



Think Ahead

# Recording Financial Transactions (FA1) September 2021- August 2022 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

A purchase of a motor vehicle for \$4,300 was correctly debited to the motor vehicle asset account but was incorrectly debited to the cash book as \$3,400.

**Which of the following journal entries would correctly adjust for this error?**

- A. Dr                    \$900            Cr Bank        \$900  
    Suspense
- B. Dr                    \$7,700        Cr Bank        \$7,700  
    Suspense
- C. Dr                    \$3,400        Cr Bank        \$3,400  
    Suspense
- D. Dr                    \$4,300        Cr Bank        \$4,300  
    Suspense

The correct answer is **B**.

In this question an error must be corrected. It is vital that you read the question requirement carefully so as not to select an incorrect answer. When considering the correction of an error, it is useful to think about what has happened, what should have happened and then the correcting journal can be determined.

The original journal has been posted as a 'double debit' and therefore a suspense account will have been opened as follows:

Dr Motor vehicle asset account	\$4,300	
Dr Bank	\$3,400	
Cr Suspense		\$7,700

The journal that should have been recorded is:

Dr Motor vehicle asset account	\$4,300	
Cr Bank		\$4,300

To correct the original error, the suspense account needs to be removed and the bank account should be reduced by \$7,700 (i.e., reverse the original entry of \$3,400 and deduct the actual payment of \$4,300):

Dr Suspense	\$7,700	
Cr Bank		\$7,700

Option A is not correct as this has assumed that the original incorrect entry was Dr Motor vehicle asset account \$4,300, Cr Bank \$3,400 and a suspense account of \$900 created. This was a common selection by candidates and is a classic example of where the information in the question has not been read carefully.

## Example 2

Clive offers the following three discounts to his customers:

5% for bulk purchase

2% for regular customers

3% for early settlement of invoices

All customers are expected to take advantage of the early settlement discounts

**When Clive calculates sales to be recorded in his financial statements, which discounts should be deducted?**

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

The correct answer is **D**.

This question requires you to demonstrate your knowledge of the accounting treatment of discounts. The 5% bulk discount and the 2% loyalty discount would always be deducted from the original sales invoice before being included in the accounting system and therefore will be deducted when calculating sales.

Early settlement discounts are deducted from sales only if customers are expected to take advantage of these. If the customer is not expected at the time of sale to take advantage of the discount then the sale is recorded at its full (gross) amount (i.e., ignoring the discount). In this question, at the point of sale, all customers are expected to take advantage of the discount and therefore the discount must be deducted from sales.

### Example 3

Alice is responsible for processing all purchase transactions. Before she processes a purchase invoice for payment, she completes a checklist to ensure all checks have been carried out.

**Which of the following would appear on the purchase invoice checklist?**

- (1) Checked against purchase order**
- (2) Checked against delivery note**
- (3) Calculations checked**
- (4) Customer account code entered for posting**
- (5) General ledger account code entered for posting**

- A. 1 and 2 only**
- B. 3, 4 and 2 only**
- C. 1, 2, 3 and 5 only**
- D. 1, 2 3, 4 and 5**

The correct answer is **C**.

Option (4) is incorrect. This question asks you to consider what would be on a purchase invoice checklist. Option (4) relates to a customer and therefore the customer account code would only be relevant on a sales invoice checklist, not in a purchase invoice checklist. It is important to read the question carefully when considering the options.

All other options are correct. Alice will check that the purchase invoice agrees to the purchase order that was issued. The invoice will be checked to the delivery note to ensure they are being correctly charged for the goods received. Calculations will be checked to ensure they do not overpay and to minimise errors in the accounting system. A final check will be made to ensure the correct general ledger account code is being used.

### Example 4

Gavin is a sole trader. During the year ended 31 December 20X6 he received a salary from the business.

**In which of the following ledger accounts should his salary be debited?**

- A. Drawings**
- B. Business expenses**
- C. Cost of sales**
- D. Bank**

The correct answer is **A**.

It can be easy to select an incorrect answer here as typically a salary would be an example of a business expense, and therefore at first glance both options B and C seem like plausible options. However, the 'salary' is for Gavin himself who is a sole trader. As a sole trader, there is no distinction between the business and Gavin himself. Therefore, any payments that Gavin receives will be classified as drawings and will reduce the capital of the business.

### **Example 5**

Edward's insurance company makes monthly deductions from his bank account as payment of his insurance premium.

**What is this type of deduction known as?**

- A. Standing order**
- B. Direct debit**
- C. BACS payment**
- D. Cheque payment**

The correct answer is **B**.

This is an example of a direct debit. Edward must have given the insurance company permission to make regular deductions from his bank account and it is the insurance company which will determine the appropriate amounts due and then deduct these from Edward's bank account. The timing of these payments will be fixed (e.g., last day of the month) but the amount deducted can be variable.

A standing order is not correct as this would be a regular payment set up by Edward to make payments to other people, organisations or transfers to his other bank accounts. It is not an instruction that allows the insurance company to make monthly deductions.

A BACS payment is an electronic system to make payments. BACS payments can be used for direct debits, but the direct debit itself is what allows the insurance company to make monthly deductions from Edward's bank account.

A cheque payment is a document that orders a bank to pay a specific amount and must be written by Edward. This is usually for a one-off transaction and is therefore not appropriate for monthly deductions and, like the standing order, a cheque payment does not allow the insurance company to make deductions from Edward's bank account.

### **Example 6**

Colin is starting a new business and the business has taken out a loan from the bank for \$10,000. He has also paid \$2,500 of his own money into the business bank account and has purchased a van for \$1,000 from that money.

**What is the balance on Colin's capital account?**

- A. \$10,000**
- B. \$2,500**
- C. \$1,500**
- D. \$12,500**

The correct answer is **B**.

The \$10,000 loan will increase the bank asset and liabilities and the van purchase of \$1,000 will increase non-current assets and reduce the bank asset. Neither of these transactions will affect profit or capital.

Colin has paid \$2,500 into the business bank account and this will increase the bank asset and be recorded as capital introduced.

The business is not trading yet, so no profit or loss has been recorded and there are no drawings. Therefore, the balance on the capital account is simply the \$2,500 capital introduced.

### **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.