Suspense Accounts

1. ***The trial balance***

Before preparing the final accounts of a business it is best practice to prepare a trial balance. This will ensure the accuracy of the double-entry bookkeeping system. If the double entry principle is correctly applied then the total of the all the debit entries should equal the total of the credit entries.

To prepare a trial balance, the first step is to balance each of the ledger accounts and bring down the balances.

Then all the debit balances are listed under a column headed debit, and all the credit balances are listed in a column headed credit.

**Notes on the trial balance:**

* The capital account is the equal to the difference between the debits and the credits.
* The assets and expenses/losses accounts are on the debit side.
* The liabilities and gains accounts are on the credit side.
* The asset accounts (buildings, office equipment) are real accounts.
* The loss and expenses such as rent and wages are nominal accounts.
* The debtors and creditors are personal accounts.

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| **Debit** | **Credit** | **Entered in** |
| Assets | Liabilities | Balance Sheet |
| Expenses | Gains | Trading, Profit and Loss |

***Why does a suspense arise?***

A suspense account arises due to errors in bookkeeping.

The trial balance fails to balance and the difference between both sides is placed temporarily in a suspense account in the trial balance. The suspense account remains until the errors can be found.

***What errors are revealed by the trial balance?***

**Double Entry errors**

* An entry on the credit side of an account without a corresponding entry on the debit side in another account. (Posting one side of the double entry)
* Entering one amount on the debit side of one ledger account and entering a different amount on the credit side of another ledger account.
* **Arithmetical errors**: An error is made in the addition or subtraction of an account.

***What errors are not revealed by the trial balance?***

1. **Errors of original entry**

The error was first recorded in the books of first entry and then entered in the ledger.

For example, sales of €207 treated as €702 in both the sales account and the cash account

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| **Original Error** | | | |
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| DR |  | | Cr |
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| **Correction** | | | |
| Dr |  | | Cr |
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| DR |  | | Cr |
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**2. Errors of Omission**

These are transactions that have been completely omitted from the books. They are neither in the books of first entry, nor in the ledgers and, therefore, not in the trial balance.

For example, cash sales of €300 omitted from the books. These entries are corrected by entering them in the books.

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| **Original Error** | | | |
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| **Correction** | | | |
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**3. Errors of Commission**

These occur when entries are posted to the wrong account but to the correct side of correct type of account.

Example: Sales on credit to P. Ryan €700 debited to J. Ryan instead.

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| **Original Error** | | | |
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| **Correction** | | | |
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4. **Errors of Principle**

These occur when the correct amount is posted to the incorrect type of account - entering an asset in an expense account.

Example: An expense is treated as an asset. Repairs to vans €500 debited in error to the delivery vans account.

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| **Original Error** | | | |
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| **Correction** | | | |
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| DR |  | | Cr |
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**5. Compensating Errors**

This is when errors of equal value in unrelated accounts cancel each other out.

Posting the wrong amount into the correct account on the correct side.

Example: a payment of €600 for cleaning entered as €60 on the debit of the cleaning account and on the credit side of the cash account.

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| **Original Error** | | | |
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| **Correction** | | | |
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**6. Complete reversal of entries**

This occurs when the correct amount is posted to the incorrect side of the correct accounts. The debit entry is on the credit side and the credit entry is on the debit.

Example: Rent paid €300 should be credited to the rent account and debited to the bank rent a/c, but these were entered incorrectly as credit in rent a/c and debit in bank a/c.

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| **Original Error** | | | |
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| **Correction** | | | |
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Remember, the six errors above and their corrections do not affect the balancing of the trial balance. However, when the trial balance fails to agree as a result of other types of error the difference between the debit and credit sides is temporarily entered in a suspense account.

**Errors that affect the balancing of a trial balance consist of:**

* Errors in figures and additions
* Posting only one side of the double entry
* Entering one amount on the debit side of one ledger account and entering a different amount on the credit side of another ledger account. Or vice-versa.

When all the errors have been found and corrected, then the balance on the suspense account will be eliminated and all the ledger accounts will then be correct. In a situation where draft final accounts are prepared before errors are found, the following applies.



**Procedure for Dealing with Errors**

Journalise the necessary entries in the journal and provide a suitable narration which is a summary of the error and it s correction.

Use T accounts as follows:

* Enter the transactions as they should have been treated in the relevant accounts.
* Enter the original errors in the relevant accounts.
* Compare what should have happened to what happened and make the necessary set of adjustments in a new set of accounts.

**Effects Of Errors On Net Profit**

All errors in the ledger accounts will affect either the profit and loss account or the balance sheet. If an expense or gain account is affected by an error and has to be adjusted this will affect the net profit.

To correct the profit and loss figure, a statement of corrected net profit is prepared. Only entries that affect expenses and gains will be entered in the s statement.

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| **Statement of Corrected Net Profit** | | | |
|  | | € | € |
| **Profit as per draft accounts** | |  |  |
| **Add** | Any expense account credited in the journal |  |  |
|  | Any gain account credited in the journal |  |  |
| Less | Any expense account debited in the journal |  |  |
|  | Any gain account debited in the journal |  |  |
| **Corrected Net Profit** |  |  |  |

**Effects Of Errors On The Balance Sheet ( Higher Level)**

We previously adjusted net profit for any expense or gain that was changed in the journal. We now look at the assets and liabilities we changed in the journal. Remember that the overall original suspense will also affect the account where the suspense figure was originally placed, for example closing stock.

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| **Summary Of Changes To Assets And Liabilities** | |  |
| Asset will increase if | We debit asset a/c |  |
| Asset will decrease if |  | We credit asset a/c |
| Liability will increase if |  | We credit liability a/c |
| Liability will decrease if | We debit liability a/c |  |