

EXAMINER'S REPORT**LEVEL I EXAMINATION - JANUARY 2022****(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 the 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

Elements of the statement of income have been tested. Due to not understanding the question correctly, some candidates had written (1) and (4) as answer instead of (2) which is correct. Most of the candidates had written the correct answer.

Question No. 1.2

Majority was aware about the source document used by a seller on credit sale. Due to lack of correct understanding about source documents, some candidates instead of the correct answer No. (3), No. (2) and No. (4) had been provided. Most of the candidates had written the correct answer.

Question No. 1.3

Inquiry was made for an example of a current asset. Due to the fact that some candidates had no correct understanding of which items should be included under current assets, instead of the correct answer of (3), (2) had been provided. However, majority of the candidates had written the correct answer.

Question No. 1.4

Calculation of the profit for the year ended 31st March 2021 using the profit equation based on the information provided was required. Because, most of the candidates had no correct understanding about the profit equation, instead of the correct answer of No. (4), No. (1) had been provided.

Question No. 1.5

Selecting the correct impact on the accounting equation of a business introducing office equipment worth Rs.300,000/- and Rs.500,000/- in cash was required. Due to lack of correct understanding on the impact of transactions on the accounting equation, some candidates had provided No. (3) instead of the correct answer of No. (2). However, a large number of candidates had written the correct answer. Hence, candidates should understand that both office equipment and cash are assets of the business.

Question No. 1.6

Inquiry was made regarding transaction recorded in the General Journal. Due to the fact that many candidates had no correct understanding about this instead of the correct answer of No. (1), No. (3) and No. (4) had been provided.

Question No. 1.7

Inquiry was made regarding the transaction that affects to increase liabilities. All the candidates had provided the correct answer No. (3).

Question No. 1.8

The accounting concept relating to drawings connected with the payment of a telephone bill of the owner was questioned. Due to lack of sufficient understanding of accounting concepts in most of the candidates, instead of the correct answer of No. (4), No. (3) and No. (1) had been provided.

Question No. 1.9

It was required to select the carrying value (written down) as at 31st March 2021 under the straight-line basis from the information provided. Because, most of the candidates did not have sufficient correct understanding to calculate depreciation on the given percentage under the straight-line method, instead of the correct answer No. (2), other incorrect answers had been provided.

Question No. 1.10

It is necessary to select the correct statement out of the 4 statements given. Because most of the candidates did not have correct understanding of the given statements, instead of the correct answer of No. (2), No. (3) and No. (4) had been provided. Even if the trial balance agreed, errors can exist in the books of accounts. Further, the general ledger is a book of prime entry. Also, bank reconciliation is prepared by the business entity and not by the bank.

Question No **1.11** to **1.15** required candidates to state whether the given statement is “**True**” or “**False**”. Common errors identified are as follows:

Question No. 1.11

As the candidates had correct understanding of the principles of the Code of Ethics, the correct answer “**True**” had been provided.

Question No. 1.12

Because some candidates did not have the correct understanding of the source document used to record a transaction in Purchase Day Book, instead of the correct answer “**False**”, “**True**” had been provided. However, a large number of candidates had provided the correct answer. It is the invoice that is used to record transactions in the Purchase Day Book.

Question No. 1.13

Because of insufficient understanding of the given statement, some candidates had provided “**False**” as the answer instead of the correct answer of “**True**”. However, a large number of candidates had provided the correct answer. Equity is the residual interest in assets after deducting all its liabilities.

Question No. 1.14

Because some candidates had not understood correctly the statement relevant to application of artificial intelligence, instead of the correct answer of “**False**”, “**True**” had been provided. However, the large number of candidates had provided the correct answer.

Question No. 1.15

Every candidates having correctly understood the statement that there is a dual aspect in every business transaction, the correct answer of “**True**” had been provided.

Answers to questions from **1.16** and **1.20** were required to be written in the answer booklet, after working out the answer when necessary.

