

Question 7 – Correction of errors

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(a)

Journal entries

		€		€
(i)	Suspense	800	[2]	
	Bank			800
	Being correction of overdraft brought down on [1] incorrect side of bank account			
(ii)	Sales	2,800	[2]	
	Cash			2,800
	Debtors	2,800	[2]	
	Capital			2,800
	Being recording of sale of private jewellery to a business debtor treated incorrectly as a cash sale [1]			
(iii)	Debtor	600	[3]	
	Bank			550
	Discount allowed disallowed			50
	Bad debts account	600	[2]	
	Debtor			600
	Being recording of dishonouring a cheque [1] and recording bad debt.			
(iv)	Suspense	8,000	[2]	
	Bank			8,000
	Motor vehicles	12,000	[2]	
	Capital			12,000
	Being capital introduced in the form of a motor van and [1] the cancellation of an incorrect entry in the bank account.			
(v)	Creditors	260	[2]	
	Motor vehicles	260	[2]	
	Suspense			520
	Repairs	160	[2]	
	Drawings	100	[2]	
	Bank			260
	Being repairs and drawings omitted from cash book [1] And entered in error in both creditors and motor vans account.			

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(b)

Suspense Account

Bank (1)	800	[2]	Original difference	8,280
Bank (4)	<u>8,000</u>	[2]	Creditors (5)	<u>520</u>
	<u>8,800</u>			<u>8,800</u>

Question 7 - continued

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(c)

Statement of corrected net profit

	€	€	
Original Net Profit as per books		15,000	[1]
Add Discount disallowed (3)		<u>50</u>	[2]
		15,050	
Less			
Sales (1)	2,800		[3]
Bad Debts (3)	600		[2]
Repairs (5)	<u>160</u>	<u>3,560</u>	[3]
Corrected Net Profit		<u>11,490</u>	[3]

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(d)

Balance Sheet as at 31/12/2007

	€	€	€
Fixed Assets			
Premises		400,000	[1]
Motor vehicles (20,000 + 12,000 + 260)		32,260	[2]
Furniture and Equipment		<u>16,000</u>	[1]
			448,260
Current Assets			
Stock	17,000		[1]
Debtors (5,600 + 2,800 + 600 - 600)	8,400		[3]
Cash (3,200 - 2,800)	<u>400</u>		[1]
		25,800	
Creditors: Amounts falling due within 1 year			
Creditors (12,200 - 260 - 8,280)	3,660		[2]
Bank (5,600 + 800 + 550 + 8,000 + 260)	<u>15,210</u>		[4]
		<u>18,870</u>	
			<u>6,930</u>
			<u>455,190</u>
Financed By			
Capital (441,000 + 2,800 + 12,000)		455,800	[2]
Net Profit		<u>11,490</u>	[1]
		467,290	
Drawings (12,000 + 100)		<u>12,100</u>	[2]
			<u>455,190</u>
			<u>455,190</u>

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(e)

An error of commission occurs when the correct amount is posted to the correct side of the incorrect account. Example: Goods sold on credit to Brian Brady debited in error to John Brady's account. [5]

An error of principle arises when an item is posted to the incorrect class of account. [5]
Example: A boutique owner purchased a vehicle and treated it as a purchase of stock