Errors and Suspense Account:

Types of Errors:-

1st- Error of Omission

Error incurred when actual/original entry skipped to incorporate.
(Sales invoice yet not be recorded in books of accounts.)

→ Original entry required to be incorporate.

2nd- Error of Principle

Capital nature activity is recorded as revenue nature activity.

Capital Expenses	Revenue Expenses
(Long term Expenses)	(Short term Expenses)
E.g. Purchase of Machine.	E.g. payment of Rent.

* Machinery purchased worth $10,000/- debited to Rent A/c.

3rd - Error of Commission

Principle remain same but charge to wrong account.

* Salaries worth $20,000 Paid but charged to Discount allowed.

* Machinery worth $15,000 charge to Furniture account.

4th - Error of complete reversal of entries
when Debit aspect (Dr) recorded as Credit (Cr.) aspect / Vice versa.

* Rent paid recorded as Rent received.
  → Rent paid (Expense) → Dr.
  → Rent received (Income) → Cr.

5th - Error of original Entry (Transpositional Error)
Aspect recorded on the same side but with wrong amount.
* $369 has been recorded as $396

6th - Compensating Error
An error which includes multiple above mentioned errors.

* Rent received ('Income') recorded as Rent Paid ('Expense') worth amounting $690 as $960

More than one error has been made in above case.

New case - Errors effecting trial Balance and errors not effecting trial Balance.

Let's clear this concept with the help of an example:

* Sold goods worth $1,000 but recorded $1,000 only in sales day book.

Original Entry - Cash A/c — Dr. $1,000
Sales A/c — Cr. $1,000

Trial Balance.

Cash	~~$1000~~	
Sales		$1000
	?	$1000

skipped this in entry.

Wrong Entry - Dr. (skip)
Cr. Sales

This is error effecting trial balance.

→ In such case we use " Suspense Account" to make rectification.

Rectification : Cash A/c — Dr. $1000
Suspense A/c. Cr. $10

* Purchased Motor vehicle worth $20,000 but wrongly charged to Motor Expense account.

Original Entry - Motor vehicle — Dr. — $20,000
Cash / Bank — Cr. — $20,000

Wrong Entry - Motor Expense — Dr. — $20,000
cash / Bank — Cr. — $20,000

Trial Balance.

	$	$
Motor vehicle	~~20,000~~	
Motor Expenses.	20,000	
Cash / Bank		20,000.
	20,000	20,000.

This is error not effecting trial balance

→ In such cases we don't use suspense account but we make adjustments to debit and credit side for rectification of errors.

Undercast and Overcast case in Suspense account:

Undercast:

* Mr. Ali Purchased good worth \$900 but recorded as \$800.

Right entry :- Purchases — Dr. — \$900
Cash — Cr. — \$900

wrong entry :- Purchases — Dr. — \$800
cash — Cr. — \$800

Adjusting entry :- Purchases — Dr. — \$100
Cash — Cr. — \$100.

→ In case of undercast positions of accounts remain same e.g. Dr. Side will remain same at Dr. Side and Cr. Side will remain at Cr. Side.

Overcast

* Mr. Ali Purchased goods worth \$800 but recorded as \$900

Right entry :- Purchases — Dr. — \$800
Cash — Cr. — \$800

wrong entry:- Purchases — Dr. — $900
Cash — Cr. — $900

Adjusting entry:- Cash — Dr. — $100
Purchases — Cr. — $100

→ In case of overcast account position will be shuffle e.g. Cr. Side will be cancelled by Dr. Side and Dr. Side will be - cancelled by Cr. Side.

Example question:-

Jim Burger started up a catering business on 1 April 20X6. On 31 March 20X7 Jim produced a trial balance for the business and found that though two sides of the trial balance arithmetically agree but there are some mistakes in accounting records. After investigation the following errors were discovered.

(i) Bank charges for March 20X7 of $150 had been omitted altogether. → Error of Omission.
(ii) Sales of goods on credit of $75 to G Gee had been posted in error to B Gee's account. → E. of commission
(iii) $125 repairs to the delivery vehicle had been debited to the motor vehicles account. E. of Principle.
(iv) Purchases of $623 from Philips a supplier had been entered in the sales book as $632. compensating Error.
(v) Goods purchased from Jones for $425 recorded as $245. Error of original Entry.

REQUIRED
(a) Prepare journal entries to correct each of the above.
(b) List down the name of error illustrated in each of the above errors.

SOLUTION
(a) **Journal Entries** (Adjusting entries)

		$	$
(i)	Bank charges	150	
	Bank		150
(ii)	G. Gee	75	
	B. Gee		75
(iii)	Vehicle repairs	125	
	Motor vehicle		125
(iv)	Purchases	623	
	Sales	632	
	Philips ($623 + $632)		1 255
(v)	Purchases	180	
	Jones		180

Supporting working to adjusting entries:-

1:- Original entry needs to be incorporate.

2:- Right entry:- G. Gee $75
Sales A/c. $75 ✓

wrong entry:- B. Gee $75
Sales A/c $75 ✓

wrongly debit → needs to be credited.

→ G. Gee should be debited.

3:- Right entry:- Vehicle Repair Expense $125
Cash $125

wrong entry:- Motor vehicle $125
Cash. $125

wrongly debit → needs to be credited.

→ vehicle Repair Expense → Debit

4:- Right entry:- Purchases ✓ $623
Philips $623 ✓

wrong entry:- Philips $632
Sales $632 Two errors made.

→ Overcast → Positions of accounts will be changed.

~~Sales~~ ~~$632~~
Purchases $623

~~Philips~~ ~~$632~~
Philips $623

5:- Right entry:- Purchases $425
Jones $425

wrong entry:- Purchases $245
Jones $245

→ Underca st → Placement of Account → Same:.
Just difference will be posted into accounts.

Adjusting entry :- Purchases $ 180
Jones $ 180