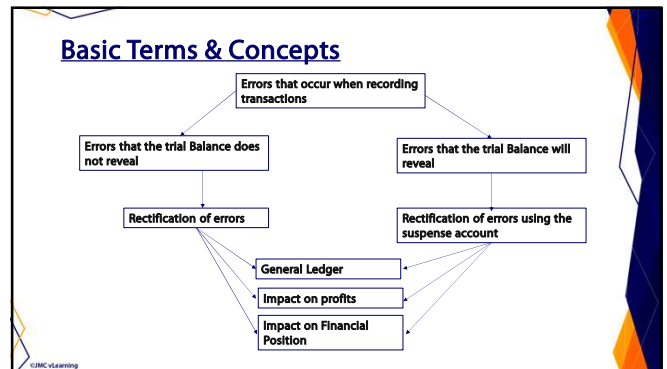


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Error Corrections

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Aims & Objectives

So far, we have assumed that all entries in the accounting records are made without error. In practice, of course, errors do occur & here we examine how such errors are discovered & corrected.

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Accounting Errors

- The errors occur when recording economic transactions in the books of accounts.
 - i When recording transactions in prime entry books
 - ii When recording in ledger accounts
 - iii When extract balances to the trial balance

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Types Of Accounting Errors

- i Accounting errors based on their nature
- ii Accounting errors based on their mode of occurrence
- iii Accounting errors that affect the agreement of trial balance

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Accounting Errors Based On Their Nature

- 1 Errors of commission
 - a. Complete omission
 - b. Partial omission
- 2 Errors of omission
- 3 Errors of principle
- 4 Errors of duplication
- 5 Compensating errors
- 6 Clerical errors.

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Accounting Errors Based On Their Mode Of Occurrence

1. Errors occur when recording in prime entry books
2. Errors arise when recording in ledger
3. Errors take place when balancing ledger account
4. Errors occur when extracting ledger account balances to trial balance

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Accounting Errors That Affect The Agreement Of Trial Balance

1. Errors that affect trial balance
2. Prime entry books are totaled incorrectly
3. One of the double entries is missing from ledger
4. Errors in balancing ledger accounts
5. The debit entry entered on the ledger is not equal to credit entry
6. Extracted ledger account balance is incorrect from the original amount
7. Ledger account balance is extracted to the wrong side of trial balance
8. Twice extracted of the same account balance

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Errors that not affect trial balance

1. Entering wrong figure in accounts
2. The full transaction is omitted from the books of accounts
3. The full transaction is duplicated in the books of accounts
4. Errors of principle
5. Errors of compensation
6. Accounting errors based on their mode of occurrence

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Suspense Account

- This is the account which holds the difference of a trial balance, temporarily, when both sides of a trial balance do not agree, until the errors are traced and corrected.
- If the difference of the trial balance is in the,
 - Debit side – that amount should be debited to suspense account
 - Credit side – that amount should be credited to suspense account
- After correcting the errors, the balance of the suspense account will be eliminated.
- When does a suspense account created?
 - When the TB does not agree
 - When the specific account a transaction should be recorded is not known

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Notes

- All errors to be corrected according to Double Entry System.
- Errors shall be corrected in ledger accounts.
- The prime entry of a correction is recorded in the General Journal.
- When an error which does not affect the TB is corrected it should be corrected in the relevant accounts only the suspense account is not dealt.
- When an error affects the TB is corrected, the correction entry shall be done through the suspense account

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01 – Aat Study Text (Pg 117)

- Financial statements of Malith's Business were prepared after transferring Rs. 16,000, the difference of trial balance as at 31/12/2019 to the debit side of suspense account. Profit for the year ended 31/12/2019 was Rs. 260,000. Subsequently, following errors were identified.
- 1. Total of discounts given column amounting to Rs. 10,000 has been credited to discounts received account. However discounts given has been correctly recorded in debtors control account
- 2. Electricity payment of Rs. 15,000 has been recorded only in the cash account.
- 3. Rs. 5,000 purchase invoice has not been recorded the books of accounts.
- 4. Total of sales return journal of Rs. 10,000 has been posted to Ledger as Rs. 1,000.
- 5. Water bill of Rs. 14,000/- has been recorded twice in the expenses account, though it was correctly recorded in the cash payment journal
- 6. Bad debts written off of Rs. 2,000 has been recorded only in the Trade Receivables Control Account (debtors control account)
- 7. Purchase of office equipment of Rs. 10,000/- for office use has been debited to Office Expenses account as Rs. 1,000.
- Required, State whether following errors affected to the equality of the trial balance. Show correction entries completing following table.

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02. 2020 Jan Aat | Q4

The Trial Balance as at 31st March 2019 of Janasetha Traders was not agreed and the difference of Rs.43,000/= was credited to a Suspense Account.

