

2. Correction of errors and suspense account

The Trial Balance of N. O'Connell, a garage owner, failed to agree on 31/12/2011. The difference was entered in a Suspense Account and the final accounts were prepared which showed a net profit of €41,000.

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

- (i) O'Connell's private car valued at €7,000 was presented to the business. This car was later sold on credit to a debtor of the business for €7,600. The sale had been treated as a cash sale.
- (ii) O'Connell had returned a motor car, previously purchased on credit from a supplier, for €9,000 and had entered this transaction in the relevant ledger accounts incorrectly as €9,900. However, a credit note subsequently arrived from a 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 €8,700 in the creditors account.
- (iii) A private debt of €1,000 owed to O'Connell had been offset in full settlement against a business debt of €1,260 owed by O'Connell. No entry had been made in the books in respect of this transaction.
- (iv) Payments from a business bank account for repairs to business premises €600 and insurance of private dwelling €520 were entered correctly in the bank account but respectively credited to premises account and credited to insurance account.
- (v) Car parts, previously sold on credit for €920, had been returned to O'Connell. These returns had been incorrectly entered as €20 on the credit of equipment account and as €290 on the debit of purchases account.

Required:

- (a) Journalise the necessary corrections. (40)
- (b) Prepare a statement showing the corrected net profit. (14)
- (c)
 - (i) What is the purpose of preparing a Trial Balance?
 - (ii) State and explain **two** types of errors **not** revealed by the Trial Balance. (6)

(60 Marks)