

EXAMINER'S REPORT
AA2 EXAMINATION - JULY 2017
(AA21) ADVANCED FINANCIAL ACCOUNTING

SECTION A

Objective Test Questions (OTQs)

(Total 20 marks)

Question 01

There were 8 compulsory questions with 20 marks. Knowledge of the candidates was tested by questions covering entire Advance Financial Accounting subject. Questions were focused to test the basic knowledge on understanding of limited liability companies, understanding of partnership ordinance, non-profit oriented organizations (NPOs), understanding on trade accounts, classification of an asset as current asset, preparation of the accounts for sole proprietorships, computation of profit sharing ratio at the retirement of a partner and understanding of the VAT Control accounts.

All the candidates have answered for this question. Theoretical knowledge of the candidates on the provision of the Partnership Ordinance, which was tested in question no. **1.2** was very poor. Most of the candidates have not answered for the question no. **1.5**, which was on the criteria to be met to classify an asset as a current asset. This was happened since the candidates have not properly readout and understand the question. In the question no.**1.6**, knowledge on the computation of profit by taking in to the account of the financial information at the beginning and end of the year and knowledge on the accounting equation were also at a very poor level. Considerable number of candidates have not answered for the question **1.8**, by properly recognizing whether it was inclusive or exclusive of the Value Added Taxes (VAT). Therefore candidates have failed to prepare the entries on VAT in the VAT control Account. There were few candidates who have obtained zero marks for this question. Generally the candidates were able to obtain marks for other questions. Candidates should score more marks by enhancing knowledge on the syllabus and referring the self-study texts.

SECTION B

Five (05) compulsory questions
(Total 25 marks)

Question 02

It was expected from the candidates to provide journal entries to record the revaluation. Some of the candidates have wasted their time unnecessarily by preparing ledger accounts. No marks were assigned for preparing ledger accounts. There were few candidates who have answered only for half of the question. This was happened since the candidates have not readout and understand the question properly. Several candidates have failed to compute the revaluation correctly, since such candidates have not considered about the adjustment on the accumulated depreciation. Few candidates lost marks, since they have not properly credited the profit, proportionally, in to the respective accounts of the partners. Few candidates have failed to obtain full marks since they have not computed the apportioned profit correctly for the retiring partner from the revaluation surplus. Few candidates lost marks due to providing of ledger accounts instead of journal entries and not recording ledger entries with a proper understanding. Few could not earn the assigned marks since they adjusted surplus on the revaluation of properties to the current accounts instead of the capital accounts of partners.

Question 03

The question was based on bank reconciliation and required to prepare the adjusted cash book and bank reconciliation statement as at 31st March 2017. Majority of the candidates have answered correctly and obtained marks. Some candidates have not properly identified the entries related to the cash book. They have mentioned such entries erroneously, in the bank reconciliation statement. Some of the candidates have not possessed the basic theoretical knowledge on that. Some of the candidates have shown certain items as additions in the bank reconciliation which were required to be presented as deductions and vice versa.

Question 04

Knowledge on the payroll, adjustments on Employee Provident Fund (EPF) and Employee Trust Fund (ETF) were tested in this question. It was expected to prepare the journal entries including entries for the cash transactions, based on the given information. Most of the candidates have were answered correctly and obtained marks for the question. However, certain candidates have prepared ledger accounts instead of journal entries. It has been observed that the candidates have failed to obtain marks, since the failure to provide entries related to the cash book.

Question 05

It was expected in the part **(a)**, to compute the ledger balance of the machinery account as at 01st April 2016 and depreciation to be charged on the machinery for the year ended 31st March 2017, after recording the adjustments related to the machine upgrade. There were candidates who have erroneously deducted custom duty and clearing expenses, installation cost from the purchase price of the machine. There were instances where the upgrade expenditures have not been added to the carrying value of the machine. There were candidates who have not arrived at the correct depreciation figure for the part **(b)**. Some instances, candidates have lost their marks, since they failed to identify the residual value and expected useful life properly. Carrying value of the machine as at the beginning of the year has to be arrived by deducting the accumulated depreciation related to the machine and adding the upgrade cost to the cost as at 31.03.2016. After arriving the carrying value, candidates should be able to understand the computation of the depreciation of the machine by deducting the residual value from that carrying value and thereafter dividing by the useful life of the machine. Candidates are required to enhance their theoretical knowledge on this.

