

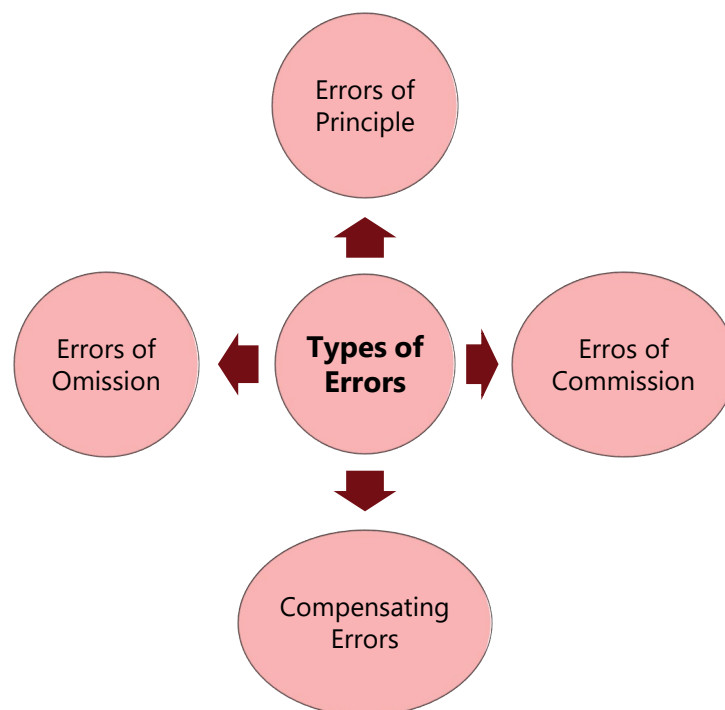
UNIT 6 : RECTIFICATION OF ERRORS

LEARNING OUTCOMES

After studying this unit, you will be able to:

- ◆ Understand different types of errors which may occur in the course of recording transactions and events.
- ◆ Be familiar with the steps involved in locating errors.
- ◆ Learn the nature of one-sided errors and two-sided errors.
- ◆ Understand why suspense account is opened for rectification of errors.
- ◆ Understand the technique of correcting errors of one period in the next accounting period.

UNIT OVERVIEW





6.1 INTRODUCTION

Unintentional omission or commission of amounts and accounts in the process of recording the transactions are commonly known as errors. These various unintentional errors can be committed at the stage of collecting financial information/data on the basis of which financial statements are drawn or at the stage of recording this information. Also errors may occur as a result of mathematical mistakes, mistakes in applying accounting policies, misinterpretation of facts, or oversight. To check the arithmetic accuracy of the journal and ledger accounts, trial balance is prepared. If the trial balance does not tally, then it can be said that there are errors in the accounts which require rectification thereof. Some of these errors may affect the Trial Balance and some of these do not have any impact on the Trial Balance although such errors may affect the determination of profit or loss, assets and liabilities of the business.

Illustrative Case of Errors and their Nature

We have seen that after preparing ledger accounts a trial balance is taken out where debit and credit balances are separately listed and totalled. If the totals of debit and credit do not agree, it is definite that there are some errors. We shall now study the types of errors which may be committed and how they may be rectified. For this purpose, the working of the following illustrative cases should be carefully seen.

Illustrative Cases of Errors

- (a) **Wrong Entry:** Let us start from the first phase of the accounting process. Where wrong amount of transactions and events are recorded in the subsidiary books, Journal Proper and Cash Book.

Example 1: Credit purchases ₹17,270 are entered in the Purchases Day Book as ₹17,720. Credit sales of ₹15,000 gross less 1% trade discount are wrongly entered in Sales Day Book at ₹15,000. Cheque issued ₹19,920 are wrongly entered in the credit of bank column in the Cash Book as ₹19,290.

- (b) **Wrong casting of subsidiary books:** Subsidiary books are totalled periodically and posted to the appropriate ledger accounts. There may be totalling errors. Totalling errors may arise due to wrong entry or simply these may be independent errors.

Example 2: For the month of January, 20X1 total of credit sales are ₹1,75,700, this is wrongly totalled as ₹1,76,700 and posted to sales account as ₹1,76,700.

- (c) **In case of cash book,** wrong castings will result in wrong calculation of the balance c/d.

Example 3: The following cash transactions of M/s. Tularam & Co. occurred:

20X1

Jan. 1	Balance - cash ₹1,200 bank ₹16,000;
Jan. 2	Cheque issued to M/s. Bholaram & Co., a supplier, for ₹22,500;
Jan. 6	Cheque collected from M/s. Scindia & Bros. ₹42,240 and deposited for clearance;
Jan. 7	Cash sales ₹27,200 and paid wages ₹12,400;
Jan. 8	Cash sales ₹ 37,730 and cash deposited to bank ₹ 35,000.

The following Cash Book entries are passed:

Dr.				Cr.			
Cash Book							
Date	Particulars	Cash	Bank	Date	Particulars	Cash	Bank
20X1		₹	₹	20X1		₹	₹
Jan. 1	To Balance b/d	1,200	16,000	Jan. 2	By M/s Bholaram & Co. A/c		22,500
Jan. 6	To M/s. Scindia & Bros. A/c		42,420		By Wages A/c	12,200	
Jan. 7	To Sales A/c	27,200			By Bank A/c	34,500	
Jan. 8	To Sales A/c	37,370			By Balance c/d	19,070	71,420
Jan. 8	To Cash A/c		34,500				
		65,770	93,920			65,770	93,920

Wrong entries and wrong casting are shown in bold prints. However, errors of cash entries generally are not carried. Usually cash balances are tallied daily. So errors are identified at an early stage. But bank balance cannot be checked daily and thus errors may be carried until bank reconciliation is done. In the above example, there are four wrong entries and one wrong casting. Bank and cash balances are affected by these errors.

- (d) **Wrong posting from subsidiary books:** In this case, the wrong amount may be posted to the ledger account or the amount may be posted to the wrong side or to the wrong account. For example, purchases from A may be posted to B's account.
- (e) **Wrong casting of ledger balances:** Likewise Cash Book, any ledger account balance may be casted wrongly. Obviously wrong postings make the balance wrong; but that is not wrong casting of balances. Whenever there arises independent casting error as in the case of bank column in the Cash Book of example (4), that is called wrong casting to ledger balances.

Example 4: The following are the credit purchases of M/s. Ballav Bros.:

20X1

Jan. 1 Purchases from M/s. Saurabh & Co.- gross ₹1,00,000 less 1% trade discount.

Jan. 3 Purchases from M/s. Netai & Co.- gross ₹ 70,000 less 1% trade discount.

Jan. 6 Purchases from M/s. Saurabh & Co.- gross ₹ 60,000 less 1% trade discount

Let us cast M/s. Saurabh & Co.'s Account:

Dr. **M/s Saurabh & Co. Account** Cr.

Date 20X1	Particulars	Amount ₹	Date 20X1	Particulars	Amount ₹
Jan. 1	To Balance c/d	1,55,400	Jan. 1	By Purchases A/c	99,000
			Jan. 6	By Purchases A/c	59,400
		1,55,400			*1,55,400

*While casting the credit side, an error has been committed and so the account is wrongly balanced.

Example 5: Goods are purchased on credit from M/s. Saurabh & Co. for ₹ 27,030 and from M/s. Karnataka Suppliers for ₹ 28,050. The following Purchase Day Book is prepared:

Purchases Day Book

Date	Particulars	Amount ₹
	M/s. Saurabh & Co.	27,050
	M/s. Karnataka Suppliers	28,030
		55,080

In the above Purchase Day Book, both the transactions are entered wrongly but the first error has been compensated by the second. Even if these errors are not rectified Trial Balance would tally.

Trial Balance

Particulars	Dr. ₹	Cr. ₹
M/s. Saurabh & Co.		27,050
M/s. Karnataka Suppliers		28,030
Purchases Account	55,080	
	55,080	55,080



6.2 STAGES OF ERRORS

Errors may occur at any of the following stages of the accounting process:

AT THE STAGE OF RECORDING THE TRANSACTIONS IN JOURNAL

Following types of errors may happen at this stage:

- (i) Errors of principle,
- (ii) Errors of omission,
- (iii) Errors of commission.

AT THE STAGE OF POSTING THE ENTRIES IN LEDGER

- (i) Errors of omission:
 - (a) Partial omission,
 - (b) Complete omission.
- (ii) Errors of commission:
 - (a) Posting to wrong account,
 - (b) Posting on the wrong side,
 - (c) Posting of wrong amount.

AT THE STAGE OF BALANCING THE LEDGER ACCOUNTS

- (i) Wrong Totalling of accounts,
- (ii) Wrong Balancing of accounts.

AT THE STAGE OF PREPARING THE TRIAL BALANCE

- (i) Errors of omission,
- (ii) Errors of commission:
 - (a) Taking wrong account,
 - (b) Taking wrong amount,
 - (c) Taking to the wrong side.

