



Examiner's report

FA1 Recording Financial Transactions

For CBE and Paper exams covering January to June 2017

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 2017 paper, 36 questions were correctly answered by of the majority candidates, which is comparable to both December and June 2016

There are still questions not being attempted by some candidates but this has significantly improved which is pleasing to see.

Sample questions for discussion

Example 1

Robin maintains a full set of books of prime entry including returns day books. On 1 September, he bought goods from Adam for \$2,100 inclusive of sales tax of 20%. Robin returned half of them on 4 September.

Which of the following amounts should be recorded in the net column of Robin's purchase day book on 1 September?

- A \$2,100
- B \$1,750
- C \$1,050
- D \$875

This question tests whether candidates know what the entries into the day books are and can calculate the net amount of a transaction when given the gross amount inclusive of sales tax.

Some companies maintain separate purchase day and purchase return day books as was the case here. The question only asked about the net column in the purchase day book and therefore the information on the return was not relevant. It also asked for the figure on 1 September which was prior to the return and therefore also made the information about the return not relevant to the question. It is important to read all the information in a question carefully in order to identify such irrelevant points and not include them when you answer the question

This meant that we were only dealing with the invoice of \$2,100 but this is the gross amount including sales tax of 20% and therefore to calculate the net figure we take the \$2,100 and divide by 120% then multiply by 100%

$\$2,100 \times 100/120 = \$1,750$ and therefore answer B.

Example 2

Abdul started a business with \$10,000 in cash, which he had raised using a personal loan from the bank, and his car worth \$5,000.

Which elements of the accounting equation would be affected?

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

This question tested the fundamental concepts of separate entity and the accounting equation. As these are fundamental and are knowledge rather than detailed application, it was disappointing that this was one of the worst performing questions in the exam.

Abdul has put cash into the business from a personal loan – as it explicitly told you it was a personal loan this is a liability of Abdul the individual not of Abdul's business. He also put his car into the business as well.

So the business now has the cash and the car which are assets of the business, and they were invested into the business by Abdul and therefore are capital.

The answer is therefore that the assets and capital are affected and nothing else giving the answer D.

Example 3

Briana discovered the following errors when performing her payables control account reconciliation:

- (1) An invoice received from Susan was incorrectly recorded in the purchase day book as \$131 instead of \$113
- (2) A credit note for \$55, received from Godwin, was incorrectly recorded as an invoice in Godwin's personal account

What would be the effect of correcting these errors on the total of the list of balances in the payables ledger?

- A Decrease the total by £73
- B Decrease the total by \$37
- C Decrease the total by \$128
- D Decrease the total by \$92

This question required knowledge of how the day books system works and how the list of supplier balances is constructed.

When an invoice is posted in the purchase day book it goes to two places, firstly it is totalled with all the other entries and credited to the payables ledger control account; secondly it is included in the individual suppliers account. The total of all the individual supplier accounts is referred to as the list of balances.

Therefore if an entry is wrong in the purchase day book then both the payables ledger control account total AND the total of the list of balances will be wrong – in this case it has been overstated by $\$131 - \$113 = \$18$

The second error was just to Godwin's personal account which is in the list of balances. In this instance they had added on \$55 as an invoice instead of subtracting the credit note of \$55 – therefore the account was overstated by \$110.

If the errors were corrected the total effect would be a decrease in the list of balances of $\$18 + \$110 = \$128$ therefore giving the answer C.

Answer A was the most common answer selected. This correctly account for the \$18 but only adjusted for the \$55 not the \$110 – this would only reverse the wrong invoice but wouldn't account for the correct credit note.

Answer B adjusted for the \$55 as above but included the \$18 as an understatement instead of an overstatement.

Answer D adjusted correctly for the £110 but included the \$18 as an understatement instead of an overstatement.

Summary

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.