

EXAMINER'S REPORT**LEVEL II EXAMINATION - JULY 2025****(201) ADVANCED FINANCIAL ACCOUNTING & COSTING**

SECTION A**Question No. 01**

Marks allocated to this question is 25, and it consisted of 10 sub-questions, including five multiple choice questions, two theoretical questions and three calculation-based questions. The knowledge has been tested covering the fundamental knowledge on Accounting and Costing. Most of the candidates attempted to answer this question and only a few candidates were able to achieve full marks. Further, it was noted that a significant number of candidates had not performed well on the last three calculation-based questions.

The following common weaknesses and mistakes were observed from the answers:

- 1.1** The question tested the knowledge of asset depreciation and determination of carrying value at a specific year-end. Most of the candidates answered correctly, demonstrating a clear understanding of the straight-line depreciation method. However, a few candidates were unable to calculate the correct carrying value, indicating a lack of conceptual clarity regarding depreciation and residual value treatment.
- 1.2** The question was asked to select an example of a cost unit. Most candidates answered correctly, showing a sound understanding of basic cost accounting principles. However, a few candidates selected incorrect options, indicating a lack of clarity in distinguishing between cost units and cost centers.
- 1.3** This question tested the candidates' understanding of LKAS 02 - Inventories. A considerable number of candidates provided correct answers while a few were unable to answer the question due to not understanding the difference between Inventory and Property, Plant and Equipment.
- 1.4** The question required candidates to calculate the under/over absorbed overhead cost for the month based on actual and budgeted data. While many of the candidates correctly calculated the absorbed overhead and selected the correct answer, some candidates were unable to interpret the outcome accurately. Though several candidates, correctly computed the absorption value they were unable to identify whether it resulted in under-absorption or over-absorption.
- 1.5** This question tested the candidates' knowledge on Section 24 of the Partnership Ordinance 1890. Most of the candidates demonstrated a satisfactory understanding and answered the question correctly. However, it was observed that a few number of candidates lacked sufficient knowledge on the provisions under Section 24, which led to incorrect answers.

- 1.6** This question tested the knowledge of the basic elements of financial statements. Most of the candidates answered correctly, while some confused elements with components, showing a lack of conceptual clarity.
- 1.7** It was requested to state three differences between financial accounting and cost accounting. Most of the candidates had provided correct answers to this question, and it was noted that very few candidates had failed to identify the correct answer due to their lack of knowledge about this subject.
- 1.8** It was requested to calculate the price to be charged for a particular job. Most of the candidates successfully arrived at the correct price using the given cost information. However, some candidates struggled with the calculation of overhead costs, while others failed to apply the required profit margin, reflecting gaps in their understanding of job costing and pricing concepts.
- 1.9** The question required candidates to calculate the net salary based on the given scenario. Most of the candidates correctly answered the question and obtained full marks, as it involved a fundamental and straightforward calculation. However, some candidates calculated the net salary inaccurately as they had applied incorrect EPF and ETF rates and had not properly deducted the required employee contributions and other relevant deductions.
- 1.10** This question tested the candidates' ability to calculate the sacrificing ratio of partners in a partnership. While many candidates calculated the ratio correctly, some lost marks due to arithmetic errors and an incomplete understanding of the concept. It was also noted that several candidates mentioned only Partner A's sacrifice instead of presenting the full ratio between A and B as 1:0.

Overall performance for this question was at a satisfactory level.

SECTION B

Question No. 02

The question was tested to prepare the Capital (Equity) Balance as of 31st December 2024 and the Net Profit of a sole proprietorship for the year ended 31st December 2024. The overall performance for this question was at an average level and the following weaknesses were observed from the candidates.

- (1) It was noted that considerable time had been spent on preparing the Cash Book.
- (2) Rent paid in advance had not been considered in calculating capital (equity) at the end of the year.
- (3) A 2% Sales commission on total sales had been calculated and multiplied by five by some candidates as there were five sales executives.
- (4) Depreciation was inaccurately calculated by majority of candidates, either due to incorrect reconciliation of opening and closing balances or a failure to recognize that no asset additions or disposals occurred during the year.

