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 & Suspense Account

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.
• 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 (debtors) A/c Payables (Creditors) were listed wrongly

ERRORS AND SUSPENSE ACCOUNT

Q1 Majda prepared a trial balance on 31 August 2011. The trial balance failed to agree and a suspense account was opened.

It was discovered that all of the errors had been made in one of the trade receivable accounts, M.H. Supplies Ltd.

Details of the account for August 2011 were as follows:

M.H. Supplies Ltd account

Date	Description	Dr	Cr	Balance
2011		$	$	$
1 August	Balance			1650 Dr
10 August	Sales	460		2110 Dr
13 August	Sales returns		60	2050 Dr
23 August	Bank		1617	433 Dr
23 August	Discount	33		466 Dr

The following errors were found:

1 On 10 August goods, list price $800, less 20% trade discount, were sold to M.H. Supplies Ltd. The transaction was correctly recorded in the sales journal.

2 On 20 August a credit sale of goods, $1200, to M.H. Supplies Ltd, was correctly entered in the sales journal, but was posted to the account of M. Hardware Ltd.

3 On 23 August M.H. Supplies Ltd paid the balance on 1 August, less 2% cash discount. The transaction was correctly recorded in the cash book.

REQUIRED

(a) Name the document sent to M.H. Supplies Ltd to record the transaction of 13 August 2011.

....

.... [1]

(b) Name the type of error made on 20 August 2011.

....

.... [1]

(c) Prepare the journal entries to correct the errors 1 to 3 above. Narratives are **not** required.

Journal

	Dr $	Cr $

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.... [6]

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

Suspense account

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.... [4]

(e) Calculate the correct balance owed by M.H. Supplies Ltd to Majda on 31 August.

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.... [4]

Q2 Martino's trial balance at 30 September 2015 did not agree and a suspense account was opened.

The following errors were discovered.

1 The total of the purchases journal had been undercast by $950.

2 Discount received, $85, had been debited to the discount received account.

3 A payment of rent, $750, had been correctly entered in the cash book, but recorded in the rent account as $570.

4 A purchase of office fixtures, $2300, had been recorded in the general expenses account.

REQUIRED

(a) Show the entries in the general journal to correct items 1 to 4. Narratives are **not** required.

General Journal

	Debit $	Credit $

(b) Prepare the suspense account at 30 September 2015 showing the original difference on the trial balance.

Suspense account

Date	Details	$	Date	Details	$

[4]

(c) Complete the following table to show the effect on the profit for the year of **correcting each** error.

The first item has been completed as an example.

Error		Increase/Decrease/ No effect	Amount $
1	The total of the purchases journal had been undercast by $950.	*Decrease*	*950*
2	Discount received, $85, had been debited to the discount received account.		
3	A payment of rent, $750, had been correctly entered in the cash book, but recorded in the rent account as $570.		
4	A purchase of office fixtures, $2300, had been recorded in the general expenses account.		

[6]

(d) Explain why an error of commission would **not** be revealed by the trial balance.

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....[2]

Q3 Haung's income statement showed a draft profit for the year of $15 500. After completion of the income statement the following errors were discovered:

1 Purchases of goods on credit from Takka, $4000, had been omitted from the books.
2 Goods sold on credit to Nolan, $380, had been posted to the account of North.
3 Discount received, $3050, had been debited to the discount received account.
4 A debt of $375, owing by Long, was considered irrecoverable. No entries had been made in the books.

REQUIRED

(a) Prepare the journal entries to correct the errors 1 – 4 above. Narratives are **not** required.

Journal

	Dr	Cr
	$	$

....

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....[8]

(b) Prepare a statement showing the corrected profit for the year.

Statement of revised profit

		$	$	$	$
	Draft profit for year				15 500
		Increase	Decrease	No effect	
1					
2					
3					
4					
	Revised profit for year				

[4]

Haung is considering a number of possible actions when preparing his future income statements.

(i) Charging the income statement with the total cost of non-current assets purchased in the year.

(ii) Recording the value of the increased skill of the workforce as an income for the year.

(iii) Changing the method of depreciation to be used for each non-current asset to reflect current market values.

REQUIRED

(c) State, in **each** of **(i)** to **(iii)** above, which accounting concept would be broken if Haung implemented his proposals. In each case, give a reason for your answer.

