

A-Level Principles of Accounts Paper 1

- **Mock Examination Review & Analysis**

PAST PAPER (PAPER 1) – QUESTIONS DISTRIBUTION

	2006		2007		2008		2009	
Goodwill; Consolidated SFP	10	c	10	c	10	c	10	c
Consolidated SCI	10	c	10	c			15	c
Theory consolidated F/S							5	c
Cash flow statement	23	c	20		30	c	20	
Ratios	7	c	10	c	20	c	7	
Finance Lease								
Partnership – Appropriation, Revaluation, Changes	10	c			20			
Partnership – Final accounts	20	c					8	c
Partnership – dissolution and conversion to limited company			20				22	c

Paper 1 (2010) – A Review

Section A: Compulsory (60%)

- Q. 1 –Consolidated income statement and balance sheet, negative goodwill
- Q. 2 –Cash flow statements (Direct method), bank reconciliation

Paper 1 (2010) – A Review

Section B: Answer any Two (40%)

- **Q. 3– Partnership:** revaluation a/c, realization a/c
- **Q. 4 –Ratio:** price-earning ratio, dividend cover, limitations of using ratio analysis, **Stock valuation:** perpetual inventory system using FIFO (with returns inwards and abnormal loss), lower of cost and NRV
- **Q. 5- Control a/c:** listed balances updated, journal and describing credit note, **Leasing:** straight-line basis (interest)

Likely to appear in Paper 1 (2011)???

Consolidated SCI and SFP a must?

Cash Flow + Finance Lease + Ratio?

**Partnership with Goodwill using
superprofit?????**

Incomplete Records???

Others (Errors? Inventory? PPE?.....)

Paper 1 Mock Exam

Section A: Compulsory (60%)

- Q. 1 – **Consolidated SCI & SFP**
- Q. 2 – **Cash flow statements** (Direct method)

Section B: Answer any Two (40%)

- Q. 3 – **(A) Control a/c**: reconciling the control a/c balance with list balances, **(B) Valuation of PPE**: movement of NCA and Reducing balance
- Q. 4 – **(a) Correction of errors**: error of principle and accural, **(b) Valuation of goodwill**: weighted average **(c) Final accounts**: SFP
- Q. 5 – **(a/b) Incomplete records**: with treatment of subscriptions, **(c) Interpretation of accounts**- possible ways for better profits

Paper 1 Mock Exam

- The Mock Exam Paper is set at **a level of difficulty comparable to challenging A level papers.**
- It helps check whether students have a good grasp of the essential contents of the syllabus.
- It also serves to identify students' apparent weaknesses for immediate rectification before taking the A-Level exam.

Mock Exam Statistics

Paper 1	Q1	Q2	Q3	Q4	Q5	Total
% of Attempt	100%	100%	62%	95%	40%	
Full Mark	30	30	20	20	20	100
Average	8.15 27%	7.41 25%	6.25 31%	5.49 28%	7.44 37%	25.4 25%
Std Dev.	3.55	3.83	3.29	2.90	3.17	11.50
Maximum	19.5 65%	26.00 87%	18.0 90%	18.0 90%	15.50 78%	65.25 65%
Minimum	0	0	0	0	0	0

Comment on Students' Performance

Overall comments:

- The performance of the students was fair. There is strong indication that students are better in handling calculations, but quite weak in answering essay elements.
- Question 5 was rarely answered, though this question appears straightforward on testing students' knowledge on the areas of incomplete records and I/E.

Comment on Students' Performance

- Students are to note that marks will be deducted for:
 - improper account/statement title/question no.
 - omission of \$ (or \$'000) from the relevant amount column
 - journal entries without narrative
 - do not write on the margin of each page
 - use ball pen

Comment on Students' Performance

Question 1(a): Specific comments

- Most students failed to treat the bonus element correctly.
- Be reminded that if the bonus share is issued out of pre-acquisition profit, the bonus element will be treated alike with existing shares. If the bonus share is issued out of post-acquisition profit, the group share of the bonus element will be transferred to Capital Reserve Account.

