

Examiner's report

FA1 Recording Financial Transactions

December 2011



General Comments

The December 2011 was a well attempted paper overall. Of the 50 multiple choice questions on the paper, 41 achieved more than a 50% pass rate which is very pleasing. However, not all questions were attempted which is disappointing in a multiple choice paper.

Candidates performed really well in questions on the content of business documents. These questions do not require any calculations; candidates either know the subject matter or they don't. In this paper it seemed that most candidates did know this area well.

Candidates performed particularly well on questions that required them to identify the content of the books of prime entry. However, questions that required the posting of the actual entries from the day books, particularly where sales tax is involved, were not answered as well. This is a fundamental area of the syllabus and candidates not only need to know the content but to demonstrate how the day books work within the double entry process.

The format of the statement of comprehensive income and the statement of financial position are new to the syllabus and the questions on these areas were done well. However, the performance in question on the definition of the elements of financial statements was disappointing and candidates need to familiarise themselves with this new area.

Questions that related to types of payments and petty cash were done very well and again, as a fundamental area, this was pleasing to see.

Surprisingly, the questions around suspense accounts, which students historically find difficult, were attempted extremely well and this shows a good understanding of the key principles of the paper which again was very pleasing to see.

SAMPLE QUESTIONS FOR DISCUSSION

Question 8 was a bank reconciliation question:

Bhavinder's bank statement showed a debit balance of \$5,600. When Bhavinder was preparing his bank reconciliation he found the following:

- outstanding lodgements \$8,200
- unpresented cheques \$9,700

What is the cash balance that should be recorded in Bhavinder's financial statements?

- A** \$4,100 credit
- B** \$4,100 debit
- C** \$7,100 credit
- D** \$7,100 debit

Correct answer **C**

This is found by taking the balance per the bank statement and adding outstanding lodgements and deducted unpresented cheques:



Balance per bank statement	(\$5,600)
Outstanding lodgements	\$8,200
Unpresented cheques	<u>(\$9,700)</u>
Overdrawn balance	(7,100) credit

Only 18% went for the correct answer.

Candidates seem to have struggled with the fact that the bank statement showed a debit balance. If the bank statement shows a debit balance it means the customer owes the bank money. In the customer's accounts the overdrawn balance would be shown as a credit balance. The option most candidates went for was B which starts off with a positive balance in the working. Care needs to be taken with reading these questions.

Question 43 dealt with the clearing system:

Which of the following arise directly as a result of the banks clearing system?

- A Bank charges
- B BACs payments
- C Outstanding lodgements
- D Direct Debits

Correct answer **C**

The clearing system is the process by which banks settle cheques and cash between them. It usually takes a 3 day period which means that cash paid in to an individual's account will not show on the recipient's account until 3 days later and therefore won't show on the bank statement at the reporting date. This gives rise to outstanding lodgements. All the other distracters are created directly by the bank itself.

Only 23% went for the correct answer with a similar amount going for all the other distracters.

Question 46 dealt with the aged receivables analysis:

The following statements relate to the aged receivables analysis

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

Which of the above statements are correct?

	Statement 1	Statement 2
A	Correct	Correct
B	Correct	Incorrect
C	Incorrect	Correct
D	Incorrect	Incorrect

Correct answer **D**

The aged receivables analysis shows the date when receivables are due to be paid by customers – giving information about which receivable balances are overdue.



Statement 1 says it is the date when they need to pay suppliers – it is customer payment dates not suppliers so this is incorrect

Statement 2 talks about credit limits this has nothing to do with the due dates and so this is also incorrect and therefore the correct answer is D

Only 21% went for this option.

Conclusion

FA1 is both a knowledge and application paper, candidates tended to perform better on the pure knowledge questions than where there was a degree of application required. Those questions that required calculations were also not performed as well as those that were pure narrative. This suggests that candidates are reading and understanding the material but not practicing enough numerical questions.

As the paper is a gateway to applying knowledge in further higher level papers which have more computational type questions, it is important that a basic knowledge is demonstrated at this level.

To maximise the chance of success it is important that all questions are attempted and although it is impossible to have a detailed knowledge of every area, on weaker areas it is often possible to eliminate the distracters to improve the chances of gaining a pass.