

Suspense

Step by Step Approach

2014 - (DEB)

C. Long

100 Marks

PART A

Error (i)

- (i) Long sent a cheque for €800 in full settlement of a business debt of €850 and this was recorded correctly in the books. However, no entry has been made in the books of the subsequent dishonouring of this cheque and the payment on the account of €400 cash by Long

Explanation

We paid a debt by cheque, and we recorded it correctly in the

1. The creditors account
2. Bank and
3. Discount received

But there was not enough money on the business bank account and the cheque was returned (dishonoured).

Did happen

- | | |
|----------------------|------------------------|
| 1. Creditors | Debit Creditors (€850) |
| 2. Bank | Credit Bank (€800) |
| 3. Discount Received | Credit Discount (€50) |

These are taken from the question

The t-accounts should look like this

Did Happen

Creditors	
850	

Bank	
	800

Discount Received	
	50

Should happen

The following should have happened for this adjustment

1. Creditors Increase the creditors account because the cheque was returned and we did not pay our creditors
Credit €850

2. Bank Decrease the bank overdraft account as we didn't pay the debt so the money did not leave our bank account
Debit Bank €800

3. Discount Increase discount as we didn't receive the discount
Debit Discount €50

This will correct the dishonouring of the cheque. Then we have to record the payment of the debt by cash

4. Creditors Decrease creditors with the amount that Long Paid
Debit €400

5. Cash Decrease cash by €400 because that is what we paid the debt by
Credit €400

Should Happen

Creditors	
	850

Bank	
800	

Discount	
50	

Creditors	
400	

Cash	
	400

Remember

- Creditors is a liability and to increase a liability we put it on the credit side
- Bank is a liability (Bank Overdraft) so to decrease a liability we put it on the debit side
- Discount is an income (as didn't pay the full debt) to decrease an income we put it on the debit side
- Creditors is a liability and to decrease a liability we put it on the debit side
- Cash is an asset and to decrease an asset 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)

This is what did happen (See blue numbers below) (see did happen section)

1. Creditors Debit Creditors (€850)
2. Bank Credit Bank (€800)
3. Discount Received Credit Discount (€50)

The cheque has been returned (Dishonoured) so this did not take place and has to be reversed

So, to fix it (See bold numbers below)

1. Creditors Credit Creditors (€850) (Correction)
2. Bank Debit Bank (€800) (Correction)
3. Discount Received Debit Discount (€50) (Correction)

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

Fix It

Creditors	
850	850

Bank	
800	800

Discount Received	
50	50

Step 2

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

1. Creditors Decrease creditors with the amount that Long Paid
 Debit €400

2. Cash Decrease cash by €400 because that is what we paid the debt by
 Credit €400

Fix It

Cash	
	400

Creditors	
400	

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
Creditors		850
Bank	800	
Discount	50	
Creditors		400
Cash	400	

Being the correction of a dishonoured cheque omitted from the books and payment off €400 in cash

Error (ii)

(ii) Payments from the business bank account for repairs to business equipment €790 and for repairs to private dwellings €960 were entered correctly in the bank account but respectively credited to the equipment account and credited to the premises

Explanation

We made a payment for the following (the bank account is correct)

1. Repairs €790 and
2. Repairs (Drawings) €960
3. Bank €1,750

But we entered them in the wrong accounts

1. Equipment account on the credit side (€790)
2. Premises account on the credit side (€960)

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

1. Suspense Credit Suspense (€790 + €960 + €1750 = €3,500)

The t-accounts should look like this

Did happen

Equipment	
	790

Premises	
	960

Suspense	
3,000	

Bank	
	1,750

Should happen

The following should have happened for this adjustment

- 1. Repairs Increase the Repairs account as have paid this expense
 Debit Equipment €790

- 2. Drawings Increase the Drawings account the as the repairs were for the
 private dwelling
 Debit Drawings €960

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 (€790 + €960 = €1,750)

Should happen

Repairs	
€790	

Drawings	
€960	

Suspense	
	€1,750

Remember

- Repairs is an asset so to increase an asset we put it on the debit side
- Drawing to increase drawing we put it on the debit side
- Suspense Because the figure for the above tow account are on the debit side to
balance then were need to put the total of the two accounts on the
credit side in a suspense account

