

IGCSE Accounting Errors

1 Dylan Kelly is a trader. After the preparation of his draft income statement for the year ended 28 February 2015 some errors were discovered.

REQUIRED

(a) Complete the following table to show by how much correcting each of the errors would affect the profit for the year.

Error	Increase	Decrease
	\$	\$
Sales returns, \$420, had not been recorded		
Inventory on 1 March 2014 was overstated by \$1500		
The income statement included rent and rates, \$6150, for 15 months to 31 May 2015		
Discount allowed, \$180, had been recorded as discount received		

Answer:

Error	Increase	Decrease
	Þ	\$
Sales returns, \$420, had not been recorded		420
Inventory on 1 March 2014 was overstated by \$1500	1500	
The income statement included rent and rates, \$6150, for 15 months to 31 May 2015	1230	
Discount allowed, \$180, had been recorded as discount received		360

After the correction of the errors on 28 February 2015, Dylan Kelly provided the following information.

	\$
Inventory	9900
Trade receivables	7350
Trade payables	6870
Bank	1120 debit
Loan repayable 30 June 2015	5000

(b) Calculate the quick ratio. The calculation should be correct to two decimal places.

2

Answer: (7350 + 1120) : ((6870 + 5000) 8470 : 11 870 0.71 : 1

(c)	Comment on your answer to (b).
Answer	: Liquid assets are less than the current liabilities.
	Cannot meet the immediate liabilities from the immediate assets Is dependent on selling inventory to meet the current liabilities.
	Is below the generally accepted "benchmark"/is inadequate/unsatisfactory Or other suitable comment based on the answer to (b).
(d)	State how the calculation of the quick ratio differs from the calculation of the current ratio.
Answer	Excludes the inventory from the calculation.
2 Car	riage outwards, \$600, was posted as \$400 to the debit side of the carriage inwards account.
Whi	ch effect did the correction of this error have on the draft profit for the year?
А	decrease \$200
В	decrease \$1000
С	increase \$200
D	increase \$1000
Answer:	A. decrease \$200
3 Abo	doulaye received a cheque from Pierre which was subsequently dishonoured.

3

REQUIRED

(a) State what is meant by a dishonoured cheque.

Answer: The debtor's bank refused payment.

(b) State how Abdoulaye recorded the dishonouring of the cheque.

Account debited	Account credited

Answer:

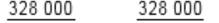
Account debited	Account credited
Pierre	Bank

(c) Name the statement prepared by Abdoulaye to ensure that his bank account is free from error.

Answer: Bank reconciliation statement

4 Sally Rickard is a trader. Despite having little knowledge of book-keeping, she decided to prepare a trial balance at the end of her financial year on 31 October 2015. The trial balance she prepared was as follows.

	S S	\$
Revenue	160 400	
Purchases		99 300
Wages	27 000	
Motor expenses	1 600	
General expenses	7 250	
Premises at cost	80 000	
Equipment and fixtures at cost	10 000	
Motor vehicle at cost	13 930	
Provision for depreciation of equipment and fixtures		1 050
Provision for depreciation of motor vehicle		5 750
Trade receivables	26 800	
Provision for doubtful debts	670	
Trade payables		8 150
Cash	350	
Bank overdraft		4 810
Loan from AB Loans		10 000
Drawings		12 500
Capital (balancing figure)		186 440
	220.000	220.000



In addition to the obvious errors in the trial balance, the following errors were also discovered.

- 1 General expenses paid in cash, \$150, had not been recorded.
- 2 Motor expenses, \$430, had been debited to the motor vehicles account.
- 3 A cheque, \$260, received from a credit customer had been credited to the bank account

and debited to the customer's account.

REQUIRED

(a)	For each of the items 1-3 state the type of error that was made.
Error	· 1
Error	· 2
Error	· 3

Answer: Error 1 – Error of omission Error 2 – Error of principle Error 3 – Error of reversal

(b) Prepare a corrected trial balance at 31 October 2015.

	Sally Rickard		
	Corrected Trial Balance at 31	October 2	015
		Debit	Credit
		\$	\$
	Revenue		
	Purchases		
	Wages		
	Motor expenses		
	General expenses		
	Premises at cost		
	Equipment and fixtures at cost		
	Motor vehicle at cost		
	Provision for depreciation of equipment and fixtures		
	Provision for depreciation of motor vehicle		
	Trade receivables		
	Provision for doubtful debts		
**	Trade payables		
	Cash	•••••	•••••
	Bank overdraft		
	Loan from AB Loans	•••••	
	Drawings		
	Capital		

	Debit	Credit
	\$	\$
Revenue		160 400
Purchases	99 300	
Wages	27 000	
Motor expenses (1600 + 430)	2 030	
General expenses (7250 + 150)	7 400	
Premises at cost	80 000	
Equipment and fixtures at cost	10 000	
Motor vehicle at cost (13930 – 430)	13 500	
Provision for depreciation of equipment and fixtures		1 050
Provision for depreciation of motor vehicles		5 750
Trade receivables (26 800 – 520)	26 280	
Provision for doubtful debts		670
Trade payables		8 150
Cash (350 – 150)	200	
Bank overdraft (4810 – 520)		4 290
Loan from AB Loans		7 10 000
Drawings	12 500	
Capital		95 000
Inventory 1 November 2014	7 100	
	285 310	285 310
	205 310	205 310

Sally Rickard Corrected Trial Balance at 31 October 2015

After the trial balance was corrected, Sally Rickard attempted to prepare an income statement to calculate her profit for the year, but made some errors.

REQUIRED

(c) Complete the table, by placing a tick (\Box) in the appropriate column, to show how correcting each of the following errors would affect the profit for the year.

Name the accounting principle being applied. The first one has been completed as an example.

	Effect on profit			
	Increase	Decrease	Accounting principle	
The depreciation charge had been calculated at a lower rate than in previous years.		~	Consistency	
An amount owing by a credit customer should have been written off.				
General expenses included rates which were prepaid until 31 December 2015.				
Goods invoiced and despatched to a customer were not recorded as the customer did not receive them until 3 November 2015.				
No record had been made of goods taken for personal use.				

			NO.
	Effect o	on profit	Accounting
	Increase	Decrease	principle
An amount owing by a credit customer should have been written off			Prudence OR Accruals / matching
The general expenses includes rates which were prepaid until 31 December 2015.	10		Accruals/ ₁ matching 1
Goods invoiced and despatched to a customer were not recorded as the customer did not receive them until 3 November 2015	50.		Realisation ₁
No record had been made of goods taken for personal use	✓		Business Entity _I

5 A receipt of \$800 from Jamal, a credit customer, was recorded as a receipt of \$880 in the account of James.

7

Which entries are needed to correct this error?

	Account(s) debited	\$	Account(s) credited	\$
Α	Jamal	800	James	880
	Suspense	80		
в	Jamal	880	James	800
			Suspense	80
С	James	800	Jamal	880
	Suspense	80		
D	James	880	Jamal	800
			Suspense	80

- 6 Financial statements must be free from error and bias. Which accounting policy is being applied?
 - A comparability
 - B relevance
 - C reliability
 - D understandability
- Answer: C. reliability

- 7 Leroy prepared a trial balance on 30 September 2015 which failed to balance. He opened a suspense account. He then discovered the following errors.
 - 1 Discount allowed, \$30, had been posted to the credit side of the discount received account.

2 Receipt of cash, \$85, from Yolanda, a credit customer, had been credited to the account of Joanie.

3 The total of the sales returns journal, \$110, had been posted as \$100.

An invoice totalling \$1000 for computer equipment and supplies had included a charge of \$150 for stationery. The total amount had been posted to the office equipment account.

