

3. RECTIFICATION OF ERRORS

- Unintentional omission or commission of amounts and A/cs in the process of recording the transactions are commonly known as errors.
- Trial balance is prepared to check the correctness of recording in journal, posting to ledger and balancing of ledger accounts.

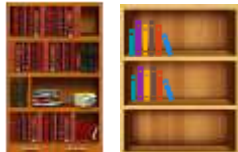

1. MEANING:

(a) **Error:** Mistake committed without any intention to defraud others.

(b) **Fraud:** Committed deliberately and with a malafide intention to gain some benefit.

(c) **Detection:** Errors are easily detectable when compared to frauds.

2. TYPES OF ERRORS:

<p>Error of Principle</p>	<ul style="list-style-type: none"> ❖ When there is a fundamental mistake in recording a transaction i.e. when capital is treated as revenue or vice versa. ❖ It won't affect the Trial Balance ❖ Reversal Journal entry is passed to rectify the error. 																																																												
<div style="display: flex; justify-content: space-between; align-items: center;">  <div style="text-align: center;"> <p>ERROR OF PRINCIPLE</p> </div>  </div> <p>Purchase Store Furniture ₹ 50,000/-</p> <p style="text-align: center;">Now what will happen if Accountant treats Capital Expenditure as Revenue Expenditure</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="4" style="text-align: center; color: green;">CORRECT</th> <th colspan="4" style="text-align: center; color: red;">WRONG</th> <th colspan="4" style="text-align: center; color: green;">CORRECTION</th> </tr> <tr> <th colspan="2">Particulars</th> <th>₹</th> <th>₹</th> <th colspan="2">Particulars</th> <th>₹</th> <th>₹</th> <th colspan="2">Particulars</th> <th>₹</th> <th>₹</th> </tr> </thead> <tbody> <tr> <td>Furniture A/c</td> <td>Dr.</td> <td>50,000</td> <td></td> <td>Office Expenses A/c</td> <td>Dr.</td> <td>50,000</td> <td></td> <td>Furniture A/c</td> <td>Dr.</td> <td>50,000</td> <td></td> </tr> <tr> <td></td> <td>To</td> <td></td> <td>50,000</td> <td></td> <td>To</td> <td></td> <td>50,000</td> <td></td> <td>To office Exp. A/c</td> <td></td> <td>50,000</td> </tr> <tr> <td colspan="2">Cash A/c</td> <td colspan="2"></td> <td colspan="2">Cash A/c</td> <td colspan="2"></td> <td colspan="4" style="text-align: center;">(Being purchase of Furniture wrongly debited to office expenses now rectified.)</td> </tr> </tbody> </table>	CORRECT				WRONG				CORRECTION				Particulars		₹	₹	Particulars		₹	₹	Particulars		₹	₹	Furniture A/c	Dr.	50,000		Office Expenses A/c	Dr.	50,000		Furniture A/c	Dr.	50,000			To		50,000		To		50,000		To office Exp. A/c		50,000	Cash A/c				Cash A/c				(Being purchase of Furniture wrongly debited to office expenses now rectified.)				
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<p>Error of Omission</p>	<ul style="list-style-type: none"> ❖ Error of Partial Omission: One Aspect of the transaction is recorded. Such error affects Trial Balance. ❖ Error of Complete Omission: Both debit and credit aspects are ignored to be recorded. It will not affect the Trial Balance. 																																																												



ERROR OF OMISSION



Now what will happen if Accountant forgets to pass the entry.....

CORRECT

Particulars		₹	₹
Cash A/c	Dr.	1,000	
To			1,000
Sales A/c			

Forget to pass the entry

Particulars		₹	₹

CORRECTION

Particulars		₹	₹
Cash A/c	Dr.	1,000	
To Sales			1,000
A/c			

Error of Commission

- ❖ Clerical errors which occur during the accounting process.
- ❖ Wrong Casting (Overcasting / Undercasting) - Affects Trial Balance
- ❖ Wrong Balancing - Affects Trial Balance.
- ❖ Posting to a wrong side of an account - Affects Trial Balance (Double times)
- ❖ Posting a wrong amount - Affects Trial Balance.
- ❖ Posting to a wrong account - Affects Trial Balance.
- ❖ Posting a wrong amount to a wrong side of a wrong account - Affects Trial balance (difference will be Wrong Amount posted + Correct Amount)
- ❖ Double recording in Journal - Does Not affect Trial Balance.
- ❖ Double posting to the ledger - Affects Trial Balance.
- ❖ Wrong Carry forward of amount - Affects Trial Balance.



