

Chapter 9 Correction of Errors [II]: Errors Affecting Trial Balance Agreement

9.2 Suspense account (暫記帳戶)

If the trial balance does not agree, we should make it agree by **opening a suspense account (開設暫記帳戶)**. A **suspense account (暫記帳戶)** is a **temporary account (臨時帳戶)** used to **record the difference (用來記錄差額)** between the debit and credit totals (借方與貸方的總和) of the trial balance. We **put the shortage amount in the smaller balance (把短缺的金額放在較小平衡的一方)**.

Example 1

Trial Balance as at 30 June 2010

	Dr	Cr
	\$	\$
Machinery	60,000	
Inventory	20,000	
Accounts receivable	5,550	
Bank	14,400	
Capital		70,000
Accounts payable		30,000
	<u>99,950</u>	<u>100,000</u>

To enable the preparation of financial statements, a suspense account was opened to make the trial balance agree. Hence **the amount of shortage** was debited to the suspense account as follows (因此，短缺的金額會在暫記帳戶中借方記入):

Suspense					
2010		\$	2010		\$
Jun	30	Difference as per trial balance	50	Jun	30
Jul	1	Balance b/f	50	Balance c/f	50

As a result, the trial balance was made to agree as follows:

Trial Balance as at 30 June 2010

	Dr	Cr
	\$	\$
Machinery	60,000	
Inventory	20,000	
Accounts receivable	5,550	
Bank	14,400	
Capital		70,000
Accounts payable		30,000
Suspense	50	
	<u>100,000</u>	<u>100,000</u>

In addition, the balance in the suspense account should be shown separately in the balance sheet.

Balance sheet as at 31 December 2008

	\$	\$
Non-current assets		
Machinery		60,000
Current assets		
Inventory	20,000	
Accounts receivable	5,550	
Bank	14,400	
	<u>39,950</u>	
Less Current liabilities		
Accounts payable	<u>(30,000)</u>	
Net current assets		9,950
Suspense		50
Capital		<u>70,000</u>
		<u>70,000</u>

Note that the **suspense account (暫記帳戶)** is only a **temporary account (只是臨時帳戶)**. It will be **closed (會被結清)** once all the errors are found and corrected (當找出和更正所有錯誤後).

9.3 Errors affecting trial balance agreement (影響試算表平衡的錯誤)

1 Casting error in a book of original entry (Purchases/Sales/Returns outwards/ Returns inwards)

Suppose the sales journal was cast as \$50,400 instead of \$54,400, and the following entries were made in the books:

Dr Debtors' accounts \$54,400
Cr Sales account \$50,400

The above error would **give rise (引起)** to a **shortage (短缺)** of \$4,000 in the **credit total (貸記總額)** of the trial balance. the **shortage (短缺)** would be recorded in the **suspense account (暫記帳戶)** as follows:

Cr Suspense account \$4,000

When the error was found (當發現錯誤), it should be corrected as follows (應更正如下):

Dr Suspense account \$4,000
Cr Sales account \$4,000

2 Single entry (單式記帳)

Suppose a cash payment of \$1,680 was made to a creditor, K Lee, and the following entry was made in the books:

Cr Cash account \$1,680

The above error would **give rise** to a **shortage** of \$1,680 in the **debit total (借記總額)** of the trial balance. The shortage would be recorded in the **suspense** account as follows:

Dr Suspense account \$1,680

When the error was found, it should be corrected as follows:

Dr K Lee's account \$1,680
Cr Suspense account \$1,680

3 Double entry of unequal amounts (不同金額的複式記帳)

Suppose goods were purchased for \$12,000 on credit from K Yu, and the following entries were made in the books:

Dr Purchases account \$12,000
Cr K Yu's account \$1,200

The above error would give rise to a **shortage** of \$10,800 in the **credit total** of the trial balance. The shortage would be recorded in the **suspense** account as follows:

Cr Suspense account \$10,800

When the error was found, it should be corrected as follows:

Dr Suspense account \$10,800
Cr K Yu's account \$10,800

4 Incorrect casting of an account (帳戶加總出錯)

Suppose the debit side of the drawings account was cast as \$10,000 instead of \$11,000. As a result, the **debit balance** in the drawings account would be **understated** by \$1,000. The shortage would be recorded in the **suspense** account as follows:

Dr Suspense account \$1,000

When the error was found, it should be corrected as follows:

Dr Drawings account \$1,000
Cr Suspense account \$1,000

5 Incorrect listing of balance in the trial balance (試算表錯列餘額)

Suppose the debit balance of \$2,400 of the carriage outwards account was listed as a credit balance in the trial balance. The above error would give rise to a **shortage** of \$4,800 in the **debit total** of the trial balance. The shortage would be recorded in the **suspense** account as follows:

Dr Suspense account \$4,800

When the error was found, it should be corrected as follows:

Cr Suspense account \$4,800

There is no need to make any correcting entry in the carriage outwards account because all the entries in it were correctly made. We only need to take out the error (\$4,800) from the suspense account and place the balance of the carriage outwards account on the correct (i.e., debit) side of the trial balance.

Class work 2

1. (a) Show how each of the following errors would affect the agreement of the trial balance:
- (i) The sale of a machine for \$640 was credited to the sales account.
 - (ii) A cheque of \$370 paid to a creditor, P Liu, was debited to the account of another creditor, P Li.
 - (iii) Purchases were overcast by \$1,000.
 - (iv) A cheque of \$450 paid for rates was correctly entered in the cash book, but had not been posted to any ledger account.
 - (v) No entry had been made for an accrued expense of \$180.
 - (vi) Equipment repairs, \$720, were debited to the equipment account.
 - (vii) Discounts allowed amounting to \$1,700 were credited to the discounts received account.
 - (viii) The closing inventory was overvalued by \$2,000.
 - (ix) Commission received of \$750 was debited to the sales account.
 - (x) Drawings of \$305 were credited to the capital account.
 - (xi) A cheque of \$170 payable to C Chang was entered in the cash book but not in the personal account.
 - (xii) A cheque of \$248 received from a debtor, L Wu, was credited to the account of another debtor, L Woo.

- (b) Show the journal entries to correct the above errors that affected the trial balance.

(a)

Item	Effect	Correct Entries	Wrong Entries
(i)			
(ii)			
(iii)			
(iv)			
(v)			
(vi)			
(vii)			
(viii)			
(ix)			
(x)			
(xi)			
(xii)			

(b)

Journal			
		Dr	Cr
	Details	\$	\$
(iii)			
(iv)			
(vii)			
(ix)			
(x)			
(xi)			

2. It is given the following journal entries.

The Journal			
		Dr	Cr
	Details	\$	\$
(i)	Drawings	15,000	
	Bank		10,000
	Purchases		5,000
(ii)	Rates	2,950	
	Suspense		2,950
(iii)	Suspense (\$38,838 – \$38,388)	450	
	Purchases		450
(iv)	Suspense	3,200	
	Discounts allowed		1,600
	Discounts received		1,600
(v)	Bank	1,500	
	Bad debts recovered (\$3000 × 1/2)		1,500

The trial balance of a business as at 31 December 2009 showed a difference of \$700 (credit). If a suspense account was then opened to record the difference, prepare the suspense account.

Suspense			
	\$		\$

3. The trial balance of a business as at 31 December 2009 showed a difference of \$770 (credit). A suspense account was then opened to record the difference. After preparing the draft financial statement for the year, the errors causing the difference in the trial balance were found:

- A cheque receipt of \$1,500 from a debtor, L Kwai, had been correctly recorded in the cash book but had not been posted to L Kwai's account.
- The purchases journal had been overcast by \$200 and the purchases accounts are closed.
- The credit side of the discounts received had been overcast by \$930 and the discounts received accounts are closed.

- Show the journal entries to correct the above errors.
- Prepare the suspense account

(a)

Journal			
		Dr	Cr
	Details	\$	\$
(i)			
(ii)			
(iii)			

(b)

Suspense			
	\$		\$

9.4 Adjustments of profits (利潤調整)

Some errors would affect the profit while others would not. If an error affects the items in the income statement (如果是損益表項目出錯), such as **cost of goods sold**, **expenses** or **other revenues** (例如銷貨成本、費用或其他收益), the **profit would be affected** (毛利及純利便會受到影響).

