

EXAMINER'S REPORT**AA2 EXAMINATION - JANUARY 2020****(AA21) ADVANCED FINANCIAL ACCOUNTING**

SECTION A**Question No. 01**

A compulsory question for 20 Marks. This question was prepared covering entire syllabus of the Advanced Financial Accounting. Only a handful of candidates earned full marks for this question. Most of the candidates failed to provide satisfactory answers for this question. Common weaknesses observed during the evaluation of answers are as follows:

- (1.1) question tested candidates' knowledge on how to calculate the profit on disposal when the particular asset is depreciated at straight-line basis. Some candidates were unable to arrive at the correct answer due to lack of knowledge on depreciation.
- (1.5) question tested candidates' knowledge on calculating the Gaining ratio of a partnership when profit sharing ratio has been changed. This question was very poorly answered by most of the candidates. It was noted from the answers that they had no idea of the subject area being tested.
- (1.7) question tested about the components of financial statements. Though this a very simple question some candidates have mentioned the elements of the financial statement, such as Assets, Liabilities, Income and Expenses etc.
- (1.8) question tested the knowledge on membership subscription account. Most of the candidates were unable to correctly compute the Income received during the year, due to not reading the question properly.

Overall performance for this question was at a satisfactory level.

SECTION B**Question No. 02**

This question required to prepare Adjusted Cash Control Account (Cash Book) and Bank Reconciliation Statement. Almost all the candidates have attempted this question successfully and many of them have obtained full marks.

However, it was noticed that some candidates have not done the bank reconciliation properly due to lack of theoretical knowledge. They had no idea as to what to be added and to be deducted. Further, few candidates have included unrealized deposits and un-presented cheques with the given balances in the Cash Book, instead of adjusting them in the Bank Reconciliation.

Very few candidates had shown direct deposits and standing orders in the Bank Reconciliation Statement.

Overall performance for this question was at a satisfactory level.

Question No. 03

Part (a) of this question required candidates to prepare Debtors' Control Account. **Part (b)** of the question required candidates to prepare the revised Debtors' Control Account. Most of the candidates scored full marks for this question. Though most of the candidates have prepared the Debtors' Control Account correctly, considerable number of them failed to prepare the revised Debtors' Control Account properly.

Further, some candidates have mixed up debit and credit entries.

Overall performance for this question was at a satisfactory level.

Question No. 04

It was required to prepare the Profit or Loss Appropriation Account of the partnership. Most of the candidates had answered well and scored marks. Some candidates had shown drawings in the appropriation account which showed the lack of knowledge of them regarding Partnership Accounts. Therefore, those candidates have failed to calculate the share of profit correctly.

Some candidates had shown the Capital and Current account balances also in the Appropriation Account. Only a very few candidates had calculated interests on the Current Account Balances.

Overall performance for this question was at a satisfactory level.

Question No. 05

This question required candidates to prepare salary control account, EPF Payable Account and ETF payable Account. Many candidates have successfully answered this question. However, following weaknesses were observed.

- Most of the candidates had interchanged the Debit and Credit entries in the Salary Control Account.
- Some candidates had prepared Journal Entries which were not required in the question.
- Some candidates did not correctly calculate the EPF and Employees Trust Fund contributions.
- There were some instances where ETF and EPF payables have been stated as debit balances.
- Some candidates have recorded the Employees Provident Fund Employees' contribution (12%) and Employees Trust Fund contributions (3%) in the salary control account.
- Workings had not been shown by some candidates.

Overall performance for this question was at a satisfactory level.

Question No. 06

It was required to prepare the VAT Control Account for the month of December 2019. Candidates' knowledge in this regard was somewhat poor. The following common weaknesses were observed.

- Most of the candidates had interchanged the Debit and Credit entries in the VAT Control Account.
- Though the value of the local purchases were given inclusive of VAT, some candidates have computed VAT @15% on Rs.5,949,985/-.
- Very few candidates had prepared a statement instead of preparing the VAT Control Account.
- Workings had not been shown by some candidates.

However, considerable number of candidates have obtained full marks for this question.

Overall performance for this question was not satisfactory.

