

7. **Correction of Errors and Suspense Account**

The Trial Balance of E Cagney, a grocer, failed to agree on 31/12/2013. The difference was entered in a Suspense Account and the following Balance Sheet was prepared.

**Balance Sheet as at 31/12/2013**

	€	€	€
<b>Fixed Assets</b>			
Premises		650,000	
Equipment		35,000	
Motor Vehicles		<u>72,000</u>	757,000
<b>Current Assets</b>			
Stock (including suspense)		185,400	
Debtors		36,300	
Cash		<u>1,500</u>	
		223,200	
<b>Less Creditors: amounts falling due within 1 year</b>			
Creditors	58,500		
Bank	<u>32,000</u>	<u>(90,500)</u>	<u>132,700</u>
			<u>889,700</u>
<b>Financed by:</b>			
Capital		810,000	
Add: Net profit		<u>87,200</u>	
		897,200	
Less Drawings		<u>(7,500)</u>	<u>889,700</u>
			<u>889,700</u>

On checking the books, the following errors were discovered:

- (i) A debtor, who owed Cagney €830, sent a cheque for €780 in full settlement and this was recorded correctly in the books. However, no entry was made in the books of the subsequent dishonouring of this cheque or of the closing of the debtor's account after the receipt of a first and final payment of 10c in the €1.
- (ii) Cagney had returned goods, previously purchased on credit for €15,800 from a supplier. Cagney entered this transaction as €18,500 on the correct sides of the correct accounts in the ledger. A credit note subsequently arrived from the supplier showing a restocking charge of €800 to cover the cost of the return. The only entry made in respect of this credit note was a credit of €15,000 in the creditor's account.
- (iii) A cheque for €4,260 was paid by Cagney out of a private bank account to cover 15 months hire of equipment for the business up to 31/03/2014. No entry had been made in the books.
- (iv) Cagney won a private holiday prize for two worth €6,000 in total. One ticket had been given to a salesperson as part payment of sales commission for the year and the other to an advertising firm as payment in full of a debt of €3,250. No entry had been made in the books.
- (v) Cagney's private car valued at €8,800 was presented to the business. He took a used freezer from the business for an agreed value of €800. The only entry made in the books was a debit of €800 in the equipment account. The freezer had a book value of €1,300.

**You are required to:**

- (a) Journalise the necessary corrections. (54)
- (b) Show the Suspense Account. (6)
- (c) Prepare a statement showing the correct net profit. (14)
- (d) Prepare a corrected Balance Sheet. (20)
- (e) Identify **three** types of errors that affect the balancing of a Trial Balance. (6)

**(100 marks)**