

Examiner's Report

AA1 EXAMINATION - JANUARY 2019

(AA11) FINANCIAL ACCOUNTING BASICS

SECTION A

Objective Test Questions (OTQs)

Question No. 01 - 40 marks

(A Compulsory Question)

This question was consisted with 15 sub questions.

Although it was very clearly stated in the question paper that it was required to select the most correct answer and write the number of the selected answer in the answer booklet, some candidates had not taken into consideration that instruction. It was seen that the answers had been marked in the question paper itself and attached to the answer booklet, without writing those in the answer booklet. Some other candidates had written the answer completely instead of the number assigned to the question. It was unnecessary waste of time.

Some candidates, although they had written answers to sub-questions 1.9 to 1.15 in their answer booklets, had not written answers to sub questions 1.1 to 1.8. It may be that they had marked the answers in the question paper itself and forgotten to attach it to the answer booklet. As a result, they were unable to obtain the marks that would have been easily obtained.

Following are a few errors / weaknesses generally observed from the answers given to the sub-questions:

Question No. 1.1

Some candidates had written incorrect answers, because they had not understood the question correctly.

Question No. 1.2

It was seen that the knowledge on accounting concepts of some of the candidates had not been adequate. Therefore, instead of the correct concept of "consistency" other concepts had been written as answers.

Question No. 1.3

Due to some candidates not having an understanding on what is meant by a debit note, instead of the correct answer No. (1), other answers had been written.

Question No. 1.6

Some candidates had not correctly calculated the profit for the year ending 31st March 2018, using the information given. Instead of the correct profit of Rs.112,000/-, other answers had been given.

Question No. 1.7

Due to lack of adequate knowledge of candidates on master files in a computerized Accounting System they were unable to present correct answers.

Question No. 1.8

Some candidates failed to select correctly the value of stock of Rs.112,500/- as at 01st April 2017, using the figures given relating to sales, purchases, value of stock on 31st March 2018 and the gross profit.

Question No. 1.9

Some candidates had not clearly identified the differences between Financial Accounting and Management Accounting and therefore unable to present the correct answer. Certain other candidates had not written any answer to this sub-question.

Question No. 1.11

Correct answer was not written by most candidates because they lacked adequate knowledge about the purpose of having temporary files in a computerized accounting system. Certain other candidates had not attempted to answer this part. On the whole performance for this question was at a poor level.

Question No. 1.12

Because candidates lacked adequate knowledge on accounting concepts, relevant concepts applicable to the given transactions had not been stated.

- (a) Although "Accrued Concept" is the correct answer, some candidates had stated Accounting Period concept.
- (b) Although historical cost concept is the correct answer, some candidates had stated consistency / entity concept.
- (c) Although correct answer is conservatism / prudence concept. Some candidates had stated going concern concept.

Question No. 1.13

Majority of the candidates had not correctly calculated and stated the net book value of the machinery using the reduced balance method of depreciation.

Incorrect answers had written because some candidates had used the straight line method for depreciation.

Though depreciation should have been calculated for 2 years it had been calculated only for 1 year.

It was noted that candidates had no knowledge on calculation of depreciation under the reducing balance method.

Question No. 1.15

Although it was required to write correctly the double entry for each of the given transactions as the answer some candidates had prepared ledger accounts.

SECTION B

Question No. 02 - 10 marks

(A Compulsory Question)

This question has tested the knowledge of candidates in the presentation of trial balance. On the whole candidates had written answers at a satisfactory level, but the following weaknesses were observed:

- (1) Although debit and credit values had been identified correctly, debits and credits had not been correctly posted in the trial balance.
- (2) Cash sales and credit sales had been posted to the trial balance as separate items.
- (3) The values of purchases and sales had been incorrectly stated in the trial balance as a result of not posting correctly closing balances and cash sales in the process of preparation of debtors and creditors accounts to arrive at the values of sales and purchases.
- (4) With regard to purchase of furniture, correct period had not been identified and the correct amount of depreciation not stated in the trial balance. Instead of Rs.7,500/- being depreciation for 6 months, Rs.15,000/- being depreciation for 1 year.
- (5) Electricity accrued had not been adjusted in the electricity account and Rs.12,500/- electricity accrued had not been correctly recorded in the trial balance.
- (6) Although casual wages in the petty cash control account should have been added to salaries and wages account and shown, candidates had shown these two separately.
- (7) The balance of Rs.15,700/- as at 31st March 2018 in the petty cash control account had not been correctly shown in the trial balance.
- (8) Although it was necessary to prepare the cash book and arrive at the correct cash balance as at 31st March 2018, candidates had not done so and shown incorrect amounts as cash balances in the trial balance.

Question No. 03 - 10 marks

(A Compulsory Question)

Knowledge and understanding of candidates on preparation of manufacturing accounts was tested by this question, general weaknesses observed in the process of evaluation of answer scripts are as follows:

- (1) Some candidates did not have the knowledge about the specified format in which it was to be presented.
- (2) As a result of not identifying direct and indirect expenses, some candidates had mixed up those expenses.
- (3) Although it was clearly stated in the question that work-in-progress had to be valued at prime cost, some candidates disregarding that instruction had included work-in-progress under overhead cost at the end of the manufacturing account.
- (4) Although rent of building, fuel expenses and electricity were to be apportioned as 75% to the factory and 25% to the office, due to incorrect calculations answers with incorrect values had been submitted.
- (5) Some candidates instead of recording the salary of the factory manager as an indirect expense under overheads had identified it as a direct expense and shown under prime cost.
- (6) Some candidates had not correctly adjusted, the cost with a 10% margin on cost that should be transferred to the trading division.

