Errors Not Affecting Trial Balance

6 Types of Errors that do not affect trial balance

1 Errors of Commission – this type of error occurs when the correct amount is entered but In the wrong person's account, e.g. where a sale of $11 to ARD is entered in the account of AKD. It will be noted that the correct class of account was used; both the accounts concerned being personal accounts.

2 Errors of Omission – where a transaction is completely omitted from the books. If we sold $90 goods to ARD, but did not enter it in either the sales or ARD's personal account, the trial balance would still 'balance'.

3 Errors of Principle – where an item is entered in the wrong class of account, e.g. if purchase of a fixed asset, such as a van, is debited to an expenses account, such as motor expenses account.

4 Complete Reversal of entries – where the correct accounts are used but each item is shown on the wrong side of the account. Suppose we had paid a cheque to ARD for $200, the double entry of which is Cr Bank $200, Dr ARD $200. In error it is entered as Cr ARD $200, Dr Bank $200. The trial balance totals will still agree.

5 Errors of Original entry – where the original figure is incorrect, yet double entry is still observed using this incorrect figure. An instance of this could be where there were sales of $150 goods but an error is made in calculating the sales invoice. If it were calculated as $130, and $130 were credited as sales and $130 were debited to the personal account of the customer, the trial balance would still balance.

6 Compensating errors – where errors cancel each other out. If the sales account was added up to be $10 too much and the purchases account was also added up to be $10 too much, then these two errors would cancel out in the trial balance. This is because the totals of both the debit side and the credit side of the trial balance will be $10 too much.

Errors that Affect Trial Balance

Suspense Account
At the End of financial year, all organizations prepare trial balance for the sake of preparing income statement and balance sheet. Sometimes due to errors, total of the trial balance do not agree and the balance of debit side is different as compared to credit side. It is a responsibility of an accountant to find out the error, and balance it off. When errors cannot be found, the trial balance totals can be made to agree with each other by inserting the difference of the amount as a **"SUSPENSE ACCOUNT".**

Suspense account can only be originated due to error on only one side of an account. Other side Dr. or Cr. Recorded correctly. If the errors occurred on both side with the same effect it won't disagree the totals of trial balance

Suspense account = is the difference of debit and credit side balance.

It is a temporary account till the errors cannot be rectified and eliminated. Suspense account can be recorded in the balance sheet, if the balance of suspense account is on the debit side then it would be recorded as an asset and if the balance is on the credit side it would be recorded as a liability.

Due to the errors there is a possibility that our net/gross profit affected or we need some alteration in balance sheet, it all depends on the errors. We should be well aware how these errors have affected our financial statements.

Casting	=	Totaling
Over-casted	=	over addition / over totaled / extra added / over recorded
Under-casted	=	less added / under added / under recorded

Errors which affect trial balance
• Incorrect additions in any account.

• Transposition error on one side of the account (if both sides it will not affect TB)

• Making an entry on only one side of the accounts, e.g. a debit but no credit; a credit but no debit.

• Entering a different amount on the debit side from the amount on the credit side.

SOME COMMON ERRORS AFFECTING TRIAL BALANCE

1. Purchases were over / under casted
2. Sales were over / under casted
3. Expense recorded twice
4. Discount allowed recorded in discount received and discount received recorded in discount allowed
5. Withdraw goods for personal use, recorded correctly in drawing account, but no other entry was recorded
6. A/c Receivable (Trade Receivables) A/c Payables (Trade Payables) were listed wrongly

STATEMENT OF CORRECTED PROFIT

Original Profit			XXX
Adjustments / Correction	+	-	
1)	XX	(XX)	
2)	XX		XX/(XX)
Revised / Corrected Profit			XXX

Past Paper Questions

Q1. In July 2012, Amina, Nizam and Sarah discovered several errors that had been made in their accounts. Their trial balance failed to agree and the difference was entered into a suspense account.

1 The revenue (sales) account had been overcast by $18 200.

2 Discounts received of $9 600 had been entered on the debit side of the discounts allowed account.

3 Simon, a debtor, had paid a cheque for $9 400 to clear his account. His account had been credited for this amount but no entry had been made in the cash book.

REQUIRED

(d) Prepare journal entries to correct each of the errors which had been discovered (narratives are **not** required).

(e) Prepare the suspense account, clearly showing the balance brought forward.

Q2. The following is the draft balance sheet of Marshall Klingsman, a sole trader, at 30 April 2011.

