



# Examiner's report

## FA1 Recording Financial Transactions

### For CBE and Paper exams covering July to December 2013

#### General Comments

In this session, overall performance was pleasing, but candidates' performance does seem to vary across the syllabus areas and styles of questions.

As mentioned in previous reports some candidates do not attempt all of the questions.. In this style of exam it is important to manage time well and avoid spending too long on any individual item. A guess will give a 25% chance of a correct answer, so it is better to do this, flag the question for review later if time allows, and to move on to answer all of the other questions.

As highlighted in previous comments, candidates usually perform very well in the questions about the use of documentation. Some questions on the content of documents, such as invoices and supplier statements, caused difficulties in this session. Candidates need to learn both the use and the content of documents as well as being able to deal with the sales tax, which seemed to cause some difficulties.

Questions on control accounts and control account reconciliations were much better attempted at this sitting, and as were questions on bank reconciliations, a topic that has been highlighted in previous reports.

The questions on day books (with the exception of dealing with the sales tax), double entries and the accounting equation were all done well, which is extremely pleasing as these are fundamental areas. The worst attempted areas were suspense accounts, which do require a great deal of application, and computerised accounting systems which just require knowledge of how the systems work. Most of the questions where significant numbers of candidates lost marks required numerical calculations, which is not overly surprising and the specific issues with some of these questions have been highlighted below.

#### Sample Questions for Discussion

##### Example 1

The incorrect answers to this question showed a fundamental lack of knowledge on the process of sales tax.

On 4 June, Matthew received \$3,000 cash from a credit customer and \$360 from a cash sale. Matthew is registered for sales tax at 20%

**What amount of sales tax should be recorded in the cash book on 4 June?**

- A \$560
- B \$60
- C \$72
- D \$672

#### Correct answer B

Only the sales tax on the cash sales would be recorded in the cash book.

The key to this question is careful reading, it asks for the sales tax that would be recorded in the *cash* book. Sales tax is always recorded at the point the initial transaction is recorded, so with a credit sale this is initially recorded in the sales day book and hence the sales tax would also be recorded here and recognised at the date the sale was made.

Later, when the cash is received from the credit customer this is entered into the cash book but no sales tax would be recorded as it has already been dealt with in the sales day book.

Many candidates ignored this fact and calculated the sales tax on both the cash sale and the receipt of cash from a credit customer.

### Example 2

This tested the treatment of discounts and required candidates to identify the difference in accounting for trade discounts and settlement discounts. Emmeline sold goods on credit to James with a list price of \$7,500. Emmeline offered a 10% trade discount and a 6% settlement discount if James paid within 10 days

**How should the sale be recorded in Emmeline's accounts?**

- A Dr Receivables \$6,345      Cr Sales \$6,345
- B Dr Receivables \$6,750      Cr Sales \$6,750
- C Dr Receivables \$6,750      Dr Discounts allowed \$750      Cr Sales \$7,500
- D Dr Receivables \$6,345      Dr Discounts allowed \$405      Cr Sales \$6,750

**Correct answer is B**

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  $\$7,500 \times 90\% = \$6,750$  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.

Many candidates went for answer C, which is wrong, as it correctly ignores the settlement discount but the trade discount is treated as an expense, rather than as an immediate deduction from the amount recognised as sales. Discounts are a popular area for questions so candidates must know how to account for them.

### Example 3

This question was about the value of sales that should be included in the trial balance, it required knowledge of what constitutes sales and I felt was a straight forward question so was surprised that many candidates lost marks here.

The following information relates to Ravi's sales for the year:

Cash sales	\$56,500
Credit sales	\$72,800
Cash received from credit customers	\$61,200
Credit notes issued to credit customers	\$3,200
Settlement discounts given to credit customers	\$1,900

Ravi does not maintain a separate sales return account

**What amount should be included for sales in the trial balance?**

- A \$126,100
- B \$187,300
- C \$124,200
- D \$129,300

**Correct answer is A**

The sales figure should include both cash and credit sales and this gave \$129,300 which was the option that most candidates choose, this did show good understanding that the cash received was not recorded nor the settlement discounts but where candidates went wrong was in not taking into account the credit notes, credit notes are raised when goods are returned and sales returns would be deducted from the sales figure if a separate sales return account is not kept, as was the case stated above.

The correct answer was therefore  $\$129,300 - 3,200 = \$126,100$ .