

# **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 \$
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.

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

(c) Comment on your answer to (b).

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**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.

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**Answer:** *Excludes the inventory from the calculation.*

2 Carriage outwards, \$600, was posted as \$400 to the debit side of the carriage inwards account.

Which effect did the correction of this error have on the draft profit for the year?

A decrease \$200

B decrease \$1000

C increase \$200

D increase \$1000

**Answer:** A. decrease \$200

3 Abdoulaye received a cheque from Pierre which was subsequently dishonoured.

REQUIRED

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

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**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
<i>Pierre</i>	<i>Bank</i>

(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.

	\$	\$
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
	328 000	328 000

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 2015

	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	.....	.....
.....	.....	.....
.....	.....	.....

Answer:

Sally Rickard  
Corrected Trial Balance at 31 October 2015

	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		10 000
Drawings	12 500	
Capital		95 000
Inventory 1 November 2014	7 100	
	285 310	285 310

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 (☐) 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		Accounting principle
	Increase	Decrease	
The depreciation charge had been calculated at a lower rate than in previous years.		✓	<i>Consistency</i>
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.			

**Answer:**

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

Which entries are needed to correct this error?

	Account(s) debited	\$	Account(s) credited	\$
<b>A</b>	Jamal Suspense	800 80	James	880
<b>B</b>	Jamal	880	James Suspense	800 80
<b>C</b>	James Suspense	800 80	Jamal	880
<b>D</b>	James	880	Jamal Suspense	800 80

Answer: C.

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.
- 4 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 \_\_\_\_\_

Answer:

<i>Error 2</i>	<i>Error of commission</i>
<i>Error 4</i>	<i>Error of principle</i>



(b) Prepare journal entries to correct all four errors. Narratives are required.

Error number	Details	Debit \$	Credit \$
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
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.....	.....	.....	.....
.....	.....	.....	.....

Answer:

Error	Details	Debit \$	Credit \$
1	<i>Discount allowed</i> <i>Discount received</i> <i>Suspense</i> Correction of misposting of discounts	30 30	60
2	Joanie Yolanda Correction of misposting of receipt of cash	85	85
3	<i>Sales returns</i> <i>Suspense</i> 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.

Leroy  
Suspense account

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

**Answer:**

Leroy  
Suspense account

2015		\$			\$
Sept 30	Balance b/d	70	Sept 30	Discount allowed and received	60
				Sales returns	10
		70			70

- 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				_____

Answer:

	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.

Error	Entry required to correct the 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.	.....	.....	.....	.....
	.....	.....	.....	.....

**Answer:**

Error	Entry required to correct the error					
	Debit			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 allowed account	Suspense	228		Discount allowed	114	
				Discount received	114	

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.....

**Answer:** *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

Date	Details	\$	Date	Details	\$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

**Answer:**

Heng  
Suspense account

2016		\$		2016	\$	
Dec 31	Balance	430		Dec 31	Petty Cash	150
	General exp	90			Discount alld	1 024
	Purchases Returns	454				
	Balance c/d	200				
		1 174				1 174
				2017		
				Jan 1	Balance b/d	200

**(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				
3				
4				
5				
6				
7				

**Answer:**

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 <b>Or</b> 2 060 overstated	4 120 overstated <b>Or</b> 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 \$
.....		
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Answer:

Amina  
Journal

	Debit \$	Credit S	
<i>Sales returns</i>	960		
<i>Purchases returns</i>	960		
<i>Suspense</i>		1 920	
<i>No entry</i>	-		
<i>Suspense</i>		3 000	
<i>AK Stores</i>	330		
<i>Suspense</i>		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 ( ) in the No Effect column.

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

Answer:

Error	Effect on draft profit for the year of correcting the 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		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

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

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.

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

REQUIRED

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

Satish  
Suspense account

Date	Details	\$	Date	Details	\$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

**Answer:**

Satish Suspense account					
2017		\$		2017	\$
Jun 30	Drawings	2 000		Jun 30	Balance b/d
	Capital	2 000			Purchases
		4 000			3 900
					100
					4 000

**(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 (✓) 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				_____
				_____

Answer:

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	✓			
		<u>400</u>	<u>650</u>	<u>(250)</u>
Corrected gross profit				19 750

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

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Answer:

	\$	\$
Corrected gross profit		19 750
Rent	6 000	
Wages	2 800	
Other operating expenses	4 180	
Depreciation	<u>1 500</u>	<u>14 480</u>
Profit for the year		<u>5 270</u>

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

Satish  
Statement of financial position at 30 June 2017

	\$	\$	\$
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Answer:

Satish  
Statement of Financial Position at 30 June 2017

	\$ Cost	\$ Accumulated depreciation	\$ Net book value
<b>Non-current assets</b>			
Fixtures and fittings	<u>12 000</u>	<u>4 500</u>	<u>7 500</u>
<b>Current assets</b>			
Inventory (4 620 – 550)			4 070
Trade receivables (3 100 + 400)			3 500
			<u>7 570</u>
<b>Total assets</b>			<u>15 070</u>
Capital at 1 July 2016			14 200
Capital introduced			2 000
Profit			5 270
			<u>21 470</u>
Drawings			8 900
<b>Capital at 30 June 2017</b>			<u>12 570</u>
<b>Current liabilities</b>			
Trade payables			1 900
Bank			600
<b>Total liabilities</b>			<u>2 500</u>
			<u>15 070</u>

