

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

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**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 in the answers given by the candidates for each sub section:

**Question No. 1.1**

It was inquired what was an accounting output. Most of the candidates had given the correct answer number 03. But some candidates had given Ledger Account and Trial Balance as the correct answer.

**Question No. 1.2**

The accounting concept which related to not changing the accounting policy used in valuation of inventory during the period was questioned. Most of the candidates had provided the concept of consistency as the correct answer. But some candidates have provided the concept of going concern as the answer instead of the correct answer.

**Question No. 1.3**

As per the given information, it was required to calculate the depreciation for the year ended 31<sup>st</sup> March 2022 under the diminishing balance method. Most of the candidates had provided No. 01 instead of No. 02 as the correct answer due to insufficient understanding of the question.

**Question No. 1.4**

The correct impact of the given transaction on the accounting equation was questioned. Most of the candidates had provided answer 03 instead of 02 as the correct answer because they did not understand the impact of double entry on the accounting equation.

**Question No. 1.5**

Instructions were given to calculate the balance of the cash control account (cash book) as on 31.03.2022 using the given information. Most of the candidates had selected No. 01 and 02 as answers instead of No. 04 which is the correct answer due to insufficient understanding of the preparation of Bank Reconciliation Statement.

**Question No. 1.6**

It was required to identify which of the given items can be classified as a current asset. Most of the candidates had submitted the correct answer number 02. But some candidates had selected "sales account" as the correct answer instead of the correct answer "pre-payment account".

**Question No. 1.7**

Candidates' knowledge of accounting concepts was tested. All the candidates had selected correct answer No.02.

**Question No. 1.8**

It was inquired about the source document raised by the storekeeper to record the goods received from suppliers. Most of the candidates had selected the correct answer number 02. But some candidates had selected No. 03 instead of No. 02 which is the correct answer.

**Question No. 1.9**

It was required to calculate the profit for the year ended 31<sup>st</sup> March 2022 on the basis of the information given. As some candidates did not have sufficient understanding about the calculation of profit, instead of the correct answer No. 01, No. 02 and 03 were selected as answers. However, most of the candidates had submitted the correct answer.

**Question No. 1.10**

It was inquired to record the capital repayment of the bank loan of Rs.1,750,000/- which obtained to expand the business in the ledger accounts. Most of the candidates had selected 03 and 04 as answers instead of the correct answer number 02 due to lack of correct understanding of the double entry.

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 candidates had given the correct answer as 'True' instead of 'False' due to lack of correct understanding of the accounting concept regarding the given statement. However, most of the candidates had submitted the correct answer.

**Question No. 1.12**

A statement was given on the transactions recorded in the general journal. Some candidates had given 'True' instead of 'False' as the correct answer due to insufficient understanding of the given statement. However, most of the candidates had provided the correct answer.

**Question No. 1.13**

Purchase account is an example of a nominal account. Some candidates had given 'False' instead of 'True' as the correct answer due to insufficient understanding of this statement.

**Question No. 1.14**

A statement had given a on the petty cash imprest. Most of the candidates had correctly understood the given statement and provided the correct answer as 'True'.

**Question No. 1.15**

A liability account balance is usually a credit balance. Most of the candidates had correctly understood the given statement and provided the correct answer as 'False'.

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

**Question No. 1.16**

Defining of the term “Equity” was required. For this all the candidates had failed to provide the complete definition. The answers that were provided were incomplete answers. However, some candidates have mentioned the correct definition.

**Question No. 1.17**

Candidates were instructed to identify two differences between financial accounting and management accounting. Most of the candidates had clearly identified the differences and provided correct answers.

**Question No. 1.18**

It was required to briefly explain the meaning of business ethics. Most of the candidates did not present a clear and correct idea. Some candidates were not provided answers for this question.

**Question No. 1.19**

Two examples of Specialized Accounting Software were requested. Due to the lack of understanding of specialized accounting software, most of the candidates stated software used for general purposes as the answer.

Example - Accpack, Quick Book, MYOB.

