ACCOUNTING

LEAVING CERTIFICATE
HIGHER LEVEL

CORRECTION OF ERRORS
&
SUSPENSE

THE DUBLIN ACADEMY OF EDUCATION

Correction of Errors/Suspense Accounts

Where you could expect to see it in 2020 exam:

- Can appear in Section 1 or Section 2. This question has appeared every two years in either Section 1 as a 60 mark question (15%) or Section 2 as a 100 mark question (25%).

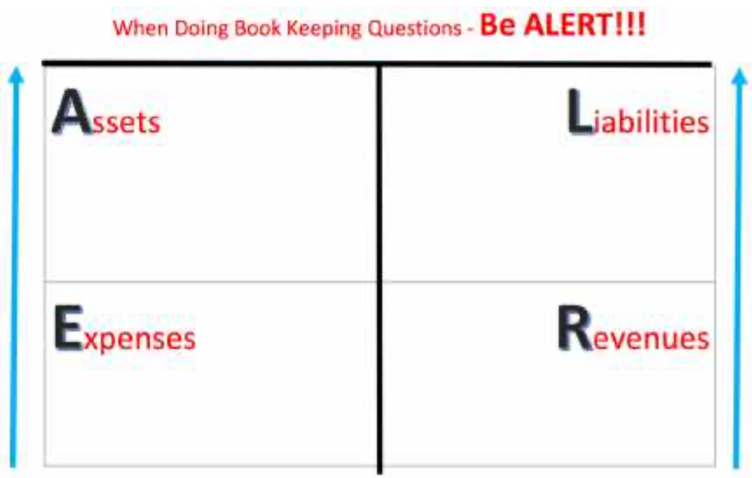
2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
SECTION 1 - 60 MARKS																	
							■										■
SECTION 2 - 100 MARKS																	
	■		■		■				■		■		■		■		

- The mistakes that appear in the correction of errors/suspense accounts question also can be seen throughout the paper, especially Question 1!

Before you proceed, this topic requires that you to know your debits and credits inside out.

TOP TIP!

Use your **ALERT** diagram when completing this question!



ASSETS	LIABILITIES

EXPENSES	REVENUES

DOUBLE ENTRY PRACTICE

1 **Owner introduced money to begin a business (lodged).**

2 **Bought goods on credit from a creditor.**

3 **Returned some goods bought to creditor.**

4 **Sold goods on credit to a debtor.**

5 **Debtor returned some goods previously sold.**

6 **Paid €10,500 by cheque, in full settlement for goods previously purchased on credit for €11,000.**

7 **Paid wages by cheque.**

8 **Paid advertising by using cash.**

9 **Owner took stock for private purposes.**

10 **A credit note was sent to a debtor for €620.**

11 **Cash payments for €450 for repairs to equipment.**

12 **A debtor, who owed the business €830, sent a cheque for €780 in full settlement of the debt.**

13 **Car parts, previously sold on credit for €920, had been returned to the business. (business = garage owner).**

14 **A debtor who owed the business owner €700 sent a cheque for €550 and €100 in cash in full settlement.**

15 **The business returned goods, previously purchased on credit for €15,800 from a supplier.**

16 **Coffee tables purchased on credit for €2,800 (business = furniture retailer).**

17 **The business returned goods previously purchased on credit for €2,700. A credit note subsequently arrived from the supplier showing a transport charge of €500**

18 **The business had returned goods, previously purchased on credit for €15,800 from a supplier. A credit note subsequently arrived from the supplier showing a restocking charge of €800 to cover the cost of the return.**

19 **The business owner had returned goods, previously purchased on credit from a supplier, for €9,000. A credit note subsequently arrived from a supplier showing a restocking charge of €300 to cover the cost of the return.**

20 **The business returned goods previously purchased on credit for €15,600 from a supplier. A credit note subsequently arrived from the supplier showing a transport charge of €600 to cover the cost of the return.**

21 **The business won a private holiday prize for two worth €6,000 in total. One ticket had been given to a salesperson as part payment of sales commission for the year and the other to an advertising firm as payment in full of a debt of €3,250.**

22 **The business owner won a motor vehicle valued at €30,000 in a draw. He gave the vehicle to the business and took an old vehicle from the business valued at €22,500 which was to be used for private purposes.**

23 **The business owner won a motor vehicle at €20,000 in a grand prize draw. The business owner gave the vehicle to the business and took an old van from the business valued at €8,000, which was to be used for private purposes.**

24 **The business owner's private car valued at €8,800 was presented to the business. He took a freezer from the business for an agreed value of €800.**

25 **The business owner's private car valued at €7,000 was presented to the business. This car was later sold on credit to a debtor of the business for €7,600. (Record the sale on credit to the debtor).**

26 **A private debt of €1,000 owed to the business owner personally had been offset in full settlement against a business debt of €1,260 owed by the business.**

27 **A cheque for €4,260 was paid by the business out of a private bank account to cover 15 months hire of equipment for the business up to 31/3/2019 (Year End 31/12/2018).**

28 **A cheque for €4,260 was paid by the business out of a private bank account to cover 15 months hire of equipment up to 31/3/2010 (Year end 31/12/2013).**

29 **A cheque for €5,250 paid by the business owner out of a private bank account for 15 months hire for equipment up to 31/03/2010 (year end 31/12/2009).**

30 Payments from a business bank account for repairs to business premises €600 and insurance of private dwelling €520.

31 Cash payments of €160 for repairs to the business motor vehicle and €100 for repairs to private motor vehicles.

1. Uses and limitations of trial balances

What is a trial balance? (see next page for an example)
A trial balance gives a list of all of the account balances at the end of the accounting period. The DEBIT side shows the ASSETS (things owned) and EXPENSES. The CREDIT side shows the LIABILITIES (things owned) and REVENUES.

What is the purpose of preparing a trial balance?
A trial balance is prepared in order to test the accuracy of double-entry bookkeeping before preparing final accounts. A trial balance should have the same total of debits and credits and have the same amounts because under double entry bookkeeping every debit should have a corresponding credit entry.

Are there limitations of trial balances?
Yes, as a trial balance simply checks the total of the debit balances against the sum of the credit balances, that doesn't mean that there aren't errors included in them. There are SIX types of error that are NOT revealed by the trial balance (the trial balance still balances) and THREE types of errors that ARE revealed by the trial balance (the trial balance does not balance).

2. Errors which are revealed and not revealed by the trial balance

Errors REVEALED by the trial balance (DR does not equal CR)

- Mathematical errors - errors in figures and addition
- Posting only one side of the double entry
- Entering one amount on the debit side of one ledger account and entering a different amount on the credit side of another ledger account

Errors NOT REVEALED by/limitations of a trial balance (DR=CR)

C Explain error of **commission.**
An error of commission occurs when the correct amount is posted to the correct side of the incorrect account. For example, goods sold on credit to Brian Brady debited in error to John Brady's account.

O Explain 'errors of **original entry'**.
These are errors made in the books of first entry which are then, subsequently posted to the appropriate ledger accounts. For example, credit purchases from T. Long €223 entered as €322 in the purchases book and posted accordingly to both the purchases account and to Long's account.

P Explain 'error of **principle**'.
An error of principal arises when an item is posted to the incorrect class of account. For example, a boutique owner purchased a vehicle and treated it as a purchase of stock.

C Explain '**compensating** errors'.
This is where an error on the debit side of one account is compensated by another error of an equal amount on the credit side of another account. For example, a cash payment of €550 for repairs entered as €55 on the debit of the repairs account and on the credit side of the cash account.

