

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Introduction to Accounting	SESSION Certificate in Accounting and Finance – Spring 2016

General:

The overall performance in this attempt was much below the performance in the previous attempt. The response was quite poor in preparing statement of comprehensive income, statement of financial position, journal entries and partners' capital accounts. However, better performances were witnessed in the areas of stakeholders' identification, purchase ledgers, inventory calculation and bank reconciliation statement.

Following are some of the general areas that students should be conscious of, to avoid unnecessary loss of marks:

- Many students did not read the requirements carefully and prepared unnecessary workings and subjected themselves to unnecessary pressure with regard to time constraint. A typical example was the preparation of accounts/entries in the books of both firms in Q. 8 whereas the requirement was to prepare them for one of the firm only.
- While attempting the numeric part of the questions, many students converted the "units" given in the question to thousands, millions, etc. instead of using the unit given, which was quite normal; however, in this process they made unnecessary mistakes.
- In many cases the students did not show the breakup or calculation of figures. In such situation, full marks are secured if the figure arrived at is correct but no marks can be awarded if the figure is incorrect. In case proper calculation is shown, many of the marks could be secured based on the correct part of the calculation.
- When a question requires posting in ledgers, journal entries should not be given and vice versa. Likewise, when extracts are requested, detailed ledger entries should not be given. Students should read the requirements of the questions carefully and answer accordingly. No additional marks are available for information which is not required.
- Many students seemed to waste time in tallying the balance sheet in question 7 which was totally unnecessary.

Question-wise comments

Question 1

This was a straightforward question requesting the identification of four potential user groups that may be interested in an entity's financial statements and the specification of the type of information that would interest them. Generally, students did well in identifying the various user groups; however, when it came to describing why a user would be interested in the financial statements, some students described the role of the

user with respect to the company rather than “why” the user would require such information. Further, some students used different names for the same users e.g. banks and lenders were mentioned as separate users. Many students mentioned different types of organizations instead of users of financial statements.

Question 2

In this question the students were asked to prepare purchase day book and subsidiary and control accounts for trade payables. The overall performance was good; however, only few could secure full marks. The mistakes observed were as follows:

- T-accounts were prepared instead of extracts of the purchase day book.
- Cash purchases and purchase returns were also included in the extracts.
- All transactions were posted in the control account separately, instead of the total.
- Journal entries were prepared which were not required at all.
- General ledger for Purchase, Cash, and Discount etc. were prepared which were not required.

Question 3

This question required calculation of closing inventory under weighted average and FIFO method. The students showed a reasonable understanding about calculating value of inventory using both methods. However, a significant number were unable to demonstrate how to calculate the value of closing stock properly by taking the lower of cost and NRV and many of them ignored it altogether.

The common mistakes were as follows:

- Periodic method was used in case of weighted average method, instead of perpetual method.
- The value of purchase return was removed from stock at the weighted average cost instead of the purchase cost.
- Drawings and shortages were not recorded.
- Drawings were recorded at selling price.
- Comparison of cost and NRV was made on an overall basis instead of comparing it separately for good and damaged units.

Further, a large number of students showed entire working under the FIFO method thus wasting a lot of time because the value could have been calculated directly from the figures given in the question. Majority of such students faced difficulty in completing all questions.

Question 4

In this question the students were asked to compute correct bank book balance, pass necessary journal entries and prepare bank reconciliation statement. The overall performance was average as most of the students committed many errors in the preparation of journal entries. The common types of mistakes were as follows:

- Many students used incorrect head of accounts while passing entries e.g. instead of debiting/crediting accounts payable / accounts receivable they used the heads dishonoured cheque/time-barred cheque, etc.

- Items that should have been included in arriving at the corrected bank book balance were included in the bank reconciliation.
- Many students were unable to understand that a positive balance in the cash book of the company is shown in the Bank statement on the credit side because bank statement shows the figures from the bank's perspective. Consequently, they presumed the balance in the bank book as overdraft.
- Many students were confused between uncleared cheques and cheques issued but not presented and used them interchangeably.

Question 5(a)

In this part of the question the students were required to explain the accrual basis of accounting and describe its advantages. This was generally well answered; however, some students simply mentioned that accruals are a type of receivables and payables without explaining as to why they arise. Further, while explaining the advantages, many students repeated the concept in different words instead of actually mentioning the advantages.

Question 5(b)

According to this part of the question, six transactions were described which had been recorded under the cash basis of accounting. Some of these transactions had been carried out in January 2016 and some in February 2016. The requirement was to pass adjusting entries to convert the above to accrual basis, for the purpose of preparation of financial statements for the month of January 2016.

