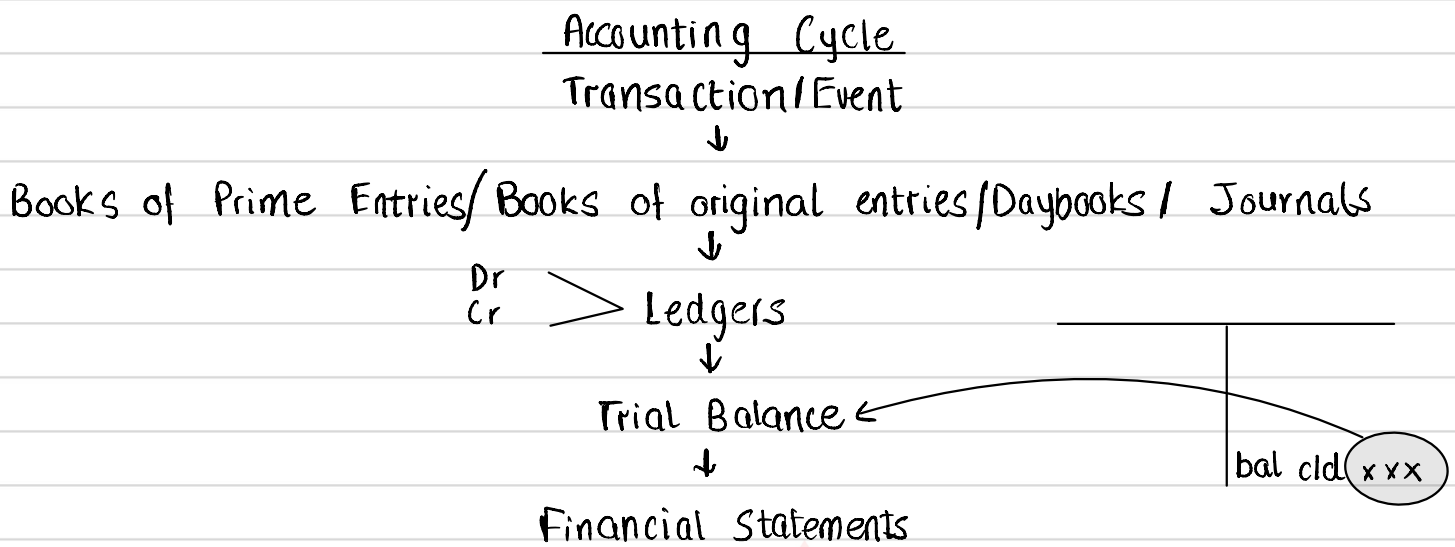


# Topic 15



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Example: Goods withdrawn by owner for personal use costing \$300 is not recorded anywhere in the books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

### Entry made

✓  
• Rectification Entry

drawings	300	
		purchase 300

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	
		capital 10000

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

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

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.

dr cr

• 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

dr cr

• 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

• Entry made

machinery repairs	2000	
cash/bank		2000

✓✓ Rectification Entry

machinery	2000	
machinery repairs		2000

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

• Rectification Entry:

motor vehicles	10000	
purchases		10000

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

• Rectification Entry:

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

# INTRODUCTION TO COST AND MANAGEMENT ACCOUNTING

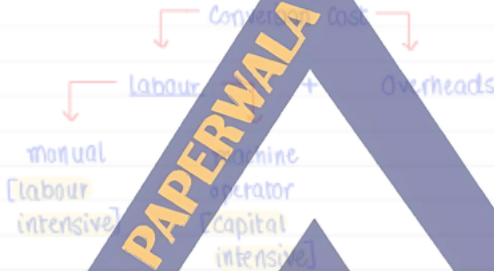
Cost/Expense: Outflow of resources.

# For full content

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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.