

**STRICTLY CONFIDENTIAL**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

**DECEMBER 2015 EXAMINATIONS**

**ACCOUNTING TECHNICIAN PROGRAMME**

**PAPER TC6: ACCOUNTING/2**

**EXAMINER'S REPORT**

**GENERAL COMMENTS**

The paper was fair as it adequately covered the syllabus. There were questions that required the candidates to merely recall facts and those that called for the application of those facts to practical situations.

Examiners noted with satisfaction that many candidates were able to provide workings where necessary. Examiners also noted, sadly that a number of candidates failed to attempt the required number of questions. That reduced their chances of passing the examination. However, the candidates' overall performance has improved.

**COMMENTS ON INDIVIDUAL QUESTIONS**

**QUESTION 1**

This compulsory question was on partnership. In general, the performance was below average.

In part (a), on the preparation of income and appropriation statements for the partnership, candidates had problems with the treatment of interest on capital and drawings. They failed to recognize that there are two policies of depreciation; straight line for plant and reduced balance for motor vehicles. Candidates should realize that interest and discount

received are part of income. A downward adjustment of the provision for bad debts is a reduction in expenses, and not an additional expense. Candidates generally failed to identify the items that should come under revenue, cost of sales, other income, operating expenses and appropriation account. A few candidates subtracted the interest on drawings and added the interest on capital to the net profit. Candidates lost marks for such errors.

In part (b), the candidates failed to prepare a realization account because they failed to recognize the fact that only net book values are transferred to the realization account. They needed to adjust balances for assets such as motor vehicles, plant and equipment, and receivables and payments before posting them to the realization account. They also failed to prepare combined capital and current accounts. Some candidates made wrong entries for opening balances for the current account and also wasted time by preparing a statement of financial position which the question did not ask for.

## **QUESTION 2**

This question was on consolidation and was one of the popular questions. Generally, the performance was average. However, candidates faced problems due to the following:

1. Failure to take into account the fair value of the subsidiary in the non-current assets.
2. Failure to calculate goodwill, retained earnings and minority interest.
3. Failure to explain the concept of rights issue in a subsidiary – the issue is that if rights issue is not there, then the parent company

would lose control of the subsidiary if other investors buy the shares in the subsidiary – this is called dilution. Candidates also failed to distinguish between rights issue and bonus issue.

### **QUESTION 3**

This question was on cash flow statement. It was the most popular question among the optional questions and the performance was above average. However, challenges included calculation of acquisitions of non-current assets. Other candidates did not follow the format of the cash flow statement. There was another group of candidates who calculated depreciation when it was already provided. Candidates also failed to realize that there was a positive cash flow because of the increase in the loan amount and also from the movement in the share premium and share capital accounts.

### **QUESTION 4**

This was the least popular question and the performance on it was mixed; some candidates scored very good marks, while others scored very low.

Part (a) of the question asked the candidates to prepare a statement of changes in equity. The challenges included adjustment for revaluation reverse on disposal of property and prior year adjustment of reserves. Lack of knowledge on the topic manifested itself as well.

Part (b) asked the candidates to prepare journal entries to record the redemption of preference shares and a revised statement of financial position. Evidence from answers indicated that most candidates were not prepared for this topic. Candidates failed to recognize the changes that would happen in the balance sheet such as introduction of loan account

and capital redemption reserve and also the fact that the preference share account would disappear after redemption.

### **QUESTION 5**

This question contained various accounting scenarios and terms. The performance was poor. In general, the candidates' explanations lacked clarity and accuracy. That fact gave the impression that many candidates had not fully understood the subject.

Part (a) asked the candidates to explain the difference between ordinary and preference shares based on ownership, control and distribution of profits. Despite the question guiding the discussions, candidates' answers were a disappointment.

Part (b) asked the candidates to explain the difference between cash and accrual basis accounting with respect to purchase of a motor vehicle to highlight the difference. Most students showed lack of knowledge of, or preparation for, this topic. Cash basis accounting uses income and expenditure statement to report income and expenditure without making any accruals.

Part (c) required the candidates to list items that comprise qualifying cost of an asset as per IAS16. The performance was poor with evidence of lack of preparation on the part of candidates.

Part (d) asked the candidates to explain GAAP and why companies should apply it. The performance was average for this part of the question.

