



Think Ahead

Maintaining Financial Records (FA2) 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 question types will require slightly different approaches. This computer-based examination consists of 50 compulsory objective test questions worth two marks each. In addition to multiple-choice questions, candidates may be presented with number entry, multiple response and multiple response matching questions in the FA2 exam.

This report discusses six questions with which candidates experienced difficulties.

Example 1

On which side of the relevant general ledger account will each of the following 'carry forward balances' be shown when closing off the account at the year end?

| | Debit | Credit |
|------------------------------|-------|--------|
| (1) Bank overdraft | X | |
| (2) Accumulated depreciation | X | |

This question is an example of a multiple response matching question and candidates are required to select the appropriate responses (as shown above). The question tests candidates' knowledge of the year-end procedures for general ledger accounts.

Many candidates incorrectly selected the credit option for both (1) and (2). This was most likely done as both a bank overdraft and accumulated depreciation would be a credit entry on the trial balance when preparing financial statements.

The opening balance on accumulated depreciation would be recorded as a credit entry when preparing the general ledger and the closing balance would be on the **debit** side as a balancing amount. For example:

| Accumulated depreciation general ledger account | | | |
|---|---|------------------------------|---|
| | | Brought forward | X |
| Disposal – removal of depreciation | | Depreciation charge for year | X |
| Carry forward (balancing amount) | X | | |
| | X | | X |

A closing bank overdraft on the bank general ledger account would also be recorded as a debit entry. A bank overdraft exists when credit entries on the ledger exceed the debit entries and therefore the closing balance is recognised as a debit balance to ensure the ledger account balances.

Example 2

Emma has the following information relating to her bank reconciliation at 31 December 20X1:

| | | |
|--|-------|----|
| | \$ | |
| Balance per bank general ledger account | 2,358 | Dr |
| Bank charges (not recorded in bank general ledger account) | 35 | |
| Direct debits (not recorded in bank general ledger account) | 240 | |
| Automated receipts (not recorded in bank general ledger account) | 750 | |
| Unpresented cheques | 3,000 | |
| Receipts not yet credited by the bank | 580 | |

What is the correct reconciled bank balance?

The correct number entry is **2833** (i.e., \$2,833).

This is an example of a number entry question and candidates were required to calculate and input the reconciled bank balance for Emma.

The balance per the bank general ledger account was given rather than the balance per the bank statement. To calculate the reconciled balance, candidates must determine what information would require an adjustment in the bank general ledger account.

In this question bank charges, direct debits and automated receipts would be adjusted in the bank general ledger account. Unpresented cheques and receipts not yet credited by the bank would require adjustment against the balance per the bank statement and so can be ignored in this question.

The reconciled balance can be calculated as:

| | | |
|---|--------------|----|
| | \$ | |
| Balance per bank general ledger account | 2,358 | Dr |
| Bank charges | (35) | |
| Direct debits | (240) | |
| Automated receipts | 750 | |
| | <u>2,833</u> | |

Example 3

In relation to partnerships, which **TWO** of the following statements are correct?

- (1) The personal liability of each partner is not limited to the amount of capital they have invested in the partnership
- (2) The partnership must have a written partnership agreement in place
- (3) All partners must participate in the day-to-day running of the partnership
- (4) Partners are jointly liable for the debts and obligations of the partnership

This is an example of a multiple response question and candidates are required to select two responses. The question requires candidates to demonstrate their knowledge of partnerships.

Option (1) is **correct**. Both sole traders and partnerships have unlimited liability. This means that their liability is not limited to the amount of capital invested into the business.

Option (2) is incorrect. Whilst a formal, written partnership agreement is recommended, it is not a legal requirement.

Option (3) is incorrect. Some partners will run the business and be involved on a day-to-day basis and others may have no active involvement.

Option (4) is **correct**. Every partner in a partnership is jointly liable with the other partners for all debts and obligations of the partnership.

Example 4

During the year ended 31 December 20X5, Fiona had the following transactions relating to non-current assets:

- (1) Charged depreciation at 30%, reducing balance, on motor vehicles which cost \$65,000 and on which \$19,500 of depreciation had been charged in previous years
- (2) Sold an item of plant with a balance on the accumulated depreciation account of \$4,000 at the date of sale

The brought forward balance on the accumulated depreciation account was \$36,000.

What is the balance on the accumulated depreciation account at 31 December 20X5?

\$

The correct number entry is **45650** (i.e., \$45,650).

This question required candidates to apply their knowledge of depreciation. The correct balance on the accumulated depreciation account can be calculated as follows:

| | |
|--|-----------|
| | \$ |
| B/fwd balance | 36,000 |
| Depreciation charge (\$65,000 - \$19,500) x 30% | 13,650 |
| Disposal – accumulated depreciation | (4,000) |
| | <hr/> |
| | 45,650 |

It is worth noting that in this question depreciation is calculated using the diminishing-balance (reducing-balance) method. A common mistake made by candidates was to calculate depreciation using the straight-line method. It is important that candidates **read the question information carefully.**

Example 5

Naima uses a basic computerised accounting package. A suspense account entry is automatically generated for any imbalanced manual journal entries.

In her review of manual journal entries processed during the year, Naima discovered the following errors:

- (1) An accrual of \$450 was correctly recognised in expenses but the accrual was entered incorrectly as \$540
- (2) A cash receipt of \$560 from a credit customer was recognised incorrectly as a cash sale

Are the following statements about Naima's trial balance true or false?

| | True | False |
|---|------|-------|
| 1. The transposition error will not be discovered through producing a trial balance | | X |
| 2. The cash receipt treated as a sale will lead to the credit amounts exceeding debit amounts in the trial balance | | X |

This question required candidates to identify if the two statements are true or false. Both statements are false.

Statement (1) is **False**. The journal entry, with the automated element in **bold** was:

| | | |
|-----------|-----------------|-------------|
| Dr | Expenses | \$450 |
| Dr | Suspense | \$90 |
| Cr | Accruals | \$540 |

The imbalance led to a suspense account entry being automatically generated. The preparer of the financial statements will investigate the suspense account which is visible on review of the trial balance.

Statement (2) is also **False**. There has been an error and the receipt of \$560 has been recorded in the incorrect general ledger account as follows:

| | | |
|----|------------|-------|
| Dr | Bank | \$560 |
| Cr | Cash sales | \$560 |

From the above, it can be noted that the incorrect treatment has not resulted in the credit amounts exceeding the debit amounts.

Example 6

Which of the following statements is/ are true about using a cloud-based accounting system?

- (1) Backups must be taken regularly and held off site, in fireproof storage
 - (2) Passwords should be regularly changed and not written down to keep secure
-
- A. 1 only
 - B. 2 only
 - C. Both 1 and 2
 - D. Neither 1 nor 2

The correct answer is **B**.

Statement (1) is **False**. In a cloud-based accounting system, backups take place in the cloud. Backups held off site in fireproof storage relate to accounting systems that are not cloud based.

Statement (2) is **True**. Security and integrity of data must be maintained and one way to ensure that this happens is to regularly change passwords. Writing passwords down can result in a data breach.

Conclusion

Many candidates can score very well in this exam. Poor performance is generally a result of insufficient revision of the syllabus and not reading the question scenarios or requirements carefully enough.

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 to answer the questions.