

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Financial Accounting and Reporting-I	Certificate in Accounting and Finance – Spring 2018

General:

The overall performance was significantly better this time. The passing ratio was 43.2% which was far above the last two results of 13.4% and 22%. Moreover 19% students were just short of 9 or fewer marks and could have easily obtained them had they covered all areas of the syllabus. The highest score in the paper was 96 marks which indicates that the paper was very doable.

Performance in four questions (Q.1: Inventory, Q.3: Cash Flow, Q.4: Cost of production and Q.5: Partnership) comprising of 43 marks was well above average.

Performance in Q.2: Revenues was below average. Students were found struggling to even answer the theory part (5 marks) which was straight from the study text.

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.

Although many students performed well but some common and illogical mistakes were noted. The persisting issue appears to be lack of practice and poor presentation in many cases.

Question-wise comments:

Question 1

The question required calculation of the amount of inventory in accordance with IAS 2. It was an easy question with high performance i.e. 60.1% of the students secured passing marks.

However, the following errors were observed:

- The correct approach was to calculate cost and NRV of each portion of individual product and apply the lesser of cost or NRV rule and then calculate the total inventory value for reporting purposes. However, students often aggregated the cost and NRV of all items and then picked the lower, which was incorrect.

- In the case of those damaged goods (minion costumes) which were repairable by incurring cost of Rs. 200 per unit, the students failed to compute the correct NRV by picking the higher NRV of those items from the available options.

Question 2

The question was based on IFRS 15 which is a new area of the syllabus. Only 16.2% of the students secured passing marks. 20.9% of the students could not score any mark which shows that they had not studied this area of the syllabus. The common errors were as follows:

- In part (a), majority of the students were successful in reproducing the definition of 'performance obligation' but failed to list down examples of promised goods and services as per IFRS 15.
- In part (b), only a handful of students were able to grab full or nearly full marks. The entry was correct in many cases but various types of mistakes were made in computing the revenues to be recognized.

Question 3

It was a traditional question requiring preparation of statement of cash flows. 65.3% students secured passing marks. Some of the errors noted were as follows:

- Change in net trade receivables was shown in working capital changes but increase in provision for doubtful debts was also shown which was incorrect.
- Although adjustment for interest expense and actual interest paid were reported correctly, the effect of change in accrued interest was not excluded from changes in accruals and other payables.
- While reporting sale proceeds of plant under investing activity, the amount which remained outstanding at the year-end was not excluded.
- Impact of revaluation of fixed assets was not considered in calculating additions to property, plant and equipment.
- In reporting proceeds from issue of share capital, premium on right shares was shown separately. Further, many students ignored bonus shares in the calculation of net proceeds.

Question 4

The question required determination of line of best fit for production units and overheads and computation of prime cost and overheads at a given production level. 71.3% of the students secured passing marks in this question. Some common errors were as follows:

- In part (a) students used total production costs in place of overheads.

- In part (b) students only calculated overhead cost, though the prime cost was also required to be calculated.

Question 5

The question required preparation of partners' capital accounts on admission of a new partner. 70.8% of the students could secure passing marks. Some common errors were as follows:

- Full amount of goodwill was credited in old partner's capital accounts instead of the balance amount only, as goodwill of Rs. 2,000 was already appearing in the books.
- Allocation of balance of profit and loss account to the old partners was omitted.
- Full 5% provision for doubtful debts was adjusted in revaluation account though only the difference should have been adjusted.

Question 6

The question was based on IAS 16. Part (a) required entries to record revaluation of a building while part (b) required determination of gain or loss on the given exchange transactions. Only few students were cognizant with the concept examined in part (b). Only 34.5% students could secure passing marks in this question while 10.6% students could not obtain any mark. Some common errors were as follows:

Question 6(a)

- Students did not read the requirement carefully and also prepared entries for depreciation expense, incremental depreciation, etc. This resulted in loss of valuable time and affected the performance in other questions.
- First year's depreciation was charged for the full year instead of six months
- Revaluation adjustment was not bifurcated between P&L and revaluation surplus, on 2nd and 3rd revaluation.

Question 6(b)

- in transaction (i) since fair values of both assets were reliably measurable, the fair value of asset given up should have been used for calculating gain or loss on disposal but fair value of asset received was used.
- in transaction (iii) since fair values of both assets were not reliably measurable, no gain or loss should have been recognized. However this was ignored.

Question 7

The question required calculation of ratios for comparison with the industry data and explanation of one possible reason for variation with the industry. 23.3% students obtained passing marks. Some of the common errors were as under:

- While computing return on capital employed, non-current liabilities were not included in the denominator.
- An in-depth analysis was missing as many students seemed to think that just stating that a ratio is higher or lower amounts to interpretation. Moreover, instead of explaining the possible reasons for variation from the industry, students tried to explain the objectives and purposes of such ratios and whether a particular ratio is better or worse as compared to the industry. They are advised to seek guidance from ICAP's suggested answer.

Question 8

The question required preparation of statement of profit or loss and statement of financial position from the given data. 27% students obtained passing marks. Some of the common errors were as under:

- Balance as per bank statement was not adjusted for the un-presented cheque and deposit in transit.
- Return outward and goods lost were mostly ignored while computing cost of goods sold.
- 2% trade discount was ignored while computing cash sales.
- Many students prepared the cash account but were unaware that its balance represented the drawings.
- Depreciation rate on furniture and fixtures was applied on the WDV rather than the original cost which was required to be worked back.

THE END