Question No. 1.16

It was required to state two possible reasons for the difference between the balance in the cash book and the balance in the bank statement. Every candidate had correctly understood the question and had provided the correct answers.

Question No. 1.17

Listing of two accounting outputs of the process of accounting was required. Due to lack of sufficient understanding about accounting outputs, the following incorrect answers had been provided.

- Assets and Liabilities
- Trial Balance
- Cash Control Account
- Assets, Income
- Sales, Purchases
- General Journal

Question No. 1.18

Identification of two disadvantages of computerized accounting was required. A large number of candidates had provided the correct answers.

Question No. 1.19

Defining of term "An Asset" was required. A large number of candidates had provided correct answers. A few candidates had mixed up assets with liabilities.

Question No. 1.20

Identification of the Trade Payables Account was required. As a result of entering debits and credits erroneously and not entering certain transactions, various different values had been provided by candidates instead of the correct Trade Payables Account balance of Rs.1,000,000/- as at 31st March 2021, according to information provided in the question.

SECTION B**Question No. 02** - 10 marks
(Compulsory Question)

Knowledge of candidates on the preparation of Trial Balance after preparation of ledger accounts was tested in this question. Then performance of candidates was at a satisfactory level.

The following weaknesses were observed:

- (1) Some candidates had prepared only the ledger accounts instead of preparation of the Trial Balance.
- (2) Amounts that should be entered in the debit side of the Trial Balance had been entered in the credit side of the Trial Balance.
- (3) Credit sales and credit purchases had not been correctly calculated through Debtor's and Creditor's control accounts.
- (4) Accrued electricity expenses had not been correctly adjusted in the relevant expenses accounts.
- (5) Cash sales, credit sales, cash purchases and credit purchases had been entered as separate items.
- (6) Correctly calculated annual depreciation of motor vehicles had not been entered in the Trial Balance.
- (7) Expenses posted to the petty cash control account and the balance of that account had not been copied to the Trial Balance.
- (8) Depreciation had been correctly calculated and deducted from the cost of the motor vehicle and entered as (1,500 - 375) Rs.1,125/- (thousands).

Question No. 03 - 10 marks
(Compulsory Question)

This question comprised of 2 sub parts **(A)** and **(B)**.

Part (A) required preparation of adjusted cash control account and bank reconciliation statement as at 31st March 2021. **Part (B)** tested candidates knowledge in identification of transactions required in items (1) to (5) of the accounting equation given in the question. The performance of candidates was at a satisfactory level.

(A) (a) The following weaknesses in the preparation of adjusted cash control account according to answers submitted by candidates have been observed:

- (1) Without identifying transactions that should be entered only in the cash book, all transactions had been adjusted in the cash book.
- (2) Transactions that should be recorded to the debit had been recorded to the credit and those that should be recorded to the credit had been recorded to the debit.
- (3) Although the opening balance of the cash book should be recorded to the debit of that account, some candidates had recorded it to the credit of the account.

(b) The following weaknesses were observed from the answers provided by candidates in the preparation of bank reconciliation statement:

- (1) Without identifying the items that should be recorded in the bank reconciliation, adjusting all the items in the bank reconciliation statement.
- (2) Some candidates had started the bank reconciliation from the balance of the adjusted cash book and obtained the balance of the bank statement, while certain others had started the bank reconciliation from the balance of the bank statement and arrived at the balance of the adjusted cash book. In that case, some candidates had proceeded to deduct items that should have been added and to add items which should have been deducted in both instances.

Question No. 04 - 10 marks
(Compulsory Question)

Testing the knowledge and understanding of candidates of the Manufacturing Cost Statement for the year ended 31st March 2021 was aimed at by this question.

Most of the candidates had provided answers at a satisfying level and the following weaknesses were observed by the examiners:

- (1) Answer on the correct format had not formulated and submitted.
- (2) Work-in-Progress had been adjusted to the final cost without adjusting with the primary 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 terms “Raw Material Consumption”, “Primary Cost” and “Total Manufacturing Cost” had not been written against the calculated values.
- (6) Non-identification of direct and indirect expenses correctly.
- (7) 15% profit margin on manufactured cost had not been calculated.

