

FOUNDATIONS IN ACCOUNTANCY

# Recording Financial Transactions

Specimen Exam applicable from June 2014

**Time allowed:** 2 hours

ALL 50 questions are compulsory and MUST be attempted.

**Do NOT open this paper until instructed by the supervisor.**

**This question paper must not be removed from the examination hall.**

The Association of Chartered Certified Accountants

# Paper FA1

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

**ALL 50 questions are compulsory and MUST be attempted**

Please use the space provided on the inside cover of the Candidate Answer Booklet to indicate your chosen answer to each multiple choice question.  
Each question is worth 2 marks.

**1 Which of the following is an example of capital expenditure?**

- A Paying for refurbishment as part of upgrading a building
- B Paying carriage outwards in respect of selling goods
- C Paying legal fees in order to recover customer debts
- D Paying bonuses to production operatives

**2 Vic's receivables ledger balances total \$50,000, which does not agree with his trade receivables control account. The following errors were found:**

- (1) A credit note for \$750 was not recorded in the receivables ledger
- (2) A contra entry of \$2,000 was entered in the control account but not in the receivables and payables ledgers.

**What should be the total of the balances on his receivables ledger after correcting the following errors?**

- A \$52,750
- B \$50,000
- C \$49,250
- D \$47,250

**3 Christa pays her mortgage by instructing her bank to make monthly payments of a fixed amount from her current account. When the mortgage rate changes she issues revised instructions to the bank.**

**Which method of payment is Christa using?**

- A Standing Order
- B Payable Order
- C Direct Debit
- D Crossed cheque

**4 A firm has a credit facility with a local trade supplier. An invoice for purchases has been credited to the supplier's account and debited to the sales account.**

**Which of the following journal entries will correct the error?**

- A Dr Sales account                      Cr Supplier account
- B Dr Supplier account                Cr Sales account
- C Dr Purchases account              Cr Sales account
- D Dr Sales account                      Cr Bank account

**5 Which of the following would be on the credit side of the receivables ledger control account?**

- (1) Cash received
- (2) Irrecoverable debts
- (3) Discounts allowed
- (4) Sales

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

**6** The following is a summary of the petty cash transactions for a week:

<b>Income</b>	<b>\$</b>	<b>Expenditure</b>	<b>\$</b>
Opening balance	500	Travelling expenses	150
Sale of stamps	10	Subsistence expenses	250
Sale of paper	50		

Petty cash is maintained using the imprest system.

**What sum should be reclaimed by the cashier at the end of the week?**

- A** \$160
- B** \$340
- C** \$400
- D** \$500

**7 The balance on the payables ledger control account should be equal to which other figure in the accounting system?**

- A** The total of the balances on the individual customers' accounts
- B** The total of the balances on the individual suppliers' accounts
- C** The unreconciled balance on the receivables ledger control account
- D** The balance on the receivables ledger control account reconciled for items in transit

**8** Louise introduces her car into her business.

**Which parts of the business' accounting equation will change?**

- A** Assets and capital
- B** Capital and profit
- C** Liabilities and assets
- D** Capital and liabilities

**9** Freya started in business on 1 September. During September she made cash sales of \$6,400 and issued credit sales invoices for \$10,200 of which \$8,600 had been paid.

**What would be the balance of the sales account in the general ledger at the end of September?**

- A** \$6,400
- B** \$10,200
- C** \$8,000
- D** \$16,600

**10 Which of the following journal entries correctly records the credit purchase of plant and equipment?**

- A Dr Purchase ledger control account                      Cr Plant and Equipment
- B Dr Cash    Cr Plant and Equipment
- C Dr Plant and Equipment                                      Cr Purchase ledger control account
- D Dr Plant and Equipment                                      Cr Cash

**11** Marvin has a balance of \$3,350 on his sales ledger control account but his list of customer balances totals \$3,500.

**Which of the following balances would explain the difference?**

- A The total of sales day book was overstated by \$150
- B A contra of \$150 has been posted in the customer's individual account but not the control account
- C A credit note of \$150 has not been recorded in the sales day book
- D An irrecoverable debt has been accounted for in the control account but not the individual customer account

**12** Albert sold 15 units of inventory with a list price of \$40 per unit to Michael. He gives Michael a 10% trade discount and a 5% settlement discount if Michael pays within 30 days.

**What will be the total of the invoice that Albert issues to Michael for this transaction?**

- A \$540
- B \$600
- C \$510
- D \$513

**13 Which of the following errors would be found by extracting a trial balance?**

- A A transaction has been completely missed in the accounts
- B The double entries have been made the wrong way round
- C Different figures have been entered for the debit and credit entries
- D An expense item has been posted to a non-current asset account.

