

Suspense

Step by Step Approach

2018 - (DEB)

T. O'Connell

100 Marks

PART A

Error (i)

- (i) A debtor who owed O'Connell €1,400 sent a cheque for €900 and €350 in cash in full settlement. This was correctly entered in the books. However, no entry had been made in the books of the subsequent dishonouring of this cheque or of the writing off of the remaining debt in full because of bankruptcy.

Explanation

This adjustment is about the dishonouring of a cheque and the writing off of a debt. It is broken into two parts -

1. The recording of the dishonoured cheque
2. And the recording of the debt being written off.

Did happen

How to record a cheque payment from a debtor

To dishonour a payment of a cheque you reverse the payment of a cheque. To record a cheque payment, we do the following -

Bank	
x	

Debtor	
	x

Bank Bank is increasing (as the money come into the business bank account). Bank is an asset and to increase an asset we put it on the debit side.

Debtors Debtors are decreasing (as they have been made). Debtors are an asset and to decrease an asset we put it on the credit side.

NOTE - Remember if it is paying full debt and there is a balance left over this is a discount given and this is an expense and to increase an expense we put the figure on the debit side. This will be treated as follows -

Discount	
x	

How to record a dishonouring of a cheque (From a debtor)

To reverse a cheque being paid. We reverse what happened above -

Bank	
	x

Debtor	
x	

NOTE - Remember if the full debt is not paid a discount will be received and to reverse this it will go in the discount account and will be on the debit side.

Discount	
	x

Bank Bank is decreasing (as the money didn't come into the business bank account).

Bank is an asset and to decrease an asset we put it on the credit side.

Debtors Debtors are increasing (as the money has not been paid to reduce the debt).

Debtors are an asset and to increase an asset we put it on the debit side.

Discount Discount is decreasing. This discount was an expense so to decrease an expense account we put it on the credit side

Did Happen

Bank	
900	

Debtor	
	1,400

Discount	
150	

Cash	
350	

Should happen

For this adjustment there will be two parts

1. The recording of the dishonoured cheque
2. And the recording of the debt being written off.

1. Reverse the payment of a cheque.

The following will need to happen to reverse the payment of a cheque

1. Debtors Increase the Debtors account as the business has not received money to reduce them.
Debit debtors €1,050
2. Bank Decrease the bank account as the business has not received the money
Credit Bank €900
3. Discount Decrease the discount as the business has not given it
Credit Discount €150

NOTE - Cash has been received so the business will use this to reduce the debt ($1,400 - 350 = 1,050$) and as they have received the money, they will not give it back so we don't have to adjust the cash account

Should Happen

Bank	
	900

Debtor	
1,050	

Discount	
	150

2. Recording of the debt being written off.

The following will happen to record the debt being written off.

1. Debtors Decrease the Debtors account as the business will not receive the money from the debtors to pay the debt due to bankruptcy.
Debit debtors €1,050
2. Bad debt Increase the bad debt account as the business will not receive the payment for these debts and will have to pay the bill themselves
Debit Bad debt €1,050

Should Happen

Bad Debt	
1,050	

Debtor	
	1,050

Fix it

Step 1

First of all, we have to fix the did happen section (remember this is wrong so to fix it or cancel the posting we put the same figure on the opposite side)

- | | | | |
|----|----------|------------------------|-------------------|
| 1. | Bank | Debit Bank (€900) | (This is wrong) |
| 2. | Debtor | Credit Debtor (€1,400) | (This is wrong) |
| 3. | Cash | Debit Cash (€350) | (This is correct) |
| 4. | Discount | Debit (€150) | |

So, to fix it (See bold numbers below)

- | | | | |
|----|----------|-----------------------|-------------|
| 1. | Bank | Credit Bank (€900) | (Corrected) |
| 2. | Debtor | Debit Debtor (€1,050) | (Corrected) |
| 3. | Discount | Credit (€150) | (Corrected) |

Remember - Cash had been received so the debts left will be €1,050 (€1,400 - €350)

This is cancelling the did happen transaction and give a balance of zero in the relevant account.

