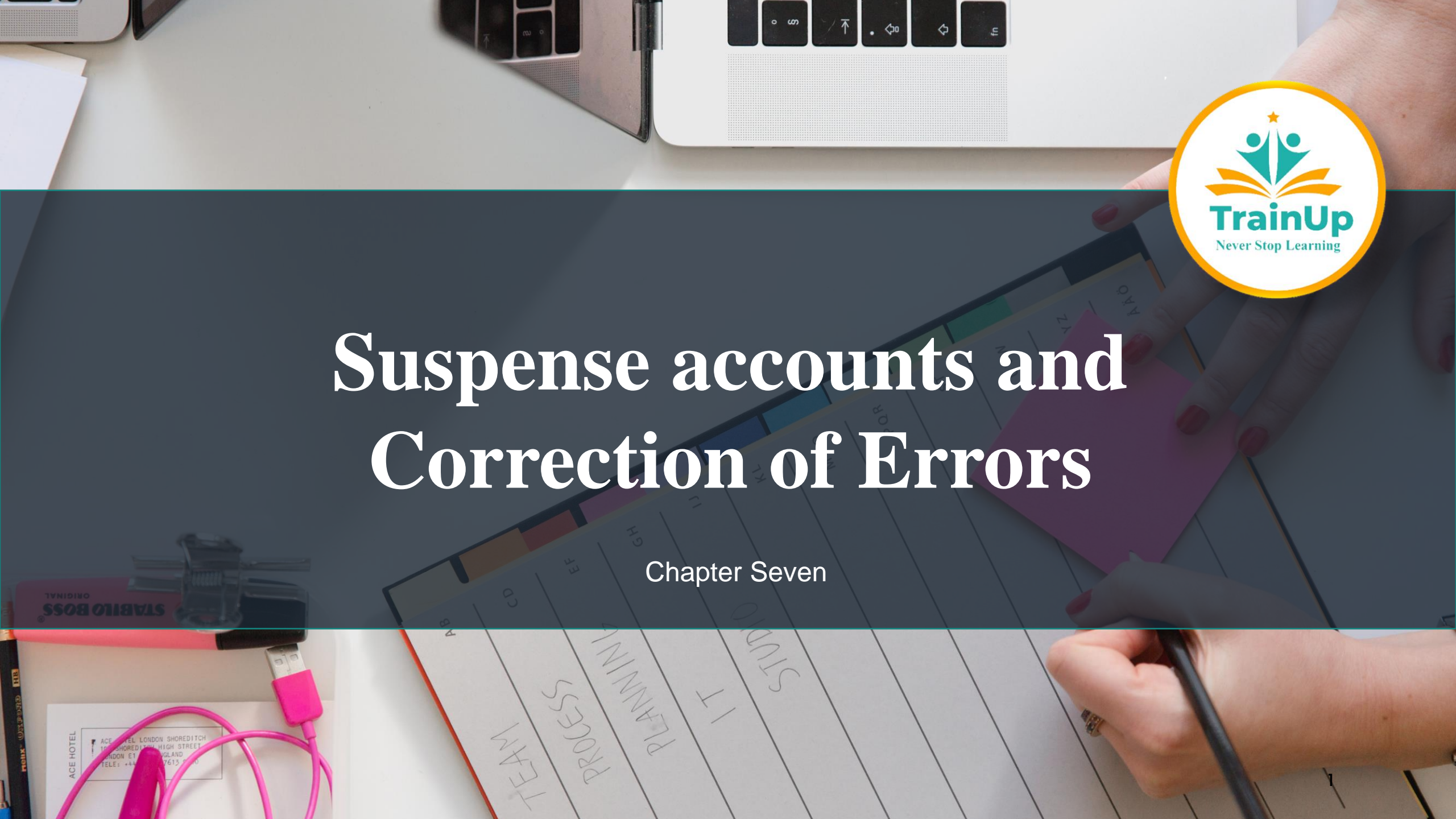




Suspense accounts and Correction of Errors

Chapter Seven



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Introduction



Chapter 7

Introduction

In this chapter we illustrate errors that affect the balancing of the trial balance.

- Once the errors have been identified they must be corrected so that we report the correct net profit and financial position.
- To do this we employ a journal and a suspense account.



A suspense account



Chapter 7

A suspense account

A suspense account is a temporal account in which debits and credits are held temporarily until sufficient information is available for them to be posted to the correct accounts.



A suspense account

There are two situations where suspense accounts might be needed;

1. The bookkeeper **knows in which account to make the debit entry** for a transaction but **does not know where to make the corresponding credit entry.**

Until the mystery is sorted out, the corresponding credit entry can be recorded in a suspense account.

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For example if a business receives cash 1,000 through the post from a source which cannot be determined.

