

## Examiner's Report

AA1 EXAMINATION - JULY 2019

### (AA11) FINANCIAL ACCOUNTING BASICS

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#### SECTION A

Objective Test Questions (OTQs)

**Question No. 01** - 40 marks

(A Compulsory Question)

This question was consisted with 15 sub questions.

Candidates were instructed to write the correct number of answer for question 1.1 to 1.8 in the answer booklet, whereas the correct answer was to be written with regard to question 1.9 to 1.15 in the answer booklet with the question number.

Accordingly following are the errors / weaknesses generally observed from the answers given to the sub-questions:

**Question No. 1.1**

Some candidates had not understood the question properly had given other answers instead of the correct answer (03).

**Question No. 1.2**

Some candidates who did not have sufficient understanding about a debit note had given answer No. 01 as the correct answer instead of 03.

**Question No. 1.3**

Because some candidates did not have adequate knowledge on accounting concepts. Therefore, entity concept had been stated instead of the correct answer of going concern concept.

**Question No. 1.4**

Due to lack of sufficient knowledge on the accounting equation, answer (01) had been given by candidates instead of the correct answer (02).

**Question No. 1.5**

Because of lack of understanding on the effect to the accounting equation due to additional capital invested by the owner, wrong answers had been given by some candidates instead of the correct answer of No.03.

**Question No. 1.6**

Due to inability of some candidates to identify separately capital and recruitment expenditure answers No. (01) and No. (04) had been given, instead of the correct answer No. (02).

**Question No. 1.7**

Because of lack of proper understanding of the candidates about a transaction file in a computerized accounting system answer 04 had been given instead of the correct answer No. 01.

**Question No. 1.8**

Due to lack of adequate knowledge of most candidates about the traditional classification of accounts answers 03 and 02 had been written as correct answer instead of the correct answer 04.

**Question No. 1.9**

Because candidates had no knowledge about the types of transactions recorded in the General Journal, they had given examples of types of transactions namely, depreciation for the year, bad debts, written off and provision for doubtful debts.

**Question No. 1.10**

This question tested the knowledge of candidates on accounting concepts. Due to lack of proper understanding of accounting concepts correct answers relating to each statement had not been given.

- (a) Although the correct answer is consistency concepts candidates had stated going concern concept.
- (b) Though financial measurement concept is the correct answer, realised and accrual concept had been stated by candidates.
- (c) Although the correct answer is entity concept, candidates had stated consistency concept.

**Question No. 1.11**

All candidates had written correct answers to this question relating to stakeholders.

**Question No. 1.12**

Most of the candidates had correctly calculated the total liability of Rs.375,000/- as at 31st March 2019 based on the information given. But some candidates did not appear to have understood the information given and deducted values that should have been added, and as a result were not able to give the correct answer.

**Question No. 1.13**

Most candidates had calculated the depreciation on machinery for the year ended 31<sup>st</sup> March 2019 correctly as Rs.175,000/-. But some candidates had ignored the cost of installation of machinery and calculated the depreciation for the year as Rs.150,000/- based on the cost of machinery as at 01<sup>st</sup> April 2018, which was Rs.750,000/-.

**Question No. 1.14**

Because most of the candidates did not possess sufficient knowledge on common accounting software packages, it had not been possible to write correct answers.

**Question No. 1.15**

Candidates did not seem to have understood correctly the relevant assets, liabilities, increase or decrease of income and expenditure and given the appropriate double entries. Instances were noticed that ledger accounts were prepared instead of double entries.

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

(A Compulsory Question)

This question has tested the knowledge of candidates on preparation of Trial Balance. Considered overall candidates had provided answers at a satisfactory level. However, the following shortcomings were observed in the answers submitted:

- (1) Cash sales and credit sales had been shown in the trial balance as two items.
- (2) Although accrued interest relevant to the bank loan obtained on 01<sup>st</sup> March 2019 had been correctly calculated for one month, it had not been shown in the trial balance.
- (3) Settlement of electricity expenses by cash and accrued electricity expense had been shown in the trial balance separately.
- (4) Depreciation on motor vehicles had not been calculated under the straight-line method and shown correctly in the trial balance.
- (5) In arriving at credit sales and credit purchases by preparation of debtors and creditors accounts, due to non-recording of closing balances and payments by cash correctly in the debtors and creditors accounts, incorrect values of credit purchases and credit sales had been incorrectly stated in the trial balance.
- (6) Balances that should be debited had been shown in the credit side of the trial balance, whereas balances that should be credited had been shown in the debit side of the trial balance.
- (7) Although the correct cash balance as at 31<sup>st</sup> March 2019 should have been arrived at by preparation of the cash book, candidates had not done so, and incorrect values had been shown as cash balance.

**Question No. 03** - 10 marks

(A Compulsory Question)

This question has tested the knowledge of candidates on the preparation of manufacturing account. the following shortcomings had been observed in the answers written by candidates:

- (1) Some candidates did not have the knowledge about the prescribed format for submission of this account.
- (2) Due to non-recognition of direct and indirect expenses. Some candidates had mixed-up these expenses.
- (3) Although it had clearly been stated in the question that work-in-progress should be valued at prime cost, some candidates disregarding that instruction had shown that under overhead cost at the end of manufacturing account without showing the work-in-progress as prime cost.
- (4) Some candidates had not correctly allocated the electricity and water expenses between the factory and the office according to the percentages given.
- (5) The total amount of depreciation of Rs.1,250,000/- had been allocated as factory overheads, without calculating 80% of depreciation of buildings as factory overheads in accordance with the floor area occupied.
- (6) The total cost that should have been transferred to the trading account with a profit margin of 10% on cost manufactured goods had not been correctly adjusted.