REQUIRED

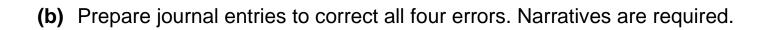
(a) State which two of these errors did not affect the balancing of the trial balance and in each case name the type of error which had occurred.

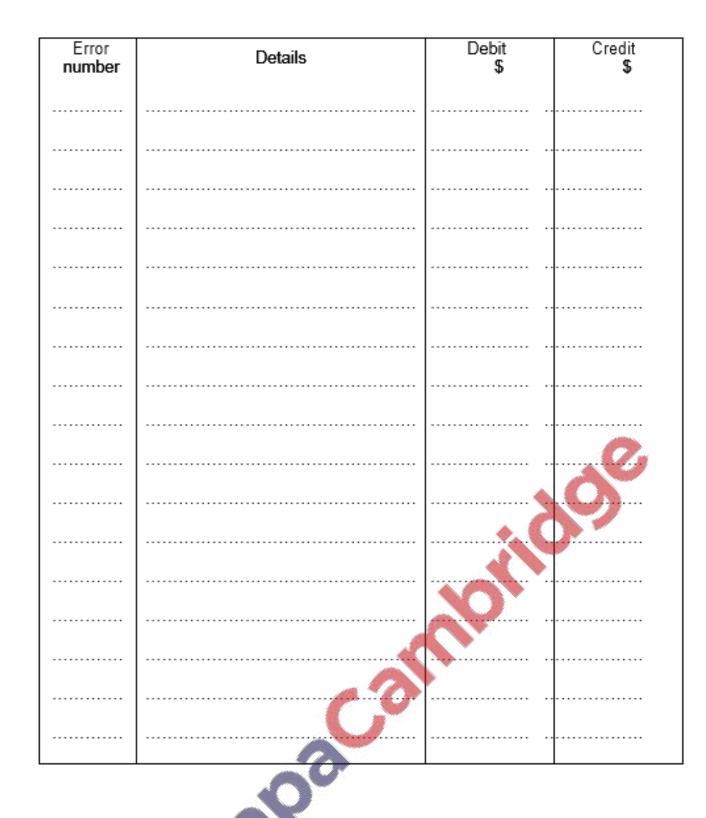
Error	
Name	
Error	
Name	

8

Answer:

Error 2	Error of commission
Error 4	Error of principle





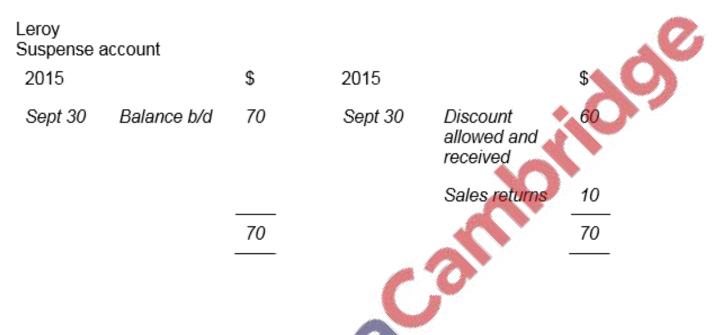
Error	20	Debit \$	Credit \$
1	Discount allowed Discount received Suspense Correction of misposting of discounts	30 30	60
2	Joanie Yolanda Correction of misposting of receipt of cash	85	85
3	Sales returns Suspense Correction of misposting of sales returns journal total	10	10
4	Stationery Office equipment Correction of revenue expenditure treated as capital expenditure	150	150

(c) Prepare the suspense account, showing the original difference on the trial balance.

Date	Details	\$ Date	Details	\$
2015 Sept 30		 2015 Sept 30		

Leroy Suspense account

Answer:



8 Leroy had a draft profit for the year of \$5170 before the errors were corrected.

REQUIRED

Complete the following table to calculate the correct profit for the year. Where an error has no effect on profit, place a tick () in the No Effect column.

	No Effect	Increase \$	Decrease \$	\$
Draft profit				5170
Error 1				
Error 2				
Error 3				
Error 4				
Corrected profit				

	No effect	Increase \$	Decrease \$	\$
Draft profit				5 170
Error 1			60	
Error 2	~			
Error 3			10	
Error 4			150	
Corrected profit				4 950

9 The totals of Harum's trial balance prepared on 31 March 2017 did not agree. Harum recorded the difference in a suspense account.

On checking the accounting records various errors were discovered.

REQUIRED

(a) Complete the following table to show the entries required to correct each error. The first one has been completed as an example.

	Entry re	quired to	correct the error		
Error	Debit		Credit		
	Account	\$	Account	\$	
Goods returned, \$310, to Ali, a credit supplier, had been entered into the account of Alam.	Ali	310	Alam	310	
Wages paid in cash, \$1200, had been correctly entered in the cash book but posted to the wages account as \$2100. The total of the general expenses column in the petty cash book, \$48, had not been posted to the general					
expenses account. The total of the discount received column in the cash book, \$114, had					
been debited to the discount allowed account.					

Error	Entry required to correct the error					
	De	ebit		Credit		
	Account	\$		Account	\$	
Goods returned, \$310, to Ali, a credit supplier entered into the account of Alam.	Ali	310		Alam	310	
Wages paid in cash, \$1200, had been correctly entered in the cash book but posted to the wages account as \$2100.	Suspense	900		Wages	900	
The total of the general expenses column in the petty cash book, \$48, had not been posted to the general expenses account.	General expenses	48		Suspense	48	
The total of the discount received column in the cash book, \$114, had been debited to the discount	Suspense	228		Discount allowed	114	
allowed account				Discount received	174	

Harum knows that he should consider four objectives when selecting accounting policies.

REQUIRED

(b) Name four objectives Harum should apply. The first one has been completed as an example.

1 Relevance

2

- 3.....
- 4.....

Anwer: Comparability Reliability Understandability

10 Heng discovered that the following errors had been made in his accounting records.

1 Repairs to office equipment, \$281, had been correctly entered in the cash book, but had been entered in the office equipment account.

- 2 A sales invoice issued to AB Stores had been overcast by \$100.
- 3 The balance of the petty cash book, \$150, had not been entered in the trial balance.

4 General expenses, \$1120, had been correctly entered in the cash book, but had been entered in the general expenses account as \$1210.

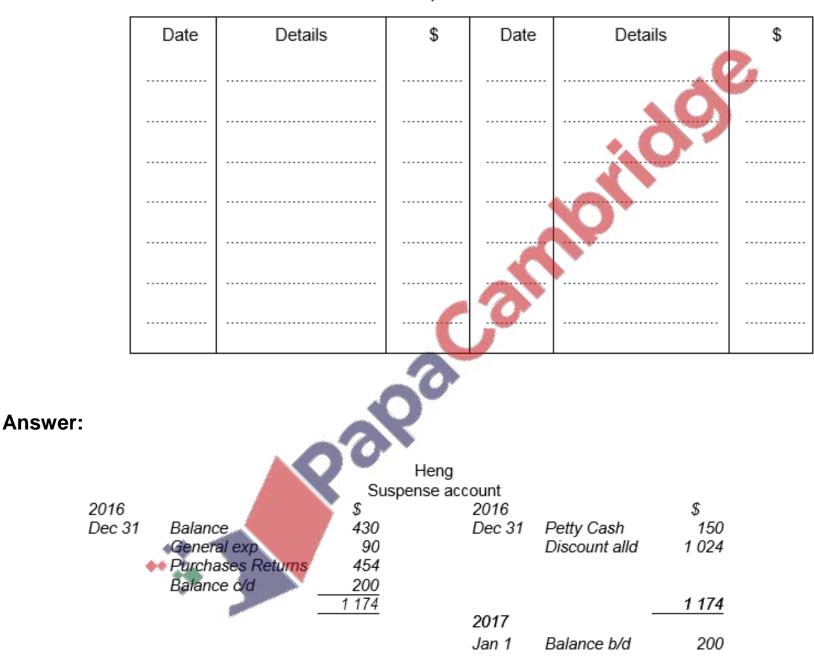
5 The total of the discount allowed column in the cash book, \$1024, had not been transferred to the discount allowed account in the ledger.

