

Suspense Accounts

The Trial Balance

A trial balance is a list of balances taken from the ledger accounts. We extract a trial balance before preparing final account and balance sheets as it ensures the accuracy of the double entry.

Using the double entry system every credit must have a corresponding debit and vice versa. If we correctly apply this accounting principle the total of all of our debit entries will equal the total of all of our credit entries.

When preparing a trial balance, first we balance all the ledger accounts and bring down the balances. Then list each debit balance under a column headed Debit. List each credit balance under a column headed Credit. Total each column. The totals of the two columns should be the same.

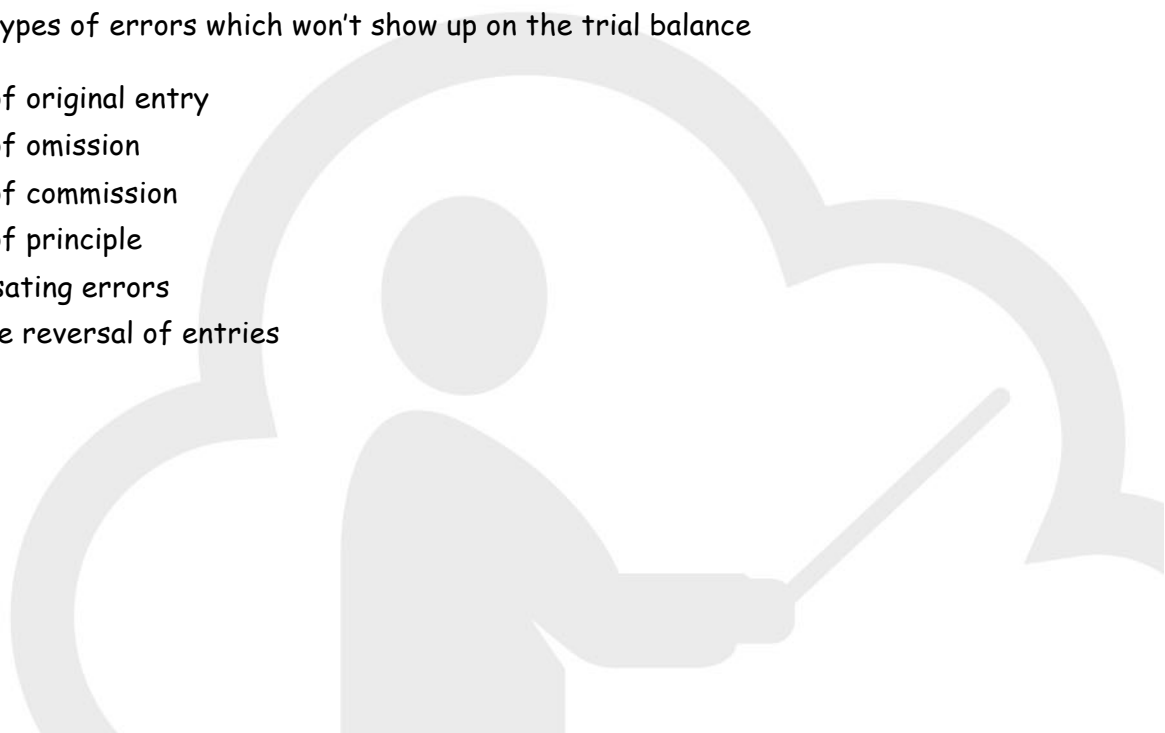
Errors revealed by the trial balance

- Mathematical errors - which are errors of addition or subtraction
- Double entry errors - such as an entry of a debit without the corresponding credit entry
- Misplaced entries - such as an entry entered on the incorrect side

Errors not revealed by the trial balance

There are six types of errors which won't show up on the trial balance

1. Errors of original entry
2. Errors of omission
3. Errors of commission
4. Errors of principle
5. Compensating errors
6. Complete reversal of entries



Errors of Original Entry

These are errors that were made in the books of original first entry which were then posted to the appropriate ledger. For example, a sale on credit of €1,000 to F. Johnson was entered into the sales book as €100 and posted to the debit side of Johnsons account and to the credit side of the sales account as €100. There is clearly a mistake made here and there is a shortfall of €900 in both accounts, i.e. €900 short on the debit side of Johnsons account and €900 short on the credit side of the sales account. As the original error was repeated in the ledger accounts this will not show up in the trial balance as it will still "balance".

Errors of Omission

This is when transactions are completely omitted from the books of original entry and are therefore left out of the ledger accounts and then the trial balance. For example, Goods were bought on credit from S. Cadden for €200 and were not entered in the books. Again here two accounts, Cadden and Purchases will be incorrect but the trial balance will still "balance".

