

STRICTLY CONFIDENTIAL
THE INSTITUTE OF CHARTERED ACCOUNTANTS EXAMINATION
COUNCIL
CERTIFICATE IN FINANCIAL ACCOUNTING
DECEMBER 2019 EXAMINATIONS
FA 4 BUSINESS ACCOUNTING
EXAMINER'S REPORT

Introduction

Business Accounting (FA 4) is a key subject for the Certificate in Financial Accounting because it is the foundation for students who wish to pursue an accounting career.

The paper is divided into two sections. It has a total of five questions. Section A has one compulsory question worth 40 marks. Section B has four questions and the candidates are required to attempt any three.

Level of examination difficult

The paper for the December 2019 diet was fair. The level of difficulty was appropriate for the level. The performance this time was encouraging than in previous examination diets.

The paper had a good balance between theoretical and practical questions.

Pattern on choice of questions by candidates

Almost all the candidates attempted the compulsory question (Question 1). In section B most candidates opted for questions 4 (costing) and 5 (Inventory valuation). The least popular question was 3 (error correction) followed by question 2 (Accounting concepts and principles).

Rationale of the Business Accounting

Business Accounting is the paper which aims to test candidates understanding of the basic accounting principles such as double entry accounting, recording of accounting transactions and product costing.

The paper demands that the candidate should have both practical and theoretical understanding of various accounting aspects.

Since the candidates obtain a certificate at the end of the course (4 papers), they are expected to show complete understanding of accounting as some proceed to the industry to work in an accounting office on the basis of the certificate awarded

Students comprehension on various questions

Students understanding of the questions was one of the factors that contributed to poor performance. Candidates continue to struggle to express themselves properly. This usually leaves the examiners to guess as to what the candidate wanted to communicate. Communication as a subject needs to be taken seriously. It was revealed that there was lack of understanding on the requirements of the questions.

Comments on Individual question performance

Question 1

This question was compulsory and was aimed at testing candidates understanding of the accounting process from the source document to ledger recording, analysis in trial balance and finally the production of financial statements.

In part (b) the candidates were supposed to analyze various business transactions and record correctly in the proper ledger accounts. The performance by many candidates in this section was good. There was a sizeable number of candidates who failed to identify the proper naming of ledger accounts. Some candidates instead of opening continuous ledger accounts, they were opening new ledger accounts for each transaction.

Part (c) required the candidates to compile the trial balance. Most candidates who failed part (b) also found part (c) difficult as these sections are complementary.

Part (d) and (e) required the candidates to prepare final accounts; statement of profit or loss and statement of financial position. Most candidates had problems with the treatment of return inwards, instead of being a reduction to the sales those candidates were subtracting it as a reduction in cost of sales. The other problem was that candidates did not remember that the financials were for one month so the computation for depreciation, rentals paid and interest on loan were being treated as if the accounts were for a full year.

Question 2

Question 2 was on various accounting principles and practices. Part (a) required candidates to identify users of financial statements and the information required. Identification of the users and the information needed were well attempted by candidates. Most candidates struggled to identify the primary statement which a particular user would rely on.

Part (b) required the candidates to outline the accounting treatment of a number of transactions. The candidates were supposed to state as to whether the transaction should be captured as an expense or as an asset. Most candidates seemed confused and not knowledgeable on what differentiate a capital and operational expense. Candidates should know that capital expenditure relates to those expenses which are incurred to bring the asset to its present location and condition and these include installation costs, transportation costs and any tax paid on the asset.

Part (c) asked the candidate to identify relevant accounting concepts that applied to a number business transactions. This was supposed to be easy since it was elementary accounting. But most candidates struggled to properly align the business transaction to a relevant accounting concept.

In part (d) most candidates managed to state the two roles of the Malawi Accountants Board (MAB).

Question 3

The receivable and payable control accounts failed to agree with individual ledger accounts and candidates were to correct the errors which caused those differences.

Part (a) was on preparation of journals to correct the errors. This was poorly done. This is an area which despite being regularly tested, candidates continue to demonstrate lack of knowledge. For one to tackle this question, they needed to master the tenets of double entry accounting system.

Part (b) required the candidates to prepare adjustments into the receivable and payable control accounts following the errors being corrected in part (b). The candidates did not do well in this question. Most entries seemed to be guess work as wrong sides of the ledger

accounts were being used but also failed to identify items which go to payable control account and those which are supposed to go to receivable control accounts.

Part (c) required practical thinking by the candidates as it required them to identify causes of differences between what is recorded in payables control account with what is on suppliers statement. Candidates did well in this section as issues such goods being in transit and direct bank transfers were regularly mentioned.

Question 4

This was a costing question.

This was a popular question as most candidates attempted it and the explanations and computations were well done.

Part (a) asked the candidates to outline the causes of abnormal gains. It was observed that candidates do not take time to properly read the question. Some candidates outlined the causes of abnormal losses.

Part (b) was for the candidates to prepare process account. This was well done and most candidates scored good marks. The problem area was on identification of quantities for abnormal gains and how it was supposed to be costed.

Part (c) required the candidates to prepare an abnormal gain account and the scrap account. This was poorly done and candidates should work extra hard to understand the entries for these two accounts.

The final part required candidates to prepare a trading account based on the costs which were identified in the process account. This part of the question was answered very well.

Most candidates who attempted question 4 scored above average marks.

Question 5

The final question was on inventory valuation and depreciation of assets. This was also a very popular question and most candidates who attempted it scored good marks.

Part (a) of the question was on the inventory valuation. Candidates understood the question requirements that the method to be used was supposed to be FIFO.

Part (b) of the question was on depreciation of assets. The candidates were asked to compute depreciation based on production units and straight line method. Candidates did well on the straight line method computation but failed to compute depreciation based on production units. It was evident that most candidates are only exposed to straight line and reducing balance method only.

Candidates approach to examinations

Most candidates demonstrated seriousness in tackling these examination. This was because candidates were able to attempt at least all the required number of questions. This shows that there was good time management by the candidates.

In an examination of this nature the candidates were supposed to thoroughly prepare for the examination. The choice of questions is also very crucial. Though candidates are required to study the whole syllabus, they are supposed to start tackling questions where they can get maximum marks and finalize with those they have little knowledge of.

Marking guideline

In marking this paper, examiners assessed the reasoning of candidates and their ability to outline various concept and theories in accounting.

Common errors

The common errors in this paper were;

- (i) Failure to understand the requirements of the question before attempting the question
- (ii) Wrong choice of questions. Attempting questions without assessing the level of knowledge on a particular topic
- (iii) Skipping questions that have high marks
- (iv) Too much cancellation of answers. This is time consuming
- (v) Attempting two questions on one page yet the instructions are clear that each question should be on a separate page.

Factors affecting students performance

The candidates were not well prepared for the examination.

Recommendations

Candidates

The candidates should attend lectures as this is the foundation of accounting subject and they need proper guidance in order to lay a good foundation of the accounting concepts.

Lecturers

Lecturers need to cover the whole syllabus. There seems to be a tendency to concentrate on areas which are regularly asked in exams and when the paper is slightly twisted candidates are put off balance.