(i) Accounting concept

....[1]

Reason

....

....

....[2]

(ii) Accounting concept

....[1]

Reason

....

....

....[2]

(iii) Accounting concept

....[1]

Reason

....

....

....[2]

Q4 The following trial balance was extracted from the books of Peng on 31 August 2012. It was prepared by an inexperienced bookkeeper and failed to balance.

Peng
Trial Balance at 31 August 2012

	Dr	Cr
	$	$
Capital	18 240	
Bank overdraft	3 000	
Fixtures and fittings	14 100	
Provision for depreciation – fixtures and fittings		8 800
Inventory	14 200	
Trade receivables	12 300	
Trade payables	9 900	
Revenue	110 000	
Purchases		51 000
Discount received	1 800	
Wages and salaries		26 000
Sundry expenses	34 000	
Discount allowed		620
	217 540	86 420

REQUIRED

(a) Prepare the corrected trial balance at 31 August 2012. Show any difference you find as a balance on an appropriate account.

Peng
Trial Balance at 31 August 2012

	Debit	Credit
	$	$
Capital		
Bank overdraft		
Fixtures and fittings		
Provision for depreciation – fixtures and fittings		
Inventory		
Trade receivables		
Trade payables		
Revenue		
Purchases		
Discount received		
Wages and salaries		
Sundry expenses		
Discount allowed		

[9]

Additional information:

The following errors were later discovered:

1 A sale of goods, $200, to A. Winscom had been posted to the account of W. Wilson.

2 A purchase of fixtures, $900, had been posted to the purchases account.

3 Wages, $1500, had been debited to the bank and credited to the wages account.

4 Discount received, $240, had been correctly entered in the cash book and had been debited to the discount received account.

(b) Name the type of errors in 1 to 3 above.

1 ....

2 ....

3 .... [3]

(c) Prepare journal entries to correct the errors in 1 to 4 above. Narratives are **not** required.

Journal

	Dr $	Cr $

[8]

Q3 East Town Decorators have two separate departments, paints and wallpapers. The following information is available, for the 3-month period ended 30 September 2018.

		$
Revenue	Paints	12000
	Wallpapers	8000
Purchases	Paints	2000
	Wallpapers	2500
Inventory 1 July 2018	Paints	2300
	Wallpapers	1800
Inventory 30 September 2018	Paints	3100
	Wallpapers	1600
Direct wages		6000
Direct expenses		4800

On inspection of the ledger the following errors were found.

1 The purchase of paint from P P Limited, $5100, had been posted to the ledgers as $1500.

2 Direct wages, $600, paid in cash had been credited to the direct wages account and debited to the cash account.

3 Direct expenses included the purchase of an office computer, $800.

REQUIRED

(a) Name the type of error in 1 to 3.

1...

2...

3...

[3]

(b) Prepare journal entries to correct errors 1 to 3. Narratives are **not** required.

General Journal

	Debit	Credit
	$	$

[6]

Q4 The following summarised income statement was prepared by Kannan for the year ended 30 April 2018.

	$
Revenue	120 000
Cost of sales	(70 000)
Gross profit	50 000
Expenses	(14 000)
Depreciation	(8 000)
Profit for the year	28 000

Additional information at 30 April 2018

	$
Kannan's capital	150 000
Bank loan repayable October 2018	100 000
Bank loan repayable December 2025	80 000

After the preparation of the summarised income statement the following items were discovered.

1 Kannan has been advised that he may have been undercharged by $2000 for carriage inwards.

2 The closing inventory was valued at its resale value of $15 000. The cost was $9000.

3 Only expenses paid during the year were included in the income statement. At 30 April 2018 expenses prepaid were $1800 and expenses accrued were $700.

4 Depreciation was charged at the rate of 10% on cost for the year. In all previous years the rate of 25% on cost had been used.

REQUIRED

(a) Name the accounting principle or concept that has **not** been applied in **each** case.

1 ....

2 ....

3 ....

4 ....

[4]

(b) Calculate the revised value of the following, after correcting items 1 to 4.

(i) Gross profit

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....[3]

(ii) Profit for the year

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....[3]

Q5 Valda later found the following errors in her books.

1 A cheque received from Fatin, $930, had been correctly entered in the cash book but had been credited to the account of Martin.