Errors of Commission

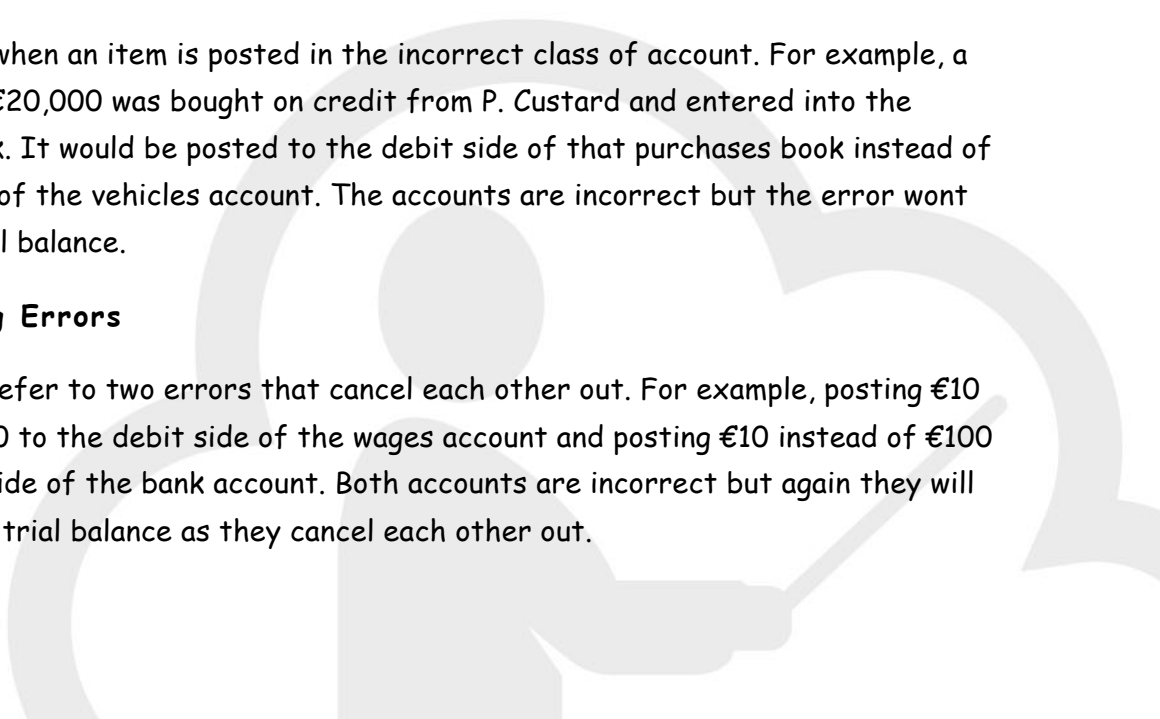
Errors of commission happen when the correct amount is posted to the correct side of the incorrect account. For example €500 due for goods sold on credit to G. Landen was debited to the account of A. Landen. Here again the trial balance will balance but the two accounts will be incorrect.

Errors of Principle

These happen when an item is posted in the incorrect class of account. For example, a vehicle worth €20,000 was bought on credit from P. Custard and entered into the purchases book. It would be posted to the debit side of that purchases book instead of the debit side of the vehicles account. The accounts are incorrect but the error wont affect the trial balance.

Compensating Errors

These errors refer to two errors that cancel each other out. For example, posting €10 instead of €100 to the debit side of the wages account and posting €10 instead of €100 to the credit side of the bank account. Both accounts are incorrect but again they will not affect the trial balance as they cancel each other out.



Complete Reversal of Entries

This happens when the correct figures are used but both entries are made on the incorrect sides of the accounts involved. For example, a sale of goods €500, to G. Malone was entered on the credit side of G. Malone's account and on the debit side of the sales account. This means the correction would need to be double the amount of the original figure as the incorrect figure needs to be cancelled and the correct entered on the correct side.

Suspense Accounts

A suspense account arises due to errors made in bookkeeping. These errors affect the balancing of the trial balance and consist of;

