

# *Financial Accounting 2 – Paper C7*

**2006**

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# THREE STEPS TO SUCCESS

## 1. PLANNING

- COURSE MATERIAL

## 2. PREPARATION

- FINAL ACCOUNTS
- FINANCIAL STATEMENT ANALYSIS
- IAS APPLICATION TYPE QS
- STANDARD COMPUTATIONAL QUESTIONS
- MOCK EXAMINATIONS

## 3. ATTEMPTING THE PAPER

- HOW TO ATTEMPT THE PAPER
- COMMONLY MADE MISTAKES

# ***Section 1 – PLANNING***



## Course Material

- 1. 4<sup>th</sup> & 5<sup>th</sup> Schedule to the Companies Ordinance, 1984 – (including cash flow statements)**
- 2. International Accounting Standards  
1,2,7,8,10,11,16,17,18,23,37,38**
- 3. Past papers by Ashfaq Ahmed**
- 4. Accounting for leases, construction contracts and cash flow statements by Javed Zuberi**
- 5. CA BPP Study Text**
- 6. Annual Report of a listed company**

Name of topic	Source / Relevant IAS	Estimated time	Done	Past papers	Revision 1	Revision 2
<b>Accounts of limited companies</b>	IAS 1, 7, 10, 18	40	✓			
- Cash flow statements	Financial statements of					
- Post balance sheet events	FFC					
- Revenue recognition						
<b>Specialised accounting treatments</b>						
Inventories	IAS 2	5	✓			
Property, plant and equipment	IAS 16	6				
Accounting treatment of net profit or loss for the period	IAS 8	6				
Research and Development costs	IAS 38	5	✓			
Provisions, contingent liabilities and contingent assets	IAS 37	5				
Recognition of borrowing costs	IAS 23	3				
<b>Special accounts and other topical issues</b>						
Conversion of partnership accounts of limited companies		10	✓			
Construction contracts	IAS 11	10				
Accounting for leases	IAS 17	10				
		100				

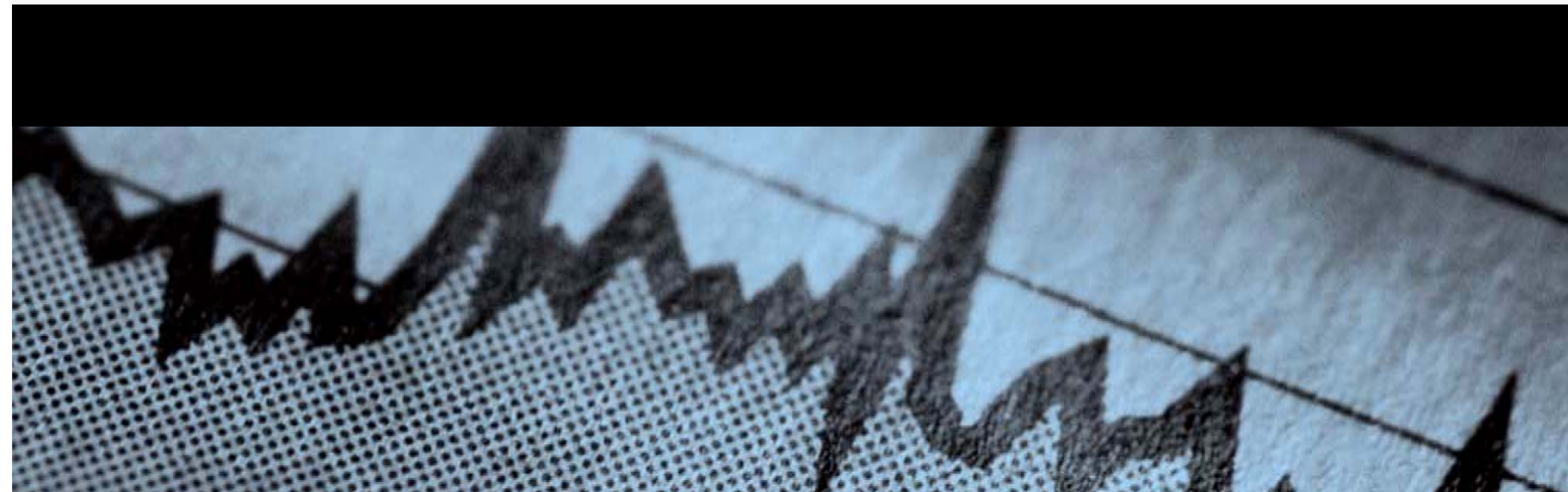
# FACTORS BE CONSIDERED WHEN PLANNING

The sort of factors you should consider include:

