

EXAMINER'S REPORT
LEVEL I EXAMINATION - JULY 2020
(101) FINANCIAL ACCOUNTING

SECTION A

Question No. 01

This question consisted of 20 sub questions. From question No. **1.1** to **1.10** it was required to select the most correct answer out of the 4 options. From question No. **1.11** to **1.15** it was required to give as **True** or **False**. From question No. **1.16** to **1.20** it was required to give the answers based on information given.

Few candidates had not followed the instruction given in the question paper. They have been written MCQ answers in the answer booklet. Some candidates who ignored the instructions had marked answers in the question paper itself and attached to the answer booklet, as a result some candidates had not been given answers to the particular questions and there were no attachments as well.

Given below are the general weaknesses / errors identified in the answers for the sub questions:

Question No. 1.1

Though this is an easy question, few candidates have selected No. (1), instead of No. (3), due to not understanding the question.

Question No. 1.2

Some have answered as No. (2) instead of No. (1). Candidates should have knowledge on fundamental qualitative characteristics and accounting input and output.

Question No. 1.3

Due to not having an adequate knowledge regarding accounting concept, some have selected as No. (2) or (3) instead of No. (1).

Question No. 1.4

Due to not having an adequate knowledge a few candidates has selected as No. (2) or No. (3) instead of No. (4). Candidates should have a knowledge on stakeholders of an entity as well as internal stakeholders and external stakeholders.

Question No. 1.5

Candidates should have knowledge about correct double entry on transactions of the entity. They have misunderstood that cash account should be credited. Due to lack of knowledge some have selected as No. (1) or No. (2) instead of No. (4).

Question No. 1.6

Question was expected to calculate the profit for the year based on information given. Majority did not answer correctly. Therefore, they have selected No. (3) or No. (4) instead of No. (1). Candidates should give the attention on + / - signs.

Question No. 1.7

Lack of knowledge on accounting equation was shown by few candidates. This is a fundamental of accounting. Few have selected No. (2) instead of No. (4).

Question No. 1.8

Candidates should have knowledge on source documents used by the organization. Though the answer was GRN some have answered as PRN No. (2).

Question No. 1.9

This was correctly answered as No. (2) by majority.

Question No. 1.10

Lack of knowledge about accounting equation was shown by few candidates. They have selected No. (2) or (4) instead of No. (3).

1.11 to 1.15 candidates should answers as **True** or **False** according to the statements given.

Common mistakes identified are as follows:

Question No. 1.11

Instead of "True" some candidates have answered as "False" due to lack of knowledge on definitions.

Question No. 1.12

Due to not having adequate knowledge on materiality concept, it was answered as "True" instead of "False".

Question No. 1.13

Majority has answered well giving "True".

Question No. 1.14

Majority has stated as “False” instead of “True” due to misunderstanding the questionn.

Question No. 1.15

Majority has stated as “True” considering bank has prepared the bank reconciliation statement. It shows that lack of knowledge on who is preparing the bank reconciliation.

1.16 to 1.20 candidates should answers based on information given.

Common mistakes identified are as follows:

Question No. 1.16

This question was expected to answer depreciation for the year using diminishing balance method. Instead of depreciation for the year ended 31st March 2020, some have calculated depreciation for the 1st year instead of 2nd year, and few candidates calculated cumulative depreciation due to not reading question. Further some of candidates calculated straight-line basis instead of diminishing balance method.

Question No. 1.17

Majority of candidates did not answer well for this. This was shown the lack of knowledge about consistency concept.

Question No. 1.18

Few of candidates have given wrong answers such as cash purchase, cash sales, credit sales, etc. They have not an adequate knowledge about the transactions recorded in general journal.

Question No. 1.19

Majority has answered correctly.

Question No. 1.20

This question was tested to calculate the creditors’ balance as at 31st March 2020 based on given information. Some candidates have lack of knowledge about the transactions, which are recorded in creditors’ control account. Salas journal total was also included incorrectly in the account by some candidates. Some candidates have changed credit and debit sides when entering the transactions.

SECTION B

Question No. 02

This question consisted of 3 parts (a), (b) and (c). Part (a) was required to prepare journal entries to rectify errors, part (b) was required to prepare suspense account and part (c) was required to prepare a statement for adjusted profit.

