



Recording Financial Transactions (FA1) September 2022- August 2023 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 this report 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 six questions with which candidates experienced difficulties.

Example 1

On 3 April 20X7, Owain received a bank statement dated 31 March 20X7 and showing an overdraft balance of \$400. Owain believes that they should have \$500 in the bank at 31 March 20X7.

Which of the following would explain the discrepancy?

- A. Bank interest of \$900 received on 2 April 20X7 not yet recorded by Owain**
- B. A cheque for \$900 written by Owain on 29 March 20X7 not yet presented by the payee**
- C. A bank receipt of \$450 on 3 March 20X7 recorded as a payment by Owain**
- D. A standing order payment of \$450 on 12 March 20X7 recorded as a receipt by Owain**

The correct answer is option **D**.

This is an example of a bank reconciliation question. Candidates are required to consider which of the four options would explain the discrepancy and, therefore, reconcile the balance per the bank statement and the amount that Owain believes should be in the bank (i.e., the bank general ledger account balance).

Option D is correct. Owain has incorrectly recorded a payment as a receipt. When Owain corrects this error, the balance on the bank general ledger account will be \$400 overdrawn:

	\$
General ledger account	500
Reverse receipt error	(450)
Record payment	(450)
Reconciled	<u>(400)</u>

Option A is not correct. If interest received of \$900 was recorded by Owain then the balance on the bank statement would be showing as \$900 higher than the bank general ledger account balance.

Option B is not correct. The unpresented cheque would not impact Owain's individual bank balance but instead would require adjustment to the bank statement per the reconciliation. The balance on the bank statement per the reconciliation would become \$900 overdrawn.

Option C is not correct. If the bank receipt was recorded as a payment by Owain, reversing this and recording the receipt correctly would result in Owain's individual balance becoming \$1,400.

Example 2

Which of the following is/are ADVANTAGES of having a formal document retention policy?

1. To help ensure documents are kept long enough to comply with legal requirements
2. To help provide better ordered source documents that are easily accessible
3. To enable documents to be archived or destroyed at the appropriate time
4. To reduce the risk of errors when entering data from documents

- A. 1, 2 and 3 only**
- B. 1 and 3 only**
- C. 2 and 4 only**
- D. 1, 2, 3 and 4**

The correct answer is option **A**.

Business documents are held on file for some years, often as a legal requirement. Statements 1, 2 and 3 are all advantages of having a formal document retention policy.

Statement 4 is not an advantage of a formal document retention policy. Data entry may still result in errors and a formal document retention policy will not reduce this risk.

Example 3

Which of the following statements about discrepancies in a credit customer's account is/are correct?

1. Discrepancies are always due to fraud and should be dealt with quickly and confidentially
2. If the double entries have been done correctly there should never be any discrepancies in a customer's account

- A. Both 1 and 2**
- B. 1 only**
- C. 2 only**
- D. Neither 1 nor 2**

The correct answer is option **D**.

Statement (1) is not correct. Discrepancies in an accounting system may occur for many reasons, not just because of fraud. For example, a manual journal entry may have been duplicated in error.

Statement (2) is not correct. The double entry itself may be correct but the amount that the double entry is recorded for may be wrong. For example, a receipt from a customer of \$450 may have been recorded as \$540.

Example 4

A business has an overdraft of \$3,600. The owner of the business takes \$1,000 cash from the bank for living expenses.

Which parts of the business's accounting equation will be affected by this?

- A. Assets and liabilities**
- B. Capital and assets**
- C. Profit and assets**
- D. Capital and liabilities**

The correct answer is option **D**.

When a business has a bank overdraft, it has spent more money than the amount paid into the bank. The business now owes the bank \$3,600 and, therefore, has a liability. If the owner takes out \$1,000 for living expenses, then this liability will increase.

When the owner takes cash from the business, this is known as drawings. This is not a business expense and, therefore, profit for the year will not be affected. Drawings

are included in the calculation of capital and so capital will reduce as drawings are taken out.

Example 5

A payroll manager has set up a system whereby employees are paid directly to their bank accounts on the 26th of each month. Employee's salaries vary, depending on the number of hours worked each month.

Which payment method is being used?

- A. Direct debit mandate with the bank**
- B. Standing order mandate with the bank**
- C. Automated bank transfer**
- D. Cheque payment**

The correct answer is option **C**.

An automated bank transfer is the most appropriate method of paying employee wages. A payment can be made directly from the business to the employee for varying amounts.

A direct debit is not correct. A direct debit is a written instruction from you to your bank to allow other businesses to take money (of varying amounts) from your bank account on an agreed date.

A standing order is not correct as this would be a regular, fixed payment set up by the business. As employee's salaries vary, this is not appropriate.

A cheque payment is not correct. The question states that the amounts are paid 'directly to their bank accounts' but this is not how a cheque is processed. A cheque is a document that orders a bank to pay a specific amount and so would be given to the employee to present to their bank. This is usually for a one-off transaction and is, therefore, not as appropriate for the monthly payment of wages.

Example 6

Marco uses an imprest system for petty cash.

The following cash transactions took place during January 20X7, after reimbursement to petty cash of the imprest amount:

	\$
Purchase of stationery	20
Sale of stationery to employees	5
Purchase of kitchen supplies	15

The cash remaining on 31 January 20X7 is \$65.

How much is Marco's petty cash imprest amount?

- A. \$95
- B. \$65
- C. \$100
- D. \$105

The correct answer is option **A**.

In an imprest system, physical cash plus the petty cash vouchers will equal the imprest amount. In this question, the cash and the vouchers are known but the imprest amount is not.

To work out the imprest amount you could work backwards as follows:

	\$	\$
Imprest amount (balancing)		95
Purchase of stationery	(20)	
Sale of stationery to employees	5	
Purchase of kitchen supplies	<u>(15)</u>	
		<u>(30)</u>
Cash remaining		<u>65</u>

The purchase of stationery and kitchen supplies reduce the amount of petty cash available but the sale of stationery to employees would result in an amount of petty cash being paid in.

Option B is not correct. Candidates may have selected this if they thought the cash balance was the imprest amount or the \$65 could also be arrived at by treating both the purchase and sale of stationery incorrectly.

Option C is not correct as the sale of stationery has been omitted from the calculation.

Option D is not correct as the sale of stationery to employees has incorrectly been treated as a petty cash expense.

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, candidates need to be well prepared to answer questions on all syllabus areas.