

3. Correction of Accounting Errors



This chapter discusses the following themes

- 3.1 Necessity of recording transactions accurately
- 3.2 Reasons for accounting errors
- 3.3 Situations where accounting errors may occur
- 3.4 Identification of accounting errors
- 3.5 Errors which are not affecting the agreement of the trial balance
- 3.6 Errors which are affecting the agreement of the trial balance
- 3.7 Preparing the trial balance after correcting errors

Introduction

There is a possibility of not recording all the transactions correctly in the accounting records. If there are any errors in recording transactions in the prime entry books, posting them to the ledger accounts and preparing the trial balance, the operational results of the period and the financial position for a certain date are not accurate. Therefore, it is important to identify the accounting errors occurred and rectify them as early as possible. In this chapter, you will study how the accounting errors are identified and how they are rectified.



Your attention is drawn on the following basic terms in this chapter.

- _ Accounting errors
- _ Suspense account
- _ Adjusted trial balance

Let us correct the accounting errors

Pindiyas Silva who was a retailer did not pay his attention to maintain a proper set of accounting records at the initial stage of his business. However, he had to think about the accounting records of his business, when the business activities were improving day by day. Accordingly, he employed a boy in his village who has just completed the Advanced Level examination to maintain the accounting records of the business. He was doing his job properly better than what was expected by Pindiyas Silva.

Namalika, the daughter of Pindiyas who just completed her degree in commerce is following a professional accounting course. One day, when she came to village for her vacation, she was taken to the office by Pindiyas with a view of showing the accounting records of the business. She went through the accounting records and understood that there were some shortcomings in recording of transactions, even though the accounting records were maintained in a systematic manner.

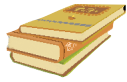
As an example; “The disposal proceeds of a delivery van disposed during the year, had been credited to the sales account.” Namalika pointed out her father, " The profit had been over-cast due to the over statement of sales.”

Pindiyas Silva got confused due to this statement of his daughter and said,

“Oh daughter.!, I have taken incorrect decisions, haven't I ? I paid Rs. 5,000 for each employee in addition to their January month's salary, as we had a good profit.”

Namalika tried to convince her father mentioning that these types of errors may occur not only in this business but other entities too.





3.1 Necessity of recording transactions accurately

The accounting system of a business affects the other functions of the entity. The information provided by the accounting system is helpful for the internal parties to take various types of decisions and for the external parties to understand the performances of the business. Therefore, if the accounting system does not provide accurate information, the parties who are concerned on the business have to face many difficulties. Hence, it is very important to pay more attention to maintain the accounting system minimizing possible accounting errors.

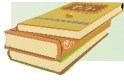
Various types of errors in different situations may occur when transactions are recorded in the books. But, these errors can be identified and corrected, if accounting process is monitored in a periodic basis.

- * A business may have various types of resources. Allocation of such resources for business activities, controlling and utilizing them are very important. The decisions on the above areas can be taken, if the transactions are properly recorded in the books.
- * The operational results (profits or losses) of a particular period of the business can be identified.
- * The value of assets, liabilities and owners' equity of the business for a certain date can be identified.
- * The requirements of the various types of parties who are interested in accounting information of the business can be fulfilled.

Examples :

- ◉ For submitting the Department of Inland Revenue
- ◉ For submitting the Registrar of Companies
- ◉ For submitting share holders

Therefore, it is very important to record the transactions correctly in the books of accounts for the utilization of scarce resources owned by the business efficiently and effectively. However, there is a possibility to occur accounting errors in the accounting process.



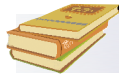
3.2 Reasons for accounting errors

A large number of different transactions occur in a business daily. It is very difficult to maintain accounting records correctly under this type of a situation. Accounting errors may occur under following instances.

