



# Examiner's report

## FA1 Recording Financial Transactions

For CBE and Paper exams covering July to December 2014

### General Comments

As mentioned in all my past reports not all questions are attempted. Again the last 10 questions on the paper were not answered by all candidates, this suggests that candidates are running out of time. Of those that did answer all questions, the last two questions were the worst attempted which also suggested that by that point candidates were not reading clearly and were rushing, resulting in errors.

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.

Questions which were knowledge based and didn't require any application gained the best results. Also narrative questions were better answered as opposed to computational. This suggests that candidates know the theory but struggle to apply it. More question practice prior to sitting the paper could help with this.

The questions on the books of prime entry, double entry journals and the elements of the financial statements were all done really well, which is extremely pleasing as these are key areas that will also be tested in future papers. The worst attempted areas were errors in the trial balance, dealing with sales tax and computational reconciliation questions. These areas will be addressed below as I review three questions from the paper.

### Sample questions for discussion

#### Example 1

This was an example about the purpose of the aged receivables analysis, this area also caused issues in June 2014. Both questions were knowledge based without requiring any application, and it was reviewed in my June 2014 examiners comments.

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

- |     |   |
|-----|---|
| (1) | It shows how old the supplier balances are                                  |
| (2) | It is an analysis of the credit periods allowed to each individual customer |

#### Statement 1

A  
B  
C  
D

#### Statement 2

Correct	Correct
Correct	Incorrect
Incorrect	Correct
Incorrect	Incorrect

**Correct answer is D**

The majority of candidates went for answer C, which shows they were clear that it related to customers not suppliers, but were confused about its purpose.

The analysis shows how long each debt has been outstanding, usually broken into categories 0 – 30 days, 30 – 60 days, 60 – 90 days and 90+ days. This can then be compared to the credit periods offered to customers to assess whether debts are overdue but it doesn't analyse those credit periods. Therefore the answer was D

#### Example 2

This question tested the knowledge of sales tax and how it is recorded in the books of prime entry.

On 1 April Kimberley had the following transactions:

- |     |  |
|-----|--|
| (a) | A cash sale of \$8,832   |
| (b) | A cash receipt of \$6,624 in relation to a credit sale in the previous month |

Both transactions were inclusive of sales tax at 15%

**What amount would be recorded in the sales tax column of the cash book on 1 April?**

- |          |         |
|----------|---------|
| <b>A</b> | \$1,152 |
| <b>B</b> | \$1,325 |
| <b>C</b> | \$2,318 |
| <b>D</b> | \$2,016 |

**Correct answer is A**

Sales tax is always recorded when the initial transaction is recorded.

A cash sale is initially recorded in the cash book, at that point the sales tax would be recorded and accounted for, so in this question the cash sale was \$8,832 this was inclusive of sales tax at 115%, so to find the sales tax we divide by 115 and multiply by 15 =  $\$8,832 \times 15/115 = \$1,152$ .

A credit sale is initially recorded in the sales day book. At that point the sales tax would be recorded and accounted for. When the cash is received from the credit customer, there does not need to be a record of the sales tax, as it has already been recorded on the earlier entry into the sales day book.

So only the sales tax on the cash sale is recorded in the cash book and the correct answer is A

Example 3

This was a bank reconciliation question, and these do continue to cause candidates problems.

The balance on Pax's bank statement was \$13,104 credit. Pax had unpresented cheques of \$2,952 and outstanding lodgements of \$2,088.

**What should be the balance on the bank account in Pax's general ledger?**

- |          |                 |
|----------|-----------------|
| <b>A</b> | \$12,240 credit |
| <b>B</b> | \$12,240 debit  |
| <b>C</b> | \$13,968 debit  |
| <b>D</b> | \$13,968 credit |

**Correct answer is B**



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

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

	\$
Bank statement balance	13,104
Less unpresented cheques	(2,952)
Add outstanding lodgements	<u>2,088</u>
Cash book balance	12,240

**Correct answer is B**

Most candidates correctly calculated the \$12,240 but thought it should be a credit balance.