- revision for other papers at the same time
- family commitments, relationships, friendships
- possible illness
- not understanding material when you come to look at it
- how much sleep you need
- your need for leisure activities, and fun
- You also need to build in time for things which, at the moment, you can't anticipate.

Monitoring your plan. Check your plan regularly to see how well you are doing. You may need to amend your plan, eg if something unexpected happens or if some revision takes longer than expected.

# ***Section 2 - PREPARATION***



# INDICATIVE GRID

## INDICATIVE GRID:

SYLLABUS CONTENT AREA	WEIGHTAGE
1) Accounts of limited companies	30
2) Specialised Accounting Treatments	30
3) Special accounts	40
<b>TOTAL</b>	<b>100</b>

*Note: The weightages given above are for guidance purposes only and deviations in setting of papers may be expected*

## SUMMARISING KEY POINTS

- Don't make long notes in the form of paragraphs, which you may find difficult to learn and retain
- Your notes should ideally be in the form of pointers which are easier to remember and quicker to revise
- The examiner finds it easier to allocate marks when your answer is in the form of pointers.

# QUESTIONS ON FINAL ACCOUNTS

1. Start by preparing the format and giving the headings
2. Make adjustments to the trial balance figures
3. Enter the final figures into the formats
4. Preparing notes to the accounts if required
5. Get your hands on a good annual report and go through this
6. This will help improve your presentation
7. Keep in mind the requirements of the 4<sup>th</sup> Schedule
8. Do as much as you can and don't exceed the time limit for these types of questions

**PRACTICE, PRACTICE, PRACTICE.....**

# QUESTIONS ON FINAL ACCOUNTS

The 4<sup>th</sup> Schedule to the Companies Ordinance, 1984 is extremely important. The following mistakes were noticed:

- Students were not aware of the format of 'statement of changes in equity'
- Incorporation and listing expenses should be charged to P &L in accordance with the revised 4<sup>th</sup> Schedule.
- Notes to the accounts are an integral part of the financial statements. Therefore the disclosure requirements of the 4<sup>th</sup> Schedule should be kept in mind when preparing these disclosures.
- It is recommended to understand and commit to memory the Accounting policies that appear at the beginning of the notes to the financial statements.
- Go through the financial statements of a Listed Company which has prepared its financial statements in accordance with the requirements of the 4<sup>th</sup> Schedule and International Accounting Standards.

# SPRING 2006 ATTEMPT

QS	QUESTION	IMPORTANT POINTS
QS 1  Marks - 24	You are required to prepare balance sheet, profit and loss account and statement of changes in equity (without any notes to the accounts) for the year ended June 30, 2005 under the Companies Ordinance, 1984. Please also submit important workings and computations.	<p>In the question it was clearly mentioned not to give notes to the Accounts but surprisingly a number of the examinees gave long notes to the Accounts and wasted their time.</p> <p>The formats delivered a poor reflection as many candidates resorted to casual narrations, using abbreviations like B/S and P/L.</p> <p>Long term portion of the loans was not properly worked out as few were able to really use the information given in the question.</p> <p>Proper sequence of assets and liabilities was not maintained.</p> <p>Stock dividend was not accounted for.</p> <p>In calculating “trade debtors” credit balance of one customer was deducted instead of being added.</p>

# Financial statement analysis

Financial Statement Analysis is also an integral part of the course

- Required to know the formulas and be able to compute ratios
- Being able to distinguish between the various ratios Performance, Liquidity and Financial ratios and the ability to apply these correctly in various situations
- Therefore if you are required to compare the performance of two similar companies the appropriate ratios to use would be those relating to performance analysis i.e GP Margin, NP Margin, Return on Equity, Return on Total Assets, Asset Turnover
- It was strange that most students were unaware of such easy ratios as interest and dividend cover.
- This was a question requiring comments on performance of two similar companies with different capital structure and operational attitude. Students showed very weak knowledge in discussing the matter with reference to performance ratios. Some unnecessarily discussed the financial and liquidity ratios, which are not performance ratios.

