

# Suspense Accounts

By Sarah Azhar

# Types of errors

- **Errors of omission** – where a transaction is completely omitted from the books. If we sold £90 goods to J Brewer, but did not enter it in either the sales or Brewer's personal account, the trial balance would still 'balance'.
- **Errors of commission** – this type of error occurs when the correct amount is entered but in the wrong person's account, e.g. where a sale of £11 to C Green is entered in the account of K Green. It will be noted that the correct class of account was used, both the accounts concerned being personal accounts.

# Types of errors

- **Errors of principle** – where an item is entered in the wrong class of account, e.g. if purchase of a fixed asset, such as a van, is debited to an expenses account, such as motor expenses account.
- **Compensating errors** – where errors cancel each other out. If the sales account was added up to be £10 too much and the purchases account was also added up to be £10 too much, then these two errors would cancel out in the trial balance. This is because the totals of both the debit side and the credit side of the trial balance will be £10 too much.

# Types of errors

- **Errors of original entry** – where the original figure is incorrect, yet double entry is still observed using this incorrect figure. An instance of this could be where there were sales of £150 goods but an error is made in calculating the sales invoice. If it were calculated as £130, and £130 were credited as sales and £130 were debited to the personal account of the customer, the trial balance would still balance.
- **Complete reversal of entries** – where the correct accounts are used but each item is shown on the wrong side of the account. Suppose we had paid a cheque to D Williams for £200, the double entry of which is Cr Bank £200, Dr D Williams £200. In error it is entered as Cr D Williams £200, Dr Bank £200. The trial balance totals will still agree.

# Types of errors

- **Transposition errors** – where the wrong sequence of the individual characters within a number was entered. For example, £142 entered instead of £124. This is quite a common error and is very difficult to spot when the error has occurred in both the debit and the credit entries, as the trial balance would still balance. (It is more common for this error to occur on one side of the double entry only.)

## 1 Error of omission

The sale of goods, £59 to E George, has been completely omitted from the books. We must correct this by entering the sale in the books. The journal entries for the correction are now shown:\*

### The Journal

	<i>Dr</i>	<i>Cr</i>
E George	£ 59	
Sales account		59

**Correction of omission of Sales Invoice Number . . . from sales journal**

**\*Note:** in all these examples, the folio column has been omitted so as to make the example clearer.

# Error of commission

A purchase of goods, £44 from C Simons, was entered in error in C Simpson's account. To correct this, it must be cancelled out of C Simpson's account, and then entered where it should be in C Simons' account. The double entry will be:

C Simpson			
20X5			£
Sept 30	C Simons: Error corrected	20X5 Sept 30 Purchases	<u>44</u>
			<u>44</u>

  

C Simons			
			£
		20X5 Sept 30 Purchases: Entered originally in C Simpson's account	44

The Journal entry will be:

The Journal			
		<i>Dr</i>	<i>Cr</i>
C Simpson		£	£
C Simons		44	44

**Purchase Invoice Number . . . entered in wrong personal account, now corrected**

### 3 Error of principle

The purchase of a machine, £200, is debited to the purchases account instead of being debited to a machinery account. We therefore cancel the item out of the purchases account by crediting that account. It is then entered where it should be by debiting the machinery account.

#### The Journal

	<i>Dr</i>	<i>Cr</i>
	£	£
Machinery account	200	
Purchases account		200
<b>Correction of error: purchase of fixed asset debited to purchases account</b>		

### 4 Compensating error

The sales account is overcast by £200, as also is the wages account. The trial balance therefore still balances. This assumes that these are the only two errors found in the books.

#### The Journal

	<i>Dr</i>	<i>Cr</i>
	£	£
Sales account	200	
Wages account		200
<b>Correction of overcasts of £200 each in the sales account and the wages account which compensated for each other</b>		



## 5 Error of original entry

A sale of £38 to A Smailes was entered in the books as £28. It needs another £10 of sales entering now.

