

Examiner's Report

AA1 EXAMINATION - JULY 2018

(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.

It was clearly mentioned in the question paper to choose the appropriate answer for the questions no **1.1** to **1.8** and write the related number of the selected answer in the answer script. However, some of the candidates have not followed this instruction. They have mentioned the correct answer in the question paper itself and attached it to the answer script. Some other candidates have written the entire answer in answer script instead of indicating the related number of the selected answer. This is a waste of time unnecessarily.

Some other candidates have not mentioned the correct answers for questions number **1.1** to **1.8**, though they have mentioned the answers for question numbers **1.9** to **1.15**. This might be due to not attaching the answers to the answer scripts or providing the answers in the question paper and not attaching it to the answer script. As a result of that candidates have lost marks which would have been obtained easily.

Some of the common errors / weaknesses identified from the answers provided for the subsections are indicated below:

Question No. 1.2

It was noticed that some of the candidates had lower level knowledge on the source documents. The correct answer for this question was answer No.03 Good Received Note (GRN). However, some of the candidates have incorrectly selected the Material Requisition Note (MRN) as the correct answer.

Question No. 1.3

It was revealed that some of the candidates did not have an adequate knowledge on the accounting concepts. Even though the correct answer was entity concept, some of the candidates have selected consistency concept as the correct answer.

Question No. 1.5

As per the answers mentioned it was revealed that the candidates did not have a proper knowledge on the classification of accounts under the traditional method. Most of the candidates failed to identify machinery account as the correct example for a real account.

Question No. 1.6

Some of the candidates have computed depreciation based on the Straight line method and were not able to state the correct answer. This was happened due to lack of knowledge on the diminishing (reducing) balance method and providing incorrect answers by calculating depreciation on the straight line method.

Question No. 1.9

Even though the candidates had some knowledge on the liabilities, some of them were not able to provide the definition precisely and correctly.

Question No. 1.11

Candidates have used several methods to get the correct answer for the question. Even though total assets were amounted to Rs.1,075,000/-, some of the candidates have erroneously calculated the answer as Rs.575,000/- by adding liabilities and the profit for the year and deducting drawings. Candidates should understand that the question was expected to compute the value of total assets.

Question No. 1.12

Some candidates have provided incorrect answers due to lack of knowledge on accounting concepts:

- (a) Even though the correct answer was going concern concept, some candidates have erroneously identified consistency concept as the answer.
- (b) Correct answer was accrual concept. However some of the candidates have identified it as the realization concept.
- (c) Even though the correct answer was consistency concept, some candidates have identified entity concept as the correct answer. Some other candidates have identified going concern concept as the correct answer.

Question No. 1.12

It was expected to write the correct double entry for each of the transactions. However, some of the candidates have provided the ledger accounts as the answer.

SECTION B**Question No. 02** - 10 marks

(A Compulsory Question)

The question was given to test the knowledge on preparation of manufacturing account.

Followings are some of the errors and weaknesses encountered while evaluating the answers:

- (1) It was noticed that some of the candidates did not have proper knowledge on the format to be used on the preparation of manufacturing account.
- (2) Some of the candidates have mentioned direct and indirect expenses interchangeably since they were unable to identify them properly.

- (3) It was mentioned in the question paper that work-in-progress was valued at prime cost. Some of the candidates who have not considered about that fact have mentioned work-in-progress at the end of the manufacturing account under overhead costs instead of mentioning them under prime cost.
- (4) Some candidates have erroneously added closing work in progress to the manufacturing account and deducted the opening work-in-progress.
- (5) Considerable number of candidates has mentioned additional allowance paid to factory workers incorrectly as royalties or patent rights. Even though it was required to mention this amount under prime cost, some of the candidates have mentioned it under overhead costs.
- (6) Even though it is required to mention the salary of the production manager as an indirect cost under overhead costs, some candidates have mentioned it as a direct cost under the prime cost.
- (7) Though it was required to allocate expenses related to the building among factory and office as 80% and 20% respectively, some candidates have not computed this calculation correctly and provided incorrect answers.

Question No. 03 - 10 marks

(A Compulsory Question)

This question was given to test the knowledge on the preparation of the trial balance. Overall performance of the candidates on this question was at a satisfactory level.

Followings errors and weaknesses were identified while evaluating the answers:

- (1) Some candidates who did not have basic knowledge on the trial balance have prepared it as statement of financial position or income statement.
- (2) It was required to find the sales and purchases by preparing trade debtors and trade creditors accounts. Some candidates have mentioned incorrect amounts since they did not have a proper knowledge on the preparation of trade debtors and creditors accounts.
- (3) Accruals for the electricity and wages have not been mentioned correctly since the adjustments were not made properly. Some other accrual expenses have not been presented in the trail balance. Some candidates have not made the adjustments for the relevant expenses, though they have mentioned the accrual expenses in the trail balance.
- (4) Vehicle purchase on cash has been added to the capital erroneously, by some candidates.
- (5) Though it was required to depreciate the vehicle for six months based on the date of purchase, some candidates have depreciated it for the full year.

It was required to prepare the cash book to obtain the closing cash balance. However, some candidates have not prepared it and obtained incorrect answers.

Question No. 04 - 10 marks

(A Compulsory Question)

This question was consisted of two sub sections as **(a)** and **(b)**. Preparation of the journal entries for the correction of errors has been tested in **section (a)** and the calculation of adjusted profit/loss has been tested in **section (b)**.