# SPRING 2006 ATTEMPT

QUESTION NUMBER & MARKS	QUESTION	IMPORTANT POINTS
<b>QS 2</b>  <b>MARKS – 6</b>	Explain how the following information would affect the financial statements of the company.	This question was on application of the standard on situations of three contingent liabilities and one contingent asset. Almost all the students delivered a layman approach as even the contingent asset was dealt in the context of contingent liability. Those who were able to arrive at correct conclusion were not clear about the main conditions that formed the basis of their decision. Most students did not know whether all conditions need to be fulfilled to make a certain decision or even one was enough.

# SPRING 2006 ATTEMPT

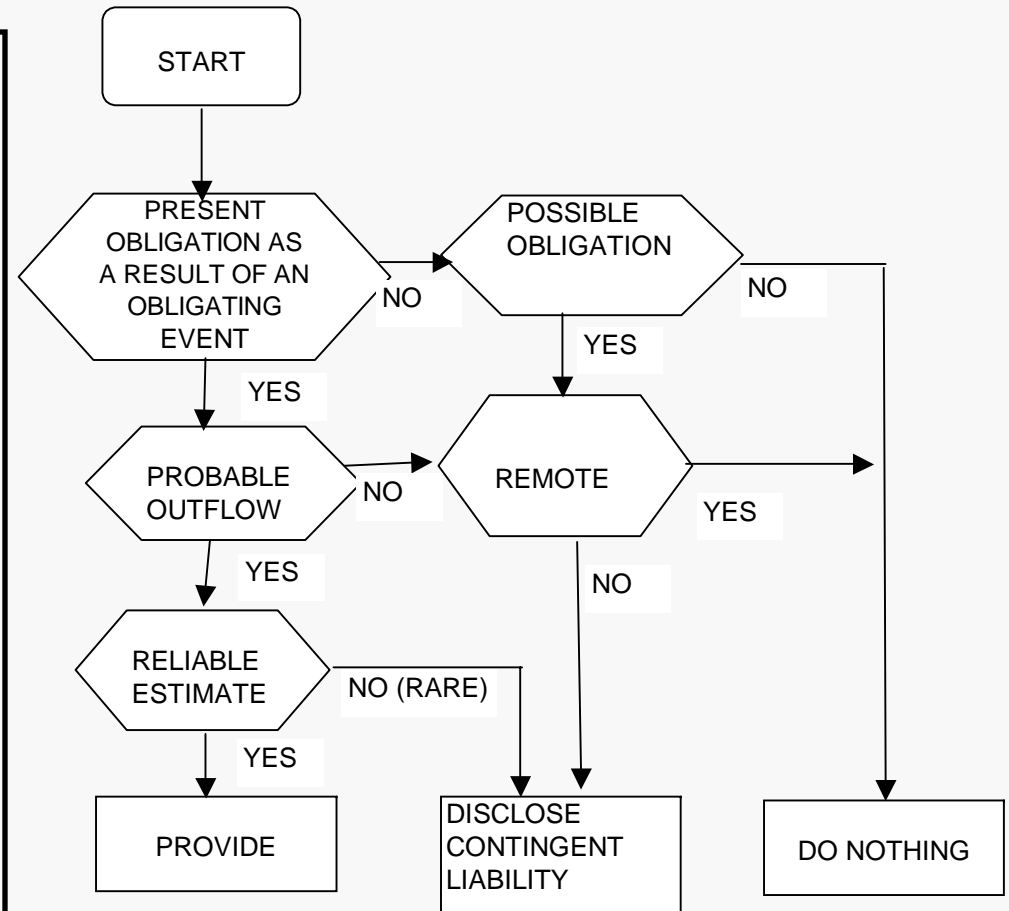
i) The contract contains a clause that prescribes damages of Rs. 5,000,000 in case of default. - PROBABILITY 60%

ii) The company has incurred a sum of Rs. 600,000 as legal expenses, of which 50% is recoverable in case of a favourable decision. 40% PROBABILITY

iii) The plaintiff has claimed Rs. 1,000,000 as legal expenses. 40% PROBABILITY

iv) The plaintiff has also claimed Rs. 500,000 as interest on damages. PROBABILITY 5%