- Double entry errors
- Arithmetical errors
- Trial balance errors

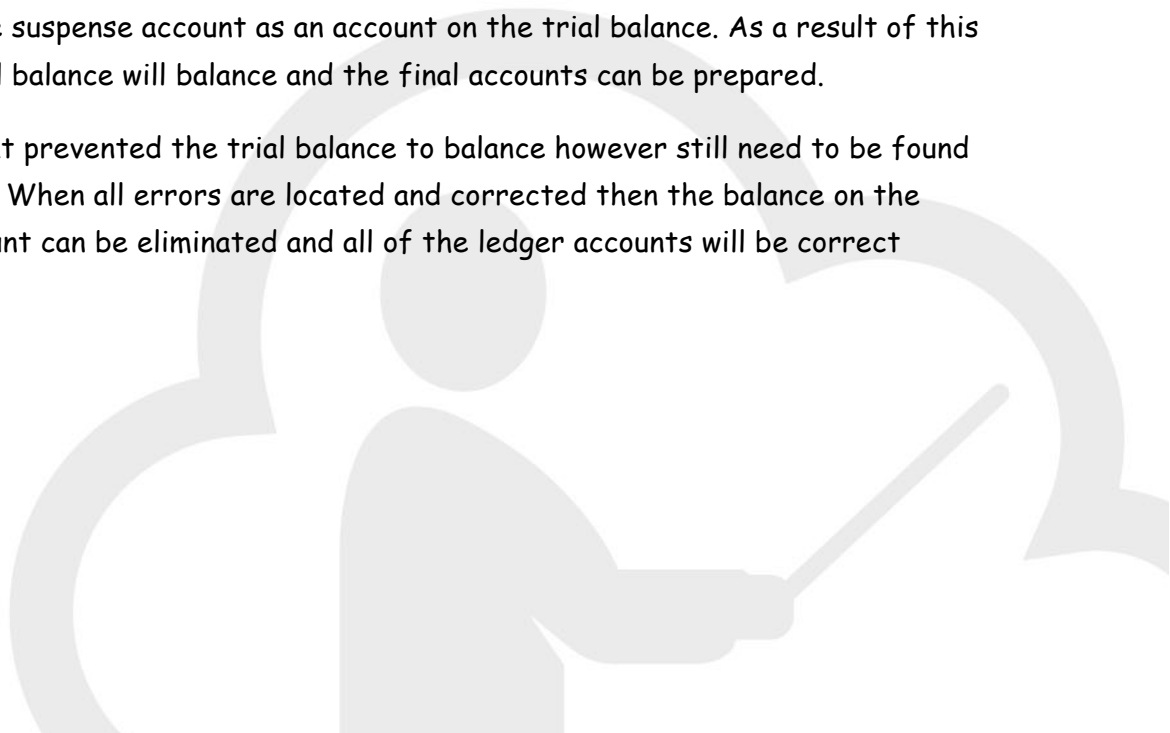
When the trial balance fails to balance then the difference between both sides is placed temporarily in an account called a **suspense account**.

If the total of the debit column of the trial balance is smaller than the total of the credit column, the difference is placed on the debit side of the suspense account.

If the total of the credit column is smaller than the total side of the debit column, the difference is placed on the credit side of the suspense account.

We include the suspense account as an account on the trial balance. As a result of this entry, the trial balance will balance and the final accounts can be prepared.

The errors that prevented the trial balance to balance however still need to be found and corrected. When all errors are located and corrected then the balance on the suspense account can be eliminated and all of the ledger accounts will be correct



Bookkeeping of Suspense Accounts

1. Dr the account receiving

Cr the account giving

2. Assets and expenses have debit balances

Liabilities and gains have credit balances

3. When doing the journal entries, if there is a difference, then suspense is the difference.

4. Whatever the owner takes out is drawings:

Example;

The owner took goods for own use, then dr. drawings accounts and cr. purchases account

The owner took cash, then dr. drawings account and cr. cash account

The owner invested money in the business then, dr. bank account and cr. capital account

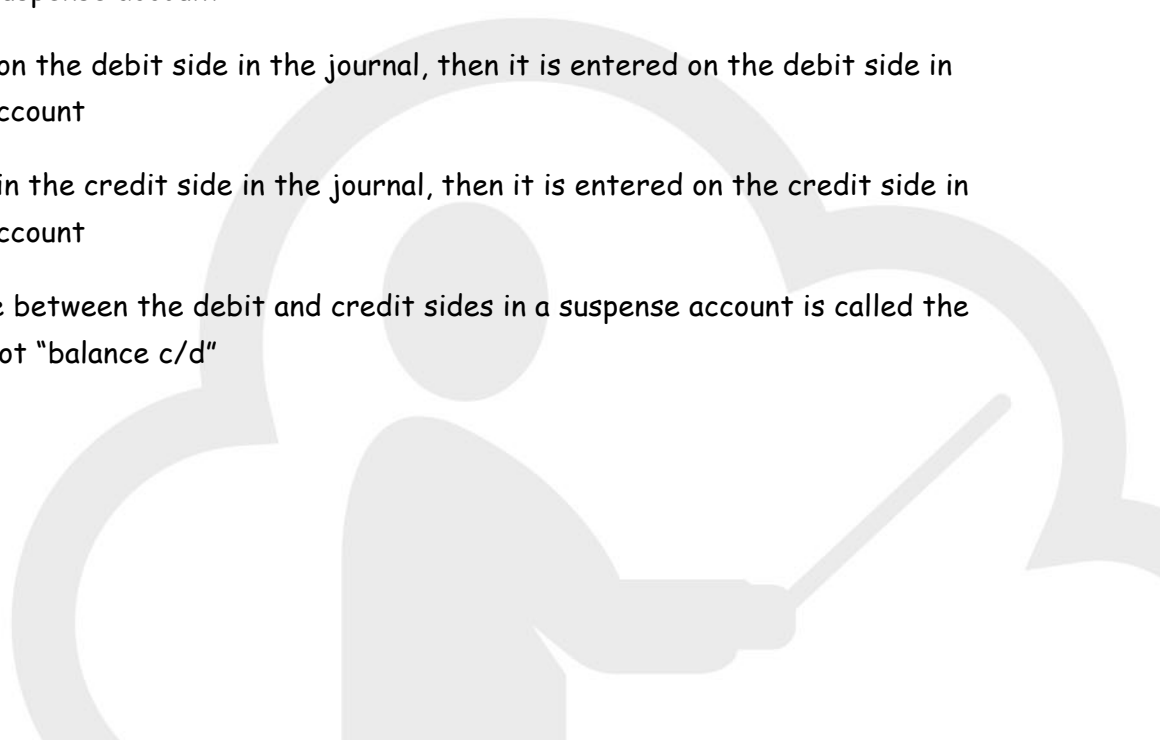
5. When cancelling a business debt with a private debt, it is the amount of the business debt that is important not the amount of the private debt.

