

EXAMINER'S REPORT**AA1 EXAMINATION - JANUARY 2020****(AA11) FINANCIAL ACCOUNTING BASICS**

Part – A

(One Compulsory Question)

Question No. 01 – 40 Marks

This paper consisted of 15 sub questions.

From question No. 1.1 to 1.8, it was required to select the most correct answer out of the given four options and write the number of the answer. From question No. 1.9 to 1.15, it was required to write the correct answer along with the question No. assigned.

Common mistakes identified are as follows:

Question No. 1.1

Some candidates have selected No. 01, instead of No. 04 due to not understanding the question properly.

Question No. 1.2

Due to not having an adequate knowledge regarding Accounting Concepts, instead of the correct answer No. 02, No. 03 was stated.

Question No. 1.3

Due to not having an adequate knowledge regarding source documents, No. 01 was stated as the answer, even though the correct answer was No.04.

Question No. 1.4

Due to not having an adequate knowledge on Accounting Equation, some candidates have selected answer No. 04 as the correct answer, instead of answer No. 01.

Question No. 1.5

Most of the candidates have computed the correct profit of Rs.225,000/- from the given information. However, there were a few candidates who arrived at a profit of Rs.525,000/- which was incorrect.

Question No. 1.6

Most of the candidates had no idea as to what the real account is as per the classification of Ledger Accounts. Therefore, they have selected Sales Account, a nominal account instead of Machinery Account.

Question No. 1.7

Due to non-understanding the question properly, most of the candidates have mentioned an example for a common Accounting package, though it was required to state an example for a specialized accounting package. Therefore, they have selected answers No. 01, 02 and 04 as the correct answer, instead of answer No. 03.

Question No. 1.8

When money is collected from debtors, Assets (cash) increase, and Assets (debtors) decrease and hence there is no impact to assets. However, the candidates who have not understood this have selected answer No. 03 instead of answer No. 01.

Question No. 1.9

Due to not understanding the question properly, candidates have given following incorrect answers, instead of Income and Expenses:

- Assets and Liabilities.
- Equity and Liabilities.
- Purchases and Sales.
- Income Statement and Statement of Financial Position.

Question No. 1.10

Knowledge on accounting concepts were very poor among candidates. It was noted from the answers that there were few candidates who have never heard of any accounting concepts.

Question No. 1.11

This question tested the knowledge on source documents used to record transactions.

- (a) Though the correct answer was "Credit Note", candidates have mentioned, Inward Journal as the answer.
- (b) Though the correct answer was "Journal Voucher", candidates have mentioned General Journal, Invoice and Purchase Invoice as the answer.
- (c) Though the correct answer was, "Receipt", candidates have stated "Sales Invoice" as the correct answer.

Question No. 1.12

It was noted from the answers that candidates had no idea as to how to calculate depreciation under straight line basis. Some have computed depreciation without deducting scrap value at the end of the useful life from the cost of the machinery.

Question No. 1.13

Most of the candidates have stated the correct answer for this question.

Question No. 1.14

It was required to state each of the given statement are “True” or False”.

- (a) Few candidates have stated that equity increase due to drawings.
- (b) Due to not having a proper understanding on the difference between Financial Accounting and Management Accounting, most of them have stated this as “True”.
- (c) Due to not having a proper understanding on the Accounting concept, Materiality, some of them have stated this statement as “False”.
- (d) Candidates were lack with the knowledge regarding criterions in recognizing a liability. Therefore, they have stated this statement as “True”.

Question No. 1.15

It was required to prepare double entry for each of the given transactions.

- (a) Some candidates have debited this to shop repair account and credited to bank account.
- (b) Some have debited to Interest Income Account.
- (c) Some candidates instead of crediting capital account have credited to drawings account.

Part – B

(Four Compulsory Questions)

Question No. 02 – 10 Marks

This question tested the knowledge of candidates on preparation of Trial Balance after recording respective double entries in ledger accounts. Candidates’ performance for this question was satisfactory.

