

Suspense

Step by Step Approach

2018 - (DEB)

M. Mead

100 Marks

PART A

Error (i)

- (i) Groceries, purchased on credit for €3,600 had been entered on the incorrect side of the creditors' account and credited as €6,300 in the motor vehicle account

Explanation

We purchased good on credit but entered them in

1. The creditors account on the wrong side
2. And in the motor vehicle account on the credit side

Did happen

1. Creditors Debit Creditors (€3,600) (This is wrong)
2. Motor Vehicle Credit Motor Vehicle (€6,300) (This is wrong)

These are taken form 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 Debit Suspense (€6,300 - €3,600 = €2,700)

The t-accounts should look like this

Did Happen

Creditors	
3,600	

Motor Vehicle	
	6,300

Suspense	
2,700	

Should happen

The following should have happened for this adjustment

1. Purchases Increase the purchase account as we have bought groceries to resale
Debit Purchases €3,600

2. Creditors Increase creditors account as we have purchased on credit so we owe
the money
Credit Creditors €3,600

Should Happen

Purchases	
€3,600	

Creditors	
	€3,600

Remember

Purchases is an expense and to increase an asset we put it on the debit side

Creditors is 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. Creditors Debit Creditors (€3,600) (This is wrong)
2. Motor Vehicle Credit Motor Vehicle (€6,300) (This is wrong)
3. Suspense Debit Suspense (€6,300 - €3,600 = €2,700)

So, to fix it (See bold numbers below)

1. Creditors Credit Creditors - €3,600 (Correction)
2. Motor Vehicle Debit Motor Vehicle - €6,300 (Correction)
3. Suspense Credit Suspense - 2,700 (Correction)

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

Fix It

Creditors	
3,600	3,600

Motor Vehicle	
6,300	6,300

Suspense	
2,700	2,700

Step 2

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

1. Purchases Increase the purchase account as we have bought equipment
 Debit Equipment €3,600
2. Creditors Increase creditors account as we have purchased on credit
 Credit Creditors €3,600

Fix It

Purchases	
€3,600	

Creditors	
	€3,600
	€3,600

NOTE - Remember we have €3,600 already in the creditors account form fixing the error in step 1

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		7,200
Motor Vehicles	6,300	
Suspense		2,700
Purchases	3,600	

Being the correction of purchases on Credit treated incorrectly

Error (ii)

(ii) Insurance due €440 and rent prepaid €360 were not recorded in the books

Explanation

1. Insurance is due to be paid. Remember we put insurance due in the balance sheet as a current liability
2. Rent is prepaid to mead means that someone has paid their rent to use before the due date. This means that the business owes the money when the due date comes around as we have received the money already
3. These two figures added together will give you the expense for the Profit and Loss expense

Did happen

NOTHING

Should happen

The following should have happened for this adjustment

- | | |
|--------------------|--|
| 1. Insurance due | Increase the insurance due account as we have still to pay this
Asset (it goes in the balance sheet)
Credit Insurance Due €440 |
| 2. Rent Prepaid | Increase the Rent Prepaid account as the money has been
received (so we owe it back to the business)
Credit Rent Prepaid €360 |
| 3. Profit and Loss | The profit and loss account will increase with these two figures
Debit €800 (€440 + €360) |

Should happen

Insurance Due	
	€440

Profit and Loss	
€800	

Rent Prepaid	
	€360

Remember

Insurance Due	is a liability so to increase a liability we put it on the credit side
Rent Prepaid	is a liability and to increase a liability we put it on the credit side
P & L	The P & L will take the double entry from the insurance due and rent prepaid

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

- Insurance due** Increase the Insurance Due account as we have still to pay this
 Asset (as this goes in the balance sheet)
 Credit Insurance Due €440
- Rent Prepaid** Increase the Rent Prepaid account as the money has been
 received and we owe it back to the business
 Credit Rent Prepaid €360
- Profit and Loss** The profit and loss account will increase with these two figures
 Debit €800 (€440 + €360)