6. In the suspense account:

If suspense is on the debit side in the journal, then it is entered on the debit side in the suspense account

If suspense is in the credit side in the journal, then it is entered on the credit side in the suspense account

The difference between the debit and credit sides in a suspense account is called the "difference", not "balance c/d"



7. In the corrected profit and loss account:

Only items that affect the trading, profit and loss account go in here

Items that affect assets and liabilities do not affect net profit

If an entry is on the debit side in journal, then subtract from net profit

If an entry is on credit side in journal, then add to net profit

8. In the balance sheet:

If an entry for an asset is debit in the journal, then add to the asset in the balance sheet

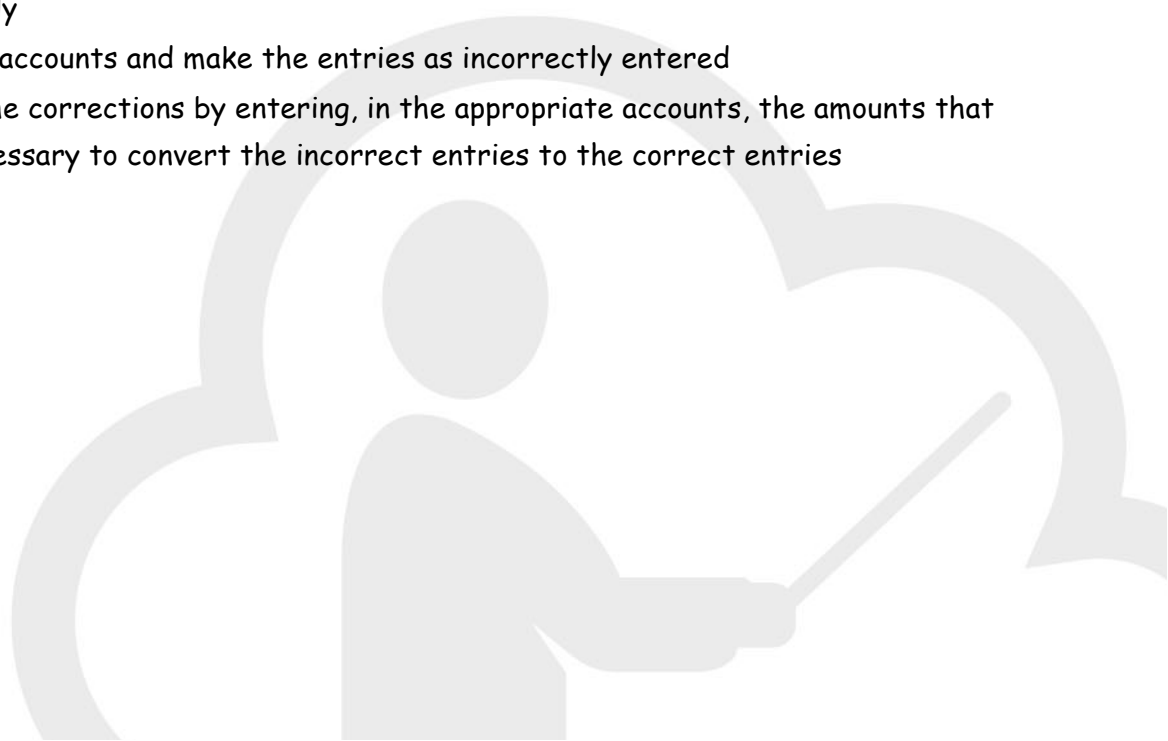
If an entry for an asset is credit in the journal, then subtract from the assets in the balance sheet

If an entry for a liability is credit in the journal, then add to the liability in the balance sheet

If an entry for a liability is debit in the journal, then subtract from the liability in the balance sheet.

