

UNIT - 7

RECTIFICATION OF ERROR

LEARNING OBJECTIVES : After studying this topic the student will be able to :

- Explain Types of Errors and their examples
- Rectify the Errors : Two sides i.e. Errors not affecting Trial Balance and One sided i.e. Errors which affect Trial Balance.
- To Explain Meaning and Utility of Suspense A/c
- Maintain Suspense A/c.

INTRODUCTION

In the previous chapter we have learnt that a Trial Balance is prepared to check the arithmetic accuracy of transactions recorded in a Journal, posting them into the ledger and balancing the ledger account. If a Trial Balance agrees, it is assumed that recording, posting etc. have been done correctly. But this is only partially correct because even if Trial Balance agrees, there may be some errors in the accounting records.

For example if a credit sale is omitted to be entered in the Sales Book, it will not-affect the trial balance because both the Debit and the Credit aspects of this transaction are not recorded. In other words, errors in the records may or may not affect Trial Balance.

Important : The errors whether affecting the Trial Balance or not must be detected and rectified.

Need of Rectification :

1. For the preparation of correct Accounting Records.
2. Preparation of P & L A/c with corrected figures to ascertain correct Profit or Loss.
3. To find out the true financial position of the firm by preparing Balance Sheet with corrected figures.

CLASSIFICATION OF ERRORS
(on the basis of Nature)

Type of Error with Meaning	Sub-Types with Examples
I. Error of Omission (When a transaction is completely or partially omitted to be recorded in the books)	(a) Error of Complete Omission Goods sold to X on Credit but not recorded in Sales Book. *(b) Partial Omission Goods sold to X on Credit recorded in Sales Book but not posted to the A/c of X, thus sales A/c is credited but X is not debited creating short debit. This error will affect Trial Balance.
II. Error of Commission (These errors are caused due to wrong recording of transactions, wrong totalling of subsidiary books or Ledger A/cs, Wrong posting and wrong carry forward)	(a) Error of Recording in the Book Of Original Entry Goods purchased from Ravi for Rs. 450, recorded as Rs. 540, in the Purchases Book. (This error will not affect Trial Balance as same amount will be posted in both the A/cs, Purchase A/c as well as Ravi.) *(b) Wrong Totalling of Subsidiary Book. Example : Purchase Book has been undercast (short totalled) by Rs. 100, Purchase A/c will be debited short by Rs. 100, decreasing the debit side of Trial Balance by Rs. 100. (c) Error in Totalling or Balancing of Ledger A/cs* Example : Creditors A/c has been balanced short by Rs. 500, then Trial Balance will be Rs. 500 short in Credit side.

<p>III. Errors of Principles. (These errors are caused due to the violation of accounting principles i.e. allocation between Capital and Revenue Items.</p> <p>IV. Compensation Errors (Two or more errors committed in such a way that the net effect of these errors is nil).</p>	<p>(d) Error of Posting * (i) Posting to the wrong side but correct account. Goods sold to X for Rs. 550, entered to the credit of X's A/c instead of posting to the debit side of his account. * (ii) Posting with wrong amount. * (iii) Posting twice in an A/c. (iv) Errors in posting to the wrong A/c but correct side don't affect Trial Balance. * (e) Error in carrying forward. Total of purchase book Rs. 2,500 is carried forward as Rs. 2050 Creating short debit of Rs. 450, in Purchase A/c and in turn short debit in Trial Balance. (a) Treating capital items as revenue item Example : Wages paid for the installation of a new machinery charged to Wages A/c instead of Machinery A/c. (b) Treating Revenue Items as Capital Item Example : Rs. 200 paid for the repairs of an old Machinery but debited to Machinery A/c instead of Repairs A/c. Example : On July, 1st 2011 a sum of Rs. 2,000 paid to Mohit is posted as Rs. 200 to the Debit of his A/c and on July 20th, 2011 a sum of Rs. 200 paid to Sonil has been posted as Rs. 2,000 to the Debit of his A/c. Net Effect will be zero.</p>
<p>Important 1 :</p> <ol style="list-style-type: none"> 1. Errors of Principles and compensating Errors don't affect Trial Balance. 2. Errors shown by star in the above table affect Trial Balance. 	

TYPES OF ERRORS FROM RECTIFICATION POINT OF VIEW

From Rectification point of view, errors are classified into the following two categories only :

Case I : Errors which don't affect the Trial Balance

or

Two Sided Errors

Case II : Errors which affect the Trial Balance

or

one Sided Errors.