Fix It

Insurance Due	
	€440

Profit and Loss	
€800	

Rent Prepaid	
	€360

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
Insurance Due		€440
Rent Prepaid		€360
Profit and Loss	€800	

Being the correction of Insurance Due and Rent Prepaid omitted from the books

Error (iii)

- (iii) Equipment which cost €3,200 and with a book value of €1,600 was sold for cash €1,400. This had been entered on the debit side of the sales account as €1,440 and on the credit side of the debtors account as €1,040

Explanation

We sold equipment and received cash for the sale

1. We put the sale in the sales account with the wrong figure. This should not have happened
2. We also credited the debtors account with the wrong figure. This should not have happened

We should have

1. Reduced the equipment account by the value of the equipment sold
2. Reduce the acc depreciation account by the value of dep for the equipment sold
3. Find out if we made a profit or loss by creating a disposal account
4. Record the money we received in the cash account

Did happen

- | | | |
|------------|-------------------------|-----------------|
| 1. Sales | Debit Sales (€1,440) | (This is wrong) |
| 2. Debtors | Credit Debtors (€1,040) | (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 (€1,440 - €1,040 = €400) | |
|-------------|--|--|

The t-accounts should look like this

Did Happen

Sales	
1,440	

Suspense	
	400

Debtors	
	1,040

Should happen

The following should have happened for this adjustment

1. Find out if we made a profit or loss by creating a disposal account
2. Record the money we received in the cash account

1. Equipment Decrease equipment with the cost as we have sold the equipment and don't have it any more
 Credit Equipment €3,200
2. Acc Dep Decrease the Acc Dep Equipment account with the dep on the equipment
 (Equipment) (€3,200 - €1,600 = €1,600)
 Debit Acc Dep Equipment €1,600
3. Disposal Complete the double entry form
 Equipment Debit with the equipment figure - €3,200
 Acc Dep Credit with the Acc Dep - €1,600
 Cash Credit with the Cash account €1,600
 Bal If the balance is a debit, it is a profit
 If the balance is a credit, it is a loss
4. Cash Increase the cash account with the figure we received €1,400
 Debit Cash €1,600

Should Happen

Equipment	
	3,200

Cash	
1,400	

Acc Dep Equipment	
1,600	

Disposal	
3,200	1,600
	1,400
	200
3,200	3,200

Remember

- Equipment is an asset so to decrease an asset we put it on the credit side
- Acc Dep is an asset with a credit balance so to decrease this we put it on the debit side
- Cash is an asset so to increase an asset we put it on the debit side
- Disposal If the balance is on the debit side it is a profit
 If the balance is on the credit side, it is a loss

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. Sales Debit Sales (€1,440) (This is wrong)
- 2. Debtors Credit Debtors (€1,040) (This is wrong)
- 3. Suspense Credit Suspense (€1,440 - €1,040 = €400)

So, to fix it (See bold numbers below)

- 1. Sales Credit Sales (€1,440) (Correction)
- 2. Debtors Debit Debtors (€1,040) (Correction)
- 3. Suspense Credit Suspense (€400) (Correction)

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

Fix It

Sales	
1,440	1,440

Suspense	
400	400

Debtors	
1,040	1,040

Step 2

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

- Equipment** Decrease equipment with the cost as we have sold the equipment and don't have it any more
Credit Equipment €3,200
- Acc Dep (Equipment)** Decrease the Acc Dep Equipment account with the dep on the equipment
(€3,200 - €1,600 = €1,600)
Debit Acc Dep Equipment €1,600
- Disposal** Complete the double entry form
Equipment Debit with the equipment figure - €3,200
Acc Dep Credit with the Acc Dep - €1,600
Cash Credit with the Cash account €1,600
Bal If the balance is a debit, it is a profit
 If the balance is a credit, it is a loss
- Cash** Increase the cash account with the figure we received €1,400
Debit Cash €1,600

Fix It

Equipment	
	3,200

Cash	
1,400	

Acc Dep Equipment	
1,600	

Disposal	
200	

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
Sales		1,440
Debtors	1,040	
Suspense	400	
Equipment		3,200
Acc Equipment	1,600	
Cash	1,400	
P & L	200	