Overall, most of the candidates have given answers to part (a) and (b) but considerable number of candidates had not given answers to part (c).

However, the following weaknesses and mistakes were found at the evaluation of answer scripts:

(a) Preparation of Journal Entries:

- (1) Some of the candidates prepared Ledger accounts instead of Journal Entries.
- (2) Though the balance amount of Rs.85,500/- should be debited to the computer account some candidate have debited total cost of Rs.95,000 to computer account. Further, considerable number of candidates put the dot line instead of writing the name of the suspense account.
- (3) Though the cash purchase amount of Rs.76,000/- had been correctly credited to cash book some candidates have credited to cash book instead of crediting suspense account.
- (4) Few candidates have debited Rs.112,000/- to motor vehicle account instead of debiting suspense account.
- (5) The understated amount of the Sales journal has been debited to the suspense account by some of the candidates instead of debiting the debtor account.

(b) Preparation of Suspense Account:

- (1) Some candidates have taken the difference of the trial balance as closing balance of the suspense account instead of opening balance.
- (2) Some candidates have taken opening debit balance of the suspense account as credit balance and some others have not recorded the opening balance of the suspense account.
- (3) Suspense account has not balanced due to recording credit entries to the debit side and debit entries to the credit side.

(c) Statement of Adjusted Profit:

- (1) Most of the candidates have lack of knowledge about the format of profit adjustment statement.
- (2) Calculated profit was incorrect due to not accurately adding and deducting the income and expenditure affected to the profit.

Question No. 03

This question was tested the knowledge of candidates on preparation of Trial Balance after recording respective double entries in ledger accounts. Candidates' performance for this question was satisfactory.

However, the following weaknesses were identified:

- (1) Some candidates have shown, cash sales, credit sales, cash purchases and credit purchases as separate items in the trial balance.
- (2) Some candidates had taken into accounts only the cash sales when calculating sales during the year and purchases for the year were not calculated correctly.
- (3) A few of the candidates has been taken into account the rent expenses and rent expenses paid in advance as a whole instead of being considered as both of the transactions separately in the trial balance.
- (4) Some students have been taken up the capital in cash and capital invested as Motor vehicle under two separate capital accounts instead of taking into one.
- (5) A few of the candidates has not been provided what was required by the question. For example- question was asked the candidate to prepare the trial balance but they provided the ledger accounts instead of trial balance.
- (6) When transferring the ledger balances in to trial balance some candidates have been accounted the balances mistakenly. (ledger accounts that are ended with a debit balances have been credited to the trial balance and ledger accounts that are ended with a credit balances have been debited to the trial balance.)

Question No. 04

This was tested the knowledge on preparation of Manufacturing Account. Majority of candidates have attempted this question and a considerable number of candidates was able to score full marks for this question.

- (1) Although it was clearly stated in the question that the work-in-progress to be valued at prime cost, some of the candidates adjusted it under factory cost.
- (2) Few candidates were unable to allocate expenses between factory and office correctly. Some have calculated the allocation correctly under working but not considered under factory cost.
- (3) Due to poor knowledge of factory and office allocation some candidates have considered office expenses also under factory expenses.
- (4) Some candidates completed the manufacturing account up to the total production cost without calculating the profit margin of 20%.

- (5) Some candidates, who prepared the manufacturing account up to production cost and calculated profit margin of 20% accurately have not calculated cost to be transferred to trading division by adding the 20% of profit margin to production cost.
- (6) Few candidates deducted the profit margin of 20% from the total production cost instead of adding the same to the total production cost.
- (7) It was noticed that the opening and closing balances of Raw material and work-in-progress had been posted together which should be classified separately.
- (8) Some candidates show lack of knowledge on proper format when presenting accounts.
- (9) Overall performance was good for this question.

Question No. 05

This question tested the knowledge on three areas mainly accounting equation, adjusted cash control account and the preparation of a bank reconciliation. Majority of candidates have attempted this question and a considerable number of candidates was able to score full marks.

