

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN	
EXAMINERS' COMMENTS	
SUBJECT Introduction to Accounting	SESSION Certificate in Accounting and Finance – Spring 2017

General:

The overall performance in this attempt was similar to last attempt with passing percentage of 26.7% as compared to 26.0% in the previous attempt. Very poor performances were witnessed in two of the core areas of this paper i.e. inventory (Question 2) and fixed assets (Question 7) which was alarming.

Some of the important observations were as follows:

- Each question has a pattern where amounts are either given in “Rs.”, “Rs. in ‘000” or “Rs. in million”. As far as possible, the students should follow the same pattern in answers as well. Some students changed the patterns and consequently made mistakes and must have wasted unnecessary time in converting the figures as well.
- Despite much better performances in the preparation of financial statements, poor performance was witnessed in questions involving general entries which clearly indicated a lack of practice which need to be emphasised.
- Many students attempted the paper like rough work i.e. figures were jotted down without any description and there was no way to understand what they represent unless the figures matched with the right answer. Certain questions were answered twice, once as rough work and then re-worked as fair resulting in wastage of crucial time.
- 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

The question consisted of two parts. The overall performance was reasonable as about 50% of the candidates were able to secure passing marks. Performance in each part is discussed below:

Question 1(a)

The requirement in this part of the question was to enter the given transactions related to sales and purchases, in the books of prime entry. Generally, the candidates were able to post the correct entries in related books of prime entry. However, many of them made errors which are discussed below:

- Sales day book and Purchase day book were prepared in the form of T accounts.
- Amounts involving discounts could not be calculated correctly. Despite the fact that purchase of Rs 190,000 was net of 5% discount, many students calculated and deducted the discount again.
- Cash sale was also recorded in sales day book.
- For writing off the debtor amounting to Rs. 65,000 bad debt account was debited instead of provision for bad debt account, though it was mentioned in the question that the company maintains adequate provision against debtors.
- Many students did not prepare the cash book. Some of them did not prepare the General Journal also whereas some students prepared Journal entries for sale and purchase transactions also.

Question 1(b)

From the prime books of entry as prepared in 1(a) above, the students were required to post these transactions to the receivables and payables control accounts. The performance in this question was average. The mistakes observed were as follows:

- Instead of posting the totals, individual entries were posted.
- Entries to record amounts received and paid were ignored.
- Some students posted transactions on wrong sides of the control accounts.
- Trade discount received and availed by the customers should be adjusted at the prime entry level. Many candidates showed it in the control accounts.
- Many students also prepared the subsidiary ledger accounts and wasted their time.

Question 2

In this question, the candidates were required to compute the value of closing inventory as would appear in the financial statements and pass necessary closing entries, under the given situation.

The overall performance was poor and only 17% candidates could secure passing marks. The common mistakes were as follows:

- Perpetual inventory method was used instead of Periodic inventory method. Some candidates used FIFO method instead of weighted average 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. Many students ignored the NRV testing altogether.
- Some candidates added the additional cost to sell to the estimated selling price, instead of deducting it.
- Performance in the 2nd part of the question which required closing entries was very poor and many students ignored it altogether. Many students tried to prepare statement of comprehensive income instead of the closing entries which was a sheer waste of time.

Question 3

The requirement in this question was to prepare current and capital account of the partners of a firm. The performance in this question was below average as only 38% of the candidates could secure passing marks. It was quite surprising to note that many students did not seem to pay any attention towards the requirements of the question and wasted lot of time in preparing financial statements and making entries in the books of the firm. Other common errors were as follows:

- Many students ignored some or all of the adjustments to profit before its appropriation among the partners on the basis of profit sharing ratio.
- Many students were totally confused whereas most of them lacked clarity as to which items are to be taken to capital accounts and which are to be taken to current accounts. In most of the cases drawings were posted in capital accounts instead of current accounts.
- While allowing the guaranteed profit to A, the entire adjustment was made from the profit of Z instead of allocating the shortfall between Z and C. Many among those who did try to allocate, made various types of mistakes and could not calculate the amounts correctly.
- Annual sales commission to Z was calculated as 5% of profit before deduction of commission instead of 5% of profit after deduction of commission.
- Partners' monthly salaries were taken into consideration instead of annual salaries.

Question 4

In this question, six situations were given and the students were required to identify and explain the concept/principles involved in each situation for preparation of the financial statements. Although many students managed to secure high and even full marks, overall performance in this question was below average.

