



Examiner's report

FA1 Recording Financial Transactions

For CBE and Paper exams covering January to June 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.

Of the 50 multiple choice questions on the June paper, 32 questions were correctly answered by more than 50% of candidates. This is down 14% on the December 2015 paper and down 8% on June 2015. This is disappointing as the questions were of a similar standard and covered all the key areas we would expect candidates to be happy with.

The number of questions not attempted by candidates has gone down significantly, this is something that has been mentioned in previous reports and this was very pleasing to see.

Sample questions for discussion

Example 1

Mehmet was reconciling his payables control account as at 31 March and discovered that the total of his purchase day book for March was overstated by \$5,000.

What is the effect of correcting this error in Mehmet's reconciliation?

	Control account	List of supplier balances
A	Credit \$5,000	No effect
B	Debit \$5,000	No effect
C	Credit \$5,000	Increased
D	Debit \$5,000	Decreased

This question 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 total on the purchase day book is overstated by \$5,000.

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 understand how the process works.

A purchase invoice is entered into the purchase day book, from there it is recorded in the individual supplier account, then at the end of the day the total is posted to the payables control account.

When the question says the total was overstated, it means that it was added up incorrectly. This means it is only the control account that is affected as the individual supplier accounts do not use the total.

So we have now narrowed it down to Answer A or B. We then need to decide whether we need to make a debit or credit adjustment.

Payables are a credit balance and therefore as they are overstated it means the credits are too high and therefore we need to debit it.

The answer is therefore B

The majority went for D which meant they got the correct entry to the payables control account so they showed understanding of the debits and credits which is good, but mistakenly believed the individual suppliers accounts were affected. It is important that this process is understood.

Example 2

A business has a debit balance on its bank statement of \$22,640 and a debit balance on its cash account in the general ledger of \$16,320.

Which of the following would explain the difference?

- A Unpresented cheques of \$38,960
- B Outstanding lodgements of \$38,960
- C Unpresented cheques of \$6,320
- D Outstanding lodgements of \$6,320

This question was a bank reconciliation question, these are extremely common questions but candidates continue to struggle with them. The main issue is with the balance on the bank statement, this continues to cause confusion.

The key thing to remember is that the bank statement balance is from the bank's point of view. If the bank has a credit balance – it means they owe you the customer, so you have money in the account and it would be a debit balance in the business accounts. If the bank has a debit balance – it means you owe them and the business would have an overdraft, which would be a credit balance.

So in this question, the bank statement shows a debit balance – which means there is an overdraft of \$22,640, when we compare this to the cash account it shows a positive balance of \$16,320, so the bank statement is showing \$38,960 less than the cash account, so there must be outstanding lodgements that are not yet showing on the bank statement.

Therefore the answer must be B. The majority picked C which shows they thought the debit balance on the bank statement was a positive balance.

Example 3

Kiera prepared her trial balance and had to include a suspense account to make it balance. She subsequently discovered that the receivables control account had been overstated by \$12,300.

What was the balance on the suspense account when the trial balance was initially extracted?

- A \$12,300 debit
- B \$12,300 credit
- C \$24,600 debit
- D \$24,600 credit

The suspense account is put into the trial balance to make it balance. The receivables control account is overstated as this is a debit balance it means that the debit side of the trial balance would be higher than the credit side by \$12,300. In which case to make it balance the suspense account would need to have a credit balance of the same amount.

Therefore the answer would be B , this was the most popular answer chosen but still a majority chose the wrong answer. The working of the trial balance is a key syllabus area and candidates need to be happy with this.

Summary

It appears that candidates are not comfortable with some of the fundamental issues in the syllabus. There also appears to be an issue with applying the knowledge to the given scenarios. Candidates must ensure that they read questions carefully enough, as a quick read can lead 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.