Question No. 04 - 10 marks

(A Compulsory Question)

This question was in 2 parts (a) and (b). **Part (a)** tested knowledge on preparation of Journal entries for correction of errors, while **part (b)** tested the knowledge and understanding on preparation of suspense account.

(a) Preparation of Journal Entries:

- (1) Although the question stated clearly to prepare Journal Entries, some candidates had prepared ledger accounts.
- (2) Some candidates had failed to identify clearly the transactions to be corrected through the suspense account from the given errors 01 to 06 which were subsequently identified.
- (3) With regard to the transaction referred to in item (6), although it was necessary to identify rent expenses account and rent income account correctly and debit each with Rs.25,000/- and credit suspense account with Rs.50,000/-, some candidates had presented only one of them as answer to the question.

(b) Preparation of Suspense Account:

- (1) It was seen that some candidates did not have an adequate understanding about the presentation of the suspense account.
- (2) Some candidates had resorted the opening debit balance of Rs.32,500/- of the suspense account to the credit of the suspense account.
- (3) Some candidates had recorded the debit entries of the suspense account in the credit side and the credit entries on the debit side, changing the sides.
- (4) It was noted that without entering the opening debit balance of Rs.32,500/- in the suspense account the values of Journal Entries only had been recorded.

Question No. 05 - 10 marks

(A Compulsory Question)

This question was in two parts (A) and (B).

Part (A) tested knowledge on preparation of Sales Journal, and

Part (B) tested the knowledge and understanding on the effects of certain transactions on the given accounting equation.

General weaknesses observed in the evaluation of answer scripts are as follows:

Part (A) – Preparation of sales Journal:

- (1) It was seen that some candidates had no proper understanding of the basic format of the sales day book.
- (2) Only the calculation had been given as answer without the specified format.
- (3) Though it was necessary to show clearly the deduction of trade discount in the sales journal, a larger number of candidates had stated only the value after deduction of trade discount.

Part (B) : Effect to the accounting equation:

- (1) Some candidates had not answered with proper understanding of the effects of each of the given transactions, namely increase or decrease of assets, liabilities, income and expenditure. Recording had been done by them without the plus or minus (positive, negative) values.
- (2) Some candidates had answered showing the effect of the transactions by a simple recording in either assets side or liabilities side.
- (3) The effect of the given transactions had been recorded not in accordance with the given accounting equation.
- (4) Instead of recording the financial values of the given transactions, the words “increase”, “decrease” had been stated.

SECTION C

Question No. 06 - 20 marks

(A Compulsory Question)

This question consisted of two parts (a) and (b). **Part (a)** tested the knowledge in the preparation of the Statement of Comprehensive Income, while **Part (b)** tested the knowledge of the preparation of the Statement of Financial Position.

General weaknesses observed in the evaluation of answer scripts are as follows:

(a) Preparation of Statement of Comprehensive Income:

- (1) Certain notes that should have been included in the Statement of Financial Position had been included in the Statement of Comprehensive Income.
- (2) Since the values in the Trail Balance had been given in thousands ('000), the values given in the adjustments otherwise in full amounts had to be converted to thousands ('000). Some candidates without taking that into consideration had calculated on the full values.
- (3) Candidates who did not have an understanding of the format to be utilized for preparation of the Comprehensive Income Statement had prepared it in the debit and credit format as in a Trial balance.
- (4) Some candidates had failed to add Rs.75,000/- electricity charges payable for the month of March 2018 to the electricity expenses.
- (5) Depreciation had not been calculated on the straight line method at the given percentage and recorded in the Trial balance.
- (6) Some candidates had shown sales commission as a deduction from sales in the trade account.
- (7) Although it was necessary to calculate 10% on the value arrived at from trade receivables after deducting Rs.40,000/- being bad debts for the purpose of making provision for doubtful debts, some candidates who had no knowledge of this aspect had calculated doubtful provision on the whole trade receivables amount. Also most candidates had not correctly recorded under provision for doubtful debts.
- (8) It was noted that without calculating the rent relevant to the year, the monthly rent of Rs.189,000/- of the showroom only had been recorded as a rent expenses.

(b) Preparation of Statement of Financial Position:

- (1) Some candidates had not prepared the Statement of Financial Position on the accepted format.
- (2) Although it was necessary to state the Statement of Financial Position “as at 31st March 2018”, some candidates had stated that it as “for the year ended 31st March 2018”.
- (3) Some candidates had not correctly calculated the relevant accumulated depreciation and net realizable values of Property, Plant and Equipment.
- (4) Although 3 months fixed deposits should have been included under current assets, a large number of candidates had included it under Property, Plant and Equipment. Most candidates had no understanding about classification of fixed and current assets.
- (5) Although rent accrued should have been calculated by correctly computing the showroom rent and deducting the rent paid, most candidates had not done it that way and presented incorrect values.
- (6) An incorrect amount had been shown as value of trade receivables, because the 10% provision for doubtful debts had been calculated without deducting bad debts.
- (7) The value of stock at the beginning of the year had been recorded as current assets instead of the value of stock at the end of the year.

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General points to be considered to improve 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 books, hand books, letters, Journals etc. relevant to this subject.
- (4) Identify basic theoretical concepts correctly and build necessary skills to answer questions.
- (5) Legible hand writing and correct numbering of questions.
- (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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