

# Correction of Errors

## Reconciliation and verification

### Trial balance

Candidates should have an understanding of:

- errors which affect the trial balance
- errors which do not affect the trial balance:
  - omission
  - commission
  - principle
  - original entry
  - reversal
  - compensating
- how to prepare ledger accounts and journal entries to correct errors using a suspense account
- the effect on the financial statements of the correction of errors
- the benefits and limitations of a trial balance

- 2 Shamal maintains a full set of accounting records. He has extracted a trial balance at 30 September 2021 that does not balance and he has opened a suspense account for the difference.

Shamal has now identified the following six errors. There were no other errors.

- 1 A payment of \$169 for motor repairs had been correctly entered in the cash book but had been debited to the motor repairs account as \$196.
- 2 The purchase of new machinery, \$670, had been debited to general expenses.
- 3 Discount allowed of \$175 had been entered correctly in the cash book but had not been posted to the discount allowed account.
- 4 The sales journal was totalled at \$86 961. The total should have been \$86 741.
- 5 A cheque for \$425 received from McCann, a credit customer, had been correctly entered in the cash book but had been debited to the sales ledger control account.
- 6 The total of the discount received column in the cash book, \$490, had been entered twice on the correct side of the discount received account.

**REQUIRED**

- (a) Prepare the suspense account at 30 September 2021, clearly identifying the opening balance.

Suspense Account

Details	\$	Details	\$

[6]

- (b) Complete the table to name the type of error in each of the errors 1, 2 and 3 identified by Shamal.

Error	Type of error
1	
2	
3	

[3]

- (c) Explain **two** benefits to a business of preparing a purchases ledger control account.

1 .....

.....

.....

.....

2 .....

.....

.....

.....

[4]

- (d) State **two** items that would appear on the credit side of a purchases ledger control account.

1 .....

2 .....

[2]

[Total: 15]

- 3 Jason is responsible for preparing his business’s accounting records. He has discovered some errors in this year’s accounts.

**REQUIRED**

(a) State **two** types of error which do **not** affect the agreement of the totals of a trial balance.

- 1 .....
- 2 ..... [2]

**Additional information**

When Jason prepared a trial balance on 30 September 2019 the totals did not agree. The total of debit entries was greater than the total of credit entries by \$1140. A suspense account was opened for the difference. Subsequently the following errors were found.

- 1 The total of the sales returns journal was undercast by \$90.
- 2 The owner had withdrawn inventory valued at cost, \$870. The only entry made was to debit the drawings account.
- 3 The total of the discount received column in the cash book, \$180, had been debited to the discounts allowed account.

There were no other errors.

**REQUIRED**

(b) Prepare entries in the general journal to correct these errors. Narratives are **not** required.

General Journal

		Dr	Cr
		\$	\$
1			
2			
3			

[5]



- 2 Simone operates a double entry system of book-keeping.

**REQUIRED**

- (a) Explain why a trial balance may be arithmetically correct even though errors have been identified.

.....

.....

.....

..... [2]

**Additional information**

Simone extracted a trial balance before preparing the financial statements for the year ended 30 June 2020. The totals of the trial balance did not agree.

The following errors were discovered.

- 1 A total of \$5600 from the sales returns journal had been credited to the purchases returns account.
- 2 A motor vehicle costing \$15000, acquired on 1 March 2020, had been posted to the motor expenses account. Simone does not own any other vehicles.
- 3 Discount received of \$750 had not been posted to the discount received account.
- 4 A payment of \$300 for insurance had been entered correctly in the cash book. No other entry had been made.

**REQUIRED**

(b) Prepare the journal entries to correct the errors. Narratives are **not** required.

Simone  
General journal

	Dr \$	Cr \$

[4]



- 3 David, a sole trader, has prepared a trial balance at 31 December 2017 which did not balance. He entered the difference in a suspense account.

**REQUIRED**

- (a) State **two other** uses of a suspense account.

1 .....

.....

2 .....

..... [2]

- (b) State **four** types of error that will **not** be revealed by the trial balance.

1 .....

2 .....

3 .....

4 ..... [4]

**Additional information**

On checking the financial records, David discovered the following errors.

- 1 The credit balance on the bank current account of \$1650 had been entered in the trial balance as a debit balance.
- 2 The total of the purchases returns journal of \$960 had been debited to the returns inwards account.
- 3 A prepayment of \$450 for telephone charges at 1 January 2017 had not been brought down as an opening balance.
- 4 The balance on sales ledger control account at 31 December 2017 of \$13 625 had been carried down as \$13 652.



- 3 Jason prepared the following statement of financial position which contained errors.

Statement of financial position at 31 December 2020

	\$	\$
Non-current assets		
Cost	65 000	
Provision for depreciation	<u>31 000</u>	
		34 000
Current assets		
Inventory	17 390	
Trade receivables	14 800	
Other payables	700	
Bank overdraft	<u>490</u>	
		<u>33 380</u>
		<u>67 380</u>
Capital		
Opening balance	56 950	
Profit for the year	11 270	
Drawings	<u>(18 450)</u>	
		49 770
Non-current liabilities		
Bank loan (repayable March 2021)		4 900
Current liabilities		
Provision for doubtful debts	480	
Other receivables	490	
Trade payables	<u>11 360</u>	
		<u>12 330</u>
		<u>67 000</u>

In addition to some items being recorded in the incorrect sections of the statement of financial position, the following errors have also been discovered.

- 1 Closing inventory had been overvalued by \$510.
- 2 The balance of the rent receivable account, debit \$220, had been included in other payables in the statement of financial position.
- 3 Depreciation at 20% per annum had been charged using the straight-line method instead of the reducing balance method at 20% per annum.
- 4 The balance of the drawings account had been understated by \$580.





(c) Identify **three** types of error which do not affect the balancing of the trial balance.

1 .....

2 .....

3 .....

[3]

[Total: 15]



**Additional information**

Adam has completed the trading section of the income statement. However, some errors had been made.

## Income statement for the year ended 31 December 2020

	\$	\$
Revenue		186 500
Less returns outwards		<u>(3 180)</u>
		183 320
Opening inventory	14 830	
Purchases	93 710	
Less returns inwards	(2 940)	
Add carriage inwards	730	
	<u>106 330</u>	
Less closing inventory	<u>(12 670)</u>	
Cost of sales		<u>93 660</u>
Gross profit		<u>89 660</u>

The following information is also available.

- 1 No record had been made of goods taken for own use by Adam, \$580.
- 2 Closing inventory included 14 damaged items which cost \$30 each. Six of these items cannot be sold and are to be regarded as waste. The remaining items could be sold for \$35 each but will incur total repairs cost of \$56.



