

EXAMINER'S REPORT
LEVEL I EXAMINATION - JULY 2022
(101) FINANCIAL ACCOUNTING

SECTION A

Question No. 01 - 40 marks
(Compulsory Question)

Question No. 1.1 to 1.10, it was required to select the most correct answer out of the choices given and from question No. 1.11 to 1.15, it was required to state "True" or "False" for the given statements and from question No. 1.16 to 1.20, it was required to state the answer with the question number in the answer booklet provided.

The following are some of the common errors / weaknesses in the answers given by the candidates for each sub section:

Question No. 1.1

The qualitative characteristic the Financial Information was tested. Due to misunderstanding of this question, some candidates had selected No. 1 and 4 instead of the correct answer No. 2. Most of the candidates had provided the correct answer No.2.

Question No. 1.2

Question was "*which is not a Prime Entry Book*". Due to lack of knowledge about the prime entry books, some candidates had selected General ledger instead of Cash Book. However, most of the candidates who have answered this question have selected the correct answer

Question No. 1.3

It was asked the correct process of financial accounting. All Applicants had selected No. 3 as the correct answer.

Question No. 1.4

This question was tested the knowledge of bank reconciliation. Some candidates did not have an accurate understanding of the basic information to be included in a bank reconciliation statement, so the answer No. 2 and 3 had selected instead of the correct answer No. 1. But correct answer was selected by most of candidates

Question No. 1.5

It was tested the double entry of obtaining a bank loan. Some candidates did not have a sound understanding about the increase or decrease of the asset or liability. So the answer No. 1 had selected instead of answer No. 3. But, correct answer was selected by most of candidates. There were a few candidates who thought that bank loan account should be debited when obtained a bank loan.

Question No. 1.6

It was required to identify the correct impact to the accounting equation when owner has invested Rs.1,000,000/- in cash to his sole proprietorship business as the additional capital. All the candidates were selected correct answer No. 02 and identified correct impact the increase of asset and capital.

Question No. 1.7

It was inquired on the correct source document used by the seller for return of goods purchased by a buyer on credit terms. Most of candidates did not have an adequate understanding of correct source document, so the answer No. 3 had been selected instead of answer No. 4.

Question No. 1.8

It was instructed to calculate the value of total assets based on the given information. Due to the lack of knowledge about the determination of the value of the total assets, answer No. 01 and 04 had selected instead of correct answer No. 3. It was required to add profit for the year and deduct the drawings then add the liabilities to the capital.

Question No. 1.9

It was inquired about the *“Which one of the transaction affects to decrease in assets”*. Due to the lack of knowledge about the correct double entry to decrease in assets, answer No. 01 had selected instead of answer No. 02. However, correct answer was selected by most of candidates

Question No. 1.10

It was tested the correct accounting concept relating to the given statement. Some candidates did not have an accurate understanding about the accounting concept, due to that answer No. 3 and 4 had selected instead of answer No. 1. Correct answer was selected by most of candidates. The financial statements are prepared on the assumption that an entity will continue in operation for the foreseeable future on the concept of Going Concern.

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

Due to insufficient knowledge about the transactions which should be recorded in the General Ledger, some candidates had stated **“False”** instead of the correct answer **“True”**. However, correct answer was selected by most of candidates

Question No. 1.12

It will record all the transactions and events measured in money of a business. Due to lack of understanding about the given statement, some candidates had stated **“True”** instead of the correct answer **“False”**. However, correct answer was selected by most of candidates.

Question No. 1.13

Due to lack of understand about component of the set of financial statements, some candidates had stated “True” instead of the correct answer “False”. However, correct answer was selected by most of candidates

Question No. 1.14

It is an example for prudence accounting concept, Valuing inventory at lower of cost or Net Realizable Value (NRV). Due to lack of understand about the given statement, some candidates had stated “False” instead of the correct answer “True”. However, correct answer was selected by most of candidates

Question No. 1.15

Due to lack of understand about the given statement, some candidates had stated “True” instead of the correct answer “False”. However, most of candidates did not identified as Equity as an element directly related to the statement of income.

It was required to state the answers for questions from **1.16** to **1.20** in the answer booklet.

Question No. 1.16

It was inquired about two source documents used in business entity. Due to insufficient knowledge about the source documents, following wrong answers were presented by candidates.

Statement of Financial Position – Journal of Cash receipts

Journal of Purchase/Sales – General Ledger

Question No. 1.17

It was tested on two reasons why business ethics are important. Due to insufficient knowledge about this, most of candidates had not provided answeres.

Question No. 1.18

It was required to define the term “An Expense”. Most of candidates did not provide the complete definition. The submitted answers were also incomplete. Correct definition was given by few candidates.

Question No. 1.19

It was inquired about two examples for general accounting software. Correct answer was given by most of candidates and few not provide the correct answer.

Question No. 1.20

It was needed to calculate the depreciation charge for the year ended 31st March 2022 using the diminishing balance method. Due to the various calculation errors, correct answer of Rs.128,000/- was not provided.

SECTION B

Question No. 02 - 10 marks
(Compulsory Question)

This question consists of 2 sub parts **(A)** and **(B)**. Candidate's knowledge on accounting equation been tested from **part A** and preparation of Bank reconciliation as at 31st March 2022 by using adjusted Cash Control Account from **part B**. The candidates performance was at a satisfactory level.