1. In maintaining accounting records

- Examples :*
- Lack of knowledge of the book-keeper on accounting process (double entry system)
 - Paying less attention
 - Omission and missing

2. Changing of transactions for frauds



3.3 Situations where accounting errors may occur

* When recording the transactions in Prime Entry Books

- Examples :*
- A purchase invoice of Rs. 15,000 has not been recorded in the Purchases Journal
 - Electricity bill payment of Rs. 3,500 has not been recorded in the cash book

* When posting the transactions from Prime Entry Books to Ledger

- Examples :*
- The total of Returns Outwards Journal Rs. 6,500 has been posted to the Return Outwards account as Rs. 6,000
 - Purchase of stationery for Rs. 2,900 has not been posted to stationery account

* When balancing off of ledger accounts for a specific date

- Examples :*
- Study the following ledger account.

Debit		Bank loan Account			Credit		
Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
	Cash		3,000		Cash		15,000
	Balance c/d		★ 13,000				
			15,000				15,000
					Balance b/d	★	13,000

Although, the correct balance of this account is Rs.12,000, the balance obtained is Rs.13,000. These types of errors may occur, when balancing off the ledger accounts.

✳ When preparing the trial balance based on the balances of ledger accounts.

- Examples :*
- The balance of the Furniture account Rs.13,000 has not been extracted to the trial balance
 - The balance of Insurance account Rs.1,400 has been recorded in the Trial Balance as Rs. 400

We have already studied that there may be accounting errors in the accounting process. Now, let us discuss how these errors can be rectified.

The General Journal can be used to rectify the accounting errors. After recording the correction entry in the General Journal under double entry system, those entries should be posted to the relevant accounts in the ledger.

First of all, let us identify various types of errors that can be occurred in the accounting process.

The trial balance which I prepared is balanced. Does it show the accuracy of recording of transactions.....?

Description	Debit	Credit
Cash	37000	
Machines	40000	
Debtors	14000	
Creditors		28000
Sales - Account		360000
Purchase Account	280000	
Bank loan due		50000
M's & Exp's	43000	
Building Account	49000	
Capital Account		400000
	838000	838000

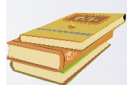


3.4 Identification of accounting errors

The total of debit and credit balances of a trial balance should be equal. If both balances are not equal, it is clear that there are errors in the accounting system. Even though, both balances are equal, there may be accounting errors in the accounting process. These errors can be classified as,

1. Errors, which are not affecting the agreement of the trial balance
2. Errors, which are affecting the agreement of the trial balance

Now, let us study the above errors separately.



3.5 Errors, which are not affecting the agreement of the trial balance

These are also known as errors which are not revealed by the trial balance. Even though these types of errors are in the ledger the total of debit and credit columns of the trial balance may be equal.

Following are errors, which are not affecting the agreement of the trial balance. However, they can be rectified using the general journal entries.

1. Omission of a transaction from the books (Errors of omission)

If a transaction is entirely omitted from the books (the double entry of the transaction) such errors can be identified as errors of omission. Even though, the transaction is omitted, the total of both sides of the trial balance will be equal. These errors can be rectified by recording the double entry (Debit and Credit entry) of the transaction in the ledger.

Example : • The electricity bill of Rs. 1,600 paid by cheque has not been recorded in the ledger.

The above error can be rectified using following journal entry.

General Journal

Date	Voucher No.	Description	L. F.	Debit Rs.	Credit Rs.
		Electricity expenses account Dr Bank account (Correction of electricity bill payment of Rs. 1600 omitted from the books)		1,600	1,600

2. Recording of an incorrect amount of a transaction in both accounts

The correct value of a transaction may be over-stated or under-stated due to various reasons. As the double entry has been made using an equal amount, the total of both sides of trial balance will be equal.

