

DEB Questions

Correction of errors question (100 marks)

M. Mead

Check List

2018 - M. Mead (100 Marks)			
Past Adjustment (Suspense)			
1. Groceries, purchased on credit for €3,600 had been entered on the incorrect side of the creditors' account and credited as €6,300 in the motor vehicle account			
2. Insurance due €440 and rent prepaid €360 were not recorded in the books			
3. Equipment which cost €3,200 and with a book value of €1,600 was sold for cash €1,400. This had been entered on the debit side of the sales account as €1,440 and on the credit side of the debtors account as €1,040			
4. Mead's private car valued at €7,800 was presented to the business. He took a used freezer from the business for an agreed value €800. The only entry made in the books was a debit of €800 in the equipment account. The freezer had cost €2,000 and had a book value of €1,300			
5. A cheque for €4,500 was paid by mead out of a private bank account to cover 15 months hire of equipment for the business up to 31/03/2018. No entry has been made in the books.			

Should happen for M. Mead

The following should have happened for each of the transaction mentioned in the table above

Error 1 - Good Purchased on Credit

When goods are purchased on credit the following accounts will need to be adjusted

Purchases	
x	

Creditors	
	x

The double entry for good being purchases on credit is as follows and will also be

Purchase Purchases are increasing. Purchases are an expense and to increase an expense we put the figure on the debit side. (Debit - €3,600)

Creditors Creditors are increasing. Creditors are a liability and to increase a liability we put the figure on the credit side. (Credit - €3,600)

NOTE - it is important to check to see what type of a business this is. If the business buys and sell cars this would be purchases but if the business was a groceries business it would be a fixed asset and equipment

Error 2 - Insurance due €440 and rent prepaid €360 were not recorded in the books

When insurance is due (it is a liability and needs to be paid) and rent is received (it is a liability because the people renting the asset have paid us in advance so the business will have to pay the debts when it falls due as we have the money) are left out of the books the following accounts need to be adjusted

Insurance Due	
	x

Rent Prepaid	
	x

P & L	
x	

The double entry for paying of an expense due and receiving of and income prepaid is as follows

Insurance due Insurance due is increasing. Insurance due is a liability and to increase a liability we put the figure on the credit side. (Credit €440)

Rent Prepaid Rent prepaid is increasing. Rent Prepaid is a liability and to increase liability we put it on the credit side. (Credit €360)

Profit and Loss The profit and loss will also be adjusted due to the double entry and receiving the debit entries from the insurance due and rent prepaid (Debit €800)

Error 3 - An asset with a book value and cost sold for cash

When you are given the cost of an asset and the book value of an asset, and it is taken from the business you must calculate if a profit or loss has been made on the taken of this asset. The following accounts need to be adjusted

Asset	
	x

Acc dep	
x	

Disposal	
x	x
	x

Cash	
x	

The double entry for good being purchases on credit is a follows and will also be

Equipment Equipment is decreasing. Equipment is an asset and to decrease an asset we put the figure on the credit side. (Credit €3,200)

Acc Dep Acc Depreciation is decreasing. Acc Depreciation is an asset with a credit balance and to decrease acc depreciation we put the on the debit side. (Debit €1,600)

Disposal Calculate if there was a profit or loss made on the taking of the equipment. A balance figure on the debit side is a profit and a balance figure on the credit side is a loss (See the diagram above for the double entries)

Cash Cash is increasing. Cash is an asset and to increase an asset we put the figure on the debit side. (Debit €1,600)

Error 4 - Private asset presented (introduced to the business and assets taken from the business)

To complete this error we need to break it up into 2 parts -

1. Introducing the asset (Motor Vehicle)
2. The taking of the Asset (Need to calculate if a profit or loss was made)

Part One

When anything is introduced (Presented to the business it goes in the capital account)

Capital	
	x

Motor Vehicles	
x	

Capital Capital is increasing. Capital is a liability and to increase a liability we put the figure on the credit side. (Credit €7,800)

Motor Vehicles Motor Vehicles are increasing. Motor Vehicles is an asset and to increase we put the figure on the debit side. (Debit €7,800)

Part Two

When we sell an asset or get rid of an asset and we are given the book value and cost value we need to calculate if we make a profit or loss. The following will take place.

Asset	
	x

Acc dep	
x	

Disposal	
×	×
	×

Drawing	
×	

The double entry for good being purchases on credit is as follows and will also be

Equipment Equipment is decreasing. Equipment is an asset and to decrease an asset we put the figure on the credit side. (Credit €2,000)

Acc Dep Acc Depreciation is decreasing. Acc Depreciation is an asset with a credit balance and to decrease acc depreciation we put the on the debit side. (Debit €700)

Disposal Calculate if there was a profit or loss made on the taking of the equipment. A balance figure on the debit side is a profit and a balance figure on the credit side is a loss (See the diagram above for the double entries)

Drawings Drawing is increasing and to increase drawing we put the figure on the debit side. (Debit €800)

NOTE - If an item is taken for personal use, we need to record this in the drawing account.

Error 5 - A personal cheque used to part an expense - so of the expense is for next year.

When anything is introduced (Presented to the business it goes in the capital account). This Error has some of the expense (Hire of Equipment) loss for this year - this will go in the profit and loss as the expense and some for next year - this will go in the balance sheet as a current asset

Capital	
	x

Hire of Equipment (P & L)	
x	

Hire of Equipment (BS)	
	x

Capital	Capital is increasing. Capital is a liability and to increase a liability we put the figure on the credit side. (Credit €4,500)
Hire of Equipment (P & L)	Hire of Equipment is increasing. Hire of Equipment is an expense and to increase we put the figure on the debit side. (Debit €3,600)
Hire of Equipment (BS)	Hire of Equipment is increasing. Hire of Equipment is an asset and to increase we put the figure on the debit side. (Debit €900)