Question 06

This was the question for which majority of the candidates have obtained full marks. Marks were assigned for the preparation of debtors' control account and the creditors' control account. Some candidates have not obtained marks, since they failed to identify debit and credit properly, on recording the opening balances of the respective control accounts and entering the transactions within such accounts.

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

It was able to obtain assigned 10 marks, by preparing the trial balance based on the financial information provided for a sole-proprietorship. Some candidates have failed to identify the opening balances of the capital account properly. Few candidates have not attempted to figure out sales and purchases by preparing the trade receivables account and trade payables account. Some of the candidates have prepared Balance Sheet instead of trial balance. Percentage of the candidates who have obtained the full marks, was satisfactory level. Few candidates have not attempted to answer this question. In this question, it was required to prepare the trial balance by computing the opening balance of capital, arriving the balances of the trade receivable account, trade payable account, bank account and electricity account. We observed that some of the candidates have prepared trade and profit or loss account. Few candidates have not followed the correct structure of the trial balance. Candidates who possessed basic accounting knowledge were able obtain marks easily, by understanding the question properly and extracting the balances from the ledger accounts.

Question 08

It was tested the knowledge on preparing the Profit and Loss appropriation account, Partners' current accounts and partners' capital accounts for a partnership. Some candidates were able to obtain full marks by providing the correct answer. However, some of the candidates have not properly identified the entries related to the preparing of current accounts. There were instances where candidates failed to record the interest on capital related to partners in the current accounts and not properly understanding the ratio to apportion the profit among the partners. There were instances, it was not presented the adjustments related to Goodwill in the capital accounts. They have presented such adjustments in the current accounts. Arithmetical errors were encountered, since the candidates failed to round up the figures in to nearest thousand. Some candidates failed to compute interest on capital correctly.

Question 09

It was expected to prepare the income and expenditure account for a swimming club. Candidates were required to enhance the knowledge on the accounts of Non-profit oriented organizations. Candidates were required to consider on the computation of Membership fee, advances and membership fees in arrears and membership fees related to the current year. Candidates who have answered the question, have obtained high marks. Some candidates failed to compute the membership fees for the year, even though it could have been computed easily. Some of the candidates lost marks, since they failed to identify debit and credit properly. Few candidates have not presented workings clearly. Some candidates have not attempted to answer this question, even though it was an easy question.

SECTION D

A compulsory question
(25 marks)

Question 10

It was required to prepare the Statement of Comprehensive Income and Statement of Financial Position for the use of the management. This was focused to test the knowledge on double entries, accounting standards and concepts. It was expected to provide the Statement of Comprehensive Income based on Sri Lanka Accounting Standards. It is required to consider about the Sri Lanka Accounting Standards. Candidates have not sorted out correctly the adjustments pertain to the obsolete inventory items and debenture interest. Some candidates failed to deduct the bad debts from the receivable balance. Therefore they have computed the allowance for receivables at 5% erroneously. Some candidates have not made the adjustment for the income tax. Some of them have not presented bank overdraft under current liabilities. Candidates should consider to present the adjustments pertaining to the accrued expenses and prepayments correctly in the financial statements. Candidates who have done the working correctly and presented the figure in the statement of comprehensive income have obtained full marks. Majority of the candidates have presented depreciation adjustment correctly. To obtain the marks it is required to consider about the time management and providing only the information what was requested. Candidates should consider to provide the statement of financial position in the correct format and present the adjustments in appropriate places.

General Comments:

It is required to have an understanding on basic accounting principles, Sri Lanka Accounting Standards, Partnership Ordinance 1890 and Companies Act. While providing the answers be mindful to separate the pages, numbering questions (Some of the candidates mention page numbers as question numbers), present workings together with the relevant answers, not to provide the answer for a particular question in different answer sheet (if providing the answer in different pages please provide the references appropriately). Please provide the answers by following up the given instructions.

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General points to be considered in developing the level of understanding of candidates:

1. Study the entire syllabus relevant to the subject.
2. When you get the question paper, read carefully the instructions given on it.
3. Read the question several times and answer only what is asked in the question. Do not write unnecessary things.
4. Manage your time efficiently at the examination.
5. Before handing over the answer script, check whether the question numbers and your index number have been written correctly.
6. By answering past question papers, you can improve the subject knowledge as well as the ability to write answers well.
7. 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.
8. It is important to refer the self-study text, articles and other related reading materials.
9. Sit for examination with the main intention of passing.

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