Usually, the **credit journal entries** of **expenses**, **revenues** and **profit and loss** account (開支, 收入及損益賬的借方入賬) will **raise** the net profit (會提高利潤) but the **debit journal entries** of **expenses**, **revenues** and **profit and loss** account (而開支, 收入及損益賬的貸方入賬) will **reduce the net profit** (會減少利潤). For example

Journal				
	Details	Dr	Cr	Net profit
(i)	Profit and loss – Purchases	279		Decrease
	Accounts payable		279	
(ii)	Profit and loss – Wages	12,800		Decrease
	Building		12,800	
(iii)	Suspense	390		Increase
	Profit and loss – Dividend revenue		390	

Reason of add net profit: (1) Expenses overcast (2) Revenue undercast

Reason of less net profit: (1) Expenses undercast (2) Revenue overcast

Candidates are usually required to show all the adjustments to the net profit in a statement as follows:

Statement of Corrected Net Profit for the year ended 31 December 2009

	\$	\$
Net profit as per draft accounts		25,800
Add Dividend revenue undercast(iii)		390
		<u>26,190</u>
Less Purchases undercast (i)	279	
Wages undercast (ii)	<u>12,800</u>	<u>(13,079)</u>
Corrected net profit		<u><u>13,111</u></u>

Class work 3

- (a) Determine whether the following errors would affect the net profit or not and how:
 - A cheque receipt of \$1,500 from a debtor, L Kwai, had been correctly recorded in the cash book but had not been posted to L Kwai's account.
 - The purchases journal had been overcast by \$200.
 - The credit side of the discounts received account had been overcast by \$930.
- (b) Suppose the draft net profit for the year ended 31 December 2009 was calculated to be \$25,800. Recalculate the correct net profit figure.

(a)

Journal			
	Details	Dr	Cr
		\$	\$
(i)			
(ii)			
(iii)			

(b)

Statement of Corrected Net Profit for the year ended 31 December 2009		\$

9.5 Adjustments of working capital (營運資金調整)

Working capital (營運資金) refers to (是指) the excess of **current assets** over **current liabilities** (流動資產高於流動負債的差額). It can be **positive (net current assets)** (淨流動資產) or **negative (net current liabilities)** (淨流動負債). If an error affects **current assets** (流動資產) and/or **current liabilities** (流動負債), **working capital** would also be affected (營運資金會同樣受到影響).

Usually, the **debit journal entries of current assets and current liabilities** (流動資產及流動負債的借方入賬) will **raise the working capital** (會提高營運資金) but the **credit journal entries of current assets and current liabilities** (而流動資產及流動負債的貸方入賬) will **reduce the working capital** (會減少營運資金). For example:

Journal				
	Details	Dr	Cr	Working capital
(i)	Suspense	1,500		Decrease
	Accounts receivable – Charles		1,500	
(ii)	Suspense	200		Nil
	Profit and loss – Purchases		200	
(iii)	Cash	500		Increase
	Suspense		500	

Reason of add working capital: (1) Current liabilities overcast

(2) Current assets undercast

Reason of less working capital: (2) Current liabilities undercast

(2) Current assets overcast

candidates are usually required to show all the adjustments to the working capital in a statement as follows:

Statement of Corrected Working Capital as at 31 December 2009

Working capital as per draft accounts	\$ 78,000
Add Cash undercast (iii)	500
	78,500
Less Accounts receivable overstated (i)	(1,500)
Corrected Working capital	77,000

Class work 4

1. (a) Show the journal entries to correct the following errors.

- A cheque receipt of \$1,500 from a debtor, L Kwai, had been correctly recorded in the cash book but had not been posted to L Kwai's account.
- The purchases journal had been overcast by \$200.
- The credit side of the discounts received account had been overcast by \$930.

(b) Suppose the draft working capital for the year ended 31 December 2009 was calculated to be \$25,800. Recalculate the correct working capital.

(a)

Journal			
	Details	Dr	Cr
		\$	\$
(i)			
(ii)			
(iii)			

(b)

Statement of Corrected Working Capital as at 31 December 2009

	\$