Errors don't Affecting Trial Balance

- (1) Errors of complete omission.
- (2) Wrong recording in the books of original entry.
- (3) Complete omission from posting to the A/cs.
- (4) Errors of posting to the wrong A/c but on the correct side.
- (5) Compensating errors.
- (6) Errors of principle.

Errors Affecting Trial Balance.

Shown by star in the table showing

Errors : Types and Examples.

- (1) Errors in totalling of Subsidiary books or ledger A/cs - i.e. overcast or undercast.
- (2) Error in the Balancing of Ledger A/cs.
- (3) Error in posting to the correct A/c but with the wrong amount or to the wrong side or both.
- (4) Errors of Partial omission
- (5) Omitting to show an A/c in the Trial Balance.

RECTIFICATION OF ERRORS

When the errors are detected, these have to be rectified in the books of accounts.

Rectification of errors depends upon :

- The type of error and
- The time of depiction of an error.

Time of Depiction of an error means

- (i) Errors detected before the preparation of **Trial Balance**.
- (ii) Errors detected **after** preparing Trial Balance but **before** preparing **final Accounts**.
- (iii) Error detected after preparing Final Accounts.

Rectification of Errors detected after preparing Final Accounts is not in the syllabus. Hence we will discuss only type (i) and (ii)

RECTIFICATION OF TWO SIDED ERRORS

Two sided errors are those errors which affect two sides of Accounts. These errors don't affect Trial Balance as discussed earlier.

These Errors are rectified by passing a Journal entry irrespective of the time of deficiation. In other words their rectifying entry will be same whether (a) the error is depicted before preparing Trial Balance or (b) after the preparation of Trial Balance but before the Final A/cs are prepared.

Steps for Rectification

- (1) Locate the effect of Error on Different Accounts
- (2) The Account showing excess credit should be Debited.
- (3) The Account showing excess Debit should be Credited.
- (4) The Account showing short Debit should be Debited.
- (5) The Account showing short Credit should be Credited.

EXAMPLES (with Explanation)

(I) when an account has wrongly been debited in place of another A/c.

- Rectification will be done by debiting the correct account and Crediting the A/c which was wrongly debited.

Example : Machinery purchased for Rs. 10,000 has been debited to Purchases A/c

Solution : Here two A/cs are affected

- Machinery A/c is not debited hence its debit side is short by Rs. 10,000, whereas purchases A/c is debited by mistake purchases A/c debit side is in excess by Rs. 10,000.
- While rectifying this mistake machinery A/c will be debited by Rs. 10,000 because it was not debited earlier and purchases A/c will be credited cause it was wrongly debited.

Rectifying Entry is :

		Dr. (₹)	Cr. (₹)
Machinery A/c	Dr.	10,000	
To Purchases A/c			10,000
(For purchase of machinery wrongly debited to Purchases A/c)			

(II) When an account has wrongly been Credited in place of another account.

Example : Rs. 5,000 received from the sale of old furniture has been Credited to Sales A/c.

Solution : This error also affects the two A/cs

- Furniture A/c is not Credited hence its credit side is short by Rs. 5,000.
- Sales A/c is credited by mistake its credit side is in excess of Rs. 5,000.
- Therefore for rectifying this mistake Sales A/c will be debited because it was wrongly Credited and Furniture A/c which was not Credited earlier will now be credited by Rs. 5,000.

Hence Rectifying entry is :

		Dr. (₹)	Cr. (₹)
Sales A/c	Dr.	5,000	
To Furniture A/c			5,000
(Sale of old furniture wrongly Credited to Sales A/c)			

(III) When there is a short debit in one A/c and a short Credit in another A/c.

Example : Goods sold to Seema for Rs. 540 was entered in the Sales Book as Rs. 450.

Solution :

- Here Seema's A/c is debited by Rs. 90 short and Sales A/c is credited by Rs. 90 short.
(Instead of Rs. 540 by Rs. 450)
- Therefore rectification will be done by Debiting Seema's A/c and Crediting Sales A/c. Hence Rectifying entry is :

		(₹)	(₹)
Seema	Dr.	90	
To Sales A/c			90
(For Goods sold to Seema for ₹ 540 wrongly entered as ₹ 450)			

(IV) When there is an Excess Debit in one A/c and Excess Credit in another A/c.

Example : Goods purchased from Mohan for Rs. 300 was recorded in Purchase Book as Rs. 3000.

