



# Examiner's report

## FA1 Recording Financial Transactions

### For CBE and Paper exams covering January to June 2014

#### General Comments

Of the 50 multiple choice questions on the June 2014 paper, 38 questions were correctly answered by more than 50% of candidates, this is an improvement on both the June and December 2013 papers.

As mentioned in previous reports not all questions are attempted, of the 50 questions only 25 were answered by all candidates. The last 10 questions on the paper were not answered by all candidates which suggests that candidates are also running out of time. Candidates should not spend too long on any one question, if it is taking too long or and if they do not know the correct option they should make an educated guess – this will give a 25% chance of a correct answer.

As highlighted in previous comments, candidates perform very well in the questions about the use and the content of documentation. Questions on control accounts, control account reconciliations and bank reconciliations were done well if these were narrative questions but when requiring numerical computations candidates struggled. This suggests that candidates know the theory but struggle with the application.

The questions on day books, double entries and the accounting equation were all done really well, which is extremely pleasing for these fundamental areas. The worst attempted areas were errors in the trial balance, dealing with discounts and as previously mentioned computation reconciliation questions. Again it is these type of questions which require candidates to apply their knowledge that are seeing lower pass rates suggesting that candidates are not practising enough exam style questions prior to sitting the paper.

#### Sample Questions for Discussion

##### Example 1

Question 34 was the worst attempted question on the paper with only 18 % of candidates getting the right answer. This was a bank reconciliation question, which always seem to give candidates problems.

Q34. Barry's bank statement showed a debit balance of \$13,008. When Barry was carrying out his bank reconciliation, he found the following:

- (1) Outstanding lodgements \$19,680
- (2) Unpresented cheques \$23,280
- (3) Bank charges not recorded in the cash book \$432

**What amount should be included in Barry's trial balance for cash?**

- A \$16,608 credit
- B \$16,608 debit
- C \$16,176 credit
- D \$16,176 debit

The key to this question is starting with the correct position from the bank's point of view. When there is a debit balance on the bank statement, it means the bank has an asset and therefore is owed money from Barry – so from Barry's point of view he has a credit balance on his account.



The bank statement will incorrectly be out of date and should include the outstanding lodgements and the unrepresented cheques therefore:

	\$
Bank statement balance	(13,008)
Less unrepresented cheques	(23,280)
Add outstanding lodgements	<u>19,680</u>
Cash book balance	(16,608)

**Correct answer is B**

Most candidates treated the bank statement balance as a positive number in their calculation or selected the correct number but wrong identified it as a debit balance.

Question 12 tested the treatment of discounts and required candidates to identify the difference in accounting for trade discounts and settlement discounts, only 23% selected the correct answer. This area also caused problems in the December 2013 paper and a very similar question was reviewed in the examiners comments.

Q12. Fiona sold goods, with a list price of \$31,200, on credit to Tony and gave him a 10% trade discount.

**Which of the following correctly records this transaction in Fiona's ledger accounts?**

- A Dr Receivables \$31,200 Cr Sales \$31,200
- B Dr Receivables \$31,200 Cr Sales \$28,080 Cr Discounts received \$3,120
- C Dr Receivables \$28,080 Cr Sales \$28,080
- D Dr Receivables \$28,080 Dr Discounts allowed \$3,120 Cr Sales \$31,200

**Correct answer is C**

A trade discount is given at the point of sale and is therefore deducted from the selling price immediately which gave the correct answer of  $\$31,200 \times 90\% = \$28,080$  this is then posted into the ledgers Dr Receivables Cr Sales.

With a settlement discount, the seller will not know whether or not the settlement discount has been taken until the payment is made, therefore the sale is initially recorded in full and the discount is recorded when the payment is made Dr Discounts allowed Cr Receivables.

Most candidates went for answer D, treating the trade discount as a settlement discount.

Question 22 was about the aged receivables report, with only 26% selecting the correct answer. As this was a pure knowledge question without any application skills, this was disappointing.

**Q22. Which of the following statements is/are correct in relation to the aged receivables analysis?**

- (1) The aged receivables analysis is used by a business to tell them the date when they need to pay suppliers
- (2) The aged receivables analysis shows a business when a customer has exceeded their credit limit

	<b>Statement 1</b>	<b>Statement 2</b>
A	Correct	Correct
B	Correct	Incorrect
C	Incorrect	Correct
D	Incorrect	Incorrect



**Correct answer D**

The key to this question was careful reading. The aged receivables analysis tells a business how long their credit customers have owed their debt, it is usually split between 0-30 days, 30 – 60 days, 60 -90 days and 90 days +

The first statement is about paying suppliers and therefore nothing to do with receivables so this ruled out answers A and B.

The second statement is about credit limits – these are set so customers cannot buy too much on credit without authorisation, and doesn't have anything to do with payment dates. This meant the second statement was also incorrect.

Most candidates chose option C, correctly identifying statement 1 but getting statement 2 wrong.