



Think Ahead

Recording Financial Transactions (FA1) September 2023 – August 2024 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 six questions with which some candidates experienced difficulties.

Example 1

Sarah started a new job, on 1 January 20X1, with an annual salary of \$36,000.

Pension contributions are:

- Employer 12%; and
- Employee 6%

What staff cost would Sarah's employer record for the month of January 20X1?

- A. \$3,000
- B. \$3,360
- C. \$2,820
- D. \$3,180

The correct answer is **B**.

The staff cost reflects the cost to the employer of employing Sarah. This includes Sarah's gross salary and the employer pension contributions only.

Therefore, the employer pension contribution of \$4,320 ($\$36,000 \times 12\%$) must be added onto the gross salary to calculate the monthly amount:

$$\text{Staff cost} = (\$36,000 + \$4,320) \div 12 \text{ months} = \$3,360.$$

Option A is incorrect as this only reflects Sarah's monthly gross salary, not the cost to her employer:

$$(\$36,000 \div 12 \text{ months}) = \$3,000 \text{ per month}.$$

Option C is incorrect as the pension contribution of \$2,160 ($\$36,000 \times 6\%$) made by Sarah has been deducted, which shows her net pay:

$$(\$36,000 - \$2,160) \div 12 \text{ months} = \$2,820.$$

Option D is incorrect as the pension contribution of 6% made by Sarah has been added onto her gross salary:

$$(\$36,000 + \$2,160) \div 12 \text{ months} = \$3,180.$$

Example 2

Ahmed purchased inventories on credit from his supplier, Harry. The invoice price for the goods was \$400. Ahmed took advantage of a 1% discount offered by Harry by settling the invoice within 14 days.

Which of the following would be the correct amounts in Ahmed's financial statements?

- | | |
|---------------------------|-------------------------------|
| A. Purchases \$400 | Discounts received \$4 |
| B. Purchases \$400 | Discounts received \$0 |
| C. Purchases \$396 | Discounts received \$4 |
| D. Purchases \$404 | Discounts received \$4 |

The correct answer is **A**.

It is worth noting that options A to D relate to amounts that will be reported in the statement of profit or loss. Candidates have not been asked to prepare the journal entries for the purchase and settlement of the goods for resale. However, candidates may find it useful to think about the journal entries that did take place to support selection of the correct option.

When the goods for resale were initially purchased, they were recorded as:

Dr	Purchases	\$400
Cr	Trade payable - Harry	\$400

Purchases are initially recorded at the full amount, regardless of whether the discount is expected to be taken.

If the discount is not taken, no further adjustment is necessary.

As Ahmed has taken advantage of the early settlement discount, this may be recorded in a separate discount received general ledger account (or as a reduction in the purchases general ledger account:

Dr	Trade payable – Harry	\$400
Cr	Bank (\$400 x 99%)	\$396
Cr	Discounts received/ Purchases	\$4

From the two transactions, candidates can determine that the correct choice is option A.

Option B is incorrect as it ignores the discount.

Option C is incorrect as it recognises the discount both against purchases and in discounts received.

Option D is incorrect as it grosses up the purchase price by 1%.

Example 3

Which of the following statements about manual journal entries is/ are correct?

- (1) They are used to correct errors made in the general ledger
- (2) They are used to recognise manual adjustments such as depreciation

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

The correct answer is option **C**.

Both statements (1) and (2) are correct. A manual journal entry is used to correct errors and to record manual adjustments that may arise, such as depreciation.

Example 4

Chika is registered for sales tax.

She receives \$11,280 cash from a credit customer in July 20X9. The original sale, in June 20X9, was inclusive of 20% sales tax.

What is the journal for Chika to record this cash receipt in her records in July 20X9?

- | | | | | |
|----|----|----------------------|----------|----------|
| A. | 1. | Dr Bank | \$11,280 | |
| | | Cr Trade receivables | | \$11,280 |
| B. | 2. | Dr Trade receivables | \$11,280 | |
| | | Cr Bank | | \$11,280 |
| C. | 3. | Dr Bank | \$11,280 | |
| | | Cr Trade receivables | | \$9,400 |
| | | Cr Sales tax account | | \$1,880 |
| D. | 4. | Dr Bank | \$9,400 | |
| | | Dr Sales tax account | \$1,880 | |
| | | Cr Trade receivables | | \$11,280 |

The correct answer is option **A**.