Cash.....	1,000
Suspense account.....	1,000

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The double entry in the accounts would be

Dr. Cashxxx

Cr. Suspense account.....xxx

This can also apply where the bookkeeper **knows the account to credit** but he **does not know the corresponding debit entry**, the debit entry can be posted to the suspense account.

suspense acc.....xxx

A/R.....XXXX



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2. The bookkeeping error might have occurred, resulting in the failure of the total debits and the total credits in the ledger accounts to be equal.

To restore equality between debits and credits, the balancing figure can be posted to a suspense account.

A suspense account can also be referred to in the context of errors of mathematics, omission, and errors of transposition.



Cont...

Recall the purposes of the trial balance is to check the accuracy of the books. Specifically, whether it detects;

- The principles of double entry were followed or not.
- The arithmetic errors were made in balancing off the ledger accounts.

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There are errors which, if committed will affect:

- The total of the debit and credit side of the trial balance not to agree.

- If the two sides of the trial balance do not show the same total, then the trial balance is said to disagree.

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Examples of errors causing a disagreement in the trial balance are as follows:

a) Arithmetic errors: These are errors that can result from wrong addition and subtractions in the amounts in the books of original entry.

Such errors are termed as either undercast or overcast.

For example , a page in the sales daybook was undercast by \$100 or a folio in the purchase daybook was overcast by \$700



Cont....



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Cont...

b) Transposition errors:

change the position of digits

For example an accountant may post 11,200 instead of 11,020.
Or posting 43,000 instead of 34,000.

Cont...

c) Single entry errors

These are bookkeeping errors committed when the dual aspect of a transaction is not recorded along the principles of the double entry system.

An amount is recorded on only one side, either as a debit entry or as a credit entry without completing the double entry.

Cont...

d) Omission of ledger balances from the trial balance

When extracting a trial balance from the ledger balances, and where a balance of an item(s) is omitted, the trial balance total will obviously not agree.

Cont...

e) Mis-posting errors

These errors may arise in the following circumstances

An account is credited instead of being debited or vice versa.

E.g. a cheque for Ugx. 15,600 received from the debtor was entered correctly in the cash book but was posted to the debit side of his personal account in the ledger.

An amount is posted into an account twice. Also, when it is debited or credited twice.

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Cont...

An expense transaction is credited as income or an income transaction is debited as an expense.

E.g. discount allowed, Ugx. 8,400 has been posted to the credit side of discount received account.

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Location of a trial balance

Errors that cause a trial balance to disagree should be located and corrected in order to agree the trial balance.

The following logical procedure is followed to trace such errors:

i) Check the arithmetical accuracy of the debit and credit column totals of the trial balance.

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Cont...

- ii)** Check entries of amounts transferred from the various ledger if correct.
- iii)** Check the preliminary balancing totals in the various ledgers if arithmetically.
- iv)** Check if ledger posting have been made correctly from the various daybooks and other source documents.
- v)** Check totals and subtotals in the daybook, petty cash book.

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Cont...

This procedure helps in locating errors and thus the difference on the trial balance. **If not then a suspense account is opened** and the shortfall posted on either the debit or credit side respectively.

The difference in the trail balance is what is posted in the suspense account.

When the errors in the trial balance are discovered, they are corrected by the double entry through the suspense account. The balance on the suspense account is eliminated.

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Cont...

In this case

Dr. Respective Account if omitted

Cr. Suspense account

Dr. Suspense account

Cr. Respective account if omitted

If any debit entry has been made on the credit side then to correct it, double amounts must be debited vice versa.

Cont...

Two main reasons why suspense accounts are created

1. On the extraction of the trial balance, the debits are not equal to the credits and the difference is put to a suspense account.
2. Of course, the other one is when the bookkeeper performing double entry is not sure where to post one side of an entry he may debit or credit a suspense account.

Example



Example

The audit of Lee's account for the year ending 31/12/2019 revealed the following error;

- a) A **machine** purchased for Ugx. 1.2M had been debited to the **purchase** account.
- b) Goods purchased from Bukenya for Ugx. 150,000 on account, were credited to the account receivable of Bukenya
- c) An invoice of purchase from Orobia for Ugx. 270,000 was omitted

Cont....



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Cont...

d) Sales invoice to Akheng for Ugx. 175,000 on account were entered in the sale day book as Ugx. 157,000

e) The salaries and wages account was over-added by Ugx. 35,000 and rent receivable account was reduced by the same amount.

Required: show by means of a journal entries how the above errors should be corrected in the books of John

Solution



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Solution

Date	Particulars	Folio	Dr.	Cr.
Dec 31, 2019	Machinery Account Purchase Account		1,200,000	1,200,000
Dec 31, 2019	Account <u>receiv</u> from Bukenya Account Pay Bukenya		150,000	150,000
Dec 31, 2019	Purchase Account Account pay <u>Orobio</u>		270,000	270,000
Dec 31, 2019	A/R <u>Akleng</u> Sales Account		18,000	18,000
Dec 31, 2019	Rent <u>recievable</u> account Salaries and wages pay		35,000	35,000

