

Suspense Handout No. 3

5th year Accounting – Mr. Regan
SME '23/'24

Name: _____

Suspense Overview Handout & Full Qs

Errors

Errors can be classified as:

- Errors **not revealed** by the trial balance
- Errors **revealed** by the trial balance

Errors not revealed by the trial balance

Table 7.1 Errors not revealed by the trial balance

Type of error	Explanation	Example
Error of omission	A transaction has not been entered in the accounts	A cash sale of €200 was not entered in the books
Errors of principle	A transaction has been entered on the correct side but in the wrong class of account	The purchase of a delivery van (fixed asset) is treated as the purchase of trading stock
Errors of commission	A transaction has been entered on the correct side in the correct class of account but in the wrong account	The cost of goods sold on credit to Gavin Corrigan was entered on the debit side of Gavin Corcoran's account
Compensating errors	One error cancels out another	€40 is posted to the debit side of advertising instead of €400 and €40 is credited to the bank account instead of €400
Error of original entry	Errors made in the books of first (original) entry	An invoice received for €475 was entered in the purchases daybook as €745 and subsequently posted to the ledgers as €745 in the relevant accounts
Complete reversal of entry	The correct accounts and figures are used but on the incorrect side of both accounts	Advertising paid by direct debit was debited in the bank account and credited to the advertising account

Errors revealed by the trial balance

Table 7.2 Errors revealed by the trial balance

Type of error	Explanation	Example
Mathematical errors	Errors in figures and additions	Incorrect totalling of an account
Double-entry errors	Posting one side of the double entry	A debit entry with no corresponding credit entry
Misplaced entries	An entry entered on the incorrect side	A motor purchased on credit from Sheehy Motors entered on the incorrect side of the Vehicles account

The suspense account

When the trial balance fails to agree, a suspense account is opened. The difference between the sides will be temporarily entered in a suspense account on the **smaller side** until the errors are discovered. This allows the trial balance to balance.

Once the errors are identified they are corrected through journal entries and the suspense account balance is eliminated.

When preparing the original suspense account the entries are on the same side as the journal, i.e. if suspense entry is on the debit side in the journal then it is also on the debit side in the suspense account and vice versa.

REMEMBER

The suspense account is included in the trial balance on the smaller side to make up the shortfall.

Effects of errors

All errors in the ledger accounts could affect one or both of the following:

- > The profit and loss account
- > The balance sheet

Effects of errors on net profit

An expense or gain account adjusted by an error will affect the net profit. Items that affect the trading, profit and loss account go into the statement of corrected net profit. For each expense or gain account adjusted in the journal you must make the necessary adjustments to the net profit figure as follows:

DEBIT	CREDIT	Effect on net profit
Expense account		Decrease (reduce)
	Expense account	Increase
Gain account		Decrease (reduce)
	Gain account	Increase

Effects of errors on the balance sheet (higher level)

An asset or liability account adjusted by an error will affect the amount of the asset/liability in the balance sheet as follows.

DEBIT	CREDIT	Effect on balance sheet
Asset Account		Increase the amount
	Asset account	Decrease the amount
Liability account		Decrease the amount
	Liability Account	Increase the amount

PRACTICE QUESTIONS (1)

(Answer in your Copy)

Q1

The trial balance of Charlie Mulgrew failed to agree on 31/12/2023 and the difference was entered in a suspense account. On examination of the books the following errors were revealed.

- (i) Goods purchased on credit from Mary Mosse €22,600 had not been entered in the books.
- (ii) The total of the sales book €36,000 had been entered in the sales account as €3,600.
- (iii) Commission paid €1,400 had been treated as commission received in the accounts.
- (iv) Cash taken by Mulgrew for private use €800 had not been entered in the books.
- (v) Goods sold on credit to Caroline Cullen €1,120 had been entered in Carol Cullen's account.

Required:

- (a) **Journalise** the necessary corrections.
- (b) Prepare a **statement of corrected net profit** if net profit as per accounts is €6,600.

Q2

The trial balance of Linda Ward failed to agree on 31/12/2022 and the difference was entered in a suspense account. On examination of the books the following errors were revealed.

- (i) Goods sold on credit to Clinton Morrison €1,200 had been posted to Clinton Morris's account.
- (ii) The total of purchases daybook €12,000 had been posted to the purchases account as €21,000.
- (iii) Interest received €800, had been treated as interest paid in the interest account.
- (iv) Goods previously sold on credit for €250 were returned by a debtor. This return had not been entered in the books.
- (v) Goods for resale, taken by Ward for private use, of €500 had not been entered in the books.

Required:

- (a) **Journalise** the necessary corrections.
- (b) Prepare a **statement of corrected net profit** if net profit as per accounts is €14,800.

Q3

3. The trial balance of Elizabeth O'Byrne failed to agree on 31/12/2024 and the difference was entered in a suspense account. On examination of the books the following errors were revealed.

- (i) The total of the purchases book €52,800 had been posted to the purchases account as €58,200.
- (ii) The total of the sales returns book was under totted by €600.
- (iii) Goods taken by O'Byrne for private use €900 had not been entered in the books.
- (iv) Goods sold on credit to Justine Gates €1,400 had been posted to Justina Gates's account.
- (v) Advertising paid €1,600 by electronic transfer had not been entered in the books.