Balance Sheet at 30 April 2011

	$	$	$
Non-current assets			
Buildings at valuation			300 000
Equipment at book value			540 000
Motor vehicles at book value			330 000
			1 170 000
Current assets			
Inventories		70 000	
Trade receivables		19 000	
Other receivables		2 000	
Cash and cash equivalents		4 000	
		95 000	
Current liabilities			
Trade payables	57 000		
Other payables	3 000	60 000	
Net current assets			35 000
			1 205 000

Non-current liabilities	
Loan	200 000
Net assets	1 005 000
Financed by:	
Capital at start	1 000 000
Add Profit for the year (net profit)	80 000
	1 080 000
Less Drawings	75 000
Capital at end	1 005 000

Additional information:

After preparation of the draft balance sheet the following errors were found.

1 Goods in inventory at 30 April 2011, valued at cost $15 000, were found to be damaged. The estimated net realisable value is $8 000.

2 Loan interest of 4% per annum had been omitted from the accounts.

3 No provision for depreciation on equipment had been made for the year. Depreciation should have been provided at 5% per annum using the reducing balance method.

4 Motor vehicles are depreciated by 10% per annum. During the year vehicle repairs of $10 000 had been incorrectly debited to the motor vehicles account.

5 On 28 April 2011 a credit customer, who owed $3600, was declared bankrupt. It was decided to write off this amount in full. No record of this has been made in the accounts.

REQUIRED

(a) Prepare a statement to show the corrected profit for the year (net profit) ended 30 April 2011.

(b) Prepare the corrected balance sheet at 30 April 2011.

Q3. The following is the draft statement of financial position of Chan Ya Wen, a sole trader, at 31 May 2014.

Statement of Financial Position at 31 May 2014

	$000	
Assets		
Non-current assets		
Buildings at valuation	500	
Equipment at net book value	240	
Motor vehicles at net book value	400	
	1140	
Current assets		
Inventories	55	
Trade receivables	34	
Other receivables	4	
Cash and cash equivalents	2	
	95	
Total assets	1235	
Capital and Liabilities		
Opening capital		900
Add profit for the year		250
		1150
Less drawing		75
Closing capital		1075
Non-current liabilities		
Loan		100
Current liabilities		
Trade payables		52
Other payables		8
		60
Total capital and liabilities		1235

Additional information

After preparation of the draft statement of financial position the following errors were discovered:

1 A purchase credit note received for $12 000 had been completely omitted from the books.

2 Inventory at 31 May 2014, cost $6000, was found to be damaged. A customer has agreed to buy the goods for $2500. Delivery costs will be $250.

3 The loan was received on 1 December 2013. Loan interest of 4% per annum has not been paid.

4 During the year vehicle repairs of $2000 had been incorrectly debited to the motor vehicles account. Motor vehicles have been depreciated by 25% per annum on the year end value.

5 On 1 May 2014 a motor vehicle with a net book value of $16 000 had been badly damaged in a collision. No entry has yet been made in the accounts for this. The insurance company has agreed to pay $13 000 in compensation. The trader will receive a further $1200 for the scrap value.

6 On 27 May 2014 a credit customer was declared bankrupt and it was decided to write off the $8000 owing. No record in the accounts has yet been made.

REQUIRED

(a) Prepare a statement to show the corrected profit for the year ended 31 May 2014.

(b) Prepare a corrected statement of financial position at 31 May 2014.

Q4. The following is the draft statement of financial position of George Grosz, a sole trader, at 30 June 2012.

Statement of Financial Position at 30 June 2012

	$	$	$
Non-current assets			
Buildings at valuation			108 000
Equipment at net book value			7 000
Motor vehicles at net book value			35 000
			150 000
Current assets			
Inventory	21 000		
Trade receivables	18 000		
Cash and cash equivalents	8 000		
Other receivables	13 000	60 000	
Current liabilities			
Trade payables		42 000	
			18 000
			168 000
Non-current liabilities			
Loan			50 000
			118 000
Capital at 1 July 2011			90 000
Add Draft profit for the year			30 000
			120 000
Less Drawings			2 000
			118 000

Additional information:

1 Provision for depreciation on motor vehicles for the year ended 30 June 2012 had not yet been charged. Depreciation is charged at 10% on the net book value at the year end.

2 Items included in inventory and valued at their cost price of $9500 were damaged and had an estimated net realisable value of $2000.

3 A purchase invoice for goods valued at $2000 had been omitted from the books.

4 Sales invoices for goods valued at $4000 had been omitted from the books.

5 The loan was received at 1 March 2012. Loan interest of 6% due at the year end had not yet been paid.

REQUIRED

(a) Prepare a statement to show the corrected profit for the year ended 30 June 2012.

(b) Calculate Grosz's capital at 30 June 2012.

Q5. Ab Acuss, the accountant of Buncles Ltd, has prepared the company's half-yearly accounts to 31 March 2000. Unfortunately, there is a difference on the Trial Balance and Ab has entered this in a Suspense account to enable him to complete the accounts.

The draft Profit and Loss Account for the six months to 31 March 2000 shows the following:

Gross profit $130 000
Operating profit $40 000

The draft Balance Sheet at 31 March 2000 shows Net Working Capital of $107 836. This does not include the balance on the Suspense account.