Example 1 : • Sales returns amounting to Rs.1,300 by Ramya Tradres have been recorded in the books as Rs.300

As both accounts have been under-stated by Rs.1,000, relevant accounts should be corrected with Rs.1,000

General Journal

Date	Voucher No.	Description	L. F.	Debit Rs.	Credit Rs.
		Sales returns account Dr Ramya Traders (Correction of sales returns of Rs. 1,300 recorded as Rs. 300)		1,000	1,000

Example 2 : • Discount allowed amounting to Rs.5,000 has been recorded in the books as Rs.5,500

As the amounts in both accounts have been over-stated by Rs.500, relevant accounts should be reduced by Rs.500

General Journal

Date	Voucher No.	Description	L. F.	Debit Rs.	Credit Rs.
		Debtors account Dr Discount allowed account (Correction of discount allowed Rs.5,000 recorded as Rs.5,500)		500	500

3. Recording of the same transaction twice in the ledger

Example : • Purchases returns of Rs.2,700 to a creditor has been recorded in the ledger twice.

To rectify this error, half of the amount out of which has been recorded twice should be recorded in the opposite side of relevant accounts.

General Journal

Date	Voucher No.	Description	L. F.	Debit Rs.	Credit Rs.
		Purchases returns account Dr Creditors account (Correction of purchases returns of Rs.2,700 twice recorded in relevant accounts)		2,700	2,700

4. Errors of principles

Recording a transaction in a way which does not agree with generally accepted accounting principles is called as an error of principle. However, there is no effect to the agreement of the trial balance as the transaction has been recorded under double entry system.

Example : • Purchase of office equipment Rs 12,000 has been debited to purchases account.

In this situation, furniture has been purchased for the use of the business. Therefore, it should be debited to an asset account. Only the goods purchased with the intention of re-sale are recorded in the purchases account.

General Journal

Date	Voucher No.	Description	L. F.	Debit Rs.	Credit Rs.
		Office equipment account Dr Purchases account (Correction of purchase of office equipment amounting to Rs.12,000 recorded in the purchases account)		12,000	12,000

Example : • Motor vehicles repair expenses of Rs.3,500 has been recorded in the motor vehicles account.

General Journal

Date	Voucher No.	Description	L. F.	Debit Rs.	Credit Rs
		Motor vehicles repair expenses account Dr Motor vehicles account (Correction of repair expenses of Rs.3,500 recorded in the motor vehicles account)		3,500	3,500

5. Compensating Errors

An error in one ledger account may be set off by an error in another account or accounts. As the totals of both sides of the trial balance is equal, these errors cannot be detected from the trial balance.

Example: • Credit sale of Rs. 3,000 to Susil was recorded as Rs.5,000 in his account and credit sale of Rs. 5,000 to Sameera was recorded as Rs.3,000 in his account.

In this situation, the debit side of Susil's account has been over-stated by Rs.2,000 and the debit side of Sameera's account has been under-stated by Rs.2,000. Therefore, the error in Susil's account sets off the error in Sameera's account. Hence, the totals of the trial balance will be equal.

General Journal

Date	Voucher No.	Description	L. F.	Debit Rs.	Credit Rs.
		Sameera's account Dr Susil's account (Correction of error of under-stated Sameera's account and over-stated Susil's account by Rs.2,000)		2,000	2,000



Activity 01

Following statement was made by the group who was involved in the accounting process of an organization “As the total of both balances of the trial balance is equal, we can prepare the financial statements **correctly**.”

- * Read the above statement carefully.
- * Pay your attention to the word printed in bold letters.
- * Evaluate the statement made by the group who completed the accounting process.



Activity 02

Saranadasa is a whole seller. Both sides of the trial balance of his business prepared as at 31st January 20xx was equal. On subsequent examination, the following errors were detected.

1. A debit note of Rs.1,500 has been omitted from the books
2. Purchase of stationery of Rs.2,700 has been recorded in relevant accounts as Rs.700
3. Motor vehicles repair expenses of Rs.5,000 has been recorded in the motor vehicles account
4. Credit sales of Rs.2,500 has been recorded twice in relevant accounts
5. Electricity expenses of Rs.2,700 has been recorded in the sundry expenses account

Required :

General journal entries to rectify the above errors



Activity 03

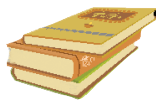
Following are few double entries used to rectify some accounting errors.

