

CHAPTER – 3

RECTIFICATION OF ERRORS

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1. WHAT IS A TRIAL BALANCE?

It is a list of ledger account balances as on a particular date. Under the double-entry book-keeping system periodical tabulation of debit and credit balance is done to see whether the total of debit balances agrees with the total of credit balances or not. Agreed trial balance is considered as a sufficient proof to ensure whether transactions are correctly written up. However mere agreement of trial balance is not a conclusive proof of accuracy. In spite of an agreed trial balance, books of accounts may contain errors. **Thus Trial Balance is a prima facie proof for arithmetical accuracy** of recording transactions in the books.

2. WHAT IS AN ERROR?

Error is an accounting mistake. When a business transaction is not recorded in accordance with well accepted accounting principles and practices, it is said that there is an error.

3. EXAMPLES OF AN ERRORS

Goods Purchased from Lakshya for Rs. 68,000

This transaction may be recorded in the books of accounts wrongly by one of the following ways:

1. Omitted to be recorded in Purchase Day Book.
2. Recorded in Purchase Day Book twice.
3. Recorded in Purchase Day Book as Rs. 86,000.
4. Recorded in sales Returns Day Book.
5. Posted to the Lakshya's Account as Rs. 86,000.
6. Posted to the account of Lakshyaka.
7. Posted to the Debit side of Lakshya's Account.



4. WHAT IS RECTIFICATION OF AN ERROR?

Rectification means correction of mistake. Rectification is a process, where by wrong effects given in the books are nullified (to make it nil) and correct effects are ensured.

E.g. Goods purchased from Lakshya for Rs. 68,000 recorded in the Day Book as Rs. 86,000.

Recording	Particulars	Debit (Rs.)	Credit (Rs.)
Correct Entry	Purchases A/c. Dr. To Lakshya A/c.	68,000	68,000
Wrong Entry	Purchases A/c. Dr. To Lakshya A/c.	86,000	86,000
Rectification Entry	Lakshya A/c. Dr. To Purchases A/c.	18,000	18,000

Correct entry = Wrong entry + Rectification entry.

5. WHY TO RECTIFY ERRORS?

Errors distort ledger account balances.

Errors are required to be rectified

1. to arrive at true and fair profitability of the business.
2. to arrive at true and fair financial position of the business.

6. WHEN TO RECTIFY THE ERRORS?

Errors can be rectified only when they are located or detected.

Errors should be rectified at the earliest. Preferably errors should be detected and rectified before the end of the accounting or financial year.

However sometimes errors are not detected till the accounts for the financial year are finalised. In that case errors are required to be rectified on its detection only in the subsequent accounting year/s.

7. HOW TO DETECT THE ERROR OR HOW THE ERROR IS LOCATED OR DISCOVERED?

The mistakes are identified or located on either of the following occasions.

- | | |
|--|---|
| 1. non agreement of Trial Balance. | 2. On preparing BRS |
| 3. on reconciling of Party's Account. | 4. During internal audit. |
| 5. on identifying mistakes during statutory audit. | 6. on scrutiny of accounts of business. |
| 7. on receipt of money from customers. | 8. on payment of dues to suppliers. |

8. SUSPENSE ACCOUNT

When Books of Accounts are kept manually and there is a difference in Trial Balance, it is a normal practice to temporarily place the difference in Trial Balance to '**Suspense Account**'.

Subsequently errors are located and identified or on rectification of errors suspense account stands nullified.

9. EXPRESSIONS AND INTERPRETATIONS OF DIFFERENCE IN TRIAL BALANCE

Expressions	Interpretations
Trial Balance shows	
Excess Debit Short Credit	Trial balance shows more debit or less credit, Suspense Account show 'Credit Balance'.
Excess Credit Short Debit	Trial Balance shows more credit or less debit, Suspense Account show 'Debit Balance'.

10. RECTIFICATION PROCESS

How to rectify an error?

A. Rectification of errors in the same accounting year:

Step 1

Visualise or write by way of a note, a correct accounting entry

Step 2

Visualise or write by way of a note, a wrong accounting entry

Note: If debit is not equal to credit, keep in mind that difference in wrong entry recorded has been placed in Suspense Account.

