

**EXAMINER'S REPORT**  
**AA2 EXAMINATION - JANUARY 2019**  
**(AA21) ADVANCED FINANCIAL ACCOUNTING**

---

**SECTION A**

Objective Test Questions (OTQs)

(Total 20 marks)

**Question 01**

This is a compulsory question for 20 Marks. The knowledge has been tested covering the Advance financial accounting syllabus. A few candidates only earned full marks for this question.

- (1.1) Tested student's knowledge on net salary and 50% of the candidates answered correctly. Some have deducted ETF and EPF at 12% from gross salary and some have deducted EPF at 12% instead of 8%. Candidates must pay attention on these calculations since these are practical questions.
- (1.2) Majority didn't answer correctly for this question. Question was tested knowledge on impact to the profit due to overstating stocks.
- (1.3) Majority of candidates did not answer correctly since they did not know about the features of debt instruments.
- (1.4) Majority didn't calculate this correctly & it seems that candidates don't have a knowledge on accrued expenses and prepayment.
- (1.5) Majority of candidates couldn't earn total of two marks which were allocated for this question was tested students' knowledge about current liabilities.
- (1.6) Tested about valuing the stock using net realizable value. Though majority answered correctly, some have not deducted commission of Rs.300,000/-.
- (1.7) Majority did not answer properly. They have written irrelevant answers for that.
- (1.8) Majority of the candidates answered successfully.

**Overall performance for this question was at average level.**

## SECTION B

Five (05) compulsory questions  
(Total 25 marks)

### Question 02

This question was tested about debtors' control account. A few did not answer the question successfully due to lack of knowledge in this area. Most of candidates correctly adjusted Rs.20,000/- overcasting of sales day book & the Rs.27,000/-, purchase invoice mistakenly entered in the sales day book. However, question was clearly given that Rs.28,000/- has correctly recorded in control account. Some have adjusted that also in control account. A few has considered discount allowed as debit entry.

**Overall performance for this question is at satisfactory level.**

### Question 03

This question was tested the knowledge on preparation of appropriation account of partnership. Most of the candidates had shown drawing in the appropriation Account due to the lack of knowledge in principles. Some of the candidates have failed to calculate the share of profit correctly.

**Overall performance for this question was at average level.**

### Question 04

Majority have given incorrect answer for the summarized salary sheet. Format was given with the question, but they have not correctly filled the format. They did not know what are the items to be deducted when calculating net salary and based on net salary how to calculate gross salary. They have deducted again from net salary instead of adding. Base on that candidates had wrongly calculated welfare contribution, EPF 8% and 12% and ETF 3%.

**Overall performance for this question is at poor level.**

### Question 05

Knowledge on preparation of adjusted cash Book & bank reconciliation was tested. Some candidates had not identified the entries related to the cash book. They have mentioned such entries, in the bank reconciliation statement. Some candidates have failed to identify the opening balance of the cash book properly. When considering bank reconciliation balance first to arrive cash book balance unrealized cheques should be added and unrepresented cheques should be deducted. Some have considered other way.

**Overall performance for this question is at satisfactory level.**

## Question 06

This question was tested the knowledge about Membership Subscription account. Some candidates failed to record the closing balances correctly. Some have not correctly calculated cash receipts during the year. Students should know about the correct entries on arrears and prepayments of subscription. Some have considered as debit entry for subscription received in advance.

**Overall performance for this question was at Average level.**

## SECTION C

Three (03) compulsory questions

(Total 30 marks)

## Question 07

This question was tested the knowledge on accounting for Not for Profit Organizations. Majority of the candidates have attempted to this question and only few were able to score full marks. The following errors and weaknesses were observed:

- (1) Though the **part (a)** was required to prepare 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. It has to be considered in the Income Statement as profit from restaurant.
- (3) Knowledge on creditors' control accounts of some candidates was 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 in 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 of Rs.24,200/- as purchases.
- (4) Some candidates have prepared the trading account correctly and calculated the correct profit. But that profit has not been taken into the income and expenditure account.
- (5) After calculating the gross profit on restaurant there were two expenses to deduct from the above profit but most of the candidates have failed to do that.
- (6) Some candidates have failed to calculate the subscriptions, electricity and depreciation of sports equipment relevant for the year correctly.
- (7) Most of the candidates have failed to calculate the 10% of the life membership fund income correctly.

