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ACCA

Foundations in Accountancy

Recording Financial Transactions (FA1)

Exam Kit

APPROVED CONTENT

Content reviewed by
ACCA's examining team

KAPLAN PUBLISHING

ACCA Diploma in Financial and Management Accounting (RQF Level 2)

FA1

Recording Financial Transactions

EXAM KIT

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We are grateful to the Association of Chartered Certified Accountants for the permission to reproduce past examination questions. The answers have been prepared by Kaplan Publishing.

INTRODUCTION

Packed with practice and exam-type questions, this book will help you to successfully prepare for your exam.

- All questions are grouped by syllabus topics with separate sections for 'study support questions' (Section 1 of this book) and 'multiple choice questions' (Section 2).
- The study support questions (in section 1) are designed to test your understanding of the syllabus topics. These can be attempted either during your initial study or your early revision phase. In the approach to the exam you should turn your focus away from these to the exam style multiple-choice questions to gain exam practice.
- The multiple choice questions (in section 2) are all in exam style and of exam standard. You should ensure that in the last few days/weeks of your preparation before the exam you focus exclusively on this style of question to ensure you are sufficiently rehearsed in this style of question.
- A mock exam is provided at the back of the book. You should try this under timed conditions and this will give you an idea of how you will perform in your exam.

ENHANCEMENTS

We have added the following enhancement to the answers in this exam kit:

Tutorial note

Some answers include tutorial notes to explain some of the technical points in more detail.

CONTENTS

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Our Quality Co-ordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

INDEX TO QUESTIONS AND ANSWERS

SYLLABUS AND REVISION GUIDANCE

SYLLABUS CONTENT

A TYPES OF BUSINESS TRANSACTION AND DOCUMENTATION

1 Types of business transaction

(a) Understand a range of business transactions including:

- (i) sales
- (ii) purchases
- (iii) receipts
- (iv) payments
- (v) petty cash
- (vi) payroll

(b) Understand the various types of discount including where applicable the effect that trade discounts have on sales tax.

(c) Describe the processing and security procedures relating to the use of:

- (i) cash
- (ii) cheques
- (iii) credit and debit cards
- (iv) debit cards for receipts and payments and electronic payment methods.

2 Types of business documentation

(a) Outline the content of a range of business documents to include but not limited to:

- (i) invoice
- (ii) credit note
- (iii) remittance advice

(b) Prepare the financial documents to be sent to credit customers including:

- (i) sales invoices
- (ii) credit notes
- (iii) statements of account.

(c) Prepare remittance advices to accompany payments to suppliers.

(d) Prepare a petty cash voucher including the sales tax element of an expense when presented with an inclusive amount.

3 Process of recording business transactions within the accounting system

(a) Identify the characteristics of accounting data and the sources of accounting data records, showing understanding of how the accounting data and records meet the business' requirements.

(b) Understand how users can locate, display and check accounting data records to meet user requirements and understand how data entry errors are dealt with.

(c) Outline the tools and techniques used to process accounting transactions and period-end routines and consider how errors are identified and dealt with.

(d) Consider the risks to data security, data protection procedures and the storage of data.

(e) Understand the principles of coding in entering accounting transactions including:

- (i) describing the need for a coding system for financial transactions within a double entry bookkeeping system
- (ii) describing the use of a coding system within a filing system.

(f) Code sales invoices, supplier invoices and credit notes ready for entry into the books of prime entry.

(g) Describe the accounting documents and management reports produced by computerised accounting systems and understand the link between the accounting system and other systems in the business.

B DUALITY OF TRANSACTIONS AND THE DOUBLE ENTRY SYSTEM

1 Books of prime entry

(a) Outline the purpose and content of the books of prime entry including their format.

(b) Explain how transactions are entered in the books of prime entry.

(c) Outline how the books of prime entry integrate with the double entry bookkeeping system.

(d) Enter transactions including the sales tax effect where applicable into the books of prime entry.

2 Double entry system

(a) Define the accounting equation.

(b) Understand and apply the accounting equation.

(c) Understand how the accounting equation relates to the double entry bookkeeping system.

(d) Process financial transactions from the books of prime entry into the double entry bookkeeping system.

3 The journal

(a) Understand the use of the journal including the reasons for, content and format of the journal.

(b) Prepare journal entries directly from transactions, books of prime entry as applicable or to correct errors.

4 Elements of the financial statements

(a) Define and distinguish between the elements of the financial statements.

