



Think Ahead

Recording Financial Transactions (FA1) September 2020- August 2021 Examiner's report

The examining team share their observations from the marking process to highlight strengths and weaknesses in candidates' performance, and to offer constructive advice for those sitting the exam in the future.

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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 questions may require slightly different approaches. This computer-based examination consists of 50 compulsory multiple-choice questions worth two marks each.

This report discusses a number of questions with which candidates experienced difficulties.

Example 1

The trial balance of Chief failed to balance. Total debit balances were \$842,000 and total credit balances were \$821,700.

A suspense account was opened for the difference and the following error was found and corrected:

- The total of the cash discount column of \$4,300 in the cash payments book had not been posted to the discounts received account.

What will the remaining balance on the suspense account be after the correction of this error?

- A. \$16,000 Dr
- B. \$16,000 Cr
- C. \$24,600 Dr
- D. \$24,600 Cr

The balance on the suspense account before the error was \$20,300 Cr (\$842,000 Dr - \$821,700 Cr). Part of this suspense account balance was created by a one-sided entry being made. A cash discount was recorded in the cash payments book, but only one side of the double entry (a debit to trade payables) was recorded. The credit that should have been recorded in discounts received was omitted and a credit to the suspense account arose.

To fix this error, Chief needs to debit suspense account and credit discounts received. The correct choice is **B** which is calculated as follows:

Suspense account				
	\$			\$
Discount received	4,300	Balance	on	20,300
		suspense		
C/f	16,000			
	<u>20,300</u>			<u>20,300</u>
		B/f		16,000

Example 2

During July, Lisa undertook the following transactions:

	\$
Payments to suppliers	47,000
Returns to suppliers	3,000
Cash purchases	15,000

The closing balance on the payables control account is \$1,000 higher at the end of July than it was at the start of the month.

What were the total purchases in July?

- A. \$51,000**
- B. \$66,000**
- C. \$36,000**
- D. \$64,000**

In this question candidates are required to find total purchases, not just credit purchases. The cash purchases are given as \$15,000 but the credit purchase balance is missing. Candidates will need to use their knowledge of payables accounts and apply the information given in the question. The payments and returns to suppliers would reduce the amount of the liability.

In this question, the opening and closing balance on the payables account are not given. Instead, you are told that there is an increase in the closing payables balance (an increase in the liability). The credit purchases can be found as follows:

Payables control account			
	\$		\$
Payments to suppliers	47,000		
Returns to suppliers	3,000	Balance = credit	51,000
		purchases	
Increase in payables	1,000		
	<u>51,000</u>		<u>51,000</u>

Total purchases are \$66,000 (\$15,000 + \$51,000), therefore the correct choice is **B**.

Example 3

Which of the following balances would be presented in the statement of financial position?

- A. Trade receivables and sales
- B. Trade payables and petty cash
- C. Bank overdraft and wages
- D. Cash and purchases

The correct choice is **B**. Trade payables are recorded within current liabilities on the statement of financial position and petty cash would be recorded as a current asset.

A, C and D are incorrect as each of these choices included a balance that would be recognised within the statement of profit or loss. For example, sales are recognised as income and wages and purchases are recognised as expenses in the statement of profit or loss.

Example 4

Meena is reconciling her receivables ledger control account balance of \$3,850 with her receivables ledger. She finds the following errors:

- (1) An invoice for \$136 was recorded in the receivables ledger as \$163
- (2) A page in the sales daybook was totalled as \$2,800 instead of \$2,900

What is the corrected balance in the receivables ledger control account?

- A. \$3,950
- B. \$3,923
- C. \$3,823
- D. \$3,750

This question requires candidates to correct errors that impact the receivables ledger control account. The first error will not affect the receivables ledger control account as the error exists only in the receivables ledger (the individual customer account).

The second error that has been identified will need to be adjusted for because totals from the sales daybook are transferred into the nominal ledgers. As the page in the daybook has been incorrectly added, the error is in the receivables ledger control account and not the receivables ledger. The amount posted into the receivables ledger control account was \$2,800 instead of \$2,900, therefore, the receivables ledger control account is understated by \$100. The correct choice is **A** and the balance is calculated as follows:

Receivables ledger control account			
		\$	\$
B/f		3,850	
Sales	daybook	100	C/f
undercast			3,950
		3,950	3,950

Example 5

A customer has taken advantage of a settlement discount offered on a credit sale. The customer was not expected to take the discount when the sale was made.

Which of the following is the correct double entry to record the payment by the customer?

- | | | |
|--------------------------------|-----------------------------|-----------------------------|
| A. Dr Cash | Cr Sales | Cr Trade receivables |
| B. Dr Cash | Dr Sales | Cr Trade receivables |
| C. Dr Trade receivables | Cr Cash | |
| D. Dr Cash | Cr Trade receivables | |

When recording a credit sale and a settlement discount has been offered, the sale will be recorded net of the discount if it is expected that the customer will take advantage of the discount. If the customer is not expected to take advantage of the discount, then the sale will be recorded at the gross (total) amount.

In this example the customer was not expected to take advantage of the discount when the initial sale was recorded and therefore the sale was recorded at the gross amount. The customer has paid net of the discount, so **B** is correct.

Example 6

A business is registered for sales tax at 20%. At the start of January there was a sales tax payable balance of \$3,500.

During January, the following transactions took place:

- (1) Cash purchase of a machine for \$10,000 (exclusive of sales tax)
- (2) Cash sales of \$23,500 (exclusive of sales tax)
- (3) Cash received from credit customers of \$45,000 (inclusive of sales tax)

What is the balance on the sales tax ledger account at the end of January?

- A. \$6,200**
- B. \$6,700**
- C. \$5,750**
- D. \$13,700**

In this question candidates need to calculate the closing balance on the sales tax account following transactions that have taken place during January. It is important to note that some transactions are exclusive of sales tax (sales tax has not been included yet), whereas some are inclusive of sales tax (already includes sales tax at 20%). This will impact the way in which you calculate sales tax for each of these transactions.

The sales tax on the cash purchase in (1) is \$2,000 ($\$10,000 \times 20\%$) and this will be reclaimed by the business, reducing the liability in respect of sales tax. The sales tax on the cash sales in (2) is \$4,700 ($\$23,500 \times 20\%$) and this will increase the amount owed to the tax authorities.

The sales tax on the cash received from credit customers is \$7,500 ($\$45,000 \times 20/120$), BUT the cash receipt is not relevant when calculating the sales tax balance. The sales tax would have been recorded when the sale was actually recorded, not when the cash is received.

The answer is **A**, calculated as follows:

Sales tax ledger account			
		\$	
			\$
(1) Sales tax on purchase of machine	2,000		B/f 3,500
C/f		6,200	(2) sales tax on cash sales 4,700
		8,200	
			8,200

Conclusion

Candidates must ensure that they study and prepare well for all topics in the syllabus. The objective test questions can come from any area of the syllabus and therefore students need to be well prepared to answer questions. Equipping themselves with adequate knowledge of all topics will certainly maximise and improve the performance of candidates in future examinations.