1. Electricity expenses account	Dr 350	
Sundry expenses account		350
2. Purchases account	Dr 13,000	
Creditors account		13,000

3. Motor vehicles repair expenses account	Dr 2,800	
Motor vehicles account		2,800
4. Sales account	Dr 4,000	
Debtors account		4,000

Required:

Write the narrations for each of the above entries.



3.6 Errors which are affecting the agreement of the trial balance

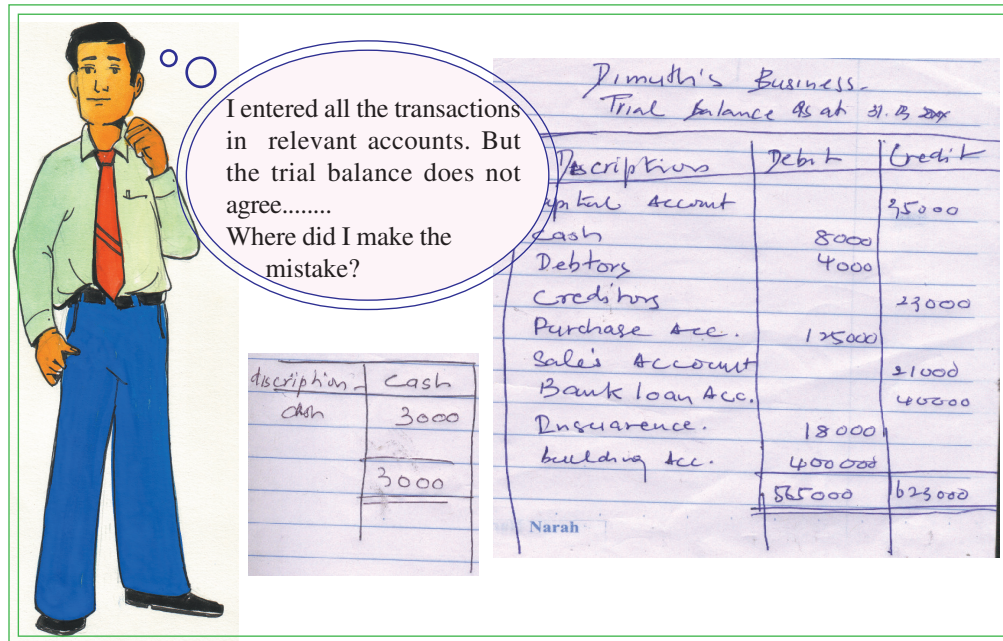
You have already understood that the total of both sides of the trial balance may be equal, even though the accounting system has errors. But, due to some accounting errors, the total of debit and credit columns of the trial balance do not agree. These errors are also known as **errors revealed by the trial balance**.



Following steps can be used to rectify the errors which are affecting the agreement of the trial balance.

- * Identify the difference in the trial balance.
- * As the reason for this difference is not sure (suspense), write the word **Suspense Account** in front of the difference and balance the trial balance temporarily.
- * Identify the reasons for the difference.
- * Rectify the errors by way of double entries in the general journal.

The balance of the suspense account should be zero as soon as the errors are corrected in the ledger.



Identify, how a suspense account can be opened using the following example.

Example : • The trial balance as at 31st December 20XX of Sudeera's Business is given below. It has been balanced temporarily by writing suspense account in front of the difference of the trial balance.

Sudeera's Business
Trial balance as at 31.12. 20XX

Description	L. F.	Debit Rs.	Credit Rs.
Cash book		10,000	
Purchases and sales		27,000	42,000
Salaries		6,500	
Equipment		46,500	
Bank loan			17,200
Capital			30,000
Sandry expenses		5,600	
Commission received			2,600
Debtors and creditors		4,000	10,000
Discount received			3,000
Stock		15,000	
Returns outwards			4,000
Suspense account (Difference)			5,800
		114,600	114,600

The difference of Rs.5,800 of the above trial balance has been temporarily recorded in a Suspense Account to balance the trial balance. The way of recording the difference of the trial balance in the general journal has been shown below.