Solution -

- Here Purchases A/c is Debited by Rs. 3000, instead of Rs. 300, ie. Rs. 2700, more.
- Mohan's A/c is also Credited by Rs. 2700 more.
- Rectification will be done by debiting Mohan's A/c and Crediting purchases A/c by Rs. 2700, ie. the entry in the reverse direction.

Rectifying Entry

		(₹)	(₹)
Mohan	Dr.	2700	
To Purchases A/c			2700
(For Purchase of goods from Mohan for Rs. 300 wrongly entered as Rs. 3000)			

Problem :**Rectify the following errors :**

1. Credit purchases from Amit not recorded for Rs. 8,000 (Error of Complete omission).
2. Wages paid Rs. 500 for the installation of a new Machinery were recorded in wages A/c. (Error of Principle)
3. Credit sales to Anil for Rs. 5,000 were posted to Amit's A/c (Error of Commission)
4. Goods purchased from Ram for Rs. 900 were recorded in Sales Book (Error of Commission)
5. Goods returned to Amit for Rs. 1,000 entered as Rs. 100 (Error of Commission)
6. Rent paid Rs. 400 wrongly debited to Landlord's A/c (Error of Principle)
7. Rs. 500, paid for the proprietor's medical bill were debited to "Sundry Expenses A/c" [Error of Principle]
8. Rs. 2,500, received from Anil were recorded in the Cash Book as Rs. 5,200 [Error of Commission]

Solution : Note that

- In Error No. 4, more than two Account are affected.

(a) Wrong Entry done

Ram	Dr.	900	
To Sales A/c			900

(b) Correct Entry Required

Purchases A/c	Dr.	900	
To Ram			900

Here to cancel the effect of wrong entry we have to do the entry

(c) Sales A/c	Dr.	900	
To Ram			900

Now the **Rectifying entry will be**

Entry (b) + Entry (c) ie.

Purchases A/c	Dr.	900	
Sales A/c	Dr.	900	
	To Ram		1,800

Complete Solution

Date/ Error	Particular	L.F	Dr. (₹)	Cr. (₹)
1.	Purchases A/c Dr. To Amit (For the credit purchases to Amit omitted to be recorded)		8,000	8,000 8,000

2.	Machinery A/c Dr. To Wages A/c (for Wages paid for the installation of a new machinery wrongly debited to wages A/c)	500	500
3.	Anil Dr. To Amit (for Credit sale to Anil wrongly debited to Amit's A/c)	5,000	5,000
4.	Purchases A/c Dr. Sales A/c Dr. To Ram (for Credit purchase from Ram wrongly passed through sales book.)	900 900	1,800
5.	Amit Dr. To Purchase Returns A/c (for Goods returned to Amit entered short by Rs. 900)	900	900
6.	Rent A/c Dr. To Landlord (for Rent paid wrongly debited to landlord's A/c)	400	400
7.	Drawings A/c Dr. To Sundry Expenses A/c (for Proprietor's personal expenses wrongly debited to S.Expenses)	500	500
8.	Anil Dr. To Cash A/c (for Cash received from Anil was recorded in excess by Rs. 2,700) (5,200-2,500)	2,700	2,700

Important :

Rectification of double sided errors can easily be understood by the students. These are rectified by passing the journal entries as given above irrespective of the time of detection of the errors.

RECTIFICATION OF ONE SIDED ERRORS

These errors affect only one side of an Account either debit or credit. Therefore these errors affect the Trial Balance.

Rectification of these errors is done differently, in these two cases i.e.

- (i) Before preparing the Trial Balance
- (ii) After preparing the Trial Balance

Case I : Rectification of one sided errors before preparing Trial Balance.

When there errors are rectified before preparing Trial Balance i.e transferring the difference in the Trial Balance to the Suspense Account.

(Which will be explained later on), then it is done directly by debiting or crediting the concerned ledger account.

For short Debit → Concerned A/c is Debited
For Excess Credit → Concerned A/c is Debited
For Short Credit → Concerned A/c is Credited
For Excess Debit → Concerned A/c is Credited

Example : (1) Purchases Book undercast by ₹ 150

Analysis : It means that the total of the Purchases- Book is ₹ 150 short.

- This total is posted to purchases A/c - Debit side
- Hence purchases A/c is debited short by ₹ 150
- No effect on any other A/c
- Therefore purchases A/c will be debited by ₹ 150 to rectify this error as given below.