However, following weaknesses were identified:

- (1) Some candidates have shown, cash sales, credit sales, cash purchases and credit purchases as separate items in the trial balance.
- (2) Most of the candidates have not computed the correct depreciation under straight line basis for the Motor lorry purchased on 01st October 2018.
- (3) Correct cash balance as at 31st March 2019 was not included in the trial balance.
- (4) Salaries and wages have been computed without considering the accrued salaries.
- (5) Some have recorded accrued salaries as a debit entry in the trial balance.

- (6) Most of the candidates have arrived at incorrect figures for credit sales and credit purchases, due to not recording properly the respective balances regarding cash receipts and payments.
- (7) It was noted that some of the balances that should be debited to trial balance has been recorded in the credit side and some balances that should be credited to trial balance has been recorded in the debit side.
- (8) Some candidates have prepared only the ledger accounts.

Question No. 03 – 10 Marks

- (A)** This question tested the knowledge of candidates regarding preparation of manufacturing accounts. Following weaknesses were observed from the answers given by most of the candidates:
- (1) Some candidates were lack with knowledge on proper formats when presenting accounts.
 - (2) Due to not identifying direct and indirect expenses correctly, those expenses have not shown correctly.
 - (3) Though, it was clearly stated that the work-in-process should be valued at Prime cost, without considering it, some candidates have considered it under overheads.
 - (4) Some candidates have not correctly distributed ELECTRICITY AND security expenses among Factory and Office.
 - (5) Most of the candidates have not computed the direct bonus of Rs.500,000/-, which needs to be computed multiplying number of units by Rs.200/-, i.e. $(2,500 \times 200 = \text{Rs.}500,000/-)$. As a result they were unable to show it under direct expenses, instead they have shown it under overheads.
- (B)** It was required to compute the manufacturing cost per unit. Most of the candidates have correctly computed the manufacturing cost per unit, dividing total manufacturing cost by number of units produced. However, they have arrived at incorrect answer, due to not computing the total manufacturing cost correctly.

Question No. 04 – 10 Marks

This question consisted of 2 parts (a) and (b). From part (a), it was required to prepare journal entries to rectify errors. From part (b), it was required to prepare Suspense Account.

Overall, most of the candidates have given correct answers for this question. However, following weaknesses and mistakes were found from the answers:

(A) Preparation of Journal Entries:

- (1) Though, this transaction was correctly recorded in the cash book, some candidates have debited the cash book instead of debiting suspense account.
- (2) Though, it was required to remove the amount debited to Machinery Account, some candidates have credited it to Suspense account.
- (3) Some candidates have debited this to cash book and credited to Capital Account.
- (4) As this transaction was completely omitted from the books of accounts, it should have been completely recorded in the books of accounts. However, there were few candidates who have corrected this through Suspense Account.
- (5) Most of the candidates have correctly debited this to Suspense Account and credited to Rent Income Account.
- (6) Some candidates had no idea as to record a payment in cash to a creditor. They have credited the creditor's account with the amount paid.
- (7) Though, this was a cash sale, some have debited this amount to debtors' account.

(B) Preparation of Suspense Account:

- (1) Some have recorded the opening credit balance of Rs.43,000/- of Suspense Account to the debit side of the same. Some others have not recorded the opening balance of the Suspense Account.
- (2) Suspense Account was not balanced due to recording credit entries to the debit and debit entries to the credit side of the account.

Question No. 05 – 10 Marks

This question consisted of 2 parts (a) and (b).

- (a) This part tested the knowledge of candidates on preparation of Accounting Equation.
- (b) This part tested the knowledge of candidates on preparation of General journal.

Following common weaknesses were observed from the answers given by candidates:

(a) Impact on Accounting Equation:

- (1) Some candidates had no idea as to how each of the given transactions affect the Accounting Equation. ie. How to record when Assets, Liabilities, Income and Expenses increase or decrease. Some have recorded without plus (+) or minus (-) symbols.
- (2) Some have recorded the impact only in one side without considering the double entry system.
- (3) Some have recorded the impact not in the given accounting equation, but in Accounting Equation such as Assets = Liabilities, etc.
- (4) Some have just mentioned "Increase" or "Decrease" without the monetary value of each transaction.

