

EXAMINER'S REPORT
LEVEL I EXAMINATION - JULY 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 choices given and from question No. 1.11 to 1.15, it was required to state True or False for the given statements 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.

The following are some of the common errors / weaknesses in the answers given by the candidates for each sub section:

Question No. 1.1

The objective of the Financial Accounting was inquired. Due to misunderstanding of this question, some candidates had selected No. 1 and 2 instead of the correct answer No. 3. Most of the candidates had provided the correct answer.

Question No. 1.2

Inquired about the accrual concept. Due to lack of knowledge about the accounting concepts, some candidates had selected No 1 and 3 instead of correct answer No 2. Most of the candidates had selected the correct answer.

Question No. 1.3

This question was directed to test the knowledge of bank reconciliation. Some candidates did not had an accurate understanding of the basic information to be included in a bank reconciliation statement, so the answer No. 4 had selected instead of answer No. 3.

Question No. 1.4

It was required to calculate the equity (capital) at the end of the year using the profit equation. Due to lack of understanding of some candidates on the profit equation, had selected answer No. 4 instead of answer No. 3.

Question No. 1.5

Out of the four transactions presented, some candidates did not understand the reasons for the increase in assets and selected the answer No. 1 and No. 2 instead of the correct answer No. 4. However, most of the candidates had presented correct answer.

Question No. 1.6

Candidates did not have correct understanding on output of the process of Accounting and had selected No. 2 instead of correct answer No. 1.

Question No. 1.7

It was require to identify the source document which is used by a buyer to return the goods purchased on credit. Due to lack of understanding on the source documents, majority of the candidates had selected the answer No. 01 and No. 2 instead of correct answer No. 04.

Question No. 1.8

It was required to identify an example for a specialized (customized) accounting software. Due to lack of understanding of the accounting softwares, considerable number of candidates have selected the answer No. 01 instead of correct answer No. 02.

Question No. 1.9

The question tested the accounting concept being the reason for showing the fixed assets at the purchase price in the Statement of Financial Position. According to the information given, most of the candidates were unable to identify the correct accounting concept and had selected the answer No. 01 instead of the correct answer No. 03.

Question No. 1.10

Some candidates had selected answer No. 4 instead of the correct answer No. 02 due to lack of understanding of the calculation of fixed assets depreciation using the straight-line basis at cost.

Candidates should state whether each of the given statements from question No **1.11** to **1.15** are “**True**” or “**False**”. Common mistakes identified as follows:

Question No. 1.11

Due to insufficient knowledge of accounting concepts, some candidates had stated “**False**” instead of the correct answer “**True**”.

Question No. 1.12

Most candidates answered as “True”. Due to timing differences balance appeared in the cash control account of a business entity at the end of each month may not be equal to the balance showed in the bank statement of the entity at the end of each month.

Question No. 1.13

Some candidates had given the answer as “False” instead of correct answer “True” due to lack of knowledge of prime entry books.

Question No. 1.14

Inquired about the key elements related to the statement of financial position. Many candidates had given the correct answer to this question.

Question No. 1.15

It was stated the correct definition of “liability”. Many candidates had given correct answer of “True” for this statement.

It was required to state the answers for questions from **1.16** and **1.20** in the answer booklet.

Question No. 1.16

It was required to state two (02) stakeholders of a business. Many candidates had given the correct answer to this question.

Question No. 1.17

It was required to state two (02) reasons for moving in to Computerized Accounting Systems. Many candidates had given the correct answer to this question.

Question No. 1.18

It was required to state two (02) examples for current liabilities. Many candidates had given the correct answer to this question.

Question No. 1.19

Applicants were instructed to calculate the balance shown in the bank statement as at 31st March 2021 according to the information provided. Instead of the correct answer of Rs.530,000/- some candidates have arrived at different answers, due to interchanging plus and minus signs.

Question No. 1.20

Most of the candidates have arrived at different answers due to inter-changing debit and credit entries related to Trade Receivable Account.

SECTION B

Question No. 02

This question consists of 2 parts as (A) and (B) candidates knowledge had been tested both on accounting equation from **part A** and preparation of purchase day book (Purchase journal) from **part B**. Majority of the candidates had presented the correct answers for this question and was able to score full marks.

(A) Impact to the accounting equation:

- (1) Impact to the accounting equation by each accounting transaction had not been correctly understood by some candidates.
- (2) The impact due to increase or decrease of assets, liabilities, income and expenses had not been correctly understood by majority.
- (3) Failure to state plus or minus values.
- (4) Record only one value.
- (5) Instead of mentioning values, some have mentioned only 'increase' or 'decrease'.
- (6) Transactions have been recorded considering the equation separately in a way that considering only the items that get affected due to particular transaction.