Fix It

Bank	
	900

Debtor	
1,050	

Discount	
	150

Step 2

Now we record the debt being written off

1. Debtors Increase the debtor account as the business has not been paid
 Credit Debtors €1,050

2. Bad Debt Increase bad debt account as the business will not receive this money
 form the debtors and will have to pay the money themselves as an
 expense
 Debit Bad debts €150

Fix It

Debtors	
	€1,050

Bad debts	
€1,050	

Journal Entry - for Working (i)

Now we taken the headings, debit, and credit figure from the Fix it section and create a journal entry. If the figure is on the debit side, it goes on the debit side in the journal and if the figure is on the credit side it goes on the credit side of the journal. Remember to write a narrative of what happened. Start with 'being the correction off...'

	Debit	Credit
Bank		900
Debtor	1,050	
Discount		150
Debtor		1,050
Bad debt	1,050	

Being the correction of dishonoured cheque and the writing off of a bad debt omitted from the books.

Error (ii)

- (ii) Cash payments of €800 for repairs to business equipment and €1,200 for repairs to private equipment had both been credited to the creditors account and also credited to the equipment account.

Explanation

1. A cash payment for repair to equipment and repair to a private equipment we entered in the wrong account.

Did happen

The information for what did happen is taken from the question -

Creditors	
	1200
	800

Equipment	
	1200
	800

Suspense	
4000	

Remember - A suspense account is needed to ensure that the debits and credit sides are the same.

Should happen

The following should have happened for this adjustment -

1. Repairs Increase the repairs account as we have to pay this expense
Debit Repairs €800
2. Drawing Increase, the drawings account as this expense was private
Debit Drawing €1200

3. Cash

Decrease the cash account as the money is leaving and used to pay the above expenses.

Credit €2000 (€800 + €1200)

Should happen

Repairs	
€800	

Drawings	
€1,200	

Cash	
	€2,000

Remember

Repairs is an expense so to increase an expense we put it on the debit side (€800)

Cash is an asset and to decrease an asset we put it on the credit side (€2,000)

Drawing Drawing is increasing and to increase drawing we put the figure on the debt side (€1,200)

Fix it

Step 1

First of all, we have to fix the did happen section (remember this is wrong so to fix it or cancel the posting we put the same figure on the opposite side)

- | | | |
|--------------|---------------------------|-----------------------|
| 1. Creditors | Debit Creditors (€8,100) | (This is wrong) |
| 2. Equipment | Credit Equipment (€1,800) | (This is wrong) |
| 3. Suspense | Credit Suspense (€6,300) | (Balancing Dr and Cr) |

So, to fix it (See bold numbers below)

- | | | |
|--------------|---------------------------|-----------------------|
| 1. Creditors | Credit Creditors (€8,100) | (Corrected) |
| 2. Equipment | Debit Equipment (€1,800) | (Corrected) |
| 3. Suspense | Debit Suspense (€6,300) | (Balancing Dr and Cr) |

This is cancelling the did happen transaction and give a balance of zero in the relevant account.

Fix It

Creditors	
2000	1200
	800

Equipment	
2000	1200
	800

Suspense	
4000	4000

Step 2

Now we record what should happen section, which will look like this -

- | | |
|-------------|--|
| 1. Repairs | Increase the Repairs account as we have still to pay this expense.
Debit Repairs €800 |
| 2. Drawings | Increase the drawings as the repairs were for a private equipment
Debit Drawings €1,200 |
| 3. Cash | Decrease the cash account as we have paid this money
Credit €2,000 |

Fix It

Repairs	
800	

Drawings	
1,200	

Cash	
	2000

Journal Entry - for Working (ii)

Now we taken the headings, debit, and credit figure from the Fix it section and create a journal entry. If the figure is on the debit side, it goes on the debit side in the journal and if the figure is on the credit side it goes on the credit side of the journal. Remember to write a narrative of what happened. Start with 'being the correction off...'

	Debit	Credit
Creditors	€2,000	
Equipment	€2,000	
Suspense		€4,000
Repair	€800	
Drawings	€1,200	
Cash		€2,000

Being the correction of cash payment for repairs to business and private equipment treated incorrectly

Error (iii)

- (iii) A motor car, purchased on credit from T. Dunne for €18,000, had been entered on the incorrect side of Dunne's account as €8,100 and credited as €1,800 in the equipment account.

