

Question 2 – Correction of errors

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(a)

	Debit	Credit
<p>(i) Debtor Bank Being transfer from bank account to debtors account due to previous incorrect entry</p>	<p>7,600 [2]</p>	<p>7,600 [2]</p>
<p>(ii) Purchases returns/Purchases Creditor Suspense Being correction of incorrect entries in purchases returns and creditors account. [1]</p>	<p>1,200 [2] 7,500 [2]</p>	<p>8,700 [2]</p>
<p>(iii) Creditor Capital Discount Being private debt owed to O’Connell offset against a debt owed to a creditor of O’Connell’s business. [1]</p>	<p>1,260 [2]</p>	<p>1,000 [2] 260 [2]</p>
<p>(iv) Premises Insurance Repairs Drawings/Capital Suspense Being recording of payments of repairs and drawings and cancellation of incorrect entries in buildings and insurance accounts. [1]</p>	<p>600 [2] 520 [2] 600 [2] 520 [2]</p>	<p>2,240 [2]</p>
<p>(v) Equipment Suspense Purchases Sales returns Debtors Being sales returns 920 entered in error as 20 in equipment account and 290 in purchases account. [1]</p>	<p>20 [2] 270 [2] 920 [2]</p>	<p>290 [2] 920 [2]</p>

(b)

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Statement of Corrected Net Profit

		€	€
Original Net Profit as per books			41,000 [1]
Add: Discount received	(iii)	260 [2]	
Purchases	(v)	<u>290</u> [2]	<u>550</u>
			41,550
Less: Purchases Returns	(ii)	1,200 [2]	
Insurance	(iv)	520 [1]	
Repairs	(iv)	600 [1]	
Sales returns	(v)	<u>920</u> [1]	<u>(3,240)</u>
Corrected Net Profit			<u>38,310</u> [4]

(c)

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- (i) A Trial Balance is prepared in order to test the accuracy of double entry bookkeeping before preparing Final Accounts. A Trial Balance should have the same total of debits and credits and have the same amounts because under double entry bookkeeping every debit entry should have a corresponding credit entry.
- (ii) **Errors not revealed by a trial balance:**
Errors of original entry – errors made in books of first entry
Errors of principle – incorrect class of account – entering an asset in an expense account
Errors of complete omission – where both debit and credit are omitted
Errors of commission – posting to wrong account but to the correct side of correct type of account
Compensating errors – where errors of equal value cancel each other out
Reversal of entries – where the debit entry is on the credit side and the credit entry is on the debit