

STRICTLY CONFIDENTIAL

INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI (ICAM)

DECEMBER 2019 EXAMINATIONS

ACCOUNTING TECHNICIAN PROGRAMME

PAPER T2.1: ACCOUNTING 2

EXAMINER'S REPORT

GENERAL COMMENTS

The paper was fair and the performance of candidates was average.

The common reasons for average performance by some candidates were as follows:

- Not showing workings thereby losing marks especially where the final solution was not correct.
- Copying questions instead of providing straight answers. This was time consuming and many candidates were not able to attempt all questions due to poor time management.
- Not covering the syllabus adequately. Many candidates demonstrated understanding of a few areas of the syllabus and not others.
- Some candidates did not understand questions hence provided answers that were not relevant.
- Cancellation of attempted work at advanced stages. This was poor use of time. It was better to cancel the part that was not correct rather than cancelling the full page. In some cases, the cancelled work had correct answers.

COMMENTS ON INDIVIDUAL QUESTIONS

Question 1

This question required candidates to prepare a statement of profit or loss and a statement of financial position for a partnership in parts (a) and (b) respectively. The candidates were supposed to prepare a statement of financial position upon admission of a new partner in part (d). In part (e), candidates were supposed to compute gross *profit margin*, *current ratio* and *acid test ratio*.

The question addressed the following areas of the syllabus:

- 2.1 (a) Define, understand and apply accounting concepts and principles: materiality, substance over form, going concern, business entity concept, accruals, fair presentation, consistency and historical cost
- 4.2 (c) Record introduction of new partners, dissolution of partnership and any changes in partnership agreement in statement of financial position.
- 8.2 (a) Calculate key accounting ratios: profitability, liquidity, efficient use of resources and financial position ratios.

The best approach was to consider the following:

Part (a): identify the facts provided and link them to the appropriate accounting concept.

Part (b) - Income statement and appropriation accounts

- Include return outwards and carriage inwards within cost of sales and not expenses or adjustments to sales.
- Add discount allowed to gross profit or include it as a reduction in the (negative) expenses.
- Recognize K300, 000 rent as a prepayment since it was related to the subsequent accounting year. This was supposed to be subtracted from the rent recorded.
- Recognize the accrued water bill of K34, 000 and include it as part of expenses.
- Compute depreciation appropriately and include the charges within expenses.

Part (c): Statement of financial position as at 31 December 2018

- Include non-current assets less depreciation
- Recognize prepaid rent as a current asset
- Reduce bank and cash balance by the amounts of drawings by the partners
- Recognize accrued water bill as part of current liabilities.
- Add the opening current account balances for each partner to the profit share and then subtract drawings made.

Part (d): Statement of financial position

Most of the balances were the same as in part(c). The only changes were:

- Addition of K20,000 to the bank and cash balance following the contribution of capital from Pearson, the new partner.
- Adjustment of capital accounts of partners after recognition and immediate write off of goodwill. This resulted in the increase of capital by K1, 000,000 for each of the old partners and a reduction by K2, 000,000 for Pearson.

Part (e): Computation of ratios

This required the candidates to identify the formula to be used and then pick the appropriate amounts from the pieces of information provided and computed. Use adjusted bank and cash balances- after the deduction of drawings. Candidates were also supposed to include prepaid rent and accrued water bill as current assets and current liabilities respectively.

The following were the main challenges that were noted and contributed to the scoring of low marks by most candidates:

Part (a): Most candidates could not identify the relevant accounting concept in each scenario.

Part (b) Most candidates did not know how to treat return outwards, carriage inwards, carriage outwards, discount received and prepaid rent.

Part (c) Most candidates did not adjust the cash book for drawings and also forgot to include prepaid rent as a current asset and accrued water bill as a current liability. Some candidates included transactions relating to the new partner under this section. This was wrong.

Part (d) Failure to treat goodwill appropriately on recognition and cancellation. The candidates also failed to adjust the bank balance after the introduction of capital from the new partner.

Part (e) Many candidates indicated the right formula for the ratios but picked wrong figures for computation. This was mainly due to wrong computed amounts such as gross profit, current assets and current liabilities arising from wrong treatment of items as earlier indicated.

Question 2

This question tested candidates' knowledge on share capital in parts (a) and (b) and sale and leaseback in part (b iv).

The question derived its requirements from the following areas of the syllabus:

5.2(a) Understand and explain the process of issue of shares and debentures for both private and public limited companies.

6.1(d) Calculate and record dividends in ledger accounts and the financial statements.