On the above basis, we can classify the errors in four broad categories:

Errors of Principle	Errors of Omission	Errors of Commission	Compensating Errors
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**6.3 TYPES OF ERRORS**

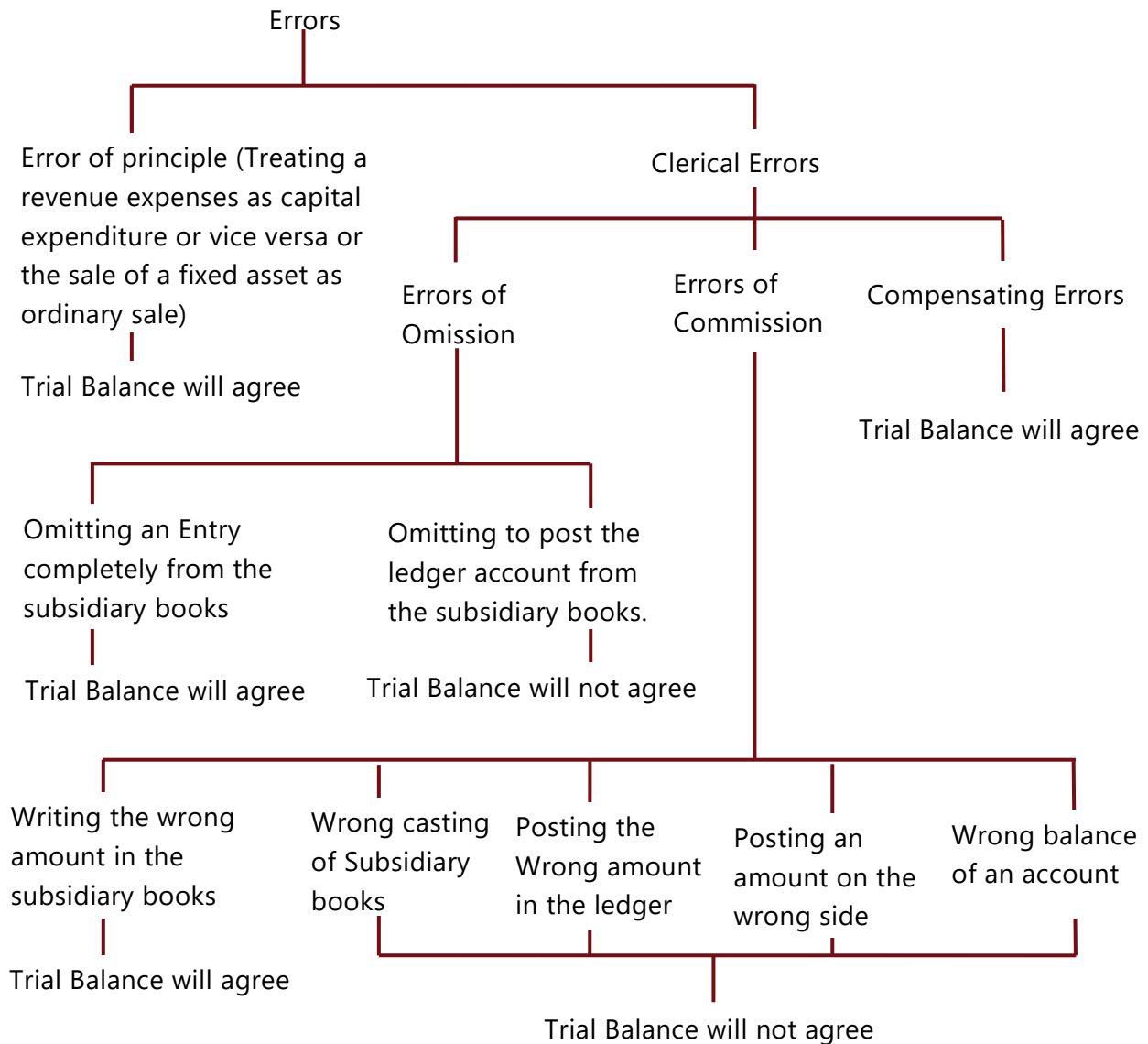
Basically errors are of two types:

- (a) **Errors of principle:** When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. In this case, there is no effect on the trial balance since the amounts are placed on the correct side, though in a wrong account. Suppose on the purchase of a computer, the office expenses account is debited; the trial balance will still agree.
- (b) **Clerical errors:** These errors arise because of mistake committed in the ordinary course of the accounting process. These are of three types:
 - (i) *Errors of Omission:* If a transaction is completely or partially omitted from the books of account, it will be a case of omission. Examples would be: not recording a credit purchase of furniture or not posting an entry into the ledger.
 - (ii) *Errors of Commission:* If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of "errors of commission."

- (iii) *Compensating Errors*: If the effect of errors committed cancel out, the errors will be called compensating errors. The trial balance will agree. Suppose an amount of ₹10 received from A is not credited to his account and the total of the sales book is ₹10 in excess. The omission of credit to A's account will be made up by the increased credit to the Sales Account.

From another point of view, error may be divided into two categories:

- (a) Those that affect the trial balance - because of these errors, trial balance does not agree; these are the following:
- (i) Wrong casting of the subsidiary books.
 - (ii) Wrong balancing of an account.
 - (iii) Posting an amount on the wrong side.
 - (iv) Posting the wrong amount.
 - (v) Omitting to post an amount from a subsidiary book.
 - (vi) Omitting to post the totals of subsidiary book.
 - (vii) Omitting to write the cash book balances in the trial balance.
 - (viii) Omitting to write the balance of an account in the trial balance.
 - (ix) Writing a balance in wrong column of the trial balance.
 - (x) Totalling the trial balance wrongly.
- (b) The errors that do not affect the trial balance are the following:
- (i) Omitting an entry altogether from the subsidiary book.
 - (ii) Making an entry with the wrong amount in the subsidiary book.
 - (iii) Posting an amount in a wrong account but on the correct side, e.g., an amount to be debited to A is debited to B, the trial balance will still agree.



6.4 STEPS TO LOCATE ERRORS

Even if there is only a very small difference in the trial balance, the errors leading to it must be located and rectified. A small difference may be the result of a number of errors. The following steps will be useful in locating errors :

- (i) The two columns of the trial balance should be totalled again. If in place of a number of accounts, only one amount has been written in the trial balance the list of such accounts should be checked and totalled again. List of Trade receivables is the example from which Trade receivable balance is derived.

- (ii) It should be seen that the cash and bank balances have been written in the trial balance.
- (iii) The exact difference in the trial balance should be established. The ledger should be gone through again; it is possible that a balance equal to the difference has been omitted from the trial balance. The difference should also be halved; it is possible that balance equal to half the difference has been written in the wrong column.
- (iv) The ledger accounts should be balanced again.
- (v) The casting of subsidiary books should be checked again, especially if the difference is ₹ 1, ₹ 100 etc.
- (vi) If the difference is very big, the balance in various accounts should be compared with the corresponding accounts in the previous period. If the figures differ materially, those cases should be further scrutinised; it is possible that an error has been committed. Suppose the sales account for the current year shows a balance of ₹ 32,53,000 whereas it was ₹ 36,45,000 last year; it is possible that there is an error in the Sales Account.
- (vii) Postings of the amounts equal to the difference or half the difference should be checked. It is possible that an amount has been omitted to be posted or has been posted on the wrong side.
- (viii) If there is still a difference in the trial balance, a complete checking will be necessary. The posting of all the entries including the opening entry should be checked. It may be better to begin with the nominal accounts.



6.5 RECTIFICATION OF ERRORS

Errors should never be corrected by overwriting. The correction should be made by making another suitable entry, called as rectification entry. In fact the rectification of an error depends on at which stage it is detected. An error can be detected at any one of the following stages:

- (a) Before preparation of Trial Balance.
- (b) After Trial Balance but before the final accounts are drawn.
- (c) After final accounts, i.e., in the next accounting period.

6.5.1 Before preparation of Trial Balance

There are some errors which affect one side of an account or which affect more than one account in such a way that it is not possible to pass a complete rectification entry. In other words, there are some errors which can be corrected, if detected at this stage, by making rectification statement in the appropriate side(s) of concerned account(s). It is important to

note here that such errors may involve only one account or more than one account. Read the following illustrations:

- (i) The sales book for November is undercast by ₹ 200. The effect of this error is that the Sales Account has been credited short by ₹ 200. Since the account is posted by the total of the sales book, there is no error in the accounts of the customers since they are posted with amounts of individual sales. Hence only the Sales Accounts is to be corrected. This will be done by making an entry for ₹ 200 on the credit side: "By undercasting of Sales Book for November ₹ 200".
- (ii) While posting the discount column on the debit side of the cash book the discount of ₹ 10 allowed to Ramesh has not been posted. There is no error in the cash book, the total of discount column presumably has been posted to the discount account on the debit side. The error is in not crediting Ramesh by ₹ 10. This should now be done by the entry "By omission of posting of discount on ----- ₹10".
- (iii) ₹ 200 received from Ram has been entered by mistake on the debit side of his account. Since the cash book seems to have been correctly written, the error is only in the account of Ram - he should have been credited and not debited by ₹ 200. Not only the wrong debit is to be removed but also a credit of ₹ 200 is to be given. This can be done now by entering ₹ 400 on the credit side of his account. The entry will be "By Posting on the wrong side - ₹ 400".
- (iv) ₹ 50 was received from Mahesh and entered on the debit side of the cash book but was not posted to his account. By the error, which affects only the account of Mahesh, ₹ 50 has been omitted from the credit side of his account. The rectification will be by the entry. "By Omission of posting on the ₹ 50."
- (v) ₹ 51 paid to Mohan has been posted as ₹15 to the debit of his account. Mohan has been debited short by ₹ 36. The rectifying entry is "To mistake in posting on ₹ 36".
- (vi) Goods sold to Ram for ₹1,000 was wrongly posted from sales day book to the debit of purchase account. Ram has however been correctly debited. Here the error affects two accounts, viz., purchases account and sales account but we cannot pass a journal entry for its rectification because both the accounts need to be credited. The rectification will be done by the entry "By wrong posting on ₹ 1,000" in the credit of purchases account and also "By omission of posting on - ₹ 1,000" in the credit sales account.
- (vii) Bills receivable from Mr. A of ₹ 500 was posted to the credit of Bills payable Account and also credited to A account. Here also although two accounts are involved we cannot pass a complete journal entry for rectification. The rectification will be done by the entry "To wrong posting on ₹ 500" in debit of Bills payable Account and also "To omission of posting on ₹ 500" in the debit of Bills Receivable Account.