Step 3

Write a rectification entry, where by wrong effects are nullified and correct effects are ensured by debiting or crediting respective personal, real or nominal account, using 'Suspense Account', wherever necessary.

Note: Use Suspense Account, only when in recorded entry (Step 2 above) debit is not equal to credit.

Example:

1. Rectification without using 'Suspense Account':

Goods returned by X & Co., a customer for Rs. 8,978, recorded as Rs. 9,878.

Recording	Particulars	Debit Rs.	Credit Rs.
Correct entry	Sales Return A/c. Dr. To X & Co. A/c.	8,978	8,978
Wrong entry	Sales Return A/c. Dr. To X & Co. A/c.	9,878	9,878



Recording	Particulars	Debit Rs.	Credit Rs.
Rectification entry	X & Co. A/c. Dr. To Sales Return A/c.	900	900

2. Rectification by using 'Suspense Account':

Goods purchased from X & Co. of Rs. 3,456, entered in the day book as Rs. 4,356 and posted therefrom to Party's Account as Rs. 5,346.

Recording	Particulars	Debit Rs.	Credit Rs.
Correct entry	Purchases A/c. Dr. To X & Co. A/c.	3,456	3,456
Wrong entry	Purchases A/c. Dr. To X & Co. A/c.	4,356	4,356
Rectification entry	X & Co. A/c. Dr. To Suspense A/c. To Purchases A/c.	1,890	990 900

B. How to rectify errors in subsequent accounting year/s?

Step 1

Visualise or write by way of a note, a correct accounting entry.

Step 2

Visualise or write by way of a note, a wrong accounting entry.

Step 3

Visualise or write by way of a note, a rectification entry that would have been passed in the same accounting year, using 'Suspense account' wherever necessary.

Step 4

Write rectification entry using suspense account, wherever necessary by debiting or crediting respective personal or real account and debiting or crediting "**Profit & Loss Adjustment account**" instead of respective Nominal Account.

Example:

1. Rectification in the subsequent year without using 'Suspense Account'.

Goods returned by X & Co., a customer for Rs. 8,978, recorded in the day book as Rs. 9,878 rectified in subsequent accounting year

Recording	Particulars	Debit Rs.	Credit Rs.
Correct entry	Sales Return A/c. Dr. To X & Co. A/c.	8,978	8,978
Wrong entry	Sales Return A/c. Dr. To X & Co. A/c.	9,878	9,878
Rectification entry in the same year	X & Co. A/c. Dr. To Sales Return A/c.	900	900

Recording	Particulars	Debit Rs.	Credit Rs.
Rectification entry in the same year	X & Co. A/c. Dr. To Profit & Loss Adjustment A/c.	900	900

2. Rectification in the subsequent year using 'Suspense Account'.

Goods purchased from X & Co. 3,456, entered in the day book as Rs. 4,356 and posted there from to X & Co. Account as Rs. 5,346 rectified in subsequent accounting year

Recording	Particulars	Debit Rs.	Credit Rs.
Correct entry	Purchases A/c. Dr. To X & Co. A/c.	3,456	3,456
Wrong entry	Purchases A/c. Dr. To X & Co. A/c.	4,356	5,346
Rectification entry in the same year	X & Co. A/c. Dr. To Purchases A/c. To Suspense A/c	1890	900 990
Rectification entry in the same year	X & Co. A/c. Dr. To Profit & Loss Adjustment A/c. To Suspense A/c	1890	900 990

