
Examiner's Report

Paper 1
Financial Accounting

General Comments

Candidates' overall performance in this paper was poor. The passing rate for this session is worse than that of the last session. As in the previous sessions, candidates were weak in answering theoretical questions and explaining accounting concepts. Many answered only the computational parts and left out the essays, which caused them to lose marks and fail the examination.

A few candidates used pencil in the examination, which is inappropriate for professional examinations.

Section A – 20 Multiple Choice Questions

In this section, candidates' performance was not satisfactory. More than half of them could not achieve pass marks. The multiple choice questions covered a wide range of topics, both conceptual and computational. Candidates are strongly advised to study every part of the syllabus.

Section B – 4 Questions

Question B1: (a) accounting ratios and (b) comment on the profitability and short-term liquidity of the two companies

Question B1 was the second most popular question. The overall result was good. In part (a) some candidates mixed up "return on capital employed" with "return on equity", and some used net assets instead of total assets to calculate "asset turnover". Besides, the question required calculation to one decimal place, but a few candidates did not follow this instruction which made them lose some marks.

In part (b) as in the previous sessions, most candidates were weak at providing logical comments on the two companies' profitability and short-term liquidity. This might have been due to rote learning of various ratio formulas and lack of a real understanding of the logic behind concepts. The English proficiency of candidates was also poor. They could not express their points clearly.

Question B2: Financial statement of limited companies – (a) statement of comprehensive income and (b) statement of financial position.

Question B2 was the most popular and candidates' performance on the whole was good. This question assessed the ability to prepare the financial statements in accordance with an unadjusted trial balance and additional information. Some candidates lost marks because: (i) they wrongly included carriage outwards as cost of good sold; (ii) incorrectly computed depreciation of property; (iii) provided only half-year debenture interest and omitted final dividend for both classes of shares in part (a); (iv) they were unable to compute the revaluation reserve; and (v) they did not get the correct net book value of the property in part (b).

Question B3: (a) journal entries and reasons and example for depreciation and (b) accounting concepts and principles

Question B3 was not popular and candidates' performance was poor. Part (a) of the question tested students' knowledge of preparing journal entries to record transactions relating to an assets trade-in and reasons for depreciation. Some candidates did not follow the given depreciation policy and did wrong calculation on the depreciation. Besides, many of them provided T-form account instead of journal entries. Some candidates omitted part (a)(ii) about the reasons and examples of depreciation.

Part (b) of the question tested candidates' understanding of the basic accounting concepts. Their performance was poor and only a few got the correct answer.

Question B4: (a) calculation of goodwill, (b) revaluation account, (c) partners' capital account and (d) statement of financial position.

Question B4 was the second least popular and candidates' performance was unsatisfactory. It assessed candidates' ability to calculate goodwill and prepare the revaluation and partners' capital account. Candidates lost marks due to wrong computation for the goodwill. Some used average profit instead of the required weighted average profit, while some wrongly weighted Year 1 instead of Year 4 as the most heavily weighted. A few placed figures on the wrong side of the T-account in part (a).

Part (d) assessed candidates' ability to prepare a statement of financial position for the partnership after an old partner retired. Candidates performed badly in this part mainly because of their miscalculation in part (a) and (b).

[END OF EXAMINER'S REPORT]