Procedure for dealing with correction of errors

- 1.** Open T accounts and enter the transactions as they would have been if entered correctly
- 2.** Open T accounts and make the entries as incorrectly entered
- 3.** Make the corrections by entering, in the appropriate accounts, the amounts that are necessary to convert the incorrect entries to the correct entries



Bad Debts Account				Debtors Account (F. Norton)			
*	€ 270.00					*	€ 270.00

Journal (a)		
	Dr.	Cr.
1. Purchases account	€ 100.00	
Suspense account		€ 100.00
Being purchases book undercast by €100		
2. Rent account	€ 200.00	
Suspense account		€ 200.00
Being rent not posted from cash book		
3. Credit or account	€ 540.00	
Suspense account		€ 540.00
Being payment of €600 posted as €60		
4. Purchases returns account		€ 500.00
Credit or account	€ 500.00	
Being returns not entered in the books		
5. Discount allowed account		€ 150.00
Discount received account		€ 150.00
Suspense account	€ 300.00	
Being discount received treated as discount allowed		
6. Bad debt account	€ 270.00	
F. Norton		€ 270.00
Being bad debts omitted from books		

Suspense Account (b)					
Dec-31	Discount received	€ 300.00	Dec-31	Purchases	€ 100.00
				Rent	€ 200.00
	Difference	€ 540.00		Credit or	€ 540.00
		€ 840.00			€ 840.00

Effects of Errors

Effect of Errors on Net Profit

All errors in ledger accounts will affect either the profit and loss account or the balance sheet. All errors in the net profit will affect the capital account in the balance sheet. If an error affects any figure in either the trading or profit and loss account, it will affect the **net profit**.

Any errors that affect the sales or the cost of sales in the trading account, or errors that affect selling expenses, losses or revenue receipts in the profit and loss account, will affect the **net profit**.

Errors that affect the fixed assets, current assets, capital, long term liabilities or current liabilities will affect the accuracy of the **balance sheet**.

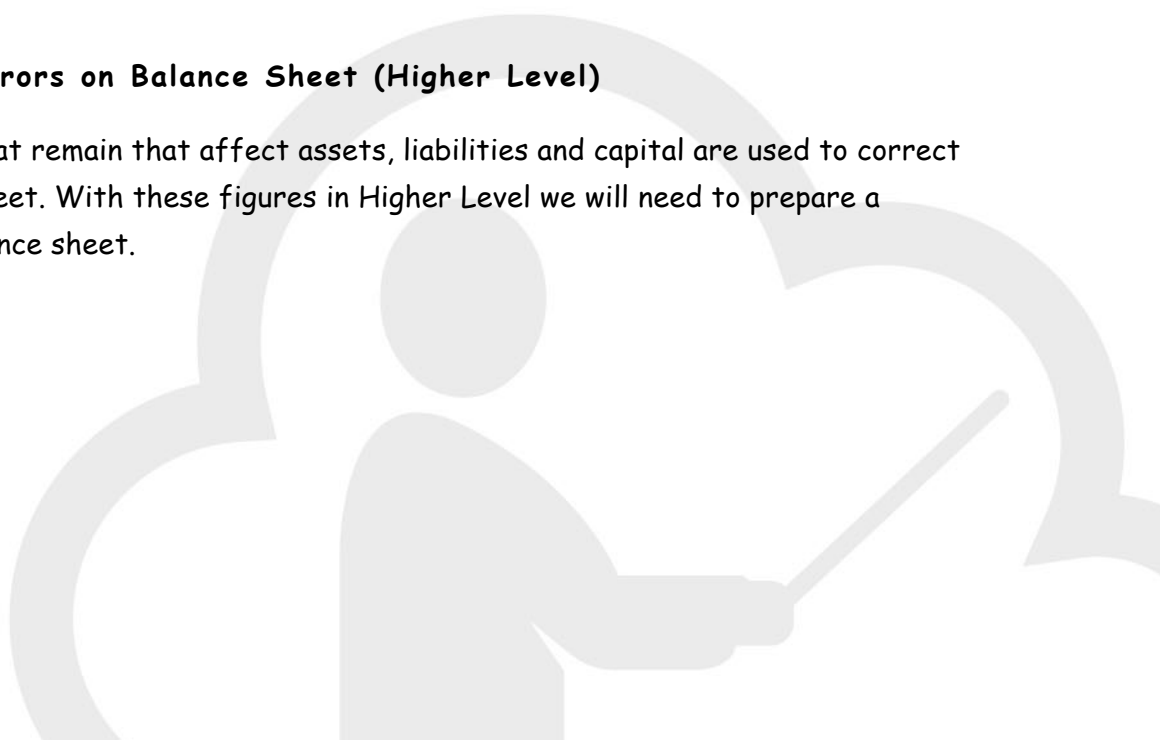
When we correct errors through the journal it will be necessary to correct both the profit and loss account and the balance sheet.

To correct the profit and loss figure a statement called **statement of corrected net profit** is prepared. Only entries that affect the expenses and gains will be entered into this statement.

1. An expense or gain account debited in the journal should be deducted from the net profit.
2. An expense or gain account credited in the journal should be added to the net profit.

Effect of Errors on Balance Sheet (Higher Level)

Any figures that remain that affect assets, liabilities and capital are used to correct the balance sheet. With these figures in Higher Level we will need to prepare a corrected balance sheet.



