



Examiner's report

FA1 Recording Financial Transactions

For CBE and Paper exams covering July to December 2016

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.

The number of questions not attempted by candidates continues to fall which is positive as it is a point that has been raised in previous Examiner's reports.

Sample questions for discussion

Example 1

The following errors have been made in preparing the accounts

- (1) When adding up the total on the sales account, it has been undercast by \$200
- (2) A purchase invoice was recorded in the purchase day book as \$7,960 instead of \$6,970

Would it be true/false that the above errors would be identified by extracting the trial balance?

Error 1 Error 2

A	True	True
B	True	False
C	False	True
D	False	False

This question tests whether candidates can identify the process of the day books and if an entry into a day book will alter the totals on the ledger accounts and therefore the trial balance.

The sales account is a ledger account and when a transaction has been posted from the day book the entry will either be:

Dr Receivables, Cr Sales, if posting a credit transaction from the sales day book; OR
Dr Cash, Cr Sales, if posting a cash sale from the cash book

The totals on the ledger account will then be posted into the trial balance – so in this case it is the total that is wrong not the double entry and therefore only one side of the trial balance will be wrong so this error would be identified – the answer is true.

With the purchase invoice – this was wrong in the day book and therefore when the entry is done to the ledgers

Dr Purchases Cr Payables

Both will be wrong by the same amount, and therefore when the totals on the ledgers and taken to the trial balance, the trial balance will still balance and therefore the error wouldn't be identified – the answer is false.

So 1) True 2) False means the answer is B

Most candidates selected Answer A, which shows they understood the impact of errors on the total of the ledger accounts but were not as clear on the process of the day books. This is a fundamental part of the syllabus and candidates need to be clear on this area.

Example 2

Rhiannon's bank reconciliation statement has an overdraft balance per the bank statement of \$20,300, bank charges of \$500, and a BACS receipt from a customer of \$700. In addition, there are uncleared lodgements of \$300

What amount should be included in Rhiannon's statement of financial position for the bank overdraft?

- A \$20,300
- B \$19,800
- C \$20,100
- D \$20,000

This question was a bank reconciliation question, these are extremely common on the paper but candidates continue to find these challenging questions.

The key here is to identify how the bank reconciliation actually works and what figures goes into the accounts – this should be the reconciled balance between the bank statement and the cash account.

This balance can be found in one of two ways:

- 1) Take the original cash account balance and adjust it for items that are on the bank statement but not yet recorded in the cash account; this will cover items such as direct debits, standing orders, bank charges and BACS payments.
- 2) Take the original bank statement balance and adjust it for items that are in the cash account but not yet showing on the bank statement; this will cover items such as unpresented cheques and uncleared lodgements.

In this question we are only given the bank statement balance and therefore we would use method 2 – take that balance and adjust for items which would be in the cash account and not on the bank statement, this was just the uncleared lodgements of \$300.

As it was an overdraft position the overdraft would be smaller when these lodgements are included therefore the overdraft would be $\$20,300 - \$300 = \$20,000$ so the answer must be D.

Bank reconciliation questions always feature on the paper so candidates need to practice this area much more.

Example 3

Kylie has a balance on her receivables ledger control account of \$15,120 but a total of \$11,520 on her list of customer balances.

Which of the following would explain the difference?

- A A sales return of \$3,600 was recorded in the control account but not in the customer's individual account
- B A customer with a balance of \$3,600 was included in the list of balances twice
- C The sales day book was incorrectly totalled and overstated by \$3,600
- D The receivables column of the cash book was incorrectly totalled and overstated by \$3,600

As with bank reconciliations, control account reconciliations continue to trouble candidates. Again the key is being clear on the process.

The entries in the day books will be totalled and the totals will be posted to the control accounts, but at the same time the individual customer records need to be kept and these are posted directly from the day books, but are memorandum accounts and do not form part of the double entry process.

In this question the total of the individual customer balances was lower than the control account by \$3,600 and we need to identify why. If we look at the options:

Answer A – a sales return if this had been recorded in the control account but not the list of balances, as it is a return the control account would be lower, therefore this is not the correct option

Answer B – if a customer had been included in the list twice, the list of balances would be higher than the control account; therefore this is not the correct option

Answer C – the total of the sales day book goes to the control account only – therefore if this was overstated then the control account would be higher than the list of balances – therefore this is the correct option

Answer D – the total of the receivables column on the cash book goes to the control account only, this records payments made from customers and therefore if it was overstated the control account would be lower than the list of balances – therefore this is not the correct option.

So answer C was correct.

Summary

Based on the performance of candidates in these questions, it can be observed that the questions that are more knowledge-based score much higher than any that require application.

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.