### The Journal

	<i>Dr</i>	<i>Cr</i>
A Smailes	£ 10	
Sales account		10
<b>Correction of error whereby sales were understated by £10</b>		

## 6 Complete reversal of entries

A payment of cash of £16 to M Dickson was entered on the receipts side of the Cash Book in error and credited to M Dickson's account. This is somewhat more difficult to adjust. First must come the amount needed to cancel the error, then comes the actual entry itself. Because of this, the correcting entry is double the actual amount first recorded. We can now look at why this is so:

What we should have had:

Cash	
	£ 16

  

M Dickson	
£ 16	

was entered wrongly as:

Cash	
£ 16	

  

M Dickson	
	£ 16

We can now see that we have to enter double the original amount to correct the error:

# Complete reversal of entries

We can now see that we have to enter double the original amount to correct the error:

Cash			
	£		£
M Dickson	16	M Dickson (error corrected)	32

  

M Dickson			
	£		£
Cash (error corrected)	32	M Dickson	16

Overall, when corrected, the £16 debit and £32 credit in the cash account means there is a net credit of £16. Similarly, Dickson's account shows £32 debit and £16 credit, a net debit of £16. As the final (net) answer is the same as what should have been entered originally, the error is now corrected

The Journal entry appears:

The Journal			
		<i>Dr</i>	<i>Cr</i>
M Dickson		£	£
Cash		32	
Payment of cash £16 debited to cash and credited to			32
<b>M Dickson in error on . . . Error now corrected</b>			

## 7 Transposition error

A credit purchase from P Maclaran costing £56 was entered in the books as £65. The £9 error needs to be removed.

### The Journal

	<i>Dr</i>	<i>Cr</i>
P Maclaran	£ 9	£
Purchases account		9

**Correction of error whereby purchases were overstated by £9**

## 33.1 Errors and the trial balance

In the last chapter, we looked at errors that do not affect the trial balance. However, many errors will mean that trial balance totals will not be equal. These include:

- 1 Incorrect additions in any account.
- 1 Making an entry on only one side of the accounts, e.g. a debit but no credit; a credit but no debit.
- 1 Entering a different amount on the debit side from the amount on the credit side.

## 33.2 Suspense account

We should try very hard to find errors when the trial balance totals are not equal. When they cannot be found, the trial balance totals can be made to agree with each other by inserting the amount of the difference between the two sides in a **suspense account**. This occurs in Exhibit 33.1 where there is a £40 difference.

# Suspense account

## Exhibit 33.1

### Trial Balance as at 31 December 20X5

	<i>Dr</i>	<i>Cr</i>
	£	£
Totals after all the accounts have been listed	100,000	99,960
Suspense		40
	<u>100,000</u>	<u>100,000</u>

To make the two totals the same, a figure of £40 for the suspense account has been shown on the credit side of the trial balance. A suspense account is opened and the £40 difference is also shown there on the credit side:

### Suspense

	20X5	£	
	Dec 31	Difference per trial balance	40

# Suspense account and the balance sheet

If the errors are not found before the financial statements are prepared, the suspense account balance will be included in the balance sheet. Where the balance is a credit balance, it should be included on the capital and liabilities side of the balance sheet. When the balance is a debit balance it should be shown on the assets side of the balance sheet.

# Example 1

Assume that the error of £40 as shown in Exhibit 33.1 is found in the following year on 31 March 20X6. The error was that the sales account was undercast by £40. The action taken to correct this is: Debit suspense account to close it: £40. Credit sales account to show item where it should have been: £40.

		Suspense			
20X6		£		20X5	£
Mar 31	Sales	<u>40</u>		Dec 31	<u>40</u>
				Difference per trial balance	
		Sales			
				20X6	£
				Mar 31	40
				Suspense	
This can be shown in journal form as:					
The Journal					
				Dr	Cr
20X6				£	£
Mar 31	Suspense			40	
	Sales				40
Correction of undercasting of sales by £40 last year					



## Example 2

- The trial balance on 31 December 20X6 had a difference of £168. It was a shortage on the debit side. A suspense account is opened, and the difference of £168 is entered on the debit side. On 31 May 20X7 the error was found. We had made a payment of £168 to K Leek to close his account. It was correctly entered in the Cash Book, but was not entered in K Leek's account. First of all (A), the account of K Leek is debited with £168, as it should have been in 20X6. Second (B), the suspense account is credited with £168 so that the account can be closed.

