

DEB Questions

Correction of errors question (100 marks)

T. O'Connell
Check List

2012 - T. O'Connell (100 Marks)			
Past Adjustment (Suspense)			
1. 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			
2. 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.			
3. 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.			
4. 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.			
5. 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.			

Should happen for T. O'Connell

The following should have happened for each of the transaction mentioned in the table above

Error 1 - A cheque dishonoured and the debt written off (Debtor)

To complete this error, we need to break it up into 2 parts -

1. Record the dishonouring of the cheque.
2. Record the debt being written off

How to record a cheque payment from a debtor

To dishonour a payment of a cheque you reverse the payment of a cheque. To record a cheque payment, we do the following -

Bank	
x	

Debtor	
	x

Bank Bank is increasing (as the money come into the business bank account). Bank is an asset and to increase an asset we put it on the debit side.

Debtors Debtors are decreasing (as they have been made). Debtors are an asset and to decrease an asset we put it on the credit side.

NOTE - Remember if it is paying full debt and there is a balance left over this is a discount given and this is an expense and to increase an expense we put the figure on the debit side. This will be treated as follows -

Discount	
x	

How to record a dishonouring of a cheque (From a debtor)

To reverse a cheque being paid. We reverse what happened above -

Bank	
	x

Debtor	
x	

NOTE - Remember if the full debt is not paid a discount will be received and to reverse this it will go in the discount account and will be on the debit side.

Discount	
	x

Bank Bank is decreasing (as the money didn't come into the business bank account).

Bank is an asset and to decrease an asset we put it on the credit side. (Credit €900)

Debtors Debtors are increasing (as the money has not been paid to reduce the debt).

Debtors are an asset and to increase an asset we put it on the debit side. (Credit €1,050)

Discount Discount is decreasing. This discount was an expense so to decrease an expense account we put it on the credit side (Debit €150)

Recording the debt been written off

To complete this the second part of the error you will need to adjust.

Debtors	
	x

Bad Debt	
x	

The double entry for good being purchases on credit is as follows and will also be

Debtors Debtors is decreasing. Debtors is an asset and to decrease an asset we put the figure on the credit side. (Credit €1,050)

Bad Debt A Bad debt is created and is increasing. Bad Debts are an expense and to
Increase an expense we put the figure on the debit side (Debit €1,050)

Error 2 - Payment of expenses but recording in the wrong account.

To correct this error, you need to enter the expenses into the correct accounts. Remember if, the expense is for personal use it goes into a drawings account.

Repairs	
x	

Drawings	
x	

Cash	
	x

The double entry for good being purchases on credit is as follows and will also be

Repairs Repairs is increasing. Repairs is an asset and to increase an asset we put the figure on the debit side. (Debit €800)

Drawings Drawings is increasing. So, to increase drawings we put the figure on the debit side. (Debit €1,200)

Cash Cash is decreasing. Cash is an asset and to decrease an asset we put the figure on the credit side (Credit €2,000)

NOTE - The bank will be correct so there is no need to correct it in the fix it column

Error 3 - Goods Purchased on Credit

When goods are purchased on credit the following accounts will need to be adjusted

Purchases	
x	

Creditors	
	x

The double entry for good being purchases on credit is as follows and will also be

Purchases Purchases are increasing. Purchases is an expense and to increase an expense we put the figure on the debit side. (Debit - €18,000)

Creditors Creditors are increasing. Creditors are a liability and to increase a liability we put the figure on the credit side. (Credit - €16,000)

NOTE - it is important to check to see what type of a business this is. If the business buys and sell cars this would be purchases but if the business was a groceries business it would be a fixed asset and equipment

Error 4 - Private debt owed by the owner used to pay a business debt.

When a private debt owed by the owner is offset against a business debt this is money affecting the drawings so the following accounts will need to be adjusted

Drawings	
x	

Debtor	
	x

The double entry for good being purchases on credit is as follows and will also be

Debtor Debtor is decreasing. Debtor is an asset and to increase an asset we put the figure on the credit side. (Credit €1,100)

Drawing Drawings are increasing (as we are paying a private debt to pay a business debt) to increase drawing we put the figure on the debit side (Debit €980)

NOTE - If the full debt is paid but the figures do not represent this a discount is received. To record this open a discount account and put the balancing figure on the side that will make the debit and credit side balance (Debit €120)

Discount	
x	

Error 5 - A personal cheque used to part an expense - so of the expense is for next year.

When anything is introduced (Presented to the business it goes in the capital account). This Error has some of the expense (Hire of Equipment) loss for this year - this will go in the profit and loss as the expense and some for next year - this will go in the balance sheet as a current asset

Capital	
	x

Hire of Equipment (P & L)	
x	

Hire of Equipment (BS)	
	x

Capital	Capital is increasing. Capital is a liability and to increase a liability we put the figure on the credit side. (Credit €3,600)
Hire of Equipment (P & L)	Hire of Equipment is increasing. Hire of Equipment is an expense and to increase we put the figure on the debit side. (Debit €2,400)
Hire of Equipment (BS)	Hire of Equipment is increasing. Hire of Equipment is an asset and to increase we put the figure on the debit side. (Debit €1,200)