



Think Ahead

Maintaining Financial Record (FA2) 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 question types will require slightly different approaches. This computer-based examination consists of 50 compulsory objective test questions worth two marks each.

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

Example 1

Khan, a partner in a firm of accountants, withdrew \$2,000 on 1 January and 1 July in the year ended 31 December 20X7. Interest on drawings is charged for the period on the amount withdrawn at 5% per year on a pro-rata basis.

How much interest will be charged on the drawings in the year ended 31 December 20X7?

- A. \$200
- B. \$100
- C. \$50
- D. \$150

The correct choice is **D**.

Partners may incur interest on their drawings if this is included in the partnership agreement. The firm of accountants that Khan works for charges interest on drawings at 5% per year on a pro-rata basis. Khan has drawn \$2,000 from the business twice in the year ended 31 December 20X7. The first withdrawal on 1 January 20X7 was at the beginning of the accounting period. The 5% interest will therefore be applied for the full 12 months. The second withdrawal was on 1 July 20X7. The period between this date and the reporting date is six months, therefore the interest for this period needs to be time apportioned. Interest is to be calculated as follows:

		\$
1 January	$\$2,000 \times 5\%$	100
1 July	$\$2,000 \times 5\% \times 6/12$	50
		<hr/> 150 <hr/>

Example 2

Janice has the following entries in her rent account for the year end 31 December 20X5.

- (1) An opening accrual of \$425
- (2) Cashbook payments of \$5,100 made during the year ended 31 December 20X5

The bill for rent for the quarter ended 28 February 20X6 for \$1,500 was not received until 1 March 20X6.

What is the statement of profit and loss charge for rent for the year end 31 December 20X5?

\$

This is an example of a number entry style question. Candidates are required to calculate the rent expense for the year ended 31 December 20X5 and to input their answer into the number entry box. To calculate the rent expense for the year, the information in the question needs to be recorded in a working.

The opening balance on the accruals account of \$425 firstly needs to be reversed by debiting accruals and crediting the rent expense. The rent paid of \$5,100 during the year is to be recorded as debit rent expense and credit bank. Finally, the closing accrual needs to be calculated and recorded. The invoice of \$1,500 relates to December, January and February. Only the month of December relates to the year ended 20X5. Therefore, the closing accrual will be \$500 ($\$1,500 \times 1/3$) and this will be recorded as debit rent expense, credit accruals.

The rent expense is \$5,175 and is calculated as follows:

Rent expense account			
	\$		\$
Payments	5,100	B/f accrual	425
C/f accrual	500	Balance = charge to profit or loss	5,175
	<u>5,600</u>		<u>5,600</u>

Example 3

Are the following types of business likely to maintain a sales day book?

		Yes	No
1.	A retailer selling goods for cash only		
2.	A property developer selling two or three large buildings a year		

This is an example of a multiple response matching question where candidates are required to select the correct answer from a number of options (in this example the options are simply 'yes' or 'no'). Candidates must select the correct answer for each of the statements to be awarded the marks. There are no partial marks available.

This question tests a candidate's understanding of the sales daybook and when it may be used. The purpose of a sales daybook is to capture the credit sales of a business. It is useful for those businesses that have numerous credit sale transactions. The daybook is totalled periodically and posted to the general ledger.

A retailer selling goods for cash in statement 1 would not maintain a sales daybook as the sales daybook is used to capture credit sales only. Therefore, the appropriate selection is no.

The property developer is also not likely to maintain a sales daybook as there are only two to three transactions in a year, therefore, maintaining a daybook is not relevant and the selection should also be no.

Example 4

Which of the following are part of the process of producing final accounts from a trial balance?

- (1) Estimating accruals
- (2) Accounting for the purchase of non-current assets
- (3) Valuing closing inventory

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

This is an example of a traditional multiple choice style question. Candidates should review all options in turn before selecting their answer. This question tests understanding of the accounts preparation process.

Both (1) and (3) are examples of the process of preparing final accounts. At the reporting date a review for accruals is undertaken. This is to ensure that

expenditure is recorded in the relevant period, rather than simply when cash is paid.

During the year, when inventory is purchased it is recorded as debit purchases, credit bank/payables. Purchases should be matched to the sales made in the year. Any goods left in inventory at the reporting date should be removed from cost of sales and carried forward to current assets in the statement of financial position. Therefore, at the reporting date, inventory is counted, valued and adjusted for in the financial statements.

The purchase of a non-current asset is not part of the process of producing final accounts and would be recorded immediately when purchased. The cost of purchase would be recognised within non-current assets on the statement of financial position and spread over the asset's useful life through a depreciation charge.

The correct choice is **B**.

Example 5

Would the following errors cause an imbalance in the trial balance?

- | | Yes | No |
|--|-----|----|
| 1. The purchase of goods for \$200 had been credited to the purchases account and debited to the supplier's personal account | | |
| 2. Cheques received from customers of \$100 had been posted to the wrong side of the receivables ledger control account | | |
| 3. Machine repairs costing \$400 had been debited to the machinery account | | |
| 4. The drawings account balance of \$100 had been omitted from the trial balance | | |

This is another example of a multiple response matching question where candidates are required to select an appropriate response to each statement. This question tests a candidate's knowledge of errors and specifically requires candidates to identify those errors that will cause the trial balance to not balance.

As noted in Example 3, candidates must select the correct answer for each of the statements.

Statement 1 would not cause an imbalance in the trial balance. This is an example of an error of complete reversal. The double entry is correct but the

wrong way round. The transaction should have been recorded as debit purchases, credit supplier's personal account.

The error in statement 2 would cause an imbalance. Cheques received have been posted to the wrong side of the receivables ledger control account. The transaction has been posted as debit bank and debit receivables ledger control account; therefore, the trial balance would not balance.

Statement 3 would not cause an imbalance in the trial balance. This is an example of an error of principle. The debit and credit are of equal value (debit machinery account, credit bank) but the transaction has been recorded in the wrong category of account.

Finally, statement 4 would cause an imbalance. The trial balance records all the balances from the ledger accounts. When transactions are initially recorded, there should be equal debit and credit entries. If a closing balance on a ledger account is not included in the trial balance, then the trial balance totals will not agree.

Conclusion

Based on the performance of candidates in these questions, it can be observed that there were two primary reasons for incorrect choices being made.

The first is that there was a lack of awareness / understanding of fundamental issues in the syllabus (e.g. the treatment of accruals). The second is that the questions were not read carefully enough, which led to confused thinking.

These are two of the reasons which have been highlighted in the reports for all previous sittings. Candidates preparing for future sittings are strongly encouraged to ensure that they have developed a clear understanding of the key points of each area of the syllabus and that they read carefully and think logically when attempting questions.