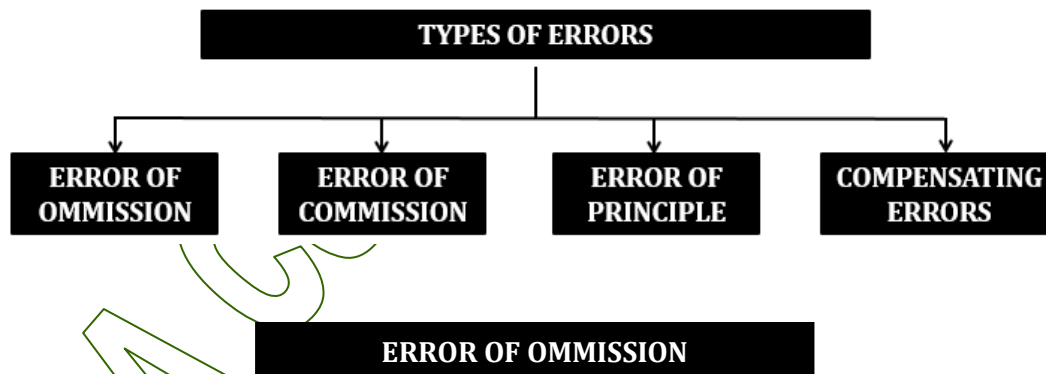
11. SUMMARY OF ERRORS AND EFFECT ON TRIAL BALANCE

Sr. No.	Error	Whether affects Trial balance	
		Yes	No
I.	Recording of transactions in a Day Book:		
	1. Omission to record a transaction		✓
	2. Transaction recorded twice in the books.		✓
	3. Transaction recorded with wrong amount.		✓
	4. Transaction recorded in a wrong Day Book.		✓
	5. Transaction recorded on the wrong side of Cash Book. (Receipt transaction entered as a payment or vice-versa)		✓
	6. Transaction recorded in the wrong column of the Day Book.		✓
	7. Transaction recorded with wrong account head.		
II.	Casting mistakes of the Day Book:	✓	
III.	Posting of transaction from Day Book to Ledger:		
	1. Omission to post the transaction.	✓	
	2. Posting to an account twice.	✓	
	3. Posting with wrong amount.	✓	
	4. Posting to wrong side.	✓	
	5. Posting to wrong account.		✓



Sr. No.	Error	Whether affects Trial balance	
		Yes	No
IV.	Brought forward of ledger account balances from Previous year: (Real and Personal Accounts)		
	1. Omission to record brought forward balance	✓	
	2. Balance brought forward twice	✓	
	3. Balance brought forward with wrong amount	✓	
	4. Balance brought forward to wrong side	✓	
	5. Balance brought forward in wrong account		✓
V.	Casting and Balancing mistakes in ledger accounts	✓	
VI.	Preparation of Trial Balance:		
	1. Omission to take the Ledger Account Balance.	✓	
	2. Ledger Account Balance taken twice.	✓	
	3. Ledger Account Balance taken with wrong amount	✓	
	4. Ledger Account Balance taken to wrong side	✓	
	5. Ledger Account Balance taken to wrong account.		✓

12. TYPES OF ERRORS



ERROR OF COMMISSION

ERROR OF PRINCIPLE



COMPENSATING ERRORS

13. DISTINCTION BETWEEN CAPITAL EXPENDITURE AND REVENUE EXPENDITURE

SR. NO.	CAPITAL EXPENDITURE	REVENUE EXPENDITURE
1.	Non Recurring Expenditure	Recurring expenditure
2.	Expenditure results in increase in capacity or fresh advantage over a longer period.	Expenditure result in benefits during the current year
3.	Financed out of long term funds.	Financed out of short term funds.
4.	Expenditure is spread over by way of depreciation or amortisation over useful life of an asset.	Entirely written off to Trading or Profit & Loss Account.
5.	To the extent of non depreciated or amortised, balance is reflected in Balance Sheet Asset Side.	Entirely written off to Trading or Profit & Loss Account. (Subject to accrual)
6.	Examples: <ol style="list-style-type: none"> 1. Purchase of Land. 2. Construction of Building. 3. Purchase of an Equipment. 	Examples: <ol style="list-style-type: none"> 1. Salaries off office staff. 2. Printing of books and forms. 3. Stationery for office use. 4. Audit Fees paid to Statutory auditor.

Note:

I. Certain expenditure looks like a revenue expenditure but requires capitalisation. (i.e. added to cost of an asset)

1. Wages paid for installation of Machinery.
 2. Freight