

## 7. Correction of Errors and Suspense Account

The trial balance of D. Fahy, a garage owner, failed to agree on 31/12/2017. The difference was entered in a suspense account and the following balance sheet was prepared:

**Balance Sheet as at 31/12/2017**

<b>Fixed Assets</b>	€	€	€
Premises		500,000	
Motor vehicles		35,000	
Equipment		<u>24,000</u>	559,000
<b>Current Assets</b>			
Stock		60,500	
Debtors		10,800	
Cash		<u>12,200</u>	
		83,500	
<b>Creditors: amounts falling due within 1 year</b>			
Creditors (including suspense)	52,300		
Bank	18,400		
VAT	<u>7,500</u>	<u>78,200</u>	
Net current assets			<u>5,300</u>
Total assets less current liabilities			<u>564,300</u>
<b>Financed by</b>			
Capital		550,000	
Net profit		<u>40,000</u>	
		590,000	
Less drawings		<u>(25,700)</u>	<u>564,300</u>
			<u>564,300</u>

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

- (i) A car lift purchased on credit for €4,000, had been entered on the incorrect side of the creditors account. The only other entry made was a debit of €400 to the purchases account.
- (ii) D. Fahy's private car valued at €10,000 was presented to the business for resale. No entry was made in the books regarding this transaction. This car was later sold on credit to a debtor of the business for €10,000. The sale had been treated as a cash sale.
- (iii) D. Fahy had returned a motor car, previously purchased on credit from a supplier, for €12,000 and entered this transaction in the relevant ledger accounts incorrectly as €1,200. However, a credit note subsequently arrived from a supplier 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 credit entry of €11,800 in the creditors account.
- (iv) A payment of €500 was received from F. Mc Fadden, a debtor, whose debt had previously been written off and who wishes to trade with D. Fahy again. This represents 80% of the original debt and the debtor has undertaken to pay the remainder of the debt by January 2018. No entry had been made in the books.
- (v) D. Fahy purchased goods on credit from Car Parts Ltd for €3,000 plus VAT @ 13.5%. The only entries in the accounts were that the VAT inclusive figure was entered on the debit side of the equipment account and the VAT exclusive figure entered on the credit side of Car Parts Ltd 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) Outline the purpose of a suspense account. (6)

**(100 marks)**