After completing the draft accounts Ab found several errors in the books; details of these are shown in Table 1.

1. An item for $1076 in the Sales Day Book has been entered in Abel's account in the Sales Ledger as $1760.

2. At 31 March 2000, Sara's account in the Sales Ledger showed a debit balance of $900. There was also an account for her in the Purchases Ledger and it showed a credit balance of $650. In offsetting these balances, the ledger clerk had debited Sara's account in the Sales Ledger with $650 and credited her account in the Purchases Ledger with the same amount.

3. A purchase of goods costing $1500 had been credited to the supplier's account in the Purchases Ledger but no other entry had been made in the books.

4. A credit balance of $480 in the Sales Ledger had been included in the list of debtors as a debit balance.

5. A sales invoice for $1070 sent to Charley had been entered in the Sales Day Book as $1700.

6. Discounts receivable of $300 in January 2000 had been debited in the Discounts Allowed account. Discounts allowable of $800 for the same month had been credited in the Discounts Received account.

7. Some goods have been sent to Pomeroy, a customer, and invoiced to him for $2450. The mark-up on these goods was 40%. Pomeroy has notified Buncles Ltd on 30 March 2000 that he has not ordered the goods and is returning them. No entries regarding the return of these goods have been made in the books.

(a) Prepare the journal entries required to correct **each** of the errors detailed in Table 1. (Narratives are **not** required.) [8]

(b) Prepare the Suspense account showing clearly the difference on the trial balance before the errors have been corrected. [5]

(c) Calculate the following after the errors shown in Table 1 have been corrected.

(i) gross profit

(ii) operating profit

(iii) net working capital

[15]

Q6. Marie Motiwala's draft profit and loss account for the year ended 30 April 2008 was prepared by her new book-keeper and showed a loss of $100 000. The following errors were then discovered.

1 Capital of $80 000 contributed by Marie Motiwala had been included in sales.

2 Sales returns of $20 000 had been debited to purchases returns.

3 No provision for depreciation on equipment had been charged for the year. Depreciation should have been provided for using the reducing balance method at 40 % per annum. The book value of equipment at 1 May 2007 was $240 000.

4 Accrued bank interest of $10 000 payable at 30 April 2008 had been omitted from the accounts.

5 Marie Motiwala's drawings of $50 000 had been debited to wages.

6 Stock valued at $10 000 at 30 April 2008 should have been valued at $1000.

7 Stock costing $11 000 taken for Marie Motiwala's personal use during the year had not been recorded in the accounts.

8 A $20 000 interest free loan to an employee had been debited to the wages account.

9 $100 000 had been debited to the equipment account. Of this amount, $25 000 should have been debited to equipment repairs.

10 Stock costing $22 000 was delivered to the business on 28 April 2008 and was included in the end-of-year stocktaking. The invoice was received and entered into the accounting records on 3 May 2008.

REQUIRED

Prepare a detailed financial statement showing Marie Motiwala's corrected profit or loss for the year ended 30 April 2008.

Q7 Julian Smith has prepared his draft final accounts. His Balance Sheet as at 31 December 2008 is shown below.

	£	£
Fixed Assets (net)		465 000
Current Assets		
Stock	30 000	
Debtors	25 000	
Cash	5 500	
	60 500	
Current Liabilities		
Creditors	34 500	
Bank	9 750	
Suspense	42 900	
	87 150	
Working Capital		(26 650)
		438 350
Financed by		
Capital		442 350
Net profit		41 000
		483 350
Drawings		45 000
		438 350

Further examination revealed.

(i) The cash sales total of £90 000 for the year had been entered as £9 000 in the sales account.

(ii) Julian Smith had withdrawn stock to the value of £11 000 from the business for his private use. The correct credit entry has been made but the corresponding debit entry has not been made.

(iii) The sales account had been overcast by £15 500.

(iv) A cheque for £7 800 paid to R. Willis, a creditor, had been correctly processed in the Cash Book but credited in error to the account of M. Walls, also a creditor.

(v) Goods to the value of £10 500 had been returned to a supplier. This had been correctly entered in the supplier's account but incorrectly credited to the sales returns account.

(vi) A payment of £4 000 from B. Valentine, a debtor, had been debited as a cheque received in the Cash Book. No entry for this transaction had been recorded in the account of B. Valentine.

REQUIRED

(a)* Journal entries to correct each of the errors (narratives are not required) **and** the Suspense Account showing the opening balance and correcting entries. [23]

(b) A statement to show the calculation of the revised net profit for the year ended 31 December 2008. [5]

(c) A corrected Balance Sheet as at 31 December 2008. [8]

(d) State and explain **three** types of error which do **not** affect the balancing of the Trial Balance. [9]

Total marks [45]