Comment on Students' Performance

Question 1(a): Specific comments

- Most students failed to treat the dividend from pre-acquisition correctly.
- Be reminded that holding firm is not entitled to dividend from subsidiary out of pre-acquisition profit. It should, therefore be written off against the Retained Profit of the parent and treated as a cost reduction against the cost of control account.

Comment on Students' Performance

Question 1(a): Specific comments

- Most students failed to calculate the pre-acquisition profit correctly.
- Retained profit at end – Retained profit for the year + Profit for the first quarter

$$132000 - 80000 + 146000 \times 1/4$$

Comment on Students' Performance

Question 1(b): Specific comments

Performance was not satisfactory.

- No pro rata treatment of the revenues and expenses of the subsidiary and Omission or Incorrect treatment of goods in transit
- Sales $(3518000 + 1200000 \times 9/12 - 30000 - 300000 - 20000)$
- Cost of sales $(2179000 + 552000 \times 9/12 - 30000 - 300000 + 10000 + 3000 - 20000 + 3333)$

Comment on Students' Performance

Question 1(b): Specific comments

- No proper elimination of inter company transactions
- rental of \$60,000, disposal gain of \$24,000 , under provision of depreciation of \$9,000 and over provision of depreciation of \$10,000 + \$3,000 and dividend from pre acquisition profits.....

Comment on Students' Performance

Question 1(b): Specific comments

Performance was not satisfactory.

- Discount on acquisition of Debentures not correctly calculated and properly as an income

Purchase consideration	\$162,000
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Less Interest received but not entitled (\$4,000)	
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Debentures acquired	<u>(\$160,000)</u>
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Discount on acquisition of Debentures (\$2,000)	
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Comment on Students' Performance

Question 1(c): Specific comments

Performance was quite satisfactory.

- No proper treatment of intercompany indebtedness

Dr Current a/c with Art	19,000	
Dr Goods in transit	20,000	
Dr Cash in transit	9,000	
Cr Current a/c with Bart		48,000

Comment on Students' Performance

Question 1(c): Specific comments

No proper adjustment of Ordinary Share capital and Share Premium upon settlement of purchase consideration

Dr Investment	1,148,000	
Cr Ordinary share capital		410,000
(1,148,000/2.8x\$1)		
Cr Share Premium		738,000
(1,148,000/2.8x\$1.8)		

Comment on Students' Performance

Question 1(c): Specific comments

Mind the different treatment of downstream and upstream transfer of Assets

- URP of \$24,000 and depreciation \$4,000 ($\$24,000 \times \frac{1}{3} \text{ years} \times \text{six months}$) are to be eliminated in group profit only. Remember the item transferred to Bert Ltd is to use for three years upon transfer.
- upstream transfer of F&F, URP of \$30,000 and depreciation \$9,000 are to be apportioned to MI and group

Comment on Students' Performance

Question 1(d): Specific comments

Performance was not quite satisfactory.

Students should be familiar with

- The usefulness of consolidated statements
- The limitations of consolidated statements
 - The performance and financial position of individual companies in the group are not shown.
 - Unable to find the asset coverage for their claims.
 - highly diversified company would be less relevant

Comment on Students' Performance

Question 2(a): Specific comments

Performance was fair.

- Mind format of **direct approach** as required

- Receipts from customers 2,564,700
- Payment to suppliers (1,514,505)
- Other expenses paid (338,295)
 - Other expenses paid exclude the depreciation charges, premium on loan, provision for diminution in value and profit on disposal of shares.

Comment on Students' Performance

Question 2(a): Specific comments

- Workings which would help sort out the figures required but were not generally shown

	Debtors (netted)		
	\$'000		\$'000
Bal b/f	x		
Decrease in pro for b/d	15,000	Bank	2,564,700
Sales*	2,604,700	Bal c/f	x + 55,000
	<hr/>		<hr/>
	<u>x + 2,619,700</u>		<u>x + 2,619,700</u>

*(1116300K – 3000K)175/75

Comment on Students' Performance

Question 2(a): Specific comments

- Workings which would help sort out the figures required but were not generally shown

	Fixed assets (netted)		
	\$		\$
Bal b/f	x	Disposal	171,100
Revaluation Reserve	12,000	Depreciation	162,000
New FA	949,100	Bal c/f	x + 628,000
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	<u>x + 961,100</u>		<u>x + 961,100</u>

Comment on Students' Performance

Question 2(b): Specific comments

Performance was satisfactory.