General Journal

Date	Voucher No.	Description	L. P.	Debit Rs.	Credit Rs.
		Suspense Account (Recording the difference of the trial balance in a suspense account)			5,800

In this situation, there is no double entry in the general journal. An entry has been made in the general journal just to record the difference of the trial balance in a suspense account. The difference of the trial balance can be entered in a suspense account as follows.

Suspense Account

Date	Description	L. F.	Amount Rs.	Date	Description	L. F.	Amount Rs.
					Difference in the trial balance		5,800



Activity 04

A trial balance prepared by an organization as at the end of the accounting period did not tally. The business wants to balance its trial balance temporarily. Advise the business.

Suspense Account

The account where the difference of the trial balance is recorded temporarily, until accounting errors are corrected can be identified as the **Suspense Account**.

The suspense account can also be used to record the uncertain transactions of a business. However, as soon as errors are corrected, the balance of the suspense account should be zero.

It is important to understand, all the errors revealed by the trial balance should be rectified using the suspense account. It means one entry out of the double entry which corrects the error is recorded in the suspense account.

Study the following errors and how they have been rectified.

01. Omission of one entry of a transaction from the books

Example : • Purchase of stationery of Rs.3,500 has been recorded only in the cash book.

Due to the above error (as the stationery account has not been debited by Rs.3,500) the total of the debit column of the trial balance has been under-stated by Rs.3,500. Therefore, a balance of Rs.3,500 can be seen in the debit side of the suspense account. Once the error is corrected, the debit balance of the suspense account will be zero.

General Journal

Date	Voucher No.	Description	L. F.	Debit Rs.	Credit Rs.
		Stationery account Dr Suspense account (Correction of non-recording stationery expense of Rs.3,500 in the stationery account)		3,500	3,500

02. Recording of two different amounts as double entries

Although correct amount of a transaction is correctly recorded in one account, incorrect amount may be recorded in the other account. As the values of debit and credit entry are not equal, there will be a difference in the trial balance.

Example : • Purchase of furniture for Rs.15,000 has been correctly recorded in the cash book and furniture account has been debited as Rs.5000

Due to the above error, total of the debit column of the trial balance has under stated a by Rs. 10 000. Therefore Rs.10,000 has to be debited to the debit side of the suspense account to balance the trial balance.

To rectify the above error, suspense account should be credited by Rs.10,000

General Journal

Date	Voucher No	Description	L. F.	Debit Rs.	Credit Rs.
		Furniture Account Suspense Account (Correction of furniture account recorded less than the correct value by Rs.10,000)	Dr	10,000	10,000

03. Recording of the double entry in the same side of both accounts

Due to this type of an error, there can be two accounting errors. They are not recording the correct side of one account and recording the incorrect side of same account. Therefore, The trial balance shows a difference of two times over the relevant amount.

Example : • Sales returns of Rs.3,000 by Kelum have been debited in both sales returns and Kelum's account.

Accordingly,

- * Rs.3,000 has not been credited to Kelum's account
- * Rs.3,000 has been debited to his account

Due to above two errors, the credit side of his account has been under-stated by Rs.6,000. Therefore, the suspense account has a balance of Rs.6,000 in the credit column. These two errors can be corrected using one journal entry.

Rs.3,000 should be credited to Kelum's account to remove Rs.3,000 which was incorrectly debited to his account and another Rs.3,000 has to be credited to his account to record the correct entry.

Study the following correction entry.

General Journal

Date	Voucher No.	Description	L. F.	Debit Rs.	Credit Rs.
		Suspense account Kelum's account (Correction of sales returns of Rs.3,000 incorrectly debited to Kelum's account)	Dr	6,000	6,000

04. Errors in casting, balancing and transferring of prime entry books or ledger accounts

Due to this kind of errors, the total of both sides of the trial balance will not be equal.