6 A cheque, \$2060, paid to AK Suppliers, had been debited in the cash book (which had a positive balance) and credited to the account of AK Suppliers.

7 The total of the purchases returns account, \$454, had not been entered in the trial balance.

REQUIRED

(a) Prepare the suspense account in Heng's ledger to show the required entries. The account should be balanced or totalled as necessary.



Heng Suspense account

(b) State whether all the errors in Heng's books have been discovered. Give a reason for your answer.

Have all errors been discovered?

Reason

.....

Answer: Either

All the errors have not been found There is still a balance on the suspense account Or – if the suspense account in (c) is closed – All the errors have been discovered There is no balance remaining on the suspense account

(c) Complete the table to show the effect of each of the errors. Where an error has no effect, write 'No effect'.

The first one has been completed as an example.

Error	Profit for the year \$	Non-current assets \$	Current assets \$	Current liabilities \$
1	281 overstated	281 overstated	No effect	No effect
2				0
3				
4				
5				
6				
7				

Answer:

	1						
wer:							
Error	Profit for the year	Non-current assets	Current assets	Current liabilities			
	\$	\$	\$	\$			
1	281 overstated	281 overstated	No effect	No effect			
2	100 overstated	No effect	100 overstated	No effect			
3	No effect	No effect	150 understated	No effect			
4	90 understated	No effect	No effect	No effect			
5	1024 overstated	No effect	No effect	No effect			
6	No effect	No effect	4 120 overstated Or 2 060 overstated	4 120 overstated Or 2 060 overstated			
7	454 understated	No effect	No effect	No effect			

11 Amina is a trader. Her financial year ends on 31 December.

The totals of her trial balance on 31 December 2016 did not agree. Amina entered the difference in a suspense account and prepared draft financial statements.

The following errors were later discovered.

- 1 One page of the sales journal had been undercast by \$1000.
- 2 Repairs to office equipment, \$484, had been treated as capital expenditure.

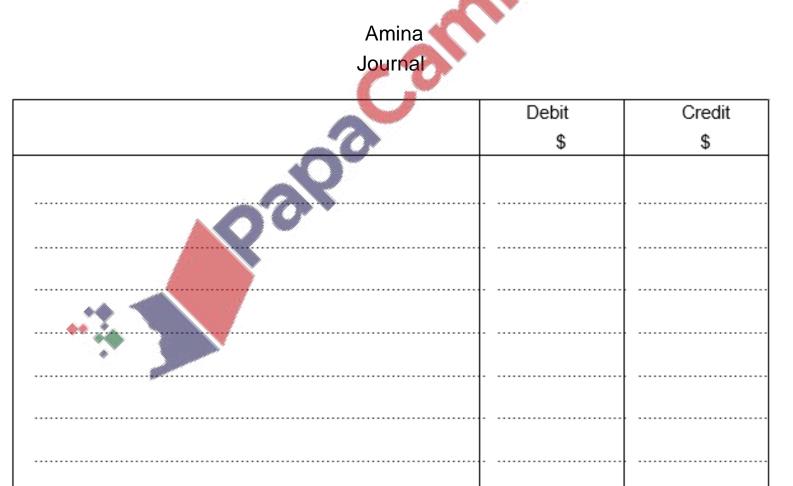
3 The total of the sales returns journal, \$960, had been credited to the purchases returns account in the ledger.

4 The bank balance, \$1500, had been treated as a bank overdraft in the trial balance.

5 A credit note received from AK Stores for \$210 had been correctly entered in the purchases returns journal but had been credited to the account of the supplier as \$120.

REQUIRED

(a) Prepare the journal entries to correct errors 3–5. Narratives are not required.



Amina Journal			
	Debit	Credit	
	\$	s	
Sales returns	960		
Purchases returns	960		
Suspense		1 920	
No entry	-		
Suspense		3 000	
AK Stores	330		
Suspense		330	

(b) Complete the following table to show the effect, if any, that correcting each error would have on the draft profit. Where an error has no effect on profit, place a (\Box) in the No Effect column.

	Effect on draft profit for the year of correcting the error		
Error	Increase \$	Decrease \$	No Effect
1			
2		6.9	
3			
4			
5			

Answer:

	Effect on draft pr	ofit for the year of co	precting the error
Error	Increase \$	Decrease \$	No effect
1	1 000		
2		484	
3		1 920	
4			~
5			~

12 Satish has a financial year end of 30 June. On 30 June 2017 he prepared the following trial balance.

Satish		
Trial Balance at 30 June 2017		

	Debit \$	Credit \$
Revenue	Ŧ	53 030
Purchases	33 200	
Fixtures and fittings	12 000	
Provision for depreciation		
on fixtures and fittings		3 000
Trade receivables	3 100	
Trade payables		1 900
Inventory at 1 July 2016	4 450	
Rent	6 000	
Wages	2 800	
Other operating expenses	4 180	
Drawings	10 900	
Capital		14 200
Bank		600
	76 630	72 730

Additional information

- Satish calculated a draft gross profit for the year ended 30 June 2017 of \$20 000. This 1 calculation used a valuation of closing inventory of \$4620.
- Depreciation for the year, \$1500, had yet to be provided. 2

The books of account contained errors and the totals of the trial balance did not agree. Satish therefore opened a suspense account, and then discovered the following errors.

- A sale on credit, \$400, had been completely omitted from the books. 1
- Closing inventory included \$550 for inventory which had been damaged and now had no 2 value, but this had not been written off.
- The purchases journal for June had been undercast by \$100. 3
- Capital introduced of \$2000 had been correctly entered in the cash book but debited in the 4 drawings account. ۱ کې کې

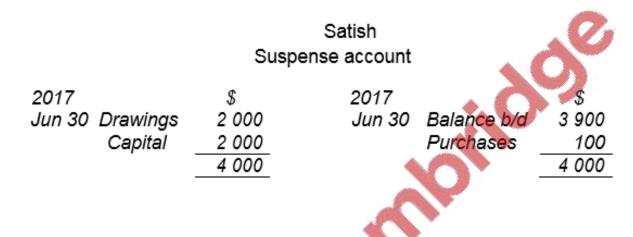
REQUIRED

Prepare the suspense account, showing the opening balance and the entries correcting the (a) errors. See next page.

Satish Suspense account

Date	Details	\$ Date	Details	\$

Answer:



(b) (i) Complete the following statement to calculate the correct gross profit for the year. Where an error has no effect on gross profit, place a tick (3) in the No Effect column.

