

2. Correction of Errors and Suspense Account

The Trial Balance of B. Barr, a garage owner, failed to agree on 31/12/2015. The difference was entered in a Suspense Account and the final accounts were prepared which showed a net profit of €38,000.

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

- (i) A motor car, purchased on credit from S. Quinn for €18,000, had been entered on the incorrect side of Quinn's account as €1,800 and credited as €8,000 in the equipment account.
- (ii) A motor car, previously sold on credit for €29,500, had been returned to Barr. Barr entered this transaction as €25,900 on the correct sides of the correct accounts in the ledger. A credit note was subsequently sent by Barr showing a restocking charge of €300 to cover the cost of the return. The only entry made in respect of this credit note was a debit entry of €29,200 in the debtor's account.
- (iii) Car parts, previously sold on credit for €870, had been returned to Barr. These goods had been incorrectly entered as €70 on the credit side of the fixtures and fittings account and as €780 on the debit side of the purchases account.
- (iv) A private debt of €1,100 owed to Barr had been offset in full settlement against a business debt of €1,380 owed by Barr. No entry had been made in the books in respect of this transaction.
- (v) Barr's private car valued at €12,400 was presented to the business. He took a used freezer from the business for an agreed value of €900. The only entry made in the books was a debit of €900 in the equipment account. The freezer had a book value of €1,200.

You are required to:

- (a) Journalise the necessary corrections. (40)
- (b) Prepare a Statement showing the correct net profit. (14)
- (c)
 - (i) What is the purpose of preparing a Trial Balance?
 - (ii) Explain what is meant by an 'error of principle' and give an example. (6)

(60 marks)