

ERRORS AND THEIR RECTIFICATION

17.1 INTRODUCTION

To err is human. In the process of Accounting, i.e., in preparing accounting vouchers, recording them in Day Book or Journal, in posting and balancing ledger accounts, there may be mistakes. These mistakes are called accounting errors. These errors should be located and corrected as soon as possible, so that the accounts give true and fair results. In the previous lesson, you have learnt that trial balance is prepared to ascertain the arithmetical accuracy of recording and posting of business transactions. If the trial balance is not in agreement, it means there is some error. We have also learnt that there may be some errors which do not affect the trial balance. Trial balance will agree even if there are errors. In this lesson, you will learn about locating, classifying and analysing accounting errors and their rectification.

17.2 OBJECTIVES

After studying this lesson, you will be able to-

- define and locate the accounting error or errors;
 - classify the errors on the basis of their nature i.e., errors of omission, errors of commission with suitable examples;
 - classify the errors on the basis of their impact on ledger accounts,
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- i.e., one-sided errors and two - sided errors with suitable examples;
- infer that the errors should not be corrected either by over-writing or by erasing;
 - explain the meaning of Rectification of Errors;
 - explain various methods of rectification of one sided and two sided errors;

17.3 MEANING OF ACCOUNTING ERROR AND ITS LOCATION

The whole accounting process consists of preparing accounting vouchers, recording the transactions from accounting vouchers in the Day-Books and Journal, posting the Day-Books in Ledger and balancing the ledger accounts. In this process, some mistakes may take place. These are called accounting errors. Errors may be committed at any stage of accounting process. The error may be in any of the following forms :

(1) Mistake of not recording a business transaction in the Day-Book or Subsidiary Day-Books or not posting to the respective accounts. (ii) Mistake in totalling or in carrying forward the totals to the next page (iii) Mistake in recording a wrong amount, in a wrong account or on the wrong side jointly or seperately. However, errors can be there even if the trial balance agrees.

Locating Errors

As stated earlier there may be accounting errors which cause the disagreement of Trial Balance and there may be errors which do not affect the agreement of Trial-Balance. Following are the steps in locating errors in the above two situations:

- (A) When the Trial Balance does not agree**
- i. Check the totals of the columns of Trial Balance;
 - ii. Check that the balances of all accounts (including cash and bank balances) in the ledger have been written and are written in the correct column of trial balance;
 - iii. Find the exact figure of difference in the trial balance and see that : (a) no account with a similar balance has been omitted to

be shown in the Trial Balance or (b) an amount showing a balance equal to half the difference has not been showing entered in the wrong column of the Trial Balance e.g., debit balance is written in the credit column and vice versa.

- iv. Recheck the totals of Subsidiary Day-Books;
- v. Check the balancing of the various accounts in the ledger;
- vi. If difference is still not traced, check each and every posting from the Day-Book and various Subsidiary Day Books in the ledger.

B. When the Trial Balance agrees

You know that equal totals of the two columns of Trial Balance is no conclusive proof of the accuracy of accounts. There may be errors which do not affect the Trial Balance. For example, sales not recorded in the Sales-Day-Book is an error which does not affect the Trial Balance. Such errors cannot be traced but may be detected at much later stage. These errors may be decided after the preparation of final accounts.

These are rectified whenever detected. The errors which do not affect the Trial Balance are as follows :

- (i) **Omission to record a transaction in the Day-Book or in a Subsidiary Day Book.** For example, purchased goods from Hari was not recorded in the Purchases Day Book at all.
- (ii) **Recording a wrong amount for an individual item in Day Book or in a Subsidiary Day Book.** For example, goods sold to Samir of the value of Rs.1250 was entered in the Sales Day Book as Rs.1520.
- (iii) **Posting the correct amount on the correct side but in wrong account.** For example, cash received from Jatin was posted in the credit of Sachin.
- (iv) **An item of Capital expenditure recorded as an item of Revenue expenditure and vice-versa.** For example, Repairs of building were debited to Building A/c.

In the above cases, the debits and credits are simultaneously affected by the same amount, therefore, the trial balance agrees though there are accounting errors.

- i.e., one-sided errors and two - sided errors with suitable examples;
- infer that the errors should not be corrected either by over-writing or by erasing;
 - explain the meaning of Rectification of Errors;
 - explain various methods of rectification of one sided and two sided errors;

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be shown in the Trial Balance or (b) an amount showing a balance equal to half the difference has not been showing entered in the wrong column of the Trial Balance e.g., debit balance is written in the credit column and vice versa.

