

INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Financial Accounting and Reporting-I	Certificate in Accounting and Finance – Autumn 2014

General:

The overall result in this paper was 35%. The following general issues were observed during the assessment process:

- Students did not carefully read the style of amounts mentioned in the question like Rupees, “Rs in 000” or “Rs in million”. Consequently, they arrived at abnormal figures which confused them and resulted in errors.
- The exact requirement of the question was not read. Consequently, either important calculations were missed or additional working was carried out which resulted in waste of precious time.

Question 1

This question required basic knowledge for preparing Statement of Comprehensive Income and Statement of Financial Position. Unadjusted trial balance and related data for the purpose of adjustments were provided in the question.

Generally the performance was good; however, the following mistakes were observed:

- Receivable from sale of machine was not incorporated in the statement of financial position.
- Rs. 20 million relating to invoice booked after year end was adjusted from stock instead of purchases made during the year.
- Net realizable value (NRV) of specified products was not correctly calculated. Discount of 25% which should have been deducted from total sale in order to arrive at NRV, was ignored. Many students ignored the selling costs that were required to sell the related stock.
- Many students did not include depreciation in cost of sales and included the entire depreciation in administrative expenses.
- Most of the students were not familiar with the treatment of tax. Instead of showing tax as a deduction from profit before tax, many students included tax in Administration Expenses. Further, most students did not adjust advance tax from the income tax liability. Many students ignored it altogether.

Question 2

This question required preparation of branch account showing the profit made by the branch. An average performance was observed because many students made errors even in the treatment of simple items. Some of the common mistakes are enumerated below:

- Goods in transit were included in the amount of Goods sent to Branch.
- Many students ignored the stock reserve specially the reserve on opening stock. Further, in computing reserve on closing stocks most of the students calculated it on GIT also.
- Opening debtors were ignored in most cases.

Question 3

- (a) Conditions for revenue recognition as specified in IAS 18 were required. Majority of the students missed one or two conditions specially those related to non-retention of control by the seller and the condition that economic benefits associated with the transaction should flow to the seller were missed.
- (b) In this part, two transactions were described and the candidates were required to specify the accounting treatment thereof. In such questions, the recommended accounting treatment is required to be justified on the basis of relevant accounting principles/rules. Many students ignored explanation altogether. Other common mistakes were as follows:
 - (i) Majority of the students clearly knew that sales will be recorded on completion of 3 months. However, only few were able to discuss the reasons thereof in a proper way.
 - (ii) Majority of the students were unaware of the concept of sales on lay away basis as has been discussed in IAS 18 and assumed it as Installment sales. They are advised to refer to the ICAP's suggested answer and to study the relevant paragraphs of IAS 18 to understand this concept.

Question 4

This question required preparation of Journal Entries to record the transactions pertaining to subsequent measurement of fixed assets under the Revaluation Model using Net Replacement Value Method. Generally, the students did not have command over the topic and were further confused between the Net Replacement Value Method and the Gross Replacement Value Method. A number of errors were observed which are discussed below:

- Most of the students did not understand that the balance in the accumulated depreciation account has to be reversed at the time of each revaluation.
- Excess depreciation due to revaluation was not transferred from surplus on revaluation to Retained Earnings.

- In the 2nd revaluation, many students debited the entire reduction in value of plant to the surplus account. The correct procedure is to debit the surplus account only to the extent of credit balance in the account and to debit the remaining loss to Retained Earnings.
- Similarly in the 3rd revaluation the entire difference between the carrying value of the plant and the fair value was credited to Surplus account. For correct procedure the students may refer to the ICAP's suggested answer.

Question 5

The requirement of this question was simply to calculate the value of 3 (imported) products under the FIFO method. However, the candidates made many errors while performing simple calculations and missed an easy chance of scoring high marks. Commonly observed errors are described below:

- The refundable portion of import duty was also included in the cost.
- Transportation cost per trip was taken as the transportation cost for entire purchases, whereas many students were too confused and multiplied the cost per trip with the units per trip to arrive at the total transportation cost for that product.
- Some students ignored wrapping costs and commented that these are marketing expenses.
- Many students ignored the fact that closing inventory of Gamma included 30 units from the opening balance.
- In the computation of NRV, selling costs were ignored.

Further, a number of students made separate calculations (on separate pages) for each product which resulted in wastage of time.

Question 6

This question required preparation of ledger accounts of vehicle, accumulated depreciation on vehicle and gain/loss on disposal of fixed assets.

Majority of the students managed to score good marks in this question. The mistakes observed were as follows:

- (a) Some students prepared a single fixed asset account and merged depreciation and cost in the same account.
- (b) The depreciation on purchases during the year was mostly provided correctly based on the period of use but no depreciation was provided on cars sold during the year.
- (c) The concept of trade-in was misunderstood by many students as they debited the net amount paid to the vehicle account.

Question 7

This was a question on single entry in which the requirement was to prepare Trading and Profit and Loss Account and Balance Sheet. Majority of the students seemed well versed with techniques involved and secured good marks. Most of the errors were in respect of the following:

- Cash sales were not calculated and cash deposited was considered as cash sales.
- Sale was required to be calculated by multiplying cost of sales with 1.6. Instead, many students calculated it by dividing cost of sales by 0.6.
- Many students wasted time in preparing bank account which was not required as all the information was already given in the question.
- Purchase discount was shown in profit and loss account instead of trading account.
- Carriage outward was taken to trading account instead of profit and loss account.

THE END