3.4(f) Understand and explain sale and leaseback transaction

It was imperative to compute the number of ordinary shares given the ordinary share capital and the nominal value of shares of K200. This was crucial because ordinary dividends are paid per share.

The other modes of issuing shares was to do with remembering information as provided in study texts.

In sales and leaseback transaction, candidates were expected to show understanding of concepts.

Most candidates could not give a full definition of “bonus share”. The candidates could not compute the number of bonus shares to be issued. A number of candidates failed to compute the preference and ordinary dividends to be issued. There were also others that wrongly assumed that bonus shares would be included in the computation of ordinary dividends.

Performance on sale and lease back transaction was very poor possibly due to inadequate syllabus coverage.

Question 3

This question was about components of financial statements and shareholding. It addressed the following requirements of the syllabus:

- 1.1(a) Identify and explain general purposes of financial statements
 - 7.1 The definition of various investments (trade investment, subsidiary, an associate and joint ventures.
- 7.1(a) Define and describe the following terms in the context of group accounting: Parent, Subsidiary, Control, Consolidated or group financial statements, Non-controlling interest, Trade / simple investment.
- 7.2(a) Define and describe the following terms in the context of group accounting:
 - (iv) Consolidated or group financial statements
- 3.2(b) Identify intangible asset with reference to identifiability, control and future economic benefits criterion

Part (a) required candidates to identify transactions with components of financial statements which are: Statement of financial position, Statement of profit or loss and statement of cash flows.

Part (b) was mainly about accounting for groups of companies and consolidation and partly about accounting for intangible assets.

Most candidates showed lack of knowledge that the components of financial statements are: Statement of financial position, Statement of profit or loss and Statement of cash flows.

Most candidates also demonstrated lack of understanding of group accounting.

Most candidates could not state the conditions that allow a company that does not have a majority shareholding to prepare consolidated financial statements. A good number of candidates could not recall the conditions necessary to recognize an intangible asset. There were also some candidates that wrongly thought that percentage shareholding had a bearing on whether the brand had to be recognized or not.

Question 4

This question covered Impairment of noncurrent assets, disclosures under IAS16: Property, Plant and Equipment and redemption of shares.

The question covered the following requirements of the syllabus:

- 3.1(r) Explain and identify minimum requirements that should be considered in assessing any indication that an asset may be impaired
- 3.1(s) Prepare disclosure note for each class of property, plant and equipment
- 5.2(g) Explain why shares may be redeemed
- 5.2(h) Record redemption of shares at par value and premium in ledger accounts and financial statements

Journals on redemption of shares required an understanding on movement of amounts within share capital, share premium, property and bank to facilitate the share redemption. The reasons behind redemption of shares were a matter of remembering information from the manuals.

Many candidates demonstrated lack of understanding of the concepts of impairment, IAS 16 disclosure notes and share redemption. This led to loss of marks.

Question 5

The question was on sales, control accounts and inventories. It addressed the following syllabus requirements:

- 1.3(d) Prepare both accounts receivables and payables control accounts
- 1.3(e) Use accounts receivables control account to determine sales figure
- 1.2(b) Identify and explain documents used in stores systems: requisitions, stores issue notes, good received notes, goods returned notes, delivery notes, dispatch notes

3.3(d) Identify and apply cost formulas for cost of inventories; first-in, first-out (FIFO) and weighted average cost formulas

Part (a) of the question required candidates to come up with total sales using receivables control account and reasons for differences between a receivables age analysis and a receivables control account.

The total sales are a combination of cash sales and credit sales. Cash sales were given in the question while credit sales had to be computed by using opening and closing receivables and receipts from debtors.

Part (b)(i) was on documents used in the maintenance of accounting books for inventory.

Part (b)(ii) was about recording receipts and issue of inventory using the FIFO method. The key was to compute value of inventory on issuing. Total issues were supposed to be broken down into groups depending on the price the inventory was purchased at. The total issue value would be subtracted from the value of stock before issuance to come up with the value of inventory after that particular issue. This is done up to the last transaction to come up with the closing value of inventory. Most candidates could not come up with an inventory schedule based on FIFO method of inventory valuation due to lack of knowledge.

RECOMMENDATIONS

1. Teachers and candidates should be encouraged to cover all areas of the syllabus. There were signs that candidates were more comfortable with a few areas of the syllabus but lacked knowledge in most areas.
2. Teachers should endeavour to give students extra work in the form of review questions and mock tests so that they practice using different formulae and calculations.
3. Candidates should set aside adequate time for examination preparation to avoid panicking close to examination time.