Source – Appendix B – IAS 37 pg 1577



# SPRING 2006 ATTEMPT

QUESTION NUMBER & MARKS	QUESTION	IMPORTANT POINTS
<b>QS 3</b>  <b>MARKS – 14</b>	Research and development expenditure	<p>The question contained different situations, which were required to be tested.</p> <p>The key principle is that expenditure is capitalized as intangible asset when it has the characteristic of being controllable, measurable, able to provide future economic benefits and identifiable.</p> <p>The students merely stated the accounting treatment without concrete reasoning. It has been advised frequently that the reasoning put forward by the students is more important than the conclusion itself. The students generally tend to ignore this advice.</p>

# SPRING 2006 ATTEMPT

QUESTION	IMPORTANT POINTS
<p>The company, to curb the sharp decline in sales of its products 'Y' and 'Z', paid Rs. 1.7 million to a consulting company for improvement in the design of the products, if possible.</p>	<p>-Research expenditure as per IAS 38 expense out -Paras 54- 64 IAS 38 pg 1606</p>
<p>On the basis of consultant's report, production of 'Z' was discontinued. The consultant had suggested three new designs for 'Y'. One of them was selected and company incurred Rs. 0.65 million on new moulds and patented the design at a cost of Rs. 0.3 million. 60% of the fee payable to the consultant is directly attributable to 'Y'.</p>	<p>- Development expenditure 0.65 + 0.3 million. The 60% expenditure will be expensed out as it was incurred in research phase</p>

# SPRING 2006 ATTEMPT

QUESTION	IMPORTANT POINTS
<p>Manufacturing license of product 'Z' is expiring on June 30, 2008 and has a book value of Rs. 0.5 million. This license is not transferable.</p>	<p>Assuming year end of June 2006. 0.5 million divided by 3 should be charged as expense -TBD</p>
<p><b>The company paid Rs. 1.0 million to an agency for an advertisement campaign for product 'Y' that increased the company's sales substantially and there is a strong evidence that it will also bring net cash flow of Rs. 6.5 million in the next year. Thereafter its impact will be insignificant.</b></p>	<p>Advertising expenditure – expense out</p>
<p>Product 'T' is one of the top brands of the company and bears a good market reputation. The brand is currently being reported at zero value in the financial statements despite the fact that the company incurred Rs. 3 million on setting up a brand development department exclusively for the said item. This year company has a firm offer for the said brand amounting to Rs. 12 million from another financially sound company.</p>	<p>Do not recognise internally generated brands, mastheads, publishing titles, customer lists and items similar in substance. Paragraph 63 IAS 38</p>

# SPRING 2006 ATTEMPT

QS & MARKS	QUESTION	IMPORTANT POINTS
<b>QS 5</b> <b>(iii)</b>  <b>MARKS –</b> <b>5</b>	IAS 2 - INVENTORIES	It covered a very common concept of inventory valuation i.e. lower of cost or net realizable value. Many students missed an easy scoring opportunity by just not attempting this part. Some who attempted failed to add the cost of transit insurance into the unit cost while valuing the stock.

## WHAT DID THIS QUESTION TEACH YOU?

QUESTION NUMBER	REFERENCE MATERIAL	IMPORTANT THINGS TO REMEMBER IN RELATION TO THIS QUESTION
QS 5 (iii) Spring 2006	Past papers	<ul style="list-style-type: none"><li>-Remember to add the cost of transit insurance into the unit cost while valuing the stock.</li><li>-Always value stock at the lower of cost or net realizable value.</li></ul>

# MOCK EXAMINATIONS

- **ATLEAST 10-15 DAYS BEFORE THE END OF THE LEAVE CONDUCT REAL TIME MOCK EXAMINATIONS**
- **SIMULATING EXAM CONDITIONS**
- **SELF ASSESSMENT**
- **IDENTIFYING WEAK AREAS**
- **WORKING ON WEAK AREAS**
- **GOING THROUGH THE EXAMINER COMMENTS**
- **ACTUALLY ATTEMPTING THE QUESTIONS AND NOT JUST GOING THROUGH THE SOLUTIONS**

