

ERRORS

There are two types of errors in accounts

1. Errors that do not affect the trial balance.

2. Errors that affect the trial balance.

ERRORS THAT DO NOT AFFECT THE TRIAL BALANCE

→ The trial balance produced from accounts appears

correct because debits are the same as the credits.

However errors may have been made and therefore

the balances shown in the trial balance may be

incorrect.

→ There are six types of errors that do not affect

the trial balance and these are:

1. **Error of Omission** → This is where a transaction is completely omitted from accounts and therefore no double entry is not made. e.g. a sales invoice of Sh 4000 is not posted to the sales journal therefore no entry is made on debtors accounts and the sales accounts.

2. **Error of principle** → The transaction is posted not only on the wrong account but also of a different class. e.g. motor vehicle purchased for Sh 400000 is posted to the motor vehicle expense account.

3. **Error of Commission** → This error occurs when a transaction is posted on a wrong account but the account is of the same class. e.g. a credit sale to Tr. Mary is posted to P. Mary account for an amount of Sh 200.

4. **Complete reversal entries** - This is where a transaction is posted to the correct accounts but to the wrong sides of the accounts. The debit is posted as a credit and a credit is posted as a debit.

e.g. Cash drawn from the bank of Sh10,000 for business use is posted as a debit to the bank account and credit to cash account.

5. **Errors Error of original entry** - This is where a transaction is posted to the correct accounts but the amount posted is not correct, it's either under/over stated. In some cases this is known as a transposition error e.g. cash received from a debtor of Sh980 is credited/posted to the customer's account as Sh890

Debit - Cash 90

Credit - Debtor 90

6. **Compensating error** - These are errors which tend to cancel each other out. If the effect of the error is to understate the debits or credits another error may take place to overstate the debits/credits by the same amount hence canceling each other out. e.g. If the balance of the purchases account is Sh3980 but shown in the trial balance as Sh3890 and another error carried to the trial balance of fixtures amounting to Sh4540 instead of Sh4630

Purchases

3980

3890

90

Fixtures

4480

4540

90

This type of error is corrected by use of a suspense account.

Example

Give the Journal entries needed to record the corrections of the following. Narratives are required.

- Extra Capital of sh 10,000 paid into the bank had been credited to Sales account.
- Goods taken for own use of sh. 700 had been debited to General expenses.
- Private Insurance of sh 89 had been debited to Insurance account.
- A purchase of goods from C. Kapedo of sh. 557 had been entered in the books as sh. 587.
- Cash banked sh 390 had been credited to the bank column and debited to the cash column in the Cashbook.
- Cash drawings of sh 400 had been credited to the bank column of the Cashbook.
- A sale of motor van of sh. 1000 had been credited to motor expenses.

Solutions

	DR.	CR.
a) Sales	10,000	
Capital		10,000
Correction of additional capital posted into Sales A/c		
b) Drawings	700	
General expenses		700
Correction of drawings posted to the General expenses A/c		
c) Drawings	89	
Insurance		89
Correction of private insurance posted to Insurance A/c		

9/11/2020

d)	Purchases	270	
	Cr Kapedo		270
	Correction of purchases from Cr Kapedo of 857 recorded as as sh 587		
e)	Bank	750	
	Cash		750
	Correction of Cash banked debited in the cash AC and Credited in the bank AC		
f)	Motor expenses	1000	
	Motor disposal		1000
	To correct error in recording sales proceeds in expense account		

Example 2

The Statement of financial position of Kapedo a sole trader, as at 31st March 2020 was as follows:

NON CURRENT ASSETS		
Land and building		1650
Machinery 1200 - 750		450
CURRENT ASSETS		
Stock		570
Debtors		420
		<u>3090</u>
CAPITAL AND LIABILITIES		
Capital		1890
Profit		450
Drawings		(150)
Creditors		630
Bank overdraft		<u>270</u>
		<u>3090</u>

Further investigation reveals the following

1. The closing stock includes damaged goods which although they cost Sh. 10,000 have an estimated sale value of Sh. 7,500.
2. Debtors includes Sh. 20,000 in respect of a customer who has gone bankrupt. A provision for doubtful debt of $2\frac{1}{2}\%$ is also required.
3. The machinery was acquired five years ago and is being depreciated to its scrap value on a straight line basis over eight years. A more realistic estimate indicates that its life span will be 10 years.
4. Wages owing at 31st March 2020 amounted to Sh. 9,500 but this has not been reflected in the accounts.
5. Charges for the bank overdraft amounting Sh. 800.
6. In arriving at the profit for the period a drawing of Sh. 100,000 paid to Mr. Kapado had been deducted as an expense.
7. Sh. 20,000 rent owing to Mr. Kapado for the letting of part of his business premises to external party had not been received and no entry had been made in the books in respect of this item.

