

State Exams

Correction of errors question (100 marks)

Check List

2010 - L. O'Shea (100 Marks)			
Past Adjustment (Suspense)			
1. An overdraft of €400 in the bank account has been brought down on the incorrect side of the nominal ledger and consequently has been entered on the incorrect side of the trial balance			
2. O'Shea sold privately owned jewellery to a debtor of the business on credit for €2,800. This sale has 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			
3. 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 has been made in the books of the subsequent dishonouring of this cheque or the writing off of the remaining debt in full because of bankruptcy			
4. 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 purpose. The only entry made in the firms' books regarding both motor vehicles was a debit in the cash book of €8,000			
5. 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			

Should happen for L. O'Shea

The following should have happened for each of the transaction mentioned in the table above

Error 1 - Liability entered on the incorrect side of the trial balance.

When a liability is on the incorrect side of the trial balance you will be to credit the account twice once to fix the error and a second to record the correct transactio

Bank (Overdraft)	
	x

suspense	
x	

The double entry for good being purchases on credit is a follows and will also be

Bank (Overdraft) Bank (Overdraft) is increasing. Bank Overdraft is a liability and to increase a liability we put the figure on the credit side. (Credit - €400)

Suspense A suspense is need to balance the debit and credit sides (Debit - €400)

Error 2 - Private Jewellery sold (on credit) and the proceed introduced to the business.

If private jewellery is sold on credit and the money is introduced to the business the following accounts will need to be adjusted

Capital	
	x

Debtors	
	x

The double entry for paying of an expense due and receiving of and income prepaid is as follows

Capital Capital is increasing. Capital is a liability and to increase a liability we put the figure on the credit side. (Credit €2,800)

Debtors Debtors is increasing. Debtors is an asset and to increase asset we put it on the debit side. (Debit €2,800)

Error 3 - A cheque dishonoured and then a payment made using cash.

To complete this error, we need to break it up into 2 parts -

1. Record the dishonouring of the cheque.
2. Record debt been written off

How to record a cheque payment (Received form a debtor)

To dishonour a payment of a cheque you reverse the payment of a cheque. To record a cheque payment, we do the following -

Bank	
x	

Debtors	
	x

Bank Bank is increasing (as the money has go into the business bank account). Bank is an asset and to increase an asset we put it on the debit side.

Debtors Debtors are decreasing (as they have paid the business money to reduce their debt). Debtors are an asset and to decrease an asset we put it on the credit side.

NOTE - Remember if the full debt and there is a balance left over this is a discount allowed and is an expense. This will be treated as follows -

Discount	
x	

How to record a dishonouring of a cheque (Received form a debtor)

To reverse a cheque being paid. We reverse what happened above -

Bank	
	x

Debtors	
x	

NOTE - Remember if the full debt is not paid a discount will be received and to reverse this it will go in the discount account and will be on the debit side.

Discount	
	x

- Bank Bank is decreasing (as the money didn't go into our bank account). Bank is an asset and to decrease an asset we put it on the credit side. (Debit €550)
- Debtors Debtors are increasing (as they have not paid their debt). Debtors are an asset and to increase an asset we put it on the Debit side. (Credit €600)
- Discount Discount is decreasing. This discount was an expense so to decrease an income account we put it on the debit side (Debit €50)

NOTE - In this question the business did receive cash for some of the debt. The business will not return this debt as they have the money this means that the debtors will reduce by the cash figure

Debt been written off.

To complete this the second part of the error you will need to adjust

Debtors	
	x

Bad debt	
x	

The double entry for good being purchases on credit is as follows and will also be

- Debtors Debtors are decreasing. Debtors are an asset and to decrease an asset we put the figure on the credit side. (Credit €1,050)
- Bad debt Bad debts are increasing. Bad debts are an expense and to increase an expense we put the figure on the debit side (Debit €1,050)

Error 4 - Private asset presented (introduced to the business) and assets taken form the business.

To complete this error we need to break it up into 2 parts -

1. Introducing the asset (Motor Vehicle)
2. The taking of the Asset

Part One

When anything is introduced (Presented to the business it goes in the capital account

Capital	
	x

Motor Vehicles	
x	

Capital Capital is increasing. Capital is a liability and to increase a liability we put the figure on the credit side. (Credit €20,000)

Motor Vehicles Motor Vehicles are increasing. Motor Vehicles is an assert and to increase we put the figure on the debit side. (Debit €20,000)

Part Two

When we sell and asset or get rid of an asset and we are given the book value and cost value we need to calculate if we make a profit or loss. The following will take place.

Motor Vehicles	
	x

Capital	
x	

The double entry for goods taken form the business is as follows

Motor Vehicles Motor Vehicles is decreasing. Motor Vehicles is an asset and to decrease an asset we put the figure on the credit side. (Credit €8,000)

Capital (Drawings) Capital is decreasing. Capital is a liability and to decrease a liability we put the figure on the debit side. (Debit €8,000)

NOTE - In this adjustment the drawings account can also be used instead of the capital account.

Error 5 - Cash payment or repairs and drawing treated incorrectly.

To correct this error, we need to adjust the following accounts.

Cash	
	x

Drawings	
x	

Repairs	
x	

Cash Cash is decreasing. Cash is an asset and to decrease an asset we put the figure on the credit side. (Credit €260)

Repairs Repairs is increasing. Repair is an expense and to increase an expense we put the figure on the debit side. (Debit €160)

Drawing Drawings are increasing and to increase drawing we put the figure on the debit side. (Debit €100)