**Question No. 1.20**

Two importances of maintaining prime entry books were tested. Most of the candidates had submitted the correct answer.

## SECTION B

### **Question No. 02** - 10 marks

(Compulsory Question)

This question tested the knowledge of candidates on preparation of Trial Balance after preparation of ledger accounts. The performance of the candidates was good.

- (1) Instead of preparing the Trial Balance, some candidates had prepared only ledger accounts.
- (2) In the Trial Balance, the figures to be debited were recorded as credit and the figures to be credited as debit.
- (3) Credit sales and credit purchases were not properly accounted in the debtors and creditors control accounts.
- (4) Recorded cash sales, credit sales, cash purchases and credit purchases as separate items in the Trial Balance.
- (5) Depreciation for 3 months at 25% for the machinery purchased on January 01, 2022 was not calculated correctly.
- (6) Depreciation calculated for machinery was deducted from the value of the machinery in the trial balance and the net value was recorded.
- (7) The following weaknesses were observed from answers provided by the candidates when preparing the adjusted cash control account:

### **Question No. 03** - 10 marks

(Compulsory Question)

This question tested the knowledge and understanding of the candidates regarding the preparation of Manufacturing Cost Statement (Manufacturing Account) for the year ending 31<sup>st</sup> March 2022.

Most candidates answered this question satisfactorily and the following weaknesses were observed:

- (1) Correct format had not been used.
- (2) Work-in-progress was adjusted to prime cost without adjusting to manufacturing cost.
- (3) Although direct wages should have been adjusted under direct expenses, some candidates had treated those as overhead expenses.
- (4) Calculation of overheads for apportionment between factory and office as per given percentages had not been correctly done.
- (5) The opening stock of raw materials and the closing stock of raw materials had been used incorrectly.
- (6) Profit margin of 25% on cost of production was not calculated.
- (7) Raw material consumed, prime cost and gross manufacturing cost calculations were not re-named properly.

**Question No. 04** - 10 marks  
(Compulsory Question)

This question consists of two parts **(A)** and **(B)**.

The knowledge of the candidates was tested on identifying and presenting the possible transaction for each of the items numbered 1 to 5 of the accounting equation given in **part (A)** and preparing the adjusted cash control account in **part (B)** and preparing the bank reconciliation statement as at 31<sup>st</sup> March 2022. The performance of the candidates was good.

**(A)** The candidates had identified many of the possible transactions related to the accounting equations given in numbers 1 to 5 and provided the correct answer. But some of the candidates have not presented the transaction number 01 in the equation as investment in cash. In transaction No. 03 and 04, the word 'credit term' was not mentioned while mentioning the transactions related to purchases and sales on credit.

**(B) (a)** The following weaknesses were observed with regard to preparation of the Adjusted Cash Control Account:

- (1) All the transactions were recorded in the cash book without identifying the transactions that should be recorded only in the cash book.
- (2) Transactions to be debited were recorded in the credit side of the account and the transactions to be credited were recorded in the debit side of the account.
- (3) The opening balance of the cash control account should have been debited but some candidates had credited it.
- (4) The opening balance of the cash book had not been brought to the cash book.
- (5) The closing balance of the cash book was not calculated.

**(b)** According to the answers provided by the candidates in preparation of the bank reconciliation statement, the following weaknesses were observed:

- (1) All the items were recorded in the Bank Reconciliation Statement without identifying the transactions to be recorded in the Bank Reconciliation Statement.
- (2) Some of the candidates had taken the adjusted cash control account balances as the Bank Reconciliation Statement opening balance and some candidates had started the Bank Reconciliation Statement from the Bank Statement Balance and taken the adjusted cash control account balance. Here, some candidates had deducted the items to be added and had added the items to be deducted when preparing the bank reconciliation.

**Question No. 05** - 10 marks

(Compulsory Question)

This question consisted of two parts **(A)** and **(B)**. Instructions were given to prepare the journal entries necessary to correct the errors in **part (A)** and prepare the suspense account accordingly and to prepare the trade receivables control account for the month of April 2022 using the information presented in **part (B)**.