Explanation

For this error we have entered the purchase of a motor car on credit in the wrong accounts

1. We put the purchases in the wrong side of the creditors account and
2. We also credited the equipment account with the wrong figure. This should not have happened.

We should have -

1. Increased purchases and
2. Increase Creditors

Did happen

- | | | |
|--------------|---------------------------|-----------------|
| 1. Equipment | Credit Equipment (€1,800) | (This is wrong) |
| 2. Creditor | Debit Creditors (€8,100) | (This is wrong) |

Remember Debit and Credit must equal, as the transaction above doesn't, we need to create a suspense account and put the balance figure on the credit side

- | | |
|-------------|---|
| 3. Suspense | Credit Suspense (€8,1000 - €1,800 = €6,300) |
|-------------|---|

The t-accounts should look like this

Did Happen

Equipment	
	1,800

Creditor	
8,100	

Suspense	
	6,300

Should happen.

The following should have happened for this adjustment -

1. Purchases Increase purchases Remember this is a garage so they would buy and sell motor cars
 Debit Purchases €18,000
2. Creditors Increase Creditors as they have purchased from us on credit and owe the business the money
 Credit Creditors €18,000

Should Happen

Purchases	
18,000	

Creditors	
	18,000

Remember

Purchases is an expense so to increase an expense we put it on the debit side.

Creditors are a liability so to increase a liability we put it on the credit side.

Fix it

Step 1

First of all, we have to fix the did happen section (remember this is wrong so to fix it or cancel the posting we put the same figure on the opposite side)

- | | | |
|--------------|---|-----------------|
| 1. Equipment | Credit Equipment (€1,800) | (This is wrong) |
| 2. Creditor | Debit Creditors (€8,100) | (This is wrong) |
| 3. Suspense | Credit Suspense (€8,1000 - €1,800 = €6,300) | |

So, to fix it (See bold numbers below)

- | | | |
|--------------|--|-----------|
| 1. Equipment | Debit Equipment (€1,800) | (Correct) |
| 2. Creditor | Credit Creditors (€8,100) | (Correct) |
| 3. Suspense | Debit Suspense (€8,1000 - €1,800 = €6,300) | |

This is cancelling the did happen transaction and give a balance of zero in the relevant account

Did Happen

Equipment	
1,800	1,800

Creditor	
8,100	8,100

Suspense	
6,300	6,300

Step 2

Now we record what should happen section, which will look like this

- | | |
|--------------|---|
| 1. Purchases | Increase purchases Remember this is a garage so they would buy and sell motor cars
Debit Purchases €18,000 |
| 2. Creditors | Increase Creditors as they have purchased form us on credit and owe the business the money |

Credit Creditors €18,000

Should Happen

Purchases	
18,000	

Creditors	
	18,000

Journal Entry - for Working (iii)

Now we taken the headings, debit, and credit figure from the Fix it section and create a journal entry. If the figure is on the debit side, it goes on the debit side in the journal and if the figure is on the credit side it goes on the credit side of the journal. Remember to write a narrative of what happened. Start with 'being the correction off...'

	Debit	Credit
Equipment	1,800	
Creditor		8,100
Suspense	6,300	
Purchase	18,000	
Creditors		18,000

Being the correction of incorrect recording of the purchase of a motor car on credit

Error (iv)

- (iv) A private debt for €980, owed by O'Connell, had been offset in full against a business debt of €1,100 owed to the firm for car repairs previously carried out. No entry had been made in the books in respect of this offset.

Explanation

O'Connell used a debt owed by him to pay a business debt.

NOTE - Watch the phrasing of this question - If the owner owes the debt you use the drawings account and if the owner is owed the debt you use capital.

Did happen.

NOTHING

Should happen.

The following should have happened for this adjustment.