The following errors were identified subsequently:

- (1) Cash purchase of Rs.68, /=- for resale was recorded in the purchases account as Rs.86,900/= This was correctly recorded in the cash book.
- (2) 900Maintenance expenses on machinery of Rs.33,600/= was debited to machinery account.
- (3) Additional capital of Rs.165,000/= introduced by the owner was erroneously credited to trade creditors' account while other entry has been correctly recorded in the cash book.
- (4) Rent income received of Rs.21,000/= has been completely omitted from the book of accounts.
- (5) Rent expenses of Rs.98,000/= was debited twice in rent expense account and this was correctly recorded in the cash book.
- (6) A payment of Rs.109,000/= to a trade creditor had been correctly recorded in the cash book but no entry is made in trade creditors' account.
- (7) A Cash sale of Rs.73,900/= has been recorded as Rs.37,900/= in sales account and this was correctly recorded in the cash book.

You are required to prepare.

- (a) Journal Entries to rectify the above errors (07 marks)
- (b) Suspense Accounts. (03 marks)

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03. 2019 Jul Aat | Q4

The Trial Balance Mount Steel Traders as at 31st March 2019 prepared by the Accountant did not agree. The difference of Rs.114,900/= was credited to a Suspense Accounts and draft financial statements were prepared. A net profit of Rs.448,000/= was shown as pre the draft financial statements for the year ended 31st March 2019.

The following errors were identified subsequently.

- (1) Purchase of a computer of Rs.85,000/= for office use has been debited to Computer maintenance account. This was correctly recorded in the cash book.
- (2) A cash sale of Rs.65,000/= was recorded in sale account as Rs.6,500/= while this amount has been correctly recorded in the cash book.
- (3) Interest income received of Rs.28,200 on a fixed deposit has been erroneously debited to interest expenses account and it has been correctly recorded in the cash book.
- (4) Credit purchases of Rs.275,000/= has been recorded both in trade creditors account and purchase account as Rs.257,000/=
- (5) Depreciation on office equipment of Rs.228,000/= has been completely omitted from the book of accounts.

You are required to prepare.

- (a) Journal Entries to rectify the above errors (05 marks)
- (b) Suspense Account. (02 marks)
- (c) Adjusted net profit after correcting the above errors. (03 marks)

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04. 2019 Jan Aat | Q4

The Trial Balance of Hussain Traders as at 31st March 2018 prepared by the Assistant Accountant did not agree and the difference of Rs.32,500/= was debited to a Suspense Account.

The following errors were identified subsequently.

- (1) Security payment for the month of March 2018 of Rs.78,000/= was recorded in security expense account as Rs.7,800/= However, This has been correctly recorded in the cash book.
- (2) A receipt of Rs.225,000/= from a trade debtor has been recorded in the machinery account. This was correctly recorded in the cash book.
- (3) Machinery maintenance expenses of Rs.75,000/= has been recorded in the machinery account. This was correctly recorded in the cash book.
- (4) Accrued telephone expenses of Rs.55,000/= has been completely omitted from the books of accounts.
- (5) Cash sale of Rs.114,800/= has been recorded twice in the sales account, though it was correctly recorded in the cash book.
- (6) Rent expenses of Rs.25,000/= was credited to the rent income account, however, it has been correctly recorded in the cash book.

You are required to:

- (a) Prepare Journal Entries to rectify the above errors. (07 marks)
- (b) Prepare the Suspense Account. (03 marks)

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05. 2018 Jul Aat | Q4

The Trial Balance prepared by the Accounts Assistant of Q&Q as at 31st March 2018 did not agree. The difference was debited to a suspense account and the draft financial statements were prepared. A profit of Rs.748,000/= was shown as pre the draft financial statement for the year ended 31st March 2018.

The following errors were identified subsequently:

- (1) Purchases of Rs.600,000/= from a trade creditor has been completely omitted from the books of accounts.
- (2) Stationery expenses of Rs.25,000/= has been taken as Rs.52,000/= in the stationary account and this has been correctly recorded in the cash book.
- (3) Rs.355,000/= paid to a trade creditor Sarath has been erroneously recorded as Rs.553,000/= in trade creditor account. However, this has been correctly recorded in the cash book.
- (4) Purchase of a laptop for Rs.350,000/= has been recorded in computer maintenance account. This was correctly recorded in the cash book.
- (5) Rent income of Rs.50,000/= has been erroneously debited as Rs.5,000/= in the rent expense account, and it has been correctly recorded in the cash book.
- (6) A credit sale of Rs.33,000/= has been recorded twice both in trade debtors account and sales account.

You are required to

- (a) Prepare Journal Entries to rectify the above errors. (06 marks)
- (b) Calculate the adjusted profit / (loss) for the year ended 31st March 2018 of Q&Q Company. (04 marks)

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