Being the correction of sale of equipment treated incorrectly

Error (iv)

(iv) Mead's private car valued at €7,800 was presented to the business. He took a used freezer from the business for an agreed value €800. The only entry made in the books was a debit of €800 in the equipment account. The freezer had cost €2,000 and had a book value of €1,300

Explanation

1. Mead introduces a car to the business, so we need to adjust capital and motor vehicles
2. He also took a freezer from the business, so we need to find out if a profit or loss was made on the freezer

What did we do

1. We only recorded €800 in the equipment account

NOTE - Private items are usually recorded in the drawing account

Did happen

1. Equipment Debit €800 (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

2. Suspense Credit €800

The t-accounts should look like this

Did Happen

Equipment	
€800	

Suspense	
	€800

Should happen

The following should have happened for this adjustment

1. Motor vehicles Increase Motor Vehicles as the value of our Motor vehicles has gone up
Debit equipment €7,800
2. Capital Increase Capital as the equipment was introduced to the business any item introduced to the business increases the capital account
Credit Capital €7,800
3. Equipment Decrease equipment (Freezer) with the cost as we have sold the equipment and don't have it any more
Credit Equipment €2,000
4. Acc Dep
 (Equipment) Decrease the Acc Dep Equipment account with the dep on the equipment (€2,000 - €1,300 = €700)
Debit Acc Dep Equipment €700
5. Disposal Complete the double entry form
Equipment Debit with the equipment figure - €2,000
Acc Dep Credit with the Acc Dep - €700
Drawings Credit with the Cash account €800
Bal If the balance is a debit, it is a profit
 If the balance is a credit, it is a loss
6. Drawing Increase the Drawings account with the figure we received €800
Debit Cash €800

Should Happen

Motor Vehicles	
7,800	

Capital	
	7,800

Equipment	
	2,000

Acc Dep Equipment	
700	

Drawings	
800	

Disposal	
2000	700
	800
	500
3,200	3,200

Remember

Motor Vehicles	is an asset and to increase an asset we put it on the debit side
Capital	is a liability and to increase a liability we put it on the credit side
Equipment	is an asset so to decrease an asset we put it on the credit side
Acc Dep	is an asset with a credit balance so to decrease this we put it on the
Equipment	debit side
Cash	is an asset so to increase an asset we put it on the debit side
Disposal	If the balance is on the debit side it is a profit If the balance is on the credit side, it is a loss

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 | Debit €800 | (This is wrong) |
| 2. Suspense | Credit €800 | |

So, to fix it (See bold numbers below)

- | | | |
|--------------|-------------|--------------|
| 1. Equipment | Credit €800 | (Correction) |
| 2. Suspense | Debit €800 | (Correction) |

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

Fix it

Equipment	
800	800

Suspense	
800	800

This will balance the accounts to zero as if nothing happened

Step 2

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

1. Motor vehicles Increase Motor Vehicles as the value of our Motor vehicles has gone up
Debit equipment €7,800

2. Capital Increase Capital as the equipment was introduces to the business any item introduce to the business increases the capital account
Credit Capital €7,800

3. Equipment Decrease equipment (Freezer) with the cost as we have sold the equipment and don't have it any more
Credit Equipment €2,000

4. Acc Dep
 (Equipment) Decrease the Acc Dep Equipment account with the dep on the equipment (€2,000 - €1,300 = €700)
Debit Acc Dep Equipment €700

5. Disposal Complete the double entry form
Equipment Debit with the equipment figure - €2,000
Acc Dep Credit with the Acc Dep - €700
Drawings Credit with the Cash account €800
Bal If the balance is a debit, it is a profit
 If the balance is a credit, it is a loss

6. Drawing Increase the Drawings account with the figure we received €800
Debit Cash €800

Fix It

Motor Vehicles	
7,800	

Capital	
	7,800

Equipment	
	2,000

Acc Dep Equipment	
700	

Drawings	
800	

Disposal	
500	

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
Equipment		€800
Suspense	€800	
Motor vehicles	€7,800	
Capital		€7,800
Equipment		€2,000
Acc Dep (Equipment)	€700	
Drawings	€800	
Disposal	€500	