Most of the candidates had answered satisfactorily and have observed the following weaknesses and mistakes in common:

**(A) (a)**

- (1) Ledger accounts have been prepared instead of journal entries.
- (2) The debit and credit values related to the journal entry had been mixed and presented while writing the journal entry.
- (3) While preparing journal entries, debit and credit status were not written in front of the transaction in the journal.
- (4) Not correctly identifying the entries to be corrected by the suspense account.
- (5) Due to lack of understanding regarding correction of rental expense being recorded to credit of rental income account, it was recorded only in rent income or rent expenses account.
- (6) According to item 4, although the telephone expense of Rs.65,000/- is correctly recorded in the cash book, it was recorded to telephone expense account as Rs.56,000/-. To rectify this, the difference of Rs.9,000/- was not correctly recognized and the journal entry was not presented.

**(b)** The following weaknesses were observed in relation to preparation of suspense account:

- (1) The credit balance of the suspense account was recorded as a debit in the account while some others have not recorded the opening balance in the account.
- (2) The debit entries related to the suspense account were recorded on the credit side of that account and the credit entries on the debit side of that account.

**(B)** The following errors and omissions were made by the candidates while preparing the trade receivables control account for the month of April 2022 using the information provided:

- (1) Opening balance of trade receivables as at 01<sup>st</sup> April 2022 has not been taken into account.
- (2) As at 01<sup>st</sup> April 2022, the opening balance of trade receivables account was credited to the account.
- (3) The debit entries were recorded to the credit side and the credit entries were recorded to the debit side of the account.
- (4) Cash sales were also credited to the account.

- (5) Total of sales day book and sales inwards day book during the month have not been taken into account in preparing the bad debts account.
- (6) Final balance was not computed after balancing the account.

### SECTION C

**Question No. 06** - 20 marks

(Compulsory Question)

This question consists of two parts namely **(a)** and **(b)**. **Part (a)** tested the knowledge of the candidates on preparation of comprehensive income statement and **part (b)** on preparation of statement of financial position. Overall performance was good. Commonly observed errors/shortcomings are as follows:

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

- (1) The correct amount of depreciation for the year was not calculated and taken into the income statement.
- (2) The accrued and prepaid expenses related to electricity and water bill expenses for the year were not taken into account.
- (3) Due to lack of understanding about the items to be included in the comprehensive income statement, some items that should have been included in the statement of financial position were included in the comprehensive income statement.
- (4) The amount of Rs.75,000/- bad debt written off during the year was not recorded.
- (5) Some candidates had deducted the opening stock at the beginning of the year and added the closing stock in order to calculate the Gross Profit.
- (6) The balances given in the Trial Balance have been considered in thousands while, the adjustments have been made in full figures.
- (7) Depreciation for 3 months applicable for the delivery van transferred to the business on 01<sup>st</sup> January 2022, was not recorded in the Comprehensive Income Statement.
- (8) The Statement of Comprehensive Income had not been presented in the prescribed format.
- (9) It was not written, the name of the business with "*for the year ended 31<sup>st</sup> March 2022*" in the Statement of Comprehensive Income.
- (10) Bank loan interest of Rs.100,000/- related to the month of March 2022 was not added to the loan interest account and included in the income statement.

**(b) Preparation of Statement of Financial Position:**

- (1) Purchases, sales, opening stock, rental income and other expenses were included in the statement of financial position due to lack of basic understanding of the items to be included in the statement of financial position.
- (2) Values related to accrued electricity, water bills and bank loan interest were not included under current liabilities in the statement of financial position.
- (3) Bad debt of Rs.75,000/- written off during the year from trade receivables was not properly deducted from trade receivables.
- (4) The lorry worth Rs.2,000,000/- belonging to **Amal** which was transferred to the business on 01<sup>st</sup> of January 2022 was not included in the statement of financial position.
- (5) Depreciation for the year was recorded instead of accumulated depreciation.
- (6) Some candidates had entered all the items together without classifying the items in the statement of financial position. Examples:- Non-current assets, current assets, capital and liabilities, current liabilities.
- (7) 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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