

Receivable/Payable Reconciliations

JMC Jayasekera Management Centre (Pvt) Ltd

Debtor/Creditor Reconciliations Summary by Sandeepa

Errors impacting the Control Accounts

Pass Double Entry in Gen. Ledger (Control Accounts)

Debtor's Control Account

Op. Bal	X	Cash	X
Sales	X	Disc. All	X
Dish. Ch	X	Bad Deb	X
		Clo. Bal	X

Creditor's Control Account

Cash	X	Op. Bal	X
Disc. Rcv	X	Purch	X
Clo. Bal	X	Dish. Ch	X

Errors impacting only the Subledgers

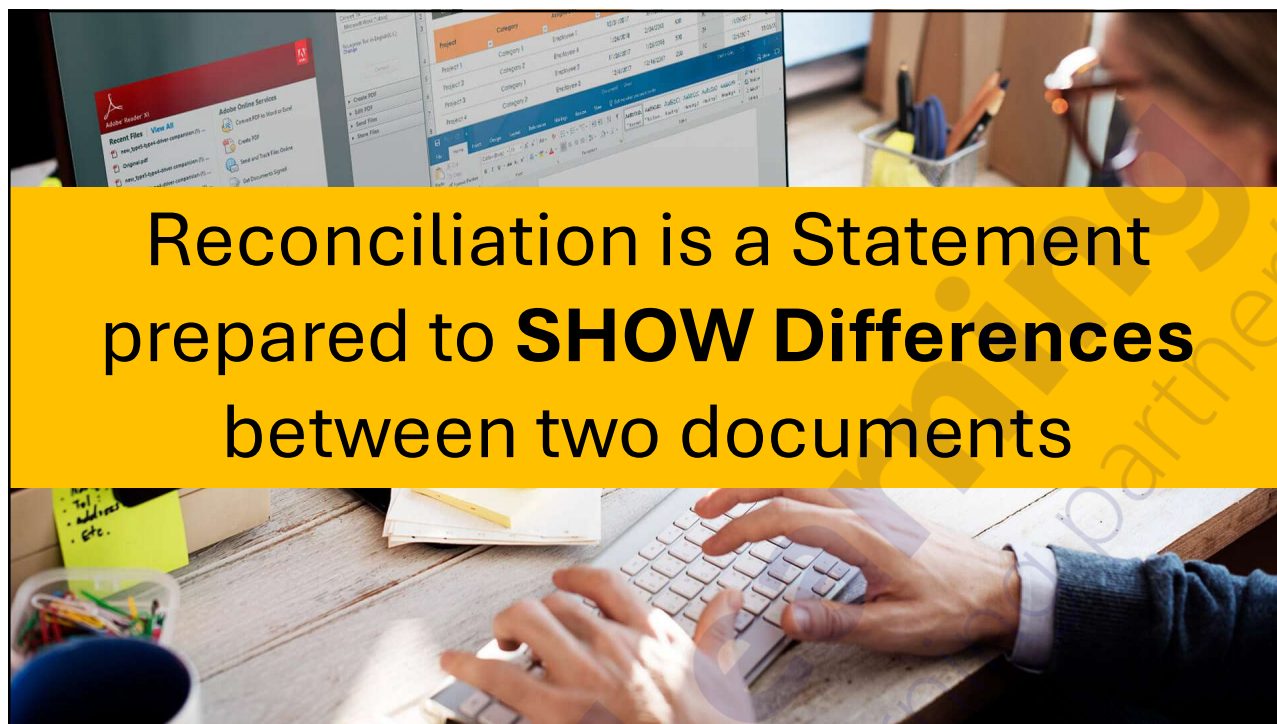
Show the errors in Reconciliations

Errors impacting both Control Accounts and Subledger

Pass Double Entry to Control Accounts and Show errors in Reconciliations or Vice versa

Debtor/Creditor Reconciliation Statement

Balance in Adjusted Debtors/Creditors Control Account (Even with before corrections balance)		
(+)		
(-)		
Balance as per Debtors/Creditors Sub Ledger		



Reconciliation is a Statement prepared to **SHOW Differences** between two documents

Debtor and Creditor Reconciliations

- After preparing the debtors/creditors control account, list of debtors/creditors will be extracted from the debtors/creditors subledger.
- Ideally the closing balance of the debtor/creditor control account balance shall be tallied with debtor/creditor list balance from the subledger.
- However, due to omissions and misstatements in control accounts, subledgers or in prime entry books, there can be a difference.
- Accordingly, a debtor/creditor reconciliations are prepared to show this differences.

Q8

Trade receivables control account balance of Shehan's business as at 31/8/X9 was Rs. 32,000. Balance of trade receivables ledger was different from this balance. Following reasons were found later on.

1. Summation of sales journal was lesser by Rs. 2,000
2. The sales return of Rs. 2,000 made by Mr. Silva was recorded accurately in returns inward journal though it was recorded as Rs. 4,000 in his personal account.
3. Rs. 10,000 cash received from trade receivables which was accurately recorded in cash control account, but it was not recorded in Trade receivables control account. However, this was recorded accurately in trade receivables ledger.
4. Written off Rs. 5,000 as a bad debt was not recorded in the trade receivables ledger.

Required

- i. Adjust the trade receivables control account
- ii. A reconciliation statement comparing adjusted trade receivables balance and the debtor subledger

Q9

Total value of list of trade payables ledger accounts of Janith's business as at 31/8/X9 was Rs. 28,000. Trade payables control account balance was different to this. Following reasons were found later on.

1. Payment of Rs. 5,000 to trade payables was accurately recorded in cash payment journal though it was stated as Rs. 3,000 in control account.
2. Purchase journal was understated by Rs. 10,000
3. Return outwards was not accounted in creditor Saman's account
4. Rs. 4,000 of discount received was stated as Rs. 7,000 in Amal's account.

Required

- i. Adjust the trade payables control account
- ii. A reconciliation statement comparing adjusted trade payables balance and the creditor subledger

Q10

As at 31.03.20X5 the balance of the creditors control account of Thanuja PLC was Rs. 360,000. The total of the creditors balances as per the creditor's ledger was Rs. 406,000 on this date. The subsequent investigation revealed the following:

- An interest of Rs. 10,000 charged by a supplier on an overdue balance has been recorded only in the creditor's ledger.
- The total of the purchase journal Rs. 62,000 has been recorded in the creditors control account as Rs. 26,000.
- Rs. 28,000 paid to a creditor has not been recorded in the creditors control account as well as in the creditor's ledger.

The correct balance in the creditors control account as at 31.03.20X5:

