Examiner's report

FA1 Recording Financial Transactions
June 2012

General Comments

The June 2012 paper was slightly disappointing compared to the December 2011. Again not all questions were attempted which is very disappointing in a multiple choice paper, if a candidate doesn't know the correct answer a guess will give a 25% chance of a correct answer.

Candidates performed exceptionally well in the question asking for classification of an asset in the financial statements, other questions referring to the elements within the financial statements were also answered well. As this is a key area in the higher level papers, this is pleasing to see.

Candidates again performed very well in the questions about documentation, it is very clear that this is an area of the syllabus that candidates are very happy with.

It was very pleasing to see that some of the fundamental areas of the syllabus such as dealing with double entries, balancing off accounts, the accounting equation, and constructing a trial balance were dealt with well, this again bodes well for the later papers. However the questions dealing with the day books, and posting the entries from these, were very disappointing and dealing with discounts and sales tax were consistently answered badly.

There was also a mixed performance on the coding questions, with a disappointing outcome in the pure knowledge discursive type of question but a high pass rate in the coding application question. This was unusual as the knowledge questions are normally dealt with better than the application questions

SAMPLE QUESTIONS FOR DISCUSSION

Question 16 was a bank reconciliation question. As with the December 2011 paper this produced disappointing results.
The balance on Max's bank statement was $5,460 credit. Max had unpresented cheques of $1,230 and outstanding lodgements of $870.

What should be the balance on the bank account in Max's general ledger?
A $5,100 debit
B $5,100 credit
C $5,820 debit
D $5,820 credit

Correct answer is A

This was found by taking the balance of $5,460 which was positive with the bank, adding the outstanding lodgements of $870 and deducting the unpresented cheques of $1,230.

$5,460 + $870 - $1,230 = $5,100

Candidates yet again struggled with whether the balance was a debit or credit balance. When it says a credit balance at the bank, this means that the bank owes cash to its customers, so from the business' point of view a credit balance at the bank means it has a positive cash balance. The unpresented cheques had to be deducted from this balance and the outstanding lodgements added on.

Question 24 dealt with the aged receivables analysis.

Which of the following statements in relation to the aged receivables analysis is/are correct?

1. It is an analysis of the credit periods allowed to each individual customer
2. It shows how old the supplier balances are

	Statement 1	Statement 2
A	Correct	Correct
B	Correct	Incorrect
C	Incorrect	Correct
D	Incorrect	Incorrect

Correct answer is D

The aged receivables analysis analyses customer's account balances showing how long they have been outstanding, thus highlighting which receivable balances are overdue.

Statement 1 talks about credit periods this has nothing to do with the due dates and so this is incorrect.

Statement 2 says it is the age of **supplier** balances – the aged receivables report covers **customer** balances, not suppliers, so this is also incorrect.

Question 25 is a sales tax / day book question

On 1 August Barry made the following transactions:

1. He made a cash sale of $3,680
2. He received cash of $2,760 in relation to a credit sale in the previous month.

Both transactions were inclusive of sales tax at 15%

How much sales tax would be recorded in the cash book for the above transactions?

A $480

B $360

C $840

D $552

Correct answer is A

Sales tax should be recorded in the day book the first time the transaction is recorded. The cash sale will be recorded for the first time in the cash book, so the sales tax would be recorded there. The sale is given **including** the 15% sales tax which makes it equal to 115%, so $3,680 x 15/115 = $480.

When the cash is received from the credit sale, this sale would have been recorded for the first time in the sales day book in the previous month and the sales tax would be recorded here not in the cash book, giving the answer of A.

Question 33 dealt with the recording of the sales figure

Gino sold goods with a list price of $12,000 excluding sales tax. He offered customers a 5% trade discount and a 5% settlement discount. Gino is registered for sales tax at 15%

What amount should Gino record as his sales figures?

A $10,830

B $13,800

C $13,110

D $11,400

Correct answer is D
Sales are recorded net of sales tax and as we were given the amount excluding sales tax this was already the net figure. The trade discount is deducted from the sales figure, but the settlement isn't, a business will only know if a customer has taken a discount when they pay, so the sale is recorded ignoring this discount. This means we take the list price net $12,000 less the 5% trade discount, giving $11,400.

FA1 covers both knowledge of the syllabus and the application of that knowledge. Candidates on the whole performed better on the knowledge questions than those where an application of those concepts was required. As on previous papers the questions that required candidates to perform calculations were not performed as well as those that were pure narrative. Candidates therefore seem to be reading and digesting the material but not practicing enough numerical questions.

As previously stated it is very important that all questions are attempted and although candidates cannot have a detailed knowledge of every area of the syllabus, it may be possible to eliminate the distracters to improve the chances of passing a question.