

### 3. Correction of Errors and Suspense Account

The Trial Balance of B. Rigby, a garage owner, failed to agree on 31/12/2018. The difference was entered in a Suspense Account and the final accounts were prepared, which showed a Net Profit of €121,000.

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

- (i) Rigby's private car valued at €8,500 was presented to the business. This car was later sold on credit to a debtor of the business for €9,300. The sale had been treated as a cash sale. This was the only entry in the books in respect of this transaction.
- (ii) Vehicles purchased on credit for €34,000 had been entered on the incorrect side of the creditor's account and debited as €4,300 to the machinery account.
- (iii) An overdraft of €550 in the bank account had been brought down on the incorrect side of the nominal ledger and consequently had been entered on the incorrect side of the Trial Balance.
- (iv) A debtor, who owed Rigby €2,600, sent a cheque for €2,500 in full settlement and this was recorded correctly in the books. However, no entry was made in the books of the subsequent dishonouring of this cheque or of the closing of the debtor's account after the receipt of a first and final payment of 20c in the €1.
- (v) Advertising prepaid €650 and rent due to Rigby €700 were not recorded in the books.

**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) Identify **three** types of errors that may affect the balancing of a Trial Balance. (6)

**(60 marks)**