

Q1. Give an example of each of the different types of error which are not revealed by a trial balance.

Q2. Show the journal entries necessary to correct the following errors:

- (a) A sale of goods for Rs.630 to J. Trees had been entered in J. Tees's account.
- (b) The purchase of a printer on credit from D. Hogg for Rs.846 had been completely omitted from our books.
- (c) The purchase of a laptop for Rs.389 had been entered in error in the Office Expenses account.
- (cf) A sale of Rs.260 to G. Lee had been entered in the books, both debit and credit, as Rs.206.
- (e) Commission received Rs.340 had been entered in error in the Sales account.
- (f) A receipt of cash from A. Salmond Rs.130 had been entered on the credit side of the cash book and the debit side of A. Salmond's account.
- (g) A purchase of goods for Rs.410 had been entered in error on the debit side of the Drawings account.
- (b) Discounts Allowed Rs.46 had been entered in error on the debit side of the Discounts Received account.

Q3. A Show the journal entries needed to correct the following errors:

- (a) Purchases Rs.1,410 on credit from A. Ray had been entered in B. Roy's account.
- (b) A cheque of Rs.94 paid for printing had been entered in the cash column of the cash book instead of in the bank column.
- (c) Sale of goods Rs.734 on credit to D. Rolls had been entered in error in D. Rollo's account.
- (d) Purchase of goods on credit L. Hand Rs.819 entered in the correct accounts in error as Rs.891.
- (e) Cash paid to G. Boyd Rs.64 entered on the debit side of the cash book and the credit side of G. Boyd's account.
- (f) A sale of fittings Rs.320 had been entered in the Sales account.
- (g) Cash withdrawn from bank Rs.200 had been entered in the cash column on the credit side of the cash book, and in the bank column on the debit side.
- (b) Purchase of goods Rs.1,182 has been entered in error in the Furnishings account.

Q4. After preparing its draft final accounts for the year ended 31 March 2013 and its draft statement of financial position as at 31 March 2013 a business discovered that the inventory lists used to compute the value of inventory as at 31 March 2013 contained the following entry:

Inventory	Item number	Cost per unit	Total cost
K604	200	Rs.2.62	Rs.5,240

Required:

- (a) What is wrong with this particular entry?
- (b) What would the effect of the error have been on
 - i. the value of inventory as at 31 March 2013?
 - ii. the cost of goods sold for the year ended 31 March 2013?
 - iii. the net profit for the year ended 31 March 2013?
 - iv. the total for Current Assets as at 31 March 2013?
 - v. the Owner's Capital as at 31 March 2013?

Q5. Give the journal entries needed to record the corrections of the following. Narratives are not required.

- (a) Extra capital of Rs.12,000 paid into the bank had been credited to Sales account.
- (b) Goods taken for own use Rs.140 had been debited to Sundry Expenses.
- (c) Private rent Rs.740 had been debited to the Rent account.
- (d) A purchase of goods from F. Smith Rs.530 had been entered in the books as Rs.350.
- (e) Cash banked Rs.620 had been credited to the bank column and debited to the cash column in the cash book.
- (f) Cash drawings of Rs.270 had been credited to the bank column of the cash book.
- (g) Returns inwards Rs.205 from N. Sturgeon had been entered in error in G. Milne's account.
- (b) A sale of an old printer for Rs.70 had been credited to Office Expenses.

Q6. Journal entries to correct the following are required, but the narratives can be omitted.

- (a) Rent Received Rs.430 have been credited to the Commissions Received account.
- (b) Bank charges Rs.34 have been debited to the Business Rates account.
- (c) Completely omitted from the books is a payment of Motor Expenses by cheque Rs.37.
- (d) A purchase of a fax machine Rs.242 has been entered in the Purchases account.
- (e) Returns inwards Rs.216 have been entered on the debit side of the Returns Outwards account.
- (f) A loan from G. Bain Rs.2,000 has been entered on the credit side of the Capital account.
- (g) Loan interest of Rs.400 has been debited to the Van account.
- (b) Goods taken for own use Rs.84 have been debited to the Purchases account and credited to Drawings.

