

EXAMINER'S REPORT
LEVEL I EXAMINATION - JULY 2023
(101) FINANCIAL ACCOUNTING

SECTION A

Question No. 01 - 40 marks
(Compulsory Question)

Candidates were required to write the number of the selected most correct answer for question numbers **1.1** to **1.10**, to state whether the given statements are **True** or **False** for question numbers **1.11** to **1.15**, and to write short answers for questions Nos. **1.16** to **1.20** in the answer booklet with the number assigned to the question.

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

Question No. 1.1

It was tested to select the correct statement out of the given statements. Most of the candidates had selected the correct answer No.02. But, some candidates had submitted No. 01 or 03 instead of correct answer No. 02.

Question No. 1.2

It was tested to select the correct equation that can be used to calculate the profit / (loss) of an entity. Most of the candidates had submitted the correct answer No. 02. But some candidates had submitted No. 03 or 04 instead of correct answer No. 02.

Question No. 1.3

It was tested the accounting concept regarding the income/revenue is recognized in the particular accounting period irrespective of whether the cash is received or not. Most of the candidates had presented the concept of accrual which is the correct answer No. 03. Also, some candidates had submitted No. 02 - Matching Concept or No. 04 - Entity Concept.

Question No. 1.4

Based on the information provided, instructions were given to calculate the equity (capital) as at 31st March 2023. Most of the candidates submitted the correct answer No. 04 Rs.4,900,000/-. But, some candidates had submitted No. 02 - Rs.3,500,000/- instead of the correct answer No. 04.

Question No. 1.5

It has requested to select the impact on the accounting equation due to drawing made by the owner in cash. Most of the candidates had given the correct answer No. 02 - Decrease in Assets and Decrease in Equity. Some candidates had given the correct answer as No. 04 - Decrease in Assets and increase in Equity instead of No. 02.

Question No. 1.6

It was asked to select the factor which can be categorized as Environmental factor (E) by using the PESTEL Analysis. Many candidates had submitted the correct answer No. 04 as the Carbon footprint level introduced by the industry experts. Some candidates had mentioned No. 01 - Introduction of import restrictions in line with policies of the new government or No. 03 - Introduction of Artificial Intelligence for data analyzing instead of correct answer No. 04.

Question No. 1.7

It was asked which of the given ledger accounts could be classified as a non-current asset in the Statement of Financial Position. Most of the candidates had submitted the correct answer No.02 as computers used for office works. Some candidates had submitted No. 04 as closing inventory instead of correct answer No. 02.

Question No. 1.8

Based on the information provided, the candidates were instructed to calculate the depreciation charge for machinery using diminishing balance method for the year ended 31st March 2023. As some candidates did not have sufficient understanding of the calculation of depreciation under diminishing balance method, answer No. 03 was submitted instead of the correct answer No.02.

Question No. 1.9

It was asked to select the correct source document used by the buyer to return the goods purchased on credit to the supplier. Most of the candidates had submitted the correct answer No. 01. Some candidates had submitted No. 02 - Credit Note or No. 03 - Purchase Order instead of correct answer No. 01.

Question No. 1.10

It was checked to select the correct impact due to the introduction of Rs.1,500,000/- worth of lorry to the business as additional capital. Most of the candidates had submitted the correct answer No. 04 but few candidates had submitted No. 03.

It was required to state whether the given statement under question No. 1.11 to 1.15 as “True” or “False”. Common errors identified are as follows:

Question No. 1.11

Some of the candidates had given the correct answer as “False” instead of “True” due to lack of clear understanding on change in assets in relation to the given statement. Most of the candidates had submitted the correct answer as “True”.

Question No. 1.12

Some candidates had given the correct answer as “True” instead of “False” due to insufficient understanding of the source document for the given statement.

Question No. 1.13

Most of the candidates had correctly understood the given statement and submitted the correct answer as “True”.

Question No. 1.14

Some candidates had submitted “False” instead of the correct answer “True” due to insufficient understanding of the given statement.

Question No. 1.15

The given statement had tested the knowledge about the Going Concern Concept. Some candidates had given the correct answer as “True” instead of “False” due to insufficient understanding of the Concepts of accounting.

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

Question No. 1.16

It was instructed to state two objectives of Financial Accounting. Most of the candidates had given correct answers for this.

Question No. 1.17

It was requested to briefly explain the difference between “cash discounts” and “trade discounts”. Most of the candidates had submitted the correct answer for this. But some of the candidates had explained trade discounts under cash discounts and cash discounts under trade discounts and a small group of candidates had not submitted the answer for this.

Question No. 1.18

Instructions were given to briefly explain the concept of “Substance Over Form”. Only a very small number of candidates had submitted the correct explanation of emphasizing the core rather than the form, but most of the candidates had not submitted the answers for this and the submitted answers were also incorrect.

