

**Q.7 Correction of Errors and Suspense Account**

**(a) General Journal**

<b>(i)</b>	<b>Dr</b>	<b>Cr</b>
	€	€
Equipment a/c	4,000 [3]	
Creditors a/c		8,000 [3]
Purchases a/c		400 [3]
Suspense a/c	4,400 [3]	
<i>Being correction of purchase of car lift entered incorrectly [1]</i>		
<b>(ii)</b>		
Purchases a/c	10,000 [3]	
Capital a/c		10,000 [2]
Debtors a/c	10,000 [3]	
Cash/bank a/c		10,000 [2]
<i>Being recording of capital introduced and correction of credit sale treated as a cash sale [1]</i>		
<b>(iii)</b>		
Creditors a/c	22,400 [2]	
Purchase returns a/c		10,600 [2]
Suspense a/c		11,800 [2]
<i>Being correction of purchase returns and subsequent restocking charge entered incorrectly [1]</i>		
<b>(iv)</b>		
Cash/bank a/c	500 [2]	
Debtors a/c	125 [2]	
Bad debts recovered (P & L)		625 [2]
<i>Being recording of bad debt recovered and promise of remaining debt [1]</i>		
<b>(v)</b>		
Purchases a/c	3,000 [3]	
VAT a/c	405 [3]	
Creditors a/c		405 [3]
Equipment a/c		3,405 [3]
Suspense a/c	405 [3]	
<i>Being correction of VAT inclusive figure for purchases entered in equipment and VAT exclusive figure entered in creditors account [1]</i>		

(b) Corrected Suspense Account

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Suspense a/c					
	Original Difference	6,995	(iii)	Creditors/purchase returns [2]	11,800
(i)	Purchases/creditors	4,400 [2]			
(v)	Equipment/creditors	<u>405 [2]</u>			<u>          </u>
		<u>11,800</u>			<u>11,800</u>

(c) Statement of Corrected Net Profit

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	€	€
Original net profit		40,000
Add:		
(i) Purchases	400 [2]	
(iii) Purchase returns	10,600 [2]	
(iv) P & L (bad debt recovered)	<u>625 [2]</u>	11,625
Less:		
(ii) Purchases	10,000 [2]	
(v) Purchases	<u>3,000 [2]</u>	<u>(13,000)</u>
Corrected net profit		38,625 [4]

(d)

Corrected Balance Sheet			
Fixed assets	€	€	€
Premises		500,000 [2]	
Motor vehicles		35,000 [2]	
Equipment (24,000 + 4,000 – 3,405)		<u>24,595</u> [2]	559,595
<b>Current assets</b>			
Stock		60,500 [1]	
Debtors (10,000 + 125)		20,925 [2]	
Cash (-10,000)		<u>2,200</u> [1]	
		83,625	
<b>Creditors: amounts falling due within 1 year</b>			
Trade creditors (8,000 – 22,400 + 405 + 6,995)	45,300 [4]		
Bank (-500)	17,900 [1]		
Vat (-405)	<u>7,095</u> [1]	<u>(70,295)</u>	
Net current assets			<u>13,330</u>
Total assets less current liabilities			<u>572,925</u>
<b>Financed by</b>			
Capital (+10,000)		560,000 [2]	
Net profit		<u>38,625</u> [1]	
		598,625	
Less drawings		<u>(25,700)</u> [1]	<u>572,925</u>
			<u>572,925</u>

(e) Purpose of a suspense a/c

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- A suspense a/c is used when there is a mistake in the accounts that prevents the trial balance from balancing.
- The difference between the debit and the credit side of the trial balance is entered in the suspense a/c, until the errors are discovered, in order to allow the trial balance to balance. The relevant errors are corrected through the suspense account and the balance is then eliminated.