- (viii) Goods purchased from Vinod for ₹ 1,000 was wrongly credited to Vimal account by ₹ 100. Again we cannot pass a complete journal entry for rectification even though two accounts are involved. The rectification will be done by the entry "To wrong posting on ₹100" in the debit of Vimal account and "By omission of posting on ₹ 1,000" in the credit of Vinod account.

Thus, from the above illustrations, it is clear that the general rule of errors affecting two accounts can be corrected by a journal entry does not hold true always.

ILLUSTRATION 1

How would you rectify the following errors in the book of Rama & Co.?

1. *The total to the Purchases Book has been undercast by ₹ 100.*
2. *The Returns Inward Book has been undercast by ₹ 50.*
3. *A sum of ₹ 250 written off as depreciation on Machinery has not been debited to Depreciation Account.*
4. *A payment of ₹ 75 for salaries (to Mohan) has been posted twice to Salaries Account.*
5. *The total of Bills Receivable Book ₹ 1,500 has been posted to the credit of Bills Receivable Account.*
6. *An amount of ₹151 for a credit sale to Hari, although correctly entered in the Sales Book, has been posted as ₹ 115.*
7. *Discount allowed to Satish ₹ 25 has not been entered in the Discount Column of the Cash Book. the amount has been posted correctly to the credit of his personal account.*

SOLUTION

1. The Purchases Account should receive another debit of ₹100 since it was debited short previously:
"To Undercasting of Purchases Book for the month of --- ₹100."
2. Due to this error the Returns Inward Account has been posted short by ₹ 50 : the correct entry will be:
"To Undercasting of Returns Inward Book for the month of --- ₹50."
3. The omission of the debit to the Depreciation Account will be rectified by the entry:
"To Omission of posting on ₹ 250".
4. The excess debit will be removed by a credit in the Salaries Account by the entry:
"By double posting on ₹ 75".

5. ₹1,500 should have been debited to the Bills Receivable Account and not credited. To correct the mistake, the Bills Receivable Account should be debited by ₹ 3,000 by the entry:
"To Wrong posting of B/R received on ₹ 3,000"
6. Hari's personal A/c is debited ₹ 36 short. The rectification entry will be:
"To Wrong posting ₹ 36".
7. Due to this error, the discount account has been debited short by ₹ 25. The required entry is :
"To Omission of discount allowed to Satish on ₹ 25."

So far we have discussed the correction of errors which affected only one Account or more than one account but for which rectifying entries were not complete journal entries. We shall now take up the correction of errors which affect more than one account in such a way that complete journal entries are possible for their rectification. Read the following illustrations:

- (i) The purchase of machinery for ₹ 2,000 has been entered in the purchases book. The effect of the entry is that the account of the supplier Ram & Co. has been credited by ₹ 2,000 which is quite correct. But the debit to the Purchases Account is wrong : the debit should be to Machinery Account. To rectify the error, the debit in the purchases Account has to be transferred to the Machinery Account. The correcting entry will be to Credit Purchases Account and debit the Machinery Account. Please see the three entries made below: the last entry rectifies the error:

Particulars	Debits ₹	Credits ₹
Wrong Entry:		
Purchases Account	2,000	
To Ram & Co.		2,000
Correct Entry:		
Machinery Account	2,000	
To Ram & Co.		2,000
Rectifying Entry:		
Machinery Account	2,000	
To Purchases Account		2,000

- (ii) ₹100 received from Kamal Kishore has been credited in the account of Krishan Kishore. The error is that there is a wrong credit in the account of Krishan Kishore and omission of credit in the account of Kamal Kishore; Krishan Kishore should be debited and Kamal Kishore be credited. The following three entries make this clear:

Particulars	Debits ₹	Credits ₹
Wrong Entry:		
Cash Account	100	
To Krishan Kishore		100
Correct Entry:		
Cash Account	100	
To Kamal Kishore		100
Rectifying Entry:		
Krishan Kishore	100	
To Kamal Kishore		100

- (iii) The sale of old machinery, ₹1,000 has been entered in the sales book. By this entry the account of the buyer has been correctly debited by ₹1,000. But instead of crediting the Machinery Account. Sales Account has been credited. To rectify the error this account should be debited and the Machinery Account credited. See the three entries given below:

Particulars	Debits ₹	Credits ₹
Wrong Entry:		
Buyer's Account	1,000	
To Sales Account		1,000
Correct Entry:		
Buyer's Account	1,000	
To Machinery Account		1,000
Rectifying Entry:		
Sales Account	1,000	
To Machinery Account		1,000

ILLUSTRATION 2

The following errors were found in the book of Ram Prasad & Sons. Give the necessary entries to correct them.

- (1) ₹ 500 paid for furniture purchased has been charged to ordinary Purchases Account.
- (2) Repairs made were debited to Building Account for ₹ 50.
- (3) An amount of ₹100 withdrawn by the proprietor for his personal use has been debited to Trade Expenses Account.
- (4) ₹100 paid for rent debited to Landlord's Account.
- (5) Salary ₹ 125 paid to a clerk due to him has been debited to his personal account.
- (6) ₹ 100 received from Shah & Co. has been wrongly entered as from Shaw & Co.
- (7) ₹ 700 paid in cash for a typewriter was charged to Office Expenses Account.

SOLUTION**Journal**

Sr. No.	Particulars	Dr. ₹	Cr. ₹
(1)	Furniture A/c To Purchases A/c (Correction of wrong debit to Purchases A/c for furniture purchased)	500	500
(2)	Repairs A/c To Building A/c (Correction of wrong debit to building A/c for repairs made)	50	50
(3)	Drawings A/c. To Trade Expenses A/c (Correction of wrong debit to Trade Expenses A/c for cash withdrawn by the proprietor for his personal use)	100	100
(4)	Rent A/c To Landlord's Personal A/c (Correction of wrong debit to landlord's A/c for rent paid)	100	100

(5)	Salaries A/c To Clerk's (Personal) A/c (Correction of wrong debit to Clerk's personal A/c for salaries paid)	125	125
(6)	Shaw & Co. To Shah & Co. (Correction of wrong credit to Shaw & Co. Instead of Shah & Co.)	100	100
(7)	Typewriter A/c To Office Expenses A/c (Correction of wrong debit to Office Expenses A/c for purchase of typewriter)	700	700

ILLUSTRATION 3

Give journal entries to rectify the following:

- (1) A purchase of goods from Ram amounting to ₹150 has been wrongly entered through the Sales Book.
- (2) A Credit sale of goods amounting ₹120 to Ramesh has been wrongly passed through the Purchase Book.
- (3) On 31st December, 20X1 goods of the value of ₹ 300 were returned by Hari Saran and were taken into inventory on the same date but no entry was passed in the books.
- (4) An amount of ₹ 200 due from Mahesh Chand, which had been written off as a Bad Debt in a previous year, was unexpectedly recovered, and had been posted to the personal account of Mahesh Chand.
- (5) A Cheque for ₹ 100 received from Man Mohan was dishonoured and had been posted to the debit of Sales Returns Account.

SOLUTION**Journal**

Sr.No.	Particulars	Dr.(₹)	Cr.(₹)
(1)	Purchases A/c	150	
	Sales A/c	150	
	To Ram		300
	(Correction of wrong entry in the sales Book for a purchases of goods from Ram)		

(2)	Ramesh	240	
	To Purchases A/c		120
	To Sales A/c		120
	(Correction of wrong entry in the Purchases Book of a credit sale of goods to Ram)		
(3)	Returns Inwards A/c	300	
	To Hari Saran		300
	(Entry of goods returned by him and taken in inventory omitted from records)		
(4)	Mahesh Chand	200	
	To Bad Debts Recovered A/c		200
	(Correction of wrong credit to Personal A/c in respect of recovery of previously written off bad debts)		
(5)	Man Mohan	100	
	To Sales Return A/c		100
	(Correction of wrong debit to Sales Returns A/c for dishonour of cheque received from Man Mohan)		

Thus, it can be said that errors detected before the preparation of trial balance can be rectified either through rectification statements (not entries) or through rectification entries.

ILLUSTRATION 4

The following errors were found in the books of Shree Krishna & Sons. Give the necessary entries to correct them.

- (i) *Minor repairs made to the building amounting to ₹ 5,550 were debited to the Building Account.*
- (ii) *An amount of ₹ 9,000 due from Mohan Lal, which had been written off as bad debts in the previous year, recovered in the current year, and had been posted to the personal Account of Mohan Lal.*
- (iii) *Furniture purchased for office use amounting to ₹ 60,000 has been entered in the purchase day book.*
- (iv) *Goods purchased from Suresh Verma amounting to ₹ 24,000 have remained unrecorded so far.*
- (v) *College fees of proprietor's son, ₹ 45,000 debited to the Audit Fees Account.*
- (vi) *Receipt of ₹ 13,500 from Amit Kumar credited to Radha Rani.*

- (vii) Goods amounting to ₹ 18,600 had been returned by a customer and were taken into inventory, but no entry was made in the books.
- (viii) ₹ 4,500 paid for wages to workmen for making office furniture had been charged to the Wages Account.
- (ix) Salary paid to a clerk ₹ 36,000 has been debited to his personal account.
- (x) A purchase of goods from Keshav Sharma amounting to ₹ 60,000 has been wrongly entered through the sales book.

