



# Examiner's report

## FA2 Maintaining Financial Records

For CBE and Paper exams covering July to December 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.

In considering the technical content, candidates should make sure that they have a clear understanding of that content. While not every candidate will use exactly the same approach, it is important to ensure that a logical and sequential approach is applied, based on relevant technical knowledge.

### Sample Questions for Discussion

#### Example 1

Which of the following is/are included in the IASB's *Conceptual Framework for Financial Reporting* definition of an asset?

- (1) Resource controlled by the entity
- (2) Resulting from a past event
- (3) There is expected to be an outflow of future economic benefits

- A 1 and 2 only
- B 1 and 3 only
- C 1, 2 and 3
- D 2 and 3 only

This question is designed to test candidates' knowledge of the elements of the financial statements. The question focuses on the IASB's *Conceptual Framework for Financial Reporting* definition of an asset. The framework provides the following definition of an asset

'A resource controlled by an entity, resulting from a past event, from which an inflow of economic benefit is expected'.

Although this is a knowledge based question, one of the common mistakes candidates make on these types of question is to misread some part of the question. You should take time to read the question carefully.

Statement 1 is correct being 'Resource controlled by an entity' this is included in the definition above.

Statement 2 is correct 'Resulting from a past event' as this is also included in the above definition.

Statement 3 is incorrect. Statement 3 refers to an 'expected cash outflow' this forms part of the definition of a liability, not part of the definition of an asset. A number of candidates selected answers B or C indicating that they thought statement 3 was correct. It seems likely that candidates misread the statement and assumed that it was referring to an inflow rather than an outflow.

**Example 2**

Naomi received a supplier statement from John showing she owed John \$56,438. This did not agree with John's account balance in Naomi's payables ledger. The following discrepancies were identified:

- (1) A cheque from Naomi for \$4,243 had not been received by John
- (2) Naomi had not received an invoice for \$2,130 from John

**What is the balance on John's payables account in Naomi's ledger after any corrections are made?**

- A \$50,065
- B \$54,325
- C \$62,811
- D \$52,195

Candidates traditionally find reconciliation questions difficult. This question is testing candidates' understanding of how a supplier statement reconciliation is performed.

Naomi has received a statement of account from one of her suppliers, John. John's accounts show that Naomi owes him \$56,438. Naomi's ledger did not agree to this balance, so she had to investigate what those differences related to.

Statement 1 refers to a cheque that Naomi has sent to John, but John has not yet received this cheque. Naomi has already accounted for the fact that she has issued this cheque and has processed it through her ledgers, therefore her balance would be \$4,243 lower than John's supplier statement. This is a timing difference that will be corrected in John's books once they process the payment.

Statement 2 Naomi had not received an invoice of \$2,130. If Naomi had not received an invoice she should accrue for this invoice and therefore Naomi's books should be adjusted to include this balance. Once this accrual has been made the difference will no longer exist.

As we are not told the balance in Naomi's books we have to assume that these are the only differences. We are starting with John's balance and therefore the only adjustment we need to make is for the payment that Naomi has sent to John, meaning that the correct answer to this question should be  $(\$56,438 - \$4,243) = \$52,195$  which is D.

**Example 3**

Alfred is registered for sales tax. He makes sales of \$25,000 including sales tax and purchases goods for \$7,000 excluding sales tax. The opening balance on the sales tax account was \$500 credit. Sales tax is 20%.

**What is the closing balance on the sales tax account?**

- A \$3,600
- B \$3,000
- C \$2,267
- D \$3,267

When attempting sales tax questions, you must read the information carefully. Sales and purchases can be either including or excluding sales tax, this is key to getting the calculations correct.

Sales tax is at 20%, and the sales figure of \$25,000 includes sales tax. The \$25,000 therefore represents 120% of the underlying sales figure. To calculate the sales tax amount included in this transaction we must multiply the sales tax inclusive figure by the tax rate divided by 100 plus the tax rate. In this question that would be calculated as follows:

$$\$25,000 \times 20/120 = \$4,167$$

This amount would credit the sales tax account so would be added to the opening balance of \$500, making a subtotal of \$4,667.

The purchases are excluding sales tax therefore the sales tax would be calculated by taking 20% of the \$7,000, giving \$1,400. This would be debited to the sales tax account, and would reduce the subtotal of \$4,667 to \$3,267, therefore giving answer D.

### Summary

Based on the performance of candidates in these questions, it can be observed that there were two major reasons for incorrect choices being made.

The first is that there was a lack of awareness / understanding of fundamental issues in the syllabus (eg definition of assets). The second is that the questions were not read carefully enough, which led to confused thinking, such as miscalculation of sales tax amounts or selecting the incorrect theoretical answer.

These are the two reasons which have been highlighted in reports for every previous sitting. 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.