2 The total of the discount allowed column in the cash book, $970, had been credited to the discount received account.

3 Returns inwards of $390 had been correctly recorded in Ann's account, but had been recorded as $930 in the returns inwards account.

REQUIRED

(c) Name the type of error that Valda made by crediting Martin's account.

....[1]

(d) Prepare the general journal entries to correct errors 1, 2 and 3. Narratives are **not** required.

General journal

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

[7]

Q6 Zarita prepared a trial balance at 31 March 2018. The trial balance totals agreed.

The following errors were later discovered.

1 Sales on credit to Winchester, $830, had been recorded in the sales journal as $380.

2 Discount allowed to Bloom, $60, had been credited in the discount allowed account and debited in Bloom's account.

3 Computer expenses, $900, had been recorded in the computer account.

4 A purchase of goods from Stilson, $420, had been posted to the account of Filton.

REQUIRED

(a) Name **each** type of error in 1 to 4.

1 ....

2 ....

3 ....

4 ....

[4]

(b) Explain why the trial balance totals agreed although there were four errors in the books.

....

....

....

.... [2]

(c) Prepare the entries in the general journal to correct errors 1 to 4. Narratives are **not** required.

General Journal

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

[8]

Before Zarita corrected the errors she had calculated a draft profit for the year of $6800.

REQUIRED

(d) Complete the following table to show the effect of **correcting each** error on the draft profit for the year.

Where there is no effect write 'No Effect'.

Calculate the revised profit for the year.

Statement of Corrected Profit for the year ended 31 March 2018

Error		Increase	Decrease	
		$	$	$
	Draft profit for the year			6800
1	Sales on credit to Winchester, $830, had been recorded in the sales journal as $380.			
2	Discount allowed to Bloom, $60, had been credited in the discount allowed account and debited in Bloom's account.			
3	Computer expenses, $900, had been recorded in the computer account.			
4	A purchase of goods from Stilson, $420, had been posted to the account of Filton.			
	Revised profit for the year			

[6]

[Total: 20]

3. Alishba is a trader. She has a limited knowledge of book-keeping, but attempted to prepare a set of draft financial statements at the end of her first year of trading. She prepared the following draft statement of financial position, which contains errors.

Alishba

Draft Statement of Financial Position at 31 March 2019

Premises at cost	31 000
Other non-current assets at cost	9 600
Inventory	3 170
Trade receivables	3 000
Cash	200
Drawings	10 350
	57 320
Less Bank overdraft	(1 410)
	55 910
Trade payables	2 680
Capital at 1 April 2018	50 000
Draft profit for the year	3 330
	56 010
Less Suspense account	(100)
	55 910

The following errors were later discovered.

1. No entries had been made for bank charges, **$21**.
2. Cash sales, **$100**, had been debited to the cash book and credited to the account of Rida, a credit customer.
3. The purchases returns were overstated by **$10.**
4. The inventory at 31 March 2019 was overstated by **$199.**
5. A provision for doubtful debts of **2%** of trade receivables should have been created.
6. Expenses, **$90,** paid in cash had been credited in the cash book but no other entry had been made.
7. The draft income statement had been charged with insurance, **$2800,** which was for a period of **14 months.**
8. The non-current assets (excluding premises) should have been depreciated by **10%** on cost.

REQUIRED

(a) Prepare journal entries to correct errors 1 and 2. Narratives are not required.

Alishba
Journal

Details	Debit $	Credit $
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

[4]

(b) Complete the following statement to show the effect on the profit for the year of **correcting** errors 1–8. Calculate the corrected profit for the year. Error 1 is done as an example.

Alishba
Statement of corrected profit for the year ended 31 March 2019

	Increase in profit $	Decrease in profit $	$
Draft profit for the year before corrections			**3330**
Error 1	....	.....**21**.....	
Error 2	....	....	
Error 3	....	....	
Error 4	....	....	
Error 5	....	....	
Error 6	....	....	
Error 7	....	....	
Error 8	....	....	
	________	________	________
Corrected profit for the year			________

[7]

(c) Prepare a corrected statement of financial position at 31 March 2019.

Alishba

Corrected Statement of Financial Position at 31 March 2019

	$	$	$

[9]

[Total: 20]