

3. Correction of Errors and Suspense Account

The Trial Balance of C. O'Connor, a garage owner, failed to agree on 31/12/2010. The difference was entered in a Suspense Account and the final accounts were prepared which showed a net profit of €28,500.

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

- (i) A motor car, purchased on credit from E. White for €23,000, had been entered on the incorrect side of White's account as €32,000 and credited as €3,200 in the Equipment account.
- (ii) O'Connor had returned a motor car, previously purchased on credit from a supplier for €15,400. O'Connor entered this transaction as €14,500 on the correct sides of the correct accounts in the ledger. However, a credit note subsequently arrived from the 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 €15,100 in the creditor's account.
- (iii) Car parts, previously sold on credit for €640, had been returned to O'Connor. These goods had been incorrectly entered as €40 on the credit of the fixture and fittings account and as €460 on the debit of the purchases account.
- (iv) O'Connor sold privately owned jewellery to a debtor of the business on credit €3,200. This sale had been treated in error as a cash sale of stock. O'Connor intended that the proceeds of this sale were to be retained in the business.
- (v) A cheque for €4,400 paid by O'Connor out of a private bank account for 11 months hire of diagnostic equipment up to 31/3/2011 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. (14)
- (c) Explain the difference between an error of original entry and an error of commission. (6)

(60 marks)