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INTEXT QUESTIONS 17.1

Fill in the blanks with an appropriate word or words :

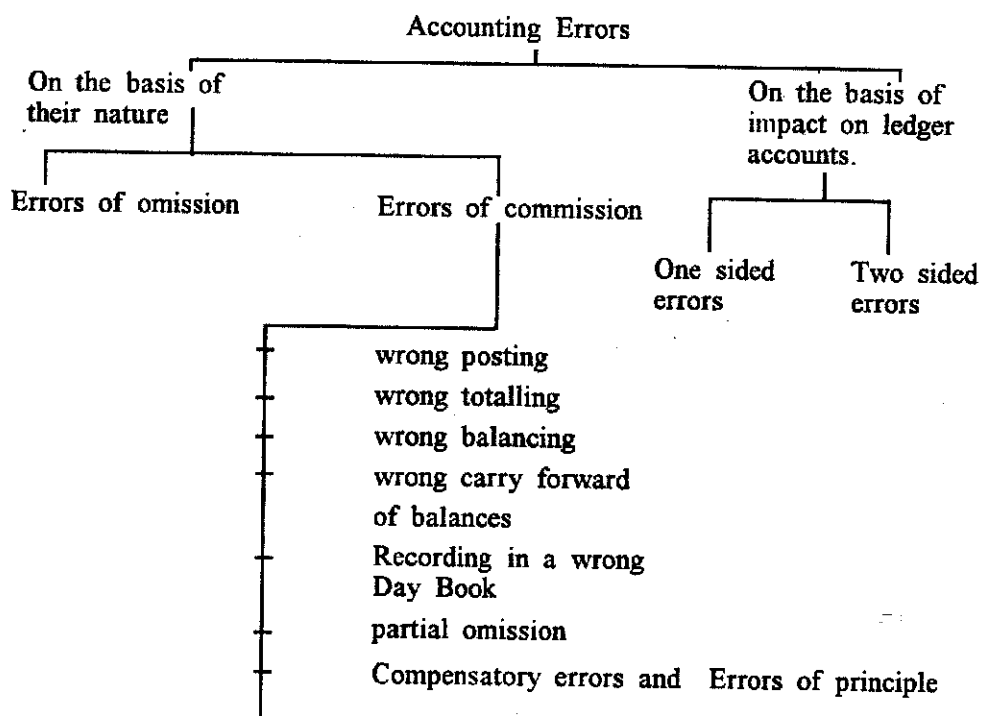
- (i) Error may be made at any stage of _____
- (ii) There may be accounting error which do not affect the _____ of trial balance.
- (iii) _____ errors may also be detected after preparing _____.

17.4 CLASSIFICATION OF ERRORS

Various accounting errors can be classified into following categories:

- A On the basis of their nature
 - a. Errors of omission
 - b. Errors of commission
- B. On the basis of their impact on ledger accounts :
 - a One sided errors
 - b. Two sided errors

These errors may be explained with the help of following chart:



The above given types of errors are explained with examples as follows:

A. On the basis of their nature

a. Errors of omission

Sometimes a transaction is not at all recorded in the books of accounts or it has been recorded in the book of original entry but has not been posted in ledger, such an error is called error of omission. For example, a purchase of Rs.5,000/- on credit from Mr Shrey was not entered in the Purchase-Day-Book. It is an error of omission. In this case neither Shrey was credited nor the Purchases A/c was debited. This error will not affect the agreement of Trial Balance.

Similarly, when cash is received from Akshay is not recorded in the Cash-Book, is also an error of omission.

b. Error of commission

When the transaction has been recorded but an error has been committed in the process of recording it is called 'error of commission'. It may be any of the following types :

i. Wrong Posting

A transaction may be posted to wrong account, or to wrong side of the correct account or posted twice to the same account. For example, goods purchased of Rs.1,200/- from Gopal on credit posted to the credit of Mahipal's A/c or posted to the debit of Gopal's A/c or posted twice to the debit of Gopal's A/c.

ii. Wrong totalling

The Subsidiary Day Books or the account or accounts may be wrongly totalled. The totalled amount may be less than the actual amount. It is a case of under casting. For example Purchase Day Book's total amount is written as Rs.25,400/-, While correct total is Rs. 25,900/- The totalled amount may be more than the actual amount. It is a case of over-casting. For example, the total of the Sales Day Book is done as Rs.59,800/- while the actual total is Rs.52,500/-.

iii. Wrong balancing

A wrong balance of an account may be calculated. For example while deducting the debit total of Rs.2,540/- of Mahabir's A/c

from his credit total Rs.4,500/-, the balance is written as Rs.1,560/-, instead of Rs.1,960/-.

iv. Wrong carry forward of balances or totals

The total of the 1st page of the Purchase Day Book is Rs.44,800/- but written as Rs.48,400/- when carried to the next page.