(b) Identify the content of a statement of financial position and statement of comprehensive income.

C BANK SYSTEM AND TRANSACTIONS

1 The banking process

(a) Explain the differences between the services offered by banks and banking institutions.

(b) Describe how the banking clearing system works.

(c) Identify and compare different forms of payment.

(d) Outline the processing and security procedures relating to the use of cash, cheques, credit cards, debit cards for receipts and payments and electronic payment methods.

2 Documentation

(a) Explain why it is important for an organisation to have a formal document retention policy.

(b) Identify the different categories of documents that may be stored as part of a document retention policy.

D PAYROLL

1 Process payroll transactions within the accounting system

(a) Prepare and enter the journal entries in the general ledger to process payroll transactions including:

(i) calculation of gross wages for employees paid by the hour, paid by output and salaried workers

(ii) accounting for payroll costs and deductions

(iii) the employer's responsibilities for taxes, state benefit contributions and other deductions.

(b) Identify the different payment methods in a payroll system, e.g. cash, cheques, automated payment.

(c) Explain why authorisation of payroll transactions and security of payroll information is important in an organisation.

E LEDGER ACCOUNTS

1 Prepare ledger accounts

(a) Enter transactions from the books of prime entry into the ledgers.

(b) Record journal entries in the ledger accounts.

(c) Balance and close off ledger accounts.

F CASH AND BANK

1 Maintaining a cash book

(a) Record transactions within the cashbook, including any sales tax effect where applicable.

(b) Prepare the total, balance and cross cast cash book columns.

(c) Identify and deal with discrepancies.

2 Maintaining a petty cash book

(a) Enter and analyse petty cash transactions in the petty cash book including any sales tax effect where applicable.

(b) Balance off the petty cash book using imprest and non imprest systems.

(c) Reconcile the petty cash book with cash in hand.

(d) Prepare and account for petty cash reimbursement.

G SALES AND CREDIT TRANSACTIONS

1 Recording sales

(a) Record sales transactions taking into account:

- (i) various types of discount
- (ii) sales tax
- (iii) the impact of the sales tax ledger account where applicable

(b) Prepare the financial documents to be sent to credit customers.

2 Customer account balances and control accounts

(a) Understand the purpose of an aged receivable analysis.

(b) Produce statements of account to be sent to credit customers.

(c) Explain the need to deal with discrepancies quickly and professionally.

(d) Prepare the receivables control account or receivables ledgers by accounting for:

(i) sales

(ii) sales returns

(iii) payments from customers including checking the accuracy and validity of receipts against relevant supporting information

(iv) discounts

(v) irrecoverable debt and allowances for irrecoverable debts including any effect of sales tax where applicable.

H PURCHASES AND CREDIT TRANSACTIONS

1 Recording purchases

(a) Record purchase transactions taking into account:

(i) various types of discount

(ii) sales tax effect

(iii) the impact of the sales tax ledger account where applicable

(b) Enter supplier invoices and credit notes into the appropriate book of prime entry.

2 Supplier balances and reconciliations

(a) Prepare the payables control account or payables ledgers by accounting for:

(i) purchases

(ii) purchase returns

(iii) payments to suppliers including checking the accuracy and validity of the payment against relevant supporting information

(iv) discounts

I RECONCILIATION

1 Purpose of control accounts and reconciliation

(a) Describe the purpose of control accounts as a checking devise to aid management and help identify bookkeeping errors.

(b) Explain why it is important to reconcile control accounts regularly and deal with discrepancies quickly and professionally.

2 Reconcile the cash book

(a) Reconcile a bank statement with the cash book.

3 Reconcile the receivables control account

(a) Reconcile the balance on the receivables control account with the list of balances.

4 Reconcile the payables control account

(a) Reconcile the balance on the payables control account with the list of balances.

J PREPARING THE TRIAL BALANCE

1 Prepare the trial balance

(a) Prepare ledger balances, clearly showing the balances carried down and brought down as appropriate.

(b) Extract an initial trial balance.

2 Correcting errors

(a) Identify types of error in a bookkeeping system that are disclosed by extracting a trial balance.

(b) Identify types of error in a bookkeeping system that are not disclosed by extracting a trial balance.

(c) Use the journal to correct errors disclosed by the trial balance.

(d) Use the journal to correct errors not disclosed by the trial balances.

(e) Identify when a suspense account is required and clear the suspense account using the journal.

(f) Redraft the trial balance following correction of all errors.

