



## MASTERING CORRECTION OF ACCOUNTING ERRORS LESSON 1 SOLUTIONS TO HOMEWORK EXERCISES

### Section 1—WHERE ERRORS OCCUR AND HOW THEY ARE FOUND

1. Match the following errors on the left with the type of error on the right.

<p><u>  h  </u> 1. A cash sale for \$700 was recorded as \$7,000.</p> <p><u>  f  </u> 2. Annual depreciation was calculated using a useful life of 8 years instead of 6 years.</p> <p><u>  a  </u> 3. A purchase of supplies was never booked.</p> <p><u>  g  </u> 4. A \$740 customer check was recorded as \$470.</p> <p><u>  c  </u> 5. Payment for an ad was debited to Utilities Expense.</p> <p><u>  a  </u> 6. At year end, no adjusting entry was recorded for annual depreciation expense.</p> <p><u>  b  </u> 7. On March 1, a \$1,200 check to pay the premium for a 24-month policy was debited to Prepaid Insurance. On December 31, the adjusting entry recognized insurance expense of \$450.</p>	<p>a. Omission</p> <p>b. Accrual or deferral error</p> <p>c. Classification error</p> <p>d. Arithmetic mistake</p> <p>e. Use of incorrect accounting principle</p> <p>f. Use of improper accounting estimate</p> <p>g. Transposition error</p> <p>h. Slide error</p> <p>i. Posting error</p>
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2. Match the following errors on the left with the type of error on the right.

<p><u>  h  </u> 1. A \$7,000 equipment purchase booked at \$700.</p> <p><u>  c  </u> 2. A \$1,000 equipment purchase debited to Supplies.</p> <p><u>  d  </u> 3. Four cash accounts with balances of \$1,000, \$4,200, \$3,100 and \$1,800 are totaled and entered as \$10,000.</p> <p><u>  f  </u> 4. GrowCo, which normally takes 2% of accounts receivable as bad debt, takes 3% this year.</p> <p><u>  b  </u> 5. On Oct. 1, a firm receives \$1,200 for 12 months' rent and credits Rent Revenue. The year-end adjusting entry debits Rent Revenue and credits Rent Received In Advance for \$300.</p>	<p>a. Omission</p> <p>b. Accrual or deferral error</p> <p>c. Classification error</p> <p>d. Arithmetic mistake</p> <p>e. Use of incorrect accounting principle</p> <p>f. Use of improper accounting estimate</p> <p>g. Transposition error</p> <p>h. Slide error</p> <p>i. Posting error</p>
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## **Section 2–THE BANK RECONCILIATION**

1. Indicate for each of the following whether you must adjust the bank balance (“Bank”) or ledger Cash account (“Ledger Cash”) in your monthly reconciliation.
  - a. A debit memo  
**Book**
  - b. A deposit in transit  
**Bank**
  - c. A bank service charge  
**Book**
  - d. A credit memo  
**Book**
  - e. An NSF check  
**Book**
  - f. An outstanding check  
**Bank**
  - g. Unrecorded interest  
**Book**
  - h. Collection by the bank of a note receivable from a customer with accrued interest  
**Book**

2. Below are items for October 200X that you are seeing for the first time.

a. Indicate with a check mark whether each item should be added to or subtracted from the bank balance, book balance, or neither (i.e., it does not affect the bank reconciliation).

		Bank balance		Book balance		Not used
		Add	Deduct	Add	Deduct	
a.	Interest earned on bank cash balance			X		
b.	Bank service charge				X	
c.	NSF check from a customer				X	
d.	A night deposit made on October 31 when the bank was closed	X				
e.	Checks written and mailed October 31		X			
f.	An October 12 deposit appearing on the bank statement as made on October 13					X
g.	Another firm's check charged to yours	X				
h.	Payment of a phone bill that appears on the bank statement but was never recorded				X	
i.	Collection of principal and interest on a customer's note collected by the bank			X		

b. Prepare the journal entries to conform the ledger Cash account balance with the reconciled bank balance as of October 31.

<b>a.</b>	<b>Cash</b>	<b>XXX</b>	
	<b>Interest Income</b>		<b>XXX</b>
	<b>To record bank interest</b>		
<b>b.</b>	<b>Miscellaneous Expense</b>	<b>XXX</b>	
	<b>Cash</b>		<b>XXX</b>
	<b>To record bank service charge</b>		
<b>c.</b>	<b>Accounts Receivable</b>	<b>XXX</b>	
	<b>Cash</b>		<b>XXX</b>
	<b>To record NSF check returned by bank</b>		
<b>h.</b>	<b>Utilities Expense</b>	<b>XXX</b>	
	<b>Cash</b>		<b>XXX</b>
	<b>To record utility expense</b>		
<b>i</b>	<b>Cash</b>	<b>XXX</b>	
	<b>Note Receivable</b>		<b>XXX</b>
	<b>Interest Income</b>		<b>XXX</b>
	<b>To record N/R and interest collected by bank</b>		

3. Fiori publishes ratings and reviews of hotels and restaurants for traveling salespeople. As of June 31, Fiori's ledger Cash balance is \$31,466. The June bank statement balance is \$70,616, and includes the following items.

