

Suspense

Step by Step Approach

2020

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100 Marks

PART A

Error (i)

- (i) Equipment purchased on credit from P. Babb for €6,600 has been entered on the incorrect side of Babb's account as €6,060 and as €6,000 in the purchases account

Explanation

1. We purchased equipment from P. Babb (who is a creditor - we owe him the money) but have entered it in Babb's account as €6,060 instead of €6,600 on the wrong side (debit side)
2. and in the purchases account as €6,000

Did happen

1. Creditors (Babb's) Debit Creditors (€6,060) (This is wrong)
2. Purchases Debit Purchases (€6,000) (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 (€6,060 + €6,000 = €12,060)

The t-accounts should look like this

Did Happen

Creditors	
€6,060	

Suspense	
	€12,060

Purchases	
€6,000	

Should happen

The following should have happened for this adjustment

1. Equipment Increase the equipment account as we have bought equipment
 Debit Equipment €6,600

2. Creditors Increase creditors account as we have purchased on credit
 Credit Creditors €6,600

Should Happen

Equipment	
€6,600	

Creditors	
	€6,600

Remember

- Equipment is an asset 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)

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

1. Creditors (Babb's) Debit Creditors (€6,060) (This is wrong)
2. Purchases Debit Purchases (€6,000) (This is wrong)
3. Suspense Credit Suspense (€6,060 + €6,000 = €12,060)

So, to fix it (See bold numbers below)

- 1. Creditors (Babb's) Credit Creditors (€6,060) (Correction)
- 2. Purchases Credit Purchases (€6,000) (Correction)
- 3. Suspense Debit Suspense (€12,060) (Correction)

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

Fix It

Creditors	
€6,060	€6,060

Suspense	
€12,060	€12,060

Purchases	
€6,000	€6,000

Step 2

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

- 1. Equipment Increase the equipment account as we have bought equipment
 Debit Equipment €6,600
- 2. Creditors Increase creditors account as we have purchased on credit
 Credit Creditors €6,600

Fix It

Equipment	
€6,600	

Creditors	
	€6,600

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		€6,060
Purchases		€6,000
Suspense	€12,060	
Equipment	€6,600	
Creditors		€6,600

Being the correction of purchase of equipment treated incorrectly

Error (ii)

- (ii) A creditor who was owed €5,500 by Beglin, accepted equipment, the book value of which was €5,200, in full settlement of the debt. The equipment had cost €6,800. No entry had been made in the books in respect of this transaction.

Explanation

1. A creditor accepted €5,500 for payment of a debt so we need to reduce creditors
2. As we have disposed of equipment, we also have to reduce equipment
3. We also need to reduce the accumulate depreciation account
4. Find out if we made a profit of loss on the disposal of the equipment

Did happen

NOTHING

Should happen

The following should have happened for this adjustment

- | | |
|--------------|---|
| 1. Creditor | Decrease the creditors account as we have paid then the money we owe
Debit Creditor €5,500 |
| 2. Equipment | Decrease the equipment account as we have disposed of equipment
Credit Equipment €6,800 |
| 3. Acc dep | Decrease the Acc Dep account as we have disposed of equipment and need to reduce this account with the dep for the equipment disposed of.
Debit Acc Dep €1,600 (€6,800 - €5,200) |
| 4. Disposal | We need to calculate if we made a profit or loss on the disposal of the equipment

Debit balance = profit Credit balance = Loss |

Should happen

Creditors	
€5,500	

Equipment	
	€6,800

Acc Dep	
€1,600	

Disposal	
€6,800	€1,600
€300	€5,500
€7,100	€7,100

Remember

- Creditors is a liability so to increase a liability we put it on the credit side
- Equipment is an asset and to increase an asset we put it on the debit side
- Acc Dep is an asset with a credit balance so to decrease it we put it on the debit side
- Disposal Debit balance is a profit Credit balance is a loss

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. Creditor Decrease the creditors account as we have paid then the money we owe
Debit Creditor €5,500
2. Equipment Decrease the equipment account as we have disposed of equipment
Credit Equipment €6,800
3. Acc dep Decrease the Acc Dep account as we have disposed of equipment and
need to reduce this account with the dep for the equipment disposed of.
Debit Acc Dep €1,600 (€6,800 - €5,200)
4. Disposal We need to calculate if we made a profit or loss on the disposal of the
equipment
Debit balance = profit Credit balance = Loss

Fix It

Creditors	
€5,500	

Equipment	
	€6,800

Acc Dep	
€1,600	

Disposal	
€6,800	€1,600
€300	€5,500
€7,100	€7,100

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
Creditor	€5,500	
Equipment		€6,800
Acc Dep	€1,600	
Disposal		€300

Being the correction of a creditor accepting equipment as a payment of a debt omitted from the books

Error (iii)

- (iii) A private debt of €1,500 owed to Beglin had been offset in full settlement against a business debt of €1,660 owed by Beglin. No entry had been made in the books in respect of this transaction.

