

Examiner's Report

June 2009 Session

Paper 1

**Fundamentals of Accounting and
Computerized Accounts**

General Comments

This is the first examination for Paper 1 under the New Qualification Framework. The overall performance was not satisfactory as there was less than half of candidates passed. Part C of this paper aimed at testing candidates' ability to handle the computerised accounts of a company on a small scale and it only accounts for 30% of the whole paper. A number of candidates did not attempt part C of the paper, thinking that they could obtain a pass from attempting parts A and B. Unfortunately, the result was not as predicted. Some candidates who managed to score over 40 from parts A and B still failed because they either had failed to attempt part C or did too poorly to gain additional marks for an overall pass.

Section A – 15 Multiple-choice Questions

Candidates in general understood the basic concepts and principles of accounting which they applied in part B questions. However, the result also reveals that the average performance was just passing the benchmark of 10 out of a total of 20.

Section B – 3 Optional Questions

Question B1

This question aimed at finding out whether candidates knew how to adjust the capital accounts of the partners as a result of a change in profit/loss sharing ratio and re-valuation of partnership's assets. Candidates were required to produce profit and loss appropriation accounts, capital accounts and current accounts of the partners. Very few candidates chose this question and only less than half of the total mark could be attained by those who attempted it. This shows that candidates were weak in partnership. Though partnership is not a common form of business organisation nowadays, they still exist and candidates need to know how to handle their accounts properly. Most candidates did not know how to do the adjustments in partners' capital accounts or mixed up with the calculation of partners' current accounts. Some of them did not even know how to prepare an appropriation account in a proper format. The performance of this question was the worst in section B.

Question B2

It seems that part (a) which required the calculation of certain ratios was not a concern to most of the candidates who chose this question. Candidates did not know the formula for the calculation of return on capital employed (ROCE) and gearing. To calculate ROCE, profit before interest and tax should be used. There are different basis which are commonly used to calculate gearing but the question clearly stated that long-term financing was to be included. Thus, candidates should not have confusion in using which items for the basis of calculation.

The performance in part (b) was not satisfactory. It was not enough to explain the improved or worsened position of the business by just quoting the increase or decrease in the ratios. 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. Some candidates made a serious mistake by taking a wrong view point in their analysis. When an analysis was required, the current year's position should be taken as the focus and comment was to be written by comparing to last year's ratios. It was also disappointing to see that some candidates just ignored part (b) which constituted 9 marks to an overall of 25.

Question B3

Apart from the failure to attempt part (c) by some candidates, this question was most satisfactorily answered. Most of the candidates chose this question and more than half of them got a pass, reflecting that most of them did not have problem in handling the final accounts of a limited company. However, it also reflects that candidates were not familiar with the format of the statement of comprehensive income. A number of candidates still included the dividend distribution and the balance of retained earnings on the face of the statement. The other problematic issue was the calculation of cost of sales (COS) because many candidates failed to apply the requirement of HKAS 2 that inventory should be stated at the lower of cost and net realisable value (NRV) in the financial statements. Hence, the NRV instead of the cost should be used for the calculation of COS.

The common mistake in the preparation of the statement of financial position was the treatment of "Available-for-sale financial assets". It was a kind of non-current assets but almost all of the candidates put it under the section of current assets. For the equity section, candidates are reminded to show the retained earnings and proposed dividends separately.

A final remark is that it was worth to show the workings for the figures that were not extracted directly from the trial balance but which might involve two or three figures adding to or subtracting from each other. Marks were given to the steps of calculations.

Section C – 1 Compulsory Question

Question C1

This part was a hands-on test on candidates' ability to use MYOB accounting software. As mentioned in the general comment, the performance was very poor and a number of candidates did not attempt this question though it was compulsory. It is surprising that the passing rate was low. Judging from the performance in B3, period end adjustment was not a concern to candidates and transaction recording was considered as straightforward. The poor performance was mainly due to the candidates' inability to use accounting software which formed the theme of this part in Paper 1.

Other common mistakes were:

- The bank loan balance as at 30 June was not separated into current portion and long term portion for reporting on the standard balance sheet.
- Monthly depreciation was not calculated for input, instead a quarterly calculation was done.
- The auto debit of \$232 by the bank on 31 May was recorded by using general journal. However, it should be recorded by using bank account and included in the cash disbursements journal.

[END OF EXAMINER'S REPORT]