THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN EXAMINERS’ COMMENTS	
SUBJECT Introduction to Accounting	**SESSION** Certificate in Accounting and Finance Autumn 2016

General:

Though passing percentage improved as compared to the last attempt, the overall performance was still quite unsatisfactory. Average performance was noted in question # 1,5,6,7 and 8. The areas where students performed very poorly in this attempt were bad and doubtful debts (Q.2), inventory (Q.3) and accounting concepts (Q.4).

Many students lost marks as well as wasted their time because of inappropriate presentation and duplicate workings. Certain questions were answered twice, once as rough work and then re-worked as fair. Some students did not provide working. In such cases all the marks are lost if the presented amounts is incorrect. For preparation of financial statements, even simple adjustments were worked out by preparing ledger accounts which was a waste of time and showed lack of practice on the part of the students.

Question-wise comments

Question 1(a)

In this part of the question, the students were required to list the documents used in a system designed to control and account for purchases and briefly describe the purpose for issuance of these documents. This question was generally well attempted but a significant number of students mentioned purchase day book, general and subsidiary purchase ledger accounts as documents used for this purpose, which was incorrect.

Question 1(b)

In this part, certain transactions were given and the students were required to post these transactions to the related books of prime entry and prepare general ledger accounts and subsidiary ledger accounts. The performance in this question was average, the mistakes observed were as follows:

- T-accounts were prepared under the headings of purchase day book and purchase return day book.
- For goods purchased on credit, purchase account was credited (instead of debiting it) and trade payable control account was debited (instead of crediting it).
- Certain students made correct postings to creditors’ control account but in subsidiary ledger, purchase transactions were posted on the wrong side.
- Majority of students were unable to correctly record the goods destroyed in fire to be recovered from Rahat Insurance Co.

Question 2

This question pertained to Trade debtors and provision for doubtful debts. Opening balances as well as transactions for the month of August 2016 were given. Students were required to prepare ledger accounts for provision for doubtful debts and bad debt expense for the month of August 2016.

The performance in the question was very poor and only 18% students were able to secure passing marks. The common mistakes were as follows:

- Month-end provision for doubtful debts was to be computed on month-end balance of trade debtors. In this respect very few students were able to compute correct closing balance as most of them committed one or more of the following errors:
    - Opening balance of trade debtors was taken net of provision instead of gross amount.
    - Recovery of Rs. 4.5 million pertaining to the debtors which had previously been written off was not recorded correctly i.e. the restatement of amount written off was not made.
    - Gross amount of invoices before 10% discount could not be worked out correctly.
- In respect of provision for doubtful debts and bad debt expenses, following mistakes were noted:
    - Although opening balance of the provision was given in the question, still many students tried to recalculate it and arrived at incorrect balance.
    - General provision was calculated without excluding the specifically provided amounts.
    - Closing balance of the provision was treated as charge for the year.
    - There was an existing specific provision at 60% of balance due from Ray Brothers. During the month, Ray was declared bankrupt and its balance had to be written off. In this respect, most of the students were unable to compute correct amount to be charged to bad debt expense account.

Question 3

In this question, the students were required to prepare adjusting and closing entries for the year ended 30 June 2016 for opening inventory, purchases, sales and closing inventory.

Closing inventory balance as at 30 June 2016 was required to be computed from the cost determined on the basis of physical inventory carried out on 10 July 2016 after taking into consideration the transactions between year-end and the date of physical inventory.

The performance in this question was very poor and only 3.5% students were able to secure passing marks. The common mistakes were as follows:

- For computing year-end inventory balance, the following mistakes were noted:
    - While calculating the closing inventory a large number of students started with opening balance instead of the cost of physical inventory.
    - Adjustments relating to sales and sales return were stated at the sales value instead of cost thereof. Some of the students tried but could not compute the cost correctly.
    - Cost of goods issued to the proprietor in June 2016 i.e. before year-end was also adjusted.

- Most of the students prepared adjusting entry for cost of damaged goods. However, as Chenab Enterprises used periodic inventory method to record the inventory, there was no need to prepare adjustment entry for such loss.
- Most of the students were unable to prepare correct closing entries for opening and closing inventories.