Example : • Rs.2,000 has been under-casted in totaling the purchases journal.

As a result of the above error, the debit column of the trial balance is under-stated by Rs.2,000 and it is entered in the debit side of the suspense account it can be corrected as bellow.

General Journal

Date	Voucher No.	Description	L. F.	Debit Rs.	Credit Rs.
		Purchases account Suspense account (Correction of under-cast purchases journal by Rs.2,000)	Dr	2,000	2,000

Example : • The total of Rs.13,500 of one page of the creditors account has been taken to the next page as Rs.3,500.

Accordingly, the credit side of the trial balance has been under-stated by Rs.10,000. Therefore, there is a credit balance of Rs.10,000 in the suspense account.

General Journal

Date	Vou. No.	Description	L. F.	Debit Rs.	Credit Rs.
		Suspense account Creditors account (Correction of Rs.13,500 credit balance of creditors account, taken to the next page as Rs.3,500.)	Dr	10,000	10,000

05. Errors in the preparation of the trial balance

- * The trial balance is treated as an important element in the accounting process.
There may be errors in the process of preparing the trial balance as shown below.
 - * Not extracting a balance of an account to the trial balance
 - * Extracting an incorrect value of an account instead of correct value
 - * Extracting a balance to the incorrect column of the trial balance

It is important to pay our attention to these errors as well. These errors had occurred only in extracting of balances to the trial balance. No error had occurred in the ledger accounts. Therefore, no entry is required in the relevant ledger accounts. However, there will be a difference in the trial balance, if there are these types of errors in the accounting process.

Accordingly, a suspense account has been opened to record the difference in the trial balance. Hence, it is sufficient to cancel the suspense account from the ledger by correcting the error.

An entry is made only in the suspense account to rectify the error occurred in the preparation of trial balance.

Example 1 : ◉ Rs.18,000 the balance of advertising expenses account has not been extracted to the trial balance.

- * Therefore,
 - * No error has occurred in the advertising expenses account.
 - * The total of the debit side of the trial balance has been under-stated by Rs.18,000 as non-recording of Rs.18,000 in the debit column of the trial balance.

Accordingly, Rs.18,000 has been recorded in the debit side of the suspense account. To rectify the error,

- * No entry is required in the advertising expenses account.
- * It is sufficient to remove the debited amount in the suspense account by crediting it.

General Journal

Date	Vou. No.	Description	L. F.	Debit Rs.	Credit Rs.
		Suspense account (Cancellation of the amount recorded in the suspense account due to non-recording the balance of advertising expense account in the trial balance)			18,000

Example 2 : ◉ The balance of interest received account Rs.7,500 has been recorded in the trial balance as Rs.7,000

Due to the above error, the credit column of the trial balance has been under-stated by Rs.500 and there is a difference of Rs.500 in the credit column of the trial balance.

This difference has been credited to the suspense account.

* No error had occurred in the interest received account and to rectify the error, it is sufficient to debit Rs.500 to the suspense account.

General Journal

Date	Vou. No.	Description	L. F.	Debit Rs.	Credit Rs.
		Suspense account (Correction of interest received of Rs. 7,500 recorded in the trial balance as Rs.7,000)	Dr	500	

You were explained both the errors which are not affecting the agreement of the trial balance and errors which are affecting the agreement of the trial balance. However, please note that, we discussed only the common errors which can be seen in the accounting process of an organisation. But, there may be errors in a business other than those discussed above and steps should be taken to rectify such errors also.



Activity 05

Following errors were detected on the examination of the books of Devaka's Business. Prepare the journal entries to rectify the errors identified by the business.

1. A purchase invoice of Rs.4,000 has been omitted from the books.
2. The bank loan account under-cast by Rs.1,000.
3. Sales returns Rs.1,400 have been recorded in the purchases returns account.
4. Motor vehicles repair expenses of Rs.3,500 has been recorded in the motor vehicles account.
5. Rs.15,000 of furniture account balance has not been recorded in the trial balance.