Q7. Thomas Smith, a retail trader, has very limited accounting knowledge. In the absence of his accounting technician, he extracted the following trial balance as at 31 March 2015 from his business's accounting records:

Inventory-in-trade at 1 April 2014		10,700
Inventory-in-trade at 31 March 2015	7,800	
Discounts allowed		310
Discounts received	450	
Allowance for doubtful debts	960	
Purchases	94,000	
Purchases returns	1,400	
Sales		132,100
Sales returns	1,100	
Freehold property: at cost	70,000	
Provision for depreciation	3,500	
Motor vehicles: at cost	15,000	
Provision for depreciation	4,500	
Capital – Thomas Smith		84,600
Balance at bank	7,100	
Trade accounts receivable		11,300
Trade accounts payable	7,600	
Establishment and administrative expenditure	16,600	
Drawings	9,000	
	<u>£239,010</u>	<u>£239,010</u>

Required:

(a) Prepare a corrected trial balance as at 31 March 2015.

After the preparation of the above trial balance, but before the completion of the final accounts for the year ended 31 March 2015, the following discoveries were made:

- The correct valuation of the inventory-in-trade at 1 April 2014 is Rs.12,000; apparently some inventory lists had been mislaid.
- A credit note for Rs.210 has now been received from J. Hardwell Limited; this relates to goods returned in December 2014 by Thomas Smith. However, up to now J. Hardwell Limited had not accepted that the goods were not of merchantable quality and Thomas Smith's accounting records did not record the return of the goods.
- Trade sample goods were sent to John Grey in February 2015. These were free samples, but were charged wrongly at Rs.1,000 to John Grey. A credit note is now being prepared to rectify the error.
- In March 2015, Thomas Smith painted the inside walls of his stockroom using materials costing Rs.150 which were included in the purchases figure in the above trial balance. Thomas Smith estimates that he saved Rs.800 by doing all the painting himself.

(b) Prepare the journal entries necessary to amend the accounts for the above discoveries. Note: narratives are required.

Errors Detected by Trial Balance

There are certain errors that are reflected by the trial balance and trial balance does not balance. These include:

- incorrect additions in any account;
- making an entry on only one side of the accounts, e.g. a debit but no credit; a credit but no debit;
- entering a different amount on the debit side from the amount on the credit side.

Suspense Account:

We should try very hard to find errors when the trial balance totals are not equal. When such errors cannot be found, the trial balance totals can be made to agree with each other by inserting the amount of the difference between the two totals in a suspense account.

Suspense account in the financial statement:

If the errors are not found before the financial statements are prepared, the suspense account balance will be included in the statement of financial position. The balance should be included shown after the figure for net current assets, either as a negative amount (credit balance) or a positive amount (debit balance).

Should suspense account be opened when the trial balance does not agree?

Every attempt should be made to find errors. A suspense account should be opened only if all other efforts have failed, and they never should

Unless it is part of a question, do not make your statement of financial position totals agree by using a suspense account. The same applies to trial balances. Examiners are very likely to penalise you for showing a suspense account when it should not be required.

Suspense accounts have probably been used ever since people first started keeping accounts and using them to produce financial statements. However, just because suspense accounts have been used for a very long time does not mean that they should still be used today.

Long ago, accounting records were very poorly maintained. The people maintaining them were frequently untrained. Errors were fairly common, and no one was very concerned when it proved difficult to find out what had caused a trial balance not to balance, if they even went to the extent of preparing one.

Businesses were largely owned by one person who would often also prepare the financial statements, more out of interest than in order to make much use of what they showed which, before there was some regulation concerning what they presented, was frequently little more than the excess or shortfall of revenue over expenditure.

Nowadays, accounting is far more sophisticated and the people maintaining the accounting records are much better trained. Many organisations use computerised accounting systems and very few organisations of any complexity continue to do everything manually. When they do, their records will be good enough to make tracing an error reasonably straightforward.

Errors of the types that cause trial balances not to balance are, therefore, much less common and much easier to detect. As a result, it is inconceivable that a suspense account will ever be needed in practice when an accountant is involved in preparing or auditing the financial statements.

Nevertheless, circumstances may make it impossible for a sole trader's financial statements to be ready in time, for example, to show the bank manager when asking for a loan. It is probably only in circumstances of this type that you may find suspense accounts still in use, albeit rarely.

An example may be when money is received by post or credited in to the business's bank account with no explanation and no information. It needs to be put somewhere in the ledger accounts, so a suspense account is used while the reason it was sent to the business is identified.

