

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Introduction to Accounting	Certificate in Accounting and Finance – Autumn 2015

General

The question paper was designed for students of fundamental stage and basic understanding of accounting concepts were tested. The overall performance was much better than the last attempt. However, only few students were able to secure high marks. Good performance was witnessed in question # 1,4,5 and 8 whereas question # 2 and 3 were poorly attempted.

Students displayed reasonable knowledge regarding posting of transactions in the relevant accounts and as regards preparation of statements of financial position/comprehensive income. However, there is a need to review the preparation regarding reconciliations as many candidates seemed very confused as to whether they should add or subtract various items.

Question-wise comments are given below:

Question 1(a)

In each sub-part of this part of the question, the students were asked to give examples of transactions which would result in the situation specified in the question i.e. increase/decrease in assets, liabilities and capital etc. Generally this question was well answered; however, some students did seem to find part (i) difficult and were not able to identify an appropriate transaction that would result in increase in one liability and decrease in another in a single transaction. Some students stated transactions representing changes in income and expense as opposed to assets and liabilities, whereas, some students split each part into two separate transactions, for example in sub-part (i) they stated a separate transaction for an increase in the liability and a different one for a decrease in the liability. Further, many students gave accounting entries which were not required as the question only asked for examples of transactions.

Question 1(b)

In this part, the candidates were required to specify the concept involved in six different situations which were given in the question. A significant number of students managed to identify the concepts of going concern, materiality/accrual/matching, consistency and substance over form. However, very few identified business entity for part (ii) and hardly any identified the historical cost concept for part (iii) as majority of the candidates mentioned true and fair view. Some students misunderstood the question and discussed whether the transaction would be recorded or not. Some of the students wasted their time in extensively elaborating the concepts in detail, which was not required.

Question 2

In this question, errors in recording of five transactions were specified and how these were corrected was also explained. The candidates were required to re-compute the profit by considering the impact of errors in recording the transactions and in making the corrections. This question was very poorly answered. Many students tried to pass journal entries which were not required at all. Some of them even tried to prepare the entire profit and loss account. Other common errors are discussed below:

Transaction (i)

By reducing the value of closing stock instead of the opening stock, the accountant caused the cost of goods sold to be increased twice, therefore, the amount had to be added back twice to arrive at the correct profit. Majority of the students did not double the amount. Further, many students deducted the amount from the profit instead of adding it.

Transaction (ii)

By reducing the sale the accountant had corrected the error made in the sales journal. This aspect was not understood by most of the candidates and they reduced the profit further.

Transaction (iii)

Mostly the students correctly added Rs. 225,000 to the profit, being correction of the amount charged to repairs and maintenance. However, many students ignored the related depreciation altogether whereas some students applied whole year's depreciation instead of 6 months.

Transaction (iv)

Net profit had to be reduced as the amount of prepaid insurance had to be charged off in the current year. Many students did not attempt it or wrote that there was no impact on profit as the amount has been reinstated.

Transaction (v)

In this case, the required correction was recorded by crediting the suspense account instead of purchase return. Hence the profit needed to be increased. Majority of the students were able to analyze it correctly. However, some students wrote that treatment of suspense account as a liability was correct and hence there was no impact on profit.

Question 3

In this question information was provided in respect of sales and receivables of an entity and the students were required to prepare the ledger accounts of debtors and provision for doubtful debts. The overall performance was average. The routine figures were placed in the two accounts correctly. However, very few students had complete grasp over the concept of specific and general provision and were unable to distinguish between the two. Many of them computed the general provision without excluding the specifically provided accounts. Some students calculated the closing balance of provision correctly

taking into consideration both the specific and general provision; however, while posting the entry, they included it as a bad debt expense for the year instead of the closing balance of provision for doubtful debts. Further, only about 10% of the candidates passed the entry to reinstate the previously written off amount which was recovered during the year.

Question 4

In this question the students were required to calculate the correct balance of the bank book and then reconcile it with the bank statement. Many students seemed confused as to whether to add or subtract the impact of incorrect entries to arrive at the correct bank book balance. A large number of students did not clearly indicate whether they were adding an amount or deducting it. Further, most of the candidates were not very sure about the fact that a credit balance in the bank statement means that there should be a debit balance in the bank book and vice versa. Many students tried to prepare revised bank statement which showed complete lack of conceptual understanding.

Question 5

This question was generally well attempted with students correctly placing the straightforward items in the statement of comprehensive income and statement of financial position. The commonly observed errors were as follows:

- A significant number of students did not calculate depreciation expense correctly as they could not understand that depreciation has already been charged on those items which are being shown on a “net-basis” except the purchases during the year.
- In the calculation of cost of goods sold, some students did not reduce purchases by the amount of goods withdrawn by the owner, whereas some of them reduced the amount of closing stock.
- Very few students calculated the insurance expense and prepaid insurance correctly and a variety of errors were witnessed.
- Accrued expenses were deducted from operating expenses.
- Bank loan and accrued markup were not shown separately. The total was either shown as the Bank Loan or as Payable to Bank.

Question 6

The requirement was to prepare realization and capital accounts in the books of two partnerships and prepare the opening balance sheet of the amalgamated business. The overall performance was quite poor. Most students were disorganized as they prepared separate capital accounts of the partners instead of preparing them in a columnar form. Other common errors were as follows:

- Credit balances in the current accounts were posted on the debit side of the capital accounts.
- Some students did not enter the amount to be further provided/refunded to the partners as they ignored the instruction about final balances in the capital accounts.
- The amount of goodwill was ignored or was not closed despite the clear instruction in the question that no goodwill account is to be maintained in the new partnership.
- Creditors taken over by the partners were not recorded in the capital accounts.

Question 7

In this question, the candidates were required to define the term 'business transaction' and then discuss five given situations and conclude whether these were business transactions or not. The definition was given correctly by about 50% of the candidates. While discussing the given situations students just mentioned whether it was a business transaction or not without giving any rationale. It must be understood that when the requirement is to discuss the issue, the answer cannot be in terms of yes or no. Most common areas of mistakes were situations where there was a transaction between the owner and the business, for example cash withdrawal, bill to be recovered from the partner, etc. In part (i) very few could ascertain that the situation involved two transactions and that purchase of vehicle for private use is not a business transaction whereas the cash withdrawal is a business transaction. Further, in point (iv) students incorrectly explained that bringing the generator would only be treated as a business transaction if it is repaired. Induction of asset in business should be treated as a business transaction. Whether it is repaired immediately or not is irrelevant.

Question 8

The requirement in this question was to enter the given transactions related to sales and purchases, in the books of prime entry and prepare control accounts of Receivable and Payables and the cash and bank account.

A mixed response was witnessed as a large number of students performed well and about 14% scored full marks also. On the other hand, many students made elementary mistakes as discussed below:

- Ledger accounts or accounting entries of purchase and sale were prepared. The books were not prepared.
- Sales and purchases return books were not prepared.
- Dates were not mentioned in sales and purchase books.
- Shop furniture purchased was recorded in the purchase book.
- In receivable/payable controls account, entries for each transaction were made instead of posting the cumulative amounts.
- Cash book was prepared instead of cash and bank account.
- Trade discount received and availed by the customers should be adjusted at the prime entry level. Many candidates did not know how to do it and tried various other ways of recording it.

THE END