**14** Dion performed a purchase ledger control account reconciliation and found the following errors:

- (1) The purchase day book was overstated by \$720
- (2) A credit note for \$380 was omitted from the day books altogether

**Which of the following shows the necessary adjustments to ensure that the balances reconcile at the correct amount?**

- A Dr Purchase ledger control account \$1,100, Subtract \$380 from the list of supplier balances
- B Dr Purchase ledger control account \$1,100, Add \$380 to the list of supplier balances
- C Cr Purchase ledger control account \$1,100, Subtract \$380 from the list of supplier balances
- D Cr Purchase ledger control account \$1,100, Add \$380 to the list of supplier balances

**15 Which of the following are benefits of an effective document retention policy to a small business?**

- (1) To ensure all documents are stored forever
- (2) To meet legal and tax requirements of the business
- (3) To mitigate risks arising from internal and external disputes of the business
- (4) To increase operational efficiency and maintain control over costs

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

**16** Hywel purchases goods on credit with a list price of \$100. The supplier gives Hywel a trade discount of 15% and also offers a cash discount of 10% for payment within 30 days.

**What is the amount that Hywel will debit to his purchases account?**

- A** \$115.00
- B** \$85.00
- C** \$76.50
- D** \$75.00

**17 Which of the following are valid reasons for keeping a payables ledger control account?**

- (1) To obtain a figure for payables to be included in the statement of financial position
- (2) To assist in the location of errors
- (3) To check the accuracy of entries made in personal accounts

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

**18** A credit sale of goods for \$51 to J Davis was entered in the accounts as \$15.

**What type of error has occurred?**

- A** Compensating error
- B** Error of omission
- C** Error of principle
- D** Error of transposition

**19 Which of the following represents the correct imprest amount in an imprest petty cash system?**

- A** Notes and coins in the cash box – vouchers for payments – IOUs
- B** Notes and coins in the cash box + vouchers for payments – IOUs
- C** Notes and coins in the cash box – vouchers for payments + IOUs
- D** Notes and coins in the cash box + vouchers for payments + IOUs

20 Which of the following statements are true about a good coding system for financial transactions?

- (1) It enables a company to easily extract data for management analysis
- (2) It provides a unique code for each item within the system
- (3) It provides codes that are uniform in format
- (4) It requires management authorisation before creation of new codes

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

21 Which one of the following is the correct posting from the purchase day book?

- |   |                                    |
|---|------------------------------------|
| <b>A</b> Dr Purchases account               | Cr Payables ledger control account |
| <b>B</b> Dr Purchases account               | Cr Cash book                       |
| <b>C</b> Dr Payables ledger control account | Cr Purchases account               |
| <b>D</b> Dr Cash book                       | Cr Purchases account               |

22 Annabel's cash book shows her to be \$2,030 overdrawn. A bank reconciliation, however, shows that a standing order payment for \$365 had been entered in the cash book twice, and that a dishonoured customer's cheque for \$275 had been debited in the cash book rather than credited.

**What is Annabel's true overdraft position?**

- A \$1,845
- B \$1,940
- C \$2,120
- D \$2,215

23 Narvinda buys goods from Jamal for \$2,500. He returns half of the goods on 15 May.

**Which of the following documents would be issued by Jamal for the return of the goods?**

- A Invoice
- B Credit note
- C Debit note
- D Remittance advice

24 If a cheque is marked 'Account Payee Only, Not Negotiable' what does this mean?

- A The cheque should be paid only into the account of the named drawer
- B The cheque should be paid only into the account of the named payee
- C The paying bank can deposit the cheque in an account other than the payee
- D The receiving bank can deposit the cheque in an account other than the payee

- 25** The following statements relate to the aged receivables analysis:
- (1) It provides information about debt collection efficiency to the management
  - (2) It identifies when payments are due to be made to suppliers

**Which of the above statements are correct?**

- A** 1 only
- B** 2 only
- C** Both the statements
- D** Neither of the statements

- 26** A credit entry into a ledger account represents which of the following?

- A** Increase in an expense
- B** Increase in income
- C** Increase in an asset
- D** Increase in drawings

- 27** Iwan's payables ledger showed that \$2,300 was owed to suppliers at the start of the week. During the week Iwan made purchases of \$3,900 although he paid \$900 of this in cash. He also paid suppliers \$1,000 by cheque.

**What is the closing balance on his payables ledger?**

- A** \$4,000
- B** \$4,300
- C** \$5,200
- D** \$6,100

- 28** Which of the following errors will require an entry to a suspense account to correct it?

- A** A credit purchase was completely omitted from the accounting records
- B** A credit sale was recorded as a cash sale
- C** The payment of wages was debited to the rent account instead of the wages account
- D** The cash sale was recorded correctly in the sales account and credited in the bank account

- 29** What document is usually sent every month from the supplier to the customer, listing all the transactions between them during that month?