**Question No. 04** - 10 marks

(A Compulsory Question)

This question consisted of 3 sub **parts (a), (b) and (c)**. **Part (a)** related to preparation of Journal Entries to ratify errors, **part (b)** regarding preparation of suspense account and **part (c)** about calculation of adjusted net profit after correction of errors. The knowledge and understanding of candidates in those aspects have been tested. The following shortcomings / mistakes are set out below:

**(a) Preparation of Journal Entries for correction of errors:**

- (1) Some candidates had not been able to clearly identify the errors (1) to (5) identified through the suspense account.
- (2) Candidates did not have sufficient understanding to identify the errors correctly in the given transactions and prepare the double entries.
- (3) It was necessary to correctly identify the erroneous debit of interest income into interest expense which was in Note 3, it should have been rectify through the suspense account to correct both interest income and interest expense accounts. However, some candidates had not given the correct answers due to lack of proper knowledge about this matter.

**(b) Preparation of Suspense Account:**

- (1) The opening credit balance of Rs.114,900/- in the suspense account had been recorded to the debit of the suspense account by some candidates.
- (2) Some candidates had entered entries relevant to the debit side of the suspense account in the credit side and those relevant to the credit side in the debit side.
- (3) Regarding item (3) in the question, due to incorrect entries of interest income and interest expense those entries had been incorrectly made in the suspense account as well.

**(c) Adjusted net profit after correcting the errors:**

- (1) Because candidates did not have a proper understanding of transactions in **part (a)** affecting increase of net profit they had not been able to give the correct answers of Rs.401,900/- as adjusted net profit.
- (2) Some candidates had deducted the items relevant to increase the net profit and added items relevant to decrease the net profit.

**Question No. 05** - 10 marks

(A Compulsory Question)

This question consisted of 2 parts **A** and **B**.

**Part A** tested the knowledge on the effect of each transaction on the accounting equation, while **part B** tested the knowledge on the preparation of Sales Journal.

Common weaknesses of candidates according to answers submitted by them are as follows:

**(A) Effects on the Accounting Equation:**

- (1) Some candidates did not have correct understanding about the effect of each transaction that is decreasing / increasing the value of assets, liabilities, income or expenditure in the accounting equation. There were many instances where relevant values were recorded without the plus and minus effect.
- (2) Some candidates had recorded the effect of the transaction on the accounting equation either on the asset side or the liabilities side in the form of a one side entry as the answer to this question.
- (3) The effect of the transactions given had been recorded not in accordance with the accounting equation given.
- (4) Instead of recording the financial value of transactions given in the accounting equation, "Increase / Decrease" had been written in words.

**(B) Preparation of Sales Journal:**

- (1) It could be seen that certain candidates had no broad understanding about the basic format of the Daily Sales Book.
- (2) There were instances where only the calculation had been provided as the answer without the prescribed format.
- (3) Although deduction of trade discount should be clearly stated, majority of the candidates had recorded only the net value after deducting the trade discount in the sales journal.

**SECTION C**

**Question No. 06** - 20 marks

(A Compulsory Question)

This question comprised of 2 parts, **Part (a)** and **(b)**. **Part (a)** tested the knowledge on preparation of comprehensive Income Statement while **Part (b)** tested the knowledge on preparation of Statement of Financial Position.

The following weaknesses were observed in the process of evaluation of answer scripts:

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

- (1) Certain notes that should have been included in the Statement of Financial Position had been included in the Comprehensive Income Statement.
- (2) The values were shown in thousands in the Trial Balance while notes on adjustments contained normal figures and therefore those too had to be converted to thousands. Some candidates had not taken that into consideration.
- (3) Some candidates who had no idea of the accepted format of presentation of Statement of Comprehensive Income and it had been prepared in the form of the trial balance format with debit and credit entries.
- (4) Some candidates had not added the electricity expense of Rs.148,000/- payable for the month of March 2019 to the electricity expenses.
- (5) Certain candidates had not calculated relevant depreciations correctly at the given percentages on the straight-line method.
- (6) Only a few candidates had correctly calculated and accounted for under-provision of Rs.212,000/- as doubtful debts having calculated 10% of the trade payables as at 31<sup>st</sup> March 2019 for doubtful debt and having adjusted with the provision for doubtful debts as on 01<sup>st</sup> April 2018.
- (7) Rs.75,000/- being payment for insurance applicable for 3 months (01<sup>st</sup> January 2019 to 31<sup>st</sup> March 2019). The relevant amount due for the accounting period out of the payment for 12 months, 01<sup>st</sup> January 2019 to 31<sup>st</sup> December 2019 had not been correctly calculated and recorded, instead of that the total value of insurance payment of Rs.300,000/- had been recorded.

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

- (1) Some candidates had not prepared the Statement of Financial Position in the prescribed format.
- (2) Although the Statement of Financial Position should be stated as at 31<sup>st</sup> March 2019, some candidates had stated for the year ending 31<sup>st</sup> March 2019.
- (3) Some candidates had not correctly calculated the Accumulated Depreciation of Property, Plant and Equipment, and their carrying value.
- (4) Although the private van of **Mahil** which was transferred to the business should have been added to the vehicle account, candidates had shown those as two items.
- (5) 10% of trade debtors as at 31<sup>st</sup> March 2019 had not been correctly calculated as doubtful debts and some candidates had recorded as provision for doubtful debts on the net value after deducting the amount of trade debtors.
- (6) Although Rs.1,800,000/- the value of **Mahil's** private van transferred to the business on 31<sup>st</sup> March 2019 should be recorded as additional capital. However, candidates had added that to the original capital of Rs.5,600,000/- and shown the value of Rs.7,400,000/-.
- (7) Some candidates had not correctly shown pre-payments and accrued expenses under current assets and current liabilities.
- (8) Opening stock had been shown as current asset instead of the closing stock.

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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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