# Examiner's report

## FA2 Maintaining Financial Records
## June 2012

ACCA

**General Comments**

The questions discussed below were selected as they were those for which the lowest proportion of candidates selected the correct answer.

It is hoped that, by discussing the rationale behind both the correct and incorrect answers, candidates for future sittings will be better informed and prepared.

**Sample Questions for Discussion**

**Example 1**

**Which of the following statements is correct?**

**A** Ledger accounts for individual suppliers should never be included in the general ledger
**B** The non-current asset register contains ledger accounts for non-current assets
**C** A credit balance on a ledger account should be reported in the statement of financial position
**D** Each ledger account balance should be reported only once in the final accounts Key

This question tested candidates' knowledge of the nature and purpose of ledger accounts. It may be helpful to outline the reason for each of the choices before explaining the reason for the correct choice.

In choice A, the key word is 'never'. Although it is normal practice to maintain the accounts of individual suppliers in a separate ledger, this is done for specific reasons. These reasons are that the control account which is included in the general ledger will provide the total value of the liability to suppliers much more quickly than would be the case if the balances in the individual accounts had to be totalled. A second reason is that maintaining separate ledgers can assist in both avoiding and identifying bookkeeping errors. However, if there are only a small number of suppliers, it may be more convenient to include the personal accounts within the general ledger.

Those candidates who recognised the fact that the non-current asset register is a separate record and thus is not part of the double entry system, nor does it include ledger accounts, would have quickly concluded that choice B is incorrect.

A quick reflection on a typical trial balance would reveal that the sales account would contain a credit balance. The fact that this is part of the calculation of profit and thus is reported in the income statement means that choice C is incorrect.

Choice 4 is correct as it states a key issue when preparing final accounts. Each ledger account balance impacts on a specific item of income, expenses, assets, liabilities or capital. Thus each will be reported only once in the final accounts.

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**Example 2**

**Which of the following statements is/are correct?**
(1) No estimated values may be included in financial statements
(2) Financial statements will be misleading if the value of any item is misstated

**A** Neither 1 nor 2 Key
**B** Both 1 and 2
**C** 1 only
**D** 2 only

When attempting a question which requires a decision on whether or not a statement is correct, the most successful approach is likely to be to consider each statement in turn – and to read the statement carefully.

As well as the process of preparing financial statements following the extraction of a trial balance, this question focused on one of the theoretical outcomes included in the study guide – materiality. Those candidates who had a clear understanding of the definition of materiality would have had little difficulty in making the correct decision on each statement.

In the case of statement (1), it was important to recognise that a number of values included in financial statements *are* estimated. The most obvious examples are accrued expenses and prepaid expenses.

Given that some values have to be estimated, the key point relating to materiality is that absolute accuracy is *not* required. A minor error or an estimate based on incomplete information will not mean that financial statements will be misleading. What renders the statements misleading is if they are *materially* misstated. As the definition of 'material' is that the value would lead a user of financial statements to make a different decision, it follows that values which are misstated – but not materially so – are *not* misleading.

Thus neither statement is correct.

**Example 3**

At 31 May 2012, Anit was owed $104,750 by his customers. He has decided to write off an irrecoverable debt of $400. He estimates that his closing receivables allowance should be equivalent to 2% of the remaining balances. His opening receivables allowance was $2,256.

**What should be his receivables expense for the year ended 31 May 2012?**

**A** $231 Key
**B** $569
**C** $561
**D** $169

Dealing with irrecoverable debts and the allowance for receivables is a topic with which candidates often exhibit difficulties. The correct approach is based on several key points:

- An irrecoverable debt is 'written off' by a credit entry in the receivable account and a debit entry in the receivables expense account. (In other words, the receivables balance is reduced and the charge against profit is increased.)

- The movement in the receivables allowance is the difference between the existing allowance (which will be the balance at the date of the last statement of financial position) and the allowance which is now required (calculated on the basis given in the question).
- An increase in the allowance will give rise to a charge against profit, and a decrease in the allowance will lead to a credit in the income statement.
- The total receivables expense is thus either:

  the value of any irrecoverable balances written off
  plus the increase in the allowance
  OR
  the value of any irrecoverable balances written off
  less the decrease in the allowance

In this case, the calculation was:

| | | |
|---|---|---|
| Balance after write off | $104,350 | ($104,750 - $400) |
| Allowance at 2% | $ 2,087 | ie allowance required |
| Balance brought forward | $ 2,256 | ie allowance brought forward |
| Reduction in allowance | $ 169 | ie a credit in the income statement |

Charge to income statement $400 - $169 = $231

Errors which led to the incorrect choice being selected were:

- Treating the movement in the allowance as a charge (choice B - $400 + $169 = $569)
- Omitting the value of the write-off, and treating the movement in the allowance as a charge (choice D - $169)
- Calculating the allowance required on the balance on the receivable account before the write-off was made. (choice C - $561)

**Conclusion**
It is interesting that the conclusion of this consideration of three questions from the June 2012 paper is exactly the same as the conclusion recorded in the December 2011 report – as well as previous reports on the T3 paper.

This is that the two key reasons why incorrect choices are selected are:

a lack of clarity about the key points of the topic; and
not reading the question with sufficient care.

Candidates preparing for future sittings are encouraged to pay attention to these reasons in both their preparation for future sittings and when taking the exam.