Sold Books to Vijay worth ₹ 1000 on credit

ERROR OF COMMISSION



Now what will happen if Accountant post wrong amount to sales A/c...

CORRECT

Particulars	₹	₹
Vijay A/c Dr.	1,000	
To Sales A/c		1,000

WRONG

Particulars	₹	₹
Vijay A/c Dr.	1,000	
To Sales A/c		10,000

CORRECTION

Particulars	₹	₹
Sales A/c Dr.	9,000	
To Suspense A/c		9,000

(Being sale of books to Vijay, wrongly posted wrong amount to sales account, now rectified.)

Compensating Errors

One set of errors on the debit sides compensating for other set of errors on the credit sides, of multiple accounts. Such errors will not affect the Trial Balance.



₹ 500/- Credit purchase From Rahul



Debit of Shivani A/c & Credit of Rahul A/c knocks off against each other.

COMPENSATING ERRORS



However, Accountant forgets to credit Rahul A/c

CORRECT

Particulars	₹	₹
Shivani A/c Dr.	500	
To Sales A/c		50,000
Purchases A/c	500	
To Rahul A/c		500

WRONG

Particulars	₹	₹
----- Dr.	500	
To Sales A/c		500
Purchases A/c	500	
To -----		500

CORRECTION

Particulars	₹	₹
Shivani A/c Dr.	500	
To Rahul A/c		500

Note : Errors of omission, commission and compensating errors are also termed as clerical errors.

3. SUSPENSE ACCOUNT

- When there exists difference in the Trial Balance, Suspense Account shall be created to tally the debit and credit side totals. It is created on the side whose total is less.
- Nature of Balance in Suspense Account

<i>Nature of difference</i>	<i>Balance in Suspense A/c</i>	<i>Shown in Balance Sheet</i>
<i>Total of Dr.Bal. > Total of Cr.Bal.</i>	<i>Credit Balance in Suspense A/c</i>	<i>Liabilities side</i>
<i>Total of Cr.Bal. > Total of Dr.Bal.</i>	<i>Debit Balance in Suspense A/c</i>	<i>Assets side</i>
<i>Suspense Account is a combination of Real A/c, Personal A/c and Nominal A/c.</i>		

- *Stages of finding out the errors:*

<i>Stage I</i>	<i>Stage II</i>	<i>Stage III</i>
<i>Before Preparing Trial Balance</i>	<i>After preparing Trial Balance, Before Preparing Final Accounts</i>	<i>After preparing Trial Balance and Final Accounts</i>
<i>Suspense A/c will not appear</i>	<i>Suspense account will be created</i>	<i>Suspense A/c shown in Balance Sheet.</i>
<i>Rectification is made by directly correcting the wrong entry</i>	<i>Rectification is made by debit or credit to Suspense A/c, if the TB is affected by such error.</i>	<i>Rectification is made by debit or credit to the Suspense A/c; If an error involves any expense or income, then instead of involving respective expense / income, "P&L Adjustment A/c" shall be debited / credited</i>

4. BEFORE PREPARATION OF FINAL ACCOUNTS

- *Sometimes the trial balance is artificially made to agree in spite 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.*
- *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.*

5. CORRECTION IN THE NEXT ACCOUNTING PERIOD:

- *The method of rectification in the next accounting period will depend upon whether the account affected was part of income statement or any other account.*
- *If the account affected is not part of trading and profit and loss account, the rectification is done in the usual manner.*

- *Profit and Loss Adjustment Account: If the error involves an account having its impact on the profit, the errors are corrected through 'Profit and Loss Adjustment Account. These are to be shown separately in the profit and loss account. The profit and loss adjustment account is closed by transfer to the current year profit and loss account as a prior period item. Hence, the profit of current year clearly reflects the effect of the errors of the past period.*

6. STEPS TO RECTIFY THE ERRORS

Rectification in the same year

Step 1: Write down the correct entry that should be passed

Step 2: Write down the wrong entry already passed

Step 3: Compare the correct entry with wrong entry and pass the rectification entry giving the correct effect and nullifying the wrong effect given.

Rectification in the subsequent year

Step 1: Write down the correct entry that should be passed

Step 2: Write down the wrong entry already passed

Step 3: Compare the correct entry with wrong entry and pass the rectification entry giving the correct effect and nullifying the wrong effect given.

Step 4: In the rectification entry passed in step 3, replace the Profit and Loss Adjustment account instead of nominal accounts.

Step 5: After rectification of all the errors of earlier year, balance in Profit and Loss Adjustment Account is transferred to Proprietor's Account or Partner's capital Accounts.

