

**EXAMINER'S REPORT**  
**LEVEL I EXAMINATION - JANUARY 2024**  
**(101) FINANCIAL ACCOUNTING**

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**SECTION A**

**Question No. 01**

Question No. **1.1** to **1.10**, it was required to select the most correct answer out of the choices given  
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:

- 1.1** It was asked what present economic resources controlled by the entity as a result of past events. A considerable number of candidates had given the correct answer for this, but some had given the answer as liabilities or income.
- 1.2** It was asked which source document would be prepared by a buyer including the details of goods given in the question. Although very few people had provided the correct answer, many candidates had not been able to provide the correct answer.
- 1.3** The given information was presented as an economic factor according to PESTEL analysis that can affect the accounting and business activities of the intercompany. Although many candidates have provided correct answer, it has been observed that some candidates do not have proper understanding about this.
- 1.4** The aim was to test the knowledge of the students on how taking a loan of Rs.500,000/- from the bank to expand the business affects the accounting equation. Majority of the candidates had given correct answer.
- 1.5** This question was presented to test students' knowledge of accounting concepts. Majority of the candidates answered this correctly as Historical Cost concept.
- 1.6** This question asked to select the correct effect on accounting principles due to a receipt of money from a debtor. Although most of the candidates answered this correctly, some candidates also gave the answers as increase in assets and increase in equity.
- 1.7** Given the balance of the cash book and the balance of the bank statement at the end of the year, it was asked what could be the reason for the difference. Many candidates had given other answers instead of the correct answer due to not understanding the question properly. The correct answer should be (3).
- 1.8** According to the information given in the question, the profit of the business as on 31<sup>st</sup> January 2024 was given as select from the answers. Here, some candidates were not able to calculate the profit correctly and provided wrong answers, instead of correct answer (1).

**1.9** This question asked what could be the reason for the difference between the balance in the cash control account and balance in the bank statement. Many candidates had given wrong answers instead of the correct answer due to not understanding the question.

**1.10** The question asked which accounting concept was violated by the Assistant Accountant in accounting for the given transaction. Majority of the candidates answered this question correctly as accrual concept.

For question number **1.11** to **1.20** candidates were instructed to write the answer as 'True' or 'False' in the answer book according to the statement given. Except question **1.13**, other questions were answered correctly. Regarding question **1.13**, average number of the candidates had incorrectly stated that "*Sales journal is an accounting input in the accounting process*" as true.

**1.16** Most of the candidates correctly identified the source document for the purchase of a computer on credit for office use as Journal Voucher. Source document for the sale of goods on credit to **ABC Ltd.** has identified as Sales Invoice. But, many of the candidates erroneously identified it as the purchase invoice.

**1.17** According to the information given in the question, many candidates were unable to correctly calculate the depreciation charge of the machine for the year ended 31<sup>st</sup> March 2023.

**1.18** Many candidates correctly provided the examples for non-current assets. However, few had mentioned wrong answers like trade debtors, closing stocks and bank loan.

**1.19** According to the question, it was instructed to mention two limitations of the financial information. Only few candidates had given the correct answer for this. Instead of limitations, the nature of the financial information was mentioned.

**1.20** It was instructed to briefly explain the matching concept of adjustment. Only a small number of candidates had given the correct definition for this. It was seen that some candidates referred to adjustment notes from this concept and some candidates confused this with the Accrual Concept and gave their answers. Accordingly, it shows that candidates did not have a proper understanding of this concept

## **SECTION B**

This section consisted of 4 compulsory questions. Each question had been given 10 marks.

### **Question No. 02**

With this question, the examiner has tested the knowledge of preparation of manufacturing accounts with identifying the natures of the expenses. Most of the candidates have attempted the question and only lesser percentage of the candidates have fully scored for this question. The following weaknesses have been made by the candidates.

- (1) Some candidates are not aware of the manufacturing accounts, and they have been used different formats and different calculations for the question.
- (2) Some candidates lack proper knowledge to correctly identify direct and indirect costs.

- (3) In the Work in progress adjustment, they have no knowledge on how to apply and where to apply the adjustment. Also a lot of candidates had used plus and minus incorrectly.
- (4) Incorrectly adjusted the prime cost and candidates have lost their marks accordingly.
- (5) Certain candidates have not correctly done overhead expenses apportionment adjustments.
- (6) There were a lot of mistakes when computing depreciation charge and identifying them under overhead cost.
- (7) 20% of profit margin had incorrectly applied.
- (8) Some candidates have not used the correct format.

### **Question No. 03**

Candidates knowledge on the preparation of Trial Balance after preparation of ledger accounts were tested from this question. Most of the candidates have attempted the question and only lessor percentage of the candidates had fully succeeded with the questions.

