



Examiner's report

FA2 Maintaining Financial Records

For CBE and Paper exams covering July to December 2014

General Comments

Examiner's reports are produced to assist candidates to improve their exam performance. This is done by considering sample questions and illustrating how the questions could be approached. This focus on a small number of sample questions should not obscure the fact that candidates will maximise their chances of exam success by studying the whole syllabus, practising as many questions as possible, reading questions carefully and thinking clearly.

The questions considered in this report highlight the need for each of these elements to be incorporated into preparation and exam technique.

Sample Questions for Discussion

Example 1

When the trial balance was extracted, a suspense account was created with a debit balance of \$99. It was then discovered that:

- a sales invoice for \$90 was recorded twice in the sales day book; and
- a debit entry in a general ledger account was \$89, but should have been \$98.

When these errors are corrected, what is the revised balance on the suspense account?

- A** Nil
- B** \$9 debit
- C** \$90 debit
- D** \$108 debit

To answer a question such as this each error needs to be considered separately. It is important to think carefully to work out the effect of each error. Once the effect of the error has been clarified, it is more straightforward to work out what correcting entry is needed.

If an invoice was recorded twice in the sales day book (or indeed, any day book), this means that the double entry will have been made twice. Therefore, the trial balance will still balance (although, the balances on both the sales account and the receivables control account will be overstated). Correcting this error therefore requires a debit entry in the sales account and a credit entry in the receivables control account. Thus it does not require an entry in the suspense account.

A debit entry of \$89 instead of \$98 means that the debit entries in the general ledger are understated by \$9. This will have contributed to an imbalance in the trial balance. In the affected account, a correcting entry of \$9 (debit) is required, with a corresponding entry of \$9 (credit) in the suspense account.

The combined effect of the opening debit balance of \$99 and the correcting credit entry of \$9 mean that the balance in the suspense will be revised to a debit balance of \$90 (choice C).

Example 2

At 30 November, Ann had the following balances in her general ledger:

Short-term deposit account \$12,750 debit

Bank current account \$1,325 credit

She also had \$2,862 in cash, which she lodged on 1 December.

What amount should be included in Ann's current assets at 30 November?

- A** \$12,750
- B** \$1,537
- C** \$15,612
- D** \$14,287

This question focused on the definition of current assets, and specifically the treatment of a credit balance on the bank current account.

The most effective approach was to consider the correct treatment of each item in turn.

When considering the credit balance on the bank current account, it was essential to note that a credit balance should not be offset against a debit balance on another bank account. Thus the current account should be included in current liabilities.

With regard to the cash lodged on 1 December, it was important to note that, at 30 November, this had not been lodged. Therefore it was a cash balance at that date. It was only after the date at which the reconciliation was prepared that the cash was lodged – and the overdraft was reduced.

Thus the correct treatment is:

Short term deposit	current asset
Bank current account	current liability
Cash	current asset

Thus the total value of current assets is \$15,612 (\$12,750 plus \$2,862) – choice C.

Example 3

Which of the following statements about a partnership agreement is/are correct?

- (1) Every partnership must have a written partnership agreement
- (2) Details of any bonuses to be paid to staff will be noted in the partnership agreement

- A** 1 only
- B** 2 only
- C** Both 1 and 2
- D** Neither 1 nor 2

The most effective way to approach a question of this type is to consider each statement in turn and establish whether or not it is correct.

Statement 1:

Clearly, before a partnership commences, the partners should agree on a number of key issues (for example. how profits and losses will be shared and any salaries to be paid to partners).

It would be almost universally accepted that the agreed arrangements should be recorded in a written document, as this will minimise the chances of a dispute in the future. However, it is not a legal requirement that the points agreed between the partners should be in written format.

Essentially, this statement required candidates to differentiate between a specific *requirement* and a *choice*. Recording the details of the partnership agreement may be highly recommended, but it is a choice that partners are free to make.

Thus, statement 1 is NOT correct.

Statement 2:

The purpose of the partnership agreement is to record the arrangements that will govern the responsibilities and entitlements of the partners of the entity, not the staff.

While any bonuses to be paid to staff will require agreement between the partners, the partnership agreement is not the appropriate document in which to record detailed arrangements on this matter.

Thus statement 2 is NOT correct.

This means that the correct choice is D – neither 1 nor 2.

Summary

The above discussion of sample questions reinforces the points made in the introduction to this report (under 'General comments'). These were that success is based on:

- studying the whole syllabus (to ensure a good grasp of technical knowledge of all areas)
- practising as many questions as possible (to ensure that the knowledge can be applied)
- reading questions carefully (to ensure that the question is understood)
- thinking clearly (to avoid confusion and mistakes)

What is interesting is that these points have been made in previous reports, so it may be useful to offer a further observation, relating to attempting practice questions.

When reviewing answers to practice, it is not enough for candidates to select the correct choice. It is essential that answers are analysed to ensure that it is clearly understood *why* a particular choice is the correct answer. Indeed, and possibly more importantly, the reasons *why* the other choices are incorrect should also be clearly understood. This will ensure that the underlying technical knowledge is reinforced – and will assist in selecting the correct choice in any future questions on the same syllabus area.