

Chapter 4

Solution 4.1

Advantages of preparing a trial balance

The big advantage of using a trial balance is that although it does not highlight all errors it does highlight a significant proportion of errors and thus should be used as one of many checks to ensure proper control over the recording of transactions. When the trial balance does not balance then personnel are alerted to the possibility of errors and should begin investigations.

The trial balance provides a summary of the transactions that have occurred in a period. This summary can be used when preparing the financial statements of a business.

Disadvantages of preparing a trial balance

The only concern with preparing a trial balance is that an assumption could be made that once the trial balance balances that there are no errors in the bookkeeping system. There are six errors that can have occurred that a trial balance will not indicate.

Solution 4.2

DR		Capital Account		CR		
May		€		May	€	
30	Bal c/d	<u>25,000</u>		1	Bank a/c	<u>25,000</u>
					Bal b/d	25,000

DR		Drawings Account		CR		
May		€		May	€	
20	Bank a/c	900		30	Bal c/d	<u>1,100</u>
27	Purchases a/c	<u>200</u>				<u>1,100</u>
		<u>1,100</u>				
	Bal b/d	1,100				

DR		Bank Account		CR		
May		€		May	€	
1	Capital a/c	25,000		2	Equipment a/c	7,000
10	Sales a/c	5,000		6	Purchases a/c	3,000
25	Rent received a/c	1,000		15	Rent a/c	1,800
				16	Stationery a/c	500
				16	Advertising a/c	650
				20	Drawings a/c	900
				22	Cianod a/c	1,200
				23	Wages a/c	1,800
				26	Travel expense a/c	75
				30	Bargain Pieces a/c	5,000
				30	Bal c/d	<u>9,075</u>
		<u>31,000</u>				<u>31,000</u>
	Bal b/d	9,075				

DR		Equipment Account		CR		
May		€		May	€	
2	Bank a/c	<u>7,000</u>		30	Bal c/d	<u>7,000</u>
	Bal b/d	7,000				

DR		Furniture Account		CR		
May		€		May	€	
4	Bargain Pieces a/d	<u>5,000</u>		30	Bal c/d	<u>5,000</u>
	Bal b/d	5,000				

DR		Purchases Account		CR		
May		€		May	€	
5	Cianod a/c	2,000		27	Drawings a/c	200
6	Bank a/c	3,000		30	Bal c/d	4,800
		<u>5,000</u>				<u>5,000</u>
	Bal b/d	4,800				

DR		Sales Account		CR		
May		€		May	€	
30	Bal c/d	5,950		10	Bank a/c	5,000
		<u>5,950</u>		28	G. Dunne a/c	950
						<u>5,950</u>
					Bal b/d	5,950

DR		Purchases Returns Account		CR		
May		€		May	€	
30	Bal c/d	800		18	Cianod a/c	800
		<u>800</u>			Bal b/d	800

DR		Rent Payable Account		CR		
May		€		May	€	
15	Bank a/c	1,800		30	Bal c/d	1,800
	Bal b/d	1,800				

DR		Stationery Account		CR		
May		€		May	€	
16	Bank a/c	500		30	Bal c/d	500
	Bal b/d	500				

DR		Advertising Account		CR		
May		€		May	€	
16	Bank a/c	650		30	Bal c/d	650
	Bal b/d	650				

DR		Wages Account		CR		
May		€		May	€	
23	Bank a/c	1,800		30	Bal c/d	1,800
	Bal b/d	1,800				

DR		Travel Expenses Account		CR		
May		€		May	€	
26	Bank a/c	75		30	Bal c/d	75
	Bal b/d	75				

DR		Rent Receivable Account		CR		
May		€		May	€	
30	Bal c/d	<u>1,000</u>		25	Bank	<u>1,000</u>
					Bal b/d	1,000

DR		Creditor – Bargain Pieces Account		CR		
May		€		May	€	
30	Bank a/c	<u>5,000</u>		4	Furniture a/c	<u>5,000</u>