Satish Statement of correction of gross profit for the year ended 30 June 2017

No Effect	Increase	Decrease	
	\$	\$	\$
Draft gross profit			20 000
error 1			
* Error 2			
Error 3			
Error 4			
Corrected gross profit			

Satish Statement of correction of gross profit for the year ended 30 June 2017

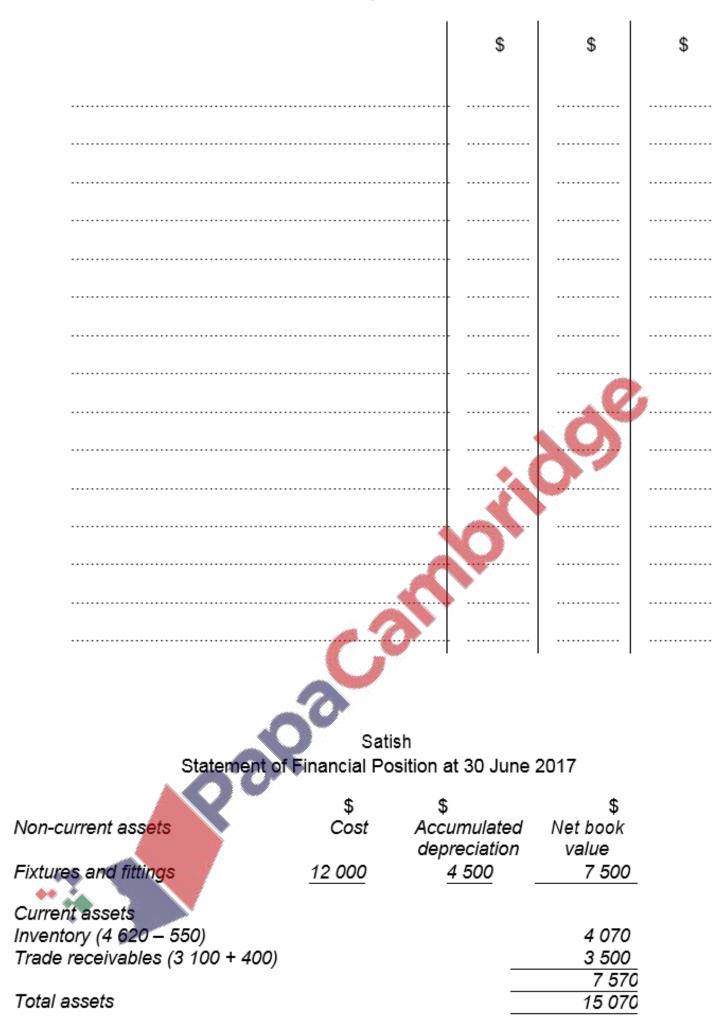
	No Effect	Increase \$	Decrease \$	\$
Draft gross profit				20 000
Error 1		400		
Error 2			550	
Error 3			100	
Error 4	~			
		. 400 .	650	<u>(</u> 250)
Corrected gross profit				19 750

(ii) Calculate the profit for the year ended 30 June 2017.

			0	
		R		
Answer:		\$	\$	
	Corrected gross profit		19 750	
	Rent	6 000		

Wages	2 800	
Other operating expenses	4 180	
Depreciation	1 500	14 480
Profit for the year		5 270

(c) Prepare Satish's statement of financial position at 30 June 2017.



Satish Statement of financial position at 30 June 2017

Answer:

Capital at 1 July 2016	14 200
Capital introduced	2 000
Profit	5 270
	21 470
Drawings	8 900
Capital at 30 June 2017	12 570
Current liabilities	
Trade payables	1 900
Bank	600
Total liabilities	2 500
	15 070

- **13** On 30 September 2017 Ben calculated his profit for his first six months of trading. The following errors were then discovered.
 - Error 1 \$500 received from the sale of old shop fittings (book value \$550) was debited to the cash account and credited to the sales account. No other entries were made to record this disposal.
 - Error 2 6 months' loan interest was treated as part-repayment of the loan.
 - Error 3 The shop fittings account was debited with \$1450. Of this \$1300 was for new shop fittings and the balance was for repairs.

REQUIRED

(a) Complete the following table to indicate the **effect** of **each** of the errors. The first one has been completed as an example.

	Effect o	Effect on assets		n liabilities	Effect on profit	
	Overstated	erstated Understated Ove		Understated	Overstated	Understated
	\$	\$	\$	\$	\$	s
Error 1	550	-	-	-	450	_
Error 2						
Error 3						
er:				20		

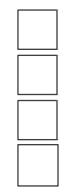
Answer:

	Effect on assets		Effect on liabilities		Effect on profit	
	Overstated	Understated	Overstated	Understated	Overstated	Understated
	\$	\$	C S	\$	s	\$
Error 1	550		-	_	450	_
Error 2	-	00	_	375	375	_
Error 3	150				150	
		and the second sec				

14 Narinder made a short-term loan to Seema. Narinder's draft statement of financial position showed this loan as a current liability.

What was the effect of this error?

- A current assets understated
- B current liabilities understated
- C non-current liabilities overstated
- D owner's capital overstated



- **15** Sanjay, a trader, prepared his trial balance on 31 January 2018. The totals of the trial balance did not agree. Sanjay entered the difference, a credit balance of \$1110, in a suspense account. The following errors were later discovered.
 - 1 The wages account had been undercast by \$270.
 - 2 Rent received, \$1000, had been correctly entered in the bank account but no other entry had been made.
 - 3 Goods purchased on credit from Simon, \$680, had been correctly entered in the purchases account but had been posted to the account of Simone.
 - 4 No entry had been made for stationery, \$35, paid in cash.
 - 5 Motor vehicle repairs, \$700, had been debited to the motor vehicles account.
 - 6 Purchases returns, \$190, had been correctly entered in the supplier's account but had been debited to the sales returns account.

REQUIRED

(a) State two purposes of a trial balance.

1

2

Answer: Useful as a basis for preparing financial statements Check arithmetical accuracy of the double entry

(b) Name the type of error made in 3, 4 and 5.

Error 3	
	,

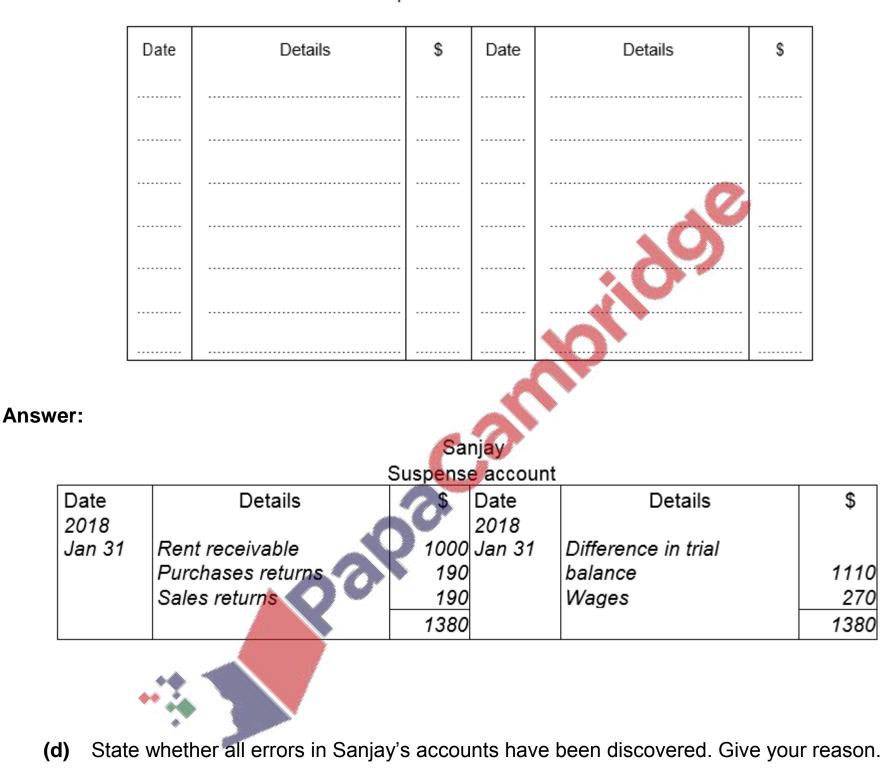
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Error 4

Error 5

Answer: Error 3 commission Error 4 omission Error 5 principle

(c) Prepare the suspense account making the necessary entries to correct errors. Balance or total the account as required.