Q11

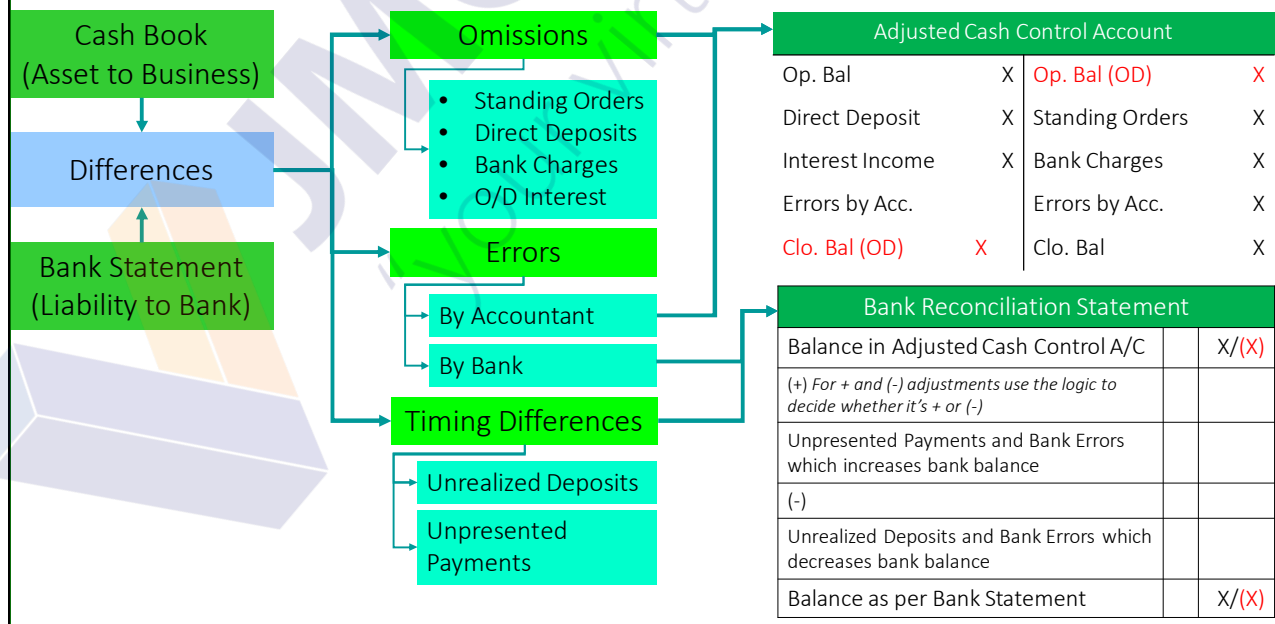
Trade receivable control account balance of Aero Traders was Rs. 100,000/-. However, the balance as per the debtor ledger was Rs. 97,000/-. Based on information below prepare the debtor reconciliation.

1. Bad debt of Rs. 10,000/- was not recorded in the debtor ledger.
2. Debtor worth of Rs. 8,000/- was omitted in calculating the debtor ledger balance.
3. Debit side of the trade receivable control account was overstated by Rs. 5,000/-

Bank Reconciliations

JMC Jayasekera Management Centre (Pvt) Ltd

Bank Reconciliations Summary by Sandeepa





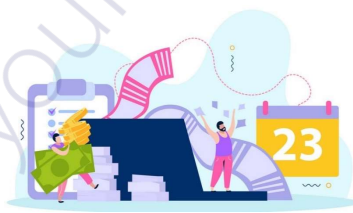
Today in business environment, it is common for any business organization to carry out its financial transaction through a current account in a commercial bank.

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Different Types of Transactions in Current Account



Depositing Cash
and Cheques
Received to the
Business



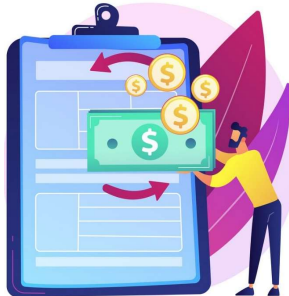
Making Payments/
Withdrawing Money
using **Cheques** and
Transfers



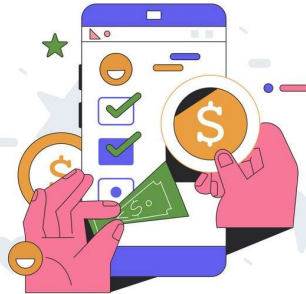
Bank Charges for
Different Services
provided by the Bank

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Different Types of Transactions in Current Account



Direct Remittances
received from the
Customers and
Others



Direct Debit
Payments made
from Current
Account to Various
Suppliers & Others



Standing Order
Payments for
Periodic/Repetitive
Payments (E.g. Rent)

Bank Statement

For all the current account holders the bank is sending a statement at the end of a month. This statement include the receipts, payments and balance of the current account. This statement is called the Bank Statement.

BANK OF CEYLON
BOC
Bankers to the Nation

Contract statement 1542674039

Balance on 15.12.2019	28.00 \$
Interest	160.34 \$
Charges	-4.38 \$
Balance on 15.01.2020	421.32 \$

JOHN CITIZEN
8 KOTTAGODA TALALLA SOUTH,
APT. 36
TALALLA, SRI LANKA
81170

Card operations No 403581****2809 (Citizen J.)

Charges: 7.83

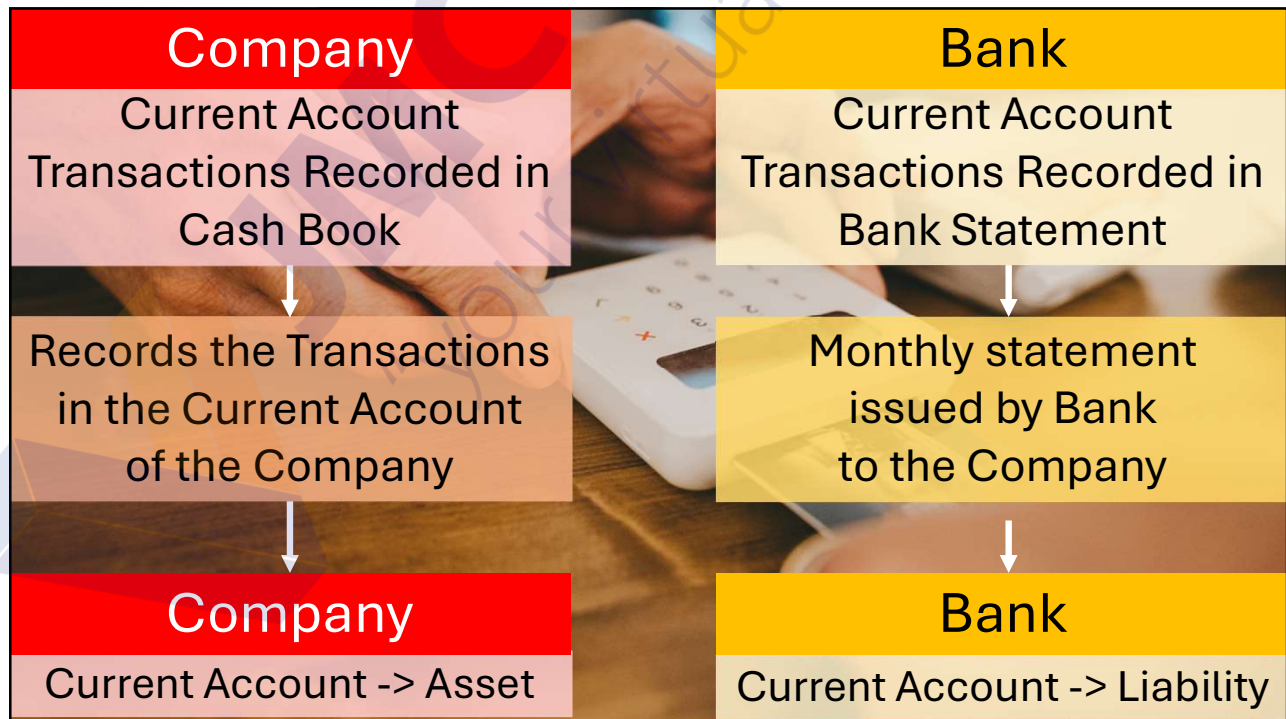
Date and time of operation	Bank Processing Date	Transaction amount	Charged Amount	Description
15.12.19	15.12.19	10.00 \$	10.00 \$	Transaction Alert Fee
18.12.19	18.12.19	+120.25 \$	+120.25 \$	Replenishment to PayPal Ltd, London GB
20.12.19	20.12.19	200 \$	200 \$	Payment for goods to Aliexpress
23.12.19	23.12.19	61 \$	61 \$	Credit card deposit 8420*****0387
28.12.19	28.12.19	2.21 \$	2.21 \$	Credit card withdrawal 8420*****0387
29.12.19	29.12.19	18.37 \$	18.37 \$	Replenishment to Shell Ltd, London GB
07.01.20	07.01.20	77.90 \$	77.90 \$	Payment for electricity
15.01.20	15.01.20	248.32 \$	248.32 \$	Payment for goods to Amazon online shop