# Example 2

## Exhibit 33.3

### K Leek

20X7			£	20X7			£	
May	31	Bank	<u>168</u>	(A)	Jan	1	Balance b/d	<u>168</u>

The account of K Leek is now correct.

### Suspense

20X7			£	20X7			£	
Jan	1	Difference per trial balance	<u>168</u>		May	31	K Leek	<u>168</u>
							(B)	

The Journal entry is:

### The Journal

			Dr	Cr
20X7			£	£
May	31	K Leek	168	
		Suspense		168

Correction of non-entry of payment last year in K Leek's account

### Example 3

The trial balance at 31 December 20X7 showed a difference of £77, being a shortage on the debit side. A **suspense** account is opened, and the difference of £77 is entered on the debit side of the account.

On 28 February 20X8 all the errors from the previous year were found.

- (A) A cheque of £150 paid to L Kent had been correctly entered in the Cash Book, but had not been entered in Kent's account.
- (B) The purchases account had been undercast by £20.
- (C) A cheque of £93 received from K Sand had been correctly entered in the Cash Book, but had not been entered in Sand's account.

These three errors resulted in a net error of £77, shown by a debit of £77 on the debit side of the **suspense** account. These are corrected as follows:

- (a) Make correcting entries in accounts for (A), (B) and (C).
- (b) Record double entry for these items in the **suspense** account.

### Exhibit 33.4

				L Kent						
20X8				£						
Feb	28	Suspense	(A)	150						
				Purchases						
20X8				£						
Feb	28	Suspense	(B)	20						
				K Sand						
						20X8			£	
						Feb	28	Suspense	(C)	93
				Suspense						
20X8				£		20X8			£	
Jan	1	Balance b/d		77		Feb	28	L Kent	(A)	150
Feb	28	K Sand	(C)	93		Feb	28	Purchases	(B)	20
				<u>170</u>						<u>170</u>

### The Journal

		<i>Dr</i>	<i>Cr</i>
		£	£
20X8			
Feb	28	L Kent	
		Suspense	
			150
		<i>Cheque paid omitted from Kent's account</i>	
Feb	28	Purchases	
		Suspense	
			20
		<i>Undercasting of purchases by £20 in last year's accounts</i>	
Feb	28	Suspense	
		K Sand	
			93
		<i>Cheque received omitted from Sand's account</i>	

# The effect of errors on profits

## Exhibit 33.5

K Davis		
Trading and Profit and Loss Account for the year ending 31 December 20X5		
	£	£
Sales		180,000
Less Cost of goods sold:		
Opening stock	15,000	
Add Purchases	92,000	
	<u>107,000</u>	
Less Closing stock	( 18,000)	
Gross profit		<u>( 89,000)</u>
Add Discounts received		91,000
		<u>1,400</u>
		92,400
Less Expenses:		
Rent	8,400	
Insurance	1,850	
Lighting	1,920	
Depreciation	<u>28,200</u>	
Net profit		<u>( 40,370)</u>
		<u>52,030</u>

## Balance Sheet as at 31 December 20X5

	£	£
<b>Fixed assets</b>		
Equipment at cost		62,000
Less Depreciation to date		<u>( 41,500)</u>
		20,500
<b>Current assets</b>		
Stock	18,000	
Debtors	23,000	
Bank	<u>19,000</u>	
	60,000	
Less Current liabilities		
Creditors	<u>( 14,000)</u>	
Suspense account		46,000
		<u>80</u>
		66,580
<b>Capital</b>		
Balance as at 1.1.20X5		46,250
Add Net profit		<u>52,030</u>
		98,280
Less Drawings		<u>( 31,700)</u>
		<u>66,580</u>

# The effect of errors on profits

## Example 1

Assume that in Exhibit 33.5 the £80 debit balance on the **suspense** account was because of the following error:

On 1 November 20X5 we paid £80 to a creditor T Monk. It was correctly entered in the Cash Book. It was not entered anywhere else. The error was found on 1 June 20X6.