Sanjay Suspense account

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.....

Answer: Yes/no

Errors affecting the trial balance have all been discovered as the suspense account has been cleared

Sanjay's draft profit for the year ended 31 January 2018 was \$24 250 before any errors were corrected.

REQUIRED

(e) Complete the statement to show the corrected profit for the year ended 31 January 2018. If an error has no effect on profit place a tick (3) in the 'No Effect' column.

	No Effect	Increase \$	Decrease \$	\$
Draft profit				24 250
Error 1				
Error 2				
Error 3				0.
Error 4				A
Error 5				
Error 6				
Corrected profit				
		Car		

Statement of corrected profit for the year ended 31 January 2018

Answer:

Statement of corrected profit for the year ended 31 January 2018

	No Effect	Increase \$	Decrease \$	\$
Draft profit	00			24250
Error 1			270	
Error 2		1000		
Error 3	1			
Error 4			35	
Error 5			700	
Error 6		*380		
		1380	1005	375
Corrected profit				24625
*(1)correct position (1) correct figure				

16 Amaira is an office equipment wholesaler. Her financial year ends on 31 January.

Amaira has little knowledge of accounting but attempted to prepare financial statements on 31 January 2018.

The statement of financial position (containing errors) which Amaira prepared on 31 January 2018 was as follows.

	\$
Premises at cost	85 000
Fixtures and fittings at cost	40 000
Trade receivables	14 000
Drawings	7 000
Inventory at 1 February 2017	18 000
Bank overdraft	7 241
	171 241

Capital at 1 February 2017	100,000
Profit for the year	14 735
Provision for doubtful debts at 1 February 2017	450
Provision for depreciation of fixtures and fittings at 31	January 2018 19 520
Trade payables	15 144
Loan from EasyLoans (repayable 30 June 2018)	20 000
	169 849
Balance	<u> </u>

The opening inventory was \$2000 lower than the closing inventory.

In addition to the obvious errors in the statement of financial position the following errors were discovered.

171 241

- 1 On 1 August 2017 a motor vehicle costing \$11 000, was purchased by cheque. This was only recorded in the cash book. The motor vehicle should be depreciated by 25% per annum from the date of purchase.
- 2 No entry has been made for bank charges, \$150.
- 3 No adjustment has been made to the provision for doubtful debts which should be maintained at 3% of trade receivables at the end of each financial year.
- 4 The balance of the petty cash book, \$90, was not included in the statement of financial position.

REQUIRED

(a) Prepare a corrected statement of financial position at 31 January 2018.

The calculation of the corrected profit for the year should be shown with in the statement or as a separate calculation.

See next page.



Amira Corrected Statement of Financial Position at 31 January 2018



Amaira Corrected Statement of Financial Position at 31 January 2018

Assets	\$	\$	\$
Non-current assets	Cost	Depreciation	Book
Bramiana	95 000	to date	value
Premises Fixtures and fittings	85 000 40 000	19 520	85 000 20 480
Motor vehicle	11 000	1 375	9 625
	136 000	20 895	115 105
	100 000	20 030	110 100
Current assets Inventory (18 000 + 2 0	00)		20 000
Trade receivables		14 000	
Less Provision for doub (3% × 14 000)	tful debts	420	13 580
Petty cash			90
			33 670
Total assets			148 775
Capital and liabilities			
Capital			(00.000
Opening balance Plus Profit for the year	(14 735 - 1375)		100 000
– 150 + (450 – 420))	[14 / 35 - 15/5]		13 240
= 100 · (400 = 420))			113 240
Less Drawings			7 000
	- C		106 240
o			
Current liabilities			45 444
Trade payables Bank overdraft (7 241 ·	+ 150		15 144 7 391
-	+ 130)		
Loan – EasyLoans	101		20 000 42 535
			42 000
Total capital and liabilit	ties		148 775

REQUIRED

(b) Prepare Amaira's capital account for the year ended 31 January 2018. Balance the account and bring down the balance on 1 February 2018.

Amaira Capital account

Date	Details	\$ Date	Details	\$

Answer:

Amaira Capital account

Date 2018	Details	\$	Date 2017	Details	\$
Jan 31	Drawings	7 000	Feb 1	Balance b/d	100 000
	Balance c/d	106 240	2018		2
			Jan 31	Profit for year	
					13 240
		113 240			113 240
			2018		
			Feb 1 🏉	Balance b/d	
					106 240

(c) Suggest two reasons why Amaira's employees would be interested in Amaira's financial statements.



Answer: To see if the business is likely to continue operating To assess job security

To assess likelihood of wage increases

(d) Suggest two additional reasons why the manager of Amaira's business would be interested in Amaira's financial statements.

Answer: Any points listed in (c) above provided not awarded in that section

- To compare results with previous years
- To compare results with other businesses

To assess past performance

- To see where improvements can be made/take remedial action
- To compare with budgets and forecasts
- **17** Mai is a trader. At the end of her financial year on 31 March 2018 she opened a suspense account with a debit balance of \$650.

REQUIRED

1.....

2.....

(a) State two reasons why it was necessary for Mai to open a suspense account.

Answer: To balance the trial balance Because there are errors on the trial balance To allow draft financial statements to be prepared

Mai discovered that some errors had been made in her accounting records.

REQUIRED

(b) Complete the following table to show the entries required to correct each error. The first one has been completed as an example. See next page.

.....

.....

		entries re	equired t	o correct the error	
	error	debit		credit	
		account	\$	account	\$
1	motor expenses, \$150, debited to motor vehicles account	motor expenses	150	motor vehicles	150
2	carriage inwards, \$120, debited to carriage outwards account				
3	sales journal overcast by \$1000				
4	wages, \$460, debited to wages account as \$640			<u>s</u>	
				id	

		entries required to correct the error					
error		debit		credit			
		account	\$	account	\$		
1	motor expenses, \$150, debited to motor vehicles account	motor expenses	150	motor vehicles	150		
2	carriage inwards, \$120, debited to carriage outwards account	carriage inwards	120	carriage outwards	120		
3	sales journal overcast by \$1000	sales not sales journal	1000	suspense	1000		
4	wages, \$460, debited to wages account as \$640	suspense	180	wages	180		
	wages account as \$640						

(c) State whether all the errors in Mai's books have been discovered.

Give a reason for your answer.

