



Examiner's report

FA1 Recording Financial Transactions

For CBE and Paper exams covering January to June 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.

Sample questions for discussion

Example 1

Mandy owed her suppliers \$18,540 at the start of August. During August, she bought goods on credit costing \$42,520, she returned goods costing \$4,690 and made payments of \$27,610.

What is the total of the credit side of Mandy's payables ledger control account for the month of August?

- A \$61,060
- B \$32,300
- C \$28,760
- D \$50,840

This question tested candidate's knowledge of the format of the payables ledger control account along with the debit and credit entries that would be required.

The opening balance is what is owed to suppliers at the start, as this is owed it is a liability and therefore a credit balance. When goods are bought on credit the double entry is to Dr Purchases, Cr Payables ledger control account and therefore this correctly meets the requirement which asked for the credit entries. The return of goods would be the opposite of this so Dr Payables ledger control account, Cr Purchases and the payment would be Dr Payables ledger control account, Cr Cash.

Therefore only the opening balance and the purchases on credit would result in credit entries so the answer was A.

The most common answer picked was C, this was the balance carried forward on the purchase ledger control account and suggest that's candidates are not actually reading the requirement carefully.

Example 2

Tariq started a business with \$24,000 of cash, which he had raised as a personal loan from his bank, and his car which was worth \$12,000.

Which elements of the accounting equation were affected?

- A Assets and liabilities only
- B Liabilities and capital only
- C Assets, liabilities and capital
- D Assets and capital only

The key is to start off with what you know is definitely correct and then try to remove some of the options, hopefully most candidates would be aware that the cash and the car are assets, which can rule out answer B. We then have to consider the other parts.

The loan that was raised from the bank was a “personal loan” which means lent to Tariq not the business, this requires knowledge of the separate entity concept, where the owner and the business are distinct from each other. Therefore the loan is a liability of Tariq not of the business instead both the cash from the loan and the car would be capital introduced by Tariq and the answer was D.

Many candidates chose C, treating the loan as a liability of the business, this is a fundamental concept and candidates should be able to apply these concepts.

Example 3

Petula’s list of payables balances totalled \$18,760. Petula later discovered that:

- a debit balance of \$300 had been included in the list of balances as a credit balance
- the total on the purchase day book was understated by \$2,500

The total on the list of payables balances and the control account reconciled after adjusting for these errors.

Which of the following is the correct total for the list of balances on Petula’s payables ledger?

- A \$18,160
- B \$20,660
- C \$19,060
- D \$18,460

These questions are always tricky and they require the candidates to visualise the process of how the day books and the control accounts work.

When credit purchases are entered into the purchase day book, these are totalled up and with the total we would Dr Purchases, Cr Payables ledger control account in the general ledger. At the same time the individual amounts in the purchase day book are posted to the individual suppliers accounts in the payables ledger, this is not part of the double entry and these are just memorandum accounts which keep a track of what each supplier is owed.

With the 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.

In the example above the first error is clearly to the list of supplier accounts, debit balances can arise when an entity has overpaid a supplier, or has paid a supplier and the goods are subsequently returned so they supplier actually owes them.

Debit balances should be deducted from the list and in error they have been treated as a credit and added on, to adjust for the error we need to deduct double the amount, to remove the \$300 that was incorrect and then to deduct the correct \$300 so \$18,760 less \$600 gives \$18,160.

The second error is in totalling the purchase day book and this would only affect the control accounts not the individual accounts, therefore does not need adjusting for and the answer is A.

Candidates who chose option B also adjusted for the control account error

Candidates who chose option C added on the debit balances of \$300 showing they didn't really understand what the debit balances are and therefore were struggling to apply the information.

Candidates who chose option D deducted the debit balances but only \$300 not by double the amount.

Summary

Based on the performance of candidates in these questions, it can be observed that there are a number of reasons for incorrect choices being made.

There appears to be was a lack of understanding of some of the fundamental issues in the syllabus. There also appears to be issues with applying the knowledge to the given scenarios and finally the questions were not read carefully enough, which led to the wrong option being chosen.

Candidates preparing for future sittings are strongly encouraged 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.