v. Recording in a wrong book

For example, purchase of goods of Rs.2,400/- from Rampal on credit is recorded in the Sale-Day-Book and not in the Purchase-Day-Book.

vi. Partial omission

Received Rs.1,500/- from Arun, the debtor, is correctly entered in the 'Day book but is not posted to the credit of Arun's A/c in the ledger.

vii. Compensatory Errors

Two errors are committed in such a way that one error increases the debit side with the same amount by which the other error decreases the same side. Similarly, two errors are committed in such a way that one error increases the debit side with the same amount by which the other error decreases the same side. Such errors are called compensatory errors. For example, Ram's A/c is credited by Rs.800/- instead of Rs.600/- and Shyam's A/c is credited by Rs.700/- instead of Rs.900/-. In this case, excess credit of Ram's A/c Rs. 200/- is compensated by short credit of Shyam's A/c by Rs. 200/-. Trial balance is not affected by compensatory errors.

viii. Errors of principle

It is an accounting principle that the capital income and capital expenditure should be recorded as capital items and revenue income and revenue expenditure should be recorded as revenue items. If a capital item has been written as revenue item and vice-versa it is called an error of principle. For example, Rs.5000/- spent on the repair of building is debited to Building A/c while it should have been debited to Repair A/c. Similarly, sale of an old machine for Rs.2,000/- was credited by Miscellaneous Income A/C. These are errors of principle. Such errors do not affect the Trial Balance.

B. On the basis of impact on ledger account

The errors may affect one side of an account or two sides:

- a. One sided errors; or
- b. Two sided errors;
- a. One sided errors

An accounting error which affects only one side of an account is called one sided error. The side affected may be either debit or credit side. The reason of such error is that one account is correctly posted but the corresponding account is not correctly posted. For example, Purchases Day Book is overcast by Rs.1000/- is a one sided error because the mistake is in debiting the Purchase A/c which is in excess debited by Rs.1,000/- but the corresponding accounts of the various suppliers will have been correctly credited. Another example may be discount allowed to a customer on cash received from him. These errors will cause disagreement in Trial Balance. All, with the exception of errors of principle and compensatory errors, errors of commission explained earlier fall in this category.

b. Two Sided errors

If an error affects two separate accounts, debit side of the one and credit side of the other, by the same amount, such error is called two sided error. For example, Cash received from Ashok Rs.2000/- is correctly entered in the Cash Book but is posted to the credit of Mukesh as Rs.1,000. In this case, Ashok's debit balance is not reduced by Rs.1000/- while that of Mukesh is excess credited by the same amount. All the errors of principle explained earlier are two sided errors.

INTEXT QUESTIONS 17.2

A. Match the errors given in column A with type of errors given in column B:

Column (A) Errors	Column (B) Type of errors
i. Purchase book is undercast	a. Error of omission
ii. Furniture purchased on credit is recorded in the Purchase Day Book.	b. Error of commission

- iii. Cash received from Ashok is not recorded in the Cash-Book.
- iv. Cash paid to Mahesh was debited to Suresh.
- c. Error of principle
- d. Two sided error

B. Fill in the blanks with appropriate word or words :

- i) An error which affects single side of an account is called _____ error.
- ii) An error which affect debit side of one account and the credit side of another account by the same amount is called _____ error.
- iii) When an error has been committed in the process of recording a transaction it is called error of _____
- iv) If a transaction is not recorded in the Day Book or Subsidiary Day Books it is called error of _____.

17.5 RECTIFICATION OF ACCOUNTING ERRORS

The final accounts i.e. the Profit and Loss A/c and the Balance Sheet of a concern should present a true and fair picture of the concern. It is therefore, necessary that the errors are located and rectified before preparing final accounts. It should be carefully noted that errors should never be rectified by erasing or over writing. It is considered a wrong practice because it will encourage manipulation and frauds. There are methods of rectification which are widely accepted because they are based on accounting practices and procedure. Rectification is the process of correcting various accounting errors. It is passing an entry to correct the erroneous effect of the accounting error.

Methods of rectification before and after preparing the Trial-Balance

The various methods of rectification of errors are as follows :

A. Before preparing Trial Balance

- i. by scoring out wrong entry and making instant correction;
- ii. by making a suitable correction in the affected account or

Subsidiary-Day-Book.

B After preparing Trial Balance

- i. by rectifying through 'Suspense A/c';
- ii. by preparing transfer vouchers (journal entries) and posting them;

A. Before Preparing Trial Balance

Instant Rectification

- i. By scoring out wrong entry and making instant correction

If the wrong account is written or wrong amount is written, it can be scored out and the correct name of account or correct amount is written and the accountant puts his initials. This method is followed only when error has been detected immediately after recording or posting of a transaction.