Question 4

In this question, two situations were given and the students were required to identify and explain the concept involved in each situation and suggest adjustments, if any, to correct the financial statements for the year ended 30 June 2016.

This was another low scoring question and only 4% students were able to score passing marks. Comments on each situation are given below:

(i) A significant number of students managed to identify the concept of going concern. However, very few could explain correctly the impact of such a situation on the valuation of assets and liabilities of the company.

(ii) In this case the correct concept was 'true and fair view' (faithful presentation). However, most of the students identified the concept incorrectly as 'prudence' and also tried to justify it. It must be noted that making provision to even out profits is not acceptable and is a clear violation of the principle of faithful representation.

Question 5

In this question, the students were required to specify the effect of five different transactions in the form of accounting equation. The overall performance was average. The common errors were as under:

- Some students prepared accounting entries instead of showing the impact on assets, equity and liabilities.
- Some students wasted time by preparing accounting entries as well as accounting equations. Surprisingly, in many cases, entries prepared were correct but effects on accounting equation were incorrect.
- Many students accumulated the balances under different heads rather than showing effect on accounting equation for each transaction.
- Many students used the term Capital instead of Equity.
- Part (ii) of the question was not attempted by a large number of students whereas most others did not understand the effect of setting off of the balances.
- In part (iii), most of the students showed decrease in account receivable by Rs. 11,000 instead of Rs. 12,000. Further, very few students were able to show the correct effect of bank charges of Rs. 1,000 as reduction in equity.
- In part (iv), provision for doubtful debts was shown as decrease in assets as well as liabilities.

Question 6

The performance in this question was good. The requirement was to prepare partners' capital accounts and statement of financial position on retirement of a partner and admission of a new partner on the same date. The commonly observed errors were as under:

(i) A considerable number of students wasted time in preparation of journal entries in total disregard of the requirement of the question.
(ii) The agreed value at which the shop was taken over by the retiring partner had to be debited to the retiring partner and credited to revaluation account. A significant number of students debited the retiring partner account but mistakenly revaluation account was not credited.
(iii) Most of the students were unable to compute revised profit sharing ratio for the existing (old) partners correctly.
(iv) While preparing statement of financial position:

- Adjustments for payment to the retiring partner and cash brought by the new partner for his share of goodwill and capital were not properly incorporated to arrive at revised balance of cash and bank.
- Cost of fixed assets was reduced by the agreed value of the shop instead of the cost of shop taken over by the retiring partner.

Question 7

This question required preparation of statements of comprehensive income and financial position. The overall performance in this question was good.

The common errors noted were as under:

(i) While computing sales, goods returned by the customers were ignored. Some students reduced the cost from the sale instead of reducing the selling value.
(ii) No adjustment was made to correct the error whereby advance paid for purchases of machine was included in cost of plant and machinery. On the other hand many students deducted the depreciation on such advance in arriving at the closing balance of accumulated depreciation.
(iii) Depreciation was computed on cost instead of written down value.
(iv) Interest payable on 12% loan was ignored.
(v) The loan was not bifurcated into long-term loan and current maturity of long-term loan.
(vi) Only prepaid portion of fire insurance premium for owner's personnel premises was excluded from selling and administration expenses instead of deducting the entire amount.
(vii) Reduction in provision for doubtful debts was treated as an expense.

Question 8

In this question, students were required to post relevant transactions to the bank book to arrive at the correct bank balance and prepare a bank reconciliation statement.

The overall performance in this question was good as 44% students were able to secure passing marks whereas 132 students secured full marks. The common type of errors were as follows:

(i) Because of lack of understanding of the topic, items that should have been posted to the bank book were included in the bank reconciliation statement and vice versa.
(ii) While posting entries to the bank ledger account, incorrect heads of accounts were mentioned.

(iii) According to the question, payment made by a customer net of 5% payment discount had been recorded at the gross amount. A significant number of students were unable to compute the discount correctly. Further, instead of making corrections by taking the difference between the gross and the net amount, many students reported the net amount as the adjustment.

(iv) Most of the students posted incorrect amount of bank charges to the bank ledger account as they ignored the overcharged amount. Some of those who made the entry by the correct amount, failed to include the over charged amount in the bank reconciliation statement.

THE END