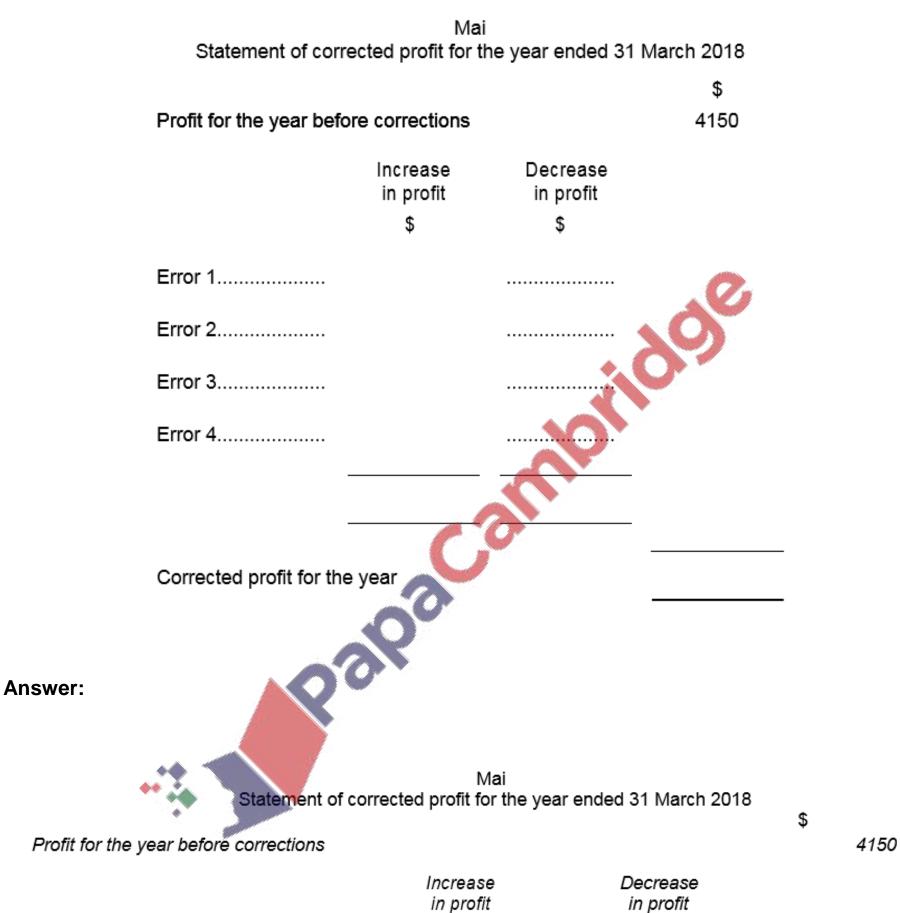
Have all the errors been discovered?.....

Reason.....

.....

Answer: All errors have not been discovered The suspense account will not be closed (\$650 + \$180 on debit and \$1000 on credit)

(d) Complete the statement to show the effect on the profit for the year of correcting errors 1–4. Where the error does not affect the profit write "no effect".



Error 1		150	
Error 2	No effect		
Error 3		1 000	
Error 4	<u> </u>	1 150	970
Corrected profit for the year			3 180

31

\$

\$

- **18** Chandra calculated a draft profit of \$8760 for the year ended 31 January 2018. The following errors were later discovered.
 - 1 Advertising expenses owing at the year-end had been overstated by \$100.

2 Interest payable on a 6% bank loan of \$10 000 had been omitted. The loan was taken on 1 February 2017.

- 3 Cost of petrol, \$89, for Chandra's personal use had been recorded as a business expense.
- 4 Motor vehicle repairs, \$210, had been recorded as motor insurance.

REQUIRED

(a) Complete the statement to show the corrected profit for the year ended 31 January 2018. If an error has no effect on profit place a tick (\checkmark) in the No Effect column.

			No Effect	Increase	Decrease	
				\$	s	\$
		Draft profit			0.	8760
		Error 1				
		Error 2				
		Error 3				
		Error 4		0		
		Corrected profit	0			
Answ	er:	Statement of r	revised profit for the	e year ended 31 .	January 2018	
			No Effect	Increase \$	Decrease \$	\$
	Draf	t profit		Ψ	Ψ	φ 8 760
	Erro			100		
				,00	600	
	Erro	14			000	

Error 3		89		
Error 4	~			
		189	600	(411)
Corrected profit				8 349

(b) Name the accounting principle being applied when correctly dealing with the transaction in error 3. Give a reason for your answer.

Accounting principle

Reason

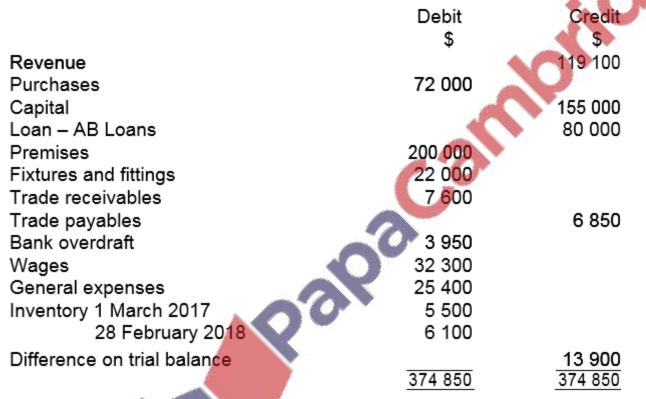
.....

Answer: Business entity

Owner's transactions should be kept separate from those of the business

19 Despite having little knowledge of book-keeping, Nabil decided to prepare a trial balance at the end of his financial year on 28 February 2018.

The trial balance he prepared, which contains errors, was as follows



The following errors were later discovered.

- 1 Nabil's cash drawings, \$10 000, had been posted to the wages account.
- 2 No entry had been made for purchases returns, \$150.
- 3 \$140 owed by a credit customer should have been written off as a bad debt.
- 4 No entry had been made for bank charges, \$210.
- 5 The balance of the petty cash book, \$100, had been omitted from the trial balance.

REQUIRED

(a) Prepare a corrected trial balance at 28 February 2018. See next page.

Nabil Corrected Trial Balance at 28 February 2018

\$	\$
	<u>)</u>
·····	
Balance at 201 estuary 2010	
\$	\$ 119 100
	19 100
	155 000
,	80 000
200.000	
	Nabil Balance at 28 February 2018 \$ 72 000

Premises	200 000	
Fixtures and fittings	22 000	
Trade receivables (7 500 – 140)	7 460	
Trade payables (6 850 – 150)		6 700
Bank overdraft (3 950 + 210)		4 160
Wages (32 300 – 10 000)	22 300	
General expenses	25 400	
Inventory 1 March 2017	5 500	
Drawings	10 000	
Purchases returns		150
Bad debts	140	
Bank charges	210	
Petty cash	100	
	365 110	365 110

20 After calculating her profit for the year ended 31 March 2018, Sophia discovered some errors had been made in her accounting records.

Error 1 Rent received from a tenant had been credited to the premises account.

Error 2 Legal costs on the purchase of a new warehouse had been debited to the general expenses account.

Error 3 Roof repairs to the existing warehouse had been debited to the premises account.

Error 4 Capital introduced had been included in the cash sales.

REQUIRED

(a) Complete the following table by placing a tick (3) in the correct column to indicate the effect of each of the errors.

The first one has been completed as an example.



Answer:

error		profit for the ear	effect on closing capital		pital
	overstated	understated	overstated	understated	no effect
error 1		~		✓	
error 2		*		~	
error 3	~		~		
error 4	~				1

21 A trader compared his bank statement with his cash book. He found that the bank statement had included the bank charges twice in error and that one deposit had not yet been credited.

How are these items treated in a bank reconciliation statement which starts with the cash book balance?

	bank charges in error	uncredited deposit
Α	added	added
в	added	subtracted
с	subtracted	added
D	subtracted	subtracted

Answer: D.

22 Agatha depreciates her fixtures and fittings at the rate of 10% per annum.

On 1 January 2015 she bought new fixtures and fittings costing \$800. In error she debited the repairs account with the purchase.

What was the effect of this error on the profit for the year ended 31 December 2015?

- \$720 overstated Α
- в \$720 understated
- С \$880 overstated
- D \$880 understated

Answer: B. \$720 understated

- 23 Akira, a trader in engine components, prepared his draft financial statements. He then found the following errors.
 - A sale on credit, \$3000, to Leonardo, was completely omitted from the books of account.