Example – Transaction on 01/03/2021

Cash = Equity

1,000,000 = 1,000,000

(B) Preparing daily purchase book (purchase journal):

The following weaknesses were observed in the presentation of the answers:

- (1) Failure to submit in the correct format.
- (2) Recorded the full value without deducting trade discount.
- (3) Incorrect values have been recorded when multiplying the unit price by quantity.
- (4) Failure to calculate trade discounts accurately.

Question No. 03

From this question it was tested the candidates knowledge and understanding on the preparation of Manufacturing account for the year ended 31st March 2021.

Candidates had answered this question satisfactorily but following weaknesses were observed:

- (1) The correct format had not been presented.
- (2) Though the work-in-progress to be adjusted at prime cost, some of the candidates have adjusted it to final cost.

- (3) Although the incentive should be adjusted under direct expenses, some of the candidates had adjusted under overhead cost.
- (4) Overhead expenses which was expected to distribute according to the given percentage to factory and office had not been calculated accurately.
- (5) The cost of raw material consumed, prime cost and total production cost had not presented in the answer.
- (6) Direct and indirect expenses had not been accurately identified.

Question No. 04

Candidates knowledge on how to prepare a trial balance after preparing ledger accounts was tested from this question. The performance of the candidates were at a satisfactory level.

The following weaknesses were observed:

- (1) Though, it was required to prepare the trial balance, some candidates have only prepared the ledger accounts.
- (2) Some have interchanged debit accounts with credit accounts.
- (3) Credit sales and credit purchases were not accurately calculated through the debtors and creditors control account.
- (4) Accrued electricity and pre-paid water bills had not been properly adjusted in relevant expenditure accounts.
- (5) Sales on cash, sales on credit and purchase on cash, purchase on credit had recorded in trial balance separately.
- (6) Although the annual depreciation of the motor vehicle was calculated accurately, it was not recorded in the trial balance.

Question No. 05

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.

Following weaknesses and errors had also been noticed:

Part (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) Most of the candidates had not presented the journal entry regarding the depreciation of office equipment related to the No. 1 error which was identified later.

- (4) According to Note 4, the error was not properly understood and the journal entry was not recorded.
- (5) Instead of mentioning the difference between two values of Rs.9,000/-, Rs:98,000/- and Rs.89,000/- were mentioned in the journal entries.
- (6) Debit and credit entries relating to journal entries had been interchanged.
- (7) In the preparation of journal entries, the transactions in the general journal were not marked as credit or debit.

Part (b) Preparation of General Journal:

- (1) Opening credit balance in the suspense account has been recorded to debit side of that account.
- (2) Opening credit balance in the suspense account had not been recorded.
- (3) Entries that should have been debited to Suspense Account have been credited.
- (4) Some transactions which do not have an impact on the Suspense Account had also been recorded to Suspense Account.

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) Amount of the rent income for the month of February and March 2021 of Rs.200,000/- (2*100,000) which was received in the month of April 2021 has not been considered and only Rs.1,000,000/- has been recorded in the Trial Balance.
- (2) The correct amount of depreciation for the year had not been calculated and taken in to the income statement.
- (3) Accrued expenses related to electricity and salaries and wages expenses were not taken in to account in calculating the for the year expenses.
- (4) Due to lack of understanding, the items that should have been shown in the Statement of Comprehensive Income have shown in the Statement of Comprehensive Income instead of showing in the Statement of Financial Position.
- (5) The amount of Rs.100,000/- written off during the year as bad debts was not recorded.

- (6) In order to calculate the gross profit, some candidates had deducted the opening stock of the year and added the closing stock of the year.
- (7) Depreciation had calculated for the total land and building value without deducting the land value.
- (8) Some have considered the figures shown in the Trial Balance at thousands and the amounts applicable to adjustments at full value and have shown in the comprehensive income statement.

(b) Preparation of Statement of financial position:

- (1) Without basic knowledge of the items that should be included in the Statement of Financial Position, Purchases, Sales, Opening Stock, Rent Income and other expenses have been recorded in the Statement of Financial Position.
- (2) Amount of accrued electricity, salary and wages had not included in the statement of financial position.
- (3) Rental income receivable had not calculated correctly and had not presented under current assets.
- (4) Amount of bad debts for the year had not written off correctly from trade receivables.
- (5) The insurance expenses of Rs.1,170,000/- ($130,000 * 9$) paid in advance for the next nine months had not been accurately calculated and shown under current assets.
- (6) Some have not correctly categorized the items in the Statement of Financial Position.
Example: Non-current assets, current assets, equity and liabilities, current liabilities
- (7) Some have shown Trade Receivables under Current Liabilities and Trade Payables under Current assets.
- (8) Some have recorded annual depreciation charge instead of accumulated depreciation in the Statement of Financial Position.

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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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