

## Examiner's Report

Final Examination – July 2011

### (60) Advanced Financial Accounting

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The following common mistakes, deficiencies were identified during the marking process. The unsuccessful candidates to be successful in future examinations should address the following weaknesses carefully.

**Question No. 01** - (Marks Allotted 30)

**Objective:**

*Preparation of Financial Statement of a company for the purpose of publication.*

*Tested the knowledge of SLAS 03 and calculations of disposal of fixed assets, Cost of sales, Depreciations, investment valuation and dividend, accruals, pre -payments etc.*

Most of the students attempted the question and was able to score satisfactory level of marks.

The following weaknesses were generally observed:

**A. Income Statement**

- (1) Investment income of Rs.1.1 million was not recognized as other income in the Income Statement.
- (2) Loss on disposal of motor vehicle has not been correctly calculated due to omission of insurance claim due and undercharging depreciation up to the date of disposal.
- (3) Advance payment made on staff medical insurance (Rs.800,000/-) and office equipment maintenances (Rs.18,000/-) were not recognized as prepayment in the balance sheet. Administration expenses, Audit fees, Telephone, electricity and water bills paid after the balance sheet date were not accounted as administration expenses. Some candidates still confused about the accrual concept where they haven't included the accrual amount to administration expenses.
- (4) Most of the candidates not calculated correctly the provision of bad debts.
- (5) Depreciation: Most of the candidates not correctly ascertained the motor vehicle depreciation and machinery depreciation amount because of the erroneous treatment of additions and disposal amounts .and overstate the number of months of each asset
- (6) Few candidates were unable to account correct for Income Tax charge for the year.

**B. Balance Sheet**

- (1) Redemption of debentures was not accounted correctly. Premium on redemption of Rs. 240 000/- has not been recognized correctly.
- (2) Erroneous provisions of depreciation lead to inaccurate PPE value. Some candidates provided depreciation on land and provided full year depreciation for computers purchased on 31<sup>st</sup> January 2011.
- (3) Depreciation provision for disposed motor vehicle was overstated by one month. Most of the candidates calculated depreciation for twelve (12) months instead of eleven (11) months. Only few candidates were able to recognize insurance claim of Rs.400,000/- in the vehicle disposal account.

- (4) There were few mistakes in provision for trade receivables of 3%.
- (5) Few candidates still not understand basic principal of accrual basis and cash basis accounting.
- (6) Many candidates were unable to classify the investments under non- current assets.
- (7) Preference dividend payable amount has not been recognized correctly. Some candidates deducted the preference dividend payables from the value of preference shares. (Rs.615 000/-)
- (8) Stated capital – Most of the candidates had not taken dividends paid on o/s as a reduction of retained earnings. The Board of directors recommendation of payment of Rs.2/- ordinary shares was not recognized in notes to the accounts.
- (9) We still found that some students unable to present the correct format of the Income Statement and Balance Sheet.

### **C. SLAS 10 Definitions**

1. Some candidates defined material as input in the production process.
2. Very poor attempt on this part

**Generally:** Very poor knowledge in Accounting Standards. Students are advised to consider the marks allocation for each question and allocate their exam time accordingly. Most of the candidates lost their valuable time because they have written unnecessary notes, journal entries, T- Accounts etc.

### **Question No. 02** - (Marks Allotted 15)

*Objective is to test the following areas;*

- a) Three methods available for accounting for partners life insurance*
- b) Appropriation account of the partnership*
- c) Partners current and capital accounts*
- d) Realization account*
- e) Opening balance sheet of the new company*

On average candidates were able to get satisfactory level of marks for this question.

Common mistakes were:

- (1) Most of the candidates were unable to understand the three methods of accounting for partners life insurance
- (2) Majority were unable to calculate correct realization profit due to various erroneous entries.
- (3) Realization value of assets were credited to realization account and debited to cash account. Cash amount also debited to realization account along with other assets.
- (4) Some candidates treated Company share capital as partners share capital.
- (5) Few candidates were able to recognize the goodwill on conversion.
- (6) Purchase consideration has been debited to cash account and credited to capital account
- (7) Some candidates prepared unnecessary accounts such as partnership conversion, partnership dissolution account etc.

**Generally:** Students are advised to read the question more carefully and workout the required calculations only.

**Question No. 03** - (Marks Allotted 17)

*Objective is to test the following areas;*

- a)** *Preparation of basic consolidated Balance Sheet with the following:*

*Adjustments:*

*Provision for unrealized profit for stock*

*Sale of land*

*Elimination of intercompany debts*

- b)** *Definitions of in accordance with SLAS 26*

Most of the candidates were able to score satisfactory level of marks for this question.

Reasons for poor answers;

- (1) Most of the candidates added figures line by line without doing any adjustments
- (2) Calculations relevant to cost of capital and minority interest were not taken correctly hence the goodwill calculation arrived was wrong.
- (3) Pre-acquisition general reserve and retained earnings were not recognized correctly
- (4) Wrong calculations of unrealized profits.
- (5) Definitions of cost method and separate financial statements were not explained in accordance with SLAS 26

**Question No. 04** - (Marks Allotted 10)

*Objective is to test the following areas;*

- a)** *List of the role and powers of COPA.*

- b)** *Purpose of government financial regulations.*

- c)** *Process of budget formulation, preparation of revenue and expenditure estimates.*

Reasons for poor answers;

- (1) The candidates had not identified differentiation of the COPA and COPE therefore most of them wrote the role and powers of COPE instead of COPA
- (2) Most of the candidates not attempted to part (B) and (C)

Most of the candidates able to score low marks.

**Generally:** Answers for this question was very poor.

**Question No. 05** - (Marks Allotted 14)

*Objective is to test the following areas;*

- a)** *Calculation of basic ratios*

- b)** *Comment on the two years based on the ratios*

Most of the candidates able to score low marks for this question.

**Part (a)**

- (1) Few candidates were able to calculate GP ratio and Net profit ratio and current ratio.
- (2) Stocks were not deducted from current assets to calculate quick asset ratio.
- (3) Profit after tax was not recognized to calculate earnings per share.

**Part (b)**

- (1) Identification of ratio formulas was very poor hence most of the ratios were calculated incorrectly.
- (2) Some candidates were confused how to compare the two financial years' ratios and produce a good report.

**Generally:** Students are advised to develop their skills on ratio analysis to score satisfactory level of marks for this type of question.

**Question No. 06** - (Marks Allotted 14)

*Objective is to test the following areas;*

- a) Net cash flow from operating activities using the direct method in accordance with SLAS-9.*
- b) Preparation of Investment account.*

Reasons;

**(A)**

- (1) Most of candidates produce vague answers. Most of them mixed up cash flows from operational investing and financing activities.
- (2) Students incorrectly calculated the cash receipts from customers and cash paid to suppliers.
- (3) Tax paid amount was not correctly ascertained by most of the candidates.

**(B)**

- (1) Share register was not prepared by the most of the candidates.
- (2) Concept of cum and ex dividend is not properly understood by the candidates.

**General:**

**Majority of candidates were able to score marks for the Question Nos. 01, 02 and 03. Answer for the questions No. 04, 05 and 06 were poor.**

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