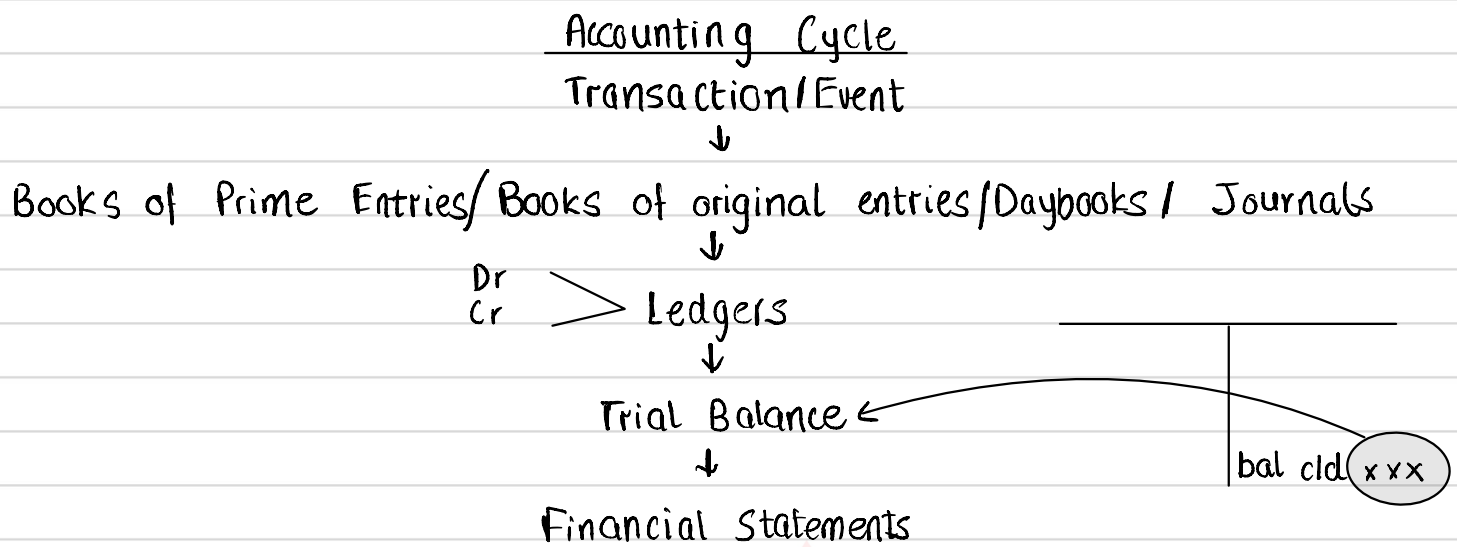


# Topic 15



# Suspense Accounts and Errors

# Suspense Accounts and Errors



Trial Balance: It is the list of remaining balances extracted from the closing balances on the ledger a/c. Since all transactions are recorded in ledger as per double entry system the total of the debit side of the trial balance must always agree with the total of the credit side

Specimen ::

	Dr	Cr
Assets	xxx	
Expenses	xxx	
Liabilities		xxx
Capital		xxx
Revenues		xxx
Provisions/Contra Assets		xxx
Sales Returns/Contra Revenue	xxx	
Purchases Returns/Contra Expense		xxx
Drawings/Contra Capital	xxx	
	xxx	xxx



Errors not affecting trial balance

1. Error of omission: Where a transaction is completely omitted from the books neither the debit impact, nor the credit impact is recorded.

Example :: Goods withdrawn by owner for personal use costing \$300 is not recorded anywhere in the books

	dr	cr
• <u>Original Entry</u>		
drawings	300	
		300
	purchases	

• Entry made

✓ <u>Rectification Entry</u>		
drawings	300	
		300
	purchase	

Note: To rectify error of omission the original entry is the rectification entry.

Example 2: Capital contribution of \$10000 is not recorded anywhere in the books.

	dr	cr
<u>Rectification Entry</u>		
Cash / Bank	10000	
		10000
	capital	

Example 3: Purchase returns of \$50 is not recorded in the books.

	dr	cr
<u>Rectification Entry</u>		
Trade payables	50	
		50
	purchases returns	

2. Error of Commission : where a transaction is recorded in the wrong personal account but correct category and nature of account

Example : Purchases returns to Fahad \$80 is entered in Ahad's account.

