

EXAMINER'S REPORT

AA2 EXAMINATION - JANUARY 2017

(AA21) ADVANCED FINANCIAL ACCOUNTING

SECTION A

Objective Test Questions (OTQs)
(Total 20 marks)

Question 01

Section A consists of 7 compulsory questions and total marks were 20. The knowledge was tested covering the subject of Advanced Financial Accounting. It was set to test the knowledge of depreciation of fixed assets, non-profit oriented organizations, control accounts, basics of equity shares and debentures and Partnership Ordinance.

Most of candidates had not provided the correct answers for the question number **1.4** and **1.5**. For question number **1.4**, candidates have mentioned advantages to the debenture holder instead of advantages to the company by issuing debentures. Candidates had failed to provide the correct answers for these two questions since they had not read and understand the questions. For question number **1.6**, many candidates had not written narrations for the journal entries correctly. Further, some candidates had failed to calculate correct number of shares and value of them. For question number **1.7**, theoretical knowledge on section 24 of Partnership Ordinance 1890 was at a very poor level.

In general, majority of candidates was able to score marks for other questions. Candidates should enhance their knowledge by studying the syllabus and perusal of self-study text.

SECTION B

Five (05) compulsory questions
(Total 25 marks)

Question 02

Marks were allotted for the preparation of the Trade Payables (Creditors) Control Account and a statement to reconcile the balance of the Trade Payables' Control Account as at 31st July 2016 with the total balance of the individual Trade Payables Accounts on that date. Most of candidates scored full marks. Those who failed to score marks have shown the items in the reconciliation statement which should have to be stated in control account. Some had not correctly identified debits and credits for opening balance of Control Account and for transactions.

Question 03

It was tested the knowledge to prepare the Profit or Loss Appropriation Account of a partnership. Candidates were able to provide successful answers to some extent. However, it was noted some errors such as preparation of current accounts instead of Profit or Loss Appropriation Account, failure to calculate interest on drawings correctly, not using ratios correctly to appropriate profit or loss. Some candidates have not correctly calculated the bi-annual interest of drawings of one partner (**Roshan**) instead they have shown interest for full year.

Question 04

It was required to prepare the adjusted cash book and bank reconciliation statement. Most of candidates had scored marks satisfactorily. Some candidates failed to score marks since they had not recognised the entries relevant to adjusted cash book. They did not have a proper understanding on preparation of adjusted cash book.

Many candidates have omitted to bring the correct balance of the cash book after adjustments, to the bank reconciliation statement. Some candidates have forgone marks by stating adjustments in bank reconciliation statement which should have to be stated in the adjusted cash book.

Question 05

This question was set to compute the expenses to be capitalized for a building constructed and carrying value of the building as at end of financial year. Some candidates had considered the Municipal Council rates for capitalized amount. Some had not adjusted the accumulated depreciation correctly and had adjusted depreciation without considering the year of construction when computing the carrying value. However, most of candidates have answered satisfactorily for this question.

Question 06

This question was set to test the knowledge of accounts of non-profit oriented organizations. Marks obtained were at a moderate level. There were candidates who do not have basic knowledge of calculating the Accumulated Fund at the beginning of the year. Further, some candidates had shown subscription for the year as Accumulated Fund. Some candidates failed to adjust accrued and prepaid subscription correctly and theoretical errors had been made. Some failed to record the opening balances correctly in the relevant accounts.

SECTION C

Three (03) compulsory questions
(Total 30 marks)

Question 07

It was required to prepare Income and Expenditure Account for the year end for a sports club. Candidates should improve their knowledge to calculate subscription of clubs and societies. Candidates who understood the question properly have scored high marks. Some candidates failed to identify opening balances and closing balances and to adjust them correctly. Though the calculation of subscription was simple, some candidates failed to calculate it correctly. Some candidates had not shown workings and adjustments clearly.

Question 08

Statement of Income and Statement of Financial Position for a sole proprietorship should have to be prepared using basic data. Percentage of candidates who scored full marks was minimal. Some candidates had not attempted this question. Correct data should be found by adjusting opening balances in order to find the purchases and Capital at the beginning of the year. Due to failure to do that, marks allotted to Capital at the beginning of the year and trading account were lost. Interest paid on the loan of Rs.5,000,000/- had not been calculated correctly and some candidates had accounted interest for the whole year. Understanding on Accounting Standards should be improved.

Question 09

Preparation of Partners' Current Accounts in columnar form and Statement of Financial Position was expected by this question. Number of correct answers was at a low level. Most of candidates failed to score the marks for calculation of profit and for distribution of the profit among partners at the correct ratio. Reason for that was failure in preparation of current account and Profit and loss appropriation account correctly. Some candidates had not adjusted the interest for the loan obtained by a partner (Nishantha) to the profit and it had not been shown as a current asset. Percentage of candidates who scored full marks was at a low level for this question which was set to test the basic knowledge of partnerships.

SECTION D

A compulsory question
(25 marks)

Question 10

This question required to prepare the Statement of Comprehensive Income and Statement of Financial Position for the use of the Management of a company. Majority of candidates had not done correct adjustments for damaged inventory and debenture interest. Attention should be paid to Accounting standards (LKAS). Most of candidates have answered successfully. Candidates have attempted to answer using correct formats and pattern. As a whole, this question included simple adjustments to test the knowledge on company accounts. It was expected to present the Statement of Comprehensive Income in the correct format.

There were candidates who extracted Retained earnings as a credit balance without paying attention to the debit balance. Candidates who did the workings for Administration, distribution and finance expenses scored allotted marks. Lack of basic knowledge on accounting standards was a weakness of some candidates. It was revealed that some candidates did not have the basic understanding on debits and credits to resolve adjustments related to accrued and prepaid expenses. Candidates should be careful to state the relevant entries in the correct place of the Statement of Financial Position and Statement of Comprehensive Income.

Some candidates failed to score marks since they had not done the adjustments for income tax, damaged stocks and debenture interest correctly. Considering the importance of time management answering only what has been requested will help to score more marks. Most of candidates failed to calculate depreciation correctly.

General Comments:

Candidates should gain understanding on basic Accounting Principles, new Accounting Standards and the Companies Act. When answering questions, writing question numbers correctly in separate pages (some candidates write page numbers as question numbers), showing the workings as close as possible to the answers, avoiding writing answers to parts of one question on various pages and if do so, referring the relevant page are important.

Further, candidates should improve their knowledge of Companies Act, Partnership Ordinance 1890 and Accounting standards and theoretical knowledge on Accounting.

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General points to be considered in developing the level of understanding of candidates:

1. When you get the question paper, read carefully the instructions given on it.
2. Read the question several times and answer only what is asked in the question. Do not write unnecessary things.
3. Manage your time efficiently at the examination.
4. Before handing over the answer script, check whether the question numbers and your index number have been written correctly.
5. By answering past question papers, you can improve the subject knowledge as well as the ability to write answers well.
6. Action verb Check List with definitions is attached to the question paper itself and each question will begin with an action verb excluding Objective Test Questions (OTQs). Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.
7. Sit for examination with the main intention of passing.

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