O Explain 'error of **omission**'.
Transactions are completely left out of the ledger accounts and the final balance - both debit and credit are omitted. For example, a cheque for €5,600 paid by Gould out of a private bank account for 16 months hire of lifting equipment up to 31/3/2010 had not been entered in the books.

R Explain '**reversal** of entries'.
This happens when the correct figures are used but entries are made on the incorrect sides of the accounts involved i.e. where the debit entry is on the credit side and the credit entry is on the debit. For example, a sale of goods (€300) to T O'Brien was entered on the credit side of T O'Brien's account and on the debit side of the sales account. The correction figure here is double the original figure. The incorrect figure had to be cancelled and the correct figure entered on the correct side.

3.Use of suspense accounts

What is the purpose of a suspense account?

- A suspense account is used when there is a mistake in the accounts that prevents the trial balance from balancing.
- The difference between the debit and the credit side of the trial balance is entered in the suspense account, until the errors are discovered, in order to allow the trial balance to balance.
- The relevant errors are corrected through the suspense account and the balance is then eliminated.

This is an example of a trial balance for Keogh Ltd on the 31/12/2017…

	ASSETS EXPENSES	LIABILITIES REVENUES
	€	€
Delivery vans (cost €150,000)	85,000	
Buildings (cost €680,000)	595,000	
Office equipment (cost €25,000	15,000	
Patent (incorporating four months investment income)	€68,000	
3% investments (01/05/2018)	200,000	
6% fixed mortgage		180,000
Debtors and creditors	70,500	78,000
Stock 01/01/2018	66,000	
Purchases and sales	536,500	792,000
Commission	16,500	
Provision for bad debts		3,500
Discount (net)		3,200
Bank		70,300
Salaries and general expenses	145,500	
Rent	10.400	
Mortgage interest paid for the first three months	2,400	
Insurance	15,000	
VAT	6,400	
PAYE, PRSI and USC		21,600
Drawings	15,600	
Capital		701,900
	1,847,800	**1,850,000**

As you can see above, the total of the debit side is not equal the total of the credit side. Therefore, there is a mistake in the accounts. A suspense account is created to enable this trial balance to balance (below). We will put the difference, a debit of €2,700, into a suspense account, until the errors are discovered, to allow the trail balance to balance. We will correct the relevant errors through the suspense account and therefore eliminate the €2,700 balance.

SUSPENSE ACCOUNT	***2,700***	
	1,850,000	**1,850,000**

4.Correction of all errors

Let's look at some of the most common debit and credit rules for:

DEBTORS
(DEBTORS ARE DEADLY 👍 THEY OWE YOU MONEY!)

	DEBIT	CREDIT	
Sale of goods on credit (buy now, pay later)…business sells goods to their debtors – invoices sent →	**Debtor**	**Sales**	*(with the value of the goods sold)*
	Bank/Cash	**Debtor**	*(with the amount of payment from debtor)*
	Debtors	**Bank**	*(with debtors cheque dishonoured)*
Interest charged to debtors →	**Debtor**	**Interest received**	*(with amount of interest charged)*
Discount allowed to debtors →	**Discount allowed**	**Debtor**	*(with amount not received - the discount)*
	Bank	**Debtor**	*(with amount received - total amount minus discount)*
Sales returns (returns inwards) from debtors – receiving goods back from debtors that they previously bought – credit notes sent →	**Sales returns**	**Debtor**	*(with sales price of goods returned)*
Bad debts (when a debtor is considered unable or unwilling to pay the amount due) →	**Bad debts**	**Debtors**	*(with each unpaid debt)*
	P&L	**Bad debts**	*(with total unpaid debts for the period)*
Provision for bad debts (if the business feels that the debtor won't be able to pay – percentage of debtor) →	**P&L**	**Provision for bad debts**	*(with creation of provision for bad debts or any increase in existing provision)*
	Provision for bad debts	**P&L**	*(with decrease in an existing provision for bad debts, when it's made)*
Bad debts recovered →	**Debtor**	**Bad debts recovered**	*(with the original debt)*
	Bank	**Debtor**	*(with the payment received)*
	Bad debts recovered	**P&L**	*(with total bad debts recovered)*
VAT on sales to debtor →	**Debtor/bank**	**VAT**	*(with VAT on sales)*
Sales of assets to debtors (excluding disp account) →	**Debtors**	**Asset**	*(with the cost of the asset)*

RECEIPTS OF INCOMES

	DEBIT	CREDIT	
Receipts of Incomes e.g. discount rent/ received etc →	**Bank**	**Cash**	*(with the amount of income received)*

CREDITORS
(CREDITORS MAKE YOU CRY ☹ YOU OWE THEM MONEY!)

	DEBIT	CREDIT	
Purchases of goods on credit (buy now, pay later – business buys goods from their creditors – invoices received →	**Purchases**	**Creditor**	*(with the cost of goods bought)*
	Creditor	**Bank/Cash**	*(with payment made to creditor)*
Discount received from creditors →	**Creditor**	**Bank/Cash**	*(with amount paid to creditor)*
	Creditor	**Discount received**	*(with the amount not paid – the discount received)*
Interest charged by creditors →	**Interest paid**	**Creditor**	*(with sales price of goods returned)*
Purchase returns (returns out) to creditors – sending goods back that were previously bought – credit note received→	**Creditor**	**Purchase Returns**	*(with cost of goods returned)*
VAT on purchases from creditor →	**VAT**	**Creditor**	*(with the amount of VAT on the purchases)*

DRAWINGS
(SOLE TRADER TAKES CASH/ASSET/STOCK FROM BUSINESS)

	DEBIT	CREDIT	
Owner takes cash or an asset or part of an expense is used to pay for private residence from the business →	**Drawings**	**Asset/ Expense**	*(with the amount withdrawn by the owner)*
Owner takes stock from the business →	**Drawings**	**Purchases**	*(with the amount of stock withdrawn from the business)*

CAPITAL
(CONTRIBUTIONS BY OWNER)

	DEBIT	CREDIT	
Asset given to the business by owner e.g. motor car →	**Asset**	**Capital**	*(with amount of asset contributed to business)*
Amount of money given to business by owner →	**Bank**	**Capital**	*(with amount of cash given to the business)*
Amount of business expense paid by the owner's private funds →	**Expense**	**Capital**	*(with amount of expenses paid by owner out of private bank account)*

PAYMENT OF EXPENSES

	DEBIT	CREDIT	
Payment of expenses e.g. rent/ insurance etc →	**Expense**	**Bank/Cash**	*(with the amount of expense received)*

ASSETS
(THINGS THE BUSINESS OWNS)

	DEBIT	CREDIT	
Assets purchased or assets added to →	**Asset**	**Bank/ Creditor**	*(with the cost of the asset)*
Sale of assets →	**Bank/Cash**	**Asset**	*(for cash received from the asset)*
Annual depreciation charge →	**P&L**	**Provision for Depreciation**	*(with the annual depreciation charge)*
Assets sold or traded in (a), (b), (c) and (d) or (e) →	**Disposal**	**Asset**	*(A)(with total total cost price of asset)*
	Provision for depr	**Disposal**	*(B)(with total accumulated depreciation to date of disposal)*
	Bank/asset	**Disposal**	*(C)(with proceeds/trade in allowance)*
	P&L	**Disposal**	*(D)(with any loss on disposal)*
	Disposal	**P&L**	*OR (E)(with any profit on disposal)*
Receipts of insurance compensation for damaged assets→	**Bank**	**Disposal**	*(with the amount of compensation received from insurance company)*
Revaluation of fixed assets →	**Asset**	**Revaluation/Reserve Account**	*(with the rise in value)*
	Provision for depr	**Revaluation/Reserve**	*(with the accumulated depreciation on the fixed asset)*

You need to know these debits and credits inside out before you attempt to answer this question. Always use your **ALERT** diagram to help you.

