

Examiner's report

FA2 Maintaining Financial Records

For CBE and Paper exams covering January to June 2015



General Comments

This report is provided to assist candidates in their preparation for taking the FA2 paper in future exam periods.

It should be considered alongside reports for previous exam periods, so that candidates' likelihood of success is maximised.

Three questions of different types are considered in detail below. The comments on each question will enable candidates to develop a clearer understanding of the requirements of the different types of question which they are likely to experience.

In preparing for future exams, candidates are encouraged to consider the technical aspects of questions and the logical approach which is required, so that knowledge is correctly applied to identify the correct answer to each question.

Sample Questions

Example 1

Which of the following errors will be detected by extracting a trial balance?

- (1) a supplier's invoice for \$639 was entered in the purchases day book as \$369
- (2) the total column of the analysed sales day book was overcast

- A 1 only
- B 2 only
- C neither 1 nor 2
- D both 1 and 2

This question tested candidates' knowledge of double entry and their ability to apply their knowledge, using a logical thought process.

The most effective approach is to focus on the requirement (which is presented in bold typeface) as a first step.

By doing this it becomes clear that each error should be considered separately, and a decision made as to whether or not the error will be detected by extracting a trial balance.

Error (1) relates to the entry made in a book of prime entry. In this case, although the entry in the purchases day book is incorrect (due to a discrepancy between the source document and the daybook) the debit and credit values posted to the general ledger will be the same. Therefore, the trial balance will not reveal the error.

Error (2) also relates to the entries in a daybook. In this case, the overcasting of the total column will mean that the value from this column (which is posted to debit side of the receivables control account in the general ledger) will be different to the total value of the credit entries (posted from the individual

analysis columns to various general ledger accounts).

Consequently, this error will be detected by extracting a trial balance.

Based on this logical approach, the correct answer is choice B.

The fact that both errors relate to entries in daybooks may have been incorrectly interpreted by some candidates as leading to the conclusion that both will have the same effect on the trial balance – leading to either choice C or choice D being selected. Candidates needed to consider each error separately in order to decide on the individual impacts on the trial balance. The key point is that it is the nature of the error, not the accounting record in which it was made, that will determine the impact on the trial balance.

Example 2

At the year end Luis had a balance of \$143,800 on his trade receivables account, and a balance of \$1,974 on his receivables allowance account, which was brought forward from the previous year.

He has decided that a balance of \$1,250 should be written off as irrecoverable, and that the receivables allowance should be 2% of the remaining balances.

What is the receivables expense in his statement of profit or loss?

- A \$877
- B \$2,851
- C \$2,127
- D \$4,101

As in the previous example, the best starting point is the requirement – to calculate the receivables expense. Once this has been clarified, it is easier to deal with the data provided.

The first step is to adjust the year end balance to obtain the value of receivables after the irrecoverable balance is written off.

This is \$143,800 - \$1,250 = \$142,550.

The second step is to calculate the value of the receivables allowance that is required at the year end. This will be based on the revised value (calculated at step 1) and the percentage allowance.

This is \$142,550 x 2% = \$2,851.

The third step is to calculate the movement in the allowance from the end of the previous year to the end of the current year.

This is an increase of \$877 (current year \$2,851 – previous year \$1,974).

To complete the question, the fourth step is to calculate the receivables expense for the year. This is the total of:
the movement in the allowance from the previous year to the current year; and
the value of the irrecoverable balance written off.

As the movement is an increase, the total expense is $\$877 \text{ plus } \$1,250 = \$2,127$ (choice C).

To obtain the correct answer, it was essential that candidates had a clear understanding of the technical issues relating to the receivable allowance and the receivables expense, as set out in the four steps above.

It was also essential to have read the requirement carefully to ensure that the correct value was calculated. In addition, an effective approach is to complete the calculation before considering any of the choices. This avoids the error of selecting choices A or B – which are obtained part way through the calculation needed to correctly answer the question.

Another point to note is that it also essential to differentiate between the treatment of an increase in the allowance (as in this question) and the treatment of a reduction in the allowance – as follows:

as the receivables allowance is a credit balance, it follows that an increase in the allowance requires a credit entry in the allowance account, and a debit entry in the receivables expense account. In this case, the expense comprises two debit entries (the value written off PLUS the increase in the allowance).

however, if the allowance needs to be reduced, a debit entry is required in the allowance account, and a credit entry is required in the expense account. In this case both a debit entry and a credit entry will be made in the expense account, and the expense in the statement of profit or loss will be for the net amount of these entries.

Example 3

When preparing the bank reconciliation at 30 April, the balance on Yared's bank account in his general ledger was \$2,524 (debit) and the balance on his bank statement was \$4,578 (credit).

Yared had issued a cheque for \$5,547, but he recorded the value as \$4,557. Also other cheques, with a total value of \$5,744, had been issued but had not been processed by the bank.

The only other item to be dealt with is an outstanding lodgement.

What is the value of the outstanding lodgement?

- A \$4,680
- B \$3,690
- C \$8,788
- D \$2,700

Once again, it is good practice to read the requirement first. In this case, it will become apparent that

one item of data has not been provided. The question can then be answered by adopting the correct approach to carrying out a bank reconciliation, which is:

- clarify whether each item of data provided in the question requires an entry to be made in the bank account in the general ledger or if it will be a reconciling item;
- adjust the bank account in the general ledger to obtain the corrected bank balance; and
- prepare the reconciliation statement to confirm that the difference between the corrected bank balance and the balance on the bank statement is explained by the reconciling items.

Taking this approach produces the following:

- the cheque incorrectly recorded requires an adjusting entry in the bank account in the general ledger
- the adjusting entry is for \$990. As the value recorded was understated, a credit entry is needed
- the corrected balance on the bank account in the general ledger is the combination of the balance on the account, which is \$2,524 (debit) and the correcting entry of \$990 (credit) = \$1,534 (debit)
- as the error in the cheque is the only adjusting entry, the reconciled balance is \$1,534 (debit)
- the reconciliation statement is:

Bank statement balance	\$4,578	credit on statement = cash at bank
Outstanding cheques	\$5,744	debit entry on statement
Subtotal account)	\$1,166	overdrawn (credit on ledger)
Outstanding lodgement lodged	balancing figure	debit on ledger account = cash
= Reconciled balance	\$1,534	debit on ledger account

Thus, the value of the outstanding lodgement is \$2,700 (the debit entry required to reconcile the overdrawn figure with the corrected ledger balance).

Summary

In the introduction to this report, reference was made to previous reports. It is worthwhile highlighting that all of the previous reports have noted that two reasons tend to explain why candidates select incorrect choices –

- a lack of awareness / understanding of fundamental issues in the syllabus; and
- question requirements not being read carefully enough, leading to confused thinking

Candidates preparing for future exams are encouraged to note the reasons and to ensure that their preparation will ensure that a clear understanding of the key points of each area of the syllabus has been developed and that, in the exam, they read the requirement carefully and adopt a logical approach.