Let's take a look at an example,

Q 7.2

The trial balance of F. Fulton did not agree on 31/12/2012. The difference was entered in a suspense account and the following balance sheet was prepared:

Balance Sheet as at 31/12/2012

Fixed Assets

Buildings		€650,000
Motor vehicles		<u>€120,000</u>
		€770,000

Current Assets

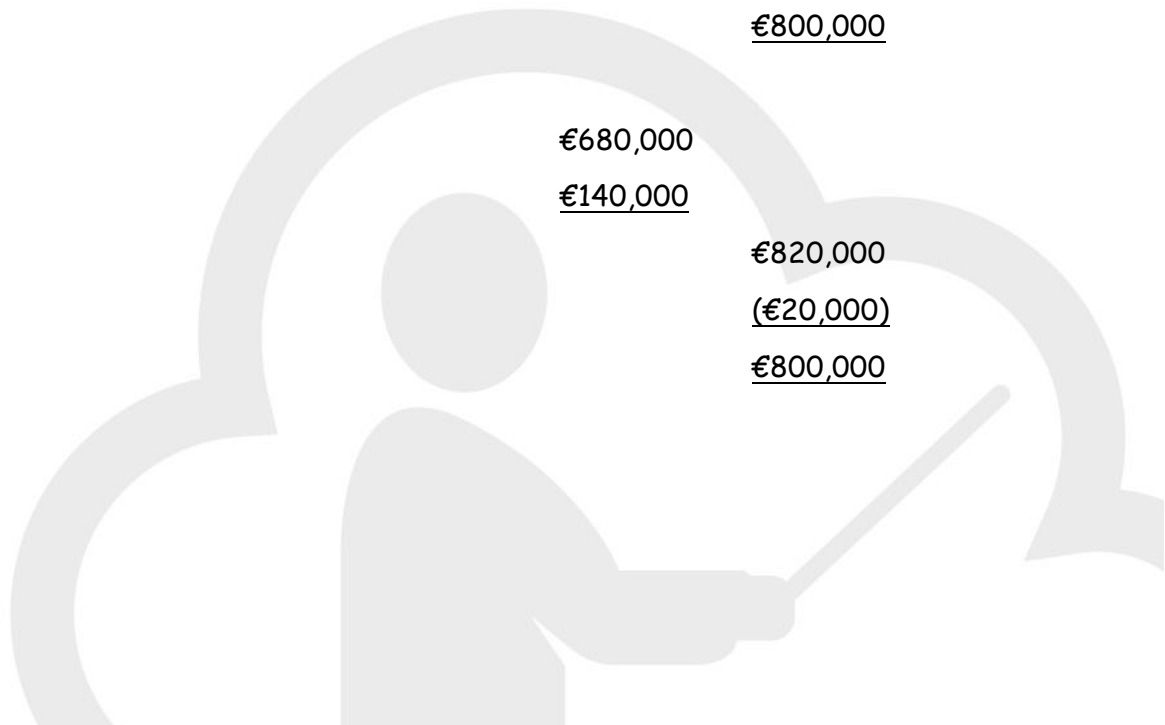
Stock (including suspense)	€60,000	
Debtors	<u>€40,000</u>	
	€100,000	

Less Current Liabilities

Creditors	€50,000	
Bank	€20,000	
	<u>€70,000</u>	
		<u>€30,000</u>
		<u>€800,000</u>

Financed By:

Capital	€680,000	
Add Net Profit	<u>€140,000</u>	
		€820,000
Less Drawings		<u>(€20,000)</u>
		<u>€800,000</u>