In June 20X9, Chika recorded the original sale as:

Dr	Trade receivables	\$11,280
Cr	Sales tax (\$11,280 x 20/120)	\$1,880
Cr	Sales (net of sales tax)	\$9,400

Now that the credit customer has paid, the trade receivable of \$11,280 will need to be removed in full:

Dr	Bank	\$11,280
Cr	Trade receivables	\$11,280

Therefore, the correct answer is A.

Option B is incorrect. Chika received \$11,280 in cash which will increase the bank asset. A debit entry is required to increase an asset in the general ledger account and a credit entry is required to reduce an asset. Therefore, option B is not viable as this journal entry would increase trade receivables and reduce the bank asset.

Option C is incorrect. The debit entry has been recorded correctly but the credit entries are incorrect. Sales tax is accounted for on the original issue of the sales invoice.

Option D is incorrect as the actual cash received of \$11,280 will increase the bank asset and not the net amount of \$9,400. The credit customer would not settle the outstanding balance net of sales tax. The customer will pay the full (gross) amount and Chika collects the sales tax portion before then paying it over to the relevant tax authority.

Example 5

Given below are the figures from a trial balance for Anthony:

	\$
Capital	42,000
Trade receivables	14,000
Plant and equipment	27,000
Inventories	?
Sales	72,750
Bank overdraft	5,000
Purchases	60,000
Trade payables	10,000
Discounts received	1,000
Carriage inwards	500
Carriage outwards	750

What is the missing figure for inventories in Anthony's trial balance?

- A. \$18,500
- B. \$26,500
- C. \$28,500
- D. \$30,000

The correct answer is **C**.

To successfully answer this question, candidates need to determine which balances in the list are recorded on the debit side of the trial balance and which are recorded on the credit side. The total of the debit column and the credit column can then be added. The difference between these two totals will be the balancing inventories amount as follows:

	Debit	Credit	
	\$	\$	
Capital		42,000	
Trade receivables	14,000		
Plant and equipment	27,000		
Inventories	?		
Sales		72,750	
Bank overdraft		5,000	
Purchases	60,000		
Trade payables		10,000	
Discounts received		1,000	
Carriage inwards	500		
Carriage outwards	750		
	<u>102,250</u>	<u>130,750</u>	Difference = \$28,500

Option A is incorrect as the bank overdraft has been incorrectly recorded as a debit.

Option B is incorrect as the discount received has incorrectly been recorded as a debit.

Option D is incorrect as the carriage outwards has been incorrectly recorded as a credit.

Example 6

Rhiannon's bank reconciliation statement shows an overdraft balance per the bank statement of \$20,300, bank charges of \$500 and a BACS receipt from a customer of \$700. In addition, there are outstanding lodgements of \$300.

What amount should be included in Rhiannon's statement of financial position for the bank overdraft?

- A. \$20,600
- B. \$19,800
- C. \$20,100
- D. \$20,000

The correct answer is **D**.

In this question, the overdraft balance **per the bank statement** is known.

When preparing a bank reconciliation, candidates must know which items are adjusted in the bank general ledger account and which items are adjusted for the bank statement balance.

Both the bank charges and the BACS receipt would be adjusted for in the bank general ledger account and will not affect the bank statement balance.

The uncleared lodgements have not yet been cleared on the bank statement and will form part of the reconciliation as follows:

	\$
Balance per bank statement	(20,300)
Outstanding lodgements	<u>300</u>
	<u>(20,000)</u>

Option A is incorrect as the uncleared lodgements have been treated as an increase to the bank overdraft.

Option B is incorrect as this treats the bank balance as positive before deducting bank charges and ignoring the outstanding lodgements.

Option C is incorrect as it ignores the outstanding lodgements before deducting bank charges and adding the BACS receipt.

Conclusion

Candidates must ensure that they study and prepare well for all topics in the syllabus. Questions can come from any area of the syllabus and, therefore, candidates need to be well prepared to answer questions on all syllabus areas.