Examiner's report

FA1 Recording Financial Transactions

Based on exams from September 2018 to August 2019

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

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 question types will require slightly different approaches. This computer based examination consists of 50 compulsory objective test questions worth 2 marks each.

Sample questions for discussion

Example 1

John is a customer of Kidwel and had an opening balance on his account of $2,000 on 1 May. At the end of May, Kidwel invoiced John for a further amount of $6,500 in respect of goods transferred during the month and received $2,400 in payment from him.

What is the sales amount that will appear on John's statement for the month of May?

A. **$8,900**
B. **$6,100**
C. **$4,100**
D. **$6,500**

This question required candidates to identify the difference between the amount owed by a customer, which should be shown as an asset under trade receivables, and the amount of sales which should be recorded. Sales should be recorded for the goods or services provided in the month. The cash receipts and the opening balance are not relevant when determining the sales for the month. Therefore the correct answer here in D $6,500 as this is the amount that has been invoiced for the goods transferred during the current month.

Example 2

Gors purchased goods at a 20% trade discount on the list price of $500. His supplier offered him a 1% settlement discount if he paid within a week.

If Gors takes up both discounts what amount will be recorded under purchases in his accounts?

A. **$395**
B. **$495**
C. **$396**
D. **$400**

Here we are addressing different types of discounts on purchases. Discounts can sometimes cause confusion as following the introduction of *IFRS 15 Revenue from contracts from customers*, the discounts on purchases are treated differently from those on sales.

When looking at discounts on purchases, the trade discount is guaranteed, and therefore must be deducted before recording the transaction in the accounts. The settlement discount of 1% is not taken into account until we know if we are going to qualify for the discount by making the payment within the allotted time period. Any settlement discount received would be treated as a discount received and shown as other income.

When looking at the transactions the list price of $500, less the guaranteed trade discount of $100 (20% x $500), giving us a transaction value of $400 is accounted for as follows:

Dr Purchases	$400
Cr Trade Payables	$400

If the invoice is settled within a week Gors would pay $396 ($400 – (1% x $400)). The transactions to record the payment would be as follows:

Dr Trade Payables	$400 (to clear the balance as settled in full)
Cr Cash	$396 (being the amount paid)
Cr Discounts received	$4 (being the discount taken)

When looking at both these journals the amount that hits the purchases account is just the original $400, therefore the correct answer to this question is D.

Example 3

Terence has paid a supplier $120 to settle in full an invoice. The original purchase was for an item of inventory, net price $100 plus 20% sales tax.

How should the settlement be recorded in Terence's cash book?

A. **Cash payment book: $120 Purchase ledger column**
B. **Cash payment book: $100 Purchase ledger column $20 Sales tax column**
C. **Cash receipts book: $100 Purchase ledger column $20 Sales tax column**
D. **Cash receipts book: $120 Purchase ledger column**

The key thing to notice in the question is the fact that Terence is making a payment to settle an invoice.

Firstly this means that the transaction would be recorded in the cash payments book, therefore eliminating options C and D.

Secondly, the invoice itself was for $100 plus 20% sales tax, and this would have already been accounted for by debiting the purchases with the net price of $100 and the sales tax with the 20% sales tax amount of $20 and crediting the trade payables/purchase ledger control account with the full $120 (as that is the amount owed to the supplier). When the invoice is paid the sales tax has already been accounted for, so the full amount of $120 needs to be recorded in the purchase ledger column. Therefore the correct answer is A.

Example 4

At the end of May, Wendy totalled up her cash receipts book. The total of the sales ledger column is $12,230.

What does the total of $12,230 represent?

A. **Total sales to all customers in May**
B. **Cash received from trade receivables in May**
C. **Sales to credit customers in May**
D. **Cash sales in May**

Here we are looking at the cash receipts book. This is where we record all the cash receipts into the business and show what the receipts are for. There are various columns in the cash receipts book including both a cash sales column and a sales ledger column. The cash sales column is used to record cash sales where no credit period has been given to the customer. The sales ledger column shows where we are receiving cash in respect of a sale we have previously made and given them an extended period of time to pay. These would have originally been recorded as trade receivables. Therefore the correct answer is B, the total on the sales ledger represents the cash received from trade receivables in May.

Example 5

At the end of the month the petty cash book shows a closing balance of $140. The petty cash count reveals a balance of $131 cash in hand.

Which of the following would explain the discrepancy?

A. **The petty cash book payments side has been overcast by $9**
B. **A petty cash expense voucher for $56 was entered in the petty cash book as $65**
C. **A sales manager has not claimed $9 incidental travelling expenses paid from his own cash**
D. **An employee petty cash voucher for $1 was in error reimbursed for $10**

Errors questions are always tricky at this level. Here we have to establish which of the above statements would account for the difference between the transactions recorded in the petty cash book in the general ledger and amount of cash physically counted from the petty cash in hand.

In answer A, if the payments side of the petty cash book had been overcast, this would have led to a reduced petty cash book balance, and therefore cannot be the correct answer. Answer B, would have the same impact as answer A as a higher balance would have been recorded on the payments side meaning the general ledger would show a lower balance, so again this answer cannot be right.

Answer C where the sales manager has not claimed $9 of travel expenses, this is a transaction that hasn't been recorded anywhere therefore it would not cause an imbalance.

Answer D therefore has to be the correct answer. This is correct as we would have reimbursed $9 more than we should have done, leading to the balance in the petty cash in hand being lower than the balance recorded in the general ledger.

Example 6

During August, Hiro received the following documents from Haruka:

An invoice totalling $143
An invoice totalling $176
A credit note for $55
An invoice totalling $275

Hiro maintains separate returns day books.

All invoices and credit notes include sales tax at 10%.

What will be total amount recorded in the purchases column of Hiro's purchase day book as a result of these transactions?

A. **$490**
B. **$539**
C. **$540**
D. **$594**

In this question we are asked to calculate what the total amount recorded in the purchases column would be in Hiro's purchase day book. The purchase day book records all credit purchases, but as Hiro keeps a separate purchase returns book it will exclude credit notes (these would be treated as negative purchases if Hiro did not keep a separate returns day book). The other thing to note is that it is asking us for the purchases figure which will exclude the sales tax of 10%. The invoice totals include the 10% sales tax, so the net price would be calculated as:

Invoice price x 100/110

Therefore in this question we would need to find the total invoice price of $594 ($143 + $176 + $275) multiplied by 100/110 to give the net price of $540. This will be the total amount recorded in the purchase column, so the correct answer is C.

Conclusion

It is imperative that candidates study and prepare well for all topics in the syllabus and not just a select few. The 50 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.