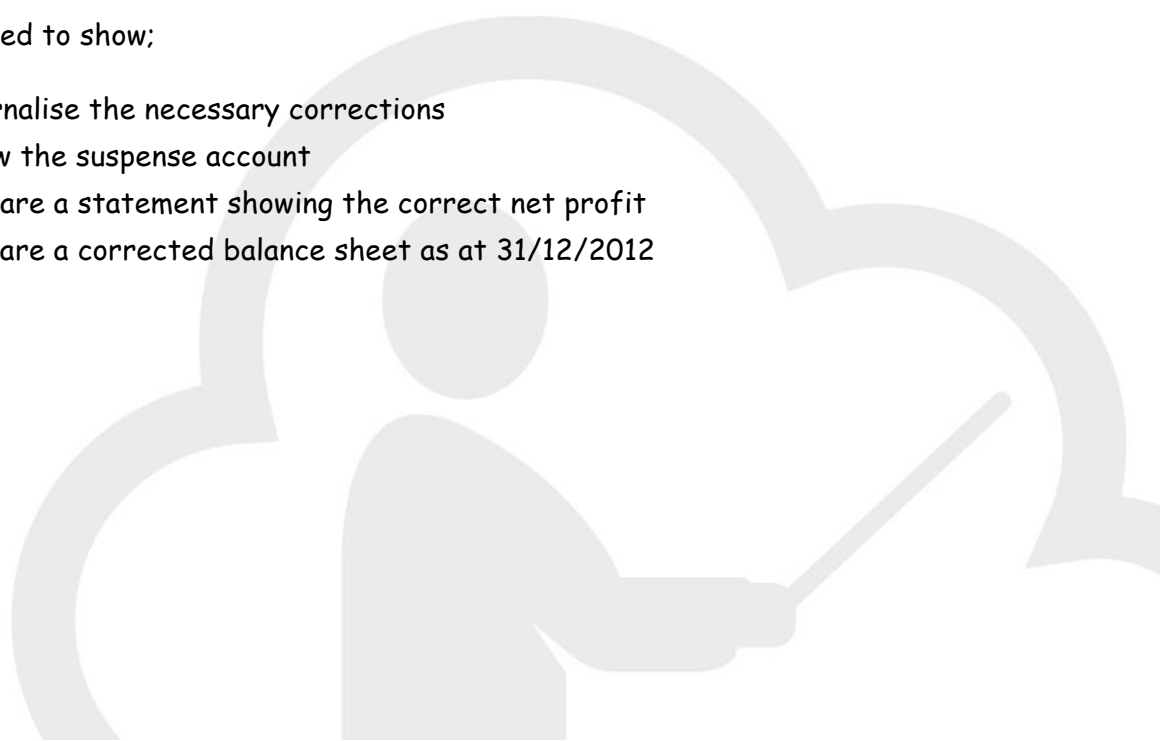


After checking the books the following errors were discovered:

1. An overdraft of €300 in the bank account had been brought down on the correct side of the nominal ledger and consequently had been entered on the incorrect side of the trial balance.
2. F. Fulton who was the owner sold privately owned stock to a debtor of the business on credit for €2,500. This sale had been treated in error as a sale of business stock. Fulton intended that the proceeds of this sale were to be retained in the business.
3. A debtor who owed Fulton €700 sent a cheque for €550 and €100 in cash in full settlement. This was correctly entered in the books. However, no entry had been made in the books of the subsequent dishonouring of this cheque or of the writing off of the remaining debt in full because of bankruptcy.
4. Fulton won a vehicle valued at €30,000 in a draw. Fulton gave the vehicle to the business and took an old car from the business valued at €9,000 which was for private use. The only entry made in the firm's books regarding both motor vehicles was a debit in the cash book of €9,000.
5. Cash payments of €150 for repairs to the business motor vehicle and €100 for repairs to private motor vehicles had both been credited to the creditors account and also both credited to motor vehicles account.
6. Fulton had returned goods previously purchased on credit from a supplier for €10,500 and had entered this transaction in the relevant ledger accounts incorrectly as €8,300. However, a credit note subsequently arrived from the supplier showing a transport charge of €300 to cover the cost of the return. The only entry made in respect of this credit note was a credit of €10,200 in the creditors account.

You are asked to show;

- a) Journalise the necessary corrections
- b) Show the suspense account
- c) Prepare a statement showing the correct net profit
- d) Prepare a corrected balance sheet as at 31/12/2012



Error 1

Bank Account				Suspense Account				
Balance	€	300.00	*	€	600.00	*	€	600.00

Error 2

Debt or Account				Sales Account				
	€	2,500.00	*	€	2,500.00	*	€	2,500.00

Capital Account				Cash Account				
			*	€	2,500.00	*	€	2,500.00

Error 3

Debt or Account				Bank Account				Discount Account					
Balance	€	600.00		Bank	€	550.00		Debtor	€	50.00	*	€	50.00
				Discount	€	50.00							
	€	600.00			€	600.00							
Bank *	€	550.00		Bad debts *	€	600.00							
Discount *	€	50.00											

Bad Debts Account			
*	€	600.00	

Error 4

Vehicles Account				Capital Account							
Capital *	€	30,000.00		*Drawings	€	9,000.00		Vehicle *	€	30,000.00	

Drawings Account				Bank Account						
Vehicle *	€	9,000.00			€	9,000.00	*	€	9,000.00	

Suspense Account			
*	€	9,000.00	

Error 5

Creditors Account				Vehicles Account				
*	€	250.00		€	250.00	*	€	250.00

Drawings Account				Repairs Account				
*	€	100.00		€	150.00			

Bank Account				Suspense Account				
			*	€	250.00	*	€	500.00

Error 6

Purchases Returns Acc				Creditors Account				Suspense Account				
			€	8,300.00	€	8,300.00		€	10,200.00	*	€	10,200.00
		*	€	1,900.00	€	12,100.00						

Journal (a)		
	Dr.	Cr.
1. Bank account		€ 600.00
Suspense account	€ 600.00	
Being correction of overdraft brought down on wrong side of bank account		
2. Sales	€ 2,500.00	
Debt or		€ 2,500.00
Cash	€ 2,500.00	
Capital		€ 2,500.00
Being sale of private stock to a debt or treated incorrectly as a cash sale		
3. Debt or	€ 600.00	
Bank		€ 550.00
Discount allowed		€ 50.00
Debt or		€ 600.00
Bad debts	€ 600.00	
Being recording of dishonouring a cheque and recording of a bad debt		
4. Motor vehicles	€ 30,000.00	
Motor vehicles		€ 9,000.00
Capital		€ 30,000.00
Drawings	€ 9,000.00	
Bank		€ 9,000.00
Suspense	€ 9,000.00	
Being capital introduced in the form of a vehicle and correction of wrong entry in the bank acc		
5. Creditors	€ 250.00	
Motor vehicles	€ 250.00	
Suspense		€ 500.00
Drawings	€ 100.00	
Repairs	€ 150.00	
Bank		€ 250.00
Being repairs and drawings omitted from bank account and entered in error in creditors and motor vehicles		
6. Creditors	€ 12,100.00	
Purchase returns		€ 1,900.00
Suspense		€ 10,200.00
Being correction of incorrect recording of returns and recording of a reduction in an allowance		