Explanation

1. A business debt of €1,660 was paid - so we decrease creditors by €1,660
2. As this debt was offset against a private debt this means money was introduced to the business to pay the debt. Money introduced to a business is called capital - so capital is increased by €1,500
3. As the full debt is not paid and there is a difference of €160 - this is a discount received so discount increases

Did happen

NOTHING

Should happen

The following should have happened for this adjustment

1. Creditor Decrease creditors as we have paid the money, we owed them
Debit Creditor €1,660
2. Capital Increase capital because we used a personal debt to pay a business debt
so we introduced money into the business to do this in the form of
capital
Credit Capital €1,500
3. Discount We didn't pay the full debt as we received a discount. This is discount
received so it goes on the credit side of the discount account
Debit Discount €160 (€1,660 - €1,500)

Should Happen

Creditors	
€1,660	

Discount	
	€160

Capital	
	€1,500

Remember

Creditors is a liability so to decrease a liability we put it on the debit side

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

Discount as we have received a discount it is an income and to increase an income, we put it on the credit side

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. Creditor Decrease creditors as we have paid the money, we owed them
Debit Creditor €1,660

2. Capital Increase capital because we used a personal debt to pay a business debt so we introduced money into the business to do this in the form of capital
Credit Capital €1,500

3. Discount We didn't pay the full debt as we received a discount. This is discount received so it goes on the credit side of the discount account
Debit Discount €160 (€1,660 - €1,500)

Fix It

Creditors	
€1,660	

Discount	
	€160

Capital	
	€1,500

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
Creditor	€1,660	
Capital		€1,500
Discount		€160

Being the correction of a private debt off set against a business debt

Error (iv)

(iv) Payments from a business bank account for repairs to business premises of €1,000 and insurance of private dwelling of €750 were entered correctly in the bank account but respectively credited to creditors account and credited to the insurance account.

Explanation

1. We paid for repairs and insurance (drawings) but recorded then in the creditors account for €1,000 (they were entered correctly in the bank account)
2. And in the insurance account for €750 (This should have been in the drawing account at it is insurance for the private dwelling)

NOTE - Private items are usually recorded in the drawing account

Did happen

- | | | |
|--------------|---------------|-----------------|
| 1. Creditors | Credit €1,000 | (This is wrong) |
| 2. Insurance | Credit €750 | (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 | Debit €1,750 | |
|-------------|--------------|--|

The t-accounts should look like this

Did Happen

Creditors	
	€1,000

Suspense	
€1,750	

Insurance	
	€750

Should happen

The following should have happened for this adjustment

1. Repairs Increase repairs as we have paid more for this expense
Debit Repairs €1,000

2. Drawings Increase drawings as the insurance that was paid was for the private dwelling
Debit Drawings €750

3. Suspense As the debits and credits do not balance, we have to create a suspense and put the balance on the credit side
Credit Suspense €1,750

Should Happen

Repairs	
€1,000	

Suspense	
	€1,750

Drawings	
€750	

Remember

- Repair is an asset so to increase an asset we put it on the debit side
- Drawings to increase drawings we put it on the debit side
- Suspense This is used to balance the debit and credit sides of the transaction

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 Credit €1,000 (this is wrong)
- 2. Insurance Credit €750 (this is wrong)
- 3. Suspense Debit €1,750

So, to fix it (See bold numbers below)

- 1. Creditor Debit Creditors €1,000
- 2. Insurance Debit Insurance €750
- 3. Suspense Credit Suspense €1,750

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

Fix it

Creditors	
€1,000	€1,000

Suspense	
€1,750	€1,750

Insurance	
€750	€750

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. Repairs Increase repairs as we have paid more for this expense
 Debit Repairs €1,000
- 2. Drawings Increase drawings as the insurance that was paid was for the private

dwelling

Debit Drawings €750

3. Suspense As the debits and credits do not balance, we have to create a suspense and put the balance on the credit side

Credit Suspense €1,750

Should Happen

Repairs	
€1,000	

Suspense	
	€1,750

Drawings	
€750	

NOTE - the suspense figure for the journal will be €3,500. Because from step 1 you have credit €1,750 and from step 2 you have €1,750 (€1,750 + €1750 = €3,000)

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
Creditor	€1,660	
Capital		€1,500
Discount		€160

Being the correction of a private debt off set against a business debt

Error (v)

(v) Beglin sent a cheque for €920 in full settlement of a business debt of €990 and this was recorded correctly in the books. However, no entry had been made in the books for the dishonouring of this cheque and the subsequent payment of the amount in full by Beglin from a personal bank account

Explanation

A cheque was not paid even though we have it recorded as being paid. So we need to do the following