PLANNING YOUR REVISION

Begin by asking yourself two questions:

How much time do I have available for revision?

What do I need to cover during my revision?

Remember to take into account:

- times of the day when you work most effectively
- other commitments
- time definitely unavailable (e.g. holidays)
- relaxation time.

Remember to take into account that:

- all syllabus areas are equally examinable
- you need more time when revising areas of the syllabus you feel least confident about
- question practice is the best form of revision.

Make a timetable/plan to remind yourself how much work you have to do and when you are free to do it. Allow some time for slippage.

REVISION TECHNIQUES

- Go through your notes and study text highlighting the important points
- You might want to produce your own set of **summarised notes**
- **List key words** for each topic to remind you of the essential concepts
- **Practise exam-standard questions**, under timed conditions
- **Rework questions** that you got completely wrong the first time, but only when you think you know the subject better
- If you get stuck on topics, **find someone to explain** them to you (your tutor or a colleague, for example)
- **Read recent articles** on the ACCA website or in the student magazine
- **Read** good newspapers and professional journals

THE EXAM

FORMAT OF THE EXAM

The exam is a computer-based exam.

	Number of marks
50 multiple-choice questions (2 marks each)	100
Time allowed: 2 hours	

Answering the questions

- **Multiple-choice questions** – read the questions carefully and work through any calculations required.
- **If you don't know the answer**, eliminate those options you know are incorrect and see if the answer becomes more obvious. Remember that only one answer to a multiple choice question can be right!
- **If you get stuck with a question** skip it and return to it later.
- **Answer every question** – if you do not know the answer, you do not lose anything by guessing. Towards the end of the examination spend the last five minutes reading through your answers and making any corrections.
- **Equally divide the time** you spend on questions. In a two-hour examination that has 50 questions you have about 2.4 minutes per a question.
- **Do not skip any part of the syllabus** and make sure that you have *learnt* definitions, *know* key words and their meanings and importance, and *understand* the names and meanings of rules, concepts and theories.
- Bear in mind that this exam questions that test your understanding of narrative and computational elements, so ensure that you are able to deal with both types of question.

Computer-based examinations

- Be sure you understand how to use the **software** before you start the exam. If in doubt, ask the assessment centre staff to explain it to you.
- Questions are **displayed on the screen** and answers are entered using keyboard and mouse. At the end of the exam, you are given a certificate showing the result you have achieved.
- **Don't panic** if you realise you've answered a question incorrectly – you can always go back and change your answer.

ACCA SUPPORT

For additional support with your studies please also refer to the ACCA Global website.

Section 1

STUDY SUPPORT QUESTIONS

BUSINESS TRANSACTIONS AND DOCUMENTATION

1 CASH OR CREDIT

Given below are a number of transactions. For each transaction, tick the relevant box to indicate whether it is a cash transaction or a credit transaction.

TRANSACTION		CASH	CREDIT
(a)	Receipt of goods worth $140.59 from a supplier together with an invoice for that amount.		
(b)	Payment of $278.50 by cheque for a purchase at the till.		
(c)	Receipt of a deposit of $15.00 for goods.		
(d)	Sending of an invoice for $135.00 to the payer of the deposit for the remaining value of the goods.		
(e)	Sale of goods for $14.83, payment received by credit card.		

(5 marks)

2 DOCUMENTS

Fill in the boxes to give the names of the various documents used at the following stages of the process of purchasing goods by means of cash or on credit.

(a)	Request to supplier to supply goods.	
(b)	Notification by supplier of the amount due to be paid for the goods.	
(c)	Notification by purchaser to the supplier of the amount enclosed as payment.	
(d)	Cancellation of an amount due to a supplier	
(e)	Record of a cash sale given to a customer.	

(5 marks)

3 DEBIT/CREDIT NOTES

Fill in the gaps in the following sentences, which explain the difference between a debit note and a credit note.

A credit note is a document produced by the ……….. and sent to the ……………. which cancels all or part of …………….

A debit note, on the other hand, is raised by the …………..and sent to the ……….. requesting a ……………. Not all businesses employ a formal debit note for this purpose; many rely on a letter or telephone call only. **(6 marks)**

DOUBLE ENTRY BOOKKEEPING

4 TERMINOLOGY

Fill in the gaps to identify the following terms:

(a) An …………………. is a present resource controlled by the ……………. as a result of a past……………

(b) A ……………….is an amount owed by the business to another business or individual.