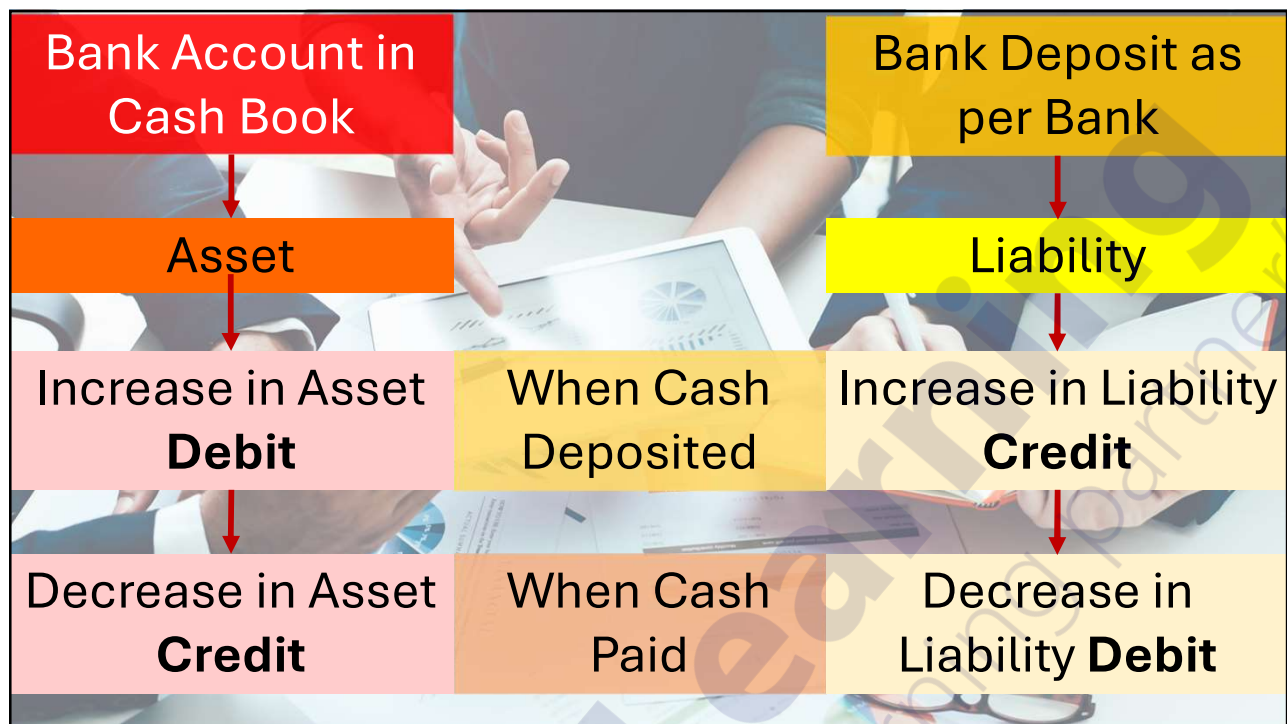
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Cash Book vs Bank Statement

- The current account is the cash book of the business, which is an asset to the business. Therefore, all the receipts are recorded as a debit, and all the payments are recorded as a credit. Generally, cash book has debit balance as well.
- However, cash in the current account is a liability from the bank's point of view, as it's not their money. Therefore, all the receipts are recorded by bank as a credit and payments as a debit. Generally, the current account statement has a credit balance.
- Therefore, the transactions in entity's bank account and same transactions in bank's statement are recorded as a complete opposite.

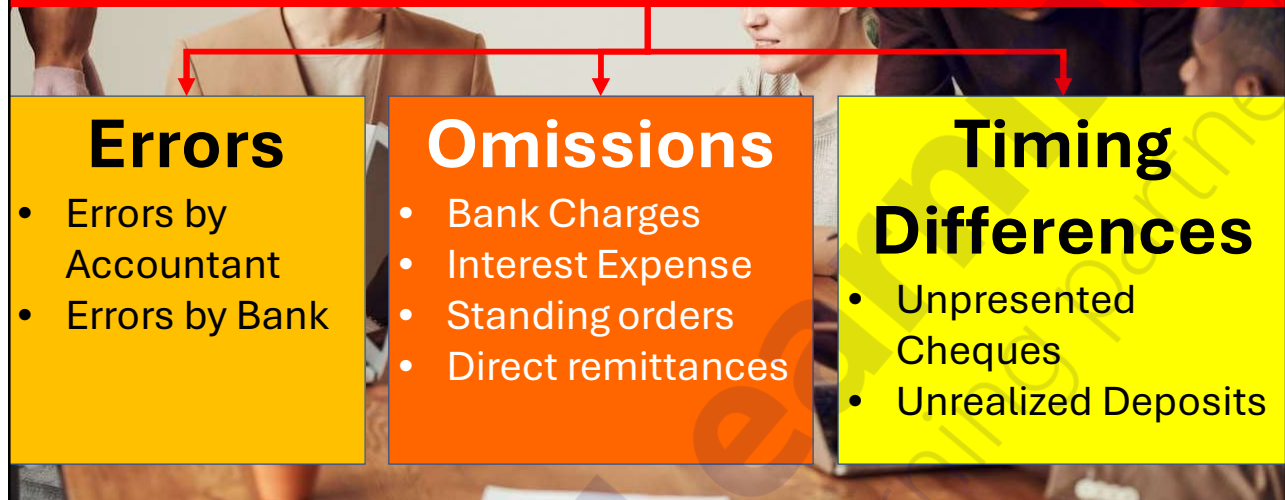




What is a Bank Overdraft?

Bank overdraft is a short-term loan facility provided for the current account holders. Thereby, current account holders can make payments beyond their account balance. Generally, overdrafts shall be settled by the account holder on demand.

Ideally the bank balance in cash book and bank statement balance shall be tallied. However, due to reasons below there can be differences.



Errors

In the cash book there can be errors made by the accountant such as

- Errors of calculations
- Errors in recording receipts and payments



Rarely, there can be errors made by the bank such as debiting or crediting wrong amounts.

Omissions by Accountant

Certain transactions recorded by the bank may be omitted by the accountant. These omissions may include

Bank Charges	Standing Orders	Direct Remittances	Interest
Bank charge fees for their services. This include statement charges, cheque book charges etc.	Entity's provide standing order instructions to bank to make a monthly fixed payment. Accountant might omit to record this	Sometimes customers directly remit to business bank account. This may be noted to accountant when bank statements received.	Loan and overdraft interest may be deducted or fixed deposit interest transferred to current account may be omitted.

Timing Differences

Unrealized Deposits

- Once a cheque received is deposited, accountant debits the cash book.
- However, the cheque clearing process may take a day or two to realize the cash to the bank account.
- Therefore, a temporary timing difference can occur.