The overall performance in this part was poor. Some of the commonly observed errors were as under:

- Many students passed entries on the date of transaction through cash or bank accounts, instead of passing correcting entries on 31st January.
- Entire amount of rent paid was recorded as prepayment instead of limiting it to remaining period i.e. 11 months only as the month of January had already passed.
- Rs 0.9 million received net of 10% cash discount meant that the amount of discount was Rs. 0.10 million. Many students computed it as Rs 0.09 million.
- Many students used the term prepaid purchases instead of advance to suppliers.

Question 6

In this question, comments were provided on four different amounts appearing in the financial statements. The students were required to suggest adjustments in order to ensure that the financial statements present a true and fair view. In the second part, they were required to identify and briefly describe the accounting concept/principle relevant to each adjustment.

The overall performance was average as the candidates generally did well in identifying the necessary adjustment but were mostly unable to identify the relevant concept/principle. Even among those who did identify the principle/concept, very few could describe the same correctly. Other observations on each sub-part are given below:

- i. Many students mentioned materiality instead of the matching principle.

- ii. Most of the students correctly recommended that weighted average method may be continued. However, many among them suggested the principle of prudence for their decision. Surprisingly, many students were of the view that FIFO method should be used as it shows higher profit. Only about 10% correctly identified the consistency concept but very few among them could clarify as to when an exception to the consistency principle is required.
- iii. The answer in most of the cases was that all fixed assets should be capitalized which was considered as correct. However, only few discussed the concept of materiality.
- iv. Majority of the students gave the correct answer in this case.

Question 7

This question required preparation of statement of comprehensive income and statement of financial position using the trial balance and other information given in the question. The overall performance was very poor. Many students lacked understanding of the right approach of solving such questions as they prepared journal entries and ledger accounts to arrive at many figures. A significant number of students were unable to distinguish about the entries that have already been incorporated and those which have not been recorded entirely. For example, in case of depreciation, they provided the entire amount instead of adjusting the errors only. Many students placed the figures provided in the trial balance into the statement of comprehensive income (SOI) and statement of financial position (SOFP) without incorporating the adjustments. Other common errors are discussed below:

- Cost of photocopy machine in office use, computers issued to the proprietor and purchase returns had to be subtracted from purchases as well as closing stock but many students only deducted them from either purchases or closing stock.
- Sales return was recorded by reducing the sale but impact on receivables was ignored.
- Depreciation on photocopy machine in office use was ignored.
- Many students treated the computers issued to the proprietor as a capital asset and charged depreciation thereon.
- Many students charged the entire provision for doubtful debts as an expense.
- Many students computed the income from maintenance contract incorrectly as they did not comprehend that amount of Rs. 1.8 million represented a 50% advance and hence the total income from the contract amounted to Rs. 3.6 million.
- Interest on bank loan, depreciation and income from maintenance contract had to be apportioned over their respective periods and recorded accordingly, rather than taking the whole amounts to the statement of income.
- In many cases, selling and administrative expenses, financial charges and other income were not bifurcated and all items were placed one after the other without any segregation.
- Recovery of debts written off in prior years was recorded by most of the students as a further reduction in trade debts instead of reinstating it by crediting provision for doubtful debts.
- Many students showed provision for bad debts as a liability.
- Very few students could adjust the suspense account correctly. Most of them treated the entire amount either as an income or a liability.

- Bank loan was not bifurcated into 'long-term loan' and 'current maturity of long-term loan'.
- Some students made adjustments to opening inventory also.

Question 8

The performance in this question was very poor. The requirement was to prepare realization accounts and capital accounts in the books of one of the two amalgamating firms and opening entries in the books of the new firm. Many students did not read the requirements correctly and wasted lot of time in preparing accounts and entries in the books of both the firms. On the other hand, many candidates made entries into the new firm based on balances from KC only. Many students also wasted time in preparing separate T accounts for each partners' capital, instead of preparing them in columnar form. Other common errors were as follows:

- Many students lacked clarity as to which items are to be taken to capital accounts and those that have to be routed through the realization account. Some students tried to route the cash balances also, through the realization accounts.
- The value at which the car was taken over by Gamma had to be credited to the realization account and debited to Gamma's capital account. A significant number of candidates missed one or both the entries. On the other hand, a significant number of students debited the realization account with book value of fixed assets excluding the book value of car whereas some of them debited the entire book value of fixed assets and also debited the book value of the car again.
- Many candidates made entries in the books of the new firm at book values of assets instead of the revalued amounts.
- Entries to write off the goodwill and final adjustment of capital balances by cash brought in and paid to the partners were ignored.
- Some students recognized and closed the KC's goodwill in KC's books by crediting all the three partners and debiting the capital accounts of Alpha and Beta.

THE END