

**THE PUBLIC ACCOUNTANTS EXAMINATION COUNCIL OF MALAWI**

**JUNE 2014 EXAMINATIONS**

**CERTIFICATE IN FINANCIAL ACCOUNTING**

**PAPER FA 4: BUSINESS ACCOUNTING**

**EXAMINER'S REPORT**

**GENERAL COMMENTS**

The aim of this report is to assist candidates to appreciate some of the key issues which Examiners consider when marking examinations, learn on some common mistakes which candidates commit during examinations. The report is also aimed at enlightening the tutors on how best to prepare the candidates for future exams.

Business Accounting is considered as the foundation for accounting as a subject. Candidates are being introduced to basic accounting concepts. The paper contains seven questions and the candidates are required to answer only five. According to the syllabus, the candidates are required to understand the basic accounting concepts, prepare basic financial statements and learn the basic elements of cost accounting.

The performance this time around was average. There were a number of candidates who scored outstanding marks and demonstrated understanding of basic accounting concepts. However, there was also a group of candidates who performed dismally, demonstrating lack of knowledge of simple accounting principles and concepts.

It was also noted that candidates with good and strong background in English language scored above average on narrative/discursive questions. Most candidates lost marks for rushing through in providing responses before clearly reading and understanding the questions.

**COMMENTS ON INDIVIDUAL QUESTIONS**

**Question 1**

The question was on preparation of financial statements for a sole trader. Candidates were presented with a trial balance from which they were supposed to prepare both Statements of Comprehensive Income and Statement of Financial Position. Candidates were required to demonstrate an understanding of the preparation of final accounts both statement of comprehensive income and statement of financial position.

The first part required the candidates to prepare the Statement of Comprehensive Income. Most candidates came up with good answers though a few had problems identifying interest receivable as additional revenue. Most candidates treated this item as an expense.

The candidates' also had problems with the treatment of return inwards and outwards. The computation of depreciation also posed a challenge to most candidates. The other problem was also on discount receivables, instead of recognizing that this is supposed to be treated as an income, the candidates were treating it as an expense. The candidates demonstrated lack of understanding for a straight line and a reduced balance method of computing depreciation.

Part two was on the preparation of Statement of Financial Position. Candidates had problems with non-current assets as they were subtracting depreciation expenses instead of adding with opening depreciation to find total accumulated depreciation. A good number of candidates were not sure on how to treat provision for doubtful receivable figure in the statement. On liability side, candidates were not separating current and non current liabilities. This distinction is easy for assets but for liabilities most candidates found it difficult or even forgot to present the two separately.

## **Question 2**

The question was on control accounts. Candidates were required to demonstrate understanding of the treatment of payables and receivables in relation to the sales and purchase transactions.

Part (a) of the question required the candidates to come up with both receivable and payable control accounts. Candidates showed lack of understanding as to which transactions relate to receivables and those which relate to payables. This made candidates to interchange the transactions, those relating to receivables were being recorded in payables control and those for payables recorded in receivable control accounts respectively.

Candidates were failing to locate the correct side for the opening balances for both payables and receivables. This clearly demonstrated that most candidates are usually not comfortable with the concept of double entry system.

The other major problem was to realize that control accounts are used for credit transactions. This made candidates to record cash sales, cash purchases, return to cash customers and returns to credit suppliers in the control accounts.

Part (b) of the question required the candidates to provide four reasons why balance of the payable control account differs with that on suppliers statements. Candidates provided good responses though some confused this with the issue of bank reconciliation. Such candidates were giving answers such as bank lodgments, un presented cheques as reasons for the differences. Candidates who did well in this section were able to come up with answers such as goods in transit, interest on receivables, un presented cheques and goods returned.

### **Question 3**

This Question was on job costing for the supply of desks and chairs.

Part (a) required the candidates to compute standard cost of producing a table and a chair. This question was not very popular and the performance was not encouraging. Candidates had problems in computing the figure for overheads. The major problem was that many were not sure of the treatment of absorption rates given. There were a good number of candidates who managed to compute the total costs of production but failed to translate the cost into individual unit costs. The candidates were supposed to divide the total costs computed with the number of production units.

Part (b) required the candidates to compute the total sales for the tables and the chairs. The main catch in this question was to assess if the students are aware of how to differentiate sales margin and mark up.

The dismal performance in part (a) adversely affected the performance of this section since the question was interlinked.

Part (c) required the candidates to mention other three costing methods apart from job costing. Candidates performed well and were able to mention the other costing method and come up with examples on products which use such costing method.

### **Question 4**

Question four required the candidates to prepare short notes on various accounting terms. The question asked candidates to define and state the accounting treatment in statement of comprehensive income and statement of financial position of the term. Candidates performed well on definitions but most did not provide the accounting treatment. One of the common mistakes was on failure by the candidates to clearly state if such a transaction is not recognized in either the statement of comprehensive income or statement of financial position.