Dr				Purchases A/c				Cr			
Date	Particular	J.F	(₹)	Date	Particular	J.F	(₹)				
	To Undercast of purchase book		150								

Here debit side of the Purchases A/c was short therefore the rectification is done by debiting the A/c.

Example 2 - Purchase Book is overcast by ₹ 300

Analysis

- Means total of the purchase Book is in excess by ₹ 300 which is posted to the debit side of purchases A/c
- Hence purchases A/c is debited in excess by ₹ 300
- No effect on any other A/c.
- Therefore to rectify this error ₹ 300 will be credited to purchases A/c (ie. opposite side)

Dr				Purchases A/c				Cr			
Date	Particular	J.F	(₹)	Date	Particular	J.F	(₹)				
					By Overcast of Purchases Book		300				

- Here debit side of the purchases A/c was in excess, therefore the rectification is done by entering the amount on the opposite side i.e. Credit side of the Purchases A/c.

Case II : Rectification of one Sided Error after Preparing Trial Balance

When the errors are detected after the preparation of Trial Balance then every single sided error is rectified by passing a Journal entry through the Suspense Account.

- For short Debit in one Account → Debit that Account and Credit the Suspense A/c

Excess Credit in one Account → Debit that Account and Credit the Suspense A/c

Short Credit in one Account → Credit that A/c and Debit the Suspense A/c

Excess Debit in one Account → Credit that A/c and Debit the Suspense A/c

Example 3 : Hence for the same error as given in example No in case I, the following Journal Entry will be passed.

		(₹)	(₹)
Purchases A/c	Dr.	150	
To Suspense A/c			150
(For undercast of purchase book, now corrected)			

Example 4 : Sales Book was undercast by Rs. 200.

Analysis

- Sales book totalled short by Rs. 200 which is posted to the credit side of sales A/c.

- Therefore sales A/c credit side is short by Rs. 200.

- Hence rectification will be done by crediting the sales A/c and Debiting the Suspense A/c by Rs. 200.

		(Rs.)	(Rs.)
Suspense A/c	Dr.	200	
To Sales A/c			200
(For the undercast of Sales Book, now corrected)			

Note :

When nothing is mentioned in the question about the time of detection of an error, the students are advised to rectify one sided errors through Suspense A/c.

PROBLEM

Rectify the following errors

(A) Without opening a Suspense A/c

(B) By passing Journal entries through Suspense A/c.

(1) Rs. 400 Paid to X were entered in the Cash Book but omitted to be posted to the Ledger.

(2) Rs. 400 Paid to X were debited to his A/c as Rs. 40

(3) Rs. 400 paid to X were debited to his A/c as Rs. 4000 (for Thousand)

(4) Rs. 400 Paid To X were Credited to his A/c

(5) Rs. 400 Paid To X were Credited to his A/c as Rs. 40

(6) Sales Book was overcast by Rs. 200.

(7) Sales Return Book undercast by Rs. 400

(8) Purchase Return Book undercast by Rs. 500.

Solution : (A) Without opening a Suspense A/c

As explained earlier if the errors (single side) are detected before preparing Trial Balance then these are rectified by directly the amount in the concerned Ledger Accounts.

Solution :

1. X's A/c will be debited by Rs. 400 as it is a case of partial omission.

2. X's A/c was **debited** show by Rs. 360 (400-40) therefore the rectification will be done by **debiting X's A/c by Rs. 360.**

3. X's A/c was **debited in excess by Rs. 3600** (4000-400) therefore rectification will be done by **Crediting the X's A/c by Rs. 3,600.**

4. X's A/c was Credited by Rs. 400 instead of debiting by Rs. 400, therefore rectification will be done by **debiting the X's A/c by Rs. 400+400 ie. Rs. 800** (Rs. 400 to cancel the effect of wrong credit and Rs. 400 for actually debiting the A/c).

5. X's is wrongly **Credited by Rs. 40 instead of Debiting it by Rs. 400.** Hence rectification will be done by **Debiting the x's A/c by Rs. 440.**

6. Sales Book overcast means **Sales A/c is Credited in excess by Rs. 200** where as customer's have been debited by the correct amount.

Hence rectification will be done by **debiting - Sales A/c by Rs. 200.**

7. **Sales Return Book total Undercast by Rs. 400** means Sales Return A/c is **debited short by Rs. 400.** Hence Rectification will be done by **debiting the Sales Return A/c by Rs. 400.**

8. Purchase Return Book **undercast** by Rs. 500 means **Purchase Return A/c is credited short by Rs. 500.**

Hence rectification will be done by Crediting the Purchase Return A/c by Rs. 500.

