



# Examiner's report

## F3 Financial Accounting December 2009

### General Comments

The purpose of this report is to provide guidance on the style and level of exam questions to candidates who have unsuccessfully attempted this paper and to those who will be sitting this paper in the future. The questions are taken from the December 2009 exam paper and aim to highlight a suggested approach to answering questions.

The questions selected below were the three with the worst performance by candidates.

### Specific Comments

#### Question 1

Simran uses the imprest method of accounting for petty cash. She counted the petty cash and there was \$66.00 in hand.

There were also the following petty cash vouchers:

	\$
Sundry purchases	22.00
Loan to sales manager	10.00
Purchase of staff drinks	19.00
Sundry sales receipts	47.00

#### What is Simran's imprest amount?

- A \$164.00
- B \$50.00
- C \$62.00
- D \$70.00

(2 marks)

The answer to this question is D.

It was very surprising that this question was not well answered with only 33% of candidates attempting the question correctly. The imprest method of accounting for petty cash means that a business reimburses petty cash back to a fixed imprest amount on a periodic basis. To work back to the original imprest amount, candidates had to take the cash in hand balance and add back expenses and deduct income as follows:

	\$
Balance of petty cash in hand	66.00
Add: Sundry purchases	22.00
Loan to sales manager	10.00
Purchase of staff drinks	19.00
Less: Sundry sales receipts	<u>(47.00)</u>
Imprest balance	<u>70.00</u>

The most common answer to this question (with 34% of the responses) was A. This option added back all of the items in the list, not recognising that the sundry sales receipts were income and not an expense. This suggests that many candidates did not read the question properly before answering it, and in multiple choice questions, this is a key element of exam technique.

**Question 2**

Pam's trial balance did not balance so she opened a suspense account with a balance of \$2,770 credit. When investigating the difference, she discovered the following errors:

1. The sales day book was undercast by \$950
2. A loss on disposal of a non-current asset of \$5,600 has been recorded in the sundry expense account as \$6,500
3. One page of transactions from the purchases day book with a total of \$1,150 has been posted to the payables control account, but no other entry has been made

**What is the balance on the suspense account after Pam has corrected the above errors?**

- A** \$2,070
- B** \$3,020
- C** \$2,520
- D** \$2,770

**(2 marks)**

The answer to this question is B.

Suspense accounts are an area that candidates find difficult so it was not surprising that this question was not as well answered as others. Overall, only 27% of candidates correctly answered this question.

Candidates needed to open up a suspense account and enter the opening balance, then work through the errors to determine if they affect the suspense account and if so, enter the adjustment. The key consideration when looking at errors is whether or not they affect the balancing of the trial balance. Only errors where the debit and credit do not equal each other will require adjustment through the suspense account.

The errors should be treated as follows:

- Error no 1 does not have any impact on the suspense account. The day book total is posted to the sales account and the receivables control account, so the incorrect total has been posted correctly and this does not cause the trial balance to be out of balance. This error will need correcting before final accounts can be prepared but not through the suspense account.
- Error no 2 does require adjustment as there has been a transposition error in recording the loss on disposal and too much has been recorded. The adjustment is to:
 

Debit Suspense	\$900
Credit Sundry expenses	\$900
- Error no 3 also requires adjustment in the suspense account as a one-sided entry has been made. There has been a credit to payables, but no corresponding debit to purchases so this must be corrected. The adjustment is to:
 

Debit Purchases	\$1,150
Credit Suspense	\$1,150



When the suspense account is balanced, the closing balance is \$3,020.

**Suspense account**

	\$		\$
2 Sundry expense	900	b/f	2,770
c/f	<u>3,020</u>	3 Purchases	<u>1,150</u>
	<u>3,920</u>		<u>3,920</u>

The most common response for this question was A, which 38% of candidates selected. This posted all entries to the suspense account, which suggests that candidates need to have a better understanding of the function of day books and the posting of transactions into the ledger accounts.

**Question 3**

Aubrey made a profit for the year of \$345,687 and has closing net assets of \$435,195. During the financial year, capital of \$60,000 was introduced which consisted of \$40,000 in cash and \$20,000 in non-current assets. Drawings of \$6,000 were taken out of the business each month.

**What was the opening balance of net assets?**

- A \$35,508
- B \$121,508
- C \$768,882
- D \$101,508

**(2 marks)**

The answer to this question is D.

It was surprising that this answer was not well answered as the accounting equation is a relatively straightforward area of the syllabus. However only 23% of candidates correctly answered this question.

Candidates were required to work back to establish the opening net assets figure, with all other information being provided.

Opening net assets are calculated as follows:

	\$
Closing net assets	435,195
Less: Profit	(345,687)
Capital introduced	(60,000)
Add: Drawings (12 x \$6,000)	<u>72,000</u>
Opening net assets	<u>101,508</u>

The most common answer to the question was A with 54% of candidates selecting this response. This was similar to the correct answer above except it only had drawings of \$6,000 (the monthly amount) rather than working out the total drawings for the year. Careful reading of the question should ensure that candidates are not tripped up by this and pick up that they have to do some calculations first.