

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		<u>60,000</u>	690,000
Current Assets			
Stock (including suspense)		182,400	
Debtors		38,200	
Cash		<u>1,000</u>	
		221,600	
Less: Creditors: amounts falling due within 1 year			
Creditors	56,000		
Bank	<u>31,000</u>	<u>(87,000)</u>	<u>134,600</u>
			<u>824,600</u>
Financed by:			
Capital		750,000	
Net profit		<u>81,200</u>	
		831,200	
Drawings		<u>(6,600)</u>	<u>824,600</u>
			<u>824,600</u>

On checking the books the following errors were discovered:

- 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.
- McCarthy had returned a motor car previously purchased on credit for €15,600 from a supplier. McCarthy 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.
- 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.
- Cash payments of €450 for repairs to equipment had been credited to the creditors account and also credited to the motor vehicles account.
- 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:

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

(100 marks)