

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

EXAMINERS' COMMENTS

SUBJECT	SESSION
Introduction to Financial Accounting	Foundation Examination – Autumn 2013

General:

Overall performance in the paper was average although the paper was relatively easy as many of the good students could score more than 75 marks also. The major reason for those students who could not do well were as follows:

- Lack of understanding of basic accounting concepts
- Lack of proper planning while attempting the questions
- Failure to understand the key points in the questions
- Due to lack of practice many students made simple and straightforward calculations using lengthy approaches and wasted precious time and thus did not have enough time for the other questions.
- Many students did not attempt all questions and over-emphasised on questions with high marks and therefore could not allocate required time for each question. This is an incorrect strategy as securing the first 50 to 70% marks is far more easier than securing the last 25 to 30% marks.

Question 1

This was a theory question seeking explanation of various accounting concepts and terms. Since this part of the syllabus falls in a separate grid, a question is regularly included in all papers. There are about 20 accounting terms which are to be learned as three or four of these are tested every time alternatively. Hence, the students can score high marks in such questions with very little effort during their studies. Even then, it has been observed that students do not pay attention to this part of the syllabus and the same situation was witnessed this time. About 14% students didn't attempt this question.

Many students seemed totally ignorant about the term "measurement base" and identified accrual basis, net book value etc. as the measurement bases. Many students identified the different measurement bases but provided little or no explanation.

Question 2

This question required preparation of journal entries to record retirement and admission of partners in a partnership firm with some adjustments related to goodwill and introduction of cash.

This was the worst attempted question as hardly 5% of the students were able to achieve passing marks. A fairly large number of students did not attempt it at all. This was somewhat surprising as the calculations were mostly straightforward. The only reason for the poor response seemed to be the fact that the question involved retirement as well as admission and this type of situation had not been tested for quite sometime. Some of the common mistakes were as under:

- Most of the examinees stopped after passing entries for revaluation and its reversal. Most of them did not even try to compute the amount to be paid to the retiring partner and the partners capital in the new partnership.
- Revaluation entry was generally made correctly but most of the candidates did not pass the entry for reversal of revaluation to restore the book value of assets in the new firm or passed incorrect entry.

Question 3

In this question, students were required to calculate cost of closing stock as at 30 June 2013 from the record of physical stock taking carried out on March 30, 2013 and the details of stock movement during the quarter ended 30 June 2013. The candidates generally performed well. The common mistakes were as follows:

- The error in carry forward of page total of Rs. 6,509 instead of Rs. 6,059 required adjustment of Rs. 450. The information that 50% of the items were sold before 30 June 2013 had no bearing on the account of adjustment and should have been ignored. Many students did not understand this and made adjustment of 50% of Rs. 450.
- Similarly, in another adjustment information, 70 units available in the inventory had no bearing on the answer but many students could not comprehend it and made different types of incorrect adjustments.
- In purchase day book Rs. 23,300 was required to be added since it pertained to goods received in June 2013 and Rs. 12,300 was required to be subtracted since it pertained to goods received before March 2013. Many students treated them inversely.
- Similarly, in sales day book, Rs. 25,245 was required to be added whereas Rs. 13,825 was required to be subtracted but many candidates made the opposite treatment.
- Some students subtracted the sales returns from purchase day book.
- Instead of deducting cost of sales to arrive at closing stock, many candidates deducted the sales amount. Many students converted sales into cost of sales by taking 25% of sales as the profit margin instead of 25% of cost.

Question 4

This question required rectification of errors and passing of correcting Journal Entry which is an essential element in Foundation level accounting. It is expected from students that they should properly understand it and have enough practice to arrive at the correct answer. Students cannot move to higher level of accounting if they fail to understand this basic concept.

The performance in this question was poor. Due to lack of knowledge of basic concepts, all sorts of incorrect entries were passed. Very few students possessed good understanding about the use of suspense accounts and how adjustments to inventories are to be recorded. Some common mistakes were as under:

- (i) Depreciation was charged for full year whereas the asset had been purchased during the year.
- (ii) Since the cheque paid to the creditor amounted to Rs. 13,500 whereas the creditor had also allowed discount of 10%, the creditor needed to be debited by Rs. 15,000 which was the gross amount payable and the discount was Rs. 1500 (15000 x 10%). Many candidates calculated the discount as 10% of Rs. 13,500.

Moreover, since there was a posting error related to debit side of the account only it meant that the suspense account should have been credited. Most students did not understand this aspect and credited bank account instead of suspense account.

- (iii) Here again, majority of the students did not understand that one of the two errors pertained to credit side only and hence required adjustment through suspense account.
- (iv) Most of the students did not understand how to deal with this situation relating to error in casting of inventory sheets. Some of them credited stocks and debited suspense account whereas many among them did not debit anything. Only few students identified and explicitly mentioned that it is not necessary to pass journal entry in the given situation.
- (v) In this case trading account or purchases should have been credited whereas many students credited suspense account or even capital account.
- (vi) This entry was quite simple but the students were confused because most of them were not well versed in the use of suspense account.
- (vii) This was quite easy; even then, some students passed the correction entry for gross amount of Rs. 14,000 instead of the difference of Rs. 12,600.
- (viii) This entry also required the use of suspense account and the response was quite poor.
- (ix) Many students mentioned that no entry is required in this case; however, goods in transit should have been debited and trading account should have been credited.
- (x) Many students did not know how provision required to be made in respect of doubtful accounts is determined. Many among them computed it as 10% of the gross amount without considering the existing provision and the impact of write off.

Question 5

This question was based on single entry and required calculation of the amount of inventory stolen, the cost of closing inventory and the gross profit for the year. Though most of the calculations were quite basic and had been repeatedly tested, yet a proper answer required good planning. Many students started the question unplanned and ended up wasting their time as they had to start again from the scratch. The starting point should have been to open the ledger accounts of cash, debtors and creditors. Many students either did not open these accounts or unnecessarily opened too many irrelevant heads like bank, purchases, rent payable etc. Some students prepared balance sheet also which was not required and wasted a lot of their time. Other common mistakes were as under:

- For calculating the cost of inventory stolen, five months sales and purchases were required to be calculated. Many students incorrectly took the full year's amounts.
- In calculation of closing inventory and gross profit, the full cost of inventory stolen was required to be adjusted. In many scripts insurance compensation was deducted from the cost of inventory stolen, in order to arrive at the amount that was adjusted.
- Many students assumed inventory after the burglary as the closing inventory on June 30, 2013.

Question 6

This was an easy question and many students secured full marks also. Despite the above, various mistakes were also observed and these have been enumerated below:

- Many students recorded the cost of new machine in two parts on the basis of actual payments.
- Many students did not calculate proportionate depreciation in the year of acquisition and disposal. They charged full depreciation in the year of acquisition and no depreciation in the year of disposal.
- Many students did not include installation cost and import levies in the cost of the asset.
- While calculating depreciation of remaining assets (other than those disposed of) many students deducted the net book value (NBV) of the assets sold, at the time of disposal rather than the opening NBV of such assets.
- Some students calculated the proportionate depreciation on the disposed off assets correctly but did not include it in total depreciation for the year.

Question 7

It was the easiest of all the questions. The only calculation that was required was the amount of Income Tax paid. All other amounts were given and just had to be placed in the appropriate format. A very good performance was seen as about 80% of the students secured passing marks.

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