We'll look at a few errors and omissions that have appeared in past papers and solve them. There is a three-step process that you always need to follow when doing this.

STEP 1 → WHAT **SHOULD** HAVE HAPPENED
STEP 2 → WHAT HAPPENED BY **MISTAKE**
STEP 3 → **FIX IT!!**

TOP TIP! Use a green highlighter to highlight what SHOULD have happened and a different coloured highlighter to highlight the MISTAKE!

Now, let's correct some mistakes…

ERROR 1: 2018 (i) The first thing you should do…check what type of business it is.

We were told in the question that this business is a **garage owner**. Why do we need to do this? A **car bought by this business** owner would be **purchases**. If the business was a grocer, you would use a motor vehicle account!

A car lift purchased on credit for €4,000, had been entered on the incorrect side of the creditors account. The only other entry made was a debit of €400 to the purchases account.

What should have happened? Highlight this green…

- A car lift purchased on credit for €4,000

What happened by mistake? Highlight this pink…

- (€4,000) had been entered on the incorrect side of the creditors account. The only other entry made was a debit of €400 to the purchases account.

Let's now put both of the above in T accounts and this will help us fix the error.

STEPS	EXPLANATION
STEP 1 → WHAT SHOULD HAVE HAPPENED **Equipment**: 4,000 | **Creditors**: | 4,000	This is equipment that is used in the garage. It will not be resold. A car lift is an asset, therefore we will debit the equipment account. The garage owner purchased the car lift on credit (buy now, pay later) from their creditor. A creditor is a liability account, therefore we credit the creditor account with the same amount.
STEP 2 → WHAT HAPPENED BY MISTAKE **Creditors**: 4,000 | **Purchases**: 400 |	The €4,000 was entered in the incorrect side of the creditor account. The increase in the asset equipment was treated incorrectly as purchases AND the figure was also incorrect, being entered as €400 instead of €4000!!
STEP 3 → FIX IT!! **Equipment**: 4,000 | **Creditors**: | 8,000 **Purchases**: | 400 **Suspense**: 4,400 |	So we will look at the accounts that should have been entered first. Enter €4,000 in the equipment account. The creditor should have been €4,000 on the credit side, but was entered incorrectly as €4,000 on the debit side. Therefore, we will put €8,000 on the credit side to undo the incorrect €4,000 on the debit side and enter €4,000 on the credit side. Enter €400 on the credit side of the purchases account to undo entering the purchase of equipment as a €400 purchase of trading stock. *WHEN THE DEBITS AND CREDITS DO NOT EQUAL, we need to put the €4,400 difference in the debit side of the suspense account.*

ERROR 2: 2016 – The business is a **furniture retailer.**

The business returned furniture previously purchased on credit for €27,000. This was entered in the accounts as €37,000. However, a credit note subsequently arrived from the supplier showing a transport charge of €500. The only entry made in respect of this credit note is a credit entry of €26,500 in the creditor's account.

What should have happened? Highlight this green…

- The business returned furniture previously purchased on credit for €27,000.
- However, a credit note subsequently arrived from the supplier showing a transport charge of €500.

What happened by mistake? Highlight this pink…

- This was entered in the accounts as €37,000 (should be €27,000)
- The only entry made in respect of this credit note is a credit entry of €26,500 in the creditor's account.

Let's now put both of the above in T accounts and this will help us fix the error.

STEPS	EXPLANATION
STEP 1 → WHAT SHOULD HAVE HAPPENED Creditors: 27000 | 500 Purch Ret: 500 | 27000	When a business returns goods that were previously purchased on credit we debit creditor (the liability creditor decreases) and we credit purchase returns (the opposite to how we record purchases). When the creditor decided to charge us a transport charge for returning the goods we credit the creditor (the liability creditor increases) and debit purchases returns.
STEP 2 → WHAT HAPPENED BY MISTAKE Creditors: 37000 | 26500 Purch Ret: | 37000	Recorded the €27,000 return to the correct accounts but with the wrong amount of €37,000. The only entry of restocking charge was €26,500 on credit side of creditor account.
STEP 3 → FIX IT!! Creditors: 16000 | Purch Ret: 10500 | Suspense: | 26500	Creditors should have a €26,500 debit balance. Pur returns should have a €26,500 credit balance. We need to add €16,000 to the debit side of the creditor account and €10,500 to the debit side of the purchase returns. WHEN THE DEBITS AND CREDITS DO NOT EQUAL, we need to put the difference of €26,500 to the credit side of the suspense account.

ERROR 3: 2012 – The business is a **garage owner.**

A private debt of €1,000 owed to the business owner personally had been offset in full settlement against a business debt of €1,260 owed by the business. No entry had been made in the books in respect of this transaction.

What should have happened? Highlight this green…

- A private debt of €1,000 owed to the business owner personally had been offset in full settlement against a business debt of €1,260 owed by the business.

What happened by mistake? Highlight this pink…

- No entry had been made in the books in respect of this transaction.

Let's now put both of the above in T accounts and this will help us fix the error.

STEPS	EXPLANATION
STEP 1 → WHAT SHOULD HAVE HAPPENED Capital: Cr 1000 Creditors: Dr 1260 Discount rec: Cr 260	The business owner was owed a private debt of €1,000 by a creditor. The creditor offset this debt to the business owner by settling an amount owed to them by the business of €1,260. Credit capital account as the business owners debt owing to him personally was offset against a business debt. Debit creditors €1,260 as the amount owing to debtors has reduced. Credit the discount received account as the business received a €260 discount from their creditors.
STEP 2 → WHAT HAPPENED BY MISTAKE *Error of omission – transaction was not recorded in the books.*	Nothing was entered in the books.
STEP 3 → FIX IT!! Capital: Cr 1000 Creditors: Dr 1260 Discount rec: Cr 260	Same as Step 1 above.

JOURNALISE THE NECESSARY CORRECTIONS

Part (a) of every question asks that you '*journalise the necessary corrections*'. In a 60 mark question, part (a) is usually worth 40 marks. In a 100 mark question, it is usually between 50 and 55 marks. You take the elements of the 'fix it' section and you layout part (a) like below. NOTE: there are only three parts to this question but there are usually five corrections you have to complete.

		€ DR €	€CR €
(i)	Bank account	600	
	Discount account	50	
	Creditor account		450
	Cash account		200
	Narration: Being the recording of a dishonoured cheque to creditor and payment of €200 in cash.		
(ii)	Equipment account	590	
	Premises account	660	
	Repairs account	590	
	Drawings account	660	
	Suspense account		2,500
	Narration: Being the recording of payments of repairs and drawings and cancellation of incorrect entries in premises and equipment accounts.		
(iii)	Purchases account	14,000	
	Equipment account		5,100
	Suspense account	6,700	
	Creditors account		15,600
	Narration: Being the correction of incorrect recording of the credit purchase of a vehicle.		

NOTE: With narrations, if an incorrect figure was used for purchases returns, you must mention that there was an incorrect figure for purchase returns and not just 'incorrect figure used'. The narrations pick you up 5/100 easy marks! Be careful!

(A) SHOW THE SUSPENSE ACCOUNT

In a 100 mark question, you will be asked to prepare a suspense account and you will get approximately 6 marks for it (1.5%). In the example above, scan down through the journalised entries, look for the suspense account entries and simply transfer them to the suspense account.

