Semester – I

Financial Accounting – I

Rectification of Errors

Sanjoy Nayak

Introduction: When transactions are recorded, some mistakes or errors may creep into the book keeping. These are either clerical errors or errors related to accounting principles. These may occur at the time of recording the transactions in the subsidiary books or at the time of posting journal entries into the ledger accounts.

Types of Errors: On the basis of rectification of errors, we can classify the errors into following categories:

1. On the basis of nature and
2. On the basis of inherent effects.

1. **On the basis of nature:** On the basis of nature, we can classify the errors into four categories. These are:
   a. Errors of omission: It results from a complete or partial omission of recording a transaction. A particular transaction may be totally omitted to be entered in the journal. As a result there will be no corresponding posting in the ledger. It is a case of complete omission. Again a transaction may be recorded in the subsidiary book but omitted to be to any one of the ledger accounts. It is a case of partial omission.
   b. Errors of commission: These errors happen due to any wrong committed by the accountant. Again, from the word 'commission' the error got its name as 'Errors of Commission'. It arises from an act of commission like entries wrongly made in the journal or ledger. There may be error of posting, error of casting, entering wrong amounts, entering a transaction in a wrong subsidiary book etc.
   c. Errors of principle: Such errors take place when any of the generally accepted accounting principle are violated or not taken into consideration wherever required. It will have an impact on the financial statements. Following are some of them:
      i. Classification of revenue expenditure as a capital expenditure or vice versa.
      ii. Credit purchase of machinery recorded in purchase book instead of journal proper.
      iii. Rent paid to landlord recorded in cash book.
   d. Compensating errors: Where the net effect of the errors on the debits and credits is nil, it is termed as compensating errors. That the effect of one is neutralized by that of other / others. Such errors will not affect the agreement of the trial balance.
2. **On the basis of inherent effects:** On the basis of inherent effects, we can classify the errors into following categories. These are:
   a. One sided error: When the effect of an error falls on one account, it is called one sided error. It may be due to –
      i. Wrong casting of any day book.

ii. Posting made to be wrong side of the relevant account.
iii. Duplicate posting of the same amount.

b. More than one sided error: Two sided error affecting two accounts at the same time and not affecting the agreement of the trial balance. On the other hand, two sided error accounts but at the opposite direction and affecting of the trial balance. Such as – Ram account credited instead of Rahim account, Ram account debited instead of Rahim account being credited etc.

On the basis of 'Rectification of Errors' mainly, we can classify into three broad categories:

1. Before preparation of the trial balance
2. After preparation of trial balance but before preparation of the final accounts
3. After preparation of final accounts.

Suspense Account: When the trial balance does not tally due to the one sided errors in the books, an accountant puts the difference between the debit and credit side of the trial balance on the shorter side as suspense Account. As and when we locate and rectify e errors, the balance in the suspense account reduces and consequently becomes zero. Thus we cannot categorize the Suspense Account. It is a temporary account and can have debit or credit balance depending upon the situation.

Practical Problems:

1. The trial balance of S. Kumar as on 31.12.2020 did not agree and the difference was transferred to a suspense account –
   a. The total of one page of the sales day book was c / f to the next page as Rs.4513 instead of Rs.4531.
   b. The total of purchase day book was under cast by Rs.400.
   c. A cash discount of Rs.150 received from a creditors was debited to discount account.
   d. Rs.1450 spent on repairs of delivery van was debited to motor vehicles account.
   e. Rs.300 received from M. Ghosh was debited to the account of N. Ghosh in the sales ledger.
   f. Goods worth Rs.700 returned by Mr Akash was not entered in the books at all.

Solutions:

Journal Entries

In the books of S. Kumar

Date	Particulars	L.F	Amount(Dr.)	Amount(Cr.)
a.	Suspense A/c-------------------Dr To sales A/c		18	 18

b.	Purchase A/c-------------------Dr To Suspense A/c		400	 400
c.	Suspense A/c--------------------Dr To Discount Received A/c To Discount Allowed A/c		300	 150 150
d.	Repairs A/c----------------------Dr To Motor Vehicles A/c		1450	 1450
e.	Suspense A/c--------------------Dr To M. Ghosh A/c To N. Ghosh A/c		600	 300 300
f.	Return Inward A/c--------------Dr To Mr Akash A/c		700	 700

2. Mr X could not agree the trial balance. He transferred Rs.596 being excess of debit side total. The following errors were subsequently discovered –
   a. Purchase of furniture for Rs.615 passed through the purchase book.
   b. An amount of Rs.55 received from Mr Singh was posted to his account at Rs.550.
   c. Sales book was over cast by Rs.300.
   d. Purchase return book on a folio was c / f as Rs.221 instead of Rs.112.
   e. A cash sale of Rs.1235 duly entered in the cash book but posted to sales account as Rs.235.
   f. Salary account was debited with Rs.2500 in place of Rs.2000.

Solutions:

Journal Entries

In the books of Mr X

Date	Particulars	L.F	Amount(Dr.)	Amount(Cr.)
a.	Furniture A/c---------------------Dr To Profit & Loss Adjustment A/c		615	 615
b.	Mr Singh A/c-------------------------Dr To Suspense A/c		495	 495

c.	Profit & Loss Adjustment A/c------Dr To Suspense A/c		300	300
d.	Profit & Loss Adjustment A/c-----Dr To Suspense A/c		109	109
e.	Suspense A/c-------------------Dr To Profit & Loss Adjustment A/c		1000	1000
f.	Suspense A/c---------------------Dr To Profit & Loss Adjustment A/c		500	500

Suspense Account

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
?	To Profit & Loss Adjustment A/c To Profit & Loss Adjustment A/c		1000 500		By Balance b/d By Profit & Loss Adjustment A/c By Mr Singh A/c By Profit & Loss Adjustment A/c		596 300 495 109
			1500				1500

3. In the books of Reckless for the year ended 31.12.2020, the following mistakes were committed and the final completed putting the difference in the suspense account –
   a. A credit sale of Rs.890 was debited to party account as Rs.980.
   b. Credit purchase of Rs.515 was debited to suppliers A/c as Rs.550.
   c. An old furniture having a book value of Rs.500 was taken over by the furniture supplier at an agreed value of Rs.400 as part exchange for a new furniture supplied for Rs.600. The bill for the net amount was passed through the Return Inward Book.
   d. Repairs to building Rs.600 were charged to building account on which depreciation was charged @ 2.5%.
   e. Rs.400 being purchase returns posted to the debit of purchases account.
   f. A cash discount of Rs.800 received was entered in the cash book but was not posted in the ledger.

Solutions:

Journal Entries

In the books of Reckless

Date	Particulars	L.F	Amount(Dr.)	Amount(Cr.)
a.	Suspense A/c-------------------Dr To Sundry debtors A/c		90	 90
b.	Suspense A/c------------------Dr To Sundry Creditors A/c		1065	 1065
c.	Furniture A/c------------------Dr To Profit & Loss Adjustment A/c		100	 100
d.	Profit & Loss Adjustment A/c-------Dr To Buildings A/c To Capital A/c		600	 585 15
e.	Suspense A/c-------------------Dr To Profit & Loss Adjustment A/c		800	 800
f.	Suspense A/c------------------Dr To Profit & Loss Adjustment A/c		800	 800