

Examiners' report

F3 Financial Accounting December 2008



General comments

This diet had a pass rate of 50% compared with 48% in June 2008. This shows a slight improvement although it is interesting to see that many of the areas that students struggle with are still a problem. Obviously the breadth of the syllabus needs to be studied in order to achieve a pass as the questions cover all aspects of the syllabus.

The following questions were chosen from the December 2008 F3 examination as ones that were answered particularly badly. The aim of this report is to illustrate the style of questions and to provide a method of approaching these topic areas that students tend to find difficult.

Sample Questions for Discussion

Question 1

Which of the following errors should be identified by performing a receivables control account reconciliation?

- A A sales invoice of \$500 has been omitted from the sales daybook
- B A sales return of \$45 was entered as \$54 in the sales returns daybook
- C Purchases of \$72 were entered as sales returns in the sales returns daybook and the individual account
- D The total of the sales daybook was miscast by \$200

(2 marks)

The answer to this question is D. These type of questions can be difficult as every option has to be evaluated before selecting the correct response. Only 29% of respondents to this question chose the correct answer. This question is testing the understanding of the system of recording and processing information. A control account only shows the summarised information so a memorandum account such as a sales ledger is essential to record the individual accounts that make up the total in the control account.

The books of prime entry are the starting point for recording sales and purchase transactions. Items are listed individually in the daybooks and then are totalled and posted to the control account. The individual transactions are also posted to the memorandum accounts as a record of what each customer has ordered or what has been ordered from a supplier.

A control account reconciliation compares the balance on the control account with the total of the list of balances. If everything has been posted correctly the two balances should agree. However, errors can be made and items may have been posted to the control account and not in the individual account and vice versa.

In this question, option A cannot be correct as if the sales invoice is missing from the daybook it cannot have been posted either in the control account (through the posting of the total) or the individual account.

In option B, the original entry was incorrect and this incorrect value has been posted to the daybook (which feeds into the control account) and also into the individual account. This is also not a reconciling item and B is not the correct answer. Over half of students that answered this question chose this option.

In option C a purchase invoice has been entered both in the daybook and the individual account as a sales return. Again as the incorrect entry has been posted both in the control account and individual account this cannot be a reconciling item and C is incorrect.

Option D is the correct answer. The sales daybook has been totalled incorrectly so the incorrect total has been posted to the control account. Each individual transaction has been posted to the individual accounts so when the two are compared there will be a difference of \$200.

Question 2

Carol had receivables of \$598,600 at 30 November 2008. Her allowance for receivables at 1 December 2007 was \$12,460 and she wishes to change that to 2% of receivables at 30 November 2008. On 29 November 2008 she received \$635 in full settlement of a debt that she had written off in the year ended 30 November 2007.

What total amount should be recognised for receivables in the income statement for the year ended 30 November 2008?

- A \$488 credit
- B \$11,972 debit
- C \$1,123 credit
- D \$147 debit

(2 marks)

The answer to this question is C.

This question tests the accounting treatment of irrecoverable debts and the allowance for receivables. There are a number of issues to consider: the calculation of the closing allowance for receivables, the charge to the income statement and the debt that has been recovered in the current year.

The calculation of the closing allowance for receivables is straightforward at 2% of receivables. However, the charge to the income statement is the movement on the allowance, and in this case the allowance has reduced so this will be a credit as shown below:

598,600 x 2%	11,972
Opening provision	<u>(12,460)</u>
Reduction in provision	<u>(488)</u>

Secondly, the debt that had been written off in 2007 and has now been received needs to be dealt with. When a debt is written off it is removed from the receivables account and charged to the income statement as an irrecoverable debt. If the cash is subsequently received it cannot be credited to the receivables balance as is no longer exists. Instead, it is credited to the irrecoverable debts account.

In this case, the total credit to the income statement for receivables is \$1,123 (635 + 488) which is option C.

Question 3

Carter, a limited liability company, has non-current assets with a carrying value of \$2,500,000 on 1 December 2007.

During the year ended 30 November 2008, the following occurred:

- Depreciation of \$75,000 was charged to the income statement
- Land and buildings with a carrying value of \$1,200,000 were revalued to \$1,700,000
- An asset with a carrying value of \$120,000 was disposed of for \$150,000

The carrying value of non-current assets at 30 November 2008 was \$4,200,000.

What amount should be shown for the purchase of non-current assets in the statement of cash flows for the year ended 30 November 2008?

- A** \$1,395,000
- B** \$1,895,000
- C** \$1,425,000
- D** \$195,000

(2 marks)

The answer to this question is A.

This question requires the student to calculate the purchase of non-current assets for inclusion in a statement of cash flows. As with most figures in a statement of cash flows, the method of arriving at the answer requires the student to reconcile the opening balance of non-current assets to the closing balance taking account of all movements during the year. The balancing figure will be the amount of non-current assets purchased for cash during the year.

One of the easiest methods of dealing with this type of question is to draw up a T-account and enter all the relevant figures into it as illustrated below:

Non-current assets			
	\$'000		\$'000
Depreciation	75	b/f	2,500
Disposal	120	Revaluation	500
c/f	<u>4,200</u>	<i>Additions (bal fig)</i>	<u>1,395</u>
	<u>4,395</u>		<u>4,395</u>

The information given in the question can be brought into the account until one side of the account can be balanced, leaving the missing figure as the balancing figure.

The revaluation of the non-current assets should be included in the reconciliation as the revaluation increases the carrying value but there is no cash involved. In the case of the disposal, it is only the carrying value that we are concerned with as the cash proceeds will be included in the statement of cash flows.

Somewhat surprisingly, only 38% of respondents answered correctly, and those who answered the question incorrectly chose B and C. Answer B ignored the revaluation altogether and answer C used the cash proceeds as the figure for disposals. Both of these are errors that suggest that this topic may need to be studied in more depth.