SUSPENSE ACCOUNT

(iii) Creditors/purchases	€6,700	(ii) Equipment/premises	€2,500
		Original difference	*€4,200*

5) Effects on errors on net profit and balance sheet.

Correcting the mistakes in part (a) will have an effect on both the expenses and revenues from the TP&L account and therefore the net profit and the value of the assets and liabilities in the balance sheet. Let's take a look now at how to correct both the net profit and balance sheets. The difference between the debit and credit side will be the original difference.

€6,700	**€6,700**

(C)PREPARE A STATEMENT SHOWING CORRECTED NET PROFIT

If you look down through the journalised entries in part (a) ← we can pick out the items that would appear in the trading, profit and loss account and therefore will have an impact on the net profit.

TRADING PROFIT & LOSS	**€ DR** **EXPENSES -**	**€ CR** **REVENUES +**
	If DR, net profit **REDUCES** due to increased expenses	If CR, net profit **INCREASES** due to increased revenue

	€ DR	€ CR
Discount account	50	
Repairs account	590	
Purchases account	14,000	

As the above three are on the **DEBIT** side, they will all **REDUCE** the net profit figure. In a 60 mark question, you will be told in the question that the final accounts showed a net profit of €XX,XXX. In a 100 mark question, you are shown a balance sheet for the end of the financial year and the net profit is shown in the Financed By section of the Balance Sheet.

(B) PREPARE A CORRECTED BALANCE SHEET

Simply, rewrite out the balance sheet from the question but do not enter any figures until you have adjusted any assets or liabilities from your workings in part (a).

BALANCE SHEET	**€ DR**	**€ CR**
	If DR, ASSET INCREASES If DR, LIABILITIES REDUCE	If CR, ASSET REDUCES If CR, LIABILITIES INCREASE

If we look down through the journalised entries in part (a) ← we can pick out a couple of items that would appear in the balance sheet. Bank (debit) of €600. If there is a bank overdraft, minus €600. If there is a positive bank figure, add €600. Creditor (credit) of €450, Add this to liability creditor etc. Let's now complete the **2014 E Cagney** question in full…

2014 E CAGNEY (100 LTD) – SECTION 2
HOW TO ANSWER A FULL 100 MARK QUESTION

7. Correction of Errors and Suspense Account

The Trial Balance of E Cagney, a grocer, failed to agree on 31/12/2013. The difference was entered in a Suspense Account and the following Balance Sheet was prepared.

Balance Sheet as at 31/12/2013

	€	€	€
Fixed Assets			
Premises		650,000	
Equipment		35,000	
Motor Vehicles		72,000	757,000
Current Assets			
Stock (including suspense)		185,400	
Debtors		36,300	
Cash		1,500	
		223,200	
Less Creditors: amounts falling due within 1 year			
Creditors	58,500		
Bank	32,000	(90,500)	132,700
			889,700
Financed by:			
Capital		810,000	
Add: Net profit		87,200	
		897,200	
Less Drawings		(7,500)	889,700
			889,700

On checking the books, the following errors were discovered:

(i) A debtor, who owed Cagney €830, sent a cheque for €780 in full settlement and this was recorded correctly in the books. However, no entry was made in the books of the subsequent dishonouring of this cheque or of the closing of the debtor's account after the receipt of a first and final payment of 10c in the €1.

(ii) Cagney had returned goods, previously purchased on credit for €15,800 from a supplier. Cagney entered this transaction as €18,500 on the correct sides of the correct accounts in the ledger. A credit note subsequently arrived from the supplier showing a restocking charge of €800 to cover the cost of the return. The only entry made in respect of this credit note was a credit of €15,000 in the creditor's account.

(iii) A cheque for €4,260 was paid by Cagney out of a private bank account to cover 15 months hire of equipment for the business up to 31/03/2014. No entry had been made in the books.

(iv) Cagney won a private holiday prize for two worth €6,000 in total. One ticket had been given to a salesperson as part payment of sales commission for the year and the other to an advertising firm as payment in full of a debt of €3,250. No entry had been made in the books.

(v) Cagney's private car valued at €8,800 was presented to the business. He took a used freezer from the business for an agreed value of €800. The only entry made in the books was a debit of €800 in the equipment account. The freezer had a book value of €1,300.

You are required to:

(a)	Journalise the necessary corrections.	(54)
(b)	Show the Suspense Account.	(6)
(c)	Prepare a statement showing the correct net profit.	(14)
(d)	Prepare a corrected Balance Sheet.	(20)
(e)	Identify **three** types of errors that affect the balancing of a Trial Balance.	(6)

(100 marks)

(A)JOURNALISE THE NECESSARY CORRECTIONS (54/100)
(Workings should be done on a separate piece of paper)

JOURNAL ENTRY 1		€DR€	€CR€
Debtors Account	BS	830	
Bank Account	BS		780
Discount allowed Account – disallowed	TPL		50
Bank Account	BS	83	
Bad debts Account	TPL	747	
Debtors Account	BS		830
Narration: Being the recording of dishonoured cheque received by Cagney and the payment of 10 cent in the €1 as a first and final payment of debt.			
JOURNAL ENTRY 2			
Purchases returns Account	TPL	3,500	
Creditors Account	BS	11,500	
Suspense Account	SUS		*15,000*
Narration: Being the recording of the return of goods and credit note incorporating a restocking charge.			
JOURNAL ENTRY 3			
Rent Account (Profit and Loss)	TPL	3,408	
Rent Prepaid Account (Balance Sheet)	BS	852	
Capital Account	BS		4,260
Narration: Being the recording of private funds used to pay twelve months rent for the current year and three months rent prepaid for next year.			
JOURNAL ENTRY 4			
Sales Commission Account	TPL	3,000	
Creditors Account (Advertising Company)	BS	3,250	
Capital Account	BS		6,000
Discount received Account	TPL		250
Narration: Being the recording of capital introduced used for the purpose of clearing a debt and the payment of commission.			
JOURNAL ENTRY 5			
Vehicles Account	BS	8,800	
Capital Account	BS		8,800
Drawings Account	BS	800	
Loss on transaction (disposal) P&L Account	TPL	500	
Suspense Account	SUS	*800*	
Equipment Account	BS		2,100
Narration: Being the recording of a private motor car given to the business by Cagney and freezer taken as part payment.			