• Original Entry

Fahad (Trade Payable)	80		
	purchases	returns	80

• Entry made

Ahad	80		
	purchases	returns	80

✓  
• Rectification Entry

Fahad	80		
	Ahad		80

Example 2 : Discount received of \$20 from Anil is entered in Anila's A/c

• Rectification Entry

Anil	20		
	Anila		20

3. Error of Principle: Where a transaction is recorded in the wrong nature of account.

Example: Purchase of machinery \$2000 is entered in machinery repair account

	dr	cr
• <u>Original Entry</u>		
machinery	2000	
cash/bank		2000

• <u>Entry made</u>		
machinery repairs	2000	
cash/bank		2000

✓✓ <u>Rectification Entry</u>		
machinery	2000	
machinery repairs		2000

Example 2: Purchase of motor vehicle \$10000 is recorded as purchases.

• <u>Rectification Entry</u> :		
motor vehicles	10000	
purchases		10000

Example 3: Discount allowed of \$1300 is debited to discount received A/c.

• <u>Rectification Entry</u> :		
Discount allowed	1300	
discount received		1300

4. Transposition Error/ Error of Original Entry: Where a wrong amount is recorded on both debit and credit side.

Example 1: Purchase returns of \$69 is recorded in books as \$96.

	dr	cr
• <u>Original Entry</u>		
Trade payables	69	
purchase returns		69

• <u>Entry made</u>		
Trade payables	96	
purchase returns		96

✓✓

• <u>Rectification Entry</u>		
Purchase returns	27	
trade payable		27

Example 2: Cash sales of \$89 is recorded as \$98.

	dr	cr
<u>Rectification Entry</u>		
Sales	9	
cash		9

5. Compensating error: Where 2 different errors compensate, set off and cancel each other resulting in no effect on the balancing of trial balance

Example 1: Sales returns and purchase returns are both overstated by \$2000.

	dr	cr
<u>Rectification Entry</u>		
purchases returns ↓	2000	
sales returns ↓		2000

6. Error of complete reversal: where the debit impact is posted on the credit side or the credit impact is posted on the debit side.

Example 1: Discount allowed of \$300 is credited to discount allowed a/c and debited to other relevant a/c.

	dr	cr
• <u>Original Entry</u>		
Discount Allowed	300	
trade receivable		300

• <u>Entry made</u>		
trade receivable	300	
discount allowed		300

✓✓ <u>Rectification Entry</u>		
discount allowed	600	
trade receivable		600

Example 2: Cheque received from trade receivables \$500 is entered on the credit side of the bank a/c and debit side of trade receivable a/c.

<u>Rectification Entry</u>		
bank	1000	
trade receivables		1000

Example : Prepare the rectification entries and also identify the error.

1. Cash sales of \$500 is debited in the bank column of the cashbook.
2. Discount received of \$500 is debited to discount allowed account and credited to trade payables A/c.
3. Cash deposited \$100 in bank is debited to cash column of the cashbook and credited to bank column of the cashbook.
4. Purchases returns to Musa \$550 is credited to Esa's a/c and debited to purchase returns a/c.
5. Cash drawings of \$150 is recorded in books as \$15.
6. Cheque received \$500 from credit customers is recorded in books as payment to suppliers.
7. Rent payment of \$6000 is recorded in insurance account.
8. Discount received of \$100 is not recorded anywhere in the books.
9. Capital contribution of \$10000 is recorded as sales revenue.
10. Standing order payment of insurance \$250 is not recorded anywhere in the books.
11. Sale of motor vehicle \$2000 is recorded as cash sales.
12. Purchase of motor vehicle \$1500 is entered in motor expenses account.
13. Purchase of stationery \$50 is treated as purchase of goods for resale.
14. Drawings and Capital a/c are both overstated by \$1000
15. Discount received of \$500 is credited to discount allowed account and discount allowed of \$360 is debited to discount received account.



Example: Prepare the rectification entries and also identify the error.

1. Cash sales of \$500 is debited in the bank column of the cashbook.

	dr	cr
cash ↑	500	
Bank ↓		500

error of commission

2. Discount received of \$500 is debited to discount allowed account and credited to trade payables A/c.

Original entry	dr	cr
Trade payables	500	
Discount Received		500

entry passed

Discount allowed	500	
trade payables		500

rectification

trade payables ↓	1000	
discount received ↑		500
discount allowed ↓		500

complete reversal of entry error.