Followings errors and weaknesses were identified while evaluating the answer scripts:

(a) Preparation of Journal entries:

- (1) It was noticed that some of the candidates did not have basic knowledge on the journal entries used to rectify errors.
- (2) Some of the candidates who have not read and understood the question properly have prepared ledger accounts instead of journal entries.
- (3) Though it was required to provide the narration at the end of each journal entry, some of the candidates have provided only the journal entry.
- (4) Some of the candidates have not identified purchasing of a laptop for Rs.350,000/- [Journal number (4)] as a purchasing of a fixed asset. This has been mentioned incorrectly in the purchasing account.
- (5) Most of the candidates have provided incorrect answers for journal entry (5) on the error correction pertaining to the debiting the rent income to the rent expense account. Some of them have mentioned the entry made to the suspense account as credit instead of debit entry. Some have debited the rent income and rent expenses, though it was required to credit them. Some of the candidates have also made arithmetical errors on preparing journal entries.

(b) Computation of adjusted profit / (loss):

- (1) Many candidates had lower knowledge on this. Some of the candidates have prepared suspense account for this.
- (2) Many candidates were not able to compute the adjusted profit or (loss) correctly since they have incorrectly added the items to the profit as per the draft financial statements which have to be deducted from the profit and vice versa.
- (3) Some of the candidates have not considered about the profit given as per the draft financial statements, they have taken the difference between the income and expenses of the journal entries pertaining to the correction of the errors as adjusted profit.
- (4) Some candidates did not have proper understanding on the format to be used for the computation of adjusted profit or loss.

Question No. 05 - 10 marks

(A Compulsory Question)

This question was consisted of two sub sections as **(a)** and **(b)**. Understanding on the accounting equation was tested in subsection **(a)** and knowledge on the preparation of Purchase Journal (Purchase Day Book) and Returns Outwards Journal (Purchase Returns Day Book) from subsection **(b)**.

Followings are some common mistakes identified based on the answers provided:

(a) Effect to the accounting equation:

- (1) Some of the candidates who did not have basic knowledge on the accounting equation have not presented properly the impact to the accounting equation from the respective transactions. It was revealed that some of the candidates did not have proper understanding on the computation of profit in a credit sales transaction.
- (2) Some candidates have not mentioned related “+” or “-” sign on presenting the values.

(b) Preparation of Purchasing Journal and Returns Outwards Journal:

- (1) It was noticed that some candidates did not have basic knowledge on the applicable format for the preparation of Purchasing Journal and Returns Outwards Journal.
- (2) Some of the candidates have used same format for both Purchasing Journal and Returns Outwards Journal.
- (3) Some of the candidates have not mentioned the total value in the respective journal, though they have mentioned quantity and price per kg. On the other hand some of the candidates have mentioned only the total values and not mentioned the quantity and price per kg.
- (4) Considerable number of candidates has failed to compute the value of returns outwards.

SECTION C

Question No. 06 - 20 marks

(A Compulsory Question)

This question consisted of two subsections as **(a)** and **(b)**. It was tested the knowledge on the preparation of Statement of Comprehensive Income from **section (a)** and the knowledge on the preparation of the Statement of Financial Position from **section (b)**.

Followings are some common mistakes identified based on the answers provided:

(a) Preparation of Statement of Comprehensive Income:

- (1) Some of the candidates have not adjusted for sales commission payable. Some have presented sales commission as an income in the Statement of Comprehensive Income though it has to be presented as an expense. Some candidates have indirectly identified interest on overdraft as an income.

- (2) It was noticed that some of the items to be mentioned in the Statement of Financial Position has been mentioned in the Statement of Comprehensive Income.
- (3) Some of the candidates have omitted the bad debt written off from the Statement of Comprehensive Income, though it has to be mentioned as an expense.
- (4) In arriving the general provision for doubtful debts, it was required to apply 10% to the trade receivable balance adjusted for bad debts amounted to Rs.30,000/-. Some of the candidates have ignored that fact and applied the percentage to the total trade receivable balance. Most of the candidates have not identified this as a doubtful debt under provision.
- (5) Some of the candidates have mentioned the accumulated depreciation appeared in the trial balance as the deprecation for the period.
- (6) Some candidates have not computed the showroom building rent paid in advance correctly. They have mentioned the entire rent paid as an expense.
- (7) Figures mentioned in the trial balance have been presented in '000's and the figures mentioned in the additional information have been presented as absolute figures. Some of the candidates have not considered about this and adjusted absolute figures in the additional information as it is to the amounts indicated in the trial balance.
- (8) Some of the candidates have applied the format used to present the trial balance (by indicating columns for debits and credits) on presenting Statement of Comprehensive Income.

(b) Preparation of Statement of Financial Position:

- (1) It was noticed that some of the items to be mentioned in the Statement of Comprehensive Income has been mentioned in the Statement of Financial Position.
- (2) Considerable number of candidates has not presented showroom building rent paid in advance and sales commission payable properly in the Statement of Financial Position.
- (3) It was revealed that the bad debt written off and provision for doubtful debts have not been properly adjusted.
- (4) Some candidates failed to compute the accumulated depreciation and the carrying value of the property, plant and equipment correctly.

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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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