(A) Accounting Equation:

- (1) Some candidates did not know how the given transactions affect the Accounting Equation. i.e. How to record when Assets, Liabilities, Income and Expenses increase or decrease. Some have recorded without plus (+) or minus (-) symbols.
- (2) Some have not shown the double entries properly. It shows poor knowledge of basics in accounting.
- (3) Some have just mentioned "Increase" or "Decrease" without the monetary value of each transaction.
- (4) Poor knowledge was shown when stock costing of Rs.390,000/- was sold on credit for Rs.445,000/-.

(B) Part (a) Adjusted cash control account and Part (b) Bank Statement:

- (1) Some candidates have not recorded a debit balance of Rs.155,000 in the cash control account.
- (2) 20% of candidates had considered all the transaction given in the question to cash control account as well as bank reconciliation statement.
- (3) Some candidates mixed up with debit and credit entries due to lack of accounting knowledge.
- (4) 10% of candidates have not considered correct balance from adjusted cash control to bank reconciliation statement.
- (5) In the bank statement few candidates were added the cheque which was deposited and deducted the cheque which was issued.

SECTION C

Question No. 06

This question was to test the preparation of final accounts of a sole proprietorship and it consists of 2 parts as; **(a)** and **(b)**. **Part (a)** was expected the preparation of Statement of Comprehensive Income and Part **(b)** was the preparation of Statement of Financial Position.

Some common mistakes observed are given below:

(a) Preparation of Statement of Comprehensive Income:

- (1) Due to lack of understanding on items to be included in Statement of Comprehensive Income, some have stated the items that should be recorded in Statement of Financial Position such as land, Buildings, Motor vehicle and office equipments.
- (2) Though Bank loan interest is an expense some have considered it as other income and recorded in the income statement.
- (3) Most of the candidates have not correctly calculated bank loan interest. They have considered annual interest without understanding the loan granted date.
- (4) Though the 10% general provision for doubtful debts should be made on balance trade receivables after deducting bad debt of Rs.850,000/-, some have ignored it and provided for doubtful debts on total value of trade receivables. Under provision of bad debts was not calculated correctly.
- (5) Some candidates have not adjusted the accrued Electricity & Water expense correctly.
- (6) Some candidates have not an idea about depreciation which was charged to P & L. They have entered accumulated depreciation to the income statement.
- (7) Some candidates have not attached the workings.
- (8) Some candidates were added cost of sales to sales revenue to get the gross profit.
- (9) Most of the candidates have not correctly calculated furniture depreciation. They have considered annual depreciation without considering the date of the furniture purchased.
- (10) Some candidates deducted drawings from the purchases and they forgot that this is sole proprietor business.

(b) Preparation of Statement of financial position:

- (1) Purchases, sales, opening stocks and some other expenses were included in the statement of financial position due to lack of basic understanding on items to be included in statement of financial position.
- (2) Accrued Electricity & Water have not been recorded correctly in the statement of financial position.

- (3) Bad debts written off and provision for doubtful debts have not been calculated correctly. Some candidates deducted only bad debts written off amount & ignored provision for doubtful amount.
- (4) Some candidates have not stated correct cumulative depreciation figures especially in furniture.
- (5) Statement of financial position has not been prepared in accordance with the accepted format.
- (6) Majority of candidates has not considered fixed assets purchases on credit as liability. They have added as fixed assets additions correctly but liability was ignored. Some of the candidates considered this as additional capital introduced.
- (7) Some candidates added interest payable amount to bank loan amount.
- (8) Some candidates stated opening inventory as current assets of the financial position instead of closing inventory.

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

- (1) Study the new syllabus fully and thoroughly. Pay more attention to new subject matters.
- (2) Read the question several times and answer only what is asked in the question. Do not write unnecessary things.
- (3) Refer Self-Study Texts, Pilot Papers, letters, Journals, etc. relevant to this subject.
- (4) Identify basic theoretical concepts correctly and build necessary skills to answer questions.
- (5) Hand writing should be legible and question numbers should be written correctly.
- (6) Follow the instructions given in the question paper and exhibit calculations and workings correctly.
- (7) Improve the knowledge by practicing more past papers.
- (8) Manage your time efficiently.
- (9) Before handing over the answer script, check whether the question numbers, etc. have been stated correctly.
- (10) Face the examination with a good preparation and with the utmost hope of passing the examination.

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