SOLUTION**In the books of Shree Krishna & Sons****Journal**

	Particulars	L.F.	Dr. ₹	Cr. ₹
(i)	Repairs A/c Dr. To Building A/c (being repairs to building wrongly posted to building A/c now rectified)		5,550	5,550
(ii)	Mohan Lal A/c Dr. To Bad Debts Recovered A/c (Being Bad Debts recovered from Mohan Lal, wrongly posted to the personal A/c of Mohan Lal, Now rectified)		9,000	9,000
(iii)	Furniture A/c Dr. To Purchases A/c (Being furniture purchased for office use wrongly entered in purchases book, now rectified)		60,000	60,000
(iv)	Purchases A/c Dr. To Suresh Verma A/c (Being good purchased from Suresh Verma was not recorded, now rectified)		24,000	24,000

(v)	Drawings A/c To Audit Fees A/c (Being proprietor's son college fees wrongly charged to Audit fees , now rectified)	Dr.	45,000	45,000
(vi)	Radha Rani A/c To Amit Kumar A/c (Being receipt from Radha Rani, wrongly credited to Personal Kumar, now rectified)	Dr.	13,500	13,500
(vii)	Returns Inwards A/c To Debtors A/c (Being goods returned by customer and taken into inventory but omitted from records, now rectified)	Dr.	18,600	18,600
(viii)	Furniture A/c To Wages A/c (Being wages paid to workmen for office furniture wrongly charged to Wages A/c, now rectified)	Dr.	4,500	4,500
(ix)	Salaries A/c To Clerk's (Personal) A/c (Being Salary paid to clerk, wrongly debited to his personal A/c ,now rectified)	Dr.	36,000	36,000
(x)	Purchases A/c Sales A/c To Keshav Sharma A/c (Bring purchase of goods from Keshav Sarman wrongly entered in Sales Book, now rectified)	Dr. Dr.	60,000 60,000	1,20,000

6.5.2 After Trial Balance but before Final Accounts

The method of correction of error indicated so far is appropriate when the errors have been located before the end of the accounting period. After the corrections, the trial balance will agree. Sometimes the trial balance is artificially made to agree despite of errors by opening a suspense account and putting the difference in the trial balance to the account - the suspense

account will be debited if the total of the credit column in the trial balance exceeds the total of the debit column and vice versa.

One must note that such agreement of the trial balance is not real. Effort must be made to locate the errors.

The rule of rectifying errors detected at this stage is simple. Those errors for which complete journal entries were not possible in the earlier stage of rectification (i.e., before trial balance) can now be rectified by way of journal entry(s) with the help of suspense account, for it these errors which gave rise to the suspense account in the trial balance. The rectification entry for other type of error i.e. error affecting more than one account in such a way that a complete journal entry is possible for its rectification, can be rectified in the same way as in the earlier stage (i.e. before trial balance).

In a nutshell, it can be said that each and every error detected at this stage can only be corrected by a complete journal entry. Those errors for which journal entries were not possible at the earlier stage will now be rectified by a journal entry(s), the difference or the unknown side is being taken care of by suspense account. Those errors for which entries were possible even at the first stage will now be rectified in the same way.

Suppose, the sales book for November, 20X1 is casted short by ₹100 ; as a consequence the trial balance will not agree. The credit column of the trial balance will be ₹100 short and a Suspense Account will be credited by ₹100. To rectify the error the Sales Account will be credited (to increase the credit to the right figure. Now one error remains, the Suspense Account must be closed by debiting the Suspense Account. The entry will be:

Suspense Account	₹100	
To Sales Account		₹100
(Correction of error of undercasting the sales Book for November 20X1)		

ILLUSTRATION 5

Correct the following errors (i) without opening a Suspense Account and (ii) opening a Suspense Account:

- The Sales Book has been totalled ₹100 short.
- Goods worth ₹150 returned by Green & Co. have not been recorded anywhere.
- Goods purchased ₹250 have been posted to the debit of the supplier Gupta & Co.
- Furniture purchased from Gulab & Bros, ₹1,000 has been entered in Purchases Day Book.
- Discount received from Red & Black ₹15 has not been entered in the Discount Column of the Cash Book.

- (f) Discount allowed to G. Mohan & Co. ₹18 has not been entered in the Discount Column of the Cash Book. The account of G. Mohan & Co. has, however, been correctly posted.

SOLUTION

If a Suspense Account is not opened.

- (a) Since sales book has been casted ₹100 short, the Sales Account has been similarly credited ₹100 short. The correcting entry is to credit the Sales Account by ₹100 as "By wrong totalling of the Sales Book ₹100".
- (b) To rectify the omission, the Returns Inwards Account has to be debited and the account of Green & Co. credited. The entry:

Returns Inward Account	Dr.	₹150	
To Green & Co.			₹150
(Goods returned by the firm, previously omitted from the Returns Inward Book)			

- (c) Gupta & Co. have been debited ₹250 instead of being credited. This account should now be credited by 500 to remove the wrong debit and to give the correct credit. The entry will be on the credit side... "By errors in posting ₹500".
- (d) By this error Purchases Account has to be debited by ₹1,000 whereas the debit should have been to the Furniture Account. The correcting entry will be:

Furniture Account	Dr.	₹1,000	
To Purchases Account			₹1,000
(Correction of the mistake by which of the Furniture Account)			

- (e) The discount of ₹15 received from Red & Black should have been entered on the credit side of the cash book. Had this been done, the Discount Account would have been credited (through the total of the discount column) and Red & Black would have been debited. This entry should not be made:

Red & Black	Dr.	₹15	
To Discount Account			₹15
(Rectification of the error by which the discount allowed by the firm was not entered in Cash Book)			

- (f) In this case the account of the customer has been correctly posted; the Discount Account has been debited ₹18 short since it has been omitted from the discount

column on the debit side of the cash book. The discount account should now be debited by the entry; "To Omission of entry in the Cash Book ₹18."

If a Suspense Account is opened :

	Particulars	Dr.(₹)	Cr.(₹)
(a)	Suspense Account To Sales Account (Being the correction arising from under- casting of Sales Day Book)	100	100
(b)	Return Inward Account To Green & Co (Being the recording of unrecorded returns)	150	150
(c)	Suspense Account To Gupta & Co. (Being the correction of the error by which Gupta & Co. was debited instead of being credited by ₹ 250).	500	500
(d)	Furniture Account To Purchases Account (Being the correction of recording purchase of furniture as ordinary purchases)	1,000	1,000
(e)	Red & black To Discount Account (Being the recording of discount omitted to be recorded)	15	15
(f)	Discount Account To Suspense Account (Being the correction of omission of the discount allowed from Cash Book customer's account already posted correctly).	18	18

Suspense Account

Dr. Date	Particulars	Amount ₹	Date	Particulars	Cr. Amount ₹
	To Sales A/c	100		By Difference in	
	To Gupta & Co.	500		Trial Balance	582
				By Discount A/c	18
		600			600

Notes:

- (i) One should note that the opening balance in the Suspense Account will be equal to the difference in the trial balance.
- (ii) If the question is silent as to whether a Suspense Account has been opened, the student should make his assumption, state it clearly and then proceed.

ILLUSTRATION 6

Correct the following errors found in the books of Mr. Dutt. The Trial Balance was out by ₹ 493 excess credit. The difference thus has been posted to a Suspense Account.

- (a) An amount of ₹100 was received from D. Das on 31st December, 20X1 but has been omitted to enter in the Cash Book.
- (b) The total of Returns Inward Book for December has been casted short by ₹100.
- (c) The purchase of an office table costing ₹ 300 has been passed through the Purchases Day Book.
- (d) ₹ 375 paid for Wages to workmen for making show-cases had been charged to "Wages Account".
- (e) A credit purchase of ₹ 67 had been posted to the trade payables' account as ₹ 60.
- (f) A cheque for ₹ 200 received from P. C. Joshi had been dishonoured and was passed to the debit of "Allowances Account".
- (g) ₹ 1,000 paid for the purchase of a motor cycle for Mr. Dutt for his personal use had been charged to "Miscellaneous Expenses Account".
- (h) Goods amounting to ₹100 had been returned by customer and were taken into inventory, but no entry in respect thereof, was made into the books.
- (i) A sale of ₹200 to Singh & Co. was wrongly credited to their account. Entry was correctly made in sales book.

SOLUTION

(a)

Journal Entries

Particulars	L.F.	₹	₹
(a) Cash Account Dr. To D. Das (Being the amount received)		100	100
(b) Returns Inward Account Dr. To Suspense Account (Being the mistake in totalling the Returns Inward Book corrected)		100	100
(c) Furniture Account Dr. To Purchases Account (Being the rectification of mistake by which purchase of furniture was entered in Purchases book and hence now corrected by crediting the Purchases Account)		300	300
(d) Furniture Account Dr. To Wages Account (Being the wages paid to workmen for making show-cases which should have been capitalised and not to be charged to Wages Account)		375	375
(e) Suspense Account Dr. To Creditors (personal) Account (Being the mistake in crediting the Trade payables Account less by ₹ 7, now corrected)		7	7
(f) P.C. Joshi Dr. To Allowances Account (Being the cheque of P.C. Joshi dishonoured, previously debited to Allowances Account)		200	200
(g) Drawings Account Dr. To Miscellaneous Expenses (Being the motor cycle purchased for Mr. Dutt debited to his Drawings Account instead of Miscellaneous Expenses Account as previously done by mistake)		1,000	1,000

(h)	Returns Inward Account Dr. To Debtors (Personal) Account (Correction of the omission to record return of goods by customers)	100	100
(i)	Singh & Co. Dr. To Suspense Account (Being the correction of mistake by which the account of Singh & Co. was credited by ₹ 200 instead of being debited)	400	400

Suspense Account

Dr.					Cr.
Date	Particulars	Amount	Date	Particulars	Amount
20X1 Dec.31	To Difference in Trial Balance	₹ 493	20X1 Dec. 31	By Returns Inwards A/c	₹ 100
" "	To Trade Payables A/c	<u>7</u> 500	" "	By Singh & Co.	<u>400</u> 500

ILLUSTRATION 7

The following errors, affecting the account for the year 20X1 were detected in the books of Jain Brothers, Delhi:

- (1) Sale of old Furniture ₹ 150 treated as sale of goods.
- (2) Receipt of ₹ 500 from Ram Mohan credited to Shyam Sunder.
- (3) Goods worth ₹ 100 brought from Mohan Narain have remained unrecorded so far.
- (4) A return of ₹ 120 from Mukesh posted to his debit.
- (5) A return of ₹ 90 to Shyam Sunder posted as ₹ 9 in his account.
- (6) Rent of proprietor's residence, ₹ 600 debited to rent A/c.
- (7) A payment of ₹ 215 to Mohammad Sadiq posted to his credit as ₹ 125.
- (8) Sales Book casted short by ₹ 900 .
- (9) The total of Bills Receivable Book ₹ 1,500 left unposted.