2014 E Cagney

Business = grocer

	STEP 1 → WHAT **SHOULD** HAVE HAPPENED?	STEP 2 → WHAT HAPPENED BY **MISTAKE**?	STEP 3 → **FIX IT!!**	*NARRATION*
(i) A debtor, who owed the business €830, sent a cheque for €780 in full settlement and this was recorded correctly in the books. However, no entry was made in the books of the subsequent dishonouring of this cheque or of the closing of the debtor's account after the receipt of a first and final payment of 10c in the €1.	Bank: 83 / 780 Debtor: 830 / 830 Dis all dis: / 50 Bad debts: 747 /	*Error of omission – transaction was not recorded in the books.*	Bank: 83 / 780 Debtor: 830 / 830 Dis all dis: / 50 Bad debts: 747 /	*Being recording of dishonouring a cheque and recording bad debt.*
(ii) The business had returned goods, previously purchased on credit for €15,800 from a supplier. The business entered this transaction as €18,500 on the correct sides of the correct accounts in the ledger. A credit note subsequently arrived from the supplier showing a restocking charge of €800 to cover the cost of the return. The only entry made in respect of this credit note was a credit of €15,000 in the creditor's account.	Creditor: 15800 / 800 Purch Ret: 800 / 15800	Creditor: 18500 / 15000 Purch Ret: / 18500	Creditor: 11500 / Purch Ret: 3500 / Suspense: / 15000	*Being the recording of return of goods and credit note incorporating a restocking charge.*
(iii) A cheque for €4,260 was paid by the business out of a private bank account to cover 15 months hire of equipment for the business up to 31/03/2014. No entry had been made in the books.	Equipment rental P&L: 3408 / Equipment rental BS (prepaid): 852 / Capital: / 4260	*Error of omission – transaction was not recorded in the books.*	Equipment rental P&L: 3408 / Equipment rental BS (prepaid): 852 / Capital: / 4260	*Being the recording of private funds used to pay twelve months rent for the current year and three months rent prepaid.*
(iv) The business owner won a private holiday prize for two worth €6,000 in total. One ticket had been given to a salesperson as part payment of sales commission for the year and the other to an advertising firm as payment in full of a debt of €3,250. No entry had been made in the books.	Sales commission: 3000 / Creditors (advertising): 3250 / Capital: / 6000 Dis received: / 250	*Error of omission – transaction was not recorded in the books.*	Sales commission: 3000 / Creditors (advertising): 3250 / Capital: / 6000 Dis received: / 250	*Being recording of capital introduced used for the purpose of clearing a debt and payment of commission.*
(v) The business owner's private car valued at €8,800 was presented to the business. He took a used freezer from the business for an agreed value of €800. The only entry made in the books was a debit of €800 in the equipment account. The freezer had a book value of €1,300.	Vehicles: 8800 / Capital: / 8800 Drawings: 800 / Equipment: / 1300 Loss on disp (P&L): 500 /	Equipment: 800 /	Vehicles: 8800 / Capital: / 8800 Drawings: 800 / Equipment: / 2100 Loss on disp(P&L): 500 / Suspense: 800 /	*Being the recording of a private motor car given to the business by Cagney and freezer taken as part payment.*

(B)SHOW THE SUSPENSE ACCOUNT

From the above journalised entries, you should pick out all the items that say **SUSPENSE** and enter them into the **SUSPENSE** account. As you can see there were suspense entries in Journal Entries 2 & 5 above. The debit side of €800 does not equal the credit side of €15,000. Therefore, you can establish that the debit side should show an original difference of €14,200.

SUSPENSE ACCOUNT

(5) EQUIPMENT	€800	(2) CRS/PURCHASES	€15,000
ORIGINAL DIFFERENCE	€14,200		
	€15,000		**€15,000**

(C)PREPARE A STATEMENT SHOWING THE CORRECTED NET PROFIT:

At this stage, you can look down through your journalised corrections that you completed in part (A). What you can do now is identify/highlight whether items would be found in the **TRADING, PROFIT AND LOSS (TPL)** or the **BALANCE SHEET (BS)**. You can choose do this now or while completing part (A). Items that go in the T, P & L will be used in the Statement showing the Corrected Net Profit and items that go in the Balance Sheet will be used later in part (d).

As you know from your knowledge of double entry, the debit side shows assets and expenses. The credit side shows liabilities and revenues. When completing a statement showing the corrected net profit, you will only be interested in the EXPENSES and REVENUES (as assets and liabilities go in the Balance Sheet).

	DR EXPENSES +	CR REVENUES +
TRADING PROFIT & LOSS	IF DR, NET PROFIT REDUCES DUE TO INCREASED EXPENSES	IF CR, NET PROFIT INCREASES DUE TO INCREASED REVENUE

Look back at your journalised entries you completed in Part A. You have already identified your Trading, Profit and Loss items. Have a look and see which of these items are in the debit column (net profit reduces due to expenses) and which items are in the credit column (net profit increases due to revenues).

		€DR€	€CR€
Discount allowed Account – disallowed	TPL		50 net profit increases
Bad debts Account	TPL	747 net profit reduces	
Purchases returns Account	TPL	3,500 net profit reduces	
Rent Account (Profit & Loss)	TPL	3,408 net profit reduces	
Sales Commission Account	TPL	3,000 net profit reduces	
Discount received Account	TPL		250 net profit increases
Loss on transaction (disposal) P&L Account	TPL	500 net profit reduces	

Use the Net Profit figure from the Balance Sheet to complete the statement of corrected net profit:

Financed by:	
Capital	810,000
Add: Net profit	87,200

Statement of Corrected Net Profit

	€	€
Original net profit as per books		87,200
ADD: (i) Discount disallowed		50
(iv) Discount received		250
		87,500
LESS:		
(i)Bad debts	747	
(ii)Purchases returns	3,500	
(iii)Rent account	3,408	
(iv)Sales commission	3,000	
(v)Loss on Freezer transaction	500	(11,155)
CORRECT NET PROFIT		76,345

(D)PREPARE A CORRECTED BALANCE SHEET:

	DR EXPENSES +	CR REVENUES +
BALANCE SHEET	IF DR, ASSET INCREASES IF DR, LIABILITIES REDUCE	IF CR, ASSET REDUCES IF CR, LIABILITY INCREASES

Look back at your journalised entries you completed in Part A. You have already identified your Balance Sheet items. Have a look and see which of these items are in the debit column (assets increase/liabilities decrease) and which items are in the credit column (assets decrease/liabilities increase).

		€DR€	€CR€
Debtors Account	BS	830 asset increases	
Bank Account	BS		780 asset decreases
Bank Account	BS	83 asset increases	
Debtors Account	BS		830 asset decreases
Creditors Account	BS	11,500 liability decreases	
Rent Prepaid Account	BS	852 asset increases	
Capital Account	BS		4,260 liability increases
Creditors Account (Advertising Co)	BS	3,250 liability decreases	
Capital Account	BS		6,000 liability increases
Vehicles Account	BS	8,800 asset increases	
Capital Account	BS		8,800 liability increases
Drawings Account	BS	800 liability capital decreases	
Equipment Account	BS		2,100 liability increases

How to complete the corrected Balance Sheet

- Use the exact same layout as the balance sheet in the question
- Adjust the assets & liabilities from part (a) to complete the Balance Sheet.
- Use the original difference figure from the suspense account to establish the correct stock figure (we take €14,200 from stock as it was a debit in the suspense account → carefully think of your debits and credits when doing this part of the question!)
- Use the corrected net profit figure from part (c).

Balance Sheet as at 31/12/2013

	€	€	€
Fixed Assets			
Premises		650,000	
Equipment		35,000	
Motor Vehicles		72,000	757,000
Current Assets			
Stock (including suspense)		185,400	
Debtors		36,300	
Cash		1,500	
		223,200	
Less Creditors: amounts falling due within 1 year			
Creditors	58,500		
Bank	32,000	(90,500)	132,700
			889,700
Financed by:			
Capital		810,000	
Add: Net profit		87,200	
		897,200	
Less Drawings		(7,500)	889,700
			889,700

Balance Sheet as at 31/12/2013			
	€	€	€
FIXED ASSETS			
Premises		650,000	
Equipment *(35,000 – 2,100)*		32,900	
Motor vehicles *(72,000 + 8,800)*		80,800	763,700
CURRENT ASSETS			
Stock *(including suspense 185,400 – 14,200 from ii)*		171,200	
Debtors *(36,300 + 830 – 830)*		36,300	
Cash		1,500	
Rent prepaid		852	
		209,852	
LESS CREDITORS: AMOUNTS FALLING DUE WITHIN 1 YEAR			
Creditors *(58,500 - €11,500 - €3,250)*	43,750		
Bank *(32,000 + 780 – 83)*	32,697	(76,447)	133,405
			897,105
FINANCED BY:			
Capital *(810,000 + 4,260 + 8,880 + 6,000)*		829,060	
Corrected Net Profit		76,345	
		905,405	
Less Drawings *(7,500 + 800)*		(8,300)	897,105
CAPITAL EMPLOYED			897,105

(E)THEORY

Identify THREE types of errors that affect the balancing of a Trial Balance.
(1)Errors in figures and addition, (2) posting only one side of the double entry, (3) entering one amount on the debit side of one ledger account and entering a different amount on the credit side of another ledger account.