Exact Solution :

In this example the rectification in X's A/c from Error No. 1 to 4 will be shown as follows :

Dr		X's Account			Cr.		
Error/Date	Particular	L.F	(₹)	Date	Particular	L.F	(₹)
(1)	To omission of posting of Cash Paid		400	(3)	By Error in Posting		3,600
(2)	To Error in Posting with the Wrong Amount		360		With the wrong Amount		
(4)	To Error in Posting to the Wrong side		800				

(B) By opening Suspense A/c

only Rectifying Journal Entries are done.

Date/ Error	Particulars	L.F	Debit Amount (₹)	Credit Amount (₹.)
(1)	X Dr To Suspense A/c (for Cash paid to X omitted to be posted to X's A/c)		400	400
(2)	X Dr To Suspense A/c (for Cash paid to X was debited to his A/c with the lesser amount)		360	360
(3)	Suspense A/c Dr To X (for X's A/c was debited with excess amount)		3,600	3,600

(4)	X	Dr	800	
		To Suspense A/c		800
		(For posting to X account was done on the wrong side (Cr) by Rs. 400)		
(5)	X	Dr	440	
		To Suspense A/c		440
		(For posting made with the wrong amount on the wrong side, now corrected)		
(6)	Sales A/c	Dr	200	
		To Suspense A/c		200
		(for Overcast of Sales Book rectified)		
(7)	Sales Return A/c	Dr	400	
		To Suspense A/c		400
		(For the undercast of sales return book, rectified)		
(8)	Suspense A/c	Dr	500	
		To Purchase Return A/c		500
		(For the rectification of undercast of purchase return book)		

Suspense Account and its Disposal :

In the chapter of Trial Balance we have learnt about the Suspense A/c

Important :

- When inspite of all the efforts the Trial Balance does not tally, the difference is put to a newly opened account named Suspense A/c.
- Suspense A/c is an imaginary account, opened temporarily for the purpose of reconciling a Trial Balance.
- Later on when the errors affecting the Trial Balance are located, rectification entries are passed through the Suspense A/c.
- When all the errors are located and rectified, the Suspense A/c will be automatically closed i.e., it will show zero balance.

- But if suspense A/c still shows a balance it will indicate that some errors are still to be discovered and rectified.

Problem : An accountant of a trading concern could not agree the Trial Balance.

There was an excess credit of Rs. 100 which he transferred to the suspense A/c.

The following errors were subsequently discovered :

- (1) Received Rs. 550 from X, were posted to the debit of his account.
- (2) Rs. 100 being purchase return were posted to the debit of purchases A/c.
- (3) Discount received Rs. 200 Correctly entered in the Cash Book but posted to the debit of the discount A/c.
- (4) Salary paid Rs. 3,500 to X were posted to the salary A/c as Rs. 2,500.
- (5) A purchase of Rs. 400 has been passed through Sales Book. However the customer's account has been correctly credited.

Give Rectifying entries and Suspense A/c

Rectifying Journal Entries

Date	Particulars	L.F	Debit Amount (₹)	Credit Amount (₹)
(1)	Suspense A/c Dr To X (Amount received from x was posted to the wrong side now corrected)		1,100	1,100
(2)	Suspense A/c Dr To Purchase A/c To Purchase Returns A/c (For the purchase return wrongly posted to the purchases A/c)		200	100 100
(3)	Suspense A/c Dr To Discount A/c (Discount received was posted to the wrong side of discount A/c)		400	400

(4)	Salary A/c Dr To Suspense A/c (Salary paid was posted to salary A/c with lesser amount)	1,000	1,000
(5)	Purchases A/c Dr Sales A/c Dr To Suspense A/c (Purchases has been passed through sales book but the customer's A/c has been correctly credited)	400 400	800

Dr				Suspense A/c				Cr			
Date/ Error	Particular	J.F	(₹)	Date	Particular	J.F	(₹)				
	To Defference in the Trial Balance		100	(4)	By Salary A/c		1,000				
				(5) (i)	By Purchases A/c		400				
				(ii)	By Sales A/c		400				
(1)	To X		1,100								
(2)	To Purchase A/c		100		Balance c/d		Nil				
(3)	To Return A/c		100								
(4)	To Discount A/c		400								
			1,800				1,800				

Since the Balance of the suspense A/c is nil, it indicates that all the errors have been rectified.

Suggested Methodology

Discussion and Explanation method is suggested.