



Examiner's report

FA2 Maintaining Financial Records

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.

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

Gusto owns a grocery store and prepares accounts to 31 March each year. On 1 April 2015 he purchased a new delivery van costing \$5,000 to use in his business. He incorrectly recorded this as maintenance expenses. Gusto has a policy of depreciating vehicles over 5 years and assumes a nil residual value.

How will the correction of this error affect the profit for the year ended 31 March 2016?

- A. Increase profits by \$4,000
- B. Increase profits by \$5,000
- C. Decrease profits by \$1,000
- D. Decrease profits by \$4,000

This question is designed to test candidates' knowledge of how errors should be corrected in the financial statements. This specific example is testing the candidate's knowledge of how the original error should be corrected as well as any subsequent effects on other balances.

With this example, the cost of the asset has been taken to maintenance expenses in error, this will need to be reversed and will therefore increase the profits by \$5,000 and increase the asset cost in the statement of financial position by the same amount. However, as the asset was not recorded correctly, no depreciation will have been charged on the asset. Depreciation for this type of asset is straight line over 5 years. As the asset has been held for the entire year a full years depreciation will need to be charged, this amounts to \$1000 ($\$5000/5$). The depreciation will be charged to the statement of profit or loss as an expense and will therefore reduce the profit for the year.

The net effect on the profit for the year ended 31 March 2016 would be an increase of \$4000 (\$5000 increase, less the \$1000 reduction). Therefore answer A is correct.

Example 2

Rashid held the following inventory at 30 April 2016.

Units	Cost per unit	Selling price per unit	Selling costs per unit
200	\$13.50	\$15.00	\$2.50

What should be the closing inventory balance as at 30 April 2016?

- A. \$2,500
- B. \$3,000
- C. \$2,700
- D. \$3,200

This question is testing the candidates' application of the principles in IAS 2 Inventory. IAS 2 states that inventory should be measured at the lower of cost and net realisable value.

The cost of the inventory above is \$13.50, this excludes the selling costs. The selling costs do not form part of the cost of the inventory.

The selling costs should be deducted from the selling price to arrive at the net realisable value. The net realisable value on this question is \$12.50 (\$15 selling price less the \$2.50 selling cost), which is lower than the original cost of the inventory, therefore this should be used to establish the closing inventory balance. Rashid is holding 200 units of inventory which should be valued at \$12.50 each, giving a total value of \$2,500. Therefore answer A is correct.

Example 3

Julie is preparing a reconciliation between her receivables control account and the receivables ledger. The balance on the receivables control account is \$67,240 and the total of the list of balances in the receivables ledger is \$54,568.

Which of the following would explain the difference?

- A. A cash receipt of \$12,672 from Gary has been correctly posted to the receivables control account, but has not been included in Gary's account in the receivables ledger.
- B. An invoice to Karen of \$12,672 has been omitted from the sales day book.
- C. Discounts allowed of \$6,336 have been included on the wrong side of the receivables control account.
- D. A contra with Mason of \$6,336 has not been included in the receivables control account.

Candidates traditionally find reconciliation questions difficult. This example is testing the understanding of the reconciliation of the receivables control account to the receivables ledger.

When attempting reconciliation questions, candidates must read the question carefully. Candidates need to understand what the balances are on both the receivables control account and the list of balances in the receivables ledger. It is important to carefully read through the scenarios in each of the options to decide if they could explain the difference between the two balances.

Statement A does not account for the difference as this would mean that the control account balance would be lower than the list of balances in the receivables ledger, but here the receivables control account is higher.

Statement B, omitting an invoice from the day book, would mean that the transaction is likely to be eliminated from both the control account and the list of balances, so would not account for this difference.

Statement C, is the correct answer, as showing the discounts on the wrong side of the control account would cause the balance to be over inflated. Correcting this error would reduce the balance by \$12672, and would make it agree to the list of balances in the sales ledger control account.

Statement D, is incorrect. Although the contra would reduce the receivables control account, it would only account for half of the difference that we are looking for.

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 is an apparent lack of awareness / understanding of fundamental issues in the syllabus (eg the valuation of inventory and the treatment of depreciation). The second is that the questions were not read carefully enough, such as miscalculation of the reconciliation of the receivables.

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.