- (5) Credit sales were not properly identified by some candidates, leading to incorrect sales and gross profit figures.
- (6) Salaries were calculated only for one month by some candidates, instead of calculating for the full year, which impacted the accuracy of the income statement.
- (7) There were errors in identifying electricity and water expenses, where candidates incorrectly added both opening and closing balances instead of determining the actual cash payments made during the year.
- (8) Several candidates calculated the year-end capital (equity) by taking the business's initial capital investment as of January 01, 2023, instead of using the opening capital as at 01st January 2024, adjusted for assets and liabilities, and then adding the net profit for the year.

Overall performance for this question was at an average level.

Question No. 03

This question tested the basic knowledge of how to prepare the Partners' Current Accounts and Capital Accounts. The Majority of the candidates performed well for this question.

Some candidates did not perform well due to the following reasons:

- (1) Goodwill adjustments were not done correctly, and related entries were incorrectly posted to current accounts.
- (2) Some candidates recorded transactions meant for current accounts in capital accounts, leading to inaccurate balances.
- (3) A few candidates were unable to correctly apply the revised profit and loss sharing ratios as agreed upon by the remaining partners.
- (4) Drawings were not properly considered by some candidates resulted in errors in the profit calculation.
- (5) Errors were also observed in posting debit and credit entries, which affected the accuracy of account balances.

Overall performance for this question was at a satisfactory level.

Question No. 04

This question was asked to prepare the members' subscription account and Income and Expenditure Account for a Non-Profit Organization.

Common mistakes observed were as follows:

- (1) The Income and Expenditure Account had not been prepared correctly by some candidates and debit and credit entries relevant to the said account had not been properly entered.
- (2) Depreciation for the year was not properly calculated and was not taken into the Income and Expenditure account by some candidates.
- (3) Debit and credit entries relevant to members' subscription accounts had been interchanged by a few candidates or failed to correctly account for fees in arrears, fees in advance, and new member subscriptions.
- (4) Get-together activities had not been separately accounted for, and the surplus of the get-together activities had not been taken into the Income and Expenditure Account by some candidates.
- (5) The Donation received had been entered into the Income and Expenditure account correctly, but the utilization of said donation had not been accounted for.
- (6) The purchase of the laptop computer, which is a capital expenditure, was incorrectly treated as a revenue expenditure by some candidates.
- (7) Basic errors were also seen in computing routine expenses such as telephone and internet, secretary fees, as candidates did not adjust figures according to the scenario.

Overall performance for this question was at a satisfactory level.

Question No. 05

This question consists of parts **(A)** and **(B)**.

- (A)** This question tested the candidates' ability to calculate the total earnings of an employee for the first week of June 2025, including both basic wages and a performance-based bonus for time saved. Most candidates attempted the question and very few were able to calculate the required answer correctly. However, a few failed to determine the bonus amount due to a lack of understanding of the concepts of standard time allowed and actual time taken. Additionally, some candidates miscalculated the standard working hours, which negatively impacted both the basic wage and the bonus calculations.

- (B)** This question required candidates to calculate the Economic Order Quantity (EOQ), Re-order Level, and Minimum Stock Level using the given data. While most candidates successfully calculated EOQ, a few candidates had not attempted the question, and some made errors by incorrectly substituting values into the formula. Similar issues were observed in the calculation of Re-Order Level (ROL) and Minimum Stock Level, where several candidates failed to use the correct data. Overall, the main problems identified were inadequate knowledge of inventory management formulas, arithmetic mistakes, and a limited understanding of their practical application, indicating the need for stronger conceptual clarity and practice in this area.

Overall performance for this question was at an average level.

Question No. 06

- (A)** Based on the given data, it was required to prepare a statement showing how the overheads are allocated and apportioned among each production department. Considerable number of candidates had prepared the overheads allocation sheet correctly. Few candidates were unable to correctly allocate cost items to departments using the given apportionment methods. Some candidates omitted the allocation of indirect material costs to the departments. It was also noted that a few candidates failed to apportion service department costs to the production departments.
- (B)** The question was asked to calculate the estimated total production cost of a product. Most of the candidates who attempted this question were unable to earn full marks.