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 on assets		Effect on liabilities		Effect on profit	
	Overstated \$	Understated \$	Overstated \$	Understated \$	Overstated \$	Understated \$
Error 1	550	–	–	–	450	–
Error 2						
Error 3						

**Answer:**

	Effect on assets		Effect on liabilities		Effect on profit	
	Overstated \$	Understated \$	Overstated \$	Understated \$	Overstated \$	Understated \$
Error 1	550	–	–	–	450	–
Error 2	–	–	–	375	375	–
Error 3	150				150	

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

**Answer:** A. current assets understated

**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 .....

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

Date	Details	\$	Date	Details	\$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

**Answer:**

Sanjay  
 Suspense account

Date	Details	\$	Date	Details	\$
2018			2018		
Jan 31	Rent receivable	1000	Jan 31	Difference in trial balance	1110
	Purchases returns	190		Wages	270
	Sales returns	190			
		1380			1380

**(d)** State whether all errors in Sanjay's accounts have been discovered. Give your reason.

.....

.....

.....

**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 (✓) in the 'No Effect' column.

Statement of corrected profit for the year ended 31 January 2018

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

Answer:

Statement of corrected profit for the year ended 31 January 2018

	No Effect	Increase \$	Decrease \$	\$
Draft profit				24 250
Error 1			270	
Error 2		1000		
Error 3	✓			
Error 4			35	
Error 5			700	
Error 6		*380		
		1380	1005	375
Corrected profit				24 625
*(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	<u>7 241</u>
	<u>171 241</u>
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 <u>EasyLoans</u> (repayable 30 June 2018)	<u>20 000</u>
	169 849
Balance	<u>1 392</u>
	<u>171 241</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.

- 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.



Answer:

Amaira  
Corrected Statement of Financial Position at 31 January 2018

Assets	\$	\$	\$
<i>Non-current assets</i>	<i>Cost</i>	<i>Depreciation to date</i>	<i>Book value</i>
<i>Premises</i>	85 000		85 000
<i>Fixtures and fittings</i>	40 000	19 520	20 480
<i>Motor vehicle</i>	11 000	1 375	9 625
	<u>136 000</u>	<u>20 895</u>	<u>115 105</u>
 <i>Current assets</i>			
<i>Inventory (18 000 + 2 000)</i>			20 000
<i>Trade receivables</i>		14 000	
<i>Less Provision for doubtful debts (3% × 14 000)</i>		<u>420</u>	13 580
<i>Petty cash</i>			90
			<u>33 670</u>
 <i>Total assets</i>			<u>148 775</u>
 <i>Capital and liabilities</i>			
<i>Capital</i>			
<i>Opening balance</i>			100 000
<i>Plus Profit for the year (14 735 – 1375) – 150 + (450 – 420)</i>			<u>13 240</u>
			113 240
<i>Less Drawings</i>			<u>7 000</u>
			106 240
 <i>Current liabilities</i>			
<i>Trade payables</i>			15 144
<i>Bank overdraft (7 241 + 150)</i>			7 391
<i>Loan – EasyLoans</i>			<u>20 000</u>
			<u>42 535</u>
 <i>Total capital and liabilities</i>			<u>148 775</u>

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

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

- 1 .....
- .....
- 2 .....
- .....

**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.

1 .....

.....

2 .....

.....

**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

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

1.....

.....

2.....

.....

**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.

error		entries required to correct the error			
		debit		credit	
		account	\$	account	\$
1	motor expenses, \$150, debited to motor vehicles account	<i>motor expenses</i>	150	<i>motor vehicles</i>	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				

**Answer:**

error		entries required to correct the 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	<i>carriage inwards</i>	120	<i>carriage outwards</i>	120
3	sales journal overcast by \$1000	<i>sales not sales journal</i>	1000	<i>suspense</i>	1000
4	wages, \$460, debited to wages account as \$640	<i>suspense</i>	180	<i>wages</i>	180

(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”.

Mai  
 Statement of corrected profit for the year ended 31 March 2018

	Increase in profit \$	Decrease in profit \$	\$
Profit for the year before corrections			4150
Error 1.....		.....	
Error 2.....		.....	
Error 3.....		.....	
Error 4.....		.....	
Corrected profit for the year			

**Answer:**

Mai  
 Statement of corrected profit for the year ended 31 March 2018

	Increase in profit \$	Decrease in profit \$	\$
Profit for the year before corrections			4150
Error 1		150	
Error 2	No effect		
Error 3		1 000	
Error 4	180	1 150	970
Corrected profit for the year			3 180

**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 (✓) in the No Effect column.

	No Effect	Increase \$	Decrease \$	\$
Draft profit				8760
Error 1				
Error 2				
Error 3				
Error 4				
Corrected profit				

**Answer:**

Statement of revised profit for the year ended 31 January 2018

	No Effect	Increase \$	Decrease \$	\$
Draft profit				8 760
Error 1		100		
Error 2			600	
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.

