

EXAMINER'S REPORT
AA2 EXAMINATION - JANUARY 2018
(AA21) ADVANCED FINANCIAL ACCOUNTING

SECTION A

Objective Test Questions (OTQs)

(Total 20 marks)

Question 01

It was expected to test the theoretical knowledge on accounting through this question and knowledge on calculating carrying value of an asset, trade receivables control account, Value Added Tax control accounts, gross profit ratios, accounting for nonprofit organizations, provisions of the Partnership Ordinance and inventory valuations were tested through 7 subsections from 1.1 to 1.7. All the candidates have attempted to this question and following weaknesses were observed.

- 1.1** It was observed that, some candidates did not have an understanding about carrying value of an asset and thereby they have failed to give the correct answer for this question.
- 1.3** Some candidates could not understand the relationship among cost of sales, gross profit and sales.
- 1.5** Most of the candidates have failed to calculate the balance of VAT control account using VAT collected and VAT paid.
- 1.6** It was observed that most of the candidates have not understood the provisions of section 24 of Partnership Ordinance 1890. This was further confirmed as some candidates have stated that capital ratio is used as the profit sharing ratio and provided various rates other than 5% as interest rate on loans obtained from partners.
- 1.7** Most of the candidates have answered this part correctly and some have answered in an arithmetical way. Some candidates have answered correctly using the table of receipts and issues. However, some other candidates have done the calculation using calculator and mentioned only the answer. It is very important to show the relevant steps in this type of calculations. 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

This question was set to test the ability to make corrections to the cash book for the differences between bank statement and the cash book, and preparation of bank reconciliation statement to reconcile remaining differences. Most of the candidates have answered this question successfully. However, some candidates did not have a proper understanding to adjust the cash book and they have stated the items in the adjusted cash book which have to be mentioned in the bank reconciliation statement and vice versa. Some candidates had not taken the correct balance as per the adjusted cash book to the bank reconciliation statement.

Question 03

This question was to test the knowledge on accounting for salary, allowances and other deductions from salary as well as payment for those deductions to third parties. Majority of the candidates have attempted to this question and most of them have failed to provide the correct answer except few. Therefore, most of the candidates scored low marks for this question.

Though it was required to prepare journal entries to account the information given, some candidates have prepared ledger accounts. Some candidates have not prepared all the journal entries required and even journal entries prepared contained weaknesses such as narrations not given. Further, though it was required to present journal entries including cash entries, most of the candidates had not written cash entries. As per the journal entries prepared by some candidates, it was observed that employer's contribution of 12% has been stated incorrectly as a deduction from employee's salary.

When preparing journal entries, most of the candidates had not written the narrations correctly. Though the EPF and ETF should be calculated based on basic salary, some candidates have calculated them on gross salary. Though some candidates have calculated correctly, they were failed to prepare the journal entries correctly. Some candidates did not have the understanding on journal entries relevant to salary control account. Basic Knowledge to record deductions from salary in the salary control account should be improved. It is very important to understand the question properly and answer.

Question 04

This question was set to test the knowledge on preparation of debtors and creditors control accounts. Most of the candidates have answered successfully and many candidates have scored full marks. However, very few have failed to answer correctly, and they have shown balance of creditors control account as a debit balance and balance of debtors control account as a credit balance due to lack of understanding whether opening and closing balances are debit entries or credit entries. Further, entries to be recorded in creditors control account had been recorded in debtors control account and vice versa. Understanding on double entry principle should be improved.

Question 05

This question was set to test how accounting for the goodwill valued at the retirement of a partner and how to account for the distribution of revaluation gain on assets revalued at that situation among partners. Though most of the candidates have answered successfully for this question, they have failed to account correctly for revaluation of assets and distribution of revaluation gain among partners. When accounting for goodwill, it was noticed that there is no proper understanding about not maintaining a goodwill account in the books of accounts. Some candidates have recorded the goodwill in the books of accounts, but no entries were made to remove it. Some candidates have attempted to show ledger accounts due to lack of understanding on journal entries.

Question 06

This question was set to test the knowledge on disposal of fixed assets and removal of those assets from books of accounts and most of candidates have answered for this question. Though majority of them have answered part (a) correctly and scored full marks, some of candidates have failed to calculate correct gain on sale of motor vehicles due to errors made in calculating depreciation for previous years. But, some candidates have lost marks for part (b) due to failure in calculating correct depreciation for delivery truck purchased during the year. This has happened due to depreciating for the full year, without considering the date of purchase of the truck and the closing date of the accounting year. Further, some candidates have calculated the depreciation relevant to April, May and June of 2016 correctly in relation to the disposal and recorded in disposal account but, such amount has not been taken to depreciation account relevant to current year.

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

This question was to test the knowledge on accounting for Not for Profit Organizations. Majority of the candidates have attempted to this question and considerable number of candidates were able to score full marks.