Common mistakes observed were as follows:

- (1) Mistakenly considering the total production costs of Departments A and B as the estimated total production cost per product.
- (2) Including direct materials and direct labor costs per product, omitting overheads entirely.
- (3) Some candidates correctly calculated the overhead cost for Department A. Errors were common in Department B's calculation, often due to not accounting for the number of direct labor hours required per product.
- (4) Numerical inaccuracies and errors in decimal place handling were also frequently observed.

Overall performance for this question was at an average level.

SECTION C

Question No. 07

This question tested the preparation of the Financial Statements of a Private Limited Company and consists of 2 parts (a) and (b). **Part (a)** tested the preparation of the Statement of Comprehensive Income and **part (b)** tested the preparation of the Statement of Financial Position as at the year end.

Most of the candidates had attempted to answer this question and few candidates were able to score full marks.

The following weaknesses were observed:

(a) Preparation of Statement of Comprehensive Income:

- (1) The general accepted format for the Statement of Comprehensive Income was not followed by a small number of candidates.
- (2) Income Tax adjustment had not been done correctly by some candidates.
- (3) Accounting entries for the disposal of machinery had not been done by some candidates. Therefore, the correct profit on disposal of machinery had not been taken into account by some candidates.
- (4) Many candidates failed to recognize that depreciation should be accounted for in three distinct areas, which led to incomplete or incorrect adjustments. The common mistakes included failure to calculate depreciation on the remaining machinery after disposal, incorrect or omitted depreciation on the disposed machinery up to the date of disposal, and not applying depreciation on newly acquired machinery for the relevant period.
- (5) Incorrectly treated the allowance for trade receivables by recording the closing balance instead of the required adjustment, which is the difference between the opening and closing balances.
- (6) Some candidates incorrectly recorded the sales commission adjustment as income instead of an expense.
- (7) Interim dividends were incorrectly recorded as an expense in the Statement of Profit or Loss and Other Comprehensive Income, instead of being adjusted against retained earnings in the Statement of Financial Position by some candidates.
- (8) Some candidates had not attached the workings and, therefore, they couldn't score some more marks allocated for workings.
- (9) Some candidates failed to adjust the prepaid office rent, resulting in incorrect recognition of rent expense for the period.

(b) Preparation of Statement of Financial Position:

- (1) Some candidates did not correctly account for the allowance for trade receivables and failed to deduct it when adjusting trade receivables.
- (2) Correct classifications of Current and Non-Current Assets and Liabilities were not applied.
- (3) Very few candidates had not used the generally Accepted format for the Statement of Financial Position.
- (4) Inventory adjustments were not correctly reflected in the financial statements, and some candidates failed to consider the net realizable value of the closing inventory balance.
- (5) Most of the candidates failed to properly record and adjust the right issue of shares, with errors including incorrect timing of the adjustment, wrongly deducting from share capital, and misclassifying the amount under reserves.
- (6) Most of the candidates incorrectly calculated and accounted for the accumulated depreciation of machinery and motor vehicles.
- (7) Audit fees payable and income tax payable were not recorded in the accounts by some candidates.
- (8) Interim dividend adjustments were either not attempted or were incorrectly calculated and not deducted from retained earnings by some candidates.

Overall performance for this question was at satisfactory level.

Suggestions to enhance the Competency Level of Candidates in order to Improve the Performance at the Examination:

- (1)** Candidates must study the study text and understand its contents.
- (2)** Understand the definition of action verbs and practise to answer the questions based on the action verb list given at the end of the question paper.
- (3)** Study the contents of the past papers and practise at least last 2 - 3 examination papers and try to understand the way in which the questions are being set.
- (4)** The candidates should work out the past paper questions on timely basis before the examination, it will improve the time management at the examination.
- (5)** Candidates should write legible hand writing at the examination.
- (6)** The candidates should carefully read the instructions given in the examination paper prior to start answering the questions in the paper.
- (7)** The candidates should have a clear and balance mind set at the examination in order to understand the question and provide with appropriate and accurate answers required in the question.
- (8)** The candidates should allocate the time for the questions based on the marks given and accordingly, the candidate should be able to answer all the questions given in the paper effectively.
- (9)** Check twice whether all required questions were answered and appropriately numbered prior to hand over the answer scripts.

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