3. Cash deposited \$100 in bank is debited to cash column of the cashbook and credited to bank column of the cashbook.

	dr	cr
bank ↑	200	
cash ↓		200

complete reversal of entry error

4. Purchases returns to Musa \$550 is credited to Esa's a/c and debited to purchase returns a/c.

<u>original entry</u>	dr	cr
Musa	550	
	purchases returns	550

<u>entry passed</u>		
Purchase returns	550	
	Esa	550

<u>rectification</u>		
Musa	550	
Esa	550	
	purchase returns	1100

complete reversal of entry error

5. Cash drawings of \$150 is recorded in books as \$15.

	dr	cr
drawings ↑	135	
	cash ↓	135

transposition error / error of original entry.

6. Cheque received \$500 from credit customers is recorded in books as payment to suppliers.

<u>original entry</u>	dr	cr
Bank ↑	500	
	trade receivables ↓	500

<u>entry passed</u>		
trade payables ↓	500	
	bank ↓	500

<u>rectification</u>		
bank ↑	1000	
	trade receivables	500
	trade payables	500

complete reversal of entry error

7. Rent payment of \$6000 is recorded in insurance account.

	dr	cr
rent ↑	6000	
insurance ↓		6000

error of commission

8. Discount received of \$100 is not recorded anywhere in the books.

	dr	cr
trade payables ↓	100	
discount received ↑		100

error of omission

9. Capital contribution of \$10000 is recorded as sales revenue.

	dr	cr
sales	10000	
capital		10000

error of principle.

10. Standing order payment of insurance \$250 is not recorded anywhere in the books.

	dr	cr
insurance	250	
bank		250

error of omission.

11. Sale of motor vehicle \$2000 is recorded as cash sales.

	dr	cr
sales	2000	
motor vehicles		2000

error of principle

12. Purchase of motor vehicle \$1500 is entered in motor expenses account.

	dr	cr
motor vehicle	1500	
motor expenses		1500

error of principle

13. Purchase of stationary \$50 is treated as purchase of goods for resale.

	dr	cr
stationary	50	
purchases		50

error of commission

14. Drawings and Capital acc are both overstated by \$1000

	dr	cr
capital	1000	
drawings		1000

compensating error

15. Discount received of \$500 is credited to discount allowed account and discount allowed of \$360 is debited to discount received account.

i. original entry		dr	cr	ii. original entry		dr	cr
✓ trade payables	500			discount allowed	360		
discount received		500		✓ trade receivables		360	

entry passed

✓ trade payables	500		
discount allowed		500	

entry passed

discount received	360		
✓ trade receivables		360	

rectification

discount allowed	$\begin{bmatrix} 360 \\ 500 \end{bmatrix}$	860	
discount received	$\begin{bmatrix} 360 \\ 500 \end{bmatrix}$		860

error of principle

## Errors affecting trial balance

Note: The rectification entry of errors affecting trial balance involve use of suspense account

### 1. Casting error

Example: sales return daybook is overstated by \$1000.

	dr	cr
suspense a/c	1000	
sales returns		1000

Example 2: the debit side of cashbook bank column is overstated by \$200

	dr	cr
suspense a/c	200	
bank		200

### 2. Error of incomplete entry

Example 1: Goods withdrawn by owner \$550 is only recorded in drawings a/c

	dr	cr
original entry		
drawings	550	
purchases		550

entry passed

drawings	550	
	-	-

Rectification

suspense a/c	550	
purchases		550

### 3. Error of incorrect entry

Example: Goods returned by Hameed \$80 is debited to his account.

<u>original entry</u>	dr	cr
<del>sales returns</del>	80	
Hameed		80

<u>entry passed</u>		
<del>sales returns</del>	80	
Hameed	80	

#### Rectification

suspense a/c	160	
Hameed [80+80]		160

### 4. Transposition error:

Example: Cash sales of \$89 is recorded in sales account as \$98.

	dr	cr
Sales	9	
suspense a/c		9

# INTRODUCTION TO COST AND MANAGEMENT ACCOUNTING

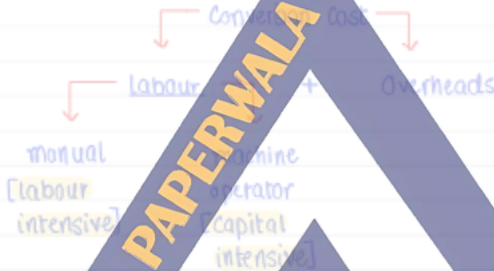
Cost/Expense: Outflow of resources.

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Stages of Manufacturing

1. Input [raw material] → 2. Process → 3. Output [finished goods]



Labour intensive business: Business organisations dependant on manual labour rather than technology or machinery.

Capital intensive business: Business organisations which are more dependant on machines rather than manual labour.