**Overall performance for this question is at average level.**

## Question 08

This question was tested about the preparation of Statement of Financial Position. Lack of basic knowledge on statement of financial position was seen. Students should have a basic knowledge about statement of financial statement. More than 80% of candidates did not calculate disposal profit correctly.

Some common mistakes observed are given below:

- (1) Disposal of motor vehicle has not been recorded correctly in the statement of financial position. Majority did not consider the sale proceed of Rs.1,300,000/-.
- (2) Disposal profit of motor vehicle have not been adjusted from the net profit.
- (3) Disposal of motor vehicle was done through dated cheque & it has not been recorded correctly in the statement of financial position. Most of the candidates added it to cash balance.
- (4) Closing stock's cost is higher than NRV but most of the candidates have not been recorded it properly in the Statement of Financial Position as well as stock adjustment was not done in the net profit given.
- (5) Statement of financial position has not been prepared in accordance with the accepted format.
- (6) Some do not know about what are items to be included as assets and liabilities.

**Overall performance for this question was at average level.**

## Question 09

This question was tested basic knowledge about partnership accounts. It was required to prepare Capital account & Current account.

Lack of basic knowledge on partnership accounts was seen. It was expected to calculate goodwill & adjust it in capital accounts but a few students has adjusted correctly through capital accounts. They have adjusted through current account. Most of the students has not prepared current account correctly. Students should have the basic knowledge about partnership accounts.

Some common mistakes observed are given below:

- (1) Most of the candidates were not calculated partners' salary correctly. Question was given monthly salary, but they have not calculated annual salary.
- (2) As per the question only two partners were entitled for the salary, but some have calculated for all partners.
- (3) Some candidates have not entered opening balance of the partners' current account correctly. Question was given with one credit balance & two debit balances, but all were entered in same place.
- (4) Most of the students has not shown workings for calculating of profit share.

**Overall performance for this question is at average level.**

## SECTION D

A compulsory question  
(25 marks)

### Question 10

It was expected to prepare the Comprehensive Income Statement and Statement of Financial position for the use of the Management of a Private Limited Company. It was tested the knowledge on Accounting Standards, Double Entries and Accounting Policies.

Some common mistakes observed are given below:

- (1) Some have not used the correct format for Income Statement and Statement of Financial Position.
- (2) Some candidates had not correctly calculated the increase in Stated Capital and, Debenture Interest.
- (3) The Installation Cost to new Machinery had not been capitalized by the majority of the candidates. As well as the amounts payable on Machinery purchased and Installation Costs on machinery had not been properly shown in the financial statements.
- (4) Depreciations on assets had been calculated correctly in the working sheets by some candidates but those had not been taken into suitable places in the Financial Statements.
- (5) Accruals had been shown in the working sheets and entries had not been properly shown by some candidates. Prepayments had been shown under the Current Liabilities by few candidates.
- (6) Income tax paid had been shown under the Other Finance Expenses by few candidates
- (7) Detailed workings for the Administration Expenses and Distribution Expenses had not been shown by some candidates and therefore, they failed to earn some marks.
- (8) Short Term Investment (6 months Fixed Deposits) had been shown under the non-current assets instead of current assets.
- (9) Some candidates had failed to show figures related to adjustment in thousands. Amounts in the trial balance were shown in thousands. Students did not read properly.
- (10) Though allowance for trade receivables as at 31<sup>st</sup> March 2019 was Rs.123,000/-. Some have added opening balance of Rs.57,000/- to Rs.123,000/- (total Rs.180,000/-).

**Overall performance for this question is at satisfactory level.**

- - -

**General points to be considered to improve the performance of candidates:**

- (1)** Study the full content of the syllabus thoroughly and improve the knowledge of each unit with a good understanding of expected knowledge level of each unit.
- (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)** Practising Past papers and suggested answers will be useful to improve performance. Since same patterns and facts could be tested again, it is beneficial at all the times.
- (7)** Study accounting standards relevant for this level. 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.

\_ \* \* \* \_