Examples include a ………………… and amounts owed to the suppliers of goods or services which have yet to be paid for.

(c) ……………………….. is an asset comprising goods purchased for resale, components for inclusion in manufactured products, and the finished products which have been manufactured which have not yet been sold.

(d) ……………….. is the liability of the business to the owner of the business.

(e) ……………….. is the term which refers to amounts taken out of the business by the owner. **(10 marks)**

5 CLASSIFYING TRANSACTIONS AND BALANCES

Given below are a number of typical transactions and balances that might be found in a business.

Fill in the boxes to indicate whether the items are assets, liabilities, expenses or income.

(a)	Goods stored in the warehouse awaiting resale	
(b)	Electricity bill paid	
(c)	Cash received from sale of goods	
(d)	Amounts owing from a customer	
(e)	Rent paid for the factory building	
(f)	Cash paid into the business by the owner	

(g) Amounts owed to suppliers

(h) Cash held in the till

(i) Machinery purchased for use in the factory

(j) Rent received for subletting part of the factory premises

(k) Cash held in the business bank account

(11 marks)

6 BAO SMITH – ACCOUNTING EQUATION

In the following transactions the accounting equation builds up at each stage.

Use the boxes below the accounting equation to show the amounts in each category in which the transactions would be recorded and what the business owns and owes cumulatively, after each transaction.

(a) Bao Smith starts a new business by putting $10,000 into a business bank account.

Assets =	Capital	+ Profit	– Drawings	+ Liabilities

(b) A bank lends the business a further $5,000.

Assets =	Capital	+ Profit	– Drawings	+ Liabilities

(c) Bao buys a delivery van for $6,000.

Assets =	Capital	+ Profit	– Drawings	+ Liabilities

(d) Bao buys inventory for $2,500 by writing out a business cheque.

Assets =	Capital	+ Profit	– Drawings	+ Liabilities

(e) All of the inventory is sold for $4,000. The money is paid direct to the business bank account.

(Remember there are two elements to this transaction. Firstly, the money coming into the business and the fact that the business no longer has an inventory asset, and secondly, the calculation of profit.)

Assets =	Capital	+ Profit	– Drawings	+ Liabilities

(f) Bao pays a business expense of $400 out of the business bank account.

Assets =	Capital	+ Profit	– Drawings	+ Liabilities

(g) Finally Bao takes $300 out of the business for personal expenses.

Assets =	Capital	+ Profit	– Drawings	+ Liabilities

(16 marks)

7 SAMIN'S BOOKS – LEDGER ACCOUNTS

Samin begins business as a second-hand bookseller on 1 February 20X7. The transactions for the first week are listed below.

(a) Deposited $5,000 in a business bank account as the opening capital.

(b) Purchased books for $600, by paying by cheque.

(c) Sold books for $800 paid in cash.

(d) Paid rent of $500, paying by cheque.

(e) Bought a second-hand van for $2,000, paying by cheque.

Required:

For each of these transactions indicate which ledger account would be debited and which would be credited in the table given below. (5 marks)

Transactions	*Account to be debited*	*Account to be credited*
(a)		
(b)		
(c)		
(d)		
(e)		

8 CHRIS FINDLAY – LEDGER ACCOUNTS

Chris Findlay opens a fishing tackle shop on 1 June 20X8. During that month Chris entered into the following transactions:

(a) Paid $1,500 into a business bank account

(b) Paid one month's rent of $230

(c) Purchased rods for $420, by cheque

(d) Purchased nets for $180, by cheque

(e) Sold some of the rods for $240 cash

(f) Purchased live bait for $10, by cheque

(g) Sold live bait for $16

(h) Purchased flies for $80, by cheque

(i) Paid shop assistant's wages of $95

(j) Sold some of the flies for $50

(k) Paid sundry expenses of $10

Required:

Record the above transactions in the following ledger accounts. **(11 marks)**

Cash at bank account

Capital account

Rent account

Purchases account

Sales account

Wages account

Sundry expenses account

9 JAY FRY – LEDGER ACCOUNTS AND BALANCING

On 14 April 20X5 Jay Fry set up a business which sold frozen fish, meat and vegetable dishes from door-to-door in a specially adapted van. The transactions for the first two weeks of trading were as follows:

(a) Paid $10,000 of redundancy money into a business bank account

(b) Used $3,600 to buy a second hand van by writing a cheque

(c) Spent $1,700 by cheque having the van converted as a travelling deep freeze

(d) Paid $400 in cash for the first consignment of frozen food

(e) Received $110 of cheques and $80 of cash for sales in the first week of trading