Unpresented Cheques

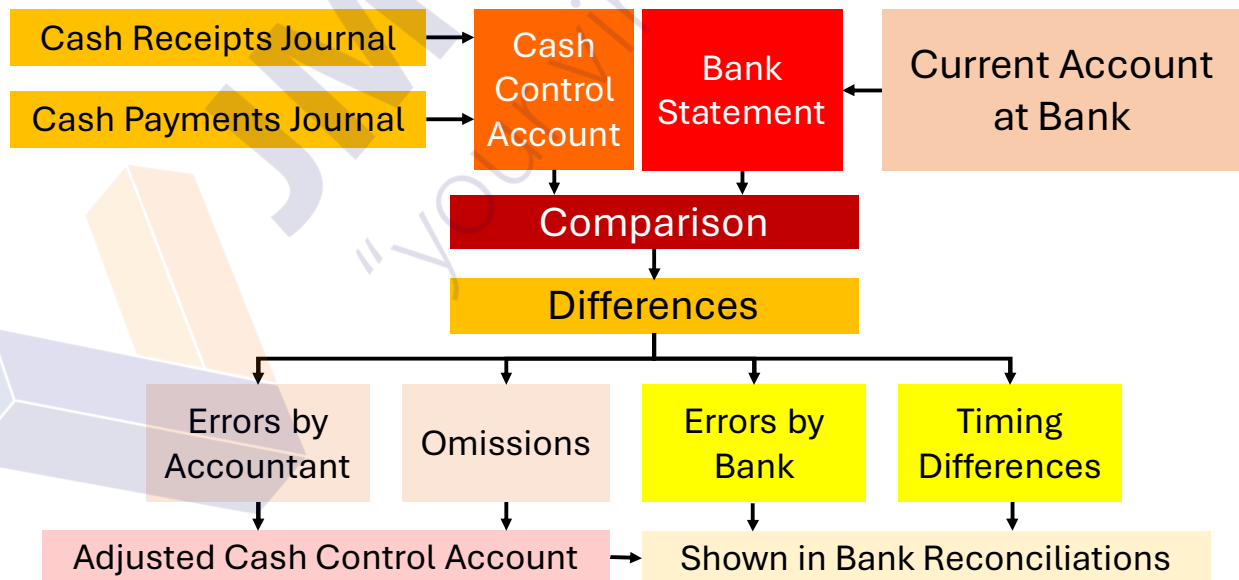
- When a cheque is issued for a payment, Accountant credit the cash book.
- However, the recipient of the cheque, may not have presented the cheque to the bank.
- Therefore, it'll take few days the reduce the balance from the bank account. It creates a timing difference.

Bank Reconciliation Statement

Bank Reconciliation is prepared monthly to **show the differences** between cash book and the bank statement.



Bank Reconciliation Process



Steps to prepare a Bank Reconciliation

01. Compare and find differences

Compare the Cash book vs the Bank statement and identify the differences.

02. Prepare the adjusted cash book

Correct the cash book for errors made by accountants and omissions (Items in Bank statement which are not there in the cash book (Bank Charges etc.)

03. Prepare the Bank Reconciliation

Prepare the Bank Reconciliation to show the timing differences from adjusted Cash Book balance to Bank Statement balance.

Adjustments made to the Cash Book



Bank Charges

Bank Charges Debit
Cash Book Credit

Loan and Overdraft Interest

Interest Expense Debit
Cash Book Credit

Direct Remittances

Debtors Remittances
Cash Book Debit
Debtor Control Credit

Dividend
Cash Book Debit
Dividend Inc. Credit

Adjustments made to the Cash Book



Standing Orders and Direct Debits

Bank Loan Installments

Bank Loan Debit

Bank Loan Interest Debit

Cash Book Credit

Building Rent

Building Rent Expense Debit

Cash Book Credit

Structure of Adjusted Cash Book

Cash Book			
Balance Brought Forward	XXX	Bank Charges	X
Correction of Undercast	X	Overdraft Interest	X
Direct Remittances from Debtor	XX	Loan Installment - Standing Order	XX
Direct Transfer of Dividends	X	Building Rent- Standing Order	X
		Correction of Overcast	X
		Balance Carried Down	XX
	<u>XXX</u>		<u>XXX</u>
Balance Brought Forward	XX		

Bank Reconciliation Format

Adjusted Cash Book Balance		X/(X)
Added		
Cheques issued, but unpresented	X	
Bank Errors	X	XX
Deducted		
Cheques deposited, but unrealized	(X)	
Bank Errors	(X)	(XX)
Balance as per the Bank Statement		XX

If it's a Bank OD

Q12

As at 31st January 20X4, the Bank Statement of Anushka Beauty Saloon shows a favorable balance of Rs.27,000/- while the Cash Control Account shows a debit(favorable) balance of Rs.25,000/-. Subsequently, the Accounts Executive of the business has noted the following reasons for the difference between the Bank Statement's balance and the Cash Control Account's balance:

- (1) The bank has debited the loan installment of Rs.15,000/- as per the standing order instruction given. However, this has not been recorded in the cash book.
- (2) On 10th January 20X4, the bank has debited Rs.500/- as bank charges and this was not recorded in the cash book.
- (3) Interest income of Rs.8,000/- on a fixed deposit has been credited to the bank account, by the bank. But it was not considered in the cash book.

- (4) A cheque of Rs.18,500/- was issued on 30th January 20X4 but it was not presented for payment to the bank as at 31st January 20X4.
- (5) A cheque of Rs.9,000/- was deposited to the bank on 29th January 2024 however, it was not realized as at 31st January 20X4.

You are required to: Prepare the following:

- (a) Adjusted Cash Control Account (Cash Book).
- (b) Bank Reconciliation Statement as at 31st January 20X4.

Q13

As at 31st December 20X3, **Nimal Hardware** had a favorable balance of Rs.277,500/- as per the Bank Statement. On the same date, the Cash Control Account also shows a debit (favorable) balance of Rs.225,000/-.

The following reasons have been identified for the difference between the Bank Statement's balance and the Cash Control Account's balance:

- (1) The bank has debited Rs.55,000/- for monthly rent based on the standing order instructions given and this was not recorded in the cash book.
- (2) A cheque issued of Rs.128,000/- on 30th December 20X3 was not presented to the bank for payment by 31st December 20X3.
- (3) Bank charges of Rs.5,000/- which was debited by the bank on 15th December 20X3 was not considered in the cash book.

(4) The bank has credited the previous month's overcharged overdraft interest of Rs.12,500/- on 31st December 20X3 and it was not recorded in the cash book.

(5) A cheque of Rs.28,000/- was deposited to the bank account but it was not realized as at 31st December 20X3.

You are required to:

Prepare the following:

(a) Adjusted Cash Control Account (Cash Book).

(b) Bank Reconciliation Statement as at 31st December 20X3.

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Q14

The Bank Statement of Ishakar Traders shows a favorable balance of Rs.427,400/- as at 31st March 20X3 while the Cash Control Account shows a debit balance (favorable) of Rs.336,000/-.

The Assistant Accountant of the business has identified the following reasons for the difference between bank statement's balance and cash book's balance:

1. Bank has deducted the loan installment of Rs.25,000/- relating to the loan obtained from the bank and it was not recorded in the cash book.
2. Bank charges of Rs.1,500/- for the direct bank confirmation issued was not considered in the cash book.
3. Overdraft interest of Rs.12,100/- for the month of February has been charged by the bank during the March 20X3 and it was not recorded in the cash book.

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4. Fixed deposit interest received of Rs.25,000/- was credited to the bank's statement but it was not considered in the cash book.
5. A cheque of Rs.120,000/- was deposited to the bank but it was not realized as at 31st March 20X3.
6. A cheque of Rs.225,000/- was issued on 30th March 2023 but it was not presented for payment to the bank as at 31st March 20X3.

You are required to:

Prepare the following:

- a. Adjusted Cash Control Account (Cash Book).
- b. Bank Reconciliation Statement as at 31st March 20X3.

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Q15

The balance of the cash control account of a business was Rs. 25,000 but the bank statement of the same date was not tallied with this balance. The following reasons were found later.