- A** Invoice
- B** Receipt
- C** Statement
- D** Credit note

**30** A company has the following year end payroll information

Gross salaries and wages	\$285,350
Income tax deducted	\$61,063
Employers' pension contributions	\$26,786
Employees' pension contributions	\$23,034

**What is the company's total payroll cost for the year?**

- A** \$312,136
- B** \$274,107
- C** \$396,233
- D** \$308,384

**31** Walter sells goods to Ninevah with a list price (exclusive of sales tax) of \$4,300, offering a 4% trade discount. Sales tax is 17.5%

**What amount should be recorded for this transaction in the sales account (to the nearest \$1)?**

- A** \$4,850
- B** \$4,128
- C** \$5,053
- D** \$3,513

**32** Which of the following statements regarding sales tax in the trial balance is true?

- A** Output tax and input tax are debit balances
- B** Output tax and input tax are credit balances
- C** Output tax is a credit balance and input tax is a debit balance
- D** Output tax is a debit balance and input tax is a credit balance

**33** Which of the following should be classified as current liabilities?

- (1) Trade receivables
- (2) Sales tax payable
- (3) Trade payables
- (4) Drawings

- A** 1 and 2
- B** 2 and 3
- C** 3 and 4
- D** 2 and 4

**34** Sally's balance in her cash book is \$160 debit. However her bank statement shows a different amount. On investigation, Sally discovered the following:

- 1. A cheque that Sally paid into the bank for \$40 is still outstanding
- 2. A cheque for \$60 paid by Sally to Molly has not yet been presented
- 3. Sally has forgotten to record a cash withdrawal of \$30
- 4. When Sally inspects her bank statement she sees that the bank has deducted charges of \$15 from her account

**What is the balance on Sally's bank statement?**

- A** \$95
- B** \$135
- C** \$185
- D** \$225



**35** Avalon gives his customers individual trade discounts from the list price and a general 5% cash discount for all invoices settled within seven days of issue. A new customer, Nolava, negotiates a 25% trade discount. His transactions during June are:

- 12 June Buys goods with a \$5,000 list price
- 15 June Returns goods with a \$1,000 list price as faulty
- 16 June Pays half of the net balance on his account

**How much does Nolava owe Avalon at the end of June?**

- A** \$1,425
- B** \$1,500
- C** \$2,000
- D** \$2,850

**36** Richard has a balance of \$350,000 on his payables ledger control account at the end of May.

**What does this mean?**

- A** He has bought \$350,000 of goods in May
- B** He is owed \$350,000 by his customers
- C** He owes \$350,000 to his suppliers
- D** He has paid \$350,000 to his suppliers in May

**37** Melanie is a sales tax registered trader. Her purchases day book shows purchases of \$2,000, net of sales tax at 17.5%.

**What double entry will Melanie post at the end of her day's trading?**

- A** Dr Purchases \$2,000                      Cr Payables \$2,000
- B** Dr Purchases \$2,350                      Cr Payables \$2,350
- C** Dr Payables \$2,350                      Cr Purchases \$2,000                      Cr Sales tax \$350
- D** Dr Purchases \$2,000                      Dr Sales tax \$350                      Cr Payables \$2,350

**38** Seb packs goods on an assembly line. He is paid a different amount each week, depending on his output of assembled goods.

**By what method of remuneration is Seb paid?**

- A** Piecework
- B** Commission
- C** Hourly rate
- D** Salaried

39 The following ledger balances make up a company's trial balance:

	\$
Sales	76,700
Purchases	26,800
Non-current assets	31,400
Payables	18,200
Receivables	32,300
Cash at bank	14,200
Capital	9,800

**What is the total of the debit column of the trial balance?**

- A \$94,900
- B \$104,700
- C \$105,900
- D \$209,400

40 Susan is a computer equipment dealer. She uses the following coding system for her financial transactions:

1st number	2nd number
100 Purchases	300 Cash
200 Sales	400 Payables
	500 Receivables

Danielle buys computer equipment worth \$2,000 on credit from Susan.

**Which of the following would be the code recorded on the invoice issued by Susan?**

- A 100300
- B 100400
- C 200300
- D 200500

41 In Dalveer's cash receipts book for the month of June the trade receivables column totalled \$6,570.

**What does this amount represent?**

- A The amount invoiced to Dalveer's customers during June
- B The amount owed by Dalveer's customers at the end of June
- C The amount received from Dalveer's customers during June
- D The amount of discounts given to Dalveer's customers during June

42 Jenny has a bank balance of \$550 at the start of the week. During the week the following transactions occur:

- Day 1 She sells goods on credit for \$876
- Day 2 She receives a cheque for \$400 from a credit customer
- Day 3 She purchases office equipment with a list price of \$1,000 but receives a 10% discount for paying immediately by cheque

**How much does Jenny have in the bank at the end of the week?**

- A \$2,826
- B \$400
- C \$50
- D \$126

**43 Which of the following are books of prime entry?**

- (1) Sales day book
- (2) Payables ledger
- (3) Journal
- (4) Cash book

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

**44** Pimlico owes Vauxhall for some goods it recently bought. Pimlico are settling the invoice early to obtain a discount.

