

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		<u>16,000</u>	436,000
Current Assets			
Stock		17,000	
Debtors		5,600	
Cash		<u>3,200</u>	
		25,800	
Less: Current Liabilities			
Creditors (including suspense)	12,200		
Bank	<u>5,600</u>	<u>(17,800)</u>	<u>8,000</u>
			<u>444,000</u>
Financed by:			
Capital		441,000	
Add: Net profit		<u>15,000</u>	
		456,000	
Drawings		<u>12,000</u>	<u>444,000</u>
			<u>444,000</u>

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)