

Examiner's Report

December 2009 Session

Paper 1

**Fundamentals of Accounting and
Computerized Accounts**

General Comments

The overall performance was not satisfactory as there was no improvement in this session. The passing rate was the same as that of last session. However, the situation of not attempting part C of this paper did not exist anymore this time. In fact, the passing rate of this part has improved from last time. The worst performance was seen in B2 of this paper. Details can be referred to the comments below. Candidates are strongly advised to study all the concepts explaining the use of a particular accounting method, treatment or presentation. Though this is the first paper of AAT qualification examination, the basic and fundamental knowledge has to be solid and grounded in order to build up the advanced knowledge for higher level of examination.

Section A – 15 Multiple-choice Questions

It is a bit disappointing that the passing rate was lower than that of last session. Candidates are advised to study the basic concepts and principles of accounting thoroughly rather than just knowing the techniques of calculation.

Section B – 3 Optional Questions

Question B1

This question aimed at testing candidates' abilities to prepare an income and expenditure account for a club in the given situation that the club only kept its records using single entries. Most of the candidates did not get the "subscriptions received in advance" correct nor realise that there was an outstanding subscription for the year 2009. A total subscriptions for the year should be \$1,175 ($\25×47 members) but only \$1,125 was received (information given), so the amount of \$50 should be recorded as debtors in current year's statement of financial position. On the other hand, the amount of \$150 received for the year 2010 (information given) should be recorded as a current liability – subscriptions received in advance in current year.

Candidates should know how to distinguish the presentation of investment which is for trading purpose from which is not. The former one is treated as current asset but the latter one is under the non-current asset category and the proper name for presentation is "Available-for-sale financial assets".

Part (c) of this question asked for the understanding of two underlying assumptions used to prepare financial statements. They were the accrual and the going concern concepts which are clearly explained in HKAS 1 Presentation of Financial Statements and in Framework for the Preparation and Presentation of Financial Statements. These two concepts can be found in any one of the Accounting textbooks but most candidates did not attempt this part.

Question B2

This question was not difficult but only half of the overall candidates chose this question and the performance was the worst among the three questions. It might be due to the format of the question that did not look as straight forward as question B3, like preparing financial statements for a limited company or calculating financial ratios for a company. Instead, it asked for candidates' ability to find out missing figures from incomplete records. Again, the basic concept of double entry system and the concept of consistency were tested in this question. Unfortunately, those candidates who attempted this part could not explain clearly these two concepts nor demonstrate their understanding in their explanations.

Part (a) looked for the amount of inventory destroyed so candidates were required to apply the formula of calculating cost of goods sold and gross profit in order to get the answer. Part (b) was just an arithmetic calculation of depreciation but candidates had to work backward and realise the application of reducing balance method of depreciation.

Question B3

This was the most favourable question of the candidates as the calculation of financial ratios was straight forward. Only one problem was revealed by candidates and that was the calculation of inventory turnover period. Candidates either did not know the formula or not realise that the inventory value used as the numerator need to be the average of the beginning and end of year figures (if information is given). To present the answers of financial ratios, candidates are reminded to know which ratios are shown in percentages and which are not. Gross profit ratio (GP) and net profit ratio (NP) are usually in percentages while current ratio or acid test ratio (quick ratio) are not.

As usual, the part on explaining the changes in ratios between two years was not satisfactory. Candidates repeatedly made the mistake of only explaining the improved or worsened position of the business by just quoting the increase or decrease in the ratios. As it was pointed out in last examiner's report, the increase or decrease was only the starting point of the explanations and candidates were required to go to the root of the reasons by linking the ratios to the information revealed in the financial statements. A superficial explanation is also not enough. For example, just pointing out the decrease in gross profit is due to the decrease in sales (in fact, the amount of sales increased in the question) or increase in cost of goods sold is not adequate to explain the overall change. Candidates need to explain why there is an increase in sales or cost of goods sold.

Careful reading and understanding of the information given in the question was necessary. The company in this question was a sole proprietorship so it was wrong for some candidates to recommend an issue of ordinary shares to raise more cash when they answered part (b)(iii).

Section C – 1 Compulsory Question

Question C1

The passing rate was slightly higher than that of last session. This question aimed at testing candidates' ability to do transaction recording which was considered as straightforward. However, this time one major issue was the correction of errors. No problem was seen in the answers for the correction of errors given except in error (a). As this error involved a customer, the module of accounts receivable rather than general ledger had to be used for making the correcting entry. Otherwise, the receivables ageing (detail) report as at 30 September 2009 could not show the outstanding balance of Mr. T. Similarly, any transactions that involve cash, cheque receipts or payments should not be recorded in the general ledger module.

Other common mistakes were:

- Incorrect account was used to record transaction. No mark would be awarded even if the entry was correct because the accounts that were to be used or amended were underlined in the appendix for reference already. Candidates should make sure that the correct account is being used.
- It was wrong to include the unpaid portion of the purchase of the second hand lorry in the accrual account. It should be recorded in "other payable" as there was no accounting estimates involved but just an outstanding amount on 8 October 2009.

[END OF EXAMINER'S REPORT]