1. Bank charges Rs. 2,000 and cheque book charges Rs. 500 was not recorded to the cash control account.
2. Cash control account was overstated by Rs. 3,000
3. Direct deposit by debtor Rs. 5,000 was not recorded to the cash control account
4. Bank has erroneously debited Rs. 3,000 of cheque to the business bank account
5. Rs. 7,000 of cheques deposited has not been realized to the bank
6. Rs. 10,000 of cheques issued by the business was not yet paid by the bank

Required

- a) Prepare the adjusted cash control account
- b) Prepare the bank reconciliation statement

Q16

The favourable balance of the bank statement was Rs.65,000/- as at 31st December 20X3 and it was less than the cash book balance by Rs.5,000/- on that date. Select from the following, the reason for the difference:

- (1) Bank charges of Rs.2,500/- were not recorded in the cash book.
- (2) Cheques issued but not presented for payment were Rs.5,000/-.
- (3) Cheques deposited but not realized were Rs.5,000/-.
- (4) A direct deposit of Rs.5,000/- made by a customer was not recorded in the cash book.

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Q17

Which one of the following is a time difference that might be a reason for the difference between the balance in the cash control account and the balance in the bank statement?

- (1) Direct remittances received from customers.
- (2) Cheques deposited but not realized.
- (3) Bank charges debited by the bank.
- (4) Erroneously debited overdraft interest by the bank.

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Q18

State whether each of the following statement is True or False.

1. Preparing bank reconciliation statement helps to detect and minimize frauds, errors and manipulations.
2. Bank reconciliation is a statement prepared by the bank of the business entity.

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Q19

The favourable balance of bank statement as at 31st March 20X2 of Sam Traders was Rs.375,000/- and this balance was different with the cash book balance. Unpresented cheques and unrealized cheques as at 31st March 20X2 were Rs.15,000/- and Rs.24,000/- respectively.

Based on the above information, Cash Control Account (cash book) balance appeared as at 31st March 20X2 in the books of Sam Traders was:

- (1) Rs.366,000/-. (2) Rs.336,000/-. (3) Rs.414,000/-. (4) Rs.384,000/-.

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Q20

The debit balance of cash book as at 31st March 20X2 of XYZ Ltd. was Rs.225,000/- and it was different with bank statement's balance on that date. Unpresented cheques for payments as at 31st March 20X2 was Rs.36,000/- and bank charges of Rs.5,000/- charged by the bank was not considered in the cash book.

The balance appeared in the bank statement as at 31st March 20X2 was:

(1) Rs.256,000/-. (2) Rs.184,000/-. (3) Rs.194,000/-. (4) Rs.266,000/-.

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Q21

Which one of the following is considered as an example of a time difference in preparing the bank reconciliation statement?

1. Rs.25,000/- received from Sarath as a direct deposit was not recorded in the books of accounts.
2. Cheque book charges of Rs.5,000/- was not recorded in the books of accounts.
3. A cheque of Rs.23,000/- issued to a supplier was not presented to the bank for payment.
4. An amount of Rs.3,500/- was erroneously debited by the bank.

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Q22

Cash control account balance in Saranga's Business as at 31.03.20X5 is Rs. 150 000. Bank reconciliation process has identified following errors.

1. Overdraft interest of Rs. 10 000 has not been recorded in the cash control account.
2. The bank has erroneously credited Rs. 20 000 to the bank statement.
3. The unrealized deposits were Rs. 50 000 and unpresented cheques were Rs. 30 000
4. A cheque received and deposited of Rs. 5 000 has been dishonoured. However, this was not adjusted in the cash control account.
5. The direct deposits were Rs. 15 000.

1. The cash balance that should be shown in the financial position statement,

- (1) Rs.143 000 (2) Rs.148 000 (3) Rs.150 000
(4) Rs.152 000 (5) Rs.161 000

2. The balance shown in the bank statement,

- (1) Rs.123 000 (2) Rs.132 000 (3) Rs.150 000
(4) Rs.163 000 (5) Rs.181 000

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Q23

All cash transactions of a business are carried out through a bank current account. The following information has been extracted from the cash account of this business for the month of December 2023.

	Rs. '000
Cash account balance as at 01.12.2024 (Debit)	200
Cash account balance as at 31.12.2024 (Debit)	800
The summary of the bank statement for the month of December 2024	
Credit balance as at 01.12.2024	200
Total cheques realized	2,200
Total cheques presented for payments	1,500
Direct remittances (Investment income)	300
Standing order payment – loan instalment (including an interest of Rs. 30,000)	50
Balance as at 31.12.2024	?

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Direct remittances and standing order payment are recorded in the cash account after the bank statement is received. Further, a cheque of Rs. 200,000 received from a customer and deposited in the bank has been dishonoured. No adjustment is made in the books of accounts for this dishonoured cheque.

Identify the following.

As at 31.12.2024:		Amount (Rs. '000)	Balance (Debit/Credit)
(a)	Balance of the bank statement		
(b)	Adjusted balance of the cash account		

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Q24

Upul's business had a bank balance of Rs. 20,000 as per the bank statement on 31/03/20X5 and balance as per the cash control account was Rs. 32,000. The difference was an unrealized cheque of Rs. 8,000 and an un-presented cheque of Rs. 2,800. The debit side of the cash control account is over-casted by Rs. 2,000 and a bank loan installment paid during the month is not recorded in the cash control account.

How much is the value of the loan installment?

.....

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Q25

A business carries out all its cash transactions through a bank current account. There was no difference in the closing balance of the cash account and the bank statement of the month of February 20X0 of this business.

However, the cash account balance of Rs. 500 000 as at 31.03.20X0 did not agree with the bank statement balance on this date. The bank statement for the month of March was received on 03.04.20X0 and the following were revealed when it was examined.

A. A cheque of Rs. 100 000 deposited on 29.03.20X0 has not been realized.

B. The loan installment of month of March paid on a standing order was Rs. 30 000. (This includes an interest expense of Rs. 12 000)

C cheque of Rs. 80 000 deposited in the bank on 30.03.20X0 has dishonoured on 31.03.20X0.

D. An investment income of Rs. 120 000 has been credited directly to the bank account.

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Direct remittances, standing order payments and dishonoured cheques are recorded in the books only after the receipt of the bank statement.

Above items 'A' and 'C' denote the cheques received from two debtors of the business to settle their outstanding balances.

The revised balance of the cash account and the balance of the bank statement as at 31.03.2020:

	Revised balance of Cash Account (Rs.000)	Bank Statement Balance (Rs.000)
1)	410	510
2)	510	410
3)	510	510
4)	590	410
5)	590	510

