

DEB Questions

Correction of errors question (100 marks)

Check List

2018 - M. Mead (100 Marks)			
Past Adjustment (Suspense)			
1. Groceries, purchased on credit for €3,600 had been entered on the incorrect side of the creditors' account and credited as €6,300 in the motor vehicle account			
2. Insurance due €440 and rent prepaid €360 were not recorded in the books			
3. Equipment which cost €3,200 and with a book value of €1,600 was sold for cash €1,400. This had been entered on the debit side of the sales account as €1,440 and on the credit side of the debtors account as €1,040			
4. Mead's private car valued at €7,800 was presented to the business. He took a used freezer from the business for an agreed value €800. The only entry made in the books was a debit of €800 in the equipment account. The freezer had cost €2,000 and had a book value of €1,300			
5. A cheque for €4,500 was paid by mead out of a private bank account to cover 15 months hire of equipment for the business up to 31/03/2018. No entry has been made in the books.			

Should happen for M. Mead

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

Error 1 - Good 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

Purchase Purchases are increasing. Purchases are an expense and to increase an expense we put the figure on the debit side. (Debit - €3,600)

Creditors Creditors are increasing. Creditors are a liability and to increase a liability we put the figure on the credit side. (Credit - €3,600)

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 2 - Insurance due €440 and rent prepaid €360 were not recorded in the books

When insurance is due (it is a liability and needs to be paid) and rent is received (it is a liability because the people renting the asset have paid us in advance so the business will have to pay the debts when it falls due as we have the money) are left out of the books the following accounts need to be adjusted

Insurance Due	
	x

Rent Prepaid	
	x

P & L	
x	

The double entry for paying of an expense due and receiving of and income prepaid is as follows

Insurance due Insurance due is increasing. Insurance due is a liability and to increase a liability we put the figure on the credit side. (Credit €440)

Rent Prepaid Rent prepaid is increasing. Rent Prepaid is a liability and to increase liability we put it on the credit side. (Credit €360)

Profit and Loss The profit and loss will also be adjusted due to the double entry and receiving the debit entries from the insurance due and rent prepaid (Debit €800)

Error 3 - An asset with a book value and cost sold for cash

When you are given the cost of an asset and the book value of an asset, and it is taken from the business you must calculate if a profit or loss has been made on the taken of this asset. The following accounts need to be adjusted

Asset	
	x

Acc dep	
x	

Disposal	
x	x
	x

Cash	
x	

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

Equipment Equipment is decreasing. Equipment is an asset and to decrease an asset we put the figure on the credit side. (Credit €3,200)

Acc Dep Acc Depreciation is decreasing. Acc Depreciation is an asset with a credit balance and to decrease acc depreciation we put the on the debit side. (Debit €1,600)

Disposal Calculate if there was a profit or loss made on the taking of the equipment. A balance figure on the debit side is a profit and a balance figure on the credit side is a loss (See the diagram above for the double entries)

Cash Cash is increasing. Cash is an asset and to increase an asset we put the figure on the debit side. (Debit €1,600)

Error 4 - Private asset presented (introduced to the business and assets taken from the business)

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

1. Introducing the asset (Motor Vehicle)
2. The taking of the Asset (Need to calculate if a profit or loss was made)

Part One

When anything is introduced (Presented to the business it goes in the capital account)

Capital	
	x

Motor Vehicles	
x	

Capital Capital is increasing. Capital is a liability and to increase a liability we put the figure on the credit side. (Credit €7,800)

Motor Vehicles Motor Vehicles are increasing. Motor Vehicles is an asset and to increase we put the figure on the debit side. (Debit €7,800)

Part Two

When we sell an asset or get rid of an asset and we are given the book value and cost value we need to calculate if we make a profit or loss. The following will take place.

Asset	
	x

Acc dep	
x	

Correction of Errors
(DEB)

Checklist

Disposal	
×	×
	×

Drawing	
×	

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

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

Acc Dep Acc Depreciation is decreasing. Acc Depreciation is an asset with a credit balance and to decrease acc depreciation we put the on the debit side. (Debit €700)

Disposal Calculate if there was a profit or loss made on the taking of the equipment. A balance figure on the debit side is a profit and a balance figure on the credit side is a loss (See the diagram above for the double entries)

Drawings Drawing is increasing and to increase drawing we put the figure on the debit side. (Debit €800)

NOTE - If an item is taken for personal use, we need to record this in the drawing account.

