

6. Correction of Errors and Suspense Account

The trial balance of J. Beglin, a garage owner, failed to agree on 31/12/2019. The difference was entered in a suspense account and the following balance sheet was prepared:

Balance Sheet as at 31/12/2019			
	€	€	€
Fixed Assets	Cost	Dep. to date	Net
Premises	740,000		740,000
Motor vehicles	125,000	40,000	85,000
Equipment	<u>38,700</u>	<u>14,600</u>	<u>24,100</u>
	<u>903,700</u>	<u>54,600</u>	849,100
Current Assets			
Stock	84,900		
Debtors (including suspense)	66,300		
Cash	<u>3,200</u>	154,400	
Creditors: amounts falling due within 1 year			
Creditors	(79,800)		
Bank	(26,600)		
VAT	<u>(12,000)</u>	<u>(118,400)</u>	
Net current assets			<u>36,000</u>
Total assets less current liabilities			<u>885,100</u>
Financed by			
Capital		850,000	
Net profit		<u>42,700</u>	
		892,700	
Less drawings		<u>(7,600)</u>	<u>885,100</u>
			<u>885,100</u>

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

- (i) Equipment purchased on credit from P. Babb for €6,600 has been entered on the incorrect side of Babb's account as €6,060 and as €6,000 in the purchases account.
- (ii) A creditor who was owed €5,500 by Beglin, accepted equipment, the book value of which was €5,200, in full settlement of the debt. The equipment had cost €6,800. No entry had been made in the books in respect of this transaction.
- (iii) A private debt of €1,500 owed to Beglin had been offset in full settlement against a business debt of €1,660 owed by Beglin. No entry had been made in the books in respect of this transaction.
- (iv) Payments from a business bank account for repairs to business premises of €1,000 and insurance of private dwelling of €750 were entered correctly in the bank account but respectively credited to creditors account and credited to the insurance account.
- (v) Beglin sent a cheque for €920 in full settlement of a business debt of €990 and this was recorded correctly in the books. However, no entry had been made in the books for the dishonouring of this cheque and the subsequent payment of the amount **in full** by Beglin from a personal bank account.

Required:

- (a) Journalise the necessary corrections. (52)
- (b) Show Beglin's suspense account. (6)
- (c) Prepare a statement showing the corrected net profit for Beglin. (14)
- (d) Prepare the corrected balance sheet of Beglin. (20)
- (e) Give an example of an error of commission. Will this type of error be revealed by a trial balance? Explain your answer. (8)

(100 marks)