The first question was on closing inventories. A good number of candidates defined inventories as money left over in an accounting period. This was supposed to be an easy accounting term for any accounting student. Candidates did well on presentation, ie that closing inventories is part of cost of sales as a subtraction from the sum of purchases and opening inventories. On accounting treatment in the statement of financial position, the candidates also gave good answers.

The second accounting term was provision for doubtful receivables. Candidates need to know that a provision is an estimate and does not mean actual cash as most candidates were indicating that cash set aside to pay for those receivables who will fail to settle their balances. The treatment in the Statement of Financial Position was fine but candidates

failed to expound on the treatment in statement of comprehensive income i.e. that an increase in provision is treated as an expense while a reduction is treated as a liability.

The third term was bad debts written off recovered. Many candidates seemed not to be familiar with this term. Most of the candidates defined this as a bad debt and hence the treatment in statement of comprehensive income was an expense. The account balance is supposed to be treated as income while in statement of financial position is not supposed to appear.

The fourth term was depreciation. Candidates showed good understanding of the term. They were also able to outline the measurement of depreciation. On presentation, the candidates had difficulties with the statement of financial position as most indicated that depreciation is presented as a non-current asset. Instead of saying that it is subtracted from the non-current asset to determine the book value for the statement.

Final term was discount allowed. Candidates need to understand the difference between cash discount and trade discount. Trade discount is made to promote sales and does not appear in the financial statements since the transaction is recognized at that reduced price. Cash discount is there to promote quick settlement of liability.

Discount allowed falls into the cash discount category. Candidates were able to recognize that this was an expense but failed to give proper definition. Many candidates also reported that discount allowed fall into category of current liability. Discount allowed is an expense and does not appear in the statement of financial position.

## **Question 5**

Question five was on errors and their correction.

Part (a) of the question required candidates to outline four errors that affect a trial balance. Candidates were coming up with errors which do not affect a trial balance. This indicated that most of the times students do not fully understand a question they just rush to provide answers before digesting what is required. However the question required candidates to list errors such as casting error, single entry error, single transposition error. Etc.

Part (b) required the candidates to prepare journal entries for a list of transactions. The performance was not encouraging. This topic is one of the bedrock of accounting but it continues to receive lesser attention from the candidates. Candidates are still struggling to decide which side to debit and which one to credit and have greater difficulties where a transaction is supposed to be corrected through a suspense account. Candidates guessed through the answers. Example, a transaction for the sale of motor vehicle with a cost of K600,000 with a net book value of K280,000 and was sold for K400,000. Candidates

were passing only one journal when they were supposed to prepare three separate journals.

Part (c) required the candidates to prepare a suspense account and clear the errors which were identified from the trial balance. This proved difficult for most candidates since they were not able in part (b) to identify which transactions pass through the suspense account and which ones do not.

The last part of the question required the candidates to define 'error of commission'. As outlined in part (a) of this question, this is an area which most candidates are familiar with and it was not surprising that candidates produced nice answers for this section.

### **Question 6**

The question was on accounting for non-current assets.

Part (a) required the candidates to compute depreciation for the year. Depreciation is supposed to be an easy topic for candidates but it seemed that candidates had problems in the treatment of additions and disposals during the year and how such transactions affect the computation of depreciation.

Part (b) required the candidates to prepare a non current asset schedule for the year. As outlined above, candidates were at a loss on how to present additions and disposals in the schedule. The problem was on which figures to use between cost and net book values.

Noncurrent asset account and its presentation is one of the key notes to financial statements and candidates and tutors should put much emphasis on. Those candidates who mastered the topic were able to pick easy and quick marks from the question.

### **Question 7**

The question was on accruals and prepayments.

First part required the candidates to describe and outline the importance of accruals and going concern concept. Accruals concept was well defined and candidates showed good understanding of the concept unlike the going concern concept. Candidates failed to state that the going concern concept is important because it assist in determining what valuation method should be applied when presenting assets in the financial statements. If going concern is doubtful then assets can no longer be measured at historical costs but rather at net realizable value.

Part (b) required the candidate to prepare T accounts to record given expenses. The catch for this question was on testing the candidates understanding on the treatment of opening and closing accruals and prepayments. The performance in this section was not

encouraging as candidates failed to recognize which is a liability and an asset between accruals and prepayments. Another part of the question asked candidates to prepare combined accounts for water and electricity and for rent and rates but candidates were coming up with separate T account for each transaction.

Part (c) required the candidates to come up with a balance sheet extract. Since most candidates were not able to express which is a liability and which is an asset in part (b) they had difficulties with this section. The word 'extract' also seemed to confuse most candidates. This is supposed to mean just a section of the statement of financial position but others were coming with T accounts.

### **Conclusion**

The overall performance for this paper was not encouraging. Candidates failed to come up with wise answers showing lack of understanding of the basic accounting concepts.

### **Recommendations**

- Tutors and candidates are being encouraged to cover the syllabus widely.
- Candidates need to stick to the examination instructions.
- Candidates need to be coached on how to approach examinations
- Candidates should be encouraged to prepare properly for the exams and manage their time well.