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Trial Balance

JMC Jayasekera Management Centre (Pvt) Ltd

Trial Balance

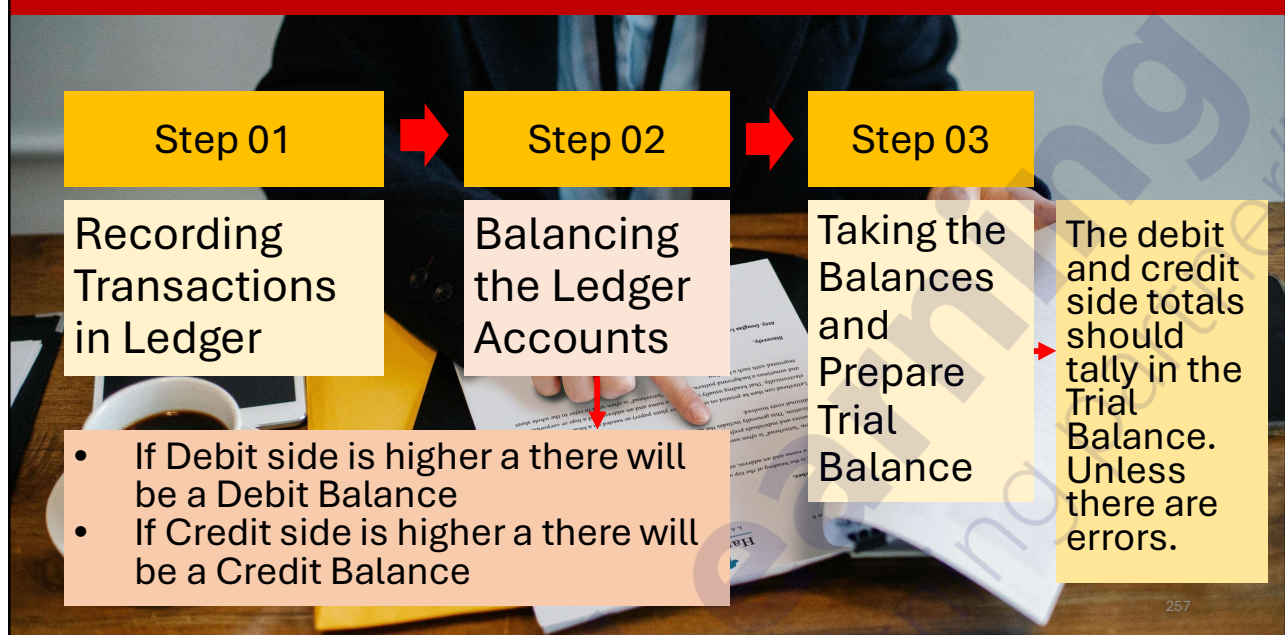
The general ledger accounts will be closed at the end of financial period, and the balances will be taken to a statement called trial balance. Trial balance has the accounts and their balances as debit or credit.

Since the transactions were recorded in general ledger using the double entry mechanism, the trial balance debit total shall be equal to credit total. That shows that the double entries posted are correct or not.

Trial balance is used to prepare the financial statements.

Account	Debit	Credit
Purchases		
Sundry Debtors		
Stock (as on Apr, YYYY)		
Sales		
Cash at Bank		
Machinery		
Discount Received		
Bank Loan		
Bad Debts		
Sundry Creditors		
Carriage Outwards		
Capital		
Provision for Doubtful Debts		
Rent		
Discount Allowed		
TOTAL =		

Process of Preparing a Trial Balance



Format of a Trial Balance

ABC Ltd.
Trial Balance
as at 31/3/X1

Description	Debit Rs.	Credit Rs.
Sales		XXX
Purchases	XXX	
Salary	XXX	
Land		XXX
Total	XXX	XXX

Q26

Following balances are relevant to Charuni Ltd. as at 30/12/X9. Prepare the trial balance.

Account	Balance Rs.
Bank Loan	100,000
Cash at Bank	35,000
Capital	100,000
Tax	15,000
Tax Provision	10,000
Trade Payable	75,000
Trade Receivable	200,000
Purchases	150,000
Sales	200,000
Interest	1,000
Other Expenses	34,000
Vehicle	50,000

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Q27

Praveen started a sole proprietorship, Praveen Traders on 01st April 20X8 by opening a bank account investing Rs.2,500,000/-.

1. Cash transactions made during the year ended 31st March 20X9 were as follows:

Cash Receipts	Rs.	Cash Payments	Rs.
Capital introduced by Praveen	2,500,000	Motor Lorry (Acquired on 01 st October 20X8)	1,500,000
Cash sales	1,300,000	Payments to Trade Creditors	1,150,000
Receipts from Trade Debtors	831,000	Electricity	72,000
	4,631,000	Salaries & Wages	290,000
		Drawings	175,000
		Cash purchases	788,000
			3,975,000

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2. The policy of the business is to provide depreciation on motor lorry at the rate of 25% per annum on the straight line basis at cost.

3. Receivables and payable balances as at 31st March 20X9 were as follows:

	Rs.
Trade Debtors	145,000
Trade Creditors	110,000
Accrued salaries	38,000

4. There were no stocks as at 31st March 20X9.

You are required to:

Prepare the Trial Balance of Praveen Traders as at 31st March 20X9.

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Correction of Errors

JMC Jayasekera Management Centre (Pvt) Ltd

Corrections of Errors Summary

by Sandeepa

Error	Description	TB Detection	Suspense
Omission	Not recording full entry	No	No
	Not recording one entry	Yes	Yes
Commission	Under/Overstating full entry	No	No
	Under/Overstating one entry	Yes	Yes
Principle	Violating acc. Concepts and principles	No	No
Duplication	Recording more than once	No	No
Compensating	One error netted off by another error	No	No
Clerical	Recording transaction in another similar account	No	No

General Journal to Pass Correction Entries

____ Account Dr.	X	
____ Account Cr.		X
(Correcting the (type of error) in (details of error))		

Suspense Account

Op. Bal	X	Op. Bal	X
Corrections that debit suspense	X	Corrections that credit suspense	X

Profit Statement (Income and Expenses Dr (-) Cr. (+))

Draft Profit		X
+		
Income Cr.	X	
Expenses Cr.	X	X
(-)		
Income Dr.	(X)	
Expense Dr.	(X)	(X)
Corrected Profit		XX

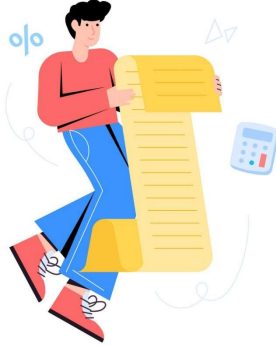
What is an Accounting Error?

Throughout the accounting process, errors may occur as we deal with human beings. These errors may include omissions and misstatements. If these were made intentionally, then those are considered as frauds. As a result of these errors the accounting records may not be accurate. Therefore, the decision makers cannot take accurate decisions. Therefore, accounting errors if any shall be identified and corrected.

Errors may occur at



When Entering Transactions
(Prime Entry Books or Ledger)



When Balancing the Transactions
(Prime Entry Books or Ledger)



When Transferring Prime Entry Book Total to Ledgers



When Preparing Trial Balance

Reasons to Occur Errors?



