

INTRODUCTION TO FINANCIAL ACCOUNTING

General:

1. Students did not perform well in this paper. Accounting is a subject which needs both knowledge and practice. A lot of practice is required not only to solve the questions but to complete them within time. It seems that most of the students lacked both requirements and appeared in examinations without adequate preparations.
2. While working a question with figures in thousands, a number of mistakes were observed such as writing 2 zeroes instead of 3 and writing the figure in full, instead of figures in thousands etc.

Specific question-wise comments are as follows:

- Q.1 Most of the answers were not in line with the explanations given in IASB's framework. Only a quarter of the candidates could obtain pass marks.
- Q.2 In part (a) most of the students correctly mentioned that inventory must be measured at Lower of Cost and Net Realizable Value. Part (b) was also done well. However, in part (c) a large number of students could not explain specific identification method of pricing. Many mentioned the LIFO method of valuation and then added that it has now been discarded. This was sheer waste of time. While explaining the weighted average method, very few could explain that the average may be taken on a periodic basis or on a continuous basis i.e. whenever a new shipment was received.
- Q.3 Cash flow statement: Common mistakes noted were as follows:
- Increase in overdraft was shown as increase in current liabilities and treated accordingly. It should have been merged with cash and bank.
 - Many students calculated the depreciation for the year as Rs.100,000 because they ignored the sale of equipment.
 - Many students calculated the profit for the year as Rs.175,000 as they ignored the drawings made by the owner.
- Q.4 Income and Expenditure Account and Balance Sheet: This type of question is repeated quite often, still, it was not well attempted and only one-fourth of the students secured passing marks. Some of the common mistakes were as follows:
- (i) A separate catering account was not prepared to determine the result of this activity although it was clearly specified in the question.
 - (ii) It was clearly mentioned in the question that stocks and purchases related to catering activity. Even then, many students considered glass and crockery as the stocks related to catering and took the other stock to the trading account.

- (iii) Many students calculated catering activity receipts by deducting subscriptions and table charges from total bank deposits instead of grossing up the cost of sales.
- (iv) A large number of students who lacked in conceptual understanding, ignored the information given in note 8 and determined the various expenses on cash basis. Specially, the purchases were taken as Rs.18,155,000 as the suppliers opening and closing balances were ignored by a vast majority.
- (v) Hardly any student attempted to determine the loss due to defalcation by preparing a proper cash account.
- (vi) A very large number of students capitalized the snooker tables at Rs.130,000 i.e. the amount of deposit. Some treated the 10% deposit as an expense. Very few were able to record the liability related to the tables in the balance sheet.

Q.5 This was the worst attempted question. 17% did not attempt the question and only 7% got passing marks. Various types of mistakes were made as described below:

- (i) The value of goods invoiced to branch and of stock held by the branch at the year end were recorded at selling price. Those students who made this mistake clearly indicated that they had not understood the concept of branch accounting at all.
- (ii) Very few students were able to calculate branch sales correctly. The correct procedure was to calculate the total receipts on account of sales by drawing up a branch cash account and then adding the amount of branch debtors which was given in the question.
- (iii) Very few students were able to work out the amount of shortage. One method of arriving at the same was by drawing up a Branch Stock account at the selling prices.
- (iv) Management fee was shown as an expense in the branch's Profit and Loss, but corresponding income was not recorded in the head office.

Q.6 A simple question about similarities and differences between manual and computerized system of accounting was answered correctly by most of the students.

Q.7 This was another badly attempted question. 28% of the students did not attempt it. Those who answered, made the following types of mistakes:

- (i) Instead of passing journal entries to rectify the errors, they passed entries as if they were writing a new delivery equipment account from the beginning.
- (ii) Only a limited number of students reasoned that licence fee was a revenue expenditure and should not have been capitalized.

- (iii) Many students provided depreciation on cost and ignored the salvage value. Number of months on which depreciation was to be calculated were also calculated incorrectly in many cases.
- (iv) One of the errors which needed correction was that delivery equipment account had been credited instead of allowance for depreciation account. Very few students passed the entry whereas the majority could not identify the mistake at all.

Q.8 It was the best answered question and over 75% secured passing marks. However some students were confused in deciding whether to record a particular correction in the:

- Sales Ledger Control Account, or in
- Reconciliation, or in
- both the above.

(THE END)