Required:

- (a) Journal entries to correct errors and omissions
- (b) A statement of revised Profit for the year ended 31st March 2020
- (c) A revised statement of financial position as at 31st March 2020

	DR	CR
1. P&L A/c	2500	
Stock		2500
Being a reduction in stock from damaged goods.		
2. Bad debts	20000	
Debtors		20000
Being bad debts written off.		
3. P&L A/c	10000	
Provision for doubtful debt		10000
Creation of provision for doubtful debt.		
4. P&L (Bank overdraft charges)	8000	
Bank overdraft		8000
Overdraft not reflected in the account.		
5. Provision for depreciation	150000	
P&L A/c		150000
Charge in estimated life span for machinery.		
6. Wages	9500	
Accrued wages		9500
Omitted wages owing.		
7. Drawings	100,000	
Expenses		100,000
Drawings by Mr. Kapado deducted as an expense.		
8. Accrued Income (Rent)	20,000	
Rent Income		20,000

Statement of Corrected Net Profit

Reported Net Profit	450,000
damaged Stock	(12,500)
Bad debts	(20,000)
Provision for bad debts	(10,000)
Provision for depreciation	(150,000) 150,000
Wages	(9,500)
Bank charges	(8,000)
Expense	100,000
Reversal	<u>20,000</u>
Adjusted Profit	<u><u>670,000</u></u>

Corrected statement of financial position

NON CURRENT ASSET

Land and Buildings	1650,000
Machinery 1,200,000 - 600,000	600,000

CURRENT ASSET

Stock 570,000 - 250,000	320,000
Debtors 400,000 - 10,000	390,000
Rent receivable	<u>20,000</u>
	<u><u>3,227,500</u></u>

CAPITAL AND LIABILITIES

Capital	1,890,000
Add: Net Profit	670,000
Less: Drawings 150,000 + 100,000	<u>(250,000)</u>

CURRENT LIABILITIES

Creditors	630,000
Accrued wages	9,500
Bank overdraft 270,000 + 8000	<u>278,000</u>
	<u><u>3,227,500</u></u>

2. Errors that affect the trial balance and Suspense Account

Account

These types of error are reflected on the trial balance because the debits will not be the same as the credits. The debits may be more than the credits and vice versa.

Examples

1. Transactions are posted on one side of the account. i.e. only a debit entry or credit entry.

2. A transaction is posted correctly but different amount. i.e. debit is not the same as the credit.

3. A transaction is posted on one side of both accounts i.e. two debits or two credits.

4. Errors of balances of accounts. - i.e. understatement or overstatement of account balance due to mathematical errors.

5. Balance on an account is shown on the wrong side of the account when opening the ledger account or when taken up the trial balance.

⇒ To correct the above errors the appropriate or the adjusting entries are made through an account called Suspense Account.

⇒ **Suspense Account** - It is an account in which items are entered temporarily before allocation to the correct or final account.

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	DR.	CR.
① Suspense	100,000	100,000
Sales		
② J. Church	250,000	250,000
J. Crane		
③ Rent	70,000	70,000
Suspense		
④ Suspense	300,000	300,000
Discount received		
⑤ Sales	360,000	360,000
Disposal of motor vehicle		

Suspense Ac	
Sales	100,000
Discount received	300,000
	<u>400,000</u>
Bal b/d	330,000
Rent	70,000
	<u>400,000</u>

Statement of Corrected Net Profit

Reported profit	7900,000
Undercasted Sales	100,000
Understated rent	(70,000)
Undercasted discount received	300,000
Disposal of motor vehicle	(360,000)
Corrected net profit	<u>7870,000</u>

CPT May 2021 Q29

	Dr.	Cr.
① Returns Inwards	2850	
Suspense		2850
② Sales	4800	
Suspense		4800
③ Suspense	2970	
Purchases		2970
④ Discount allowed	2520	
Discount received	2520	
Suspense		5040
⑤ Suspense	19780	
Sales		19780
⑥ Bad debt	6300	
Suspense		6300
⑦ Purchases	2650	
Suspense		2650

Suspense

		Bal b/d	1110
Sales	19780	Returns Inwards	2850
Purchases	2970	Sales account	4800
		Discount allowed	5040
		Bad debts	6300
	<u>22750</u>	Purchases	<u>2650</u>
			<u>22750</u>