

7. Correction of Errors and Suspense Account

The Trial Balance of C. Long, a motor dealer, 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

	€	€	€
Fixed Assets			
Premises		650,000	
Equipment		37,000	
Furniture		<u>13,000</u>	700,000
Current Assets			
Stock (including suspense)		174,000	
Debtors		32,800	
Cash		<u>1,200</u>	
		<u>208,000</u>	
Less: Creditors: amounts falling due within 1 year			
Creditors	46,000		
Bank	<u>35,000</u>	<u>(81,000)</u>	<u>127,000</u>
			<u>827,000</u>
Financed by:			
Capital		750,000	
Net Profit		<u>85,000</u>	
		<u>835,000</u>	
Drawings		<u>(8,000)</u>	<u>827,000</u>
			<u>827,000</u>

On checking the books, the following errors were discovered:

- (i) 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 had been made in the books of the subsequent dishonouring of this cheque and the payment on account of €400 cash by Long.
- (ii) Payments from the business bank account for repairs to business equipment €790 and for repairs to private dwelling €960 were entered correctly in the bank account but respectively credited to the equipment account and credited to the premises account.
- (iii) A motor car, purchased on credit from C. Sheehan for €16,000, had been entered on the incorrect side of Sheehan's account as €1,600 and debited as €6,100 in the equipment account.
- (iv) A private debt for €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.
- (v) A motor car, previously sold on credit for €8,500, had 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.

You are required to:

- (a) Journalise the necessary corrections. (50)
- (b) Show the Suspense Account. (6)
- (c) Prepare a Statement showing the correct net profit. (14)
- (d) Prepare a corrected Balance Sheet. (20)
- (e) (i) What is the purpose of preparing a Trial Balance? (10)
- (ii) Identify **three** different types of errors that may affect the balancing of a Trial Balance. (10)

(100 marks)