- | | |
|-------------|---|
| 1. Drawings | Increase Drawing as they are increasing as the private debt is paid
Debit Drawing €980 |
| 2. Debtor | Decrease Debtors as the business debtors have been paid.
Credit Debtors €1,100 |
| 3. Discount | Increase discount as we have paid the full debt but gave a Discount which is an expense to the business (€1,100-€980=€120)
Debit Discount €120 |

Should Happen

Drawings	
980	

Debtors	
	1,100

Discount	
120	

Remember

Drawing is increasing and to increase drawing we put it on the debit side
 Debtors is an asset so to decrease an asset we put it on the credit side
 Discount is an expense so to increase an expense we put it on the debit side

Fix it

Step 1

Nothing happened so we don't need to fix it

Step 2

1. Drawings Increase Drawing as they are increasing as the private debt is paid
Debit Drawing €980
2. Debtor Decrease Debtors as the business debtors have been paid.
Credit Debtors €1,100
4. Discount Increase discount as we have paid the full debt but gave a Discount which is an expense to the business ($€1,100 - €980 = €120$)
Debit Discount €120

Fix It

Drawings	
980	

Debtors	
	1,100

Discount	
120	

Remember

Drawing is increasing and to increase drawing we put it on the debit side

Debtors is an asset so to decrease an asset we put it on the credit side

Discount is an expense so to increase an expense we put it on the debit side

Journal Entry - for Working (iv)

Now we taken the headings, debit, and credit figure from the Fix it section and create a journal entry. If the figure is on the debit side, it goes on the debit side in the journal and if the figure is on the credit side it goes on the credit side of the journal. Remember to write a narrative of what happened. Start with 'being the correction off...'

	Debit	Credit
Drawing	€980	
Debtors		€1,100
Discount	€120	

Being the correction of a private debt offset in full against a business debt omitted from the books

Error (v)

- (v) A cheque for €3,600 paid by O'Connell out of a private bank account for 18 months hire of diagnostic equipment up to 30/6/2012 had not been entered in the books.

Explanation

A private cheque was used to pay for the hire of equipment - so was for this year (expense) so for next year (Prepaid)

1. Capital will have to increase as the money was introduced to the business to pay the expense.
2. The Hire of equipment will have to increase with the expense for this year.
3. The hire of equipment will also increase with the asset for the value that is paid for next year.

NOTE - Private items are usually recorded in the drawing account.

Did happen.

NOTHING

Should happen

The following should have happened for this adjustment.

- | | |
|--------------------------------|--|
| 1. Capital | Increase capital as the money was introduced to pay for the hire of the equipment
Credit creditors €3,600 |
| 2. Hire of equipment (Expense) | Increase the hire of equipment account with the expense amount for this year
Debit Hire of Equipment (Expense) €2,400 |
| 3. Hire of equipment (Asset) | Increase the hire of equipment account with the prepaid (asset) amount for next year
Debit Hire of Equipment (Asset) €1,200 |

Should Happen

Capital	
	€3,600

Hire of Equipment (Asset)	
€1,200	

Hire of Equipment (Expense)	
€2,400	

Remember

Capital is a liability so to increase a liability we put it on the credit side

Hire of Equipment (Expense) is an expense so to increase an asset we put it on the debit side

Hire of Equipment (Asset) is an expense so to increase an asset we put it on the debit side (Prepaid)

€3,600 / 18 = €200

€200 * 12 = €2,400 (Expense for this year)

€200 * 6 = €1,200 (Prepaid (Asset) for next year)

Fix it

Step 1

As there is nothing in the did happen section, we have nothing to fix

Step 2

Now we record what should happen section, which will look like this

- Capital Increase capital as the money was introduced to pay for the hire of the equipment
Credit creditors €3.600
- Hire of equipment (Expense) Increase the hire of equipment account with the expense

amount for this year

Debit Hire of Equipment (Expense) €2,400

3. Hire of equipment (Asset)

Increase the hire of equipment account with the prepaid (asset) amount for next year

Debit Hire of Equipment (Asset) €1,200

Fix It

Capital	
	€3,600

Hire of Equipment (Asset)	
€1,200	

Hire of Equipment (Expense)	
€2,400	

Journal Entry - for Working (iv)

Now we taken the headings, debit, and credit figure from the Fix it section and create a journal entry. If the figure is on the debit side, it goes on the debit side in the journal and if the figure is on the credit side it goes on the credit side of the journal. Remember to write a narrative of what happened. Start with 'being the correction off...'

	Debit	Credit
Capital		€3,600
Hire of Equipment (Expense)	€1,200	
Hire of Equipment (Asset)	€2,400	

Being the correction of introduction of Capital to pay for Hire of equipment omitted from the books

PART B

Part B is asking to Show T. O'Connell's suspense account. To do this we look back at the journal from part A and identify the suspense figures and if they are on the debit or credit side.