You are required to pass the necessary rectifying entries and show how the trial balance would be affected by the errors.

SOLUTION**Journal**

	Particulars	L.F.	Dr. Amount ₹	Cr. Amount ₹
(1)	Sales Account Dr. To Furniture Account (Rectification of sales of furniture treated as sales of goods)		150	150
(2)	Shyam Sunder Dr. To Rama Mohan (Rectification of a receipt from Ram Mohan credited to Shyam Sunder)		500	500
(3)	Purchases Account Dr. To Mohan Narain (Purchases of goods from Mohan Narain unrecorded, now corrected)		100	100
(6)	Drawing Account Dr. To Rent Account (Rectification of Payment of rent of proprietor's residence treated as payment of office rent)		600	600

N.B. : For 4, 5, 7, 8, 9 no journal entry can be passed as they affect a single account. The correction will be as under:

- (4) Credit Mukesh's Account with ₹ 240.
- (5) Debit the account of Shyam Sunder by ₹ 81.
- (7) Debit the account of Mohammad Sadiq by ₹ 340.
- (8) Credit Sales Account by ₹ 900.
- (9) Debit Bills Receivable Account with ₹ 1,500.

Effect of the Errors on Trial Balance

1. No effect
2. No effect
3. No effect

4.	Trial Balance credit total short by	₹	240.
5.	Trial Balance debit total short by	₹	81.
6.	No effect		
7.	Trial Balance debit total short by	₹	340.
8.	Trial Balance credit total short by	₹	900.
9.	Trial Balance debit total short by	₹	1,500.

ILLUSTRATION 8

Write out the Journal Entries to rectify the following errors, using a Suspense Account.

- (1) Goods of the value of ₹ 100 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;
- (2) An amount of ₹150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;
- (3) A sale of ₹200 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as ₹ 20; and
- (4) The total of "Discount Allowed" column in the Cash Book for the month of September, 20X1 amounting to ₹ 250 was not posted.

SOLUTION**Journal**

	Particulars		L.F.	Dr. ₹	Cr. ₹
(1)	Sales Account	Dr.		100	
	Sales Returns Account	Dr.		100	
	To Suspense Account				200
	(The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)				
(2)	Suspense Account	Dr.		300	
	To Mr. Philip				300
	(Wrong debit to Mr. Philip for goods returned by him, now rectified)				
(3)	Mr. Ghanshyam	Dr.		200	
	To Mr. Radheshyam				20

(4)	To Suspense Account (Omission of debit to Mr. Ghanshyam and wrong credit to Mr. Radhesham for sale of ₹ 200, now rectified)	Dr.	250	180
	Discount Account To Suspense Account (The total of Discount allowed during September, 20X1 not posted from the Cash Book; error now rectified)			250

6.5.3 Correction in the next Accounting Period

Rectification of errors discussed so far assumes that it was carried out before the books were closed for the concerned year. However, sometimes, the rectification is carried out in the next year, carrying forward the balance in the Suspense Account or even transferring it to the Capital Account. Suppose, the Purchase Book was cast short by ₹1,000 in December, 20X1 and a Suspense Account was opened with the difference in the trial balance. If the error is rectified next year and the entry passed is to debit Purchase Account (and credit Suspense Account), it will mean that the Purchases Account for year 20X2 will be ₹1,000 more than the amount relating to year 20X2 and thus the profit for year 20X2 will be less than the actual for that year. Thus, correction of errors in this manner will 'falsify' the Profit and Loss Account.

To avoid this, correction of all amounts concerning nominal accounts, i.e., expenses and incomes should be through a special account styled as "Prior Period Items" or "Profit and Loss Adjustment Account". The balance in the account should be transferred to the Profit and Loss Account. However, these Prior Period Items should be charged after deriving the profit of the current year. 'Prior Period items' are material income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods. Prior Period Items should be separately disclosed in the current statement of profit and loss together with their nature and amount in a manner that their impact on current period profit or loss can be perceived.

ILLUSTRATION 9

Mr. Roy was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss Account of that year. Next Year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:

- (1) Purchase of a scooter was debited to conveyance account ₹ 3,000.
- (2) Purchase account was over-cast by ₹ 10,000.
- (3) A credit purchase of goods from Mr. P for ₹ 2,000 was entered as a sale.

- (4) Receipt of cash from Mr. A was posted to the account of Mr. B ₹ 1,000.
- (5) Receipt of cash from Mr. C was posted to the debit of his account, ₹ 500.
- (6) ₹ 500 due by Mr. Q was omitted to be taken to the trial balance.
- (7) Sale of goods to Mr. R for ₹ 2,000 was omitted to be recorded.
- (8) Amount of ₹ 2,395 of purchase was wrongly posted as ₹ 2,593.
- Mr. Roy used 10% depreciation on vehicles. Suggest the necessary rectification entries.

SOLUTION**Journal Entries in the books of Mr. Roy**

Sr. No.	Particulars	Dr.(₹)	Cr.(₹)
(1)	Motor Vehicles A/c Dr. To Profit and Loss Adjustment A/c (Purchase of scooter wrongly debited to conveyance account now rectified-capitalisation of ₹ 2,700, i.e., ₹ 3,000 less 10% depreciation)	2,700	2,700
(2)	Suspense A/c Dr. To Profit & Loss Adjustment A/c (Purchase Account overcast in the previous year; error now rectified).	10,000	10,000
(3)	Profit & Loss Adjustment A/c Dr. To P's A/c (Credit purchase from P ₹ 2,000, entered as sales last year; now rectified)	4,000	4,000
(4)	B's A/c Dr. To A's A/c (Amount received from A wrongly posted to the account of B; now rectified)	1,000	1,000
(5)	Suspense A/c Dr. To C's A/c (₹ 500 received from C wrongly debited to his account; now rectified)	1,000	1,000

(6)	Trade receivables A/c To Suspense A/c (₹ 500 due by Q not taken into trial balance; now rectified)	Dr.	500	500
(7)	R's A/c To Profit & Loss Adjustment A/c (Sales to R omitted last year; now recorded)	Dr.	2,000	2,000
(8)	Suspense A/c To Profit & Loss Adjustment A/c (Excess posting to purchase account last year, ₹ 2,593, instead of ₹ 2,395, now adjusted)	Dr.	198	198
(9)	Profit & Loss Adjustment A/c To Roy's Capital A/c (Balance of Profit & Loss Adjustment A/c transferred to Capital Account)	Dr.	10,898	10,898
(10)	Roy's Capital A/c To Suspense A/c (Balance of Suspense Account transferred to the Capital Account)	Dr.	10,698	10,698

Note : Entries No. (2) and (8) may even be omitted; but this is not advocated.

Profit and Loss Adjustment Account

(Prior Period Items)

	₹		₹
To P	4,000	By Motor Vehicles A/c	2,700
To Roy's Capital (transfer)	10,898	By Suspense A/c	10,000
		By R	2,000
		By Suspense Account	198
	14,898		14,898

Suspense Account

	₹		₹
To Profit & Loss Adjustment A/c	10,000	By Trade Receivables (Q)	500
To C	1,000	By Roy's Capital A/c (Transfer)	10,698
To Profit & Loss Adjustment A/c	198		
	11,198		11,198

ILLUSTRATION 10

Pass the Journal entries to record/rectify the following transactions in the books of Mr. Verma. Suspense account may be used, if required:

- (i) Sale of goods to Suresh at the list price of ₹ 1,80,000/- less 10% trade discount. Out of the amount due 50% is received, out of which two-third is received by cheque and the balance amount is received in cash. CGST and SGST applicable is 6% each.
- (ii) One of the debtors, Mr. Y has agreed to pay his dues of ₹ 3,000/- to Mr. Z who is a creditor of Mr. Verma with the same amount being due to him.
- (iii) Employees have been given inventory having selling price of ₹ 1,00,000 (Cost price ₹ 75,000) on the eve of Deepawali as a gift. CGST and SGST applicable is 6% each.
- (iv) Sale of ₹ 2,500/- made to Mr. Rajesh Kumar has been debited to Mrs. Rajni Devi.
- (v) A second hand machinery was purchased and its overhauling charges paid are ₹15,000/- . The accountant debited the overhaul charges to Repairs and Maintenance Account. Depreciation on machinery has been charged at 10%.
- (vi) A purchase of ₹ 151 from Mr. Y was entered in Purchase Day Book as ₹ 15 and posted to Mr. Y account as ₹ 51.
- (vii) M has been issued a credit note allowing rebate of ₹ 6,000/- as goods supplied to him was found defective. CGST and SGST charged @ 6% each.
- (viii) N was also given a credit note of ₹ 2,000/- for making prompt payment for outstanding against goods sold to him. CGST and SGST charged on sale was @ 6%.
- (ix) An accrual of telephone charges for ₹ 2,538 has been completely omitted.
- (x) A cheque of ₹ 25,390 issued to Mr. K. Sharma (shown under trade payables) towards his dues has been wrongly debited to the purchases

