest income incorrectly.
- (5) Some have not added Accrued Electricity & water when arriving at the correct expenses.
- (6) Some candidates who did not have correct understanding on the items that should be shown in the Statement of Financial Position, have shown those in the Statement of Comprehensive Income.

Eg: Land, Building, Motor Vehicles, Office Equipment, Trade Receivables and Trade Payables.
- (7) Some have added closing stock and deducted opening stock when arriving at Gross Profit.
- (8) Some other candidates have considered interest on fixed deposit as an expense.
- (9) Some others have shown accrued portions of electricity and water separately in the Income Statement without adding to expenses.
- (10) Some have considered the figures shown in Trial Balance at thousands and the amounts applicable to adjustments at full value.

(b) Preparation of Statement of financial position:

- (1) Some have shown some items which should have been recorded in the Income statement in the Statement of Financial Position.

Eg: Purchases, Sales, Opening Stock, Interest Income on fixed deposit and Bank charges.

- (2) Accrued electricity and water have not been shown properly in the statement of financial position.
- (3) Some have recorded annual depreciation charge in the Statement of Financial Position, instead of Accumulated depreciation.
- (4) Some have added interest on fixed deposit to the value of fixed deposit.
- (5) Some have shown the fixed deposit under the Non-current Assets.
- (6) Some have recorded opening stock under the current assets.
- (7) Some have not categorized the items in the Statement of Financial Position and recorded everything together.

Eg: Non-current Assets, Current Assets, Equity & Liabilities, Current Liabilities, etc.
- (8) Some have shown Trade Receivables under Current Liabilities and Trade Payables under current assets.

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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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