- ii. By making a suitable correction in the affected accounts

In case, error is detected on a date later than the date on which the transaction was recorded but before preparing the Trial Balance, the rectification will be made by making a suitable correction in the affected account.

Example 1 Sales Day Book for the month of January, 1997 is overcast i.e., added more by Rs.600.

Solution Accounts Affected

The total of the Sales Day Book is posted to the credit of Sales A/c. The error is that the Sales A/c is credited by excess of Rs.600/- Here the affected A/c is Sales A/c.

Rectification :

An entry of Rs.600/- will be made on debit side of the Sales A/c to nullify the effect of error, with the words as "The amount of Sales Day Book is overcast for the month of January, 1997".

Sales A/C

Dr.					Cr.				
Month & Date	Vr. No.	Particulars	F	Amount Rs.	Month & date	Vr. No.	Particulars	F	Amount Rs.
		To Amount as per Sales Day Book for the month of January, 1997		600					

Example 2 : A sum of Rs.2,000/- received from Santosh has been wrongly debited to his account.

Solution : Account affected

Santosh's account is affected because his account has been debited instead of crediting.

Rectification :

In this case not only Santosh's account is to be rectified for being wrongly debited but credit is to be given to him for cash received. Rectification is done as under :

Santosh A/c

Dr.					Cr.				
Month & Date	Vr. No.	Particulars	F	Amount Rs.	Month & date	Vr. No.	Particulars	F	Amount Rs.
		To Cash A/c		2,000			By amount received but wrongly debited		4,000

Example 3: Discount of Rs.50/- allowed to Santosh was entered in the Cash-Book but not posted to his account.

Solution : Account Affected

As the amount of discount has not been posted to Santosh's A/c, his account is affected. It is an error of partial omission. Its rectification will be as :

Santosh's A/c

Dr.						Cr.			
Month & Date	Vr. No.	Particulars	F	Amount Rs.	Month & date	Vr. No.	Particulars	F	Amount Rs.
							By amount of discount omitted to be posted		50

Example 4 :

Purchased goods for Rs.2,000/- from Gopal posted to the credit of Mahipal.

Gopal's A/c

Dr.						Cr.			
Month & Date	Vr. No.	Particulars	F	Amount Rs.	Month & date	Vr. No.	Particulars	F	Amount Rs.
							By goods purchased not posted on		2,000

Mahipal's A/c

Dr.						Cr.			
Month & Date	Vr. No.	Particulars	F	Amount Rs.	Month & date	Vr. No.	Particulars	F	Amount Rs.
		To amount of wrong credit posting on		2,000					

Solution : Accounts affected :

Accounts of both Gopal and Mahipal are affected because credit is given to Mahipal instead of Gopal.

Rectification :

Mahipal's A/c has to be corrected by inserting entry on his debit side because his account has been wrongly credited and entry for the same amount has to be inserted on the credit of Gopal's A/c.

INTEXT QUESTIONS 17.3

- A. Fill in the blanks with suitable word/words:
- (i) As the final accounts should present a true and fair picture of the concern accounting errors should be located and _____ before preparing them.
 - (ii) Errors should never be rectified by _____.
 - (iii) If the error is detected immediately after recording or posting and it is corrected then and there it is called _____ rectification
 - (iv) One method of rectification is scoring out the wrong entry and making the _____ entry.
- (B) Column A contains the errors and column B contains the accounts affected against each error. Write the correct account.

Column A	Column B
1. The Purchase Day Book is under cast by Rs.1,000/-	a. Sales A/c _____ b. Purchase A/c _____
2. Cash of Rs.2,000/- received from Sharma Bros's is credited to their A/c as Rs.1,200/-	a. Cash A/c _____ b. Sharma Bros's A/c _____
3. Total of the Sales Returns Day Book Rs.5,600/- was not posted to its concerned A/c.	a. Returns Inward A/c — b. Returns Outward A/c—

17.6 RECTIFICATION THROUGH SUSPENSE A/C (AFTER PREPARING TRIAL BALANCE)

In case the trial balance does not agree, the amount of difference is put in a separate account called Suspense A/c. This account will either be debited or credited depending upon which side of the trial balance is short. This account reflects the net accumulated amount of the different one sided errors. This account is opened for a temporary period. As soon as the errors, which have led to the difference in Trial Balance, are corrected this account stands closed. The errors which caused the opening

of this account are corrected through this account. Suspense account becomes the corresponding account of the various affected accounts at the time of rectification satisfying the principle of Double Entry System.

Errors are rectified through the Suspense A/c by preparing a transfer voucher, debiting or crediting the affected accounts and correspondingly crediting or debiting Suspense A/c. Then the same is posted into the accounts. As stated earlier, one sided errors are rectified through Suspense A/c. Let us take the examples of all such errors and rectify them through Suspense A/c.