THEORY REVISITED

What is the purpose of preparing a Trial Balance?
A trial balance is prepared in order to test the accuracy of double entry bookkeeping before preparing Final Accounts. A Trial Balance should have the same total of debits and credits and have the same amounts because under double entry bookkeeping every debit should have a corresponding credit entry.

Errors NOT revealed by a Trial Balance/ Limitations of a Trial Balance

C Explain error of **commission.**
An error of commission occurs when the correct amount is posted to the correct side of the incorrect account. For example, goods sold on credit to Brian Brady debited in error to John Brady's account.

O Explain 'errors of **original entry'**.
These are errors made in the books of first entry which are then, subsequently posted to the appropriate ledger accounts. For example, credit purchases from T. Long €223 entered as €322 in the purchases book and posted accordingly to both the purchases account and to Long's account.

P Explain 'error of **principle**'.
An error of principal arises when an item is posted to the incorrect class of account. For example, a boutique owner purchased a vehicle and treated it as a purchase of stock.

C Explain '**compensating** errors'.
This is where an error on the debit side of one account is compensated by another error of an equal amount on the credit side of another account. For example, a cash payment of €550 for repairs entered as €55 on the debit of the repairs account and on the credit side of the cash account.

O Explain 'error of **omission**'.
Transactions are completely left out of the ledger accounts and the final balance - both debit and credit are omitted. For example, a cheque for €5,600 paid by Gould out of a private bank account for 16 months hire of lifting equipment up to 31/3/2010 had not been entered in the books.

R Explain '**reversal** of entries'.
This happens when the correct figures are used but entries are made on the incorrect sides of the accounts involved i.e. where the debit entry is on the credit side and the credit entry is on the debit. For example, a sale of goods (€300) to T O'Brien was entered on the credit side of T O'Brien's account and on the debit side of the sales account. The correction figure here is double the original figure. The incorrect figure had to be cancelled and the correct figure entered on the correct side.

Identify THREE types of errors that affect the balancing of a Trial Balance.

- Mathematical errors - errors in figures and addition
- Posting only one side of the double entry
- Entering one amount on the debit side of one ledger account and entering a different amount on the credit side of another ledger account

What is the purpose of a suspense account?

- A suspense account is used when there is a mistake in the accounts that prevents the trial balance from balancing.
- The difference between the debit and the credit side of the trial balance is entered in the suspense account, until the errors are discovered, in order to allow the trial balance to balance.
- The relevant errors are corrected through the suspense account and the balance is then eliminated.

TOP TIPS TO GET A H1:

- Always **use highlighters** when attempting this question to identify what should have happened (green) and the mistake (pink or other colour). This will ensure you have read each part of the question correctly.
- Draw out your **ALERT diagram** to help you with your debits and credits during the exam.
- Do your **workings on a separate workings sheet** given to you by superintendent in the exam hall.
- **Journalise your entries on the left hand side** of a two page spread. On the **right hand side, try and fit your Suspense Account, your Statement of Corrected Net Profit and your Balance Sheet.** This will eliminate errors made when transferring figures from part (a), which is common during exams.
- Don't forget to **use the corrected net profit from part (c)** in the Corrected Balance Sheet. Also, don't forget to adjust the figure that incorporated the suspense figure! Use your knowledge of debits and credits to adjust correctly.
- Know your theory!

7. Correction of Errors and Suspense Account

The trial balance of D. Fahy, a garage owner, failed to agree on 31/12/2017. The difference was entered in a suspense account and the following balance sheet was prepared:

Balance Sheet as at 31/12/2017

Fixed Assets	**€**	**€**	**€**
Premises		500,000	
Motor vehicles		35,000	
Equipment		24,000	559,000
Current Assets			
Stock		60,500	
Debtors		10,800	
Cash		12,200	
		83,500	
Creditors: amounts falling due within I year			
Creditors (including suspense)	52,300		
Bank	18,400		
VAT	7,500	78,200	
Net current assets			5,300
Total assets less current liabilities			564,300
Financed by			
Capital		550,000	
Net profit		40,000	
		590,000	
Less drawings		(25,700)	564,300
			564,300

On checking the books the following errors and omissions were discovered:

(i) A car lift purchased on credit for €4,000, had been entered on the incorrect side of the creditors account. The only other entry made was a debit of €400 to the purchases account.

(ii) D. Fahy's private car valued at €10,000 was presented to the business for resale. No entry was made in the books regarding this transaction. This car was later sold on credit to a debtor of the business for €10,000. The sale had been treated as a cash sale.

(iii) D. Fahy had returned a motor car, previously purchased on credit from a supplier, for €12,000 and entered this transaction in the relevant ledger accounts incorrectly as €1,200. However, a credit note subsequently arrived from a supplier showing a restocking charge of €200 to cover the cost of the return. The only entry made in respect of this credit note was a credit entry of €11,800 in the creditors account.

(iv) A payment of €500 was received from F. Mc Fadden, a debtor, whose debt had previously been written off and who wishes to trade with D. Fahy again. This represents 80% of the original debt and the debtor has undertaken to pay the remainder of the debt by January 2018. No entry had been made in the books.

(v) D. Fahy purchased goods on credit from Car Parts Ltd for €3,000 plus VAT @ 13.5%. The only entries in the accounts were that the VAT inclusive figure was entered on the debit side of the equipment account and the VAT exclusive figure entered on the credit side of Car Parts Ltd account.

Required:

(a) Journalise the necessary corrections. (54)

(b) Show the suspense account. (6)

(c) Prepare a statement showing the corrected net profit. (14)

(d) Prepare a corrected balance sheet. (20)

(e) Outline the purpose of a suspense account. (6)

(100 marks)

6. Correction of errors and suspense account

The trial balance of D. Sexton Ltd, a furniture retailer, failed to agree on 31/12/2015. The difference was entered into a suspense account and the following balance sheet was prepared.

Balance Sheet as at 31/12/2015			
Fixed Assets	**€**	**€**	**€**
	Cost	**Dep. To date**	**Net**
Premises	630,000		630,000
Equipment	56,000	12,000	44,000
Motor vehicles	92,000	26,000	66,000
	778,000	38,000	740,000
Current Assets			
Stock (including suspense)		98,000	
Debtors		41,600	
Cash		2,400	
		142,000	
Less: **Creditors**: **amounts falling due within 1 year**			
Creditors	72,000		
Bank	22,000	(94,000)	48,000
			788,000
Financed by:			
Issued – 700,000 ordinary shares @ €1 each		700,000	
Profit and loss balance		88,000	788,000
			788,000

On checking the books, the following errors and omissions were discovered:

(i) Coffee tables purchased on credit for €2,800, had been entered on the incorrect side of the creditor's account and credited as €1,800 to the equipment account.

(ii) A delivery van which cost €2,400 and with a book value of €1,500 was sold for cash €1,350. This had been entered as €1,530 on the debit side of the sales account and on the credit side of the debtor's account.