Part –A

Most possible transactions related to the Accounting equation has been identified by most of candidates accurately. But some candidates did not properly identify the transaction related to the No. 01 equation as the Investing cash to the Business. Furthermore, it was recognized to transaction related the No. 04 equation as only Credit sales. That should be corrected as the items that have a cost of Rs.65,000 was sold at Rs.80,000/- on credit terms.

Part-B

- (a)** The following weaknesses were observed from answers provided by the candidates when preparing the adjusted cash control account:
- (1) All the transactions were adjusted in cash book without identifying the transactions that should only be recorded in Cash book.
 - (2) Transactions that should credit to the account had been debited to the account and transactions that should debit to the account had been credited to the account.
 - (3) Even though the opening Balance of the cash control account needs to debit to the account it had be credited by some candidates.
 - (4) Opening balance of the cash book had not taken to the cash book.
 - (5) Closing Balance of the Cash book had not been properly balanced and not taken the closing balance.
- (b)** The following weaknesses were observed from answers given by the candidates when preparing the bank reconciliation:
- (1) All the transactions were adjusted in bank reconciliation without identifying the transactions those should only be included in the bank reconciliation.
 - (2) Some candidates had started the bank reconciliation from the adjusted cash book balance 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 both these instances, some candidates had proceeded to deduct items that should have been added and to add items which should have been deducted.

Question No. 03 - 10 marks

(Compulsory Question)

This question aimed to test the candidate's knowledge and understanding of the Manufacturing Cost Statement for the year ended 31st March 2022.

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) Opening Raw Materials & Closing Raw materials were identified incorrectly.
- (6) Rs.250,000/- incentive amount entitled by the factory workers had not adjusted under direct expenses. Some candidates had treated those as overhead expenses.
- (7) 20% profit margin on manufactured cost had not been calculated.
- (8) The terms "Raw Material Consumption", "Primary Cost" and "Total Manufacturing Cost" had not been written against the calculated values.

Question No. 04 - 10 marks

(Compulsory Question)

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

The following weaknesses were observed:

- (1) Some candidates had prepared only the ledger accounts instead of preparing the Trial Balance.
- (2) Amounts that should be recorded in the debit side of the Trial Balance had been recorded in the credit side of the Trial Balance and vice versa.
- (3) Credit sales and credit purchases had not been correctly calculated through Debtor's and Creditor's control accounts.
- (4) Accrued electricity expenses and water bill expenses had not been correctly adjusted in the relevant expense accounts.
- (5) Cash sales, credit sales, cash purchases and credit purchases had been entered as separate items
- (6) Depreciation had not been correctly calculated for the machinery purchased on 01st October 2021 at the rate of 20% per annum at cost on straight-line basis.
- (7) Depreciation that had been calculated for the machineries has deducted from the value of the machineries and stated the net value in trail balance.

Question No. 05 - 10 marks
(Compulsory Question)

This question consisted of 2 **parts (a)** and **(b)**. From **part (a)** it was required to prepare Journal Entries to rectify errors and from **part (b)**, it was required to prepare Suspense Account. Most of the candidates have attempted well.

Following weaknesses and errors had also been noticed:

(a) Preparation of General Journal:

- (1) Some have prepared 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) When recording the journal entry, the status of "Dr." and "Cr." has not been mentioned as against the transaction.
- (4) Not identifying the errors that had to be corrected through the Suspense Account
- (5) Most of the candidates have not correctly understood the crediting of overdraft interest expense of Rs.21,500/- as per item (5) to Interest Income Account, had submitted the wrong answers.

(b) The following weaknesses were observed with regard to the computation of adjusted / corrected net profit for the year ended 31st March 2022:

- (1) Opening credit balance in the suspense account has been recorded to debit side of that account and opening credit balance in the suspense account had not been recorded.
- (2) Entries that should have been debited to Suspense Account have been credited.

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 for the year had not been calculated and taken in to the income statement.
- (2) Accrued expenses related to electricity and pre-paid expense related to office rent expense were not taken in to account in calculating the for the year expenses.

- (3) Due to lack of understanding of the items that should have been shown in the Statement of comprehensive income, some items which need to include in the Statement of Financial Position have shown in the Statement of Comprehensive Income.
- (4) Rs.200,000/- written off as bad debt during the year had not been recoded.
- (5) In order to calculate the gross profit, some candidates had deducted the opening stock of the year and added the closing stock of the year.
- (6) In the Statement of Comprehensive Income, items included in the Trial Balance had been shown in thousands and figures relevant to some adjustments have shown in normal figures.
- (7) The amount of depreciation at 25% per annum on the motor Lorry transferred to the business on 01st April 2021 for Rs.1,000,000/- had not been correctly calculated and not taken to the Income Statement.
- (8) The Statement of Comprehensive Income had not been presented in the prescribed format.
- (9) It was not mentioned the "Statement of Comprehensive Income" for the year ended 31st March 2022 with the name of the business.

(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) Amount of accrued electricity and Pre-Paid Office Rent had not included in the Statement of Financial Position as Current liabilities and Current Assets.
- (3) Rs.200,000/- bad debts for the year had not correctly written off from trade receivables
- (4) the motor lorry transferred to the business on 01st April 2021 for Rs.1,000,000/- had not been included under motor vehicles in the Statement of Financial Position
- (5) The depreciation charge 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) Pre-paid office rent for the month of April and May 2022 had not been correctly calculated and shown in the Statement of Financial Position as current assets.

- - -

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.

- * * * -