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

Correction of Errors
(DEB)

Checklist

Capital	Capital is increasing. Capital is a liability and to increase a liability we put the figure on the credit side. (Credit €4,500)
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 €3,600)
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 €900)

2014 - C. Long (100 Marks)		
Past Adjustment (Suspense)		
1. Long sent a cheque for €800 in full settlement of a business debt of €850 and this was recorded correctly in the books. However, no entry has been made in the books of the subsequent dishonouring of this cheque and the payment on the account of €400 cash by Long		
2. Payments from the business bank account for repairs to business equipment €790 and for repairs to private dwellings €960 were entered correctly in the bank account but respectively credited to the equipment account and credited to the premises		
3. A motor car purchased on credit from C. Sheehan for €16,000, had been entered on the uncorrected side of Sheehan's account as €1,600 and debited as €6,100 in the equipment account		
4. A Private debt of €1,250, owed to long, had been offset in full settlement against a business debt of €1,400 owed by Long. No entry had been made in the books in respect of this transaction.		
5. A motor car, previously sold on credit for €8,500 has been returned to Long. Long entered this transaction as €5,800 on the correct sides of the correct accounts in the ledger. A credit note was subsequently sent by long showing a restocking charge of €200 to cover the cost of the return. The only entry made in respect of this credit note was a debit entry of €8,300 in the debtor's account		

Should happen for C. Long

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

Error 1 - A cheque dishonoured and then a payment made using cash.

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

1. Record the dishonouring of the cheque.
2. Record the payment of the debt using cash from Long.

How to record a cheque payment

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

Creditors	
x	

Bank Bank is Decreasing (as the money has left our bank account). Bank is an asset and to decrease an asset we put it on the credit side.

Creditors Creditors are decreasing (as they have been made). Creditors are a liability and to decrease a liability we put it on the debit side.

NOTE - Remember if the full debt and there is a balance left over this is a discount received and is an income. This will be treated as follows -

Discount	
	x

How to record a dishonouring of a cheque

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

Correction of Errors
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Checklist

Bank	
x	

Creditors	
	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 increasing (as the money didn't leave our bank account). Bank is an asset and to increase an asset we put it on the debit side. (Debit €800)

Creditors Creditors are increasing (as they have not been made). Creditors are a liability and to increase a liability we put it on the credit side. (Credit €850)

Discount Discount is decreasing. This discount was an income so to decrease an income account we put it on the debit side (Debit €50)

Payment made using cash.

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

Cash	
	x

Creditors	
x	

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

Cash Cash is decreasing. Cash is an asset and to decrease an asset we put the figure on the credit side. (Credit €400)

Creditors Creditors are decreasing. Creditors are a liability and to decrease a liability we put the figure on the debit side (Debit €400)

Error 2 - Payment of expenses but only recording them correctly in the bank 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	

Bank	
	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 €790)

Drawings Drawings is increasing. So, to increase drawings we put the figure on the debit side. (Debit €960)

Bank Bank is decreasing. Bank is an asset and to decrease an asset we put the figure on the credit side (Credit €1,750 - this is correct)

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

Equipment	
x	

Creditors	
	x

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

Equipment Equipment is increasing. Equipment is an asset and to increase an asset we put the figure on the debit side. (Debit - €16,000)

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 used to pay a business debt.

When a private debt is offset against a business debt this is money introduced to the business so the following account will need to be adjusted

Capital	
	x

Creditors	
x	

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

Capital Capital is increasing. Capital is a Liability and to increase a liability we put the figure on the credit side. (Credit €1,250)

Creditors Creditors are decreasing. Creditors are a liability and to decrease a liability we put the figure on the debit side (Debit €1,400)

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 (Credit €150)

Discount	
	x

Error 5 - Restocking charge.

When a restocking charge occurs, it means that goods have been returned but full amount of the figure for the goods has not been given back. This is because the business will charge for putting these goods back. For example, if goods we returned to us for €8,500 and we charged a restocking fee of €200 we would only be returning €8,300 (€8,500 - €200) of the money paid and not €8,500. The following account will need to be adjusted

Sales Return	
x	

Debtors	
	x

Sales Returns This is a contra entry with sale. If sale are being returns it will go on the debit side as it will reduce Sales which is an income (€8,300)

Debtors Debtors are decreasing (as they own less with the good being returned)
 Debtors are an asset and to increase an asset we put it on the credit side. (credit €8,300)