Example 5

Cash of Rs.1,000/- paid to Satbir was credited to the account of Jasbir.

Solution

Accounts affected :

Jasbir's account was wrongly credited by Rs.1,000/- and Satbir's A/c was omitted to be debited by the same amount. The affected accounts are Jasbir's A/c and Satbir's A/c and Rectification through transfer voucher (Journal entry) is :

(i) Transfer Voucher

M/s.....		Date
Voucher No	Amount Rs	
Debit : Satbir's A/c Jasbir's A/c	1,000/-	
	1,000/-	
	2,000/-	
Credit : Suspense A/c (Being cash paid to Satbir wrongly credited to Jasbir's A/c now corrected)	2,000/-	
	2,000/-	
Sd Manager	Sd Accountant	

(ii) Rectification through Journal entry

Month & Date	Particulars	F	Dr.	Cr.
			Amount Rs.	Amount Rs.
	Satbir's A/c Dr. Jasbir's A/c Dr. To Suspense A/c (Being cash paid to Satbir wrongly credited to Jasbir's A/c now corrected)		1,000 1,000	2,000

Example 6: The total of the Purchases-Day-Book was undercast by Rs. 500/- i.e. short by Rs. 500/-

Solution : Accounts Affected

The account affected is Purchase A/c

Rectification through transfer Voucher (Journal entry) is :

(i) Transfer Voucher

Voucher No		M/s.....	Date
			Amount Rs
<i>Debit :</i>	<u>Purchases A/c</u>		500
			500
<i>Credit</i>	Suspense A/c (Being recording of the amount by which Purchases Day Book was undercast)		500
			500
Sd Manager		Sd Accountant	

(ii) Rectification through journal entry

Journal

Month & Date	Particulars	L.F	Dr.	Cr.
			Amount Rs.	Amount Rs.
	Purchases A/c Dr. To suspense a/c Being total of Purchase Day-Book was undercast now corrected.		500	500

Example 7 : A credit sale to M/s Dewan Chand & Sons of Rs.5,230 was entered in the Sales Day Book as Rs.5,320/- and was credited to their account. Here the accounts affected are (i) Sales A/c (ii) M/s Dewan Chand's A/c.

Solution : Accounts Affected

As the amount entered in the Sales-Day-Book is in excess of A/c Rs.90/- Sales A/c (by Rs. 90/-) and M/s Dewan Chand & Sons (by Rs. 5320 + 5230 = Rs. 10,550) will be affected.

Rectification through

- (i) Transfer Voucher
- (ii) Journal entry

Transfer Voucher

	M/s.....	
Voucher No		Date
		Amount Rs
<i>Debit :</i> Sales A/c		90
<i>Debit :</i> M/s Dewan Chand & Sons		10,550
		10,640
<i>Credit :</i> Suspense A/c (Being amount of Sales of Rs.5,230 was wrongly credited to their account by Rs.5,320/- now debited)		10,640
		10,640
Sd Manager		Sd Accountant

Journal entry

Month & Date	Particulars	F	Amount Rs.	Amount Rs.
	Sales A/c Dr.		90	
	M/s Dewan Chand & Sons A/c Dr.		10,550	
	To Suspense A/c			10,640
	(Being correction entry for a credit Sales of Rs.5,230/- entered in Sales-Day-Book as Rs.5,320 wrongly credited to sales A/c now debited.)			

RECTIFICATION OF TWO SIDED ERRORS

You know that errors which affect two accounts at a time by the same amount, or different sides of two accounts are called two sided errors. Such errors do not affect the agreement of the Trial-Balance. Steps taken to rectify such errors are :

- (i) Identify the two affected accounts
- (ii) Prepare a transfer voucher or pass journal entry
- (iii) Post the transfer voucher or journal entries in the two affected accounts.

Example 8: Furniture purchased from Modern Furniture Mart vide Bill No.215 dated 20.2.1997 for Rs.4,000/- was wrongly entered in the Purchase Day Book.

Solution : Accounts affected : The two accounts affected are (a) Furniture A/c which is omitted to be debited (b) Purchase A/c, which, by mistake, has been debited.