# EXAM SIMULATION

**According to Cadogan (1990), this appraisal of performance is best directed by responding to five questions related to the marks gained:**

1. What was your total mark?
2. How many marks were lost because you did not understand the theory?
3. How many marks did you lose as a result of simple errors in your responses?
4. How many marks were lost because you could not interpret a question or you answered a different question from the one you were asked?
5. How many marks were lost because you ran out of time?

***Section 3 –  
ATTEMPTING THE PAPER***



## EXAMINATION TECHNIQUES

- **Controlling the anxiety is the key**
- **If the paper is difficult it is same for all the students and therefore the difficult questions in the paper do not determine your success.**
- **However if you get the easy questions wrong you will loose easy marks and therefore you will not be able to pass.**

## EXAMINATION TECHNIQUES

- Arrive early at the exam to avoid panic. Will it help to chat to others while waiting, or make you more nervous (if so, wait alone outside)?
- In the exam, spend the first 5 minutes reading the paper. Make sure you understand the instructions to answer the right number of questions. Decide which questions to answer.
- It is important to understand the question and answer what is asked. Underline key and 'instruction' words. You will not get marks for an irrelevant answer even if it is excellent. You could rephrase a question in your own words. Keep referring back to it while answering.
- Try to avoid questions which contain a word or phrase you don't understand.
- Decide how long to spend on a question, stop working on it when that time is up, return to it if you have time to spare.

# EXAM TECHNIQUES

- 1. SCAN THE PAPER**
- 2. PRIORITIES – EASIER ONES FIRST**
- 3. The first 50% of the marks are the easiest to get; the next 25% are harder; the last 25% are the hardest. If you run out of time: two half answers may get more marks than one full one; jot down the main points to include while they are in your mind and return later.**
- 4. TIME MANAGEMENT – MARKS VS TIME**
- 5. UNDERSTANDING THE REQUIREMENTS OF EACH QUESTION**
- 6. WORKINGS AND PRESENTATION – LEGIBLE HANDWRITING**
- 7. STAYING CALM, COOL AND COLLECTED**

# **MOST COMMONLY MADE MISTAKES**

- **GETTING STUCK OVER A SINGLE QUESTION**
- **NOT CLEARLY STATING THE ASSUMPTIONS USED**
- **PANIC AND PRESSURE HANDLING**
- **NOT BEING QUICK ENOUGH**
- **NOT RESTING ADEQUATELY BEFORE THE PAPER**
- **THE PAPER IS 2 PM TO 5 PM ENSURE THAT YOU PRACTICE DURING THE LEAVE AT THESE TIMES**
- **NOT READING THE REQUIREMENTS OF THE QUESTION CAREFULLY**
- **NOT PLANNING BEFORE ATTEMPTING THE QUESTION**
- **PRESENTATION AND WORKINGS NOT CLEARLY SHOWN**

# SPRING 2006 ATTEMPT

QS NUMBER & MARKS	QUESTION	IMPORTANT POINTS
<b>QS 4</b>  <b>MARKS - 21</b>	<p>Construction Contracts</p> <p>(a) Compute 'gross profit' and 'contract revenue earned' attributable to each contract for the year ended June 30, 2005.</p> <p>(b) Prepare separate contract accounts in the books of the contractor.</p>	<p>Common Mistakes</p> <ul style="list-style-type: none"><li>- Percentage of completion method was used to calculate the revenue and profit for Contract A even though the question specified that percentage of work certified method should be used.</li><li>- Early completion bonus was not worked out for Contract B although it was near to completion and the bonus was almost certain to materialize.</li></ul>