- Mind the adjustment for non cash transactions
 - Development Costs written off (+)
 - Premium on loan (+)
 - Decrease in provision for diminution (-)
 - Profit on disposal of Fixed Asset (-)
 - Decrease in Provision for Bad Debt (-)
 - Profit on disposal of unquoted shares (-)

Comment on Students' Performance

Question 2(c): Specific comments

Performance was satisfactory.

Mind the purposes of bonus issue with reference to the question

- Since there is overall decrease in cash and cash equivalent of \$28,800,000 during the year, bonus shares can be issued instead of dividend so as to keep shareholders' confidence and preventing large amount of cash outflow due to dividend paid.

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Comment on Students' Performance

Question 3(A): Specific comments

Performance was fair.

- Some students are not familiar with the sales ledger control and the updating of individual debtors' balances
- the sales ledger control account (amended balances) should reconcile the listing of the individual debtor balances to the closing debit individual account balances and credit balances (should not be netted off or the closing minority balances may not be sorted out)

Comment on Students' Performance

Question 3(A): Specific comments

- Some students wrongly treated the bad debt allowance and bad debts recovered
- Bad debts recovered should be accounted for:
 - Dr Bank
 - Cr Debtors (upon receipts, normally recorded)
 - Dr Debtors
 - Cr Bad debts recovered (a necessary transfer)
- Bad debt allowance should be excluded.

Comment on Students' Performance

Question 3(B): Specific comments

Performance was fair.

- Some students were not familiar with the format of NCA schedule to be disclosed in published accounts.
- Some students wrongly treated the change in depreciation method:
- It should be treated as a change in estimates and no prior period adjustment should be made.

Comment on Students' Performance

Question 3(B): Specific comments

- Many students failed to point out the advantages of reducing balance method over the level spread:
 - Appropriate matching of cost with benefits derived.
 - Even allocation of total fixed asset costs (depreciation + maintenance).

Comment on Students' Performance

Question 4(a): Specific comments

Performance was satisfactory.

- Many students failed to get the interest paid to Banana right:
- the interest paid to Banana: to receive 10% interest on net profit after charging this interest
 $(\$4,010,000 - \$35,000 + \$260,000) \times 10/110 = \$385,000$

Comment on Students' Performance

Question 4(b): Specific comments

Performance was fair.

- Many students forgot to adjust the profit before calculating goodwill, such as:-
- 2009 – adjustment of rental expenses
- 2010 – rental prepayment; the interest paid to Banana and interest on overdue payment
- Students should get themselves familiar with the treatment of super profits also.

Comment on Students' Performance

Question 5(a): Specific comments

The performance was fair.

- Many students failed to provide correct answers of purchases and sales.
- Many students gave no proper treatment of the Leased shop which should be amortized.

Comment on Students' Performance

Question 5(b): Specific comments

The performance was fair.

Many students failed to provide correct figure of drawing

- Drawings of goods (\$6,750)
- Drawings of cah (\$18,184 (cash \$200 + sales \$42,184 – wages\$24,000 – cash \$2,000))

Many students failed to include the membership fees in advance as a liability.

Comment on Students' Performance

Question 5(c): Specific comments

The performance was fair.

Students generally provided answers with no close reference with the scenario in the question

-possible actions to cope with the high increase in rental may not possibly be a move to new site for it is a tuck shop in university and just transfer the cost to the customers is not a very good way to handle the case.

AL Exam (11) - Before Exam

- Plan: Study and Revision
- Center location
- Stationery: Calculator and ball pens
- Good sleep for at least two nights before exam

AL Exam (11) - During Exam

- Scan all questions
- Keep time
- Answer the most familiar questions first
- Keep time

* After the morning examination

- Take a rest during lunch

Thank you

Paper 2 Presentation
is about to begin