

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Introduction to Accounting	SESSION Certificate in Accounting and Finance – Spring 2015

General

The question paper was designed for students of elementary stage and basic understanding of accounting concepts were tested. Overall performance was below average whereas in the last attempt the performance was very good. Main reason for this decline was that in the last attempt, majority of the students who appeared were those who had previously appeared in 'Introduction to Financial Accounting' (FA-1) paper of Module 'B' which had a much wider syllabus; whereas most of the students who appeared in this attempt were appearing for the first time.

Question-wise comments are given below:

Question 1

This question consisted of five parts. Performance in each part is discussed below:

- (a) Details of expenses incurred on import of a machine were given and candidates were required to identify the amount at which the machine was to be capitalized. Majority of the students got full marks in this part.
- (b) This part required the candidates to identify the accounting concept in a given scenario. Instead of identifying the underlying accounting concept i.e. Prudence, many candidates discussed the concept of NRV which was not required.
- (c) In this part, the requirement was to determine the proportion of the cost of an asset that would have been depreciated under the sum of digit method, after three years, where the useful life of the asset was five years with no residual value. The performance was quite poor as surprisingly majority of the students, either did not know the sum of years digit method or worked out the amount of depreciation which was to be charged only in third year of asset's useful life instead of the cumulative total which would have been charged by the end of third year. Few students also wrote that the answer can not be determined because cost of an asset has not been provided.
- (d) In this part, candidates were required to identify the asset relating to business reputation, customers loyalty etc. Majority of the candidates correctly identified the business asset as "Goodwill".

- (e) This part tested the students' hands-on-knowledge of accounting and required the candidates to prepare a T-account for interest payable. Surprisingly, most of the candidates, inspite of the given data, calculated the amount of interest which was to be charged to profit and loss account at Rs. 60,000. Few candidates wrongly posted the brought forward balance of interest payable to the debit side of the T-account. Many candidates did not write the closing balance of the account.

Question 2 (a)

Although majority of the students were able to describe the term "substance over form", they failed to give examples in support of their answer. Few students who gave the example of lease agreement did not specify whether they were discussing finance lease or an operating lease. Only few students were able to correctly give the two examples, as required.

Question 2 (b)

Majority of the candidates were of the opinion that the calculator would be capitalized but completely failed to appreciate that this treatment would be accorded under the matching concept. Only few candidates were able to correctly identify the alternative treatment under the materiality concept.

Question 3(a)

This part consisted of three sub-parts. The first two sub-parts comprised of two transactions i.e. (i) return of goods which were purchased on credit; and (ii) cheque drawn for cash. Students were required to identify the source documents and subsidiary books which were to be used in respect of each of the above transactions. They were also required to write a journal entry for each of the above transactions.

Majority of the students were able to correctly identify the source document(s), subsidiary book(s) and prepare the journal entries. However, many candidates wrongly treated cash withdrawal as partner's drawing and treated purchase return as a sales return.

The third sub-part required the students to identify the type of error made in recording the transaction and its possible effect(s) on the accounting records and financial statements. The performance in this part remained poor as majority of the candidates not only failed to identify the type of error but also failed to state its possible effects on the financial statements.

Question 3(b)

The requirement in this part was to explain the terms 'prepayment' and 'accrued expenses'. Majority of the students were able to correctly explain the terms by giving examples in support of their answers.

Question 4(a)

The question required the students to identify two purposes of a trial balance. Generally this part was well attempted as most of the students secured full marks.

Question 4(b)

In this part of the question, the candidates were required to describe the primary reasons for issuance of various documents used in a sales accounting system. Performance in this part was very poor. Most of the students even failed to identify the documents used in a system designed to account for sales. Many candidates listed the subsidiary books instead of the documents.

Question 5

In this question, the candidates were required to specify the effect of six different transactions in the form of an accounting equation. Although many students managed to secure full marks, overall performance in this question was very poor. Many students failed to put correct sign (+/-) for increases and decreases in assets, liabilities and equity and did not bother to see whether the equation is balanced or not. Some of the students prepared journal entries which were not required at all.

