

Q.7
(a)

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Journal Entries	€	€
Debtors	5,200[2]	
Sales		5,200[2]
Equipment		5,000[2]
Provision for depreciation –Equipment	2,200[2]	
Cash	2,500[2]	
Profit & Loss account	300[2]	
Being correction of sale of equipment for cash incorrectly recorded as sale of goods on credit. [1]		
Purchases	13,000[2]	
Creditors		62,000[2]
Equipment	31,000[2]	
Suspense	18,000[3]	
Being correction of purchase of equipment incorrectly treated as purchases for resale. [1]		
Sales returns	800[2]	
Debtor		720[2]
Suspense		80[3]
Being correction of sales returns entered incorrectly into the customer's account and omitted from sales returns account. [1]		
Drawings	1,800[3]	
Discount allowed	100[3]	
Debtors		1,900[3]
Being recording of private debt offset against business debt omitted from the books. [1]		
Purchases returns account		1,600[3]
Creditors	1,600[3]	
Purchases	1,150[3]	
Suspense		1,150[3]
Being correction of incorrect recording of purchases returns and subsequent reduction of credit [1]note.		

(b) Suspense a/c

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Suspense a/c

Creditors (ii)	18,000[2]	Original difference	16,770[1]
		Debtors (iii)	80[2]
		Purchases (v)	<u>1,150[1]</u>
	18,000		18,000

(c) Statement of corrected net profit

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Statement of corrected net profit		
Original net profit as per books		90,000[1]
Purchases returns		1,600[2]
Sales		5,200[2]
		96,800
Less		
Loss on equipment	300[2]	
Purchases	13,000[2]	
Sales Returns	800[1]	
Discount allowed	100[1]	
Purchases	1,150[1]	15,350
Corrected net profit		<u>81,450[2]</u>

(d)

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Balance Sheet as at 31/12/2021				
Fixed Assets		Cost	Dep	NBV
Premises		450,000[1]		450,000
Equipment	(180000-5,000+31,000)(17,000-2,200)	206,000[2]	14,800[2]	191,200
		656,000	14,800	641,200
Current Assets				
Stock		44,000[1]		
Cash		2,500[1]		
Debtors	(73,000-720-1,900+16,770+5,200)	92,350[5]	138,850	
Creditors: Amounts falling due within 1 year				
Creditors	(42,000+62,000-1,600)	102,400[3]		
Bank		41,000[1]		
			143,400	(4,550)
				636,650
Financed By				
Capital			580,000[1]	
Net Profit			81,450[1]	
			661,450	
Drawings	(23,000+1,800)		24,800[2]	
Capital Employed				636,650

(i)

A trial balance is prepared in order to test the accuracy of double entry book keeping before preparing final accounts. A trial balance should have the same total of debits and credits because under double entry book keeping every debit entry should have a corresponding credit entry.

(ii)

Errors not revealed by the trial balance include the following:

- Errors of original entry- errors in the books of first entry
- Errors of principal- errors in the wrong class of account-entering an asset in the expense account.
- Errors of complete omission- where both debit and credit are omitted.
- Errors of commission- posting to wrong account but correct side of correct type of account.
- Compensating entries – where entries of equal value cancel each other out.
- Complete reversal of entries – where the debit entry is on the credit side and the credit is on the debit.