Question No. 1.19

It was expected to briefly explain the term “Professional Competence” under the principles of professional ethical principles. A large number of candidates have failed to provide the correct answer due to lack of clear understanding of this. A very few candidates submitted the answer that “Members should maintain the level of expertise, technical knowledge and skills necessary to fulfill their duties and responsibilities”.

Question No. 1.20

Instructions were given to state 02 reasons for moving to computerized accounting systems. majority of candidates had provided the correct answer for this.

SECTION B

Question No. 02 - 10 marks

(Compulsory Question)

This question consists of two parts namely **(a)** and **(b)**. In **part (a)** instructions were given to prepare the necessary journal entries to rectify the errors and in **part (b)** was to calculate the adjusted / corrected net profit for the year ended 31st March 2023.

Most of the candidates had submitted answers at a satisfactory level and the following weaknesses and mistakes were commonly seen:

Section (a)

- (1) Ledger accounts have been prepared instead of journal entries.
- (2) The debit and credit values related to the journal entry had been written in the wrong side when writing the journal entries.
- (3) When preparing the journal entries, it was not mentioned debit and credit terms in front of the transaction in the journal.
- (4) Non-identification of wrong entries which need to be corrected through the suspense account.
- (5) Entry No. 01 shows that although the credit entry of Rs.35,000/- for electricity expenses was correct, the entry of Rs.53,000/- in the electricity expenses account affecting the difference of Rs.18,000/- was not correctly identified and no journal entries were presented.
- (6) Entry No. 03 had debited the suspense account instead of debiting the trade receivable control account when correcting the total omission of Rs.180,000/- in the Sales Day Book.
- (7) Due to the lack of understanding on correcting the entry No.04 – Rs.2,500/ bank Over Draft interest charged by the bank has been correctly recorded in the Cash Book and credited to Interest Income A/c, the correction entries have been recorded only in the Bank O/D interest A/c and the Interest Income A/C.
- (8) The correction journal entry relating to Entry No.05 – Purchase of a computer worth of Rs.150,000/- debited to Repair and Maintenance account had been correctly recorded. However, the depreciation of Rs.7,500/- calculated at the rate of 20% for the 3 month period from 01st January 2023 to 31st March 2023 and correction entries have not be written. Some candidates had calculated Rs.30,000/- as depreciation for the whole year and not for 03 months and recorded the journal entry.

Section (b)

- (1) When calculating the correct profit, the items to be added were subtracted and the items to be deducted were added.
- (2) Only bank overdraft interest was deducted when calculating the correct profit.
- (3) Depreciation charge of Rs.7,500/- relating to 03 months was not taken when calculating the correct profit.
- (4) Some other candidates had submitted only the adjusted profit of Rs.2,345,500/- without any calculation.

Question No. 03 - 10 marks

(Compulsory Question)

This question tested the knowledge and understanding of the candidates on the preparation of manufacturing accounts for the year ended 31st March 2023.

Most of the candidates had submitted answers to this question at a satisfactory level and the following weaknesses were observed:

- (1) The correct format was not submitted.
- (2) Work-in-progress adjustments had been made to the manufacturing cost without adjustments to the prime cost
- (3) Though direct wages should be accounted under Direct Expenses some candidates had recorded it under production overhead expenses.
- (4) Overhead expenses were not correctly calculated among Factory and Office by using the given percentages
- (5) Opening raw material stock and closing raw material stock had been identified incorrectly by interchanging those balances and presented.
- (6) Profit margin of 18% on cost of production was not calculated.
- (7) Raw materials consumed, prime cost and total manufacturing cost were not mentioned at the calculated values.

Question No. 04 - 10 marks

(Compulsory Question)

This question had tested the knowledge of candidates about preparation of Trial Balance after preparation of ledger accounts. Candidates' performance was good.

- (1) Instead of preparing Trial Balance some candidates had prepared only ledger accounts.
- (2) In the Trial Balance, the balances that should be debited were recorded in the credit side, and the balances that should be credited were recorded in the debit side.
- (3) Credit sales and credit purchases were not properly accounted for in the Debtors and Creditors Control Accounts.
- (4) Cash Sales, Credit sales and cash purchases, credit purchases have recorded as isolated items.
- (5) Depreciation charge of Rs.2,500/- for 3 months at 20% on office equipment purchased on 1st January 2023 was not correctly calculated.
- (6) Depreciation calculated for office equipment was deducted from the machinery cost and recorded the net value in the Trial Balance.

Question No. 05 - 10 marks

(Compulsory Question)

This question consists of two sub-sections **(A)** and **(B)**.

Part (A) expected to prepare the Adjusted Cash Control Account (Cash Book) and Bank Reconciliation statement by March 31, 2023. **Part (B)** expected to identify the possible transaction that took place for each line item from (1) to (5) of the above accounting equation. The performance of the candidates was good.