Negligence



Lack of Knowledge



Forgetting and omissions

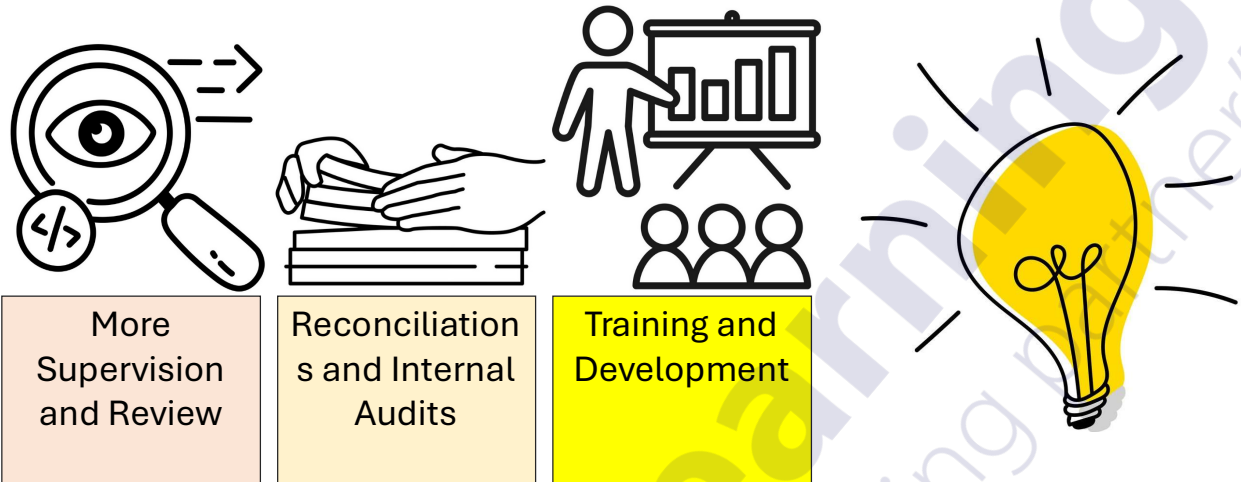


Making errors with Fraudulent intentions



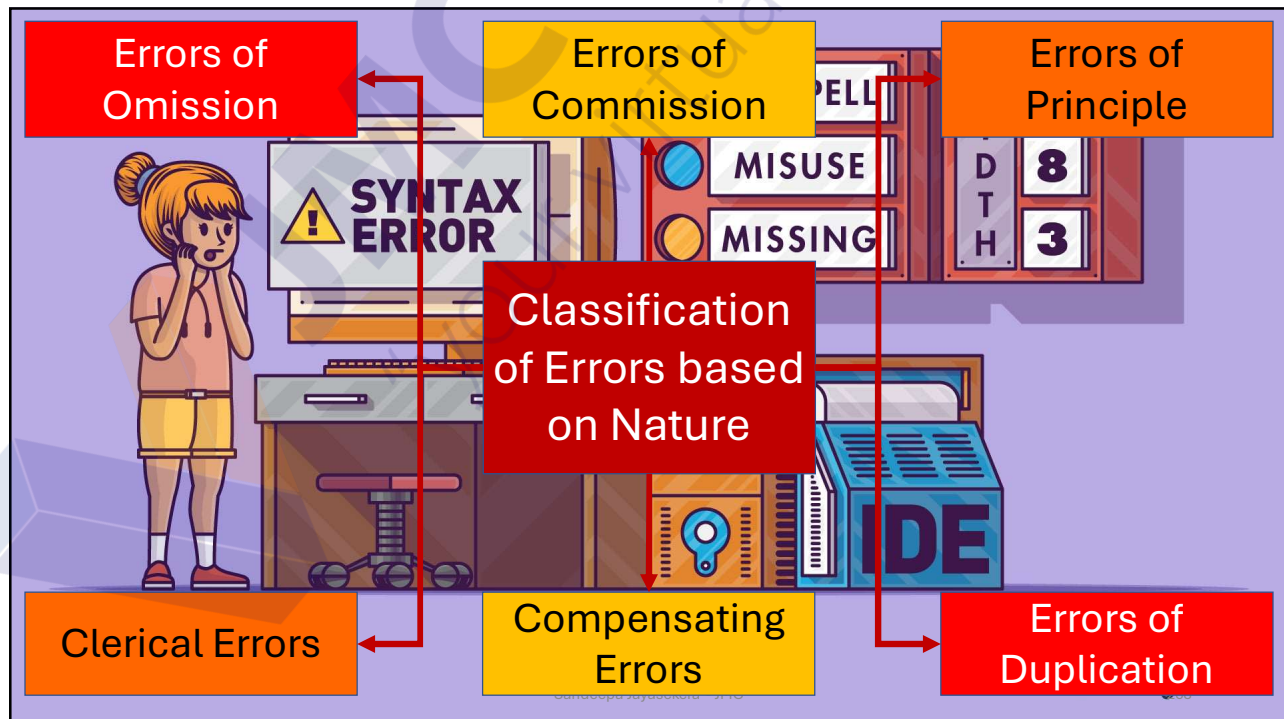
Incompetent Mentality of Employees

How to Overcome Accounting Errors?



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Errors				
Error	Description	Example	Detected by Trial Balance	Need of Suspense Account
Errors of Omission	Not recording either full double entry or single entry of a transaction.	<ul style="list-style-type: none"> Furniture purchased of Rs. 50,000 has been completely omitted from the ledger 	No	No
		<ul style="list-style-type: none"> Credit sale of Rs. 60,000 was recorded in the sales account and it was not recorded in debtors account. 	Yes	Yes

Errors				
Error	Description	Example	Detected by T/B	Need of Suspense
Errors of Commission	Recording a transaction value higher (overstated) or lesser (understated) in prime entry books or ledger account.	<ul style="list-style-type: none"> Furniture purchased of Rs. 25,000 was recorded as Rs. 2,500 only in furniture account 	Yes	Yes
		<ul style="list-style-type: none"> Cash sales Rs. 80,000 was recorded as Rs. 8,000 in sales account and cash account 	No	No

Q28

State whether each of the following statement is **True** or **False**.

Errors of commission means not recording a transaction in full or recording only one entry of double entry.

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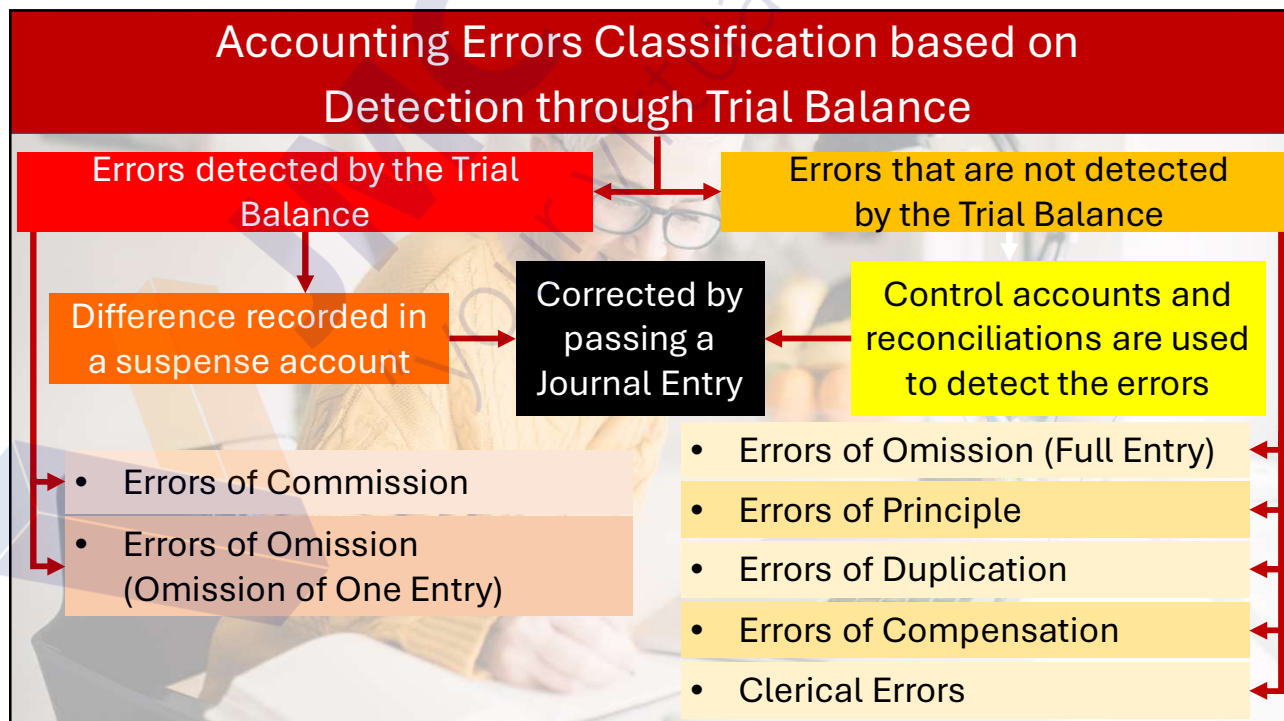
Errors

