



# Examiner's report

## F3 Financial Accounting

June 2009

### General Comments

It was pleasing to see that this diet had a pass rate of 54% compared with 50% in December 2008. This shows a good improvement on previous performance. As mentioned in previous reports, success in a multiple-choice question examination can only occur if candidates study the breath of the syllabus as the exam will cover the entire syllabus.

The following questions were chosen from the June 2009 F3 examination and were questions that were not answered well by candidates. The aim of this report is to provide candidates with an illustration of the style of questions and for tutorial purposes, to highlight a suggested approach to answering these questions.

### Sample Questions for Discussion

#### Question One

Steven's receivables ledger control account does not agree with the total of the receivables ledger. He discovered the following errors:

- (1) A sales invoice has been entered into the sales day book as \$895 rather than \$859
- (2) The receivables column of the cash received day book has been undercast by \$600
- (3) A contra of \$400 against the purchase ledger has only been entered in the control account

**Which of the above errors would cause a difference between the receivables control account and the total of the receivables ledger?**

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

**(2 marks)**

The answer to this question is A.

Candidates typically struggle on questions covering the reconciliation of control accounts to the individual ledgers. Answering this question should be straightforward, as each option can be evaluated individually and then the answer selected. However, only 29% of candidates correctly answered this question.

The receivables control account shows the summarised transactions that have occurred in a period. The receivables ledger shows the individual customer accounts and the total of the balances in the receivables ledger should agree to the control account balance.

The key to arriving at the correct answer is to consider which of the three options will affect only the control account or only the receivables ledger. If an error occurs in both accounts then it will not be a reconciling item when the two are compared.

Looking at each option in turn, option 1 will not cause a difference in the two accounts due to the way transactions are posted into the accounts. The sales day book lists the sales for a period and is then totalled and posted to the control account as a single balance. The individual sales making up that total are posted to the individual customer accounts in the receivables ledger. Therefore if an invoice is entered incorrectly in the day book then it is posted to the receivables ledger and also to the control account as part of the total. It cannot be a reconciling item.

Option 2 does cause a difference between the control account and receivables ledger. This is because the total of the day book has not been added up correctly and the incorrect balance is posted to the control account. However, the individual cash receipts are posted to the individual customer accounts so there will be no error in the receivables ledger as this is only an adding mistake when totalling the day book.

Option 3 also causes a difference between the control account and receivables ledger. A contra entry is used when a customer is also a supplier and it nets off the amount owed to the supplier against the balance owing from them as a customer. In this case the contra entry has only been entered into the control account and has not been posted to the individual customer account so the two will not agree.

### Question Two

Luis sold goods to Pedro in May 2009 with a list price of \$98,000. Luis allowed a trade discount of 10%. Pedro returned goods with a list price of \$3,000 on 31 May and returned a further \$5,000 of goods at list price on 6 June as they were found to be unsuitable.

**How much should Luis record in the sales returns account at 31 May?**

- A \$2,700
- B \$3,000
- C \$8,000
- D \$7,200

**(2 marks)**

The answer to this question is A.

Sales returns and discounts are another area where candidates tend to perform poorly. However, their treatment is very simple. Only 21% of candidates correctly answered this question which was surprising as it is very straightforward.

In order to establish how much was recorded in the sales returns account, we need to establish the value of the original sale. The invoice value is always shown net of trade discounts as this reflects the price actually charged to the customer.

In this question the dates must be read carefully as some of the goods are returned after 31 May and we are only concerned with sales returns at that date, which is the goods with a list price of \$3,000. The value of the original sale is after the trade discount of 10%, so the actual amount invoiced for those goods is \$2,700 (\$3,000 x 90%).

The most popular incorrect answer was B (\$3,000), which showed that candidates had not understood what to do with the trade discount.

### Question Three

Fred's trial balance did not balance so he opened a suspense account with a debit balance of \$346. Control accounts are maintained for receivables and payables.

Fred discovered the following:

1. The sales day book was undercast by \$400
2. Purchases of \$520 from the purchases day book have only been recorded in the payables ledger control account
3. Profit on sale of non-current assets of \$670 had been recorded in the sundry income account as \$760

**What is the remaining balance on Fred's suspense account after these errors have been corrected?**

- A**     \$264 credit
- B**     \$136 debit
- C**     \$956 debit
- D**     \$1,266 debit

**(2 marks)**

The answer to this question is A.

Suspense accounts are very tricky and candidates always have trouble dealing with them. Only 21% of candidates correctly answered this question.

The key in dealing with the correction of suspense accounts is to establish whether an error requires an entry in the suspense account in the first place. This will only happen if the original entry was one-sided, i.e. only had a debit and no credit or vice versa. This means that the correction of the entry would be to debit or credit the missing account and the balancing entry posted to the suspense account to clear it.

Option 1 does not require adjustment in the suspense account, as the total of the sales day book is posted into the receivables control account and to the sales account. If the total is incorrect, that incorrect figure forms part of the double entry and both accounts are incorrect, but it would not cause the trial balance to be out of balance.

Option 2 does affect the suspense account as there has been a one-sided entry in the accounts. It may help to consider the original double entry, Dr -, Cr Payables control. This will cause the trial balance to be out of balance as there is a missing debit entry. To correct this, the journal is Dr Purchases \$520 which corrects the original posting and Cr Suspense account \$520.

Option 3 also affects the suspense account as there has been an incorrect posting. Usually, the journal entry on the disposal of an asset is to Dr Cash with the proceeds, Cr Non-current assets to remove it from the accounts and Cr Profit.

However, in this case too much profit has been recorded so the journal would be out of balance and would affect the suspense account. The correcting journal is to remove the profit by Dr Sundry income \$90 and Cr Suspense \$90.

If these journals are entered into the suspense account, the closing balance is \$264 as shown below.

Suspense account			
	\$		\$
b/f	346	(2) Purchases	520
c/f	<u>264</u>	(3) Sundry income	<u>90</u>
	<u>610</u>		<u>610</u>

The most common incorrect answer was B, where every error given was put into the suspense account.