



Examiner's report

FA1 Recording Financial Transactions

For CBE and Paper exams covering January to June 2013

General Comments

Of the 50 multiple choice questions on the June 2013 paper, 30 questions were correctly answered by majority of candidates, this is consistent with both December and June 2012.

As mentioned in previous reports not all questions are attempted, only 12 out of the 50 questions were answered by all candidates. Although this is up by 50% on the December 12 paper and is unsatisfactory in a multiple choice paper. If a candidate does not know the correct answer a guess will give a 25% chance of a correct answer, and this advice has been pointed out in previous comments.

As highlighted in previous comments, candidates perform very well in the questions about the use of documentation, and the questions regarding the content of documents, were much better attempted at this sitting

It was very pleasing to see that some improvements have been made in dealing with the books of prime entry and posting the entries from the day books into the ledgers, previously these questions have had unsatisfactory outcome so it was welcome to see much better results at such a fundamental part of the syllabus. However difficulties were still encountered in other practical bookkeeping topics, such as questions that required ledger accounts to be balanced off.

Questions on control accounts and control account reconciliations were much better attempted at this sitting, but unfortunately bank reconciliations still cause a lot of problems. Specific issues with questions have been highlighted below.

Sample Questions for Discussion

Example 1

Question 16 was about computerised accounting systems and was disappointing as it was a knowledge question with little application required

In a computerised accounting system, what does "field presence validation" mean?

- A Data values must be in a predetermined range
- B Individual characters are valid in terms of being a letter or a number
- C The data has the correct number of characters
- D Fields cannot be left blank

Correct answer is D

Field presence means essential fields cannot be left without an entry. The majority of candidates went for answer B, this is known as a format validation technique.

Example 2

Question 19 was a bank reconciliation question, these type of questions continued to have lower performance with only 25% getting the correct answer

A business has a debit balance on its bank statement of \$12,640 and a debit balance on its cash account in the general ledger of \$6,320

Which of the following would explain the difference?

- A** Unpresented cheques of \$18,960
- B** Outstanding lodgements of \$18,960
- C** Unpresented cheques of \$6,320
- D** Outstanding lodgements of \$6,320

Correct answer is B

The key is establishing whether the business has a positive or negative cash balance with the bank. When it says the balance on the bank is a debit balance – this is from the banks point of view, so a debit balance is an asset, which means you as the customer owe the bank cash, and therefore in the cash account this would be shown as a credit balance.

So the difference between the credit per the bank of \$12,640 and the debit per the cash account of \$6,320 is \$18,960, this narrows the options down to A or B, and we know that the cash account is bigger than the bank so there must have been lodgements paid into the bank that are still outstanding giving an answer of B.

42% of candidates chose answer C which means that they treated the balance at the bank as a positive instead of negative number, if this had been the case then their logic would have been correct.

This issue with the balance at the bank statement has caught candidates out on numerous occasions. So you need to be clear a debit balance at the bank equates to a credit balance in the cash account, and a credit balance at the bank equates to a debit balance in the cash account.

Example 3

Question 25 was on preparing a purchases account and finding a closing balance, and preparing a T account is a fundamental part of the syllabus.

Ahmed bought goods for \$41,000 on credit and \$6,500 for cash. He returned goods worth \$2,100 and received a settlement discount of \$380. Ahmed does not keep a separate purchase returns ledger account.

What should be the closing balance on Ahmed's purchases account?

- A** \$45,400
- B** \$45,020
- C** \$38,520
- D** \$47,500

Correct answer is A

The purchases account would include both the cash and credit purchases and the purchase returns would be deducted.

Cash purchases double entry: Dr Purchases Cr Cash

Credit purchases double entry: Dr Purchases Cr Payables

Purchase returns: Dr Cash/Payables Cr Purchases

The settlement discounts are not deducted from purchases, the double entry for these is:



Dr Payables CR Discounts received.

Therefore the answer should be $\$41,000 + \$6,500 - \$2,100 = \$45,400$

Many candidates went for answer B which is after deducting the settlement discounts, and some candidates opted for answer C which excluded the cash purchases and deducted the settlement discount.

As noted in previous commentaries, the narrative questions which are pure knowledge based scored better than the numerical questions. It does confirm the view that candidates read and understand the material but struggle more when it comes to applying their knowledge. This also suggests that candidates do not practise enough questions which should be a key component of a candidate's preparation.