

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN**

**EXAMINERS' COMMENTS**

<b>SUBJECT</b>	<b>SESSION</b>
Financial Accounting and Reporting-I	Certificate in Accounting and Finance – Autumn 2016

**General:**

This was a well attempted paper and the passing percentage increased significantly. Below average performances were witnessed in Questions 4, 6 and 7. Questions 6 and 7 required conceptual understanding of relevant IFRSs and majority of the students seemed unprepared for the same.

Question-wise comments.

**Question 1**

This question required the students to prepare balance sheet and determine the amount of cash stolen by the cashier of a retail business which maintained records on single entry basis. The question was quite straight forward however the overall performance of the students was average. Majority of the students prepared some basic workings correctly which secured them some marks but could not correlate them to arrive at the amount of defalcation. Other common errors were as follows:

- While calculating the amount of defalcation, most students did not compute cash misappropriated from credit sales and/or from amount received from supplier against purchase return.
- In the calculation of purchases, cash received against purchase returns was ignored.
- While preparing Profit and loss statement for the quarter, expenses paid were considered whereas decrease in expenses payable was ignored. Many students ignored the depreciation also or calculated it incorrectly.

**Question 2**

In this question the candidates were required to prepare Branch Cash account, Branch Stock account and Branch Stock Adjustment account. It was an easy question with simple data and no apparent complexity. Consequently, many students were able to secure full marks. However the overall performance was average as most of the students could only make the basic entries correctly.

The common mistakes were as follows:

- Majority of the students could not understand that the balancing amount in Branch Stock account represented Cash sales.

- In Branch Stock account many students were unable to work out the stock in transit correctly. Further value of goods sent to branch was not grossed up.
- Majority of the students seemed unaware of the use of Branch Stock Adjustment account and made various mistakes/omissions. Many students ignored it altogether.

### **Question 3**

This was an easy question in which the requirement was to determine the regression line for output and production cost and to calculate the estimated production cost based on an output of 3 million units.

Most of the students performed well in this question and many of them secured full marks. However, some students ignored the requirement of the question and tried to solve it using high / low method. Some students determined the regression line using output as the dependent variable instead of cost.

### **Question 4**

In this question the candidates were required to compute the value of stock at year-end based on stock taking carried out 10 days after year-end and details given in the question as regards transactions carried out during those ten days.

The overall performance was below average as only 27% students could secure passing marks. Most of the students found it difficult to calculate NRV of stock items on which repair cost was incurred and the stock was sold at 40% of selling price.

Other common errors were as follows:

- Most of the students found it difficult to properly deal with the issue of goods sold on return basis which were destroyed by fire.
- Many students did not unload profit from sale/sales return.

### **Question 5**

In this question, trail balance of a sole proprietor and adjustment data were given and the candidates were required to prepare Statement of Comprehensive Income and Statement of financial position. The overall performance was good as about 53% students secured passing marks and about 15% of the students scored more than 75% marks. The errors observed were as follows:

- Majority of the students could not correctly adjust the error related to recording of disposal of old generator. Most students ignored it altogether whereas the others made various types of errors including failure to calculate correct WDV of old generator and failure to understand that the trade-in allowance of Rs. 35,000 represented sale price thereof.
- Many students did not record loss on disposal
- Adjustments related to admin expenses and allocation of expenses among cost of sales, admin expenses and distribution was not carried out carefully, resulting in the following:
  - Adjustment for prepaid admin expenses was mostly ignored
  - 70% rent was charged to cost of sales but was not deducted from admin expenses

- Installation charges which were wrongly included in administrative expenses were included in the cost of new generator correctly but the same were not deducted from admin expenses.
- While calculating bad debt expenses, sales made on return basis was not deducted from trade receivable before applying the bad debt percentage. Further, adjustment of written off trade debts was often ignored.
- Income tax liability and/or interest expenses/payable were not recorded.

#### **Question 6(a)**

In this part of the question, the candidates were required to prepare journal entries for sale on deferred payment basis. A large number of students were totally ignorant of the correct accounting treatment and simply booked the entire amount as sales. Many students who had some idea, found it difficult to calculate present value of future payments. Further, many students recorded income by crediting finance income but didn't understand what to debit.

#### **Question 6(b)**

In this part of the question, the candidates were required to suggest appropriate timing for recognizing revenue in case of sales on lay away basis and also in case of a maintenance service contract where the entire fee was received in advance.

With regard to lay away sales, most of the students were only able to mention one condition for recognition of sales i.e. significant portion of payments has been received but did not mention the other condition i.e. delivery of goods or goods being ready for delivery. However, the question pertaining to receipt of maintenance fee in advance was quite easy and most of the students answered it correctly.

#### **Question 7**

This question required preparation of accounting entries for various types of transactions relating to Plant and Machinery. The overall response was quite poor. Depreciation on already existing assets was calculated incorrectly by most of the students as they made errors which could easily have been avoided at this level, by being a bit more careful. Other Common errors were as follows:

- In sub part (i), machine renovation and overhaul cost was fully expensed out whereas only the consumables should have been charged off and the remaining amount should have been capitalised.
- In sub part (ii), instead of capitalizing the machine, a large number of students debited engineering department.

*THE END*