

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Financial Accounting and Reporting-I	Certificate in Accounting and Finance – Spring 2017

General:

Overall performance of the candidates in this attempt was below average as only 21.6% of the candidates secured passing marks. Very poor performances were witnessed in Questions 2 and 3 although apparently they were simple questions. Almost similar situation existed in Question 5 also. It was generally felt that the performance was poor in those areas or aspects which were tested after a relatively longer period of time.

Question-wise comments.

Question 1

This question required preparation of income statement and balance sheet of a club and computation of cash defalcated by an accountant. Certain opening balances and summarized receipts and payments along with other necessary information was provided in the question.

An average response was observed as almost 50% of the candidates secured passing marks. Many students scored high and even full marks also. However, most of the students made simple mistakes of varying nature on even the easier aspects of the calculations which are not expected at this level. The major errors were as follows:

- Only few students calculated the opening and closing balances of unearned subscription correctly and tried various incorrect methods.
- While computing the amount of cash defalcated, instead of considering receipt of subscription in cash only, total collected amount of Rs. 33m was taken as the cash receipts. Many students tried to compute the amount by preparing bank account or through income and expenditure account, instead of cash account and could not conclude anything.
- Loss due to fraud was not shown in the income and expenditure account.
- Loss of inventory due to fire was ignored in the calculation of cost of sales.
- Loss on disposal of exercise equipment was determined without the impact of depreciation of 3 months i.e. January to March.
- Accumulated fund was not shown in the statement of financial position.

Question 2

This question was based on IFRS 15 'Revenue from Contracts with Customers'. It is a new IFRS and keeping the same in view, a simple question was set to test the basic understanding of this IFRS. However, the overall performance was poor and only 18% of the candidates secured passing marks. Part wise comments are given below:

Question 2(a)

This part required the explanation of the term 'Performance obligation' and the criteria to meet for goods and services to be classified as distinct. Very few students were able to perform well in this part which was a clear indication of the fact that the students had failed to grasp even the key concepts. Most of the students described the steps to recognize revenue instead of criteria for distinct goods and services. They are advised that displaying of knowledge which has not been asked for is of no use in the examination marking.

Question 2(b)

Two scenarios were given in this part and candidates were required to discuss whether contracts under those scenarios represent a single performance obligation. In the first scenario, there were two contracts and the customer was unable to benefit from the services separately unless both were completed and hence they were to be treated as a single performance obligation. Based on the same criteria, the contracts referred to in the second scenario should not have been identified as a single performance obligation. Most of the students could not highlight these points. Many students simply answered in 'Yes' or 'No' without discussing the reasons thereof.

Question 2(c)

This was a very simple question and the candidates were asked to state the disclosure requirements for assets carried at revalued amount under IAS 16 'Property, Plant and Equipment'. The overall performance was average as many students were able to gain passing marks and some got full marks also. However, some students attempted to explain the treatment on revaluation of fixed asset instead of discussing the disclosure requirements.

Question 3

This question required preparation of cost of goods sold statement by valuing inventory under perpetual and periodic inventory methods. Despite the fact that students had already studied the topic in Introduction to Accounting, the performance was very poor and only 19% of the students could secure passing marks. A number of students were totally unaware of the difference between perpetual and periodic inventory methods and also made some very basic conceptual errors as mentioned below:

- (i) Majority of the students showed quantity of finished product B2 sold as quantity of material A1 without calculating the required quantity.
- (ii) Issuance of inventory was taken at selling price instead of cost.
- (iii) Cost of stocks destroyed was taken as zero.

- (iv) Many students determined the amount of closing inventory only and ignored cost of goods sold.
- (v) Purchase return was valued at average cost.
- (vi) Those who computed cost of sales, mostly ignored the under absorption of overheads.
- (vii) Many students treated sale of B2 as issuance of A1.

Question 4

This was a simple question requiring estimation of cost at three production levels using regression analysis and identifying the most beneficial option. The overall performance was satisfactory as 54% of the candidates secured passing marks. More than 100 students scored full marks also.

The major errors were as follows:

- Some students failed to apply the regression formula correctly.
- Some of the students calculated variable and fixed costs using hi-low method even though it was clearly mentioned in the question to apply regression analysis.
- An important information that fixed costs would also increase if production is increased to 90% or more was ignored.
- Many students determined the most beneficial option on the basis of total costs instead of cost per unit.

Question 5

This question required preparation of partners' capital accounts which involved computation of goodwill on admission of a new partner and value of interest in the firm transferred by a partner to his son. Overall performance in the question was below average because many students made errors on the easier aspects of the question also. The common mistakes are discussed below:

- (i) While calculating average profit for determining goodwill,
 - Effects of adjustments on profits were ignored.
 - Adjustment for sales return was included as increase in profit instead of decrease.
 - Depreciation was calculated on straight line method rather than written down value method.
 - The entire amount of recovery of debtor was recorded as an increase in profit instead of considering the impact on provision for doubtful debts only.
- (ii) Amounts of share gifted by A and share sold by B were computed incorrectly as most students ignored general reserve and/or impact of error rectification and/or goodwill.
- (iii) Conversion of C's loan into capital was mostly ignored.

Question 6

This was a routine question requiring preparation of statement of cash flows using indirect method. The performance was reasonable as about 50% of the candidates secured passing marks. The mistakes observed were as under:

- Failure to calculate rectified profit.
- Incorrect adjustment for gain on disposal.
- Incorrect calculation of capital expenditure.
- Capital expenditure was taken in financing activity instead of investing activity.
- Amount injected by owner was not calculated correctly.

The common errors noted are discussed below:

- Only few students could classify all the items under their correct head.
- Adjustments to net profit before tax were ignored by a number of students.
- Finance cost and interest paid were correctly reported but change in accrued interest was also included in working capital changes.
- Decrease in WDV of fixed assets was considered as the sale proceeds.
- Many students included changes in short term loan as a cash flow item and also included closing balance of short term loan in cash and cash equivalent.

Question 7(a)

This part of the question required the candidates to critically analyze the various ratios pertaining to three years which were provided in the question and comment on the management's claim that the company's liquidity has improved significantly.

The overall performance was below average as the candidates displayed lack of analytical skills. Most of them declared on the basis of better current ratio that the management's point of view was correct and ignored the quick ratio. Some of them simply stated that current ratio reflects an improvement whereas quick ratio indicated a declining trend. Only few could provide an overall view based on both the ratios. The fact that decline in quick ratio with increase in current ratio was indicative of stock build up was mentioned by few candidates only. They are advised to seek guidance from ICAP's suggested answer.

Question 7(b)

This part of the question contained extracts from financial statements of two companies. The requirement was to analyse the liquidity, profitability and working capital ratios. The students were generally able to compute most of the ratios correctly but interpretation skills were seriously lacking as most of the students only stated that as to which of the two companies had a better ratio. In depth analysis was mostly missing.

Many students could not differentiate between the three types of ratios and classified them incorrectly.

THE END