The journal entries to correct it will be:

			<i>Dr</i>	<i>Cr</i>
<hr/>				
20X6			£	£
June	1	T Monk	80	
		<b>Suspense</b>		80
<b>Payment to T Monk on 1 November 20X5 not entered in his account. Correction now made.</b>				

Both of these accounts appeared in the balance sheet only with T Monk as part of creditors. The net profit of £52,030 does not have to be changed.

## 2 Errors which do affect profit calculations

If the error is in one of the figures shown in the trading and profit and loss account, then the original profit will need altering. Example 2 shows this.

### Example 2

Assume that in Exhibit 33.5 the £80 debit balance was because the rent account was added up incorrectly. It should be shown as £8,480 instead of £8,400. The error was found on 1 June 20X6. The journal entries to correct it are:

		The Journal	
		<i>Dr</i>	<i>Cr</i>
20X6		£	£
Jun	1 Rent	80	
	Suspense		80
	<b>Correction of rent undercast last year</b>		

Rent last year should have been increased by £80. This would have reduced net profit by £80. A statement of corrected profit for the year is now shown.

K Davis	
Statement of Corrected Net Profit for the year ended 31 December 20X5	
Net profit per the financial statements	£ 52,030
Less Rent understated	( 80)
Corrected net profit for the year	<u>51,950</u>

### 3 Where there have been several errors

If in Exhibit 33.5 there had been four errors in the ledger accounts of K Davis, found on 31 March 20X6, their correction can now be seen. Assume that the net difference had also been £80.

- |  |     |
|--|-----|
| (A) Sales overcast by  | £90 |
| (B) Insurance undercast by   | £40 |
| (C) Cash received from a debtor entered in the Cash Book only              | £50 |
| (D) A purchase of £59 is entered in the books, debit and credit entries as | £95 |

**Note: Error (D) is known as an error of transposition, as the correct figures have been shown in the wrong order, i.e. they have been 'transposed'.**

The entries in the **suspense** account and the journal entries will be as follows:

<b>Suspense Account</b>					
20X6			£	20X6	£
Jan	1	Balance b/d	80	Mar	31
Mar	31	Debtor	<u>50</u>		
		(C)	<u>130</u>	31	Sales
				"	31
					Insurance
					(A)
					(B)
					<u>90</u>
					<u>40</u>
					<u>130</u>



# Where there have been several errors

The Journal				<i>Dr</i>	<i>Cr</i>
20X6				£	£
1	Mar	31	Sales	90	
			Suspense		90
			<b>Sales overcast of £90 in 20X5</b>		
2	Mar	31	Insurance	40	
			Suspense		40
			<b>Insurance expense undercast by £40 in 20X5</b>		
3	Mar	31	Suspense	50	
			Debtor's account		50
			<b>Cash received omitted from debtor's account in 20X5</b>		
4	Mar	31	Creditor's account	36	
			Purchases		36
			<b>Credit purchase of £59 entered both as debit and credit as £95 in 20X5</b>		

**Note:** In (D), the correction of the overstatement of purchases does *not* pass through the **suspense account**.

Now we can calculate the corrected net profit for the year 20X5. Only items (A), (B) and (D) affect figures in the trading and profit and loss account. These are the only adjustments to be made to profit.

# Where there have been several errors

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**K Davis**

## **Statement of Corrected Net Profit for the year ended 31 December 20X5**

			£
Net profit per the financial statements			52,030
<i>Add</i> Purchases overstated	(D)		<u>36</u>
			52,066
<i>Less</i> Sales overcast	(A)	90	
Insurance undercast	(B)	<u>40</u>	
			( 130)
Corrected net profit for the year			<u><u>51,936</u></u>

Error (C), the cash not posted to a debtor's account, did not affect profit calculations.