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)

This is what did happen (See blue numbers below) (see did happen section)

- 1. Equipment Credit Equipment (€790) (Wrong account)
- 2. Premises Credit Premises (€960) (Wrong account)
- 3. Suspense Debit suspense (€1,750)

So, to fix it (See bold numbers below)

- 1. Equipment Debit Equipment (€790) (Correction)
- 2. Premises Debit Premises (€960) (Correction)
- 3. Suspense Credit suspense (€1,750) (Correction)

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

Equipment	
790	790

Premises	
960	960

Suspense	
1,750	1,750

Step 2

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

- 1. Repairs Increase the Repairs account as have paid this expense
Debit Equipment €790
- 2. Drawings Increase the Drawings account the as the repairs were for the private dwelling
Debit Drawings €960

3. Suspense Credit Suspense (€790 + €960 = €1,750)

Fix It

Repairs	
€790	

Drawings	
€960	

Suspense	
	€1,750

NOTE - remember we have €1,750 for suspense from step 1 and €1,750 for suspense from step 2 (€1,750 + €1,750 = €3,500)

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
Equipment	€790	
Premises	€960	
Suspense		€3,500
Repairs	€790	
Drawings	€960	

Being the correction of equipment bought and private repairs treated incorrectly

Error (iii)

- (iii) A motor car purchased on credit from C. Sheehan for €16,000, had been entered on the incorrect side of Sheehan's account as €1,600 and debited as €6,100 in the equipment account

Explanation

We bought a car for €16,000 but

1. We put the purchase in the creditors account (Sheehan) on the wrong side and with the wrong figure. This should not have happened
2. We also debit the equipment account with the wrong figure. This should not have happened

We should have

1. Increase the creditors account as we have purchased on credit
2. Increase the equipment account as we have bought (we are a motor vehicle dealer) more motor vehicles

Did happen

- | | | |
|--------------|--------------------------|-----------------|
| 1. Creditors | Debit Sales (€1,600) | (This is wrong) |
| 2. Equipment | Debit Equipment (€6,100) | (This is wrong) |

These are taken from the question

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 (€1,600 + €6,100 = €7,700) | |
|-------------|--|--|

The t-accounts should look like this

Did Happen

Creditors	
1,600	

Suspense	
	7,700

Equipment	
6,100	

Should happen

The following should have happened for this adjustment

1. Record the purchase in the creditors account
2. Record the purchase in the equipment account

1. Creditors Increase creditors with the purchases figure as we owe this amount
 Due to buying in credit
 Credit Creditors €16,000

2. Equipment Increase equipment with the purchases figure as we increase increased
 the amount of motor vehicle we have
 Debit Equipment €16,000

Should Happen

Creditors	
	16,000

Equipment	
16,000	

Remember

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

Equipment is an asset so to increase an asset we put it on the debit 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. Creditors Debit Sales (€1,600) (This is wrong)
- 2. Equipment Debit Equipment (€6,100) (This is wrong)
- 3. Suspense Credit Suspense (€1,600 + €6,100 = €7,700)

So, to fix it (See bold numbers below)

- 1. Creditors Credit Sales (€1,600) (Correction)
- 2. Equipment Credit Equipment (€6,100) (Correction)
- 3. Suspense Debit Suspense (€1,600 + €6,100 = €7,700) (Correction)

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

Fix It

Creditors	
1,600	1,600

Suspense	
7,700	7,700

Equipment	
6,100	6,100

Step 2

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

1. Creditors Increase creditors with the purchases figure as we owe this amount
 Due to buying in credit
 Credit Creditors €16,000

2. Equipment Increase equipment with the purchases figure as we increase increased
 the amount of motor vehicle we have
 Debit Equipment €16,000

Fix It

Creditors	
	16,000

Equipment	
16,000	

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
Creditors		1,600
Equipment		6,100
Suspense	7,700	
Creditors		16,000
Equipment	16,000	

Being the correction of a purchase of a motor van treated incorrectly

Error (iv)

(iv) A Private debt of €1,250, owed to long, had been offset in full settlement against a business debt of €1,400 owed by Long. No entry had been made in the books in respect of this transaction

