



JMC JAYASEKERA
MANAGEMENT CENTRE
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Chartered Accountancy – BL 01

Financial Accounting

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Correction of Errors

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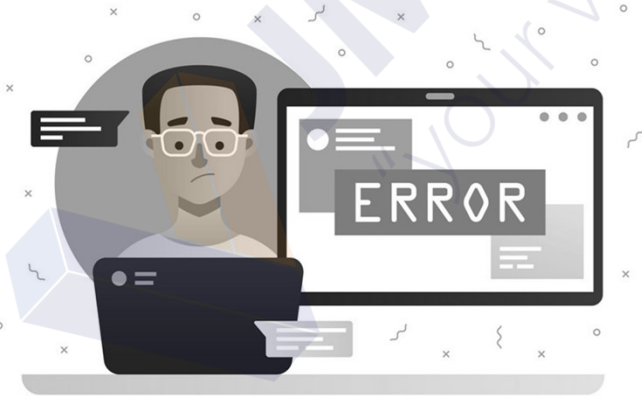
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There can be errors occurred in the accounting process. Such errors shall be corrected.



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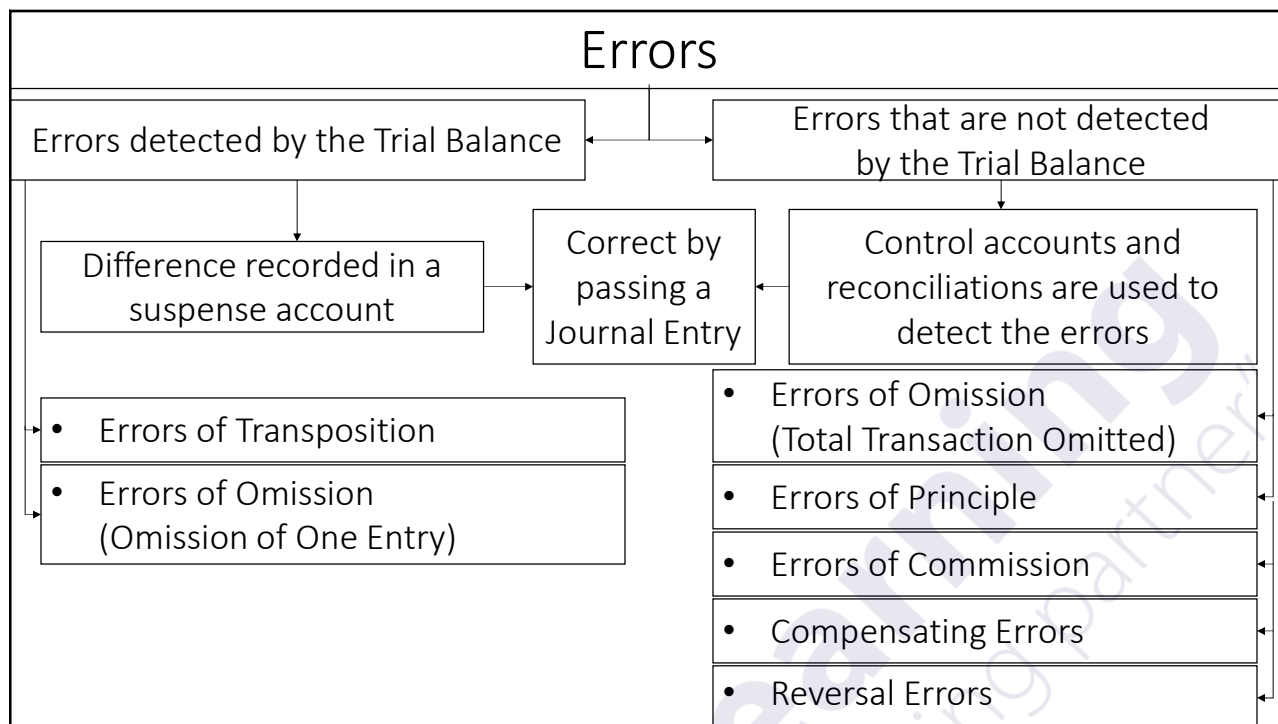


Some errors are can be detected by the trial balance, but some may not.

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Errors

Error	Description	Example	Detected by Trial Balance	Need of Suspense Acc.
Errors of Transposition	Two digits in an amount are accidentally recorded the wrong way. Such differences can be divided by 9 without any remainder.	A credit sale of Rs.6,483 has properly recorded in revenue but debtors were recorded as Rs.6,843	√	√
Errors of Omission	Omitting the entire Transaction	Not recording an invoice of Rs.250 received from a supplier	X	X
	Omission of one Entry	Omitting the Rs.300 invoice from a supplier from the purchase account	√	√

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Errors				
Error	Description	Example	Detected by Trial Balance	Need of Suspense Account
Errors of Commission	Mistakes made by the accountant when recording transactions			
	Putting either the debit or the credit entry in wrong account	Rs.540, telephone bill recorded as the electricity bill.	X	X
	Errors of casting (Calculations)	The total of the sales journal was over casted by Rs.400. Thereby, the sales and debtors' control are overstated.	X	X


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Errors				
Error	Description	Example	Detected by Trial Balance	Need of Suspense Account
Compensating Errors	One error being covered by an equivalent but opposite error or errors	At the extraction of ledger accounts the admin expense was reported with Rs.400 deficit and the Other income also reported with Rs.400 deficit. The two errors are compensating each other.	X	X
Errors of Reversal	Error occurred by recording the complete opposite entry	A payment made to a supplier recorded as debited cash and credited to trade payables	X	X

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Format used to pass the Correction Entries

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



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Question 01

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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Use of Suspense Account

Difference in a Trial Balance

If an Account of a Double Entry cannot be determined

Open a Suspense Account

Correction Entry

Cancellation of Suspense Account

Reminds the Correction of Errors

Trial Balance get Balanced

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Question 02

There was an imbalance in the trial balance of Harshani Ltd. The difference was recorded in a suspense account. Following errors were observed.

1. A sale made worth of Rs.37,454 was properly recorded in the debtors control account. However, the revenue was recorded as Rs.37,544.
2. Paid salary of Rs.525 was recorded in the cash book. However, it has not been recorded in the salaries account.
3. Rs.460 received from a customer has been properly recorded in the cash book. However, the amount was debited to debtors control account.

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Question 02

4. Rs.500 received was recorded in the cash book and suspense account as the recipient was not clear. Later, it was noted that the amount was received from Mr. Nuwan.
5. Sales return of Rs.460 has been recorded as purchase returns and credited to debtors control account.
6. Discount received of Rs.100 has been recorded as discount given and debited to creditors control account.

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Question 03

The trial balance got imbalanced in Dasun Ltd. and the difference was recorded in the suspense account as a credit balance of Rs.1,040.

Following errors were observed.

1. Omission of credit sale of Rs.1,000 from the sales account.
2. Installation cost of a new plant of Rs.240 was charged to profit or loss.
3. Rs.150 paid to a creditor was recorded as a discount received.
4. An inventory of Rs.240 was omitted from the accounts.
5. A purchase of Rs.350 was recorded as Rs.850 in the purchase account.
6. Rs.230 worth of credit note was recorded properly in the debtor's account. However, this was recorded as a purchase return.

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Question 03

Required:

1. Correction entries
2. Prepare the suspense account with correction entries
3. If gross profit and net profit prior to corrections are Rs.35,750 and Rs.18,500 respectively, calculate the adjusted gross profit and the net profit.



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