Suspense Account (b)							
Dec-31	Bank (1)	€	600.00	Dec-31	Mot or vehicles (5)	€	500.00
	Capital (4)	€	9,000.00		Purchases rt. (6)	€	10,200.00
	Difference	€	1,100.00				
		€	10,700.00			€	10,700.00

Statement of Correct Net Profit (c)		
Original balance as per balance sheet		€ 140,000.00
Add		
Discount allowed	€ 50.00	
Purchases returns	€ 1,900.00	
		€ 1,950.00
		€ 141,950.00
Subtract		
Sales	€ 2,500.00	
Bad debts	€ 600.00	
Repairs	€ 150.00	
		€ 3,250.00
Corrected net profit		€ 138,700.00

Corrected Balance Sheet as at 31/12/2012			
Fixed Assets:			
Buildings			€ 650,000.00
Mot or V. (120,000 + 30,000 - 9,000 + 250)			€ 141,250.00
			€ 791,250.00
Current Assets:			
Stock (60,000 - 1,100)		€ 58,900.00	
Cash		€ 2,500.00	
Debtors (40,000 - 2,500 + 600 - 600)		€ 37,500.00	
		€ 98,900.00	
Less Current Liabilities:			
Creditors (50,000 - 250 - 12,100)	-€ 37,650.00		
Bank (20,000 + 600 + 550 + 9,000 + 250)	-€ 30,400.00		
		€ 68,050.00	€ 30,850.00
			€ 822,100.00
Financed By:			
Capital (680,000 + 2,500 + 30,000)		€ 712,500.00	
Add Net profit		€ 138,700.00	
			€ 851,200.00
Less Drawings (20,000 + 9,000 + 100)			-€ 29,100.00

Homework

Q 7.3

The trial balance of Jacob Ltd failed to agree on the 31/12/2014. The difference was entered into a Suspense Account and the final accounts were prepared showing a net profit of €35,000. On checking the books, the following errors and omissions were discovered.

1. Motor vehicles purchases on credit from Gerard Ltd for €25,600 had been entered as €15,500 on the incorrect side of Gerard Ltd account and credited as €25,500 in the motor vehicles account.
2. A private debt of €1,600 owed by Jacob had been offset in full settlement against a business debt of €2,500 for sales made earlier in the year. No entry had been made in the books regarding this transaction.
3. Jacob Ltd made a cash payment of €150 for repairs to the business computer and €175 for repairs to a privately owned computer. These had both been entered on the credit side of the creditors and computer accounts.
4. Jacob Ltd sold privately owned antiques at a price of €1,500 on credit to a debtor of the business. Jacob Ltd treated this as a cash sale of stock. The proceeds of the sale are to remain in the business.
5. A debtor who owed Jacob Ltd €950 sent a cheque for €500 and €300 in cash in full settlement. This was correctly entered into the books. However, the cheque bounced and no subsequent entry was made. The debtor also was declared bankrupt and no entry had been made for this.

You are asked to;

- a) Journalise the necessary corrections
- b) Prepare a Statement showing the correct Net Profit



Journal (a)		
	Dr.	Cr.
1. Credit ors		€ 41,100.00
Motor vehicles	€ 25,500.00	
Purchases	€ 25,600.00	
Suspense		€ 10,000.00
Being correction of incorrect recording of the purchases on credit		
2. Debt ors		€ 2,500.00
Drawings	€ 1,600.00	
Discount	€ 900.00	
Being the recording of the owners private debt against a business debt for sales owed to firm		
3. Credit ors	€ 325.00	
Computer	€ 325.00	
Repairs	€ 150.00	
Cash		€ 325.00
Drawings	€ 175.00	
Suspense		€ 650.00
Being repairs and drawings omitted from cash book and entered in both creditors and computer account		
4. Sales	€ 1,500.00	
Cash		€ 1,500.00
Capital		€ 1,500.00
Debt ors	€ 1,500.00	
Being recording of sale of privately owned antiques to a business debt or treated incorrectly as a cash sale		
5. Bank		€ 500.00
Discount		€ 150.00
Debt ors	€ 650.00	
Debt ors		€ 650.00
Bad debt	€ 650.00	
Being recording of a dishonoured cheque and a bad debt		

Statement of Correct Net Profit (b)

Net Profit		€ 35,000.00
Add		
Discount		€ 150.00
		€ 35,150.00
Less		
Purchases	€ 25,600.00	
Discount	€ 900.00	
Repairs	€ 150.00	
Sales	€ 1,500.00	
Bad Debt	€ 650.00	€ 28,800.00
Corrected Net Profit		€ 6,350.00