Explanation

Long was owed a private debt and used this to pay (offset) a business debt

NOTE - Any item that is introduced to the business we adjust the Capital account

Did happen

NOTHING

Should happen

The following should have happened for this adjustment

1. Capital Increase the capital account as Long has introduced his private debt to the business to pay the business debt
Credit capital €1,250

2. Creditors Decrease the Creditors account as we have paid a business debt so, owe or creditors less
Debit creditors €1,400

3. Discount Increase discount as we paid the full bill and there is still a difference of €150 (€1,400 - €1,250)
Credit suspense €150

Should Happen

Capital	
	1,250

Discount	
	150

Creditors	
1,400	

Remember

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

Creditor is a liability and to decrease a liability we put it on the debit side

Discount is an income and to increase an income we put it on the credit side

Fix it

Step 1

As nothing has happened, we don't have anything to fix

Step 2

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

1. Capital Increase the capital account as Long has introduced his private debt to the business to pay the business debt
Credit capital €1,250

2. Creditors Decrease the Creditors account as we have paid a business debt so, owe or creditors less
Debit creditors €1,400

3. Discount Increase discount as we paid the full bill and there is still a difference of €150 (€1,400 - €1,250)
Credit suspense €150

Fix It

Capital	
	1,250

Discount	
	150

Creditors	
1,400	

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		€1,250
Creditors	€1,400	
Discount		€150

Being the correction of a personal debt use to pay a business debt omitted from the books

Error (v)

- (v) A motor car, previously sold on credit for €8,500 has been returned to Long. Long entered this transaction as €5,800 on the correct sides of the correct accounts in the ledger. A credit note was subsequently sent by long showing a restocking charge of €200 to cover the cost of the return. The only entry made in respect of this credit note was a debit entry of €8,300 in the debtor's account

Explanation

A motor car was returned and was entered correctly in the relevant account but with the incorrect figure. We also recorded the restocking charge, but it was in the debtor account (this is what we owe) instead of the creditors account (people who owe us money)

Explanation

A motor car was return to Long. We recorded the return correctly in the account but with the wrong figure

1. We debit the sale returns €5,800
2. We credit the debtors €5,800

We should have

1. Increase the sales return account as the car was returned (Remember Long is a motor dealer so buys and sells cars)
2. Decrease the debtors account as the motor van was sold on credit and the debtors owe us less after returning the motor car

Remember we also did the following in relation to the restocking charge

1. We debit the debtors account €8,300

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

1. Suspense Credit Suspense €8,300

Did happen

- | | | |
|------------|-------------------------|-----------------|
| 1. Sales | Debit Sales (€5,800) | (This is wrong) |
| 2. Debtors | Credit Debtors (€5,800) | (This is wrong) |
| 3. Debtors | Debit Debtors (€8,300) | (This is wrong) |

These are taken from the question

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

- | | |
|-------------|------------------------|
| 4. Suspense | Credit Suspense €8,300 |
|-------------|------------------------|

The t-accounts should look like this

Did Happen

Sales	
5,800	

Suspense	
	8,300

Debtors	
8,300	5,800

Should happen

The following should have happened for this adjustment

- | | |
|------------------|---|
| 1. Sales Returns | Increase Sales returns as the motor vehicle was returned
(it will be €8,500 - €200 = €8,300)
Debit Sales Returns €8,300 |
| 2. Debtors | Decrease the Debtors account as they don't owe us the money after returning the motor car
Credit Debtors €8,300 |

Should Happen

Sales Returns	
8,300	

Debtors	
	8,300

Remember

Sales Returns is an income so to decrease an Income we put it on the Debit side

Debtors is an asset so to decrease an asset 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)

This is what did happen (See blue numbers below) (see did happen section)

- | | | |
|-----------------|-------------------------|-----------------|
| 1. Sale Returns | Debit Sales (€5,800) | (wrong figure) |
| 2. Debtors | Credit Debtors (€5,800) | (This is wrong) |
| 3. Debtors | Debit Debtors (€8,300) | (This is wrong) |
| 4. Suspense | Credit Suspense €8,300 | |

So, to fix it (See bold numbers below)