Activity 06

The trial balance prepared as at 30th June 20xx by Chathurika's Business did not tally. The difference of Rs.4,500 was credited to a suspense account. Subsequent examination of accounting records revealed following errors.

1. Returns inwards of Rs.3,000 by a debtor has not been recorded in the debtors account.
2. Stationery purchases Rs.500 has been recorded twice in the ledger.
3. Building rent payment Rs.1,250 has been debited to both accounts.
4. Discount allowed Rs. 1,200 has not been recorded in the trial balance.
5. Although interest received Rs. 2,200 has been correctly recorded in the cash book, it has been recorded in the discount received account as Rs.2,000.

You are required to prepare,

- i. The journal entries to rectify above errors
- ii. Suspense account



Activity 07

The trial balance prepared as at 31st March 20xx by Bandusiri's Business did not tally. The difference of the trial balance Rs.3,400 was debited to a suspense account. On subsequent examination, the following errors were detected.

1. Rs.800, sales returns by a debtor has been recorded only in the debtors account.
2. Interest received Rs.3,300 has been recorded in the interest received account as Rs.3,000
3. Discount allowed Rs.600 has been recorded in the discount received account
4. Rs.1,700 the balance of one page of the advertising charges account has not been brought forward to the next page.

You are required to prepare,

- i. The journal entries to rectify the above errors
- ii. Suspense account



3.7 Preparation of Trial Balance after correcting the errors

You have already studied errors revealed by the trial balance and errors which are not revealed by the trial balance and how they can be rectified.

Following example shows how the suspense account gets cancelled and the debit and credit balance of the trial balance is equal, after rectifying the accounting errors.

Example : • The trial balance as at 30th June 20xx prepared by Lokuge Business is given below.

Lokuge's Business
Trial Balance as at 30th June 20XX

Name of the account	Debit Rs.	Credit Rs.
Purchases	48,000	
Sales		75,000
Debtors	6,500	
Creditors		7,000
Bank loans		14,000
Office equipment	24,000	
Sundry income		6,000
Electricity	3,000	
Salaries	14,000	
Motor vehicles	224,000	
Building rent	13,000	
Repair expenses	3,700	
Insurance	4,000	
Returns inwards	2,400	
Returns outwards		3,600
Drawings	1,500	
Cash account	13,800	
Capital		250,000
Suspense account		2,300
	357,900	357,900

If you study the above trial balance, you can see the total of credit balances is less than the total of debit balance by Rs. 2,300 and a suspense account has been opened to record that difference.

Now, let us study the reasons as to why such difference has arisen in the trial balance.

Following errors have been subsequently identified by Lokuge Business, after examining its source documents, prime entry books, ledger accounts and the trial balance.

1. A purchase invoice of Rs.3,500 has been omitted from the books.
2. Insurance payment of Rs.400 has been correctly recorded in the cash book, but no entry has been made in the insurance account.
3. Discount received Rs.2,900 has not been extracted to the trial balance.
4. Rs.1,500 paid for office equipment repairs has been recorded in the office equipment account.
5. Bank loan repayment of Rs.1,000 has been recorded only in the cash book.
6. Sales returns of Rs.150 have been debited to the debtors account.
7. Sundry income received Rs.6,500 has been recorded in sundry income account as Rs.6,000.

Study the above errors carefully

There is a difference in the trial balance due to some errors and there will not be a difference in the trial balance due to some errors.

- * The error (1) and (4) mentioned above do not affect the agreement of the trial balance.
- * Other errors identified in Lokuge's Business affect the agreement of the trial balance. Therefore, it is important to realize that the balance of the suspense account gets cancelled, after correcting such accounting errors.