Class Work

1. 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 are detected before preparation of Trial Balance.
 - b) they are detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.
 - c) they are detected after preparing Final Accounts. (RTP Nov 19)

Solution:

- (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 Debit Trivedi A/c with ₹ 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800	Trivedi & Co. A/c Dr. 800 To Suspense A/c 800

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

Correct Entry	Entry Made Wrongly
Purchase A/c Dr. 420 To Mantri & Co. 420	Mantri & Co. Dr. 240 To Sales 240

Rectification Entry

Before Trial Balance	After Trial Balance	After Final Accounts
Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Sales A/c Dr. 240 Purchase A/c Dr. 420 To Mantri & Co. 660	Profit & Loss Adj. A/c Dr. 660 To Mantri & Co. 660

2. Write out the Journal Entries to rectify the following errors, using a Suspense Account.
- (1) Goods of the value of Rs.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 Rs.150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;
 - (3) A sale of Rs. 200 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as Rs. 20;

- (4) Bad Debts aggregating Rs.450 were written off during the year in the Sales ledger but were not adjusted in the General Ledger; and
- (5) The total of "Discount Allowed" column in the Cash Book for the month of September, 2015 amounting to 250 was not posted.

(RTP May 19)

Solution:

	Particulars		L.F.	Dr. ₹	Cr. ₹
(1)	Sales Account	Dr.		10,000	
	Sales Returns Account To Suspense Account (The value of goods returned by Mr. Sharma wrongly posted to Sales and omission of debit to Sales Returns Account, now rectified)	Dr.		10,000	20,000
(2)	Suspense Account To Mr. Philip (Wrong debit to Mr. Philip for goods returned by him, now rectified)	Dr.		30,000	30,000
(3)	Mr. Ghanshyam	Dr.		20,000	
	To Mr. Radheshyam				2,000
	To Suspense Account (Omission of debit to Mr. Ghanshyam and wrong credit to Mr. Radhesham for sale of ₹20,000, now rectified)				18,000
(4)	Bad Debts Account	Dr.		45,000	
	To Suspense Account (The amount of Bad Debts written off not adjusted in General Ledger, now rectified)				45,000
(5)	Discount Account	Dr.		25,000	
	To Suspense Account (The total of Discount allowed during September, 2018 not posted from the Cash Book; error now rectified)				25,000

3. The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed:

- Sales Day Book was overcast by ₹ 1,000.
- A sale of ₹ 5,000 to X was wrongly debited to the Account of Y.
- General expenses ₹ 180 was posted in the General Ledger as ₹ 810.
- A Bill Receivable for ₹ 1,550 was passed through Bills Payable Book. The Bill was

given by P.

- (v) Legal Expenses ₹ 1,190 paid to Mrs. Neetu was debited to her personal account.
- (vi) Cash received from Ram was debited to Shyam ₹ 1,500.
- (vii) While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹ 1,235 was written as ₹ 1,325.

Find out the nature and amount of the Suspense Account and Pass entries (including narration) for the rectification of the above errors in the subsequent year's books.

(QP Nov 2018)

Solution:

(i)	P & L Adjustment A/c To Suspense A/c (Correction of error by which sales account was overcast last year)	Dr.	1,000	1,000
(ii)	X To Y (Correction of error by which sale of ₹ 5,000 to X was wrongly debited to Y's account)	Dr.	5,000	5,000
(iii)	Suspense A/c To P & L Adjustment A/c (Correct of error by which general expenses of ₹ 180 was wrongly posted as ₹ 810)	Dr.	630	630
(iv)	Bills Receivable A/c Bills Payable A/c To P (Correction of error by which bill receivable of ₹ 1,550 was wrongly passed through BP book)	Dr. Dr.	1,550 1,550	3,100
(v)	P & L Adjustment A/c To Mrs. Neetu (Correction of error by which legal expenses paid to Mrs. Neetu was wrongly debited to her personal account)	Dr.	1,190	1,190
(vi)	Suspense A/c To Ram To Shyam (Removal of wrong debit to Shyam and giving credit to Ram from whom cash was received)	Dr.	3,000	1,500 1,500
(vii)	Suspense A/c To P&L Adjustment A/c (Correction of error by which Purchase A/c was excess debited by ₹ 90/-, ie: ₹ 1,325 - ₹ 1,235)	Dr.	90	90

Suspense Account

	₹		₹
To P & L Adjustment A/c	630	By P & L Adjustment A/c	1,000
To Ram To Shyam	1,500	By Difference in	2,720
	1,500	Trial Balance	
		(Balancing figure)	
To P&L Adjustment A/c	90		
	3,720		3,720