Achievable

ACCA FINANCIAL ACCOUNTING DUMP SHEET

Reconciliations and error correction

Bank reconciliation statement (BRS)

- **Step 1: adjust the cash book** (bank ledger account)
  - Add: direct credits (EFT), interest earned
  - Deduct: bank charges, standing orders, dishonoured cheques, direct debits
  - Correct any errors the entity made in the cash book
- **Step 2: prepare the BRS** (timing differences)
  - Bank statement balance + uncredited lodgements − unpresented cheques ± bank errors = adjusted cash book balance

Payables ledger reconciliation

- Compare the payables ledger (the entity's records) with the supplier statement
- **Common differences:** goods in transit, payments in transit, unprocessed credit notes, errors
- Start from either balance and adjust for items in only one set of records

Purpose of the trial balance

- Confirms total debits = total credits (mathematical accuracy)
- A checkpoint before preparing the financial statements
- Extracted after all ledgers are balanced: debit balances on the Dr side, credit balances on the Cr side

Suspense account

- A temporary account used when one side of a correction is unknown
- Created when the trial balance fails to agree: balance = the difference between the Dr and Cr totals
- Cleared when all errors are identified and corrected: suspense balance = zero
- If an error affects **two known accounts**, no suspense entry is needed: correct them directly

Errors: detected vs not detected by the trial balance

Error type	Detected?	Description and example
Single-entry error	Yes	Only one side of the transaction recorded; e.g., Dr Purchases, no Cr
Unequal posting error	Yes	Different amounts posted to debit and credit; e.g., Dr $5,200, Cr $2,500
Transposition (one side)	Yes	Digits reversed in **one** account only; e.g., $5,640 vs $5,460
Wrong-side posting	Yes	Amount posted to the correct account, but on the wrong side (×2 effect)
Error of complete omission	No	Entire transaction omitted; both sides missing
Error of principle	No	Wrong type of account; e.g., capital expenditure → expense account
Error of original entry	No	Wrong amount in **both** debit and credit; e.g., $7,500 recorded as $5,700
Error of commission	No	Correct account type but wrong specific account; e.g., Customer A → Customer B
Error of complete reversal	No	Debit and credit swapped; e.g., Dr Sales, Cr Receivables
Transposition (both sides)	No	Digits reversed in **both** entries equally
Error of duplication	No	Same transaction recorded twice in full
Compensating errors	No	Two errors that cancel each other out

Impact of errors on the financial statements

Error type	Effect on profit	Effect on the SOFP
Overstatement of expenses	Profit understated ↓	Net assets understated
Understatement of expenses	Profit overstated ↑	Net assets overstated
Overstatement of income	Profit overstated ↑	Net assets overstated
Understatement of income	Profit understated ↓	Net assets understated

- **Adjusted profit** $=$ reported profit $+$ errors that decreased profit $-$ errors that increased profit