Errors commonly observed in each transaction were as follows:

Transaction (i) – Majority of the student failed to calculate credit sales and margin on sales correctly.

Transaction (ii) – This was attempted correctly by most of the students.

Transaction (iii) – Write off of bad debts was correctly recorded as a reduction in accounts receivable under the head Assets but increase in Bad debts was recorded as a decrease in Assets.

Transaction (iv) – Cash introduced by a new partner as his share of Goodwill was recorded as a Goodwill under the head “Assets”. Many students recorded introduction of cash correctly as an asset but showed the amount brought in for goodwill as a decrease in assets.

Transaction (v) – Very few students could correctly present the effect of this transaction. Most of them showed one side of the transaction only.

Transaction (vi) – Many students calculated and recorded the amount of interest on loan as well.

Question 6(a)

The requirement was to state ten causes of disagreement between balance as per bank book and balance as per bank statement. Overall performance in this part was good but only few students were able to list ten reasons, though most of the reasons were available in part (b) of the question and could have been presented after rephrasing. Many students copied the transactions from part (b) without even deleting the amounts. Many students in an attempt to complete 10 reasons, repeated the same reasons many times e.g. in case of casting error, over-casting and under-casting were stated as separate items and were separately stated for bank book and bank statements.

Question 6(b)

In this part, candidates were required to determine the correct balance that should have been reported in the bank book and prepare a bank reconciliation statement. Overall performance was satisfactory. However, following common mistakes were observed:

- Many students prepared the bank reconciliation but did not calculate or show the correct balance as per bank book.
- In sub part (iii), many students considered the situation as a transfer of funds to another account instead of transfer of funds into the account.
- In sub part (vii) the correction was recorded at Rs. 65,000 i.e. the fact that the impact would be doubled the amount posted, was not appreciated.
- In sub part (viii) the balance as per bank book was adjusted whereas the error was in the bank statement.

Question 7

This question on partnership required students to prepare revaluation account, partners' capital accounts and statement of financial position. Performance in this question was average; however, around 20% students did not attempt this question at all.

Some of the commonly observed mistakes were as follows:

Revaluation Account

- The provision for doubtful debts should have been equal to 5% of the gross receivables which amounted to Rs. 500,000; whereas a balance of Rs. 15,000 already existed in the provision account. Many students made a further provision of 5% of the net receivables.
- Many students wasted time in listing all assets and liabilities in the revaluation account.
- Many students did not allocate gain or loss on revaluation to retiring partner.

Capital Accounts

- Most of the students did not distribute the balance in profit and loss account to existing partners and reported it in the statement of financial position separately.
- Although goodwill amount was given in the question, yet some students tried to calculate goodwill using various assumptions. Only few students could correctly calculate the distribution of goodwill among the partners.
- Some students recorded the gain on revaluation account on the debit side of the partners' capital account.

Statement of financial position

- Many students did not report Intangibles (Software License) or reported it under current assets.
- Most of the students did not include payment to retiring partner in calculating their closing bank balance.
- Outstanding repairs bill was included in revaluation account but not reported in the statement of financial position.

Question 8

In this question, previous year's statement of financial position was given along with details of transactions during the year. The candidates were required to prepare a Statement of Comprehensive Income and Statement of Financial Position.

Performance in this question was average. Some of the mistakes observed were as follows:

Statement of Comprehensive Income

- Discounts received were adjusted against sales and discount paid were adjusted against purchases.
- Adjustment of opening and closing creditors was ignored in computing office expenses.
- Depreciation on plant and machinery was calculated without making proper adjustment for additions and disposals during the year.
- Many students who calculated the amount of depreciation for the year and provision for bad debts correctly, failed to report them in the Statement of Comprehensive Income.

Statement of Financial Position

- Many students failed to calculate the closing bank balance and reported the opening balance of Rs. 45,000 as the closing bank balance.
- Most of the students ignored discounts allowed and discounts received in their calculation of closing debtors and creditors. Some students also ignored opening balances.
- Most of the students included only the repayment of principal amount of loan in cash payments ignoring the interest payment.
- Many students did not make any attempt to calculate the opening capital balance and left it blank.

THE END