(iii) Insurance due €340 and rent prepaid to Sexton €460 were not recorded in the books.

(iv) A credit note sent to a debtor for €620 had been entered in the day books as €260 and was subsequently posted to the incorrect side of the relevant ledger accounts.

(v) Sexton returned furniture previously purchased on credit for €27,000. This was entered in the accounts as €37,000. However, a credit note subsequently arrived from the supplier showing a transport charge of €500. The only entry made in respect of this credit note is a credit entry of €26,500 in the creditor's account.

Required:

(a) Journalise the necessary corrections. (54)
(b) Show the suspense account. (6)
(c) Prepare a statement showing the corrected net profit. (14)
(d) Prepare a corrected balance sheet. (20)
(e) Explain:
(i) Compensating errors.
(ii) Errors of original entry. (6)

(100 Marks)

7. **Correction of Errors and Suspense Account**

The Trial Balance of E Cagney, a grocer, failed to agree on 31/12/2013. The difference was entered in a Suspense Account and the following Balance Sheet was prepared.

Balance Sheet as at 31/12/2013

Fixed Assets	**€**	**€**	**€**
Premises		650,000	
Equipment		35,000	
Motor Vehicles		72,000	757,000
Current Assets			
Stock (including suspense)		185,400	
Debtors		36,300	
Cash		1,500	
		223,200	
Less Creditors: **amounts falling due within 1 year**			
Creditors	58,500		
Bank	32,000	(90,500)	132,700
			889,700
Financed by:			
Capital		810,000	
Add: Net profit		87,200	
		897,200	
Less Drawings		(7,500)	889,700
			889,700

On checking the books, the following errors were discovered:

(i) A debtor, who owed Cagney €830, sent a cheque for €780 in full settlement and this was recorded correctly in the books. However, no entry was made in the books of the subsequent dishonouring of this cheque or of the closing of the debtor's account after the receipt of a first and final payment of 10c in the €1.

(ii) Cagney had returned goods, previously purchased on credit for €15,800 from a supplier. Cagney entered this transaction as €18,500 on the correct sides of the correct accounts in the ledger. A credit note subsequently arrived from the supplier showing a restocking charge of €800 to cover the cost of the return. The only entry made in respect of this credit note was a credit of €15,000 in the creditor's account.

(iii) A cheque for €4,260 was paid by Cagney out of a private bank account to cover 15 months hire of equipment for the business up to 31/03/2014. No entry had been made in the books.

(iv) Cagney won a private holiday prize for two worth €6,000 in total. One ticket had been given to a salesperson as part payment of sales commission for the year and the other to an advertising firm as payment in full of a debt of €3,250. No entry had been made in the books.

(v) Cagney's private car valued at €8,800 was presented to the business. He took a used freezer from the business for an agreed value of €800. The only entry made in the books was a debit of €800 in the equipment account. The freezer had a book value of €1,300.

You are required to:

(a)	Journalise the necessary corrections.	(54)
(b)	Show the Suspense Account.	(6)
(c)	Prepare a statement showing the correct net profit.	(14)
(d)	Prepare a corrected Balance Sheet.	(20)
(e)	Identify **three** types of errors that affect the balancing of a Trial Balance.	(6)

(100 marks)

2. Correction of errors and suspense account

The Trial Balance of N. O'Connell, a garage owner, failed to agree on 31/12/2011. The difference was entered in a Suspense Account and the final accounts were prepared which showed a net profit of €41,000.

On checking the books, the following errors and omissions were discovered:

(i) O'Connell's private car valued at €7,000 was presented to the business. This car was later sold on credit to a debtor of the business for €7,600. The sale had been treated as a cash sale.

(ii) O'Connell had returned a motor car, previously purchased on credit from a supplier, for €9,000 and had entered this transaction in the relevant ledger accounts incorrectly as €9,900. However, a credit note subsequently arrived from a supplier showing a restocking charge of €300 to cover the cost of the return. The only entry made in respect of this credit note was a credit entry of €8,700 in the creditors account.

(iii) A private debt of €1,000 owed to O'Connell had been offset in full settlement against a business debt of €1,260 owed by O'Connell. No entry had been made in the books in respect of this transaction.

(iv) Payments from a business bank account for repairs to business premises €600 and insurance of private dwelling €520 were entered correctly in the bank account but respectively credited to premises account and credited to insurance account.

(v) Car parts, previously sold on credit for €920, had been returned to O'Connell. These returns had been incorrectly entered as €20 on the credit of equipment account and as €290 on the debit of purchases account.

Required:

(a) Journalise the necessary corrections. (40)

(b) Prepare a statement showing the corrected net profit. (14)

(c) (i) What is the purpose of preparing a Trial Balance?

(ii) State and explain **two** types of errors **not** revealed by the Trial Balance. (6)

(60 Marks)

7. Correction of errors and suspense account

The Trial Balance of C. McCarthy, a motor dealer, failed to agree on 31/12/2009. The difference was entered in a suspense account and the following Balance Sheet was prepared:

Balance Sheet as at 31/12/2009

Fixed Assets	**€**	**€**	**€**
Premises		600,000	
Equipment		30,000	
Motor Vehicles		60,000	690,000
Current Assets			
Stock (including suspense)		182,400	
Debtors		38,200	
Cash		1,000	
		221,600	
Less: Creditors: amounts falling due within 1 year			
Creditors	56,000		
Bank	31,000	(87,000)	134,600
			824,600
Financed by:			
Capital		750,000	
Net profit		81,200	
		831,200	
Drawings		(6,600)	824,600
			824,600

On checking the books the following errors were discovered:

(i) McCarthy sent a cheque for €620 in full settlement of a business debt of €660 and this was recorded correctly in the books. However, no entry had been made in the books of the subsequent dishonouring of this cheque and the payment on account of €300 cash by McCarthy.

(ii) McCarthy had returned a motor car previously purchased on credit for €15,600 from a supplier. Mc Carthy entered this transaction as €16,500 on the correct sides of the correct accounts in the ledger. A credit note subsequently arrived from the supplier showing a transport charge of €600 to cover the cost of the return. The only entry made in respect of this credit note was a credit of €15,000 in the creditor's account.

(iii) McCarthy won a motor vehicle valued at €30,000 in a draw. McCarthy gave this vehicle to the business and took an old vehicle from the business valued at €22,500 which was to be used for private purposes. The only entry made in the firm's books regarding both vehicles was a debit in the cash book of €22,500.

(iv) Cash payments of €450 for repairs to equipment had been credited to the creditors account and also credited to the motor vehicles account.

(v) A cheque for €5,250 paid by McCarthy out of a private bank account for 15 months hire of diagnostic equipment up to 31/03/2010 had not been entered in the books.

You are required to:

(a)	Journalise the necessary corrections.	(50)
(b)	Show the Suspense Account.	(6)
(c)	Prepare a Statement showing the correct net profit.	(14)
(d)	Prepare a corrected Balance Sheet.	(20)
(e)	Identify **three** different types of errors that affect the balancing of a Trial Balance.	(10)

(100 marks)

7. Correction of errors and suspense account

The Trial Balance of L. O'Shea, a boutique owner, failed to agree on 31/12/2007. The difference was entered in a suspense account and the following Balance Sheet was prepared.:

Balance Sheet as at 31/12/2007

Fixed Assets	**€**	**€**	**€**
Premises		400,000	
Motor Vehicles		20,000	
Furniture and equipment		16,000	436,000
Current Assets			
Stock		17,000	
Debtors		5,600	
Cash		3,200	
		25,800	
Less: Current Liabilities			
Creditors (including suspense)	12,200		
Bank	5,600	(17,800)	8,000
			444,000
Financed by:			
Capital		441,000	
Add: Net profit		15,000	
		456,000	
Drawings		12,000	444,000
			444,000

On checking the books, the following errors were discovered:

(i) An overdraft of €400 in the bank account had been brought down on the incorrect side of the nominal ledger and consequently had been entered on the incorrect side of the trial balance.