A receipt, \$1500, from J Jones, a credit customer, was posted to the account of D Bones, 2 another credit customer.

3 Bank charges, \$110, were entered in the cash book as \$11.

A purchase of stationery, \$35, was debited in the petty cash book and credited in the 4 stationery account.

5 The transfer of Akira's private vehicle, value \$2500, to the business had not been recorded.

REQUIRED

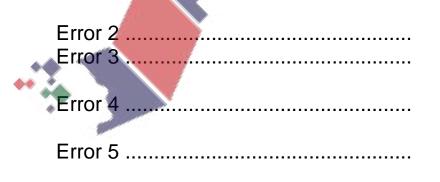
(a) Complete the following table showing how the correction of each error affected the working capital and the owner's capital. Where a correction has no effect, write No Effect. The first has been completed as an example.

error	working capital	owner's capital
1	Increase \$3000	Increase \$3000
2		
3		
4		
5		0.

Answer:

r:		:00
error	working capital	owner's capital
1	Increase \$3000	Increase \$3000
2	No effect	No effect
3	Decrease \$99	Decrease \$99
4	Decrease \$70	Decrease \$70
5	No effect	Increase \$2500

(b) Name the type of error in each of the errors 2 to 5.



	onginai onay
Error 4	reversal
Error 5	omission

(c) Prepare journal entries to correct each of the errors 2 to 5. Narratives are not required. See next page

Akira Journal

Error	Details	Debit	Credit
number		\$	\$
			<u>/</u>
/er:		il	
	Akira		
	Journal		

Answer:

	Akira Journal	Vo.	
Error number	Details	Debit \$	Credit \$
2	D Bones J Jones	1500	1500
3	Bank charges Bank	99	99
4	Stationery Petty cash	70	70
5	Motor vehicles Capital	2500	2500
		· · · · ·	

24 Wasim is a trader. His financial year ends on 31 March.

8

The totals of his trial balance on 31 March 2016 did not agree. The difference was a shortage on the debit side of \$495. This was entered in a suspense account.

The following errors were later discovered.

- 1 The total of a page of the purchases account, \$3842, had been carried forward as \$3824.
- 2 A cheque received from DEC Limited, \$150, had been credited to the account of DDE Limited.
- 3 The balance of the petty cash book, \$100, had been omitted from the trial balance.
- 4 Repairs to motor vehicle, \$283, had been debited to the motor vehicles account.
- 5 Purchase of fixtures, \$2200, on credit from Office Supplies Company, had been debited to Office Supplies Company and credited to fixtures account.
- 6 The total of the discount allowed column in the cash book, \$250, had been credited to the discount received account in the ledger.
- 7 The total of the analysis column for stationery in the petty cash book, \$67, had not been transferred to the stationery account in the ledger.

REQUIRED

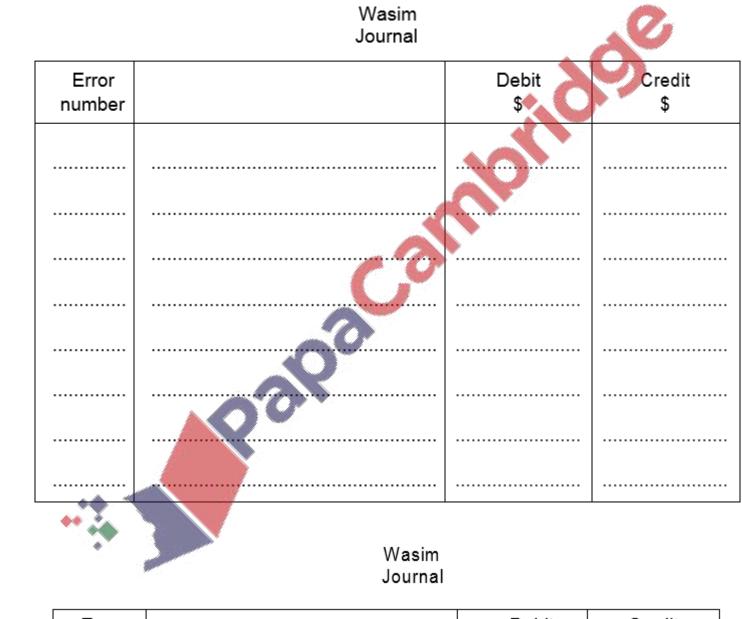
(a) Prepare the suspense account. Start with the balance arising from the difference on the trial balance. The account should be balanced or totalled as necessary

Wasim Suspense account							
Date	Details	\$	Date	Details	\$		
		0					
		0					

	Suspense account					
Date 2016	Details	\$	Date 2016	Details	\$	
Mar 31	<i>Difference on trial balance Balance c/d</i>	495 190 <u>685</u>	Mar 31 2016	Purchases Petty cash Discount Alld Discount Recd Stationery	18 100 250 250 <u>67</u> <u>685</u>	
			Apl 1	Balance b/d	190	

Wasim Suspense account

(b) Prepare journal entries to correct two of the errors which do not require correcting by means of the suspense account. Narratives are required.



Answer:

Error number		Debit \$	Credit \$
2	DDE Limited DEC Limited Correction of error – DDE Limited wrongly credited	150	150
4	Motor repairs Motor vehicles Correction of error – repairs wrongly debited	283	283
5	Fixtures Office Supplies Company Correction of reversal of entries	4400	4400

(c) Name the type of error made in Error 2.

.....

Answer: Error of commission

Wasim prepared draft financial statements for the year.

REQUIRED

(d) Complete the following table by placing a tick (\checkmark) in the correct column to indicate whether the profit for the year would be affected by **each** of the errors.

The first one has been completed as an example.

error number	affects profit for the year	does not affect the profit for the year
1	\checkmark	
2		0.
3		
4		
5		
6		
7		
	0	

Answer:

error number	affects profit for the year	does not affect the profit for the year
1	00	
2		✓
3		\checkmark
4	~	
5		✓
6	\checkmark	

7	\checkmark	

25 David is a trader. The totals of his trial balance prepared on 31 January 2016 did not balance. The difference was entered in a suspense account and draft financial statements were prepared.

The following information was extracted from the draft income statement for the year ended 31 January 2016.

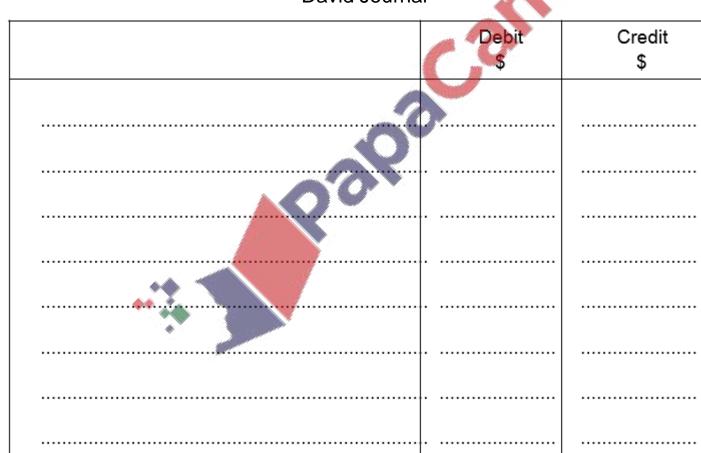
	\$
Cost of sales	59 600
Gross profit	15 800
Profit for the year	3 500

The following errors were later discovered.