(i) Through Transfer Voucher

Name of the firm	
Voucher No 88.	Date 20.2.97
	Amount
	Rs
<i>Debit</i> : Furniture A/c	4,000
	4,000
<i>Credit</i> : Purchases A/c (Being furniture purchased from Modern Furniture Mart vide their bill No.215 wrongly debited to Purchase A/c is now debited to Furniture A/c)	4,000
	4,000
Sd Manager	Sd Accountant

Posting :

Furniture A/c

Dr.					Cr.				
Month & Date	Vr. No.	Particulars	F	Amount Rs.	Month & date	Vr. No.	Particulars	F	Amount Rs.
1997 Feb. 20	88	To amount transferred to Purchases A/c to rectify the error of wrong debit		4,000					

Purchases A/C

Dr.					Cr.				
Month & Date	Vr. No.	Particulars	F	Amount Rs.	Month & Date	Vr. No.	Particulars	F	Amount Rs.
					1997 Feb. 20		By amount transferred to Furniture A/c- to rectify the error of furniture purchased wrongly debited to purchased A/c.		4,000

(ii) Rectification through journal :

Month & Date	Particulars	L.F	Amount Rs.	Amount Rs.
Feb. 20	Furniture A/c..... To Purchases A/c (Being correction entry of furniture purchased from Modern Furniture Mart vide their bill No.215 dt. 20.2.97 wrongly debited to Purchases A/c.)		4,000	4,000

INTEXT QUESTIONS 17.4

A. Identify the pair of accounts affected in the following two sided errors:

i) Wages paid Rs.2,000/- for construction of Building was debited to wages Account 1

2

ii) Furniture purchased for Rs.2,000/- on credit was entered in the Purchases Day Book 1

2

iii) Sales for Rs.1,200/- made to Kanti Lal vide bill No.28 dated was not entered in the Sales Day Book

1

2

iv) Cash paid Rs.500 to Munshi for white washing the premises has been credited to his account

1

2

B. Name the accounts to be 'debited' and 'credited' to rectify the following errors :

i) Goods returned by Manohar Singh have been recovered as returned by Mohan Singh

Debit

Credit

ii) An old furniture sold was passed through the Sales Day Book.

Debit

Credit

iii) Carriage paid Rs.200 on purchasing a Machine was debited

to Carriage A/c.

Debit

Credit

- iv) While posting Sales Day Book an entry in the name of Baljeet Singh was wrongly posted to the debit of Daljeet Singh.

Debit

Credit

17.7 RECTIFICATION OF ERRORS AFTER PREPARATION OF FINAL ACCOUNTS

Sometimes errors are not detected in the accounting year in which they are committed. In this case if the error or errors affect the Trial Balance, the difference is put in the Suspense A/c and the Trial Balance is tallied. The final accounts are prepared even though there are errors. Errors which do not affect Trial Balance, such as some two sided errors, if not detected, are also carried over to the next accounting year. If the affected accounts are of revenue nature, these are closed by transferring to Profit & Loss Account. If the accounts affected are of non-revenue nature such as accounts of assets and liabilities, they are carried over to the next year through the balances of their respective items. Such errors will be rectified in the year in which they are detected.

For rectification of such errors, a transfer voucher is prepared by debiting and crediting the affected accounts or by passing the journal entry. This is then posted in the respective accounts to complete the rectification.

Rectification of one sided errors

- a. If the accounts affected are of revenue nature

If one account involved is of revenue nature, the account affected will be the Suspense A/c and the Profit and Loss Adjustment A/c.

- b. If the account involved in the error is of a non revenue nature, the affected accounts will be the Suspense A/c and the non revenue A/c involved in the error.

Example 9: Return Inwards Book is undercast by Rs.500/-

Solution **Accounts affected**

The Return Inwards A/c has been debited short by Rs.500/-.

Being a revenue account, it has been closed by transferring to Profit & Loss A/c. of the last year. Thus, the two accounts affected are (a) Suspense A/c (b) Profit & Loss Adjustment A/c.

Rectification through Transfer Voucher

Transfer Voucher

Voucher No		Date	
		Amount	
		Rs	
Debit :	Profit & Loss Adjustment A/c	500	
		500	
Credit	Suspense A/c (Being rectification of Return Inwards Book total added short)	500	
		500	
Sd			Sd
Manager			Accountant

Rectification through journal entry

Journal

Month & Date	Particulars	L.F	Amount Rs.	Amount Rs.
	Profit & Loss Adjustment A/c Dr. To Suspense A/c (Being rectification of Returns Inward Book is undercast.)		500	500

Example 10: Purchases for Rs.2,500/- from Vandna was not entered in the Purchases Day Book.

Conclusion : Accounts affected

As the transaction of purchase is omitted to be recorded in the Purchase Day Book, therefore, the accounts affected are Purchases A/c and Vandna A/c.

Rectification through Voucher**Transfer Voucher**

Voucher No.	Date	Amount Rs
<i>Debit</i> : Purchases A/c		2,500
		2,500
<i>Credit</i> : Vandna Being goods purchased from Vandna vide Invoice No. dated not entered in Purchases Day Book		2,500
		2,500
Sd Manager	Sd Accountant	

Rectification through journal entry :**Journal**

Month & Date	Particulars	L.F	Amount Rs.	Amount Rs.
	Purchases A/c Dr. To Vandna A/c (Being correction entry for goods purchase from Vandana and omitted to be entered in the Purchases Day Book.)		2,500	2,500

Two sided errors

If both the affected accounts are revenue accounts there is no need of rectification as the Profit & Loss A/c remains unaffected.

