

EXAMINER'S REPORT

AA2 EXAMINATION - JULY 2018

(AA21) ADVANCED FINANCIAL ACCOUNTING

SECTION A

Objective Test Questions (OTQs)

(Total 20 marks)

Question 01

8 Compulsory questions with 20 marks. Knowledge has been tested by covering the advanced financial accounting subject.

- (1.1) All the candidates have identified the gross margin. Majority has provided the answer correctly.
- (1.2) Majority of the candidates have provided the answers successfully for the question of limited liability companies.
- (1.3) Majority of the candidates have answered correctly for the question on not for profit organizations.
- (1.4) Even though the candidates were able to compute the asset disposal gain or loss correctly, they failed to identify whether it was a profit or loss.
- (1.5) Majority of the candidates have provided answers successfully on computing the gaining ratio of the partners. However, there were candidates who have provided poor answers. Some candidates have not solved the fractions.
- (1.6) There were candidates who have obtained marks by correctly indicating the differences of a partnership and a private company. Some candidates were unable to obtain the marks since they have compared it with the public limited companies.
- (1.7) Majority of the candidates have provided correct answer by arriving at the closing stock of the month by applying First in First out method. However, few candidates have provided incorrect answers.
- (1.8) It was tested the knowledge on the application of LKAS 10 from the question. Few candidates have provided the correct answer. It was revealed that the question has not been properly understood and the knowledge on the standard was at a lower level.

Even though all the candidates have provided correct answer for this question only a few candidates were able to obtain full marks. Most of the candidates failed to provide the answer since they have not properly read and understood the question. It was noticed that the theoretical knowledge of the candidates on the difference between paragraph 24 of the Partnership Ordinance 1890 and Companies Act No. 07 of 2007 were at a very lower level.

SECTION B

Five (05) compulsory questions
(Total 25 marks)

Question 02

The question was on the preparation of bank reconciliation statement. It was required to prepare the adjusted cash control account and bank reconciliation statement. Majority of the candidates have provided answers successfully and were able to obtain full marks. Some candidates were not able to obtain the marks since they have not separately identified the entries relating to the adjusted cash book. On the other hand some of the candidates have mentioned certain items which have to be mentioned in the cash book, in the bank reconciliation statement. Some candidates have not properly understood the basic theoretical knowledge.

Question 03

It was required to prepare the trade receivables control account and the trade payables control account. This was the question that most of the candidates have obtained full marks. Some candidates have not obtained the full marks since they have not identified the entries properly. Some candidates have not mentioned the opening balances in the respective accounts. Some have entered the credit and debit entries interchangeably. Some candidates have adjusted the dishonored cheque , which was paid to the trade creditors in the trade receivables control account. However, majority of the candidates have obtained full marks for this question.

Question 04

It was expected to prepare the wages control account and Employee Provident Fund (EPF) payable account. Majority of the candidates were able to obtain the full marks by providing the correct answers based on their practical knowledge. Some of the candidates have not answered the question. Some candidates have lost marks since they have mentioned the credit and debit entries interchangeably. There were candidates who have mentioned the employer's contribution for the EPF of 12% in the wages control account. Some candidates have prepared the journal entries instead of preparing the accounts.

Question 05

It was required to prepare the profit or loss appropriation account of the **Amal, Nimal and Kamal** Partnership for the year ended 31st March 2018. Candidates were able to provide the answers successfully. Some candidates have provided wrong answers since they have not taken the partners wages and interest on capital correctly. There were candidates who failed to identify the correct balance of the capital account to compute the interest on capital. Majority has obtained adequate marks by providing answers successfully.

Question 06

It was expected to prepare the journal entries of the **Bright Lights Partnership** to record the adjustments relating to Goodwill and to record the entries relating to introduction of new capital. Most of the candidates were able to provide the correct answer. However, there were candidates who have prepared ledger accounts instead of journal entries. There were errors noticed in the application of ratios in computing the profit or loss, adjusting the Goodwill and identifying the capital contribution. However, majority of the candidates have obtained full marks for this question.

SECTION C

Three (03) compulsory questions

(Total 30 marks)

Question 07

The question was to prepare the income and expenditure account of a club which has been established to promote the theater industry. It was also expected to prepare the trading accounts of the restaurant which is operated for the use of the members of the club. The candidates who had the knowledge to prepare the members' subscription account had obtained the correct subscription for the year and were able to obtain reasonable marks. It was required to mention the balances of the subscription account and subscriptions in arrears and compute the member subscription for the year. However, most of the candidates have not answered the question correctly. The marks obtained by the candidates who had answered the question were at an average level. Even though it was easier to calculate the member contribution some candidates failed to present it correctly. Some have entered the credit and debit entries interchangeably. There were several candidates who were able to obtain marks by providing the workings clearly. However, majority of the candidates were able to obtain full marks.

Question 08

The question was to prepare the trial balance based on the incomplete financial information provided for a sole proprietorship. It was required to prepare the trial balance by getting the correct balances by preparing the trade receivables' account, trade payables' account, bank account and electricity expenditure account and making adjustments for the opening balances. Many candidates failed to identify the opening and closing balances of the net assets correctly. Most of the candidates were able to get the sales and purchases figures correctly, by preparing the trade receivables' account and trade payables' account. Some candidates have prepared balance sheet instead of trial balance. Some candidates have not attempted the question at all. There were candidates who have not used the correct format for the trial balance. The candidates could have obtained marks for this question very easily. They were able to obtain more marks by computing the balances of the bank account and sales account correctly.

Question 09

This question was tested the knowledge on the preparation of the current accounts and the capital accounts of a partnership. Candidates were able to answer the question to a certain extent. However, there were candidates who have not identified the entries separately to prepare the respective accounts. Mistakes were identified on computation of the wages of the partners and not using the correct ratios to appropriate profit or loss among the partners. Some candidates have computed the Goodwill correctly and not presented the entries to remove the goodwill in the capital account. Some have lost marks due to making adjustments on goodwill in the current accounts. Some have lost marks due to errors in arriving at the revalued amount and making adjustments in the capital accounts. Few candidates have provided incorrect answers since they have not considered about the correct ratios of the partnership. Some candidates have not computed the interest on capital correctly since they have not identified the balances of the capital accounts correctly.

SECTION D

A compulsory question
(25 marks)

Question 10

It was expected to prepare the profit or loss account, statement of other comprehensive income and statement of financial position for the use of the management of a private company. It was tested the knowledge on accounting standards, double entries and accounting policies. Some candidates have not solved the adjustments pertaining to the obsolete stocks and interest on debentures. This question was to test the overall knowledge on company accounts. It was revealed that the attention and the knowledge of the candidates on the accounting standards were at a lower level. Even though the majority of the candidates were unable to obtain full marks for the statement of profit or loss and other comprehensive income, majority of them were able to obtain the allocated full marks for the statement of financial position. Overall evaluation was at a satisfactory level.

There were few candidates who had made the adjustments on the obsolete stocks and present them correctly. Candidates should provide more attention to refer the accounting standards. Some candidates have not made the adjustment on income tax correctly. The candidates who had present the administrative expenses, distribution expenses and finance cost correctly in the income statement by providing the workings clearly, were able to obtain reasonable marks. There were several candidates who failed to obtain full marks since they have not made the adjustments on income taxes, obsolete stocks and interest on debentures correctly. It is required to provide the information by considering the time management. Majority were able to compute the depreciation correctly. Candidates have not considered about presenting the statement of financial position in the correct format and showing the respective entries in the suitable places. Showing clearly the workings will help you obtain more marks at the examination.

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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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