Q1. A trial balance was extracted from the books of N. Paisey, and it was found that the debit side exceeded the credit side by Rs.200. This amount was entered in the suspense account. The following errors were later discovered and corrected:

- i. Purchases were over-summed by Rs.129.
- ii. An amount paid to I. Lane was debited to the control account as Rs.98 instead of Rs.89.
- iii. Sales were under-summed by Rs.62.

Required:

Write up and rule off the suspense account as it would appear in Paisey's ledger.

Q2. Your bookkeeper extracted a trial balance on 31 December 2016 which failed to agree by Rs.860, a shortage on the credit side of the trial balance. A suspense account was opened for the difference.

In January 2017 the following errors made in 2016 were found:

- i. Sales day book had been undercast by Rs.1,205.
- ii. Sales of Rs.980 to I. Blane had been debited in error to I. Blank's account.
- iii. Rent account had been undercast by Rs.404.
- iv. Discounts allowed account had been overcast by Rs.59.
- v. The sale of a computer at net book value had been credited in error to the Sales account Rs.200.

You are required to:

- a) Show the journal entries necessary to correct the errors before closing and after closing books of accounts.
- b) Draw up the suspense account after the errors described have been corrected.
- c) If the net profit had previously been calculated at Rs.58,600 for the year ending 31 December 2016, show the calculations of the corrected net profit.

Q3. You have extracted a trial balance and drawn up accounts for the year ended 31 December 2014. There was a shortage of Rs.78 on the credit side of the trial balance, a suspense account being opened for that amount.

During 2015 the following errors made in 2014 were found:

- i. Rs.125 received from sales of old office equipment has been entered in the sales account.
- ii. Purchases day book had been overcast by Rs.10.
- iii. A private purchase of Rs.140 had been included in the business purchases.
- iv. Bank charges Rs.22 entered in the cash book have not been posted to the bank charges account,
- v. A sale of goods to K. Lamb Rs.230 was correctly entered in the sales book but entered in the personal account as Rs.320.

Required:

- d) (a) Show the requisite journal entries to correct the errors before closing and after closing books of accounts.
- (b) Write up the suspense account showing the correction of the errors.
- (c) The net profit originally calculated for 2014 was Rs.28,400. Show your calculation of the correct figure.

Q4. Show how each of the following errors would affect trial balance agreement:

- i. Computer repairs Rs.140 was debited to the computer account.
- ii. Rs.918 discounts received credited to discounts allowed account.
- iii. Inventory at close undervalued by Rs.2,050.
- iv. Rs.260 commission received was debited to the sales account.
- v. Drawings Rs.106 credited to the capital account.
- vi. Cheque paying Rs.380 to M. Wilson entered in the cash book but not in the personal account.
- vii. Cheque Rs.264 from T. Pane credited to T. Pain.

Use the following format for your answer:

Item	If no effect, state 'No'	Debit side exceeds credit side by amount shown	Credit side exceeds debit side by amount shown

Q5. Following is a trial balance that has been incorrectly drawn up:

Trial Balance at 31 January 2016

	£	£
Capital 1 February 2015	7,845	
Drawings	19,500	
Inventory 1 February 2015		8,410
Trade accounts receivable		34,517
Furniture and fittings	2,400	
Cash in hand	836	
Trade accounts payable		6,890
Sales		127,510
Returns inwards		2,438
Discount received	1,419	
Business expenses	3,204	
Purchases	72,100	
	<u>107,304</u>	<u>179,765</u>

In addition to the mistakes evident above, the following errors were also discovered:

- 1 A payment of Rs.315 made to a creditor had not been posted from the cash book into the purchases ledger.
- 2 A cheque for Rs.188 received from a customer had been correctly entered in the cash book but posted to the customer's account as Rs.180.
- 3 A purchase of fittings Rs.407 had been included in the purchases account.
- 4 The total of the discounts allowed column in the cash book of Rs.42 had not been posted into the general ledger.
- 5 A page of the sales day book was correctly totalled as Rs.765 but carried forward as Rs.675.

Show the trial balance as it would appear after all the errors had been corrected. Show all your workings.