(ii) O'Shea sold privately owned jewellery to a debtor of the business on credit for €2,800. This sale had been treated in error as a cash sale of stock. O'Shea intended that the proceeds of this sale were to be retained in the business.

(iii) A debtor who owed L. O'Shea €700 sent a cheque for €550 and €100 in cash in full settlement. This was correctly entered in the books. However, no entry had been made in the books of the subsequent dishonouring of this cheque or of the writing off of the remaining debt in full because of bankruptcy.

(iv) O'Shea won a motor vehicle valued at €20,000 in a grand prize draw. L O'Shea gave the vehicle to the business and took an old van from the business valued at €8,000, which was to be used for private purposes. The only entry made in the firm's books regarding both motor vehicles was a debit in the cash book of €8,000.

(v) Cash payments of €160 for repairs to the business motor vehicle and €100 for repairs to private motor vehicles had both been credited to the creditors account and also credited to motor vehicles account.

You are required to:

(a) Journalise the necessary corrections. (50)

(b) Show the Suspense account. (6)

(c) Prepare a Statement showing the correct Net profit. (14)

(d) Prepare a corrected Balance Sheet. (20)

(e) Explain with examples what is meant by:

(i) Error of Commission;

(ii) Error of Principle. (10)

(100 marks)

7. Correction of errors and suspense account

The Trial Balance of M. O'Meara, a garage owner, failed to agree on 31/12/2005. The difference was entered in a Suspense Account and the following Balance Sheet was prepared.

Balance Sheet as at 31/12/2005

	€	€	€
Fixed Assets			
Premises		700,000	
Equipment		60,000	
Furniture		20,000	780,000
Current Assets			
Stock (including suspense)		91,400	
Debtors		35,200	
Cash		500	
		127,100	
Less: Current Liabilities			
Creditors	54,000		
Bank	28,000	82,000	45,100
			825,100
Financed by:			
Capital		790,000	
Add: Net profit		64,100	
		854,100	
Drawings		29,000	825,100
			825,100

On checking the books, the following errors were discovered:

(i) A motor car, purchased on credit from D. Foran for €13,000, had been entered on the incorrect side of Foran's account as €1,300 and credited as €3,100 in the Equipment account.

(ii) O'Meara had returned a motor car, previously purchased on credit for €14,600 from a supplier. O'Meara entered this transaction as €16,400 on the correct sides of the correct accounts in the ledger. A credit note subsequently arrived from the supplier showing a restocking charge of €500 to cover the cost of the return. The only entry made in respect of this credit note was a credit of €14,100 in the creditor's account.

(iii) A debtor who owed O'Meara €1,000 sent a cheque for €800 and €150 in cash in full settlement. This was correctly recorded in the books. However, no entry has been made in the books of the subsequent dishonouring of this cheque or of the writing off of the remaining debt in full because of bankruptcy.

(iv) A private debt for €770, owed by O'Meara, had been offset in full against a business debt of €820 owed to the firm for car repairs previously carried out. No entry had been made in the books in respect of this offset.

(v) A cheque for €2,250 paid by O'Meara out of a private bank account for 15 months hire of diagnostic equipment up to 31/3/2006 had not been entered in the books.

You are required to:

(a) Journalise the necessary corrections. (50)

(b) Show the Suspense Account. (6)

(c) Prepare a Statement showing the correct net profit. (14)

(d) Prepare a corrected Balance Sheet. (20)

(e) Explain with examples the difference between 'error of commission' and 'error of principle'. (10)

(100 marks)

7. Correction of errors and suspense account

The Trial Balance of S. Craddock, a furniture and carpet trader, failed to agree on 31/12/2003. The difference was entered in a Suspense Account and the following Balance Sheet was prepared.

Balance Sheet as at 31/12/2003

Fixed Assets		**€**	**€**
Premises		650,000	
Fixtures & fittings		72,000	722,000
Current Assets			
Stock (including suspense)		88,600	
Debtors		33,300	
Cash		400	
		122,300	
Less: Current Liabilities			
Creditors	52,000		
Bank	27,000	79,000	43,300
			765,300
Financed by:			
Capital		730,000	
Add: Net profit		63,300	
		793,300	
Less: Drawings		28,000	765,300
			765,300

On checking the books, the following errors were discovered:

(i) Furniture, purchased on credit from J. Dolan for €16,500, had been entered as €6,500 on the incorrect side of Dolan's account and credited as €1,650 in the Fixtures & Fittings account.

(ii) A debtor who owed Craddock €900 sent a cheque for €750 and €100 in cash in full settlement. This was correctly recorded in the books. However,no entry had been made in the books of the subsequent dishonouring of this cheque or of the writing off of the remaining debt in full because of bankruptcy.

(iii) Bedside Lockers, previously sold on credit for €340, had been returned to Craddock. These goods had been incorrectly entered as €34 on the credit of the Fixtures & fittings account and as €40 on the debit of the Purchases account.

(iv) A private debt for €1,600, owed by Craddock, had been offset in full against a business debt of €1,700, owed to the firm for carpet repairs previously carried out. No entry had been made in the books in respect of this offset.

(v) Craddock had returned furniture, previously purchased on credit from a supplier for €8,800, and had entered this transaction in the relevant ledger accounts incorrectly as €8,880. However, a credit note subsequently arrived from the supplier in respect of the return showing a transport charge of €200 to cover the cost of the return. The only entry made in respect of this credit note was a credit of €8,600 in the creditor's account.

You are required to:

(a)	Journalise the necessary corrections.	(55)
(b)	Show the Suspense Account.	(10)
(c)	Prepare a Statement showing the correct net profit.	(15)
(d)	Prepare a corrected Balance Sheet.	(20)
		(100 marks)

3. Correction of errors and suspense account

The Trial Balance of J. Townsend, a garage owner, failed to agree on 31/12/2001. The difference was entered in a Suspense Account and the final accounts were prepared which showed a net profit of €29,000.

On checking the books, the following errors and omissions were discovered:

(i) A motor car, purchased on credit from M. Browne, for €12,000, had been entered on the incorrect side of Browne's account and credited as €21,000 in the equipment account.

(ii) Car parts, previously sold on credit for €850, had been returned to Townsend. These returns had been incorrectly entered as €50 on the credit of the equipment account and as €580 on the debit of the purchases account.

(iii) A cheque for €3,000, paid by Townsend out of private bank account for 15 months rent of garage up to 31/3/2002, had not been entered in the books.

(iv) Townsend had returned a motor car, previously purchased on credit from a supplier for €10,500, and had entered this transaction in the relevant ledger accounts incorrectly as €15,100. However, a credit note subsequently arrived from the supplier showing a restocking charge of €400 to cover the cost of the return. The only entry made in respect of this credit note was a credit entry of €10,100 in the creditor's account.

(v) €1,400 received from the sale of an old display cabinet (book value €1,200), which was used by Townsend to store private materials, had not been entered in the books.

You are required to:

(a) Journalise the necessary corrections. (40)

(b) Prepare a Statement showing the correct net profit. (20)

(60 marks)