DR		Creditor – Cianod Account		CR		
May		€		May	€	
18	Purchases returns a/c	800		5	Purchases a/c	2,000
22	Bank a/c	<u>1,200</u>				
		<u>2,000</u>				<u>2,000</u>

DR		Debtor – G Dunne Account		CR		
May		€		May	€	
28	Sales a/c	<u>950</u>		30	Bal c/d	<u>950</u>
	Bal b/d	950				

Trial balance as at 30th May - Jack O'Donoghue

Account	DEBIT	CREDIT
Capital		25,000
Drawings	1,100	
Bank	9,075	
Equipment	7,000	
Furniture	5,000	
Purchases	4,800	
Sales		5,950
Purchases returns		800
Rent payable	1,800	
Stationery	500	
Advertising	650	
Wages	1,800	
Travel	75	
Rent receivable		1,000
Debtor - G. Dunne	950	
	<u>32,750</u>	<u>32,750</u>

Remember debtors will be presented in the statement of financial position as accounts receivable and creditors will be presented as accounts payable

Solution 4.3

DR		Capital Account		CR	
May				May	
30	Bal c/d		<u>7,000</u>	1	Bank a/c
					<u>7,000</u>
					Bal b/d
					<u>7,000</u>

DR		Bank Account		CR	
May		€		May	€
1	Capital a/c		7,000	2	Rent a/c
8	Sales a/c		900	4	Stationery a/c
16	Sales a/c		800	6	Purchases a/c
25	Loan a/c		1,500	7	Wages a/c
29	BB Ltd a/c		500	12	Purchases a/c
30	Bal c/d		1,300	14	Wages a/c
				17	Rates a/c
				18	Insurance a/c
				21	Equip. Suppliers a/c
				23	OF Ltd a/c
			<u>12,000</u>		<u>12,000</u>
					Bal b/d
					<u>1,300</u>

DR		Equipment Account		CR	
May		€		May	€
3	Equip. Suppliers a/c		5,000	15	Equip. Suppliers a/c
			<u>5,000</u>	30	Bal c/d
	Bal b/d		4,400		<u>4,400</u>
					<u>5,000</u>

DR		Furniture Account		CR	
May				May	
10	OF Ltd a/c		<u>3,000</u>	30	Bal c/d
	Bal b/d		3,000		<u>3,000</u>

DR		Rent Payable Account		CR	
May				May	
2	Bank a/c		<u>1,200</u>	30	Bal c/d
	Bal b/d		1,200		<u>1,200</u>

DR		Stationery Account		CR	
May				May	
4	Bank a/c		<u>200</u>	30	Bal c/d
	Bal b/d		200		<u>200</u>

DR		Wages Account		CR	
May		€		May	€
7	Bank a/c		550	30	Bal c/d
14	Bank a/c		<u>1,500</u>		<u>2,050</u>
			2,050		
	Bal b/d		<u>2,050</u>		

DR		Rates Account		CR	
May				May	
17	Bank a/c	600		30	Bal c/d
	Bal b/d	<u>600</u>			<u>600</u>

DR		Insurance Account		CR	
May				May	
18	Bank a/c	500		30	Bal c/d
	Bal b/d	<u>500</u>			<u>500</u>

DR		Purchases Account		CR	
May		€		May	€
6	Bank a/c	950			
12	Bank a/c	1,300			
17	SS Ltd a/c	750			
24	ZZ Ltd a/c	1,450		30	Bal c/d
		<u>4,450</u>			<u>4,450</u>
	Bal b/d	<u>4,450</u>			

DR		Sales Account		CR	
May		€		May	€
				8	Bank a/c
				9	MM Ltd a/c
				16	Bank a/c
30	Bal c/d	4,100		22	BB Ltd a/c
		<u>4,100</u>			<u>4,100</u>
					Bal b/d
					<u>4,100</u>

DR		Purchases Returns Account		CR	
May				May	
30	Bal c/d	200		26	ZZ Ltd a/c
		<u>200</u>			<u>200</u>
					Bal b/d
					<u>200</u>

DR		Sales Returns Account		CR	
May				May	
28	BB Ltd a/c	300		30	Bal c/d
	Bal b/d	<u>300</u>			<u>300</u>

