

EXAMINER'S REPORT
AA2 EXAMINATION - JULY 2019
(AA21) ADVANCED FINANCIAL ACCOUNTING

SECTION A

Objective Test Questions (OTQs)

(Total 20 marks)

Question 01

This is a compulsory question for 20 marks. The knowledge has been tested covering the Advanced Financial Accounting syllabus. A few candidates only earned full marks.

- (1.1) Tested students' knowledge on how to calculate the Net Realizable Value of a stock and most of the candidates answered correctly for this question. Some candidates had not deducted sales commissions incurred on selling of obsolete stock.
- (1.2) Question tested the knowledge on LKAS-02 and majority of the candidates answered correctly.
- (1.3) Question tested Section 24 of the Partnership Ordinance 1890, and most of the candidates answered correctly.
- (1.4) Question tested how to calculate depreciation on the straight-line basis and carrying value of Property, Plant and Equipment. Candidates' answers were satisfactory but few candidates had not deducted the residual value given in the question.
- (1.5) Question tested the criteria to be satisfied to recognize a provision in the Financial Statements and most of the candidates could not earn the total marks allocated.
- (1.6) Question tested how to calculate the sales for the particular year based on the information given. Some candidates had given wrong answers due to not understanding the information given properly. Though question has clearly given gross profit as 20% of sales, some have considered it as from cost of sales.
- (1.7) Question tested how to calculate the sacrificing ratio of a Partnership Business and calculation of the sacrificing ratio had not been done properly by some candidates. Further, some candidates had answered the sacrificing ratio without showing the workings.
- (1.8) Question was tested on Input / Output VAT calculation and this was a practical question. The practical knowledge of students was very poor and some candidates had not entered the entries in the correct side of the VAT control account. Cash purchase was given inclusive of VAT. But majority did not consider.

Overall performance for this question was at a satisfactory level.

SECTION B

Five (05) compulsory questions
(Total 25 marks)

Question 02

This question tested on Creditors' Control Account and only a very few candidates answered the question correctly. It was noticed that some candidates have added the entries instead of deduction in the reconciliations. Even though the discount received had been entered in the control account, some candidates had again entered in the control account and few candidates had entered the discount received as a credit entry. Candidates had not understood what were the entries to be adjusted in the control account.

Overall performance for this question was not at a satisfactory level.

Question 03

This question tested the knowledge on preparation of Profit or Loss Appropriation Account of a partnership business and some candidates had shown the drawings in the appropriation account due to lack of knowledge of the theoretical aspect. Further, a few candidates had prepared the partners' current account which was not asked for in the question.

Overall performance for this question was at a satisfactory level.

Question 04

This question tested the knowledge on Capital Expenditure and how to capitalize the costs incurred. Most of the candidates had not capitalized the cost of sample product for testing the machinery amounting to Rs.10,000/-. Other items have been considered as capital expenditure by the majority.

Overall performance for this question was at a satisfactory level.

Question 05

Knowledge on bank reconciliation and cash control account was tested. Most of the candidates had not identified the entries related to cash control account correctly. Some candidates had incorrectly calculated the actual bank balance that appeared in the cash control account before making the adjustments given. Correct amount of cheque No. 150162 had been considered in the cash book though it was mentioned incorrectly in the bank reconciliation. That has not been understood by the majority.

Overall performance for this question was not satisfactory.

Question 06

This question tested the knowledge on membership subscription account whereas some candidates had failed to calculate the correct membership subscription for the year which is to be transferred to the Income Statement. Further 3 years' membership subscription of a member should be considered as bad debt. That had not been considered by some candidates.

Some candidates had made incorrect entries in the membership subscription account such as membership subscription in arrears as a credit entry.

Overall performance for this question was at a satisfactory level.

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

This question tested the knowledge on preparation of Statement of Financial Position of a business entity. There were few candidates who had not recorded the transferring entries of Owner's Personal van to the business properly. Further, there were few candidates who had not made the allowance for trade receivables after deducting the bankrupt debtors' balance of Rs.75,000/- from the balance of trade receivable at the year end. Some had not understood that those adjustments should be deducted from the net profit given.

Overall performance for this question was at a satisfactory level.

Question 08

This question tested the knowledge on preparation of Income and Expenditure Account of a Non-Profit Organization.

Most of the candidates had not calculated the membership fees relevant for the year and some candidates had taken all receipts and payments shown in the receipts and payments account to the Income and Expenditure account. Some have calculated depreciation on carrying value of building as at 31st January 2018 instead of cost. Opening and closing balances of arrears of membership subscription had not been considered correctly by few candidates.

Overall performance for this question was at a satisfactory level.

Question 09

This question tested the basic knowledge about partnership businesses and it was required to prepare Partners' Capital Accounts and Current Accounts.

It was noticed that very few candidates had not followed the instructions given in the question and they had adjusted the goodwill through the Current Account although clear Instructions had been given to adjust the goodwill through the Capital Account.

As per the question, **Ranil** had decided to retire from the business and therefore the full payable amount has to be transferred to a Loan Account through the Capital Account after his retirement. However, instructions had not been followed by some candidates.

Some had considered **Sunil's** monthly salary of Rs.30,000/- as annual salary.

Overall performance for this question was at an average level.

SECTION D

A compulsory question

(25 marks)

Question 10

It was expected to prepare Comprehensive Income Statement and Statement of Financial Position for the use of the Management of a Private Limited Company.

Some common mistakes observed were as follows.

- (1) Debenture interest payable for the period had not been calculated correctly by some candidates.
- (2) Income Tax Adjustment had not been shown by majority of the candidates in their workings and most of them had not calculated correct income tax amount for the year concerned.
- (3) Income Tax for the year had been shown under the heading of Finance Expenses by some candidates.
- (4) Detailed workings for the Administration Expenses and Distribution Expenses had not been attached by some students and therefore, they failed to earn some marks.
- (5) Even though depreciation on assets had been calculated in the working sheet by some candidates, that had not been recorded in the correct places of the Financial Statements.
- (6) Accruals and prepayments had not been shown properly in the Financial Statements by some candidates.
- (7) Generally accepted formats for Income Statement and the Statement of Financial Position had not been followed by some candidates.
- (8) Some candidates had shown some figures in thousands and some figures have been taken without rounding off to thousands. Therefore, some candidates had failed to earn marks due to the inaccuracy of the recorded amounts.

Overall performance for this question was at a satisfactory level.

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General points to be considered to improve the performance of candidates:

- (1)** Study the full content of the syllabus thoroughly and improve the knowledge of each unit with a good understanding of expected knowledge level of each unit.
- (2)** Read the question several times and show the workings clearly for all the calculations.
- (3)** State clearly assumptions made, if any.
- (4)** Legible hand writing and correct numbering of answers are important. It is a must to recheck the question numbers before handing over the answer script.
- (5)** Follow the instructions given in the question paper correctly.
- (6)** Practising Past papers and suggested answers will be useful to improve the performance since same patterns and facts could be tested again and it is beneficial at all times.
- (7)** Study accounting standards relevant for this level. Refer the Study Text and magazines for the subject specific matters.
- (8)** Time management is very important. Time to be spent for each question could be estimated by looking at the marks allocated.
- (9)** Face the examination with a good preparation and with the utmost hope of passing the examination.

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