The following weakness had been made by the candidates:

- (1) Some of the candidates had not prepared the Trail Balance and the have prepared General Ledger Accounts and Profit and Loss Statement.
- (2) Some of ccandidates have made mistakes when preparing Trade receivables and Trade Payable Ledger Accounts and incorrectly identified the Sales and Purchases to the Trail Balance.
- (3) Some candidates have made mistakes when allocating expenses through the Petty cash Expenses and recognizing Petty Cash balance.
- (4) Candidates have made mistakes when calculating depreciation.
- (5) Some candidates have recorded the debit balances as credit and credited balances as debit in the Trail Balance.
- (6) Some candidates did not correctly apply the accrued expenses and did not recognize the balances correctly.

### **Question No. 04**

This question required to prepare the Journal Entries to correct errors and preparation of Suspense Account.

Most of the candidates answered this question satisfactorily and the following common weaknesses were observed during the evaluation of the answer scripts:

- (1) Preparation of ledger accounts instead of Journal Entries.
- (2) The debit and credit values relevant to the Journal Entry being inter-changed in writing the journal entry.

- (3) While writing the journal entries, first the debit entry and then the credit entry should be shown, but some candidates had shown the credit entry first and then the debit entry.
- (4) Some students had failed to properly identify which errors should be corrected by the suspense account while correcting the errors.
- (5) Many students had failed to correctly indicate the correcting journal entries regarding accounting of interest income received as interest expense.
- (6) The correction entries to account for the purchase of office equipment as an office expense were correctly identified. But many candidates had not shown the depreciation of Rs.50,000/-.

### **Question No. 05**

This question consists of two parts A and B. Part A examines the effects of a transaction on the accounting equation and Part B examines the preparation of bank reconciliation statement.

#### **PART (A)**

Many candidates correctly identified the effect of the transactions to the accounting equation. But some candidates had only indicated the decrease or increase in total assets and liabilities without regard to the effects on each item in the equation related to the transaction.

#### **PART (B)**

##### **(a) Common Weaknesses Observed in Preparing Adjusted Cash Control Account (Cash Book):**

- (1) Transactions that should credit to the account had been debited to the account and transactions that should debit to the account had been credited.
- (2) Some of the students were not able to properly identify whether to amend the cash book or to show in the bank reconciliation statement in relation to the given transactions. Some candidates had reconciled all the transactions in the adjusted cash book.
- (3) Although the opening balance of the cash book was a debit balance, some students entered a credit entry while preparing the revised cash book.

##### **(b) Common Weaknesses Observed in Preparing Bank Reconciliation statement:**

It was observed that the students do not have a clear understanding of what type of transactions should be applied while preparing the bank statement. Accordingly, the transactions to be recorded in the cash book were specified in the bank reconciliation and the transactions to be recorded in the bank reconciliation were specified in the cash book. For example, some students observed that the amount of monthly rent debited by the bank under standing orders of Rs.50,000/- was reconciled in the bank reconciliation statement instead of revising the cash book balance.

## SECTION C

### Question No. 06

This Question was to test the preparation of financial statements of a sole proprietorship and consists of 2 **parts (a)** and **(b)** by earning 20 marks. **Part (a)** tested the preparation of Statement of Comprehensive Income and **Part (b)** tested the preparation of Statement of Financial Position. The overall performance was at a satisfactory level. Commonly observed errors and omissions are as follows:

#### **(a) Preparation of Comprehensive Income Statement:**

- (1) Transport expenses of Rs.900 000/- was added to the Cost of sales.
- (2) The amount of Rs.50,000/- was not recorded as bad debts.
- (3) Most of candidates were not correctly calculated the Insurance expense relevant to the accounting period.
- (4) Accrued expenses of Electricity and Office Rent were not correctly adjusted to the relevant expense for the year.
- (5) Depreciation of office equipment was calculated for the full year without considering the purchased date of it.
- (6) Interest of Bank loan was also calculated for full year without considering the date of loan taken.
- (7) Some candidates had taken Opening stock as Closing stock and Closing stock as opening stock when calculating Gross Profit.
- (8) It was recorded the Trial Balance figures in thousand and adjustment amounts in complete figures. Some candidates had shown some figures in thousands and some figures have been taken without rounding off to thousands. Therefore, some candidates had failed to earn marks due to the inaccuracy of the recorded amounts.
- (9) Statement of Comprehensive Income was not submitted in the recommended format and most of candidates do not know to categorized expenses correctly.
- (10) It was not mentioned the statement of comprehensive Income for the year ended 31<sup>st</sup> March 2023 along with the name of the business.
- (11) Detailed workings for the Administration Expenses, Distribution Expenses and Finance Expenses had not been attached by some students.

**(b) Preparation of statement of financial position:**

- (1) Bad debts written off during the year was not deducted from Trade receivables.
- (2) Some candidates had shown only the depreciation amount for the year as accumulated depreciation without adding accumulated depreciation amount as at 01<sup>st</sup> April 2022.
- (3) Prepayment of Insurance was not recorded.
- (4) Accrued Bank loan interest was incorrect due to the calculation without considering the date of loan taken.
- (5) Some candidates presented Bank loan as current liabilities.
- (6) Statement of Financial Position was not submitted in the recommended format and was not mentioned the name of the business and accounting period.

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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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