

6. Correction of errors and suspense account

The trial balance of D. Sexton Ltd, a furniture retailer, failed to agree on 31/12/2015. The difference was entered into a suspense account and the following balance sheet was prepared.

Balance Sheet as at 31/12/2015			
Fixed Assets	€	€	€
	Cost	Dep. To date	Net
Premises	630,000		630,000
Equipment	56,000	12,000	44,000
Motor vehicles	<u>92,000</u>	<u>26,000</u>	<u>66,000</u>
	<u>778,000</u>	<u>38,000</u>	740,000
Current Assets			
Stock (including suspense)		98,000	
Debtors		41,600	
Cash		<u>2,400</u>	
		142,000	
Less: Creditors: amounts falling due within 1 year			
Creditors	72,000		
Bank	<u>22,000</u>	<u>(94,000)</u>	<u>48,000</u>
			<u>788,000</u>
Financed by:			
Issued – 700,000 ordinary shares @ €1 each		700,000	
Profit and loss balance		<u>88,000</u>	<u>788,000</u>
			<u>788,000</u>

On checking the books, the following errors and omissions were discovered:

- (i) Coffee tables purchased on credit for €2,800, had been entered on the incorrect side of the creditor's account and credited as €1,800 to the equipment account.
- (ii) A delivery van which cost €2,400 and with a book value of €1,500 was sold for cash €1,350. This had been entered as €1,530 on the debit side of the sales account and on the credit side of the debtor's account.
- (iii) Insurance due €340 and rent prepaid to Sexton €460 were not recorded in the books.
- (iv) A credit note sent to a debtor for €620 had been entered in the day books as €260 and was subsequently posted to the incorrect side of the relevant ledger accounts.
- (v) Sexton returned furniture previously purchased on credit for €27,000. This was entered in the accounts as €37,000. However, a credit note subsequently arrived from the supplier showing a transport charge of €500. The only entry made in respect of this credit note is a credit entry of €26,500 in the creditor's account.

Required:

- (a) Journalise the necessary corrections. (54)
- (b) Show the suspense account. (6)
- (c) Prepare a statement showing the corrected net profit. (14)
- (d) Prepare a corrected balance sheet. (20)
- (e) Explain:
 - (i) Compensating errors.
 - (ii) Errors of original entry. (6)

(100 Marks)