- | | | |
|-----------------|------------------------------|-----------------|
| 1. Sale Returns | Debit Sales Returns (€2,500) | (Correction) |
| 2. Debtors | Credit Debtors (€8,300) | (Correction) |
| 3. Debtors | Credit Debtors (€2,500) | (This is wrong) |
| 4. Suspense | Debit Suspense (€8,300) | |

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

Fix It

Sales Returns	
5,800	
2,500	

Suspense	
8,300	8,300

Debtors	
8,300	5,800
	8,300
	2,500
	10,800

NOTE

Sales Returns Remember we have 5,800 on the Debit side of the sale return account already (this is the correct side but incorrect figure). We need €8,300 on the debit side so we need to add €2,500. This will give us €8,300 on the debit side ($€5,800 + €2,500 = €8,300$)

Debtors Remember we have €8,300 on the debit side from the did happen section and €5,800 on the credit side from the did happen section. We need €8,300 on the credit side. So we credit the debtors with €8,300 to cancel out the €8,300 and add €2,500 because we already have €5,800 on the credit side already ($€8,300 + €2,500 = €10,800$)

Step 2

This is recorded in step 1

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
Sales Returns	€2,500	
Debtors		€10,800
Suspense	€8,300	

Being the correction of sales returns and restocking charged treated incorrectly

PART B

Part B is asking to Show Long'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)	€3,500	Credit
Adjustment (iii)	€7,700	Debit
Adjustment (v)	€8,300	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	€12,500
(iii)	€7,700	(ii)	€3,500
(v)	€8,300		
	€16,000		€16,000

$$€16,000 - €3,500 = €12,500$$

PART C

Part C is asking you to prepare a statement showing the corrected net profit for Longs. 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 form 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 one
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		€85,000
Add		
(iii) Sales	€1,440	€1,440
		€90,640
Less		
(i) Discount	€50	
(ii) Repairs	€790	
(ii) Rent Prepaid	€360	
(iii) Disposal Equipment	€200	
(iv) Disposal Equipment	€500	
(v) Hire of Equipment	€3,600	(-) €8,700
		€81,940

Taken form the Balance Sheet (Q)
Taken from adjustment (iii)
Taken form adjustment (i)
Taken from adjustment (ii)
Taken from adjustment (ii)
Taken from adjustment (iii) (loss)
Taken from adjustment (iv) (loss)
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 form the figure calculate in part 1

PART D

Part D is asking you to prepare the corrected balance sheet of Mead. To do this we do the following

Step 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 expense and is on the debit side, you add it on. This is because this expense has happened so the expense will increase
3. If the item is an income 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 expense and is on the credit side, you subtract the figure. This is because the expense has not occurred so will decrease
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 figure from the balance sheet in the question you will write it out in your booklet and adjust the figures (if needed) using the information identified from step 1

Fixed Assets	Cost	Acc Dep	NBV
Premises (650,000 + 960)	650,960	0	650,960
Equipment (37,000 + 790 - 6,100)	31,690	0	31,690
Furniture	13,000	0	13,000
(Acc Dep Equipment - 10,000 - 1,600 - 700 = 7,700)	695,650	0	695,650
Current Assets			
Stock (174,000 + 12,500)		186,500	
Debtors (32,800 - 10,800)		22,000	
Cash (1,200 - 400)		800	
		209,300	
Creditors due within one year			
Creditors (46,000 + 850 + 17,600 - 400 - 1,400)	62,650		
Bank (35,000 - 800)	34,200	96,850	112,450
			808,100
Financed By			
Capital (750,000 + 1,250)		751,250	
Net Profit		65,810	
		817,060	
Less Drawings (4,200 + 800)		8,960	
Capital Employed			608,100

PART E

Part E is asking you to explain the purpose of preparing a trial balance and to identify three different types of errors that may affect the balancing of a trial Balance

Explain the purpose of preparing a trial balance

1. To test the accuracy of double entry bookkeeping before preparing final accounts
2. It should have the same total of debits and credits because under double entry book-keeping every debit should have a corresponding credit

identify three different types of errors that may affect the balancing of a trial Balance

1. 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. Posting only one side of the double entry