SOLUTION

Journal Entries in the books of Mr. Verma

S No.	Particulars		Dr. (₹)	Cr. (₹)
(i) (a)	Suresh A/c To Sales To Output CGST To Output SGST (Being goods sold to Suresh at 10% trade discount, CGST and SGST is applicable at 6% each.)	Dr.	1,81,440	1,62,000 9,720 9,720
(b)	Bank A/c Cash A/c To Suresh (Being 50% of the amount due is received from Suresh, out of which 2/3rd is received by cheque and 1/3 rd in cash)	Dr. Dr.	60,480 30,240	90,720
(ii)	Mr. Z To Mr. Y (Being Mr. Y paid his dues to Mr. Z)	Dr.	3,000	3,000
(iii)	Misc Expenses A/c To Purchases To Input CGST To Input SGST (Being inventory given to employees as Gift and GST input reversed)	Dr.	84,000	75,000 4,500 4,500
(iv)	Rajesh Kumar To Rajni Devi (Being sale to Mr. Rajesh Kumar has been wrongly debited to Mrs. Rajni Devi now rectified)	Dr.	2,500	2,500
(v)	Machinery A/c Depreciation A/c To Repairs and Maintenance (Being overhauling charges wrongly debited to repairs and maintenance a/c now rectified)	Dr. Dr.	13,500 1,500	15,000

(vi)	Purchase A/c To Y To Suspense (Being purchases of ₹ 151 from Y wrongly posted in purchase book as ₹ 15 and posted to Mr. Y as ₹ 51 now rectified)	Dr.	136	100 36
(vii)	Rebate A/c Output CGST Output SGST To M (Being rebate allowed to M for the goods supplied was found defective)	Dr. Dr. Dr.	6,000 360 360	6,720
(viii)	Discount allowed A/c To N (Being credit given for making prompt payment for outstanding goods sold)	Dr.	2,000	2,000
(ix)	Telephone exp. A/c To Outstanding Expenses A/c (Being telephone charges omitted to be recorded now rectified)	Dr.	2,538	2,538
(x)	Mr. K. Sharma A/c To Purchases A/c (Being Cheque issued to Mr. K. Sharma wrongly debited to purchases now rectified)	Dr.	25,390	25,390

SUMMARY

- ◆ Unintentional omission or commission of amounts and accounts in the process of recording the transactions are commonly known as errors.
- ◆ Accounting errors are generally of four types-
 - (a) Errors of Principle;
 - (b) Errors of Omission;
 - (c) Errors of Commission;
 - (d) Compensating Errors.
- ◆ Some errors may affect the Trial Balance and some of these do not.

- ♦ The method of rectification of errors depends on the stage at which the errors are detected. If the error is detected before the preparation of trial balance, rectification is carried out by making the statement in the appropriate side of the concerned account.
- ♦ In case of the errors detected after the preparation of the trial balance, we open a suspense account with the amount of difference in the trial balance. Then complete journal entries can be passed for rectifying the errors.
- ♦ For rectifying the errors detected in the next accounting period, a special account 'Profit and Loss Adjustment Account' is opened for correction of amounts relating to expenses and incomes.

TEST YOUR KNOWLEDGE

True and False

1. *The method of rectification of errors depends on the stage at which the errors are detected.*
2. *In case of error of complete omission, the trial balance does not tally.*
3. *When errors are detected after preparation of trial balance, suspense account is opened.*
4. *When purchase of an asset is treated as an expense, it is known as error of principle.*
5. *Trial balance agrees in case of compensating errors.*
6. *When amount is written on wrong side, it is known as an error of principle.*
7. *On purchase of old furniture, the amount spent on repairs should be debited to repairs account.*
8. *'Profit & Loss adjustment account' is opened to rectify the errors detected in the current accounting period.*
9. *Rent paid to landlord of the proprietors house, must be debited to 'Rent account'.*
10. *If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account.*
11. *Purchase of office furniture & fixtures of ₹ 2,500 has been debited to General Expense Account. It is an error of omission.*

Multiple Choice Questions

1. Goods purchased from A for ₹10,000 passed through the sales book. The error will result in
 - (a) Increase in gross profit.
 - (b) Decrease in gross profit.
 - (c) No effect on gross profit.
 - (d) Increase in Purchases Account
2. If a purchase return of ₹1,000 has been wrongly posted to the debit of the sales returns account, but has been correctly entered in the suppliers' account, the total of the
 - (a) Trial balance would show the debit side to be ₹1,000 more than the credit.
 - (b) Trial balance would show the credit side to be ₹1,000 more than the debit.
 - (c) The debit side of the trial balance will be ₹2,000 more than the credit side.
 - (d) The credit side of the Trial Balance will be ₹2,000 more than the debit side.
3. If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called
 - (a) Error of omission.
 - (b) Error of commission.
 - (c) Error of principle.
 - (d) Compensating Error
4. ₹200 paid as wages for erecting a machine should be debited to
 - (a) Repair account.
 - (b) Machine account.
 - (c) Capital account.
 - (d) Wages Account
5. On purchase of old furniture, the amount of ₹1,000 spent on its repair should be debited to
 - (a) Repair account.
 - (b) Office Expenses Account.
 - (c) Cash account.
 - (d) Furniture account.
6. Goods worth ₹50 given as charity should be credited to

- (a) *Charity account.*
 - (b) *Sales account.*
 - (c) *Purchase account.*
 - (d) *Drawings Account*
7. *Goods worth ₹100 taken by proprietor for domestic use should be credited to*
- (a) *Sales account.*
 - (b) *Proprietor's personal expenses.*
 - (c) *Purchases account.*
 - (d) *Drawings Account*
8. *Sales of office furniture should be credited to*
- (a) *Sales Account.*
 - (b) *Furniture Account.*
 - (c) *Purchase Account.*
 - (d) *Profit on Sale of Asset Account*
9. *The preparation of a trial balance is for:*
- (a) *Locating errors of commission.*
 - (b) *Locating errors of principle.*
 - (c) *Locating clerical errors.*
 - (d) *Ascertaining the net profit of the business*
10. *₹ 200 received from Smith whose account, was written off as a bad debt should be credited to:*
- (a) *Bad Debts Recovered account.*
 - (b) *Smith's account.*
 - (c) *Cash account.*
 - (d) *Sales Account*
11. *Purchase of office furniture ₹1,200 has been debited to General Expense Account. It is:*
- (a) *A clerical error.*
 - (b) *An error of principle.*
 - (c) *An error of omission.*

- (d) A compensating error

Theoretical Questions

1. How does errors of omission differ from errors of commission?
2. What is error of principle and how does it affect Trial Balance?
3. When and how is Suspense account used to rectify errors?

Practical Questions

1. The trial balance of Mr. W & H failed to agree and the difference ₹20,570 was put into suspense account pending the investigation which disclosed that:
 - (i) Purchase returns day book had been correctly entered and totalled at ₹6,160, but had not been posted to the ledger.
 - (ii) Discounts received ₹1,320 had been debited to discounts allowed.
 - (iii) The Sales account had been under added by ₹10,000.
 - (iv) A credit sale of ₹1,470 had been debited to a customer account at ₹1,740.
 - (v) A vehicle bought originally for ₹7,000 four years ago and depreciated to ₹1,200 had been sold for ₹1,500 in the beginning of the year but no entries, other than in the bank account had been passed through the books.
 - (vi) An accrual of ₹560 for telephone charges had been completely omitted.
 - (vii) A bad debt of ₹1,560 had not been written off and provision for doubtful debts should have been maintained at 10% of Trade receivables which are shown in the trial balance at ₹23,390 with a credit provision for bad debts at ₹2,320.
 - (viii) Tools bought for ₹1,200 had been inadvertently debited to purchases.
 - (ix) The proprietor had withdrawn, for personal use, goods worth ₹1,960. No entries had been made in the books.

You are required to give rectification entries without narration to correct the above errors before preparing annual accounts and also prepare suspense account.

2. On going through the Trial balance of Ball Bearings Co. Ltd. you find that the debit is in excess by ₹150. This was credited to "Suspense Account". On a close scrutiny of the books, the following mistakes were noticed:
 - (1) The totals of debit side of "Expenses Account" have been casted in excess by ₹50.
 - (2) The "Sales Account" has been totalled in short by ₹100.
 - (3) Supplier account has been overcast by ₹225.

- (4) *The sale return of ₹ 100 from a party has not been posted to that account though the Party's account has been credited.*
- (5) *A cheque of ₹ 500 issued to the Suppliers' account (shown under Trade payables) towards his dues has been wrongly debited to the purchases.*
- (6) *A credit sale of ₹ 50 has been wrongly credited to Trade receivables Account.*

You are required to

- (i) *Pass necessary journal entries for correcting the above;*
 - (ii) *Show how they affect the Profits; and*
 - (iii) *Prepare the "Suspense Account" as it would appear in the ledger.*
3. *Mr. A closed his books of account on September 30, 20X1 in spite of a difference in the trial balance. The difference was ₹ 830 the credits being short; it was carried forward in a Suspense Account. In 20X2 following errors were located:*
- (i) *A sale of ₹ 2,300 to Mr. Lala was posted to the credit of Mrs. Mala.*
 - (ii) *The total of the Returns Inward Book for July, 20X1 ₹ 1,240 was not posted in the ledger.*
 - (iii) *Freight paid on a machine ₹ 5,600 was posted to the Freight Account as ₹ 6,500. 10% Depreciation is charge on this machines.*
 - (iv) *While carrying forward the total in the Purchases Account to the next page, ₹ 65,590 was written instead of ₹ 56,950.*
 - (v) *A sale of machine on credit to Mr. Mehta for ₹ 9,000 on 30th sept. 20X1 was not entered in the books at all. The book value of the machine was ₹ 6,750.*
- Pass journal entries to rectify the errors. Have you any comments to make?*
4. *A merchant's trial balance as on June 30, 20X1 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:*
- (i) *The total of the Purchases Book of one page, ₹ 4,539 was carried forward to the next page as ₹ 4,593.*
 - (ii) *A sale of ₹ 573 was entered in the Sales Book as ₹ 753 and posted to the credit of the customer.*
 - (iii) *A return to a creditor, ₹ 510 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.*
 - (iv) *Cash received from C. Dass, ₹ 620 was posted to the debit of G. Dass.*
 - (v) *Goods worth ₹ 840 were despatched to a customer before the close of the year but no invoice was made out.*

- (vi) Goods worth ₹ 1,000 were sent on sale or return basis to a customer and entered in the Sales Book. At the close of the year, the customer still had the option to return the goods. The sale price was 25% above cost.