Comments on each situation are given below:

- (i) This was the worst attempted situation as most of the students kept on discussing the difference between cost and revaluation, instead of identifying the principle involved i.e. Historical Cost. A number of students related it to the principle of prudence which was surprising.
- (ii) Majority of the student identified and explained the materiality concept. However, some of them also mentioned prudence which was totally incorrect.
- (iii) Many students mentioned and explained consistency principle but failed to explain that presentation may be changed to improve the quality of presentation subject to compliance with the requirements of the Accounting Standards.
- (iv) Most of the students correctly identified 'prudence' but could not describe it. In most cases the principle was overemphasized as they suggested making suitable provisions when profits are high.
- (v) This was correctly identified and explained by most of the students.
- (vi) A number of students mentioned accrual basis instead of matching principle.

Question 5

This was a standard question where trial balance and certain adjustments were given and the requirement was to prepare statement of comprehensive income and statement of financial position. The performance was much below expectation and as compared to performances in similar questions in the past.

Some of the common mistakes were as follows:

Statement of Comprehensive Income:

- Trade discount of 5% was included in selling & administration expenses.
- Sales return was recorded by reducing the sale by cost instead of sales price.
- Cost of sales was already given in the question. However, due to lack of understanding of perpetual inventory method, some students tried to recalculate it by computing purchases and opening inventory.

Under perpetual inventory method, cost of sales is computed on each purchase and sales transaction. Whereas, under periodical method cost of sales is computed at the time of preparation of statement of comprehensive income.

- The cost of goods returned by the customers was taken as Rs. 4.2 million instead of Rs. 5.0 million. Some of them reduced the cost of sale by the selling price.
- Reversal of depreciation on the equipment returned was ignored.
- Calculation of financial charges was quite straight forward but majority of the students made various types of errors.
- In many cases, selling and administrative expenses, financial charges and other income were not clearly identified and all items were placed one after the other.

Statement of Financial Position:

- Opening accumulated loss was treated as accumulated profit.
- Though the term 'closing inventory' was mentioned in the trial balance, many students treated it as the opening inventory.
- While computing closing inventory, most of the students were unable to correctly incorporate the adjustments in respect of normal loss, fire loss, sale return and drawings.
- Impact of sales return on debtors was ignored.

Question 6

In this question eight transactions were given in the form of accounting equation and the candidates were required to give brief narration/description of each transaction. The question was reasonably well attempted as 54% of the candidates secured passing marks. However, instead of the description, many students prepared journal entries or simply stated what was being debited or credited and could not secure any mark. Besides, many students were only able to describe one part of the transactions.

Other common errors were as follows:

- Many students mentioned the terms assets and liabilities instead of the exact type of asset.

- Many students only stated the which items were increasing or decreasing rather than giving appropriate description.
- Instead of Accounts Receivable, the term other receivables was used.

Question 7

In this question certain account balances and subsequent findings related to fixed assets were given. The students were asked to prepare the necessary adjusting and closing entries. The overall performance was very poor as only 11% of the candidates could secure passing marks. One of the main reason for the poor performance was the candidates' complete lack of understanding of the topic.

Common mistakes made are listed below:

- Many candidates prepared T-accounts of fixed asset, depreciation expense and accumulated depreciation instead of passing Journal Entries.
- According to the question depreciation was to be charged from the month of addition to the month prior to disposal. Many candidates ignored this and computed depreciation for the whole year in case of addition and did not charge any depreciation in case of assets disposed/scrapped.
- In case of disposal, many candidates used a disposal account but didn't bother to close it by transferring the amount to relevant heads.
- Majority of the candidates calculated accumulated depreciation on equipment damaged in rain and scrapped, but failed to calculate loss on scrapping of fixed assets.
- Many candidates ignored the impact of adjustments on depreciation altogether.

Question 8

In this question, a bank reconciliation statement was given and the students were asked to prepare a revised bank reconciliation based on the given information and after making necessary corrections in the bank book. The overall performance was below average as only 35% of the candidates secured passing marks. Barring few, almost all the students made some simple errors which indicated their lack of conceptual understanding. The most common errors were as follows:

- A number of students did not have clear concept as to which of the adjustments are to be made in the bank book and which appear in the bank reconciliation. Consequently, items that should have been posted to the bank book were included in the bank reconciliation statement and vice versa.
- Corrections in bank book in respect of debit advices of bank charges for current months and reversal of bank charges of subsequent month were not made.
- Majority of the students ignored the adjustment regarding time barred cheque.
- Only few students seemed to understand the nature of the un-reconciled difference. Many of them included it in the revised bank reconciliation despite having made the related correction.

THE END