- Bank service charge for June, \$50
  - NSF check returned with June bank statement, \$2,300
  - Note collected for your company by the bank in June, \$25,000
  - Interest on note collected by the bank in June, \$2,500
  - Outstanding checks as of the end of June, \$21,000
  - Deposit in transit at the end of June, \$7,000
- a. Prepare Fiori's June bank reconciliation.

*Fiori International Bank Reconciliation for June 30*

<b><i>Balance per bank, June 30</i></b>	<b><i>\$ 70,616</i></b>
<b><i>Add: June 30 deposit in transit</i></b>	<b><i>7,000</i></b>
	<b><i><u>\$ 77,616</u></i></b>
<b><i>Deduct: Outstanding checks</i></b>	<b><i>21,000</i></b>
<b><i>Corrected cash balance, June 30</i></b>	<b><i><u>\$ 56,616</u></i></b>
<b><i>Balance per books, June 30</i></b>	<b><i>\$ 31,466</i></b>
<b><i>Add: Note receivable collected by bank</i></b>	<b><i>25,000</i></b>
<b><i>Interest collected by bank on note receivable</i></b>	<b><i>2,500</i></b>
	<b><i><u>\$ 58,966</u></i></b>
<b><i>Deduct: NSF check</i></b>	<b><i>2,300</i></b>
<b><i>Bank service charge</i></b>	<b><i>50</i></b>
<b><i>Corrected cash balance, June 30</i></b>	<b><i><u>\$ 56,616</u></i></b>

b. Prepare the journal entries to conform Fiori's ledger Cash account balance with the reconciled bank balance as of June 30.

<b><i>Cash</i></b>	<b><i>25,000</i></b>	
<b><i>Notes Receivable</i></b>		<b><i>25,000</i></b>
<b><i>To record collection of N/R by bank</i></b>		
<b><i>Cash</i></b>	<b><i>2,500</i></b>	
<b><i>Interest Income</i></b>		<b><i>2,500</i></b>
<b><i>To record interest on note N/R by bank</i></b>		
<b><i>Accounts Receivable</i></b>	<b><i>2,300</i></b>	
<b><i>Cash</i></b>		<b><i>2,300</i></b>
<b><i>To record NSF check returned by the bank</i></b>		
<b><i>Miscellaneous Expense</i></b>	<b><i>50</i></b>	
<b><i>Cash</i></b>		<b><i>50</i></b>
<b><i>To record bank service charge</i></b>		

4. On July 31, Reed Co's ledger Cash account balance is \$25,110, its bank statement balance, \$27,620. Use the data below to reconcile the two balances as of July 31, 20X9:
- Checks outstanding of \$6,300
  - Check #244, to pay the June gas bill was correctly written for \$270, but recorded on Reed's books as \$720
  - \$60 for a safe-deposit box—but Reed does not rent one
  - A debit memorandum for \$200 for a \$175 NSF check and \$25 bank NSF fee.
  - A \$40 debit memorandum for bank service Reed is seeing for the first time
  - A July 31 night deposit of that day's cash receipts of \$3,940 that is not on the bank statement
- a. Prepare Reed Co's bank reconciliation for July 31, 20X9.

**Reed Co. Bank Reconciliation for July 31**

<b>Balance per bank statement, July 31</b>	<b>\$ 27,620</b>
<b>Add:</b> <i>July 31 deposit in transit</i>	<i>3,940</i>
<i>Erroneous safe deposit box charge</i>	<i>60</i>
	<u><b>\$ 31,620</b></u>
<b>Deduct:</b> <i>Outstanding checks</i>	<i>6,300</i>
<b>Corrected cash balance, July 31</b>	<u><b>\$ 25,320</b></u>
<b>Balance per books, July 31</b>	<b>\$ 25,110</b>
<b>Add:</b> <i>Error in recording check No. 244</i>	<i>450</i>
	<u><b>\$ 25,560</b></u>
<b>Deduct:</b> <i>NSF check</i>	<i>175</i>
<i>NSF fee</i>	<i>25</i>
<i>Bank service charge</i>	<i>40</i>
<b>Corrected cash balance, July 31</b>	<u><b>\$ 25,320</b></u>

- b. Prepare the journal entries required to conform the company's book balance with the reconciled bank balance as of July 31, 20X9.

<b>Cash</b>	<b>450</b>	
<i>Utilities Expense</i>		<i>450</i>
<b>To correct utilities expense book error</b>		
<b>Accounts Receivable</b>	<b>175</b>	
<b>Miscellaneous Expense</b>	<b>25</b>	
<b>Cash</b>		<b>200</b>
<b>To record NSF check and service charge</b>		
<b>Miscellaneous Expense</b>	<b>40</b>	
<b>Cash</b>		<b>40</b>
<b>To record bank service charge</b>		