Q6. The trial balance of Mary Harris (Gowns) as at 31 December 2015 showed a difference which was posted to a suspense account. Draft final accounts for the year ended 31 December 2015 were prepared showing a net profit of Rs.47,240. The following errors were subsequently discovered:

- Sales of Rs.450 to C. Thomas had been debited to Thomasson Manufacturing Ltd.
- A payment of Rs.275 for telephone charges had been entered on the debit side of the Telephone account as Rs.375.
- The sales journal had been undercast by Rs.2,000.
- Repairs to a machine, amounting to Rs.390, had been charged to Machinery account.
- A cheque for Rs.1,500, being rent received from Atlas Ltd, had only been entered in the cash book.
- Purchases from P. Brooks, amounting to Rs.765, had been received on 31 December 2015 and included in the closing inventory at that date, but the invoice had not been entered in the purchases journal.

Questions:

- i. Give the journal entries, without narratives, necessary to correct the above errors.
- ii. Show the effect of each of these adjustments on the net profit in the draft financial statements and the correct profit for the year ended 31 December 2015.

Q7. Gail Dawson is the owner of a retail business. She has employed an inexperienced bookkeeper to maintain her accounting records.

(a) On 31 March 2016, the end of the business's accounting year, the bookkeeper extracted the following trial balance from the business's records:

Trial Balance at 31 March 2016		
	Dr £	Cr £
Non-current assets at cost	18,300	
Provision for depreciation of non-current assets, 1 April 2015	2,800	
Inventory		
1 April 2015	3,700	
31 March 2016		2,960
Trade accounts receivable		1,825
Trade accounts payable	864	
Balance at bank (overdrawn)	382	
Capital		26,860
Drawings	7,740	
Sales	26,080	
Purchases		18,327
Running expenses	6,904	
Allowance for doubtful debts	90	
Suspense		16,888
	<u>£66,860</u>	<u>£66,860</u>

Required:

1) A corrected version of Gail Dawson's trial balance dated 31 March 2016 based on the above information, but with an amended figure for the suspense account.

(b) The following errors were found in the accounting system after a corrected version of the trial balance above was prepared.

- i. The total of the sales day book for December 2015 had been overstated by Rs.120.
- ii. In January 2016 some new office equipment had been purchased for Rs.360; this had been debited to the purchases account.
- iii. A payment by cheque to a creditor, Rs.216, had been entered in the books as Rs.261.
- iv. A credit note for Rs.37 sent to a customer had been overlooked.
- v. The owner had withdrawn a cheque for Rs.80 for private use in October 2015; both the bank and drawings account had been credited with this amount.

Required:

In the books of Gail Dawson

2) Journal entries to correct each of these errors.

(Note: narratives are NOT required.)

3) The suspense account. (Start with the amount in the corrected trial balance given in answer to Required 1 above, and include any entries arising from the correction of the errors.)

4) An explanation of the term 'error of commission'. (Give an example of such an error to illustrate your answer.)

Q8. The trial balance as at 30 April 2014 of Timber Products Limited was balanced by the inclusion of the following debit balance:

Difference on trial balance suspense account Rs.2,513.

Subsequent investigations revealed the following errors:

- i. Discounts received of Rs.324 in January 2014 have been posted to the debit of the discounts allowed account.
- ii. Wages of Rs.2,963 paid in February 2014 have not been posted from the cash book.
- iii. A remittance of Rs.940 received from K. Mitcham in November 2013 has been posted to the credit of B. Mansell Limited.
- iv. In December 2013, the company took advantage of an opportunity to purchase a large quantity of stationery at a bargain price of Rs.2,000. No adjustments have been made in the accounts for the fact that three-quarters, in value, of this stationery was in the inventory on 30 April 2014.
- v. A payment of Rs.341 to J. Winters in January 2014 has been posted in the personal account as Rs.143.
- vi. A remittance of Rs.3,000 received from D. North, a credit customer, in April 2014 has been credited to sales.

The draft accounts for the year ended 30 April 2014 of Timber Products Limited show a net profit of Rs.24,760.

Timber Products Limited has very few personal accounts and therefore does not maintain either a purchases ledger control account or a sales ledger control account.

Required:

- a. Prepare the difference on trial balance suspense account showing, where appropriate, the entries necessary to correct the accounting errors.
- b. Prepare a computation of the corrected net profit for the year ended 30 April 2014 following corrections for the above accounting errors.
- c. Outline the principal uses of trial balances.