You are required to give journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly.

5. The following errors were committed by the Accountant of Geete Dye-Chem.

- (i) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.
(ii) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240

How would you rectify the errors assuming that :

- (a) they were detected before preparation of Trial Balance.
(b) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.
(c) they were detected after preparing Final Accounts

ANSWERS/HINTS

True and False

1. True: There are 3 different stages when the mistakes are identified and then the rectification depends on the stage of identification of errors.
2. False: In case of error of complete omission, the trial balance tallies.
3. True: In order to balance the difference of balances in the trial balance suspense account is opened.
4. True: Where the accounts being debited is principally incorrect it is termed as error of principle.
5. True: Compensating errors cancel out each other when Trial balance is prepared as the mistake pertains to the same amount being credited and later debited on account of two different mistakes.
6. False: When amount is written on wrong side, it is known as an error of commission.
7. False: On purchase of furniture, the amount spent on repairs should be debited to furniture account as it is a capital expense.
8. False: 'Profit & Loss adjustment account' is opened to rectify the errors detected in the next accounting period.

9. False: Rent paid to land lord of the proprietors house, must be debited to 'Drawings account'.
10. False: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be principal errors, which can be rectified without opening a suspense account.
11. False: When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. Purchase of office furniture and fixtures is a capital expenditure, if debited to General Expenses account, is an error of principle and not an error of omission.

Multiple Choice Questions

1.	(a)	2.	(c)	3.	(b)	4.	(b)	5.	(d)	6.	(c)
7.	(c)	8.	(b)	9.	(c)	10.	(a)	11.	(b)		

Theoretical Questions

1.
 - (i) Errors of Omission: If a transaction is completely or partially omitted from the books of account, it will be a case of omission. Examples would be: not recording a credit purchase of furniture or not posting an entry into the ledger.
 - (ii) Errors of Commission: If an amount is posted in the wrong account or it is written on the wrong side or the totals are wrong or a wrong balance is struck, it will be a case of "errors of commission."
2. **Errors of principle:** When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. In this case there is no effect on the trial balance since the amounts are placed on the correct side, though in a wrong account. Suppose on the purchase of a typewriter, the office expenses account is debited; the trial balance will still agree.

The method of correction of error indicated so far is appropriate when the errors have been located before the end of the accounting period. After the corrections, the trial balance will agree. Sometimes the trial balance is artificially made to agree inspite of errors by **opening a suspense account** and putting the difference in the trial balance to the account - the suspense account will be debited if the total of the credit column in the trial balance exceeds the total of the debit column; it will be credited in the other case. Each and every error detected after preparation of trial balance can only be corrected by a complete journal entry. Those errors for which journal entries were not possible at the earlier stage will now be rectified by a journal entry(s), the difference

or the unknown side is being taken care of by suspense account. Those errors for which entries were possible even at the first stage will now be rectified in the same way.

Practical Questions

1.

	Particulars	Dr. ₹	Cr. ₹
(i)	Suspense A/c To Return Outward A/c	6,160	6,160
(ii)	Suspense A/c To Discount Allowed A/c To Discount Received A/c	2,640	1,320 1,320
(iii)	Suspense A/c To Sales A/c	10,000	10,000
(iv)	Suspense A/c To Trade Receivable A/c	270	270
(v)	Suspense A/c To Vehicle A/c To Profit on Sale of Vehicle A/c	1,500	1,200 300
(vi)	Telephone Charges A/c To Outstanding Expenses A/c	560	560
(vii)	Bad Debts A/c (refer W.N 1) To Trade Receivables A/c	1,560	1,560
	Provision for Doubtful Debts A/c (refer W.N. 2) To Profit and Loss A/c	1,396	1,396
(viii)	Loose Tools A/c To Purchases A/c	1,200	1,200
(ix)	Drawings A/c To Purchases A/c	1,960	1,960

Suspense Account

	₹		₹
To Return outward A/c	6,160	By balance b/d	20,570
To Discount allowed A/c	1,320		
To Discount Received A/c	1,320		

To Sales A/c	10,000		
To Customers A/c	270		
To Vehicles A/c	1,200		
To Profit on Sale of Vehicle	300		
	20,570		20,570

Working Notes :

(i)	Balance of Trail Balance for Computation of Provision for Doubtful Debts		
	Trade receivables as per books		23,390
	Deduction vide item (iv)	270	
	Bad Debts	1,560	1,830
			21,560
(ii)	Amount Charge to Profit & Loss on Account of Provision for Doubtful Debts		
	Opening of Provision for Doubtful Debts		2,320
	Less: Bad debts		1,560
			760
	Closing Balance of Provision for Doubtful Debts		2,156
	Charge to Profit and Loss A/c		1,396

2.

Journal Entries

Particulars	L.F.	Dr. ₹	Cr. ₹
Suspense A/c Dr. To Expenses A/c (Being the mistake in totalling of Expenses Account, rectified)		50	50
Suspense A/c Dr. To Sales A/c (Being the mistake in totalling of Sales A/c rectified)		100	100
Supplier A/c Dr. To Suspense A/c (Being the mistake in posting from Day Book to Ledger rectified)		225	225

Sales Returns A/c To Suspense A/c (Being the sales return from a party not posted to "Sales Returns" now rectified)	Dr.		100	
Trade payables A/c To Purchases A/c (Being the payments made to supplier wrongly posted to purchases now rectified)	Dr.		500	
Trade receivables A/c To Suspense A/c (Being the sales wrongly credited to Customer's A/c now rectified)	Dr.		100	
				100
				500

Suspense Account

	Dr. ₹		Cr. ₹
To Expenses A/c	50	By Difference in Trial Balance	150
To Sales A/c	100	By Trade payables	225
To Balance c/d	425	By Sales Returns v	100
		By Trade receivables	100
	575		575
		By Balance b/d	425

Since the Suspense Account does not balance, it is clear that all the errors have not been traced. As a result of the above corrections the Net Profit will be:

	Increased by ₹	Decreased by ₹
Mistake in totalling in "Expenses"	50	
Mistake in totalling in "Sales"	100	
Mistake in posting from day book to Ledger under "Purchases"	500	
Omission in posting under "Sales Returns"		100
	650	100
Net Increase	550	

As a result of these adjustments, the Profits will be increased by ₹550.

3.

Journal of Mr. A

Date	Particulars	Dr.	Cr.
		₹	₹
20X2 (i)	Mrs. Mala Mr. Lala To Suspense A/c (Correction of error by which a sale of ₹ 2,300 to Mr. Lala was posted to the credit of Mrs. Mala)	2,300 2,300	4,600
(ii)	Profit and Loss Adjustment A/c To Suspense A/c (Rectification of omission to post the total of Returns Inward Book for July, 20X1)	1,240	1,240
(iii)	(a) Machinery A/c Suspense A/c To Profit & Loss Adjustment A/c (Correction of error by which freight paid for a machine ₹ 5,600 was posted to Freight Account at ₹ 6,500 instead of capitalising it)	5,600 900	6,500
	(b) Profit & Loss Adjustment A/c To Plant and Machinery A/c (Depreciation @ 10% charged on freight paid on a machine capitalised)	560	560
(iv)	Suspense A/c To Profit & Loss Adjustment A/c (Correction of wrong carry forward of total in the purchase Account to the next page ₹ 65,590 instead of ₹ 56,950)	8,640	8,640
(v)	Mr. Mehta To Plant & Machinery A/c To Profit & Loss Adjustment A/c (Correction of omission of a sale of machine on credit to Mr. Mehta for ₹ 9,000)	9,000	6,750 2,250

Comments

The Suspense Account will now appear as shown below:

Suspense Account

Date	Particulars	Dr. Amount ₹	Date	Particulars	Cr. Amount ₹
20X2	To Profit and Loss Adjustment A/c	900	20X2 Oct. 1	By Balance b/d	830
	To Profit and Loss Adjustment A/c	8,640		By Sundries	
				Mrs. Mala	2,300
				Mr. Lala	2,300
				By Profit and Loss Adjustment A/c	1,240
				By balance c/d	2,870
		9,540			9,540

Since the Suspense Account still shows a balance, it is obvious that there are still some errors left in the books.

Profit & Loss Adjustment A/c**(For Prior Period Items)**

Date 20X2	Particulars	Dr. Amount ₹	Date 20X2	Particulars	Cr. Amount ₹
	To Suspense A/c	1,240		By Machinery A/c	5,600
	To Plant and Machinery A/c	560		By Suspense A/c	900
	To Balance c/d	15,590		By Suspense A/c	8,640
				By Mr. Mehta	2,250
		17,390			17,390

4.