# COPING WITH NERVES

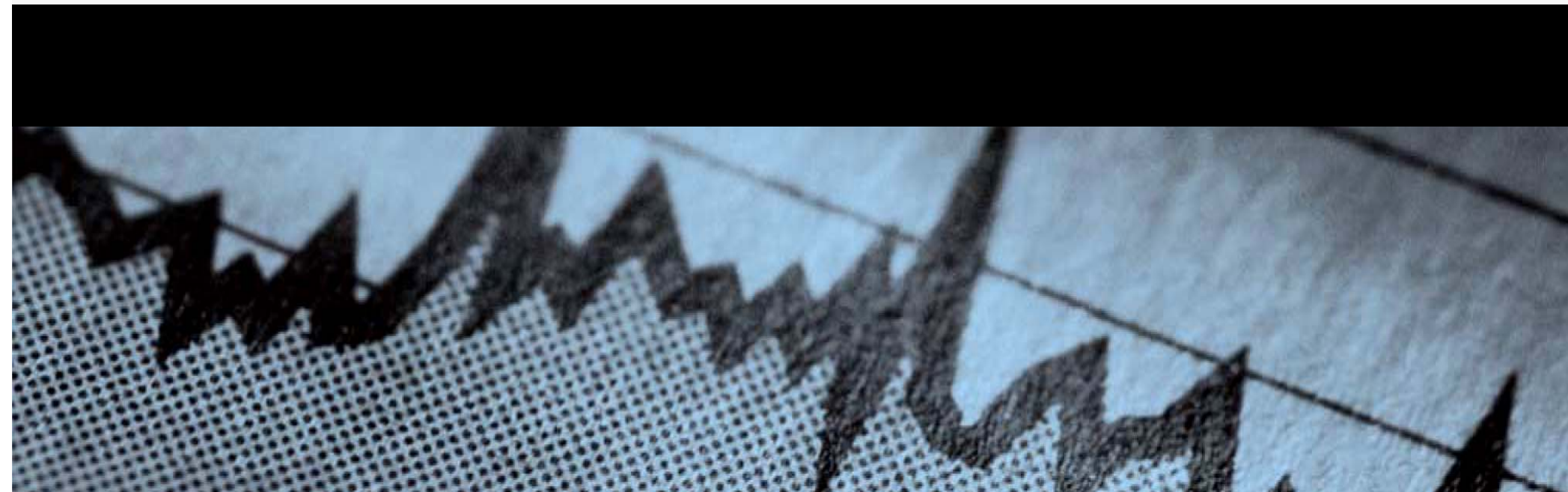
1. Identify what happens if you are nervous in an exam. It may make the solution obvious.
2. Do good revision/preparation.
3. Identify what to do in the first 5 minutes of the exam in what order and stick to it. Doing simple things first will steady you down, rather than jumping straight into a question.
4. Make yourself comfortable for the exam (eg warm/cool clothes, handkerchiefs etc)
5. Calm yourself beforehand
6. Avoid being overtired (is it worth staying up late to cram in extras?).
7. Avoid last minute revision.
8. Work out what to do if you panic.... Take deep breaths

# Referral / lapse

Please analyze your mistakes.....

- Step 1 – Attempt the paper which you did not pass again and mark your copy and get it marked by an independent person e.g. teacher / senior. Do not refer text book prior to attempting the paper if you want a realistic assessment
- Step 2 – On the basis of your attempt identify your weak areas. Closely analyze your answers to see drafting mistakes, grammatical mistakes and most importantly conceptual mistakes.
- Step 3 – Work on your weak areas.
- Step 4- After thoroughly revising the course conduct mock examinations as discussed earlier
- Step 5 – Constantly strive for improving your grade because even if you pass the mock the conditions in the actual exam are different

# ***CAVEATS***



## Caveats

- **ALL COURSE MATERIAL, STUDY TECHNIQUES, KEY AREAS EMPHASIZED DURING THIS SEMINAR REPRESENT MY VIEW POINT AND NOT THAT OF ICAP.**
- **THE INSTITUTE DOES NOT PRESCRIBE A PARTICULAR PUBLISHER ALTHOUGH RECOMMENDED COURSE MATERIAL LIST IS AVAILABLE IN THE YELLOW BOOK.**
- **ANSWERS TO ALL QUESTIONS REPRESENT THE VIEW POINT OF THE PRESENTOR AND NOT THAT OF ICAP**

# ***Q & A SESSION.....??***



***Thank u for attending the seminar  
and best of luck for the exams!!!***