If both the accounts affected are non-revenue accounts, one will be debited and other will be credited.

If one account affected is of revenue nature and the other is a non-revenue account then Profit & Loss Adjustment A/c will be debited and credited as the case may be for revenue account and the non-revenue account will be the other account.

Example 11 : Amount of Rs.6,000/- received from Sardari Lal was wrongly credited to Hardwari Lal.

Solution : Accounts affected :

The two accounts affected are Sardari Lal's account and Hardwari Lal's account. Both are of non-revenue nature.

Rectification through Transfer Voucher

Transfer Voucher

Voucher No.	Date
	Amount Rs
<i>Debit :</i> <u>Hardwari Lal</u>	6,000
	6,000
<i>Credit :</i> <u>Sardari Lal</u> Being credit given for cash received in but was omitted	6,000
	6,000
Sd Manager	Sd Accountant

Rectification through journal entry

Month & Date	Particulars	L.F	* Dr.	Cr.
			Amount Rs.	Amount Rs.
	Hardwari Lal Dr To Sardari Lal Being amount received from Sardari Lal credited to Hardwari Lal corrected)		6,000	6,000

Example 12: Rs.1,200/- owing by a customer had been omitted from the schedule of Sundry Debtors.

Solution : Accounts Affected :

As the debtors have been totalled short and being a non-revenue account, the amount has been brought forward to the current year through last years Balance Sheet. Thus, the affected accounts are (a) Suspense A/c (b) Sundry Debtors Account.

Rectification through Transfer Voucher

Name of Company		
Voucher No.	Date	
		Amount Rs
Debit : Sundry Debtors A/c		1,200
		1,200
Credit : Suspense A/c (Being the rectification of omission of Rs.1,200/- owed by a customer in)		1,200
		1,200
Sd Manager		Sd Accountant

Rectification through journal entry

Month & Date	Particulars	L.F	Amount Rs.	Amount Rs.
	Sundry Debtors A/c Dr. To Suspense A/c (Being omission of amount owing to a customer from the list of debtors.)		1,200	1,200

INTEXT QUESTIONS 17.5

- A. Fill in the blanks with suitable word or words:
- i. Errors may be rectified even after preparing _____ accounts.
 - ii. Errors which are not detected before preparing final accounts and the affected accounts are of revenue nature are rectified by transferring to _____.
 - iii. Errors which are detected after preparing final accounts will be rectified in the _____ in which they are detected.
 - iv. If error, detected after preparing final accounts, is a one sided error and the account affected is of revenue nature the accounts affected will be _____.
- B. Following are the errors which were detected after preparing final accounts. Write against each error the names of the accounts affected.

Errors	Affected Accounts
i. The total of the Return outward Book was overcast by Rs.100/-	a. b.
ii. Sale of Machinery for Rs.5,000/- was recorded in the Sales Day Book.	a. b.
iii. Purchase of goods of Rs.2,100 from Babu Lal was debited to his account.	a. b.
iv. Wages outstanding Rs.2,500 had not been taken into account.	a. b.

17.8 WHAT YOU HAVE LEARNT

- i) The mistakes which take place in the accounting process are called accounting errors. If the Trial Balance does not agree, it indicates that there is one or more accounting errors. However, errors can be there even if the Trial Balance agrees.
- ii) Errors may be in the form of (i) omission of recording of a transaction in the respective Day-Book or of posting to relevant account in the ledger. (ii) Mistake in recording a wrong amount, in a wrong account or on the wrong side of an account.
- iii) When trial balance does not agree, errors can be located by checking the totals of the Trial Balance, checking the balances of ledger accounts, checking the totals of Subsidiary Day-Books, checking each and every posting from the Day-Book. The exact amount of difference in the Trial Balance also helps in locating errors.
- iv) The errors which do not affect the Trial Balance are:
 - i. Omission to record a transaction or recording wrong amount in any of the Day-Book;
 - ii. Posting correct amount to correct side but in a wrong account;
 - iii. Recording of an item of capital expenditure as Revenue Expenditure and vice versa.
- v) Errors may be classified as (A) i. Errors of omission ii. Errors of commission. (B) i. one sided errors and ii. two sided errors. Errors of commission can be (i) Errors of principle (ii) Compensatory errors (iii) Errors in posting, totalling and balancing (iv) recording in a wrong Day Book and (v) Partial omission.
- vi) Rectification of error involves
 - identification of accounts
 - rectifying the error by a suitable method
- vii) Rectification of one sided error is done -
 - a. by scoring the wrong entries and inserting the correct entries in correct account OR
 - b. through suspense account by preparing and posting a transfer voucher debiting or crediting the Suspense A/c and correspondingly crediting or debiting the other affected account.