Part (A)

(a) As per the answers provided by the candidates, the following weaknesses were observed while preparing the Adjusted Cash Control Accounts:

- (1) All the transactions were adjusted in the cash book without identifying the transactions that should be recorded only in the Cash Book.
- (2) Transactions to be debited have been credited and vice versa.
- (3) Although the opening balance of the cash control account should be recorded as a debit to the account, some candidates had entered it as a credit.
- (4) The opening balance in the cash book had not been entered in the cash book.
- (5) The cash book was not properly balanced and not calculated the closing balance.

(b) As per the answers provided by the candidates the following weaknesses were observed while preparing the Bank Reconciliation Statement:

- (1) Without identifying the transactions to be recorded in the Bank Reconciliation Statement, all the items were adjusted in the Bank Reconciliation Statement.
- (2) Some candidates had started the Bank Reconciliation Statement from the adjusted cash book balance and arrived at the Bank Statement balance, while some other candidates had started the Bank Reconciliation Statement from the Bank Statement balance and arrived at the Adjusted Cash Book balance. In these two instances, some candidates had deducted the items to be added and added the items those should be deducted.

Part (B)

Most of the transactions given in numbers 01 to 05 related to the accounting equation were identified by the candidates and the correct answers were submitted. But some candidates mentioned the transaction related to equation number 01 without mentioning the introduction of Rs.1,250,000/- in cash and a car worth Rs.750,000/- as new capital by the owner and mentioning the investment of Rs.2,000,000/- as capital introduced by the owner.

It has not mentioned the transactions (2) and (3) which are credit purchases and credit sales as the "credit terms" and transaction (4) as cash drawings.

SECTION C

Question No. 06 - 20 marks

(Compulsory Question)

This question consists of two **parts (a) and (b)**. The knowledge of candidates in the presentation of Statement of Comprehensive Income was tested in **part (a)**, while the presentation of Statement of Financial Position was tested in **part (b)**. The overall performance was at a satisfactory level.

Commonly observed errors and omissions are as follows:

(a) Preparation of Comprehensive Income Statement:

- (1) The correct amount of depreciation for the year had not been calculated and taken into the Income Statement.
- (2) Due to lack of understanding about the items to be included in the Statement of Comprehensive Income, some items that should be included in the Statement of Financial Position were included in the Income Statement.
- (3) The amount of Rs.155,000/- was not recorded during the year as bad debt.
- (4) Some candidates had deducted the opening stock of the year and added the closing stock when calculating the gross profit.
- (5) It was recorded the Trial Balance figures in thousands and adjustment amounts in complete figures.
- (6) Eventhough it was required to include Rs.2,400,000/- in the Income Statements after deducting the Rs. 200,000/- prepaid monthly rental for April from the Total rent paid of Rs. 2,600,000/- , some candidates have included the entire Rs. 2,600,000/- in the Statement of Comprehensive Income.
- (7) Eventhough some of the cosmetics products required for production was bought on 20th March 2023 for Rs. 900,000/- were required to be included in the annual purchases it had not been included.
- (8) The electricity bill of Rs.78,000/- payable for the month of March 2023 was not taken into consideration while calculating the annual electricity expenditure.
- (9) Statement of Comprehensive Income was not submitted in the recommended format.
- (10) It was not mentioned the Statement of Comprehensive Income for the year ended 31st March 2023 along with the name of the business.

(b) Preparation of Statement of Financial Position:

- (1) Due to lack of basic understanding of the items that should be included in the Statement of Financial Position , purchases, sales, opening stock, rental income and other expenses had been included in the Statement of Financial Position.
- (2) Electricity payable amount of Rs.78,000/- for the month of March 2023 was not included under Current Liabilities.
- (3) Rs.200,000/- rent paid in respect of April 2023 was not included under Current Assets.

- (4) Rs.155,000/- Bad debts written off during the year from trade receivables was not correctly deducted from trade receivables.
- (5) Although the depreciation amount for the year should be added to the accumulated depreciation balance as on 01 April 2022, some candidates had shown only the depreciation amount for the year.
- (6) Eventhough the Rs.500,000/- worth of furniture supplied to the business were required to be added to the Furniture and Fittings Account , this balance has shown separately under Non-Current Assets.
- (7) Rs.500,000/- payable for furniture was added to the trade payable amount and recorded under Current Liabilities.
- (8) The additional capital of Rs.900,000/- introduced by Imandi to the business was not recorded in the Statement of Financial Position.
- (9) Some candidates presented all the items together without classifying the items in the Statement of Financial Position.
Examples :- Non-Current Assets, Current Assets, Equity and Liabilities, Current Liabilities, etc.
- (10) Trade receivables were recorded 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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