

Examiner's Report

AA3 EXAMINATION - JULY 2017

(AA31) FINANCIAL ACCOUNTING AND REPORTING

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

PART A

Question No. 01

Part (a) tested candidates' knowledge on qualitative characteristics that enhance the usefulness of information in financial statements.

Almost all the candidates stated two (02) qualitative characteristics correctly. A few candidates wasted time by allocating time to explain the qualitative characteristics which was not the requirement of the question.

Candidates should read the question well and should provide answers only to what is required. Writing unnecessary details will not add any additional marks but it will only affect the time that could have been spent on other questions.

Part (b) tested recognition criteria for income according to the Conceptual Framework for Financial Reporting.

Considerable number of candidates answered correctly while the others were not able to give even a single criteria correctly.

Areas to be improved: Knowledge on Conceptual Framework.

Question No. 02

Part (a) required to state three (03) legislations /acts relevant to companies in Sri Lanka.

This was a very easy question. Considerable number of candidates were able to obtain full marks, while the rest of candidates were able to get either one mark or no marks.

Part (b) required to state two (02) objectives for setting up of the Securities and Exchange Commission of Sri Lanka.

Only a handful of candidates were able to get full marks while the rest of candidates failed to obtain a single mark. It was observed from the answers that candidates were lack with the knowledge on Regulatory Institutions of Sri Lanka.

Areas to be improved: Knowledge on Regulatory Framework.

Question No. 03

Part (a) required to define the term “Qualifying Asset” as per LKAS 23 – Borrowing Cost.

This question was very poorly answered by majority of candidates. There were only about insignificant percentage of candidates who could define a qualifying asset correctly. The main reason for this is that poor knowledge of candidates on Accounting Standards.

Part (b) required to state three (03) conditions to be satisfied in recognizing revenue from the Sale of Goods According to LKAS 18- Revenue.

Only a very few candidates were able to obtain the allocated full marks. The rest did not score at all. The main reason for this is that poor knowledge of candidates on theoretical aspects of Accounting Standards.

Areas to be improved: Knowledge on theoretical aspects of Accounting Standards.

Question No. 04

Part (a) required to state three (03) examples of cash flows arising from investing activities.

This was a very easy question from the Accounting Standard on Cash Flow Statement. However, this question could be answered even without having the theoretical knowledge of Accounting Standards. Most of the candidates answered this part correctly and obtained full marks allocated to this part.

Part (b) required to state two (02) non-cash transactions which are excluded from the statement of cash flows.

Majority of the candidates answered this part correctly.

Areas to be improved: Knowledge on theoretical aspects and application of Accounting Standards.

PART B

Question No. 05

Part (a)

Required to state with reasons as to how to account for the given two events that had taken place after the accounting period according to LKAS 10- Events after the Reporting Period.

Part (a) was attempted by almost all the candidates. But, most of them failed to recognize whether those are adjusting events or non - adjusting events. Many repeated the contents of the given question saying those are events after the balance sheet date.

Only a lesser number of candidates gave answers correctly and the common mistakes that were made by most of the candidates in this part are as follows:

- Some failed to give reasons when identifying as an adjusting event or a non-adjusting event.
- Some gave incorrect reasons when identifying as an adjusting event or a non-adjusting event.

Part (b) required to prepare extracts of financial statements of Lessor's books in respect of the given transactions relating to the finance lease.

Only a very few candidates answered this question correctly. The following were the common mistakes that were made by majority of candidates.

- Instead of Lessor's books, some candidates have shown the transactions in the lessee's books of account.
- Have shown expenses of lessee, instead of income of lessor.
- Have shown current and non-current liabilities of lessee, instead of current and non-current assets of lessor.
- Considered 2.4 Million as the lease value.

Areas to be improved: Application of Accounting standards.

Question No. 06

This question required preparation of Cash Flow Statement using indirect method.

The performance for this question was good and many candidates scored more than 7 marks. However, some candidates failed to recognize the financing and investing activities separately and some of the common mistakes made by majority are as follows.

- Not adjusted non-cash items properly. Eg:-Depreciation charge has been deducted instead of adding to Net Profit.
- Considered Profit after tax instead of Net Profit before Tax.
- Working Capital changes have been adjusted incorrectly. Eg:- Increase in inventory has been added instead of deducting.
- Not adjusted Income tax paid and Gratuity paid.
- Interest paid has not been considered as a cash flow from Financing Activities.

Areas to be improved: Application of LKAS 07- Cash Flow Statement.

Question No. 07

Required to prepare a report to be submitted to the Managing Director commenting on Profitability, Liquidity and Efficiency of the working capital management using the given computed ratios.

Only a few candidates prepared a report correctly using the correct format and also the correct content. Majority of the candidates lacked report writing skills.

Many candidates stated only that the ratios in 2017 have increased/decreased compared to 2016. However, they failed to comment on the significance of the changes in ratios. Specially the impact of those changes to the working capital cycle of the company has not been addressed by majority of the candidates.

Overall Performance for this question was Poor.

Areas to be improved: understanding of significance of ratios and the report writing skills.

PART C

Question No. 08.

Tested the knowledge on preparing Company Accounts for publication purpose.

Common mistakes that were made by the candidates are as follows:

- Majority did not make the opening balance adjustment for Property, Plant & equipment.
- Some could not calculate depreciation correctly. When computing depreciation, purchasing dates have not been correctly considered.
- Some could not arrive at the correct gain on disposal of motor vehicle.
- Some failed to disclose the final dividend proposed. Some adjusted proposed dividends in the statement of changes in equity without showing it as a note to the accounts.
- Some failed to adjust cost of sales with the fall in value of closing stock of Rs.50,000/-. Instead considered Rs. 50,000/- as other expenses.
- A few candidates did not consider the court settlement as an adjusting event; instead they mentioned it in the notes.
- Some failed to arrive at the income tax expense for the year and tax payable as at 31.03.2017.
- Many could not identify the current and non-current portion of the bank loan correctly.

- Many did not treat the receipts of previously recognized bad debts as other income instead they reduced the debtor amount by this figure.
- Some candidates have deducted paid dividends from Share Capital instead from Retained Earnings.
- Some candidates did not show the workings in support of figures they have arrived at.

In general overall performance of this question was satisfactory and majority of the candidates scored more than 50 % of the allocated marks. However, this was a question where candidates could have scored more marks.

Areas to be improved: overall understanding of Accounting Standards and their application

Question No. 09

Part (a) of the question tested the ability to compute goodwill arising from the Consolidation, Non-controlling interest and preparation of Consolidated Statement of Financial Position.

Majority of the candidates attempted this question and following mistakes were made by some candidates:

- Many failed to consider the revaluation adjustment in goodwill computation.
- Many could not compute the goodwill correctly.
- Over charged depreciation was not adjusted by almost everyone.
- Many added the parent company and subsidiary company PPE as consolidated PPE figure without adjusting for revaluation and over depreciation amount.
- Unrealized profits were not adjusted in the consolidated retained earnings.

Part (b) tested understanding of gearing ratio, ROCE and stock turnover ratio and possible causes for their increase.

Reasons for increase in gearing ratios were not identified correctly by majority. But many gave correct answers for the Increase in ROCE and Stock Turnover ratios.

Areas to be improved:

Computation of goodwill, Non-Controlling Interest, unrealized profits and intercompany transactions.

Understanding the reasons for variations of Ratios.

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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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