Journal Entries

	Particulars	Dr. ₹	Cr. ₹
(i)	Suspense A/c Dr. To Profit and Loss Adjustment A/c (Correction of error by which Purchase Account was over debited last year- ₹4,593 carried forward instead of ₹4,539)	54	54

(ii)	Profit & Loss Adjustment A/c Customer's A/c To Suspense A/c (Correction of the entry by which (a) Sales A/c was over credited by ₹180 (b) customer was credited by ₹753 instead of being debited by ₹573)	Dr. Dr.	180 1,326	1,506
(iii)	Suspense A/c To Profit & Loss Adjustment A/c (Correction of error by which Returns Inward Account was debited by ₹510 instead of Returns Outwards Account being credited by ₹ 510)	Dr.	1,020	1,020
(iv)	Suspense A/c To C. Dass To G. Dass (Removal or wrong debit to G. Dass and giving credit to C. Dass from whom cash was received).	Dr.	1,240	620 620
(v)	Customer's A/c To Profit & Loss Adjustment A/c (Rectification of the error arising from non-preparation of invoice for goods delivered)	Dr.	840	840
(vi)	Profit & Loss Adjustment A/c Inventory A/c To Customer's A/c (The Customer's A/c credited with ₹ 1,000 for goods not yet purchased by him; cost of the goods debited to inventory and "Profit" debited to Profit & Loss Adjustment A/c)	Dr. Dr.	200 800	1,000
(vii)	Profit & Loss Adjustment A/c To Capital A/c (Transfer of Profit & Loss Adjustment A/c balance to the Capital Account)	Dr.	1,534	1,534

5. (b) (i) This is one sided error. Trivedi & Co. account is credited instead of debit. Amount posted to the wrong side and therefore while rectifying the account, double the amount (₹ 800) will be taken.

Before Trial Balance	After Trial Balance	After Final Accounts
No Entry	Trivedi & Co. A/c Dr. 800	Trivedi & Co. A/c Dr. 800
Debit Trivedi A/c with ₹ 800	To Suspense A/c 800	To Suspense A/c 800

- (ii) Purchase of ₹ 420 is wrongly recorded through sales day book as ₹ 240.

Rectification Entry

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Case Scenarios for Practice

1. M/s Sunrise Enterprises, a wholesaler of stationery items, regularly undertakes credit transactions with its customers and suppliers. During April 20X2, the firm sold goods worth ₹1,20,000 on credit to Amit and purchased goods worth ₹90,000 on credit from Ravi. Subsequently, Amit returned goods worth ₹10,000, while goods costing ₹5,000 were returned to Ravi. Later, Amit settled his account by paying the balance through cheque after receiving a discount of ₹2,000. Before preparing the Trial Balance, the accountant recorded all the transactions in the appropriate subsidiary books and posted them to the respective ledger

Multiple Choice Questions

- 1.1 The amount payable by Amit after the sales return will be:
- (a) ₹1,20,000
 - (b) ₹1,10,000
 - (c) ₹1,08,000
 - (d) ₹1,12,000
- 1.2 After recording the purchase return, the balance payable to Ravi will be:
- (a) ₹90,000
 - (b) ₹95,000
 - (c) ₹85,000
 - (d) ₹80,000
- 1.3 The return of goods by Amit will be recorded in the:
- (a) Returns Outward Book
 - (b) Returns Inward Book
 - (c) Purchases Book
 - (d) Cash Book
- 1.4. The amount of cheque received from Amit will be:
- (a) ₹1,08,000
 - (b) ₹1,10,000
 - (c) ₹1,12,000
 - (d) ₹1,18,000

- 1.5 Which of the following errors may remain undetected even if the Trial Balance agrees?
- Posting one side of an entry only
 - Complete omission of a transaction from the Journal
 - Wrong total of the Trial Balance
 - Carrying forward only one side of a ledger balance

Answer to Multiple Choice Questions

Question No	Correct Option	Reasoning
1.1	(b)	Amount due from Amit: ₹1,20,000 – ₹10,000 = ₹1,10,000
1.2	(c)	Amount payable to Ravi: ₹ 90,000 – ₹ 5,000 = ₹ 85,000
1.3	(b)	Goods returned by customers are recorded in the Returns Inward Book (Sales Returns Book).
1.4	(a)	Reasoning: Outstanding amount = ₹1,10,000 Less: Discount Allowed = ₹ 2,000 Cheque received = ₹1,08,000
1.5	(b)	If a transaction is completely omitted, both the debit and credit aspects are omitted. Since both sides remain unaffected, the Trial Balance will still agree, although the books will be incomplete.

2. Mr. Kapoor is engaged in a trading business. On 31st March, 20X1, his accountant extracted the following ledger balances for preparing the Trial Balance. However, the balances of Sundry Debtors and Cash in Hand were left blank. The total of the Trial Balance has been correctly determined.

Trial Balance of Mr. Kapoor as on 31.03.20X1

Particulars	Debit (₹)	Credit (₹)
Capital		1,00,000
Furniture	40,000	
Purchases	1,50,000	
Sales		2,20,000
Sundry Creditors		35,000

Sundry Debtors	?	
Opening Stock	25,000	
Cash in Hand	?	
Wages	18,000	
Rent Received		8,000
Total	3,63,000	3,63,000

Mr. Kapoor also maintains a Cash Book for recording all cash and bank transactions and a Purchases Book for recording all credit purchases of goods.

Multiple Choice Questions

- 2.1 Based on the given information, what should be the combined balance of Sundry Debtors and Cash in Hand?
- ₹1,20,000
 - ₹1,30,000
 - ₹1,10,000
 - ₹1,45,000
- 2.2 If the balance of Sundry Debtors is ₹ 85,000, what is the balance of Cash in Hand?
- ₹ 35,000
 - ₹ 40,000
 - ₹ 45,000
 - ₹ 50,000
- 2.3 If Rent Received of ₹8,000 was wrongly entered on the debit side instead of the credit side, what would be the effect on the Trial Balance?
- There would be no effect.
 - The Trial Balance would disagree by ₹16,000.
 - The debit side would increase by ₹8,000 only.
 - The credit side would decrease by ₹8,000 only.

2.4 Mr. Kapoor purchased goods worth ₹22,000 on credit from a supplier. In which book will this transaction be recorded initially?

- (a) Cash Book
- (b) Purchases Book
- (c) Journal Proper
- (d) Sales Book

Answer to Multiple Choice Questions

Question No	Correct Option	Reasoning
2.1	(b)	$40,000 + 1,50,000 + 25,000 + 18,000 = ₹ 2,33,000$ $3,63,000 - 2,33,000 = ₹1,30,000$
2.2	(c)	Cash in Hand = ₹1,30,000 – ₹85,000 = ₹45,000
2.3	(b)	The Trial Balance would disagree by ₹16,000 The credit side would be understated by ₹8,000 and the debit side overstated by ₹8,000, resulting in a difference of ₹16,000.
2.4	(b)	Credit purchases of goods are recorded in the Purchases Book. Since no cash is paid, the transaction is not recorded in the Cash Book.

3. M/s Zenith Traders is a registered dealer in electronic goods and maintains its books of account under the double-entry system. In April 20X2, the proprietor, Mr. Zenith, decided to expand the business. For this purpose, the firm purchased electronic goods worth ₹ 2,00,000 on credit from M/s Prime Suppliers.

During the same month, to improve the firm's operating efficiency, Mr. Zenith purchased a new machine for ₹1,20,000. The machine was installed after incurring installation charges of ₹18,000. Both the purchase of the machine and the installation charges were subject to CGST and SGST at 9% each.

While checking the ledger accounts before preparing the trial balance, the accountant found that the installation charges had been wrongly debited to the Repairs and Maintenance A/c. Also, a credit sale of ₹12,000 made to Mr. Karan had been incorrectly posted to the account of Mr. Kunal.

- 3.1 The installation charges of ₹18,000 incurred on the machine should be treated as:
- (a) Revenue expenditure
 - (b) Deferred revenue expenditure
 - (c) Capital expenditure
 - (d) Administrative expenditure
- 3.2 What amount will be debited to the Machinery Account on account of purchase and installation of the machine?
- (a) ₹ 1,20,000
 - (b) ₹ 1,38,000
 - (c) ₹ 1,62,840
 - (d) ₹ 1,41,240
- 3.3 A credit sale of ₹12,000 to Mr. Karan was wrongly posted to Mr. Kunal's Account. Which rectification entry should be passed?
- (a)

Karan A/c	Dr.	₹12,000
To Kunal A/c		₹12,000
 - (b)

Kunal A/c	Dr.	₹12,000
To Karan A/c		₹12,000
 - (c)

Sales A/c	Dr.	₹12,000
To Karan A/c		₹12,000
 - (d)

Karan A/c	Dr.	₹24,000
To Kunal A/c		₹24,000
- 3.4 The Input CGST and Input SGST on the purchase and installation of machinery will amount to:
- (a) ₹ 21,240
 - (b) ₹ 24,840
 - (c) ₹ 12,420 each
 - (d) ₹ 10,620 each

Answer to Multiple Choice Questions

Question No	Correct Option	Reasoning
3.1	(c)	Installation charges incurred to bring the machine into working condition form part of the cost of the asset and are therefore capital expenditure.
3.2	(b)	Machinery Account is debited with the cost of the asset plus installation charges (₹1,20,000 + ₹18,000). GST input credit is recorded separately and is not added to the asset cost.
3.3	(a)	Karan's account should have been debited ₹12,000 but was omitted, and Kunal's account was wrongly debited ₹12,000. Therefore, Karan is debited and Kunal is credited by ₹12,000.
3.4	(c)	GST is calculated on ₹1,38,000 (₹1,20,000 + ₹18,000). CGST = 9% = ₹12,420 and SGST = 9% = ₹12,420.