DR		Creditor – Equip. Suppliers Account		CR	
May		€		May	€
15	Equipment a/c	600		3	Equipment
21	Bank a/c	3,000			
30	Bal c/d	1,400			
		<u>5,000</u>			<u>5,000</u>
					Bal b/d
					<u>1,400</u>

DR		Creditor – OF Ltd Account		CR		
May		€		May	€	
23	Bank a/c		2,200	10	Furniture a/c	3,000
30	Bal c/d		800			
			<u>3,000</u>			<u>3,000</u>
					Bal b/d	800

DR		Creditor – SS Ltd Account		CR		
May				May		
30	Bal c/d		750	19	Purchases a/c	750
					Bal b/d	750
			<u>750</u>			<u>750</u>

DR		Creditor – ZZ Ltd Account		CR		
May		€		May	€	
26	Purchases returns a/c		200	24	Purchases a/c	1,450
30	Bal c/d		1,250			
			<u>1,450</u>			<u>1,450</u>
					Bal b/d	1,250

DR		Debtor – MM Ltd Account		CR		
May				May		
9	Sales a/c		1,000	30	Bal c/d	1,000
	Bal b/d		1,000			
			<u>1,000</u>			<u>1,000</u>

DR		Debtor – BB Ltd Account		CR		
May		€		May	€	
22	Sales a/c		1,400	28	Sales returns a/c	300
				29	Bank a/c	500
				30	Bal c/d	600
			<u>1,400</u>			<u>1,400</u>
	Bal b/d		600			

DR		Loan – A Dunne - Account		CR		
May						
30	Bal c/d		1,500	25	Bank a/c	1,500
					Bal b/d	1,500
			<u>1,500</u>			<u>1,500</u>

Trial balance as at 30th May – Alan Gibson

Account	DEBIT	CREDIT
Capital		7,000
Bank		1,300
Equipment	4,400	
Furniture	3,000	
Rent payable	1,200	
Stationery	200	
Wages	2,050	
Rates	600	
Insurance	500	
Purchases	4,450	
Sales		4,100
Purchases returns		200
Sales returns	300	
Creditor – Equip. Suppliers		1,400
Creditor - OF Ltd		800
Creditor – SS Ltd		750
Creditor – ZZ Ltd		1,250
Debtor – MM Ltd	1,000	
Debtor – BB Ltd	600	
Loan – A. Dunne		1,500
	<u>18,300</u>	<u>18,300</u>

Remember debtors will be presented in the statement of financial position as accounts receivable and creditors will be presented as accounts payable

Solution 4.4

"My trial balance is balanced so I know my whole book-keeping system has been recorded accurately and no errors have occurred"

The statement above is invalid. The trial balance only proves the arithmetic accuracy of the bookkeeping system. There are six types of error that can occur where the trial balance will still balance.

A trial balance does not detect:

1. **Errors of commission:** This occurs where the correct amount is recorded but in the wrong accounts. For example, a credit sale to G Dunne for €1,000 is credited to sales but debited to B. Dunne's account instead. Thus while total sales and debtors are correct and the trial balance balances, the individual debtor balances are incorrect.
2. **Errors of principle:** This is where a transaction is entered into the wrong type of account. For example a business pays €400 on repairs to motor vehicles. The book-keeper credits the bank a/c and debits motor vehicles a/c (asset a/c) instead of motor expenses a/c (expense a/c). Thus the trial balance balances, but assets are overstated and expenses are understated.
3. **Errors of Original entry:** This occurs where a book-keeper records the wrong figure in the right accounts. For example a sales invoice for €100 is debited and credited as €1,000 to the debtor and sales accounts respectively. The trial balance will still balance but sales and debtors are overstated and thus incorrect.
4. **Compensating errors:** This is where two errors have occurred and they cancel each other out. For example, an expense account is over added by €1,000 and a revenue account is over added by €1,000. The trial balance still balances, but expenses and revenues are overstated.
5. **Complete reversal of entries:** This is where the correct accounts are used but each item is shown on the wrong side of the account. For example we made a credit sale to Mitchel for €500. The correct entry is to credit sales and debit Mitchel with €500. However, the book-keeper debits the sales a/c and credit debtors with €500. In this case the trial balance still balances, but sales and debtors are both understated.
6. **Error of omission:** This occurs where a book-keeper fails to record a transaction in the books. Thus, as long as all other transaction are recorded properly then the trial balance will balance but a transaction is omitted.