Error	Description	Example	Detected by Trial Balance	Need of Suspense Account
Errors of Principle	Recording transactions in a way which does not agree with accounting principles.	<ul style="list-style-type: none"> Vehicle repair expense of Rs. 5,000 was debited to motor vehicle account 	No	No
		<ul style="list-style-type: none"> Drawings made of Rs. 10,000 was recognized as rent expense 	No	No

Errors				
Error	Description	Example	Detected by Trial Balance	Need of Suspense Account
Errors of Duplication	Recording the same transaction twice in prime entry book or ledger	<ul style="list-style-type: none"> Sales invoice to Kumara of Rs. 2,000 was recorded twice in sales journal 	No	No
		<ul style="list-style-type: none"> Salary payment was debited twice in the ledger 	No	No

Errors				
Error	Description	Example	Detected by T/B	Need of Suspense
Compensating Errors	An accounting error is set off by another error or by errors are called as errors of compensating	<ul style="list-style-type: none"> Recording Rs. 2,000 cash sales as Rs. 20,000 in cash account and total of sale account has been over casted by Rs. 18,000 	No	No
		<ul style="list-style-type: none"> Adding cash account lesser of Rs. 1,000 and recording Rs. 7,000 rent received as Rs. 6,000 in that account 	No	No

Errors				
Error	Description	Example	Detected by T/B	Need of Suspense
Clerical Errors	Errors occur due to recording a transaction in another account which is in the same nature	<ul style="list-style-type: none"> Electricity paid of Rs. 15,000 was recorded as Telephone expense account. 	No	No
		<ul style="list-style-type: none"> Interest income of Rs. 10,000 was recorded as dividend income. 	No	No



Steps to Correct the Error

Step 01

Identify the Error

Step 02

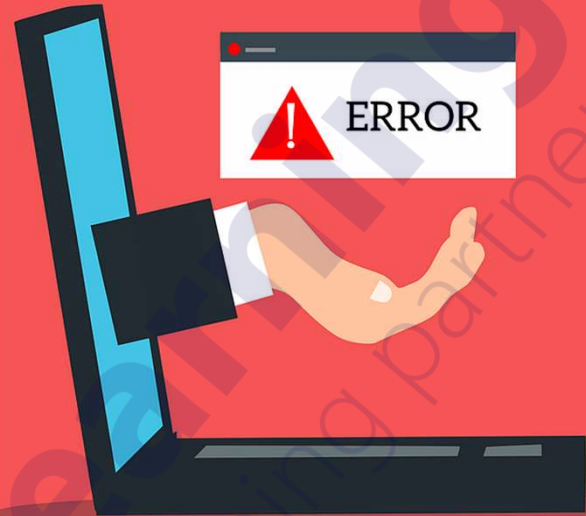
Find the wrong entry

Step 03

Decide the correct entry

Step 04

Pass correction entry for difference between two.



Format used to pass the Correction Entries

Date	Description	Debit Rs.	Credit Rs.
	Description of the Debit Entry	X	
	Description of the Credit Entry		X
	(Narration of the Entry)		



Q29

Determine the correction entries for following errors.

1. Complete omission of a purchase invoice of Rs.250
2. A repair expense of Rs.150 being debited to the equipment account.
3. A cash drawing of Rs.280 being deducted from revenue.
4. Telephone expense of Rs.540 recorded as an electricity expense.
5. The total of Sales daybook of Rs.28,825 totaled as Rs.28,425.

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Suspense Account

- The difference in the trial balance created due to errors is recorded in a temporary account called 'Suspense Account'.
- If in a transaction the correct account cannot be determined, temporarily it will be recorded in a suspense account.
- Suspense account will be cancelled once the suspension is cleared.



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Q30

The trial Balance as at 31st March 20X9 of Janasetha Traders was not agreed and the difference of Rs.43,000/- was credited to a Suspense Account.

The following errors were identified subsequently:

- 1) Cash purchase of Rs.68,900/- for resale was recorded in the purchases account as Rs.86,900/-. This was correctly recorded in the cash book.
- 2) Maintenance expenses on machinery of Rs.33,600/- was debited to machinery account.
- 3) Additional capital of Rs.165,000/- introduced by the owner was erroneously credited to Trade creditors' account while other entry has been correctly recorded in the cash book.
- 4) Rent income received of Rs.21,000/- has been completely omitted from the books of accounts.

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- 5) Rent expenses of Rs.98,000/- was debited twice in rent expense account and this was correctly recorded in the cash book.
- 6) A payment of Rs.109,000/- to a trade creditor had been correctly recorded in the cash book but no entry is made in trade creditors' account.
- 7) A cash sale of Rs.73,900/- has been recorded as Rs.37,900/- in sales account and this was correctly recorded in the cash book.

You are required to prepare:

- a) Journal Entries to rectify the above errors (07 marks)
- b) Suspense Account. (03 marks)

Q31

Samanala Stores is a sole proprietorship owned by Samanala. Trial Balance of Samanala Stores as at 31st March 20X0 was not agreed, and the difference of Rs.49,500/- was debited to a suspense Account. Then the draft financial statements were prepared and net profit of Rs.1,350,000/- was recorded as per draft financial statements for the year ended 31st March 20X0.

The following errors were identified subsequently:

- 1) Purchase of a computer on 31st March 20X0 at a cost Rs.95,000/- on credit, has been debited to computer account as Rs.9,500/-. However, credit entry has been correctly recorded in the relevant creditor's account.
- 2) Cash purchases of Rs.76,000/- has been correctly credited to the cash book. However, the corresponding debit entry has not been posted.

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- 3) Office maintenance of Rs.66,000/- incurred on 31st March 20X0 has been debited to office equipment account, while it was recorded in the cash book correctly.
- 4) Depreciation of motor vehicle of Rs.112,000/- has been debited twice to the respective depreciation expenses account and the credit entry has been correctly recorded in the relevant ledger account.
- 5) Total of the sales journal was understated by Rs.225,000/-.

You are required to:

- a) Prepare Journal Entries to correct the above errors. (05 marks)
- b) Prepare Suspense Account (02 marks)
- c) Compute the adjusted/corrected net profit for the year ended 31st March 20X0. (03 marks)

Q32

The Trial Balance of **Bimal Traders** as at 31st March 20X3 prepared by the Accounts Assistant did not agree. The difference of Rs.279,500/- was credited to a Suspense Account and draft financial statements were prepared. **Bimal Traders** maintains control accounts for trade receivables and trade payables.

The following reasons for the difference have been identified subsequently:

1. A security bill payable of Rs.35,000/- for the month of March 20X3 has been recorded twice to both the ledger accounts.
2. Interest income of Rs.2,750/- received on a fixed deposit has been erroneously debited to the interest expense account and it had been correctly recorded in the cash book.
3. Total of purchase day book was overstated by Rs.20,000/-.

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4. Purchase of an office equipment for Rs.250,000/- has been debited to the office expenses account while other entry was correctly recorded in the books of accounts. Applicable depreciation on this office equipment for the year was Rs.50,000/-.
5. Cash sales of Rs.265,000/- have been recorded only in the cash book and the corresponding entry was not recorded in the relevant ledger account.
6. Telephone expenses of Rs.67,000/- has been recorded as Rs.76,000/- in the telephone expenses account. But it was correctly recorded in the cash book.

You are required to:

Prepare the following:

- a) Journal entries to rectify the above errors. (07 marks)
- b) Suspense Account. (03 marks)