(b) Preparation of General Journal:

Following weaknesses as were observed in recording the given transactions in the General Journal:

- (1) When transferring the motor vehicle valued at Rs.75,000/- to the business, it has been credited to **Samaraweera's** Account, instead of crediting to capital account.
- (2) The machinery purchased from **XY Ltd.**, has been credited to Creditors Account, instead of crediting to **XY Ltd.'s** account.
- (3) Most of the candidates have not stated narrations for journal entries.
- (4) Some candidates have prepared accounts instead of preparing journal entries.
- (5) Debit and credit tags were not stated when writing journal entries.

Part - C

Question No. 06 – 20 Marks

This question consisted of 2 sub **parts (a)** and **(b)**. **Part (a)** required to prepare Statement of Comprehensive Income and **Part (b)** required to prepare Statement of Financial Position.

Common mistakes identified are as follows:

- (a)**
- (1) Some of the balances that should be recorded in the Statement of Financial Position, have been recorded in the Statement of Comprehensive Income.
 - (2) In the question, figures given in the Trial Balance are recorded at Rs.'000, whereas other information are recorded as full figures. Therefore, it was required to convert the full figures to Rs.'000. However, this has not been performed by majority.
 - (3) Some candidates had no idea of the standard format that should be used in preparing the Statement of Comprehensive Income. Therefore, they have prepared it as a trial balance, recording debits and credits separately.

- (4) Some candidates have not computed the depreciation correctly using the given rates at straight-line basis.
- (5) It was required to deduct the value of the land, Rs.3,000,000/- from the land and building balance stated on the trial balance and compute the depreciation on Rs.5,000,000/-. But most of them have computed the depreciation on the full figure of Rs.8,000,000/-.
- (6) It was required to add the Electricity payable amount for the month of March 2019 amounting to Rs.143,000/- to the electricity expenses amount shown in the trial balance, Rs.1,200,000/-. However, some candidates have shown these two figures separately. Some others have shown only the trial balance amount without considering the payable amount.
- (7) Bad debts amounting to Rs.100,000/- has not been correctly deducted from the trade receivables.
- (8) It was required to provide for doubtful debts after deducting the bad debts of Rs.100,000/-. However, this has not been performed by majority and as a result, under provision increased.
- (9) For Rs.900,000/- loan obtained on 01st March 2019 at an annual interest of 12%, interest should be computed only for one month amounting to Rs.9,000/- however, some candidates have computed interest for the whole year amounting to Rs.108,000/-.
- (10) In the question, rates have been paid for the year starting from 01st January 2019 to 31st December 2019 amounting to Rs.180,000/-. Therefore, it was required to consider rates applicable for three months amounting to Rs.45,000/-. However, this has not been correctly performed by some of the candidates.

(b) Statement of Financial Position:

- (1) Some candidates have not prepared the Statement of Financial Position as per the generally accepted format.
- (2) Though it was required to state "As at 31st March 2019", some candidates have stated "For the year ended 31st March 2019".
- (3) Some candidates have not correctly computed the cumulative depreciation and carrying value of Property, Plant and Equipment.

Example:

- (i) Computing depreciation on land and building value lead cumulative depreciation to get incorrect.
 - (ii) Annual depreciation for Motor vehicles and Office equipments have only been recorded as cumulative depreciation.
- (4) Opening inventory has been recorded under current assets instead of closing inventory.

- (5) It was required to record pre-payment of rates applicable for 9 months amounting to Rs.135,000/- under current assets. However, some have shown the entire rates paid amounting to Rs.180,000/-.
- (6) Since, doubtful debt provision of 10% has been computed on the trade receivables before deducting bad debts, some candidates have arrived at an incorrect net trade receivable balance.
- (7) Though, it was required to record only one month's interest amounting to Rs.9,000/- as payables under current liabilities, some have recorded the annual interest of Rs.108,000/-.
- (8) Some of the items that should have been recorded under current liabilities have been recorded under current assets.

Eg :- Accrued electricity, Accrued Interest and Trade Payables.

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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 books, hand books, 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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