

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Examiners' comments Financial Accounting and Reporting-I Certificate in Accounting and Finance Autumn 2017 Examinations

General Comments:

Overall passing ratio of 13.4% was far below the previous two results. 9.8% students were just short of 5 or fewer marks and could have easily obtained them had they covered all areas of the syllabus. 17% of the students could not even secure 20 marks in the paper.

In this paper, though Q2, Q4 and Q5 were easier questions but a significant number of students secured less than 20% marks even in these questions due to 'cherry-picking' topics from the syllabus. Moreover, students were found struggling to apply their knowledge when questions were presented slightly differently.

Students are using past papers as a key element of their examination preparation but they should remember that **topics/sub-topics/variations not covered in past papers are also examinable**. Majority of the students lost achievable marks in Question 2 & 4 just because such variation was not previously examined.

Some **examination technique issues** also need to be improved which would have lifted many marginal fails into the pass category. Many students are failing because of technique rather than knowledge or ability.

Question-wise Comments:

Question 1

The question required preparation of relevant accounts on Partnership Dissolution. It was an easy question with high performance i.e. 80.4% of the students secured passing marks. However, the following errors were observed:

- Calculation of opening capital account balances proved difficult. For arriving at the opening balance of partners' capital account, current account balance of Rs. 65,000 was not adjusted against total net assets.
- Many students accounted for unrecorded assets and allocated it to partners' capital account instead of simply crediting the proceeds to realization account.
- Closing cash was allocated to partners in their profit sharing ratio instead of paying to each partner his capital account's balance.

Question 2

The question required preparation of note on property, plant and equipment. Only 20.4% of the students secured passing marks in the question. Note in accordance with IAS 16 was examined for the first time at FAR I level. Though it was an easier question, most of the students found it difficult to prepare the required note. 39% of the students could not even score 20% marks in the question which shows that they had not studied this area of the syllabus. The common errors were as follows:

- Rather than preparing statement showing opening and closing carrying amounts (or alternatively cost and accumulated depreciation) and movement during the years, many students prepared T-accounts of cost and accumulated depreciation.
- Cancellation of opening accumulated depreciation for revaluation was ignored.
- Effect of disposal was taken incorrectly in calculating depreciation of remaining assets.
- Important disclosure requirements like measurement bases, useful lives, depreciation method, revaluation details and carrying value of revalued assets at cost model for the both the years were missed.

Question 3

It was a traditional question requiring preparation of financial statements from a trial balance combined with several adjustments. A general weakness amongst most students was that they failed to make a reasonable attempt at the question due to presence of one or two difficult adjustments. Only 5.3% students secured passing marks. However, only 13.2% secured less than 20% marks so majority of the students made just below passing performance in this question. There were atleast 7 easy marks available in the question which could have been obtained even if the students had just used the unadjusted amounts in the financial statements. But it was observed that students left the question halfway if they could not incorporate the effect of one or two adjustments. Some of the errors noted were as follows:

- In adjustment (i) the disposal of the old engine was not recorded and depreciation on the new engine was calculated on original useful life of the delivery truck rather than the remaining useful life.
- In adjustment (ii), goods in transit were not recorded. Those who recorded them did not adjust the advance with the amount payable in respect of these goods.
- Amount of prepaid rent was incorrectly calculated.
- Mark-up on bank was either calculated for the full year or not calculated at all.
- For calculating current portion of loan, amount of one instalment was calculated by dividing the outstanding loan amount with total instalments rather than outstanding instalments.

Question 4

The question required construction of cost function for different production ranges. Only 24.2% of the students could secure passing marks whereas 60.4% of the students secured less than 20% marks which showed that they had not studied the sub-topic. Those who had studied the topic scored well thus answers tended to be very polarised, either very good or very poor. Some common errors were as follows:

- Regression method and simultaneous equation methods were used though the requirement of the question specifically mentioned the use of high low method.
- Instead of formulating cost functions, computations were prepared for fixed and variable cost.
- In part (b), many students did not calculate the total profit for the different selling levels and gave conclusion on the basis of cost per unit or profit per unit.

Question 5

The question required comparison of given ratios with previous year and industry data. Only 9.9% of the students could secure passing marks. Since the question was based on the relatively infrequently examined topic of interpretation of ratios, many students were unprepared. 62.7% of the students secured less than 20% marks.

Generally, students only focus on the formulas of the ratios. However, ratios were already given and the students were required to identify reasons for variation from the given information. The poor performance of the student was due to lack of their ability to interpret the underlying ratios. Many students thought that just saying a ratio had gone up or down amounted to interpretation. Also, merely stating increase or decrease in nominator and denominator did not carry any marks.

Question 6

The question was based on IFRS 15 which is a new area of the syllabus. Only 4% students could secure passing marks in this question. 55% students could not even answer the basic concept examined in part (c). If students could not perform well in basic question then how could they be expected to solve advance questions on this area?

- In part (a) the students had no idea of adjusting the promised amount of consideration for the effects of the time value of money.
- In part (b), the transaction price needed to be allocated to the three products in two steps / stages in their relative selling prices. Mostly the transaction price was allocated in a single step.

Question 7

The question required preparation of statement of profit or loss and determination of the suspected amount of fraud. 11% students obtained passing marks. The calculation of sales was a difficult part of the question. Other than that, some easy marks were available to the students. It was observed that students consumed lot of time in calculating sales and did not attempt the remaining easier areas of the question. Some of the common errors were as under:

- Most of the students could not compute loss due to defalcation which consisted of cash embezzled through purchase return, stock embezzled through fake debtors and cash defalcated through cash sales.
- Cost of stock embezzled through fake debtors was not adjusted in calculation of cost of goods sold.
- Loss on disposal of vehicle was incorrectly calculated.

(THE END)