Being the correction of a private car present to the business with a fridge for part payment treated incorrectly in the books

Error (v)

- (v) A cheque for €4,500 was paid by mead out of a private bank account to cover 15 months hire of equipment for the business up to 31/03/2018. No entry has been made 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 €4,500 |
| 2. Hire of equipment (Expense) | Increase the hire of equipment account with the expense amount for this year
Debit Hire of Equipment (Expense) €3,600 |
| 3. Hire of equipment (Asset) | Increase the hire of equipment account with the prepaid (asset) amount for next year
Debit Hire of Equipment (Asset) €900 |

Should Happen

Capital	
	€4,500

Hire of Equipment (Asset)	
€900	

Hire of Equipment (Expense)	
€3,600	

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)

$$\begin{aligned}
 \text{€4,500} / 12 &= \text{€300} \\
 \text{€300} * 12 &= \text{€3,600} \quad (\text{Expense for this year}) \\
 \text{€300} * 3 &= \text{€900} \quad (\text{Prepaid (Asset) for next year})
 \end{aligned}$$

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

1. Capital Increase capital as the money was introduced to pay for the hire of the equipment
Credit creditors €4.500
2. Hire of equipment (Expense) Increase the hire of equipment account with the expense

amount for this year

Debit Hire of Equipment (Expense) €3,600

3. Hire of equipment (Asset)

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

Debit Hire of Equipment (Asset) €900

Fix It

Capital	
	€4,500

Hire of Equipment (Asset)	
€900	

Hire of Equipment (Expense)	
€3,600	

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		€4,500
Hire of Equipment (Expense)	€3,600	
Hire of Equipment (Asset)	€900	

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 Mead'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 (i)	€2,700	Credit
Adjustment (ii)	€400	Debit
Adjustment (iv)	€800	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	€1,500		
(ii)	€400	(i)	€2,700
(iv)	€800		
	€2,700		€2,700

$$€2,700 - €1,200 = €1,500$$

PART C

Part C is asking you to prepare a statement showing the corrected net profit for Mead. 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		€89,200
Add		
(iii) Sales	€1,440	€1,440
		€90,640
Less		
(i) Purchases	€3,600	
(ii) Insurance Due	€440	
(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

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 a 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	525,000	0	525,000
Motor Vehicles (88,000 + 6,300 + 7,800 = 102,100)	102,100	12,000	90,100
Equipment (55,000 - 3,200 - 800 - 2,000 = 49,000)	49,000	7,700	41,300
(Acc Dep Equipment - 10,000 - 1,600 - 700 = 7,700)	676,100	19,700	656,400
Current Assets			
Stock (95,000 - 1,500)		93,500	
Debtors (32,300 + 1,040)		33,340	
Cash		4,100	
Equipment Prepaid		900	
		131,840	
Creditors due within one year			
Creditors (70,000 + 3,600 + 3,600)	77,200		
Bank	21,000		
Insurance Due	440		
Rent Prepaid	360	99,000	32,840
			689,240
Financed By			
Capital (600,000 + 7,800 + 4,500)		612,300	
Net Profit		81,940	
		692,240	
Less Drawings (4,200 + 800)		5,000	
Capital Employed			689,240

PART E

Part E is asking you to state and explain three types of errors not revealed by the Trial Balance.

Any 3: (3 × 2)

1. Errors of original entry (1)

Errors made in books of first entry (1)

2. Errors of principle (1)

Incorrect class of account, e.g. entering an asset in an expense account (1)

3. Errors of complete omission (1)

Where both debit and credit are omitted (1)

4. Errors of commission (1)

Posting to wrong account but to the correct side of correct type of account (1)

5. Compensating errors (1)

Where errors of equal value cancel each other out (1)

6. Reversal of entries (1)

Where the debit entry is on the credit side and the credit entry is on the debit side (1)