	Debit \$	Credit \$
Revenue		119 100
Purchases	72 000	
Capital		155 000
Loan – AB Loans		80 000
Premises	200 000	
Fixtures and fittings	22 000	
Trade receivables	7 600	
Trade payables		6 850
Bank overdraft	3 950	
Wages	32 300	
General expenses	25 400	
Inventory 1 March 2017	5 500	
28 February 2018	6 100	
Difference on trial balance		13 900
	374 850	374 850

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.



**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 (✓) in the correct column to indicate the effect of each of the errors.

The first one has been completed as an example.

error	effect on profit for the year		effect on closing capital		
	overstated	understated	overstated	understated	no effect
error 1		3		3	
error 2					
error 3					
error 4					

**Answer:**

error	effect on profit for the year		effect on closing capital		
	overstated	understated	overstated	understated	no effect
error 1		✓		✓	
error 2		✓		✓	
error 3	✓		✓		
error 4	✓				✓

- 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	
<b>A</b>	added	added	<input type="checkbox"/>
<b>B</b>	added	subtracted	<input type="checkbox"/>
<b>C</b>	subtracted	added	<input type="checkbox"/>
<b>D</b>	subtracted	subtracted	<input type="checkbox"/>

**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?

- A** \$720 overstated
- B** \$720 understated
- C** \$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.

- 1 A sale on credit, \$3000, to Leonardo, was completely omitted from the books of account.
- 2 A receipt, \$1500, from J Jones, a credit customer, was posted to the account of D Bones, another credit customer.
- 3 Bank charges, \$110, were entered in the cash book as \$11.
- 4 A purchase of stationery, \$35, was debited in the petty cash book and credited in the 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	<i>Increase \$3000</i>	<i>Increase \$3000</i>
2		
3		
4		
5		

**Answer:**

error	working capital	owner's capital
1	Increase \$3000	Increase \$3000
2	<i>No effect</i>	<i>No effect</i>
3	<i>Decrease \$99</i>	<i>Decrease \$99</i>
4	<i>Decrease \$70</i>	<i>Decrease \$70</i>
5	<i>No effect</i>	<i>Increase \$2500</i>

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

Error 2 .....

Error 3 .....

Error 4 .....

Error 5 .....

**Answer:** Error 2      *commission*  
 Error 3      *original entry*  
 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 number	Details	Debit \$	Credit \$
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

**Answer:**

Akira  
Journal

Error number	Details	Debit \$	Credit \$
2	<i>D Bones</i> <i>J Jones</i>	1500	1500
3	<i>Bank charges</i> <i>Bank</i>	99	99
4	<i>Stationery</i> <i>Petty cash</i>	70	70
5	<i>Motor vehicles</i> <i>Capital</i>	2500	2500

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

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	\$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Answer:

Wasim  
Suspense account

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

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

Wasim  
Journal

Error number		Debit \$	Credit \$
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

Answer:

Wasim  
Journal

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 (✓) 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	✓	
2		
3		
4		
5		
6		
7		

**Answer:**

error number	affects profit for the year	does not affect the profit for the year
1		
2		✓
3		✓
4	✓	
5		✓
6	✓	
7	✓	

- 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

	Debit \$	Credit \$
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

**Answer:**

David

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

**(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.

David			
Statement of corrected profit for the year ended 31 January 2016			
	Increase in profit \$	Decrease in profit \$	\$
Profit for the year before corrections			3500
Error 1		114	
Error 2	.....	.....	
Error 3	.....	.....	
Error 4	.....	.....	
Error 5	.....	.....	
<b>Corrected profit for the year</b>	_____	_____	_____

Answer:

David			
Statement of corrected profit for the year ended 31 January 2016			
			\$
		Profit for the year before corrections	3 500
	<i>Increase in profit</i>	<i>Decrease in profit</i>	
	\$	\$	
Error 1		114	
Error 2	900		
Error 3		600	
Error 4		1 628	
Error 5		24	
	900	2 366	1 466
	<i>Corrected profit for the year</i>		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

	Increase in profit \$	Decrease in profit \$	\$
Draft profit for the year before corrections			41 000
Error 1.....		110	
Error 2.....		.....	
Error 3.....		.....	
Error 4.....		.....	
Error 5.....		.....	
	_____	_____	_____
	_____	_____	_____
Corrected profit for the year			_____

**Answer:**

Daniel			
Statement of corrected profit for the year ended 31 July 2016			
	Increase in profit \$	Decrease in profit \$	\$
Draft profit for the year before corrections			41 000
Error 1		110	
Error 2	.....	90	
Error 3	450	.....	
Error 4	.....	125	
Error 5	34	.....	
	<u>484</u>	<u>325</u>	<u>159</u>
Corrected profit for the year			<u>41 159</u>

- 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	
Wages owing at 31 August 2015, \$450, were not recorded.		
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.		

**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	