

7. Correction of Errors and Suspense Account

The Trial Balance of T. O'Connell, a garage owner, failed to agree on 31/12/2011. The difference was entered in a suspense account and the following Balance Sheet was prepared:

Balance Sheet as at 31/12/2011

	€	€	€
Fixed Assets			
Premises		640,000	
Equipment		32,000	
Furniture		<u>18,000</u>	690,000
Current Assets			
Stock		24,000	
Debtors		12,800	
Cash		<u>9,400</u>	
		46,200	
Less: Creditors: Amounts falling due within 1 year			
Creditors (including suspense)	16,200		
Bank	<u>5,000</u>	<u>(21,200)</u>	<u>25,000</u>
			<u>715,000</u>
Financed by:			
Capital		650,000	
Net Profit		<u>95,000</u>	
		745,000	
Drawings		<u>(30,000)</u>	<u>715,000</u>
			<u>715,000</u>

On checking the books, the following errors were discovered:

- A debtor who owed O'Connell €1,400 sent a cheque for €900 and €350 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.
- Cash payments of €800 for repairs to business equipment and €1,200 for repairs to private equipment had both been credited to the creditors account and also credited to the equipment account.
- A motor car, purchased on credit from T. Dunne for €18,000, had been entered on the incorrect side of Dunne's account as €8,100 and credited as €1,800 in the equipment account.
- A private debt for €980, owed by O'Connell, had been offset in full against a business debt of €1,100 owed to the firm for car repairs previously carried out. No entry had been made in the books in respect of this offset.
- A cheque for €3,600 paid by O'Connell out of a private bank account for 18 months hire of diagnostic equipment up to 30/6/2012 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)