- 1 No record had been made of office expenses paid in cash, \$114.
- 2 A page total in the sales journal, \$45 400, had been incorrectly carried forward as \$44 500.
- 3 Discount allowed, \$300, was incorrectly recorded as discount received.
- 4 Sales returns, \$814, had been correctly recorded in the customer's account, but credited to the purchases returns account.
- 5 The provision for doubtful debts of \$120 should have been increased to \$144.

REQUIRED

(a) Prepare journal entries to correct errors 1 and 2. Narratives are required.

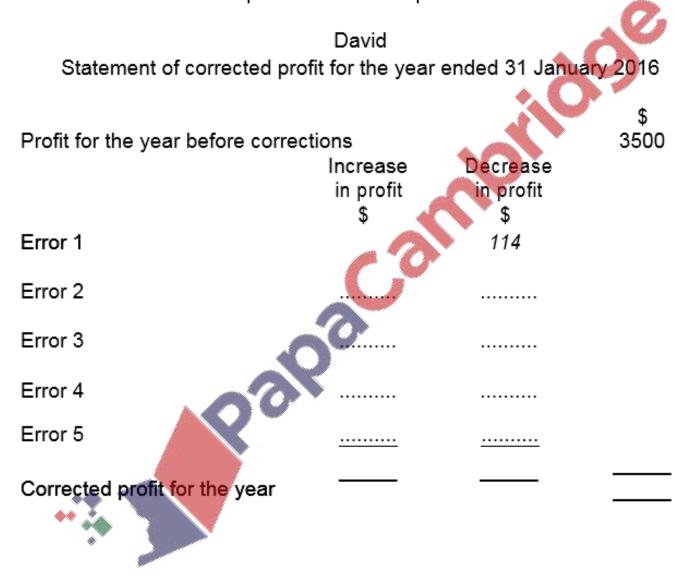


David Journal

David

	Journal		
	Debit \$	Credit \$	
Office expenses Cash Correction of error of omission	114	114	
Suspense Sales Correction of error of transposition	900	900	

(b) Complete the following statement to show the effect on the profit for the year of correcting errors 1–5. Calculate the corrected profit for the year.



The first correction has been completed as an example.



S	Statement of corrected pro	David ofit for the year ended 31 January 20	
I	corrections	\$ 3 500	
Error 1 Error 2 Error 3 Error 4 Error 5	Increase in profit \$ 900	Decrease in profit \$ 114 600 1 628 24	
Corre	900 ected profit for the year	2 366	1 466 2 034

26 After the preparation of the draft financial statements for the year ended **31** July 2016 the following errors were discovered.

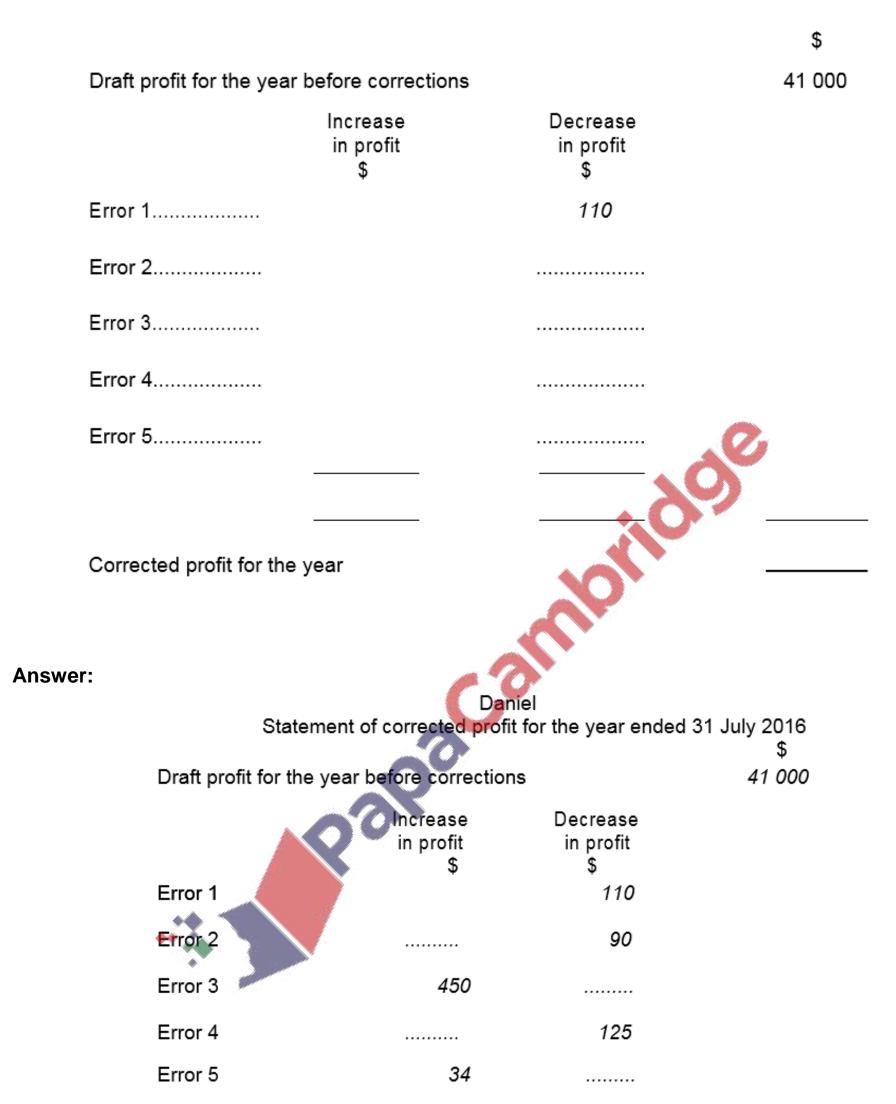
- 1 No entry had been made for bank charges, \$110.
- 2 Rent receivable, \$780, had been recorded as \$870
- 3 The total of a page of the wages account, \$10 050, had been carried forward as \$10 500.
- 4 A credit customer who owed \$500 had sent a cheque for 75 cents for each dollar owed. The balance should have been written off as a bad debt.
- 5 The provision for doubtful debts, \$650, should have been adjusted to 2% of the trade receivables who owed \$30 800.

REQUIRED

Complete the following statement to show the effect on the draft profit for the year of **correcting** errors 1–5. Calculate the corrected profit for the year.

The first correction has been completed as an example. See next page.

Daniel Statement of corrected profit for the year ended 31 July 2016



	484	325	159
Corrected profit for the yea	ar		41 159



27 Hamza is a trader who does not maintain a full set of accounting records. His financial year ends on 31 August.

In December 2015 it was discovered that some errors had been made in the financial statements for the year ended 31 August 2015.

REQUIRED

Complete the following table to indicate the effect of **correcting each error** on the profit for the year.

The first one has been completed as an example.

	Effect on profit of correcting error	
	increase \$	decrease \$
Purchases returns, \$2000, had not		
been recorded.	2000	7.
Wages owing at 31 August 2015, \$450, were not recorded.	. 20	
Discount allowed, \$115, had been recorded as discount received.		
The provision for doubtful debts, \$950, should have been adjusted to 2½% of trade receivables, who owed \$36 000.		
Inventory at 1 September 2014 had been valued at net realisable value, \$16 700, instead of at cost, \$15 300.		
er:		

Answer:

	Effect on profit of correcting error		
	increase \$	decrease \$	
Wages owing at 31 August 2015, \$450 were not recorded.		450	
Discount allowed, \$115, had been recorded as discount received.		230	
The provision for doubtful debts, \$950, should have been adjusted to 2 ½% of trade receivables, who owed \$36 000.	50		
Inventory at 1 September 2014 had been valued at net realisable value, \$16 700 instead of at cost, \$15 300.	1400		