

STRICTLY CONFIDENTIAL

INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

JUNE 2014 EXAMINATIONS

FOUNDATION STAGE PROGRAMME

PAPER P1: ACCOUNTING FRAMEWORK

EXAMINER'S REPORT

GENERAL COMMENTS

The performance in this examination was generally poor. Except for question 7, candidates performed poorly in all the questions.

- Many answered only 4 questions instead of 5.
- They also answered only parts of a question, mostly the written parts avoiding the calculation ones.

Although the questions were within the expected level of difficulty, they were not the straightforward recall type, like Profit and Loss or Balance Sheet which students are accustomed to. They needed the candidate's application skills. The questions on inventory valuation, depreciation, ratio analysis required a little more thinking than before.

COMMENTS ON INDIVIDUAL QUESTIONS

QUESTION 1

Part (a) required the preparation of statements of comprehensive income for two companies in order to assess and compare their performance.

- Information concerning income for each business was to be calculated using "mark up on % cost as what was provided in the question was information on cost of goods sold and not sales."
 - Mark-up on cost was provided and most candidates were able to calculate the desired sales figure.
- Part (b) required the calculation of three profitability ratios.
 - Most candidates lost marks on this part. They were not able to identify profitability ratios, let alone calculate them.
- Part (c) required the candidates to give an analysis of business performance using tools other than ratios.

- Most candidates failed to do so. The question required the candidates to talk about trend analysis, comparison of environmental business analysis, staff appraisal as other means of assessing business performance.

QUESTION 2

Part (a) asked for four functions of a general journal.

Only 2 students showed that they knew what a general journal is; and stated its use.

Part (b) asked the students to identify what corrections had been made in the trial balance by comparing the original trial balance and the adjusted one and to adjust those through journal entries.

This was not correctly done.

- Most answers showed lack of understanding of journal entries. Instead candidates resorted to T accounts.
- Similarly for part (c), candidates did not understand what closing entries are. Most of them drew up another balance sheet.
- Most of those who attempted to draw some journal entries, ended up adding the debit and credit entries of the journal.

It is true that all the other books of prime entry do end up with a total figure representing, for instance, total sales, total purchases, total cash. This is so because in these books of original entry are recorded transactions of similar nature hence they can be added up.

In a general journal are recorded transactions of different types such as assets, expenses, liabilities of all sorts. The grand total of such figures in a general journal would, therefore, be meaningless as it represents things of different nature.

QUESTION 3

Part (a) asked for recording balances and entries into ledger accounts.

- The best most candidates were able to do is to record opening balances.
- There was a clear demonstration of lack of understanding of the double entry concept by most students. Transactions were often entered on the wrong side of an account.

Part (b): suspense account and correction of errors.

All those who attempted this question seemed to understand the meaning and use of suspense account. However, they failed to demonstrate the use of a suspense account because of their lack of understanding of how to correct errors. Failure to understand the basics of debiting and crediting led to inability to correct the errors.

Part (c) asked for 3 fundamental accounting principles.

Although there are many accounting principles, concepts and conventions, the generally agreeable fundamental accounting principles are:

- Going concern, consistency, prudence and accruals concepts.
Many candidates confused accounting principles with “qualities of good accounting information” such as accuracy, timeliness etc.
- Suspense Account
Many candidates lost marks through entering figures on the wrong side of this account.

QUESTION 4

Part (a) asked for the definitions of depreciation, provision for bad and doubtful debts and closing inventory.

- This was well done by those who attempted it.
Difficulties arose in the choice of terminology to explain depreciation or provision for bad debts. Students should remember that these two are not CASH, MONEY, FUND OR GUESS work. Depreciation is an estimate of the loss in value of a non-current asset. Provision of bad and doubtful debt is an estimate of debtors who may default in settling their accounts.

Stock movement:

Assumptions made in valuing closing inventory are based on stock movements i.e. FIFO, LIFO. AVC where inventory is moving the FIFO way valuation will be based on current prices. Where stocks move the LIFO way valuation will be based on old prices and the use of average cost assumes that inventories cannot be separately identified.

- The fundamental rule of stock valuation seems to be memorized without understanding what it implies. “The lower of cost and net realizable value” was expressed in many different ways such as “the lowest cost, the cost of net realizable value” “the value of cost” and many other inventions.

Part (b)

This part carried more than half of the question’s marks. The question asked for the calculation of cost of sales by arranging opening balances, purchases and closing inventory for three years under the three inventory valuation methods. Most candidates avoided this part of the question.

QUESTION 5

This question was basically about depreciation, Item 3 of the question clearly indicates that depreciation is on straight line with rates applied to the average of the opening balances and closing balances.

Problems arose from:

- (a) The candidates' inability to identify closing balances. Many candidates came up with figures which were not even in the question. Candidates should remember that closing balances appear in the balance sheet.
- (b) For some reasons, some candidates chose to use the declining method so they applied the depreciation rates to Net Book Values of the assets.
 - The depreciation charge for the year was to be added to the accumulated depreciation shown in the trial balance.
- (c) The values of loss or gain on disposal of assets were presented to test the candidates' ability to present them in the accounts. They were not intended to assist in calculating the values of the assets which were disposed of as some candidates attempted to do.

QUESTION 6

Part (a) asked for general information about cashflow statement. This was satisfactorily answered by most candidates. Part (b) required the candidates to demonstrate drawing up a cashflow statement. This was very poorly done.

- Some candidates did not observe the order in presenting
 - operating activities
 - investing activities
 - financing activities
- In some cases candidates listed and added figures in the above listed sections. There is very little understanding of the construction of a cashflow statement.

QUESTION 7

Part (a) asked for definition of terms. This was well tackled by the candidates.

Part (b) asked for the construction of financial statements of a Limited Company. This also well done. Most commonly missed, however, was the appropriation section in the statement of comprehensive income.