Following errors and weaknesses were observed in the answers of candidates who failed to score full marks:

- (1) Though the part (a) required preparing trading account of the restaurant, some candidates have prepared members subscriptions account instead of restaurant trading account.
- (2) Most of the candidates did not understand that restaurant running by the sports club is a profit-oriented business, though the sports club is a Not for Profit Organization. Therefore, they have included purchases, sales and opening and closing inventories of the restaurant to the income and expenditure account.
- (3) Theoretical knowledge on creditors' control accounts of some candidates is at a very low level. Therefore, they have failed to calculate purchases of the restaurant correctly. When preparing Creditors Control account to find out the value of purchases, some candidates have stated the opening and closing balances in the wrong sides of the creditors control account. It reveals that they do not know that creditors account generally has a credit balance. Further, some candidates have stated the amount paid to Supplies Rs.7,200/- as purchases.

- (4) Some candidates have prepared the trading account correctly and have calculated the correct profit. But, such profit has not been taken to the income and expenditure account.
- (5) Some candidates have failed to calculate the subscriptions, stationery and depreciation of sports equipment relevant for the year correctly.

Question 08

It was required to prepare the trial balance using financial data of a sole proprietorship. As a whole, the candidates who scored full marks were at a low level. Some candidates have not attempted to this question at all. It is required to find out purchases using creditors control account, to calculate cost of sales, to find out correct bank and cash balances, to find out capital using opening balances.

This question was set to test the knowledge on double entry principle and most of candidates have not faced this question successfully. Following weaknesses were observed:

- (1) Many candidates have failed to calculate the capital correctly using assets and liabilities at the beginning of the year.
- (2) When opening balance and closing balance of office equipment are given and there were no additions or disposals during the year, the difference between opening balance and closing balance could be recognised as the depreciation for that year. But, most of candidates have not recognised the value of depreciation.
- (3) Due to lack of knowledge to find out purchases using the data in the creditors control account, the value of purchases could not be calculated correctly.
- (4) There were instances where the payment of Rs.13,000/- made during the year has been recognised as the electricity expense for the year without considering accrued electricity expense.
- (5) Some candidates have not shown workings for each item in the trial balance. Therefore, marks were lost if the figure stated in trial balance was incorrect, since workings were not given. It is very important to show workings to score marks.
- (6) Some candidates have prepared Statement of Financial position. Some candidates who prepared the trial balance have written some balances in the incorrect side. There were instances where closing balances were not extracted from cash and bank ledger accounts.

Question 09

This question was to test the knowledge on accounting for appropriation of business profit, interest on capital and salaries of a partnership. Number of candidates who scored full marks for this question was low.

Following weaknesses were observed in the answered provided:

- (1) Some candidates have considered only the monthly salary of **Manu** instead of annual salary entitled to him. Some others have accounted salaries for all the partners.
- (2) As at 1st April 2016, though there were a credit balance in the Current account of **Manu** and a debit balance in the Current account of **Anu**, both balances were taken as credit balances.
- (3) Most of candidates have failed to calculate the share of profit correctly. It was noted that incorrect profit sharing ratios were used.

SECTION D

A compulsory question
(25 marks)

Question 10

This question required to prepare the Statement of Profit or Loss and other Comprehensive Income and Statement of Financial Position for the use of the Management of a company. Through that, it was expected to test the ability on preparation of accounts in accordance with the format given under Sri Lanka Accounting standards (LKAS), calculation of income tax, accounting for inventory when net realisable value is less than the cost, provision for bad and doubtful debts. Majority of candidates were able to score high marks.

Following common weaknesses were observed:

- (1) Most of candidates have failed to adjust the income tax correctly. In this, accounting for the income tax over provision in respect of prior year was not done correctly.
- (2) Some candidates have failed to calculate the depreciation on assets correctly. Failure to identify the correct amount of depreciation for the year is the reason for that.
- (3) Some candidates have not followed the correct format for the income statement.
- (4) Some candidates have ignored opening balance of retained earnings and have not adjusted it.
- (5) Some candidates did not have an understanding on categorization of expenses and they have not considered bad debts as a finance cost.
- (6) Some candidates have failed to identify total debenture interest and accrued debenture interest relevant for the year based on Interest paid and interest payable on debentures correctly.
- (7) It was noted that there were candidates who did not have basic understanding to resolve adjustments related to accrued and prepaid expenses.
- (8) Candidates should pay attention to record entries in correct places of the statement of financial position and income statement. Candidates who did workings correctly and disclosed the correct amount in the income statement have scored full marks.
- (9) Considering the importance of time management, answering only what has been requested will help to score more marks.

General Comments:

Candidates should gain understanding on basic Accounting Principles, Sri Lanka Accounting Standards, Partnership Ordinance 1890, 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. Instructions given should be followed at all the times when answering the questions.

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

- (1)** Study the full content of the syllabus thoroughly and improve the knowledge of each unit or division with a good understanding of expected knowledge level of each unit or division.
- (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. 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)** Practicing Past papers and suggested answers will be useful to improve understanding, skills and experience. Since same patterns and facts could be tested again, it is beneficial at all the times.
- (7)** Study accounting standards, Study Text and magazines for this subject as well as other relevant readings for specific subject matters.
- (8)** Time management is very important. Time to be spent for each question could be estimated by looking at the marks allotted.
- (9)** Face the examination with a good preparation and with the utmost hope of passing the examination.

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