Adjustment (ii)	€4,000	Credit
Adjustment (iii)	€6,300	Debit

Now we put the above figures into a t account leaving the first line blank because we are trying to find the opening balance in the suspense account. This balance will be used later on in Part D to calculate the correct figure for the items that includes suspense.

Suspense			
		Bal	€2,300
(iii)	€6,300	(ii)	€4,000
	€6,300		€6,300

$$€6,300 - €4,000 = €2,300$$

PART C

Part C is asking you to prepare a statement showing the corrected net profit for T. O'Connell.

To do this we use the following lay out -

Layout to calculate the net profit.

Original Profit			X
Add	any expense account credit in the journal	X	
	Any gain account credited in the journal	<u>(+) X</u>	<u>(+) X</u>
			X
Less	any expense account debited in the journal	X	
	Any gain account debited in the journal	<u>(-) X</u>	<u>(-) X</u>
			X

The original profit is taken from the balance sheet in the question.

Steps to answer this part.

1. Using a different colour pen work down the journal entries and put a dot beside the items that go in the profit and loss account.
2. If the item is an expense and is on the credit side, you add it on. This is because this expense has not happened so the net profit will increase.
3. If the item is an income and is on the credit side, you add it on. This is because this is extra income that we will receive and will increase the net profit figure.
4. remember to get the total for all these figures first before you add them on
5. If the item is an expense and is on the debit side, you subtract the figure. This is because the expense has occurred so the net profit will decrease.
6. If the item is an income and is on the debit side - you subtract the figure. This is because the income has not happened so the net profit will decrease.

Original Profit		€95,000
Add		
(i) Discount	€150	€150
		€95,150
Less		
(i) Bad Debts	€1,050	
(ii) Repairs	€800	
(iii) Purchases	€18,000	
(iv) Discount	€120	
(v) Rent	€2,400	€22,370
		<u>€72,780</u>

Taken form the Balance Sheet (Q)
Taken from adjustment (i)
Taken form adjustment (i)
Taken from adjustment (ii)
Taken from adjustment (iii)
Taken from adjustment (iv)
Taken from adjustment (v)

Remember

1. Add the 3 figures in the add section first before you add it to the original profit.
2. Add the 3 figures in the less section before taken it away from the figure calculate in part 1

PART D

Part D is asking you to prepare the corrected balance sheet of T. O'Connell. To do this we do the following.

Steps to prepare the corrected balance sheet.

1. Using a different colour pen work down the journal entries and put Asterix beside the items that go in the Balance sheet.
2. If the item is an asset and is on the debit side, you add it on. This is because this asset is increasing, and we have received it.
3. If the item is a liability and is on the debit side, you subtract it on. This is because this extra income was not received so the income will decrease.
4. If the item is an asset and is on the credit side, you subtract the figure. This is because the asset is decreasing.
5. If the item is an income and is on the credit side, you add the figure. This is because the extra income has occurred so will increase.
6. Using the figures from the balance sheet in the question you will re-write it out in your booklet and adjust the figures (if needed) using the information identified from above.

Fixed Assets	Cost	Acc Dep	NBV
Premises	640,000	0	640,000
Equipment (32,000 + 2,000 + 1,800)	35,800	0	35,800
Furniture	18,000	0	41,300
(Acc Dep Equipment - 10,000 - 1,600 - 700 = 7,700)	693,800	0	693,800
Current Assets			
Stock		24,000	
Debtors (12,800 + 1,050 - 1,050 - 1,100)		11,700	
Cash (9,400 - 2,000)		7,400	
Equipment Prepaid		1,200	
		44,300	
Creditors due within one year			
Creditors	38,000		
Bank	5,900	43,900	400
			694,200
Financed By			
Capital (650,000 + 3,600)		653,600	
Net Profit		72,780	
		726,380	
Less Drawings (30,000 + 1,200 + 980)		(32,180)	
Capital Employed			694,200

PART E

Part E is asking you to Identify three different types of errors that affect the balancing of a Trial Balance.

1. 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
2. Mathematical errors - figures and additions
3. Misplaced Entries - Posting only one side of the double entry