Solution 4.5

- a) Enter the above transactions in Frank's ledger accounts for September.
 b) Balance the accounts and prepare a trial balance for September.

Capital Account			
	€		€
<i>Balance c/d</i>	<u>20,000</u>	Bank	15,000
	<u>20,000</u>	Bank	<u>5,000</u>
		<i>Balance c/d</i>	<u>20,000</u>
			20,000
Bank Account			
Capital	15,000	Rent	6,000
Cash	6,000	Rent	2,000
Alan	5,500	Cash	500
Capital	5,000	Car showrooms	4,000
		Michael	8,000
		Jennifer	2,000
		<i>Balance c/d</i>	<u>9,000</u>
	<u>31,500</u>		<u>31,500</u>
<i>Balance b/d</i>	9,000		
Cash Account			
Sales	6,000	Bank	6,000
Bank	500	Office expense	250
		Balance c/d	<u>250</u>
	<u>6,500</u>		<u>6,500</u>
<i>Balance b/d</i>	250		
Motor vehicles Account			
Car Show Ltd	<u>4,000</u>	<i>Balance c/d</i>	<u>4,000</u>
<i>Balance b/d</i>	4,000		
Car Show Rooms Account			
Bank	<u>4,000</u>	Motor veh	<u>4,000</u>
Purchases Account			
Michael	5,000		
Jennifer	3,000		

Michael	<u>10,000</u>	<i>Balance c/d</i>	<u>18,000</u>
	<u>18,000</u>		<u>18,000</u>
<i>Balance b/d</i>	18,000		

Sales Account a/c

		Cash	6,000
		Alan	<u>8,000</u>
<i>Balance c/d</i>	<u>14,000</u>		<u>14,000</u>
	<u>14,000</u>	<i>Balance b/d</i>	14,000

Rent Account a/c

Bank	6,000		
Bank	<u>2,000</u>	<i>Balance c/d</i>	<u>8,000</u>
	<u>8,000</u>		<u>8,000</u>

Office Expenses a/c

Cash	<u>250</u>	<i>Balance c/d</i>	<u>250</u>
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Michael Account a/c

Purchases returns	2,000	Purchases	5,000
Bank	8,000	Purchases	10,000
<i>Balance c/d</i>	<u>5,000</u>		
	<u>15,000</u>	<i>Balance b/d</i>	<u>15,000</u>
			5,000

Purchases Returns Account

<i>Balance c/d</i>	<u>2,000</u>	Michael	<u>2,000</u>
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Sales Returns a/c

Alan	<u>1,000</u>	<i>Balance b/d</i>	<u>1,000</u>
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Alan Account

Sales	8,000	Sales returns	1,000
		Bank	5,500
		<i>Balance c/d</i>	<u>1,500</u>
	<u>8,000</u>		<u>8,000</u>
<i>Balance b/d</i>	1,500		

Jennifer Account

Bank	2,000	Purchases	3,000
<i>Balance c/d</i>	<u>1,000</u>		
	<u>3,000</u>	<i>Balance b/d</i>	<u>3,000</u>
			1,000

Trial Balance as at 30 September

	Debit	Credit
	€	€
Bank	9,000	
Capital		20,000
Cash	250	
Purchases returns		2,000
Motor vehicles	4,000	
Rent	8,000	
Office expenses	250	
Sales		14,000
Purchases	18,000	
Sales returns	1,000	
Debtor - Alan	1,500	
Creditor jennifer		1,000
Creditor - Michael		5,000
	<u>42000</u>	<u>42000</u>

Remember debtors will be presented in the statement of financial position as accounts receivable and creditors will be presented as accounts payable