- viii) Rectification of two sided error is done by preparing transfer voucher debiting one affected account and crediting the other affected account.
- ix) Some errors remain untraced while final accounts are prepared. Such errors are rectified in the year in which these are detected.
- x) If past errors are one sided errors involving one revenue account is rectified through Profit and Loss Adjustment Account and Suspense A/c.
- xi) If the past errors are double sided errors and the two affected accounts are of non-revenue nature, one will be debited and the other will be credited. If one account is of revenue nature and the other of non-revenue nature, the accounts affected are Profit & Loss Adjustment A/c for revenue account and the non-revenue account will be the other account.

17.9 TERMINAL QUESTIONS

1. Answer the following questions briefly:
 - i. Define an accounting error.
 - ii. State the meaning of rectification of an error.
 - iii. Name the broad classification of errors.
 - iv. List the errors which do not affect the trial balance.
2. State the steps of locating accounting errors when trial-balance does not tally ?
3. Explain the following types of errors with suitable examples.
(a) Errors of omission (b) Errors of principle (c) compensatory errors.
4. Explain how an error is rectified through suspense account with a suitable example.
5. Rectify the following errors by suitable correction in the affected account.
 - (i) Purchases Day book is undercast for the month of March, 1997 by Rs.2.00
 - (ii) Cash received from Rasheed Rs.700 was entered in the

Cash Book but not credited to his A/c.

- (iii) cash paid Rs.1,800 to Balmukand was credited to his account Rs.2,800.
- (iv) An item of Rs.500 of the Sales Book was posted to the seller Mr. Ram Avtar as Rs.1,500.

Rectify the following errors through suspense account both by preparing transfer vouchers and by passing journal entries :-

- i. An amount of Rs.2,500 paid as wages for Jan., 97 was posted twice in the wages account.
- ii. Rs.600 owing to a supplier M/s Raman & Bros. had been omitted from the schedule of Sundry creditors.
- iii. A sale of Rs.1,680 to M/s Jai Hind Traders had been entered in the Sales Day Book as Rs.1,860 and credited to their account.
- iv. The total of the Sales Day Book was overcast (added more) by Rs.500.

Rectify the following errors through accounting vouchers and through journal entries:

- i. Machinery purchased from M/s Machine Mart for Rs. 4,000 was recorded in the Purchase Day Book.
- ii. Purchase for Rs.1,000 on 25.3.97 from Harish & Bros. was not entered in the Purchase Day Book
- iii. Cash Rs.750 paid to Jacob was posted to the debit of Jasmin.
- iv. Rs.1,200 spent on the repair of factory Building was debited to the Building Account.

After preparing the Final accounts for 1997, the following errors were discovered. Rectify them by preparing accounting vouchers and by passing journal entries.

- i. An item of purchase of Rs.1,350 from Munshi was entered in the Sales Day Book.
- ii. A motor cycle purchased for Rs.10,000/- for the proprietors son was debited to General Expenses A/c.

17.10 ANSWERS TO INTEXT QUESTIONS

- 17.1 i) accounting process
 ii) agreement
 iii) Accounting, final Accounts
- 17.2 A. i) b) ii) c) iii) a) iv) d)
- B. i) One sided ii) Compensatory
 iii) Commission iv) Omission
- 17.3 A i. Rectified ii. erasing and over writing
 iii. instant iv. correct
- B. 1. Purchases A/c 2. Sharma Bros's A/c
 3. Return Inwards A/c.
- 17.4 A. (i) 1. Building A/c 2. Wages A/c
 (ii) 1. Purchases A/c 2. Furniture A/c
 (iii) 1. Kanti Lal A/c 2. Sales account
 (iv) 1. Munshi 2. Suspense A/c
- B. (i) Debit Mohan Singh credit Manohar Singh.
 (ii) Debit Sales A/c credit Furniture A/c
 (iii) Debit Machinery A/c credit carriage A/c
 (iv) Debit Daljeet Singh credit Baljeet Singh
- 17.5 A. (i) Final (ii) Profit & Loss Adjustment A/
 (iii) year (iv) Suspense Account & Profit &
 Loss account.
- B. (i) (a) Suspense a/c
 (b) Profit & Loss Adjustment account.
- (ii) (a) Profit & Loss account
 (b) Machinery a/c
- (iii) (a) Babu Lal
 (b) Profit & Loss Adjustment A/c
- (iv) (a) Profit & Loss Adjustment A/c
 (b) Wages outstanding account