Question No. 05 - 10 marks
(Compulsory Question)

This question consisted of two **parts (a) and (b)**. **Part (a)** required preparation of Journal Entries to correct errors while part (b) required calculation of adjusted / corrected net profit for the year ended 31st March 2021.

Most of the candidates had submitted answers at a satisfactory level, but the following common weaknesses were observed:

- (a)**
- (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) Not recording “Dr.” and “Cr.” against the transaction in the preparation of the Journal Entry.
 - (4) Not identifying the errors that had to be corrected through the Suspense Account.
 - (5) Most of the candidates having not understood correctly the debiting of interest income of Rs.29,000/- as per items (5) to Interest Expenses Account, had submitted the wrong answers.
 - (6) Journal entries had been submitted without correctly understanding the error referred to in item (6). The values of Rs.145,000/- and Rs.157,000/- had been included in the Journal Entry instead of Rs.9,000/- which is the difference of the two values.
- (b)** The following weaknesses were observed with regards to computation of adjusted / corrected net profit for the year ended 31st March 2021:
- (1) In arriving at the adjusted net profit, items that should be added had been deducted and items that should be deducted had been added to the draft profit.
 - (2) It was seen that there was no correct understanding of candidates about transactions that affect to increase and decrease of profit.

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.

Mistakes and shortcomings generally observed are as follows:

(a) Preparation of Statement of Comprehensive Income:

- (1) The correct amount of depreciation relevant for two years had not been calculated and taken into the Statement of Income.
- (2) In the calculation of electricity and advertising expenses relevant for the year, the accrued expenses relating to these two expenses items had not been taken into consideration.
- (3) Instead of annual showroom rent of Rs.600,000/-, the showroom rent paid shown in the Trial Balance of Rs.550,000/- had been taken to the Income Statement.
- (4) The amount of depreciation of Rs.15,000/- for the period of 3 months at 20% per annum on the motor bicycle purchased on 01st January 2021 for Rs.300,000/- had not been correctly calculated and taken to the Income Statement.
- (5) Due to lack of understanding of items that should be included in the Statement of Comprehensive Income, items that should have been included in the Statement of Financial Position had been included in the Statement of Comprehensive Income.
- (6) Rs.800,000/- written off as bad debt during the year had not been recorded.
- (7) 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.
- (8) Depreciation on building had been calculated on the total cost of land and buildings without deducting the cost of land.
- (9) In the Statement of Comprehensive Income, items of the Trial Balance had been shown in thousands and figures of items relating to adjustments in normal figures.
- (10) The Statement of Comprehensive Income had not been presented in the prescribed format.

(b) Preparation of Statement of Financial Position:

- (1) Due to lack of basic understanding about the items that should be included in the Statement of Financial Position, purchases, sales, opening stock, rent income and other expenses had been included in the Statement of Financial Position.
- (2) Electricity incurred and advertising and showroom rent values had not been included in the Statement of Financial Position.
- (3) Rs.800,000/- written-off as bad debt during the year from Trade Receivables had not been correctly deducted.
- (4) Although the motor bicycle purchased on 01st January 2021 for Rs.300,000/- should have been shown under Motor vehicles, it had been shown as a separate item. Some other candidates had not shown this value.
- (5) The depreciation for the year was shown in the Statement of Financial Position instead of the accumulated depreciation.
- (6) Some candidates had not classified the items in the Statement of Financial Position and had shown all the items together.

Example: Non-Current Assets, Current Assets, Equity and Liabilities, Current Liabilities, etc.

- (7) Trade Receivable had been shown under current liabilities while Trade Payables had been shown under current assets.
- (8) Accrued showroom rent had not been correctly calculated and shown in the Statement of Financial Position.

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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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