



# Examiner's report

## FA1 Recording Financial Transactions

### For CBE and Paper exams covering July to December 2015

#### General Comments

The intention of this report is that, when considered in conjunction with previous reports, candidates at future sittings will have a resource which maximises their chance of success. The most effective way to use these reports is to consider both the technical content of each question, and the approach to answering the question – noting that different question types will require slightly different approaches.

As mentioned in all my past reports not all the questions are attempted by candidates, given the questions are multiple choice an educated guess should be made as there is a 25% chance of getting the correct answer. The number of questions not attempted, however, has gone down from the last sitting so hopefully the message is getting across.

#### Sample questions for discussion

##### Example 1

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

Cash sales	\$28,250
Credit sales	\$36,400
Cash received from credit customers	\$30,600
Credit notes issued to credit customers	\$1,600
Settlement discounts given to credit customers	\$950

Romilly does not maintain a separate sales returns account.

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

- A \$63,050
- B \$93,650
- C \$62,100
- D \$64,650

This question required candidates to prepare a sales account and be able to balance off in order to calculate the correct figure that would go into the trial balance. Included in the sales account would be the cash and credit sales less the credit notes issued. Credit notes relate to sales returns and should be deducted from the sales figure unless a separate sales return is kept – however we were explicitly told this was not the case here, so the credit notes should have been deducted.

Therefore the answer was  $\$28,250 + \$36,400 - \$1,600 = \$63,050$  so Answer A

Most candidates chose answer D, this ignored the credit notes with a significant number choosing answer C. Answer C deducts the settlement discounts, these are an expense of the business, the double entry being Dr Discounts allowed Cr Trade receivables with no impact on the sales figure.

### Example 2

Arnie's payables control account shows a credit balance of \$25,000. The total of the individual suppliers balances in the payables ledger is \$30,000.

**Which of the following could explain the difference?**

- A** A purchase invoice of \$5,000 has been omitted from the purchase day book
- B** The total of the purchase day book has been overcast by \$5,000
- C** A purchase return of \$5,000 has been omitted from the control account
- D** A sales invoice of \$5,000 has been credited to a supplier's account

This questions tests the difference between the payables control account – which is made up of the totals from the books of prime entry and the payables ledger which is made up of the total from the individual supplier accounts. In the question the balance on the control account is \$5,000 lower than the payables ledger.

With these questions it is important to identify which account is affected, is it the control account or the list of individual supplier accounts. Candidates need to read the errors in isolation and decide which balance would need to be adjusted.

If we look at the options;

Answer A, if an invoice was omitted from the purchase day book, both the total would be wrong in the control account and the individual account would be wrong as it would be missing an invoice.

Answer B, if the purchase day book was added up wrong only the control account would be affected, if it was overcast this means it would be \$5,000 higher than the payables ledger not lower, therefore this cannot be the option.

In answer C, a purchase return had been omitted from the control account, purchase returns reduce the balance on the account and if this was missing the account would therefore be \$5,000 higher not lower

In answer D a sales invoice has been credited to a suppliers account, this is an error, it should be purchase invoices that are credited to suppliers accounts, as a result the account is overstated and will be \$5,000 greater than the control account, this is therefore the correct answer.

### Example 3

On 20 November Talik received \$7,200 cash from a credit customer and \$864 from a cash sale. Talik is registered for sales tax at 20%

**What amount of sales tax should be recorded in the cash book on 20 November?**

- A** \$1,344.00

- B** \$144.00
- C** \$172.80
- D** \$1,881.60

This question requires candidates to demonstrate knowledge of where sales tax is recorded in the books of prime entry. If the transaction is a credit transaction the sales tax is recorded in the sales day book, when the cash is received from the credit customer we don't record the sales tax at that point, as it has already been accounted for at the point of sale. If it is a cash sale, the first place it is recorded is in the cash book and the sales tax will be recorded at this point.

With this question it specifically asked for the sales tax in the cash book, therefore only the sales tax on the cash sale is relevant and we can ignore the cash received from the credit customer.

The figures given were the amounts received which would include the sales tax and therefore to calculate the amount of the tax we need to take the \$864 and multiply  $\times 20/120 = \$144$  and therefore answer B.

This question had answers which were spread over all the options showing a mixture of errors, some candidates included the cash from the credit transaction and others incorrectly calculated the sales tax.

### **Summary**

Based on the performance of candidates in these questions, it can be observed that candidates are more comfortable with the questions that are more knowledge based.

Candidates appear to struggle with applying their knowledge to the given scenarios or do not read the questions carefully enough, so the wrong options are chosen.

As noted in previous comments the best way for candidates to prepare for future sittings is to ensure that they have developed a clear understanding of the key points of each area of the syllabus and that they read carefully and think logically when attempting questions.