SECTION C

Question No. 07

This question was tested the knowledge on accounting for Not for-Profit Organizations. It was required to prepare Restaurant Trading Account and Income and Expenditure Account of the given Club. Majority of the candidates have attempted this question but only a few were able to score full marks. The following errors and weaknesses were observed:

- Though **part (a)** was required to prepare the trading account of the restaurant, some candidates were not able to correctly prepare the trading account due to not calculating the restaurant's purchases correctly.
- Many candidates were unable to calculate membership subscription correctly.
- Some candidates had no idea as to which side the respective income and expenses to be recorded in the Income and Expenditure Account.
- Some candidates have not recognized that half of the rent was related to the restaurant. As a result, some candidates had shown the entire amount in the Income & Expenditure account.
- Some candidates have failed to identify the opening balances and closing Balances of the Payable account and Members' Subscription Account.

Overall performance for this question was at a satisfactory level.

Question No. 08

This question was tested basic knowledge about Partnership Accounts. It was required to prepare Partners' Capital account and Current account. Lack of basic knowledge on partnership accounts was seen. Following common mistakes were observed:

- Some candidates had adjusted the Goodwill in the Current Account, without following the instructions given in the question.
- Some of candidates have recorded revaluation profit in Partners' current account.
- Some candidates have recorded interest on capital in Partners' capital account.
- Some candidates have not performed the relevant adjustments relating to **Naduni's** retirement, specially closing the current account of her, and transferring it to Capital account, and then transferring the total due to her to a loan account.

Overall performance for this question was at a satisfactory level.

Question No. 09

This question tested the basic knowledge about preparation of Financial Statements when proper books of accounts are not maintained. It was required to prepare trail balance using the given information. Majority of the candidates have not performed this satisfactorily. Only a few candidates were able to score full marks.

- Some candidates were unaware of what the trail balance is and instead they have prepared Income Statement.
- Most of the candidates had failed to calculate the amount of Capital of the given entity.
- Basic knowledge of Double entry system and identification of type of the accounts such as Assets, Liabilities, Income and Expenditure of some candidates were very poor.
- Further, some candidates had not shown their workings properly.

Overall performance for this question was not Satisfactory.

SECTION D

Question No. 10

It was expected to prepare Comprehensive Income Statement and Statement of Financial Position for the use of the Management of a Private Limited Company. Most of the candidates have attempted to this question.

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

- (1) Most of the candidates have not correctly adjusted the closing Inventory adjustment. Some candidates' knowledge on stock adjustment and accounting treatment for loss of stock value were very poor.
- (2) Though a general provision of 5% from doubtful debts should be made on balance trade receivables after deducting bad debts of Rs.230,000/-, some have ignored it and provided for doubtful debts on total value of trade receivables. Under provision of bad debts was also not calculated correctly.
- (3) Income Tax Adjustment had not been shown by majority of the candidates in their workings and most of them had not calculated correct income tax amount for the year concerned.
- (4) Most of the candidates have not shown the income tax payable amount correctly.
- (5) Detailed workings for the Administration Expenses and Distribution Expenses had not been attached by some candidates and therefore, they failed to earn some marks.
- (6) Some candidates had shown some figures in thousands and some figures have been taken without rounding -off to thousands. Therefore, those candidates had failed to earn marks due to inaccuracies of the recorded amounts.
- (7) Generally accepted formats for Income Statement and the Statement of Financial Position had not been followed by some candidates.
- (8) Accruals and prepayments had not been shown properly in the Financial Statements by some candidates.
- (9) Some candidates scored low marks due to not stating correctly the cumulative depreciation figures.
- (10) Even though depreciation on assets had been calculated in the working sheet by some candidates that had not been recorded in the correct places of the Financial Statements.
- (11) Debenture interest payable for the period had not been calculated correctly by some candidates. Some candidates shown Debentures under Fixed Assets.

Overall performance for this question was at an average level.

General points to be considered to improve performance level of candidates:

- (1) Practicing Past papers and suggested answers will improve performance. Since same patterns and facts could be tested again, it is beneficial at all the times.
- (2) Manage your time efficiently. Time to be spent for each question could be estimated by looking at the marks allocated.
- (3) Follow the instructions given in the question paper and exhibit calculations and workings correctly.
- (4) Read the question several times and answer only what is asked in the question. Do not write unnecessary things.
- (5) Legible hand writing and correct numbering of questions.
- (6) Face the examination with a good preparation and with the utmost hope of passing the examination.
- (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.

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