**What is the correct double entry for this in Vauxhall's books?**

- A** Dr Vauxhall                      Cr Bank                                      Cr Discount received
- B** Dr Vauxhall                      Dr Discount received                      Cr Bank
- C** Dr Bank                              Cr Discount allowed                      Cr Pimlico
- D** Dr Bank                              Dr Discount allowed                      Cr Pimlico

**45** Fred works on a car factory assembly line and is paid a rate of \$4.50/hour for a 35 hour week. All overtime is paid at time and a half. In addition a piecework rate of \$25 for every car assembled each week is paid.

Last week Fred worked 46 hours and completed the assembly of three cars.

**How much is Fred's gross pay for the week?**

- A** \$282.00
- B** \$256.75
- C** \$306.75
- D** \$385.50

**46 Which of the following will help to reduce overdue balances in receivables ledger accounts?**

- A** Improved debt collection methods
- B** An increase in the bank overdraft facility
- C** Credit customers paying invoices more slowly
- D** An increase in credit facilities to customers

**47** Carion sells the following goods for cash during January:

		Net Price \$	Sales Tax \$
5 Jan	To Maurice	386	68
19 Jan	To Harris	715	125
28 Jan	To Merton	430	75

**What are the correct entries in Carion's general ledger?**

- A** Dr Sales \$1,799                      Dr Sales tax \$268                                      Cr Cash \$2,067
- B** Dr Cash \$2,067                      Cr Sales \$1,799                                      Cr Sales tax \$268
- C** Dr Sales \$1,531                      Dr Sales tax \$268                                      Cr Cash \$1,799
- D** Dr Cash \$1,799                      Cr Sales \$1,531                                      Cr Sales tax \$268

**48 What journal entry would be posted if a sole trader starts a business by introducing his cash savings and a car into the business?**

- A** Dr Motor vehicles      Dr Bank                      Cr Capital
- B** Dr Bank                      Cr Motor vehicles              Cr Bank
- C** Dr Capital                      Cr Motor vehicles              Cr Bank
- D** Dr Motor vehicles      Cr Capital                      Cr Bank

**49** Malindra sent a payment to Nicholas along with a document detailing the items and invoices the payment related to.

**What is this document known as?**

- A** Debit note
- B** Credit note
- C** Remittance advice
- D** Delivery note

**50** The following statements relate to the sales ledger control account:

- (1) Settlement discounts will not be recorded in the sales ledger control account
- (2) The allowance for the irrecoverable debts is recorded in the sales ledger control account

**Which of the above statements are correct?**

- A** 1 only
- B** 2 only
- C** Both 1 and 2
- D** Neither 1 nor 2

**(100 marks)**

**End of Question Paper**

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# Answers

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**FOUNDATIONS IN ACCOUNTANCY – Paper FA1**  
**Recording Financial Transactions**

**Specimen Exam Answers**

- 1 A
- 2 D  $(\$50,000 - 750 - 2,000)$
- 3 A
- 4 C
- 5 A
- 6 B  $(\$250 + 150 - (50 + 10))$
- 7 B
- 8 A
- 9 D  $(\$10,200 + 6,400)$
- 10 C
- 11 D
- 12 A  $(\$15 \times 40) - (10\% \text{ of } 600)$
- 13 C
- 14 A
- 15 B
- 16 B  $(\$100 - 15\% \text{ of } 100)$
- 17 C
- 18 D
- 19 D
- 20 D
- 21 A
- 22 D  $(-\$2,030 - \$550 + \$365)$
- 23 B
- 24 B
- 25 A
- 26 B
- 27 B  $(\$2,300 + \$3,000 - \$1,000)$
- 28 D
- 29 C
- 30 A  $(\$285,350 + \$26,786)$
- 31 B  $(\$4,300 - 4\% \text{ of } 4,300)$
- 32 C
- 33 B
- 34 B  $(\$160 - \$40 + \$60 - \$30 - \$15)$
- 35 B  $\frac{1}{2} \text{ of } (\$4,000 - 25\% \text{ of } \$4,000)$
- 36 C
- 37 D
- 38 A
- 39 B  $(\$26,800 + \$31,400 + \$32,300 + \$14,200)$
- 40 D
- 41 C
- 42 C  $(\$950 - (\$1,000 - 10\% \text{ of } 1,000))$
- 43 A
- 44 D
- 45 C  $(\$4.50 \times 35) + (\$6.75 \times 11) + (3 \times \$25)$
- 46 A
- 47 D
- 48 A
- 49 C
- 50 D