(f) Spent $260 in cash on a back-up freezer in which to store additional inventory

(g) Paid $190 in cash for additional inventory

(h) Received $170 of cheques and $50 of cash for sales in the second week of trading

(i) Paid a neighbour $40 in cash as wages for help in moving inventory from the freezer to the van

(j) Withdrew $60 in cash from the business bank account as living expenses

Required:

Fill in the boxes with the balance carried down on the following accounts:

Cash and bank account	
Capital account	
Van account	
Purchases account	
Sales account	
Freezer account	
Wages	
Drawings	

(8 marks)

Tutorial note

You may find it helpful (and useful practice) to answer this question by entering these transactions in the appropriate ledger accounts. Then calculate a balance on each ledger account.

10 ASSETS OR LIABILITIES?

Given below is a list of typical assets and liabilities that might be found in a business.

Required:

Fill in the boxes by stating whether each of the following items is either an asset or a liability.

(a)	Cars for use by the sales team	
(b)	Computers for resale	
(c)	Bank overdraft	
(d)	Monies owed by a customer	
(e)	Trade payables	
(f)	Office furniture	
(g)	Trade receivables	

(7 marks)

BANKING AND PETTY CASH

11 PETTY CASH PRACTICE

On 1 August 20X4 $73.42 of cash was put into the petty cash box to top it up to the imprest amount of $200 and on 8 August a further $114.37 was put into the box in cash. Cash payments during the week ending 7 August 20X4 were evidenced by the following vouchers.

Petty Cash Voucher	No. 279	
Date 1 Aug X4		
For what required	AMOUNT $	¢
Tea, coffee, biscuits.	11	78
Signature **J Small**		
Authorised **Petty cashier**		

Petty Cash Voucher	No. 280	
Date 1 Aug X4		
For what required	AMOUNT $	¢
Taxi	3	90
Signature **P Printer**		
Authorised **Petty cashier**		

Petty Cash Voucher	No. 281	
Date 2 Aug X4		
For what required	AMOUNT $	¢
Window cleaner	26	00
Signature **J Small**		
Authorised **Petty cashier**		

Petty Cash Voucher	No. 282	
Date 3 Aug X4		
For what required	AMOUNT $	¢
Client lunch (including sales tax of $4.16)	27	90
Signature **Rillingworth**		
Authorised **Petty cashier**		

Petty Cash Voucher	No. 283	
Date 3 Aug X4		
For what required	AMOUNT $	¢
Stamps	11	00
Signature **J Small**		
Authorised **Petty cashier**		

Petty Cash Voucher	No. 284	
Date 4 Aug X4		
For what required	AMOUNT $	¢
Boxfiles	12	49
Paper (including sales tax of $2.90)	7	00
Signature **T Semper**		
Authorised **Petty cashier**		

Petty Cash Voucher	No. 285	
Date 4 Aug X4		
For what required	AMOUNT $	¢
Rail fare	12	00
Signature **J Small**		
Authorised **Petty cashier**		

Petty Cash Voucher	No. 286	
Date 4 Aug X4		
For what required	AMOUNT $	¢
Stamps	2	30
Signature **T Semper**		
Authorised **Petty cashier**		

Required:

Complete the petty cash book for the first week in August 20X4 by filling in the shaded boxes overleaf. (10 marks)

PETTY CASH BOOK

Date 20X4	Receipts	Voucher/ reference no	Details	Total payment		Sales tax		Office expenses		Travel expenses		Postage		Stationery		Sundry	
	$			$		$		$		$		$		$		$	
1 Aug	....		Balance b/d														
1 Aug	73.42		Cash from bank														
1 Aug		279	Refreshments	11	78			11	78								
1 Aug		280	Taxi	3	90					3	90						
2 Aug		281	Window cleaners	26	00			26	00								
3 Aug		282	Client lunch	....	......	....	......									....	....
3 Aug		283	Stamps	11	00							11	00				
4 Aug		284	Stationery	....	....	....	....							....	......		
4 Aug		285	Rail fare	12	00					12	00						
4 Aug		286	Stamps	2	30							2	30				
				....	....	......	....	37	78	15	90	13	30	....	....	....	......
7 Aug			Balance c/d	....	....												
	200			200	00												
7 Aug	....		Balance b/d														
8 Aug	....		Cash from bank														