General Journal

Date	Voucher No.	Description	L.F.	Debit Rs.	Credit Rs.
30.06.20XX		Purchases account Dr Creditors account (Correction of purchase invoice of Rs.3,500 omitted from the books)		3,500	3,500
30.06.20XX		Insurance account Dr Suspense account (Correction of non-recording insurance payment of Rs.400 in the insurance account)		400	400
30.06.20XX		Suspense account Dr (Correction of non-extracting discount received account to the trial balance)		2,900	
30.06.20XX		Office equipment repairs account Dr Office equipment account (Correction of recording equipment repair of Rs.1,500 in the equipment account)		1,500	1,500
30.06.20XX		Bank loan account Dr Suspense account (Correction of non-recording bank loan repayments in the bank loan account)		1,000	1,000
30.06.20XX		Suspense account Dr Debtors account (Correction of debited sales returns to the debtors account)		300	300
30.06.20XX		Suspense account Dr Sundry income account (Correction of sundry income account under-stated by Rs.500)		500	500

Try to understand above journal entries used to rectify the errors identified in Lokuge's Business. Then, let us prepare the suspense account and study how the balance of the suspense account gets cancelled from the ledger.

Suspense Account

Date	Description	L.F.	Amount Rs.	Date	Description	L.F.	Amount Rs.
	Discount received		2,900		Trial balance difference		2,300
	Debtors account		300		Insurance account		400
	Sundry income account		500		Bank loan		1,000
			<u>3,700</u>				<u>3,700</u>

Now, let us check whether the total of both sides of the trial balance is equal.

Lokuge's Business Trial Balance as at 30th June 20XX

Name of the account	Debit Rs.	Credit Rs.
Purchases	51,500	
Sales		75,000
Debtors	6,200	
Creditors		10,500
Bank loans		13,000
Office equipment	22,500	
Sundry income		6,500
Electricity	3,000	
Salaries	14,000	
Motor vehicles	224,000	
Building rent	13,000	
Repair expenses	5,200	
Insurance	4,400	
Returns inwards	2,400	
Returns outwards		3,600
Drawings	1,500	
Cash in hand	13,800	
Capital		250,000
Discount received		2,900
	361,500	361,500

Now you have clearly understood that, after correcting the errors the balance of the suspense account gets cancelled and totals of both debit and credit column of the trial balance are equal.

You can further improve your knowledge by doing the following activity.



Activity 08

The trial balance of Sajani's Business as at 31st December 20xx did not balance and it was balanced temporarily by transferring the difference to a suspense account.

Sajani's Business
Trial Balance as at 31th December 20XX

Name of the account	Debit Rs.	Credit Rs.
Stock as at 01.01.20xx	25,000	
Cash at bank	60,000	
Cash in hand	10,500	
Capital		240,000
Purchases	155,000	
Sales		328,750
Wages	10,000	
Carrying inwards	11,000	
General expenses	5,000	
Commission received		1,000
Furniture and equipment	15,000	
Advertising	3,500	
Insurance	8,500	
Sales commission	4,500	
Postage and telephone bills	8,750	
Salaries	57,500	
Rent and rates	2,500	
Drawings	12,000	
Returns Outwards		8,000
Discount allowed	7,000	
Motor vehicles	100,000	
Land and building	60,000	
Debtors	50,000	
Creditors		30,000
Suspense account	2,000	
	607,750	607,750

Following errors and omissions were subsequently found

1. Sales invoice of Rs.3,000 has been omitted from the books.
2. Rs. 5,000 paid for wages has only been recorded in the cash book.
3. Rs.3,000 paid for furniture and equipment repairs has been debited to the furniture and equipment asset account.
4. Rs. 5,300 paid for insurance expenses has been recorded as Rs. 3,500 in the insurance expenses account.
5. Purchases invoice of Rs. 5,000 has been recorded twice in the relevant accounts.
6. The balance of packing charges account Rs.6,000 has not been recorded in the trial balance.
7. Credit purchases of Rs.10,800 has not been recorded in the creditors account.
8. Rs. 1,000 paid for taxes and rates has been recorded in relevant accounts, interchanging the two sides.

You are required to prepare,

- i. Journal entries to correct the above errors and omissions
- ii. Suspense account
- iii. The trial balance after correction of above errors