1. Creditors will have to increase as they have not been paid
2. The bank increase as we have more money as the cheque was not paid
3. Discount will decrease as we did not receive the discount of €70 (€990 - €920)

Then we need to record the payment to creditors from the personal bank account

1. Creditors will decrease as we have now paid them
2. Capital will increase as we have introduced money to pay the creditor

NOTE - Private items are usually recorded in the drawing account

Did happen

- | | |
|--------------|-------------|
| 1. Creditors | Debit €990 |
| 2. Bank | Credit €920 |
| 3. Discount | Credit €70 |

These are taken from the question

The t-accounts should look like this

Did Happen

Creditors	
€990	

Bank	
	€920

Discount	
	€70

Should happen

The Should happen section it broke into two parts

Part 1 - The recording of the dishonoured cheque

Part 2 - The recording of the payment to the creditors

Part 1 - Recording of the dishonoured cheque

1. Creditors Increase creditors as we have not paid them as the cheque was returned
Credit creditors €990

2. Bank Increase bank as the money has not left the bank as the cheque was returned
Debit Bank €920

3. Discount As we didn't receive the discount, we now have to debit the discount to reverse it
Debit Discount €70

Should Happen

Creditors	
	€990

Bank	
€920	

Discount	
€70	

Remember

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

Bank is an asset so to increase an asset we put it on the debit side

Discount We would have received the discount - this would have been an income and would have been put on the credit side to reverse this we put it on the debit side

Part 2 - The recording of the payment to the creditors

1. Creditors Decrease creditors as we have paid them from a personal bank account
Debit creditors €990
2. Capital Increase capital as the money used to pay the debt was from a personal account and introduced to the business
Credit Bank €990

Should Happen

Creditors	
€990	

Bank	
	€990

Remember

Creditors is a liability so to decrease a liability we put it on the debit side

Bank is an asset so to decrease 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)

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

1. Creditors Debit €990
2. Bank Credit €920

3. Discount Credit €70

So, to fix it (See bold numbers below)

1. Creditors Credit €990

2. Bank Debit €920

3. Discount Debit €70

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

Fix it

Creditors	
€990	€990

Bank	
€920	€920

Discount	
€70	€70

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. Creditors Decrease creditors as we have paid them form a personal bank account
 Debit creditors €990

2. Capital Increase capital as the money used to pay the debt was from a personal
 account and introduced to the business
 Credit Bank €990

Should Happen

Creditors	
€990	

Bank	
	€990

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
Bank	€920	
Creditor	€990	€990
Discount	€70	
Capital		€990

Being the correction of a dishonoured cheque omitted from the books and the payment of a creditor by the owner

PART B

Part B is asking to Show Beglin'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)	€12,060	Debit
Adjustment (iv)	€3,500	Credit

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	€8,560
(i)	€12,060	(iv)	€3,500
	<u>€12,060</u>		<u>€12,060</u>

$$€12,060 - €3,500 = €8,560$$

PART C

Part C is asking you to prepare a statement showing the corrected net profit for Beglin. 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		€42,700
Add		
(i) Purchases	€6,000	
(ii) Discount	€300	
(iii) Discount	€160	€6,460
		€49,160
Less		
(iv) Insurance	€750	
(iv) Repairs	€1,000	
(v) Discount	€70	(-) €1,820
		€47,340

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

PART D

Part D is asking you to prepare the corrected balance sheet of Beglin. 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	740,000	0	740,000
Vehicles	125,000	40,000	85,000
Equipment ($38,700 + 6,600 - 6,800 = 38,500$)	38,500	13,000	25,500
(Acc Dep Equipment - $14,600 - 1,600 = 13,000$)	903,500	53,000	850,500
Current Assets			
Stock		84,900	
Debtors ($66,300 + 8,560$)		74,860	
Cash		3,200	
		162,960	
Creditors due within one year			
Creditors ($79,800 - 5,500 - 1,660 - 1,000 + 12,660 = 84,300$)	84,300		
Bank ($26,600 - 1750 - 920 + 1750$)	25,680		
VAT	12,000	121,980	40,980
			891,480
Financed By			
Capital ($850,000 + 1,500 + 990$)		852,490	
Net Profit		47,340	
		899,830	
Less Drawings ($7,600 + 750$)		8,350	
Capital Employed			891,480

PART E

Part E is asking you to give an example of an error of commission. Will this type of error be revealed by a trial balance? Explain your answer.

Error of Commission

This is where the correct amount is posted to the correct side of the incorrect Account.

For example sales of €5,000 debited to M O' Flaherty's account instead of D O' Flaherty.

This will not be revealed by the trial balance as the correct amount has been entered on the debit side even though in wrong account. The debit side and credit side of the trial balance will agree so it will not be obvious that an error has been made.