Required:

- (a) **Journalise** the necessary corrections.
- (b) Prepare a **statement of corrected net profit** if net profit as per accounts is €17,500.

PRACTICE QUESTIONS (2)

(Answer in your Copy)

Q1

The trial balance of Anne Delaney, a garage owner, failed to agree on 31/12/2021. The difference was entered in a suspense account and the final accounts were prepared, which showed a net profit of €58,000.

On checking the books, the following errors and omissions were discovered.

- (i) Delaney had returned a motor car, previously purchased on credit from a supplier for €21,000, and entered this transaction in the relevant ledger accounts incorrectly as €12,000. However, a credit note subsequently arrived from a supplier showing a restocking charge of €210 to cover the cost of the return. The only entry made in respect of this credit note was a credit entry of €20,790 in the creditors account.
- (ii) Car parts, previously sold on credit for €340, had been returned to Delaney. These returns had been incorrectly entered as €430 on the credit side of the equipment account and as €340 on the debit side of the purchases account.
- (iii) Delaney had won a private holiday for two worth €4,000. One ticket was given to a sales person as part of sales commission and the other to a supplier as full payment of a debt of €2,200. No entry had been made in the books.
- (iv) A motor car purchased on credit from Adam's Cars €32,000 had been entered on the incorrect side of the Adam's Cars account and credited at €23,000 in the equipment account.
- (v) A private debt of €2,400 owed to Delaney had been offset in full settlement against a business debt of €2,520 owed by Delaney. No entry had been made in the books in respect of this transaction.

Required:

- (a) **Journalise** the necessary corrections.
- (b) Prepare the **suspense account** showing the original balance.
- (c) Prepare a **statement showing the corrected net profit**.

Q2

The trial balance of Kamen Bagnall, a furniture retailer, failed to agree on 31/12/2022. The difference was entered in a suspense account and the final accounts were prepared which showed a net profit of €41,300.

On checking the books, the following errors and omissions were discovered.

- (i) A payment for €4,500 paid by Bagnall out of a private bank account for 15 months' rent of a storage warehouse up to 31/03/2023 had not been entered in the books.
- (ii) Beds purchased on credit from Booker Furniture for €26,000 had been entered on the incorrect side of Booker Furniture's account and credited as €6,200 in the equipment account.
- (iii) Bagnall had returned a wardrobe, previously purchased on credit for €800 from a supplier. Bagnall entered this transaction as €880 on the correct sides of the correct accounts in the ledger. A credit note subsequently arrived from the supplier showing a restocking charge of €60 to cover the cost of the return. The only entry made in respect of this credit note was a credit of €740 in the creditor's account.
- (iv) A private debt for €550 owed by Bagnall had been offset in full against a business debt of €650 owed to the firm for furniture repairs previously carried out. No entry had been made in the books in respect of this offset.
- (v) A debtor who owed Bagnall €2,000 sent a cheque for €1,700 and €200 cash in full settlement. This was correctly recorded in the books. However, no entry has been made in the books of the subsequent dishonouring of this cheque or the writing off of the remaining debt in full because of bankruptcy.

Required:

- (a) **Journalise** the necessary corrections.
- (b) Show the **suspense account**.
- (c) Prepare a **statement showing the corrected net profit**.

Q3

The trial balance of Darina Ryan, a baker, failed to agree on 31/12/2023. The difference was entered in a suspense account and the final accounts were prepared, which showed a net profit of €17,900. On checking the books, the following errors and omissions were discovered.

- (i) An oven purchased on credit for €13,000 from Heavenly Ovens Ltd had been entered on the incorrect side of the equipment account. The only other entry made was a debit of €1,300 to the purchases account.
- (ii) Ryan returned flour and other ingredients, previously purchased on credit from a local supplier, for €2,300 and entered this transaction in the relevant ledger accounts incorrectly as €230. However, a credit note subsequently arrived from the supplier showing a restocking charge of €150 to cover the cost of the return. The only entry made in respect of this credit note was a credit entry of €2,150 in the supplier's account.
- (iii) Ryan purchased a display cabinet on credit from The Bakers Dozen Ltd for €5,000 plus VAT at 13.5%. The only entries in the accounts were that the VAT inclusive figure was entered on the debit side of the purchases account and the VAT exclusive figure entered on the credit side of The Bakers Dozen Ltd account.
- (iv) A payment of €630 was received from Susan Walker, a debtor, whose debt had previously been written off and who wishes to trade with Ryan again. This represents 75% of the original debt and Walker has undertaken to pay the remainder of the debt by mid January 2024. No entry had been made in the books.
- (v) A business debt of €900 owed to the firm had been offset against a private debt of €870 owed by Ryan for repairs to her private kitchen. There was no entry in the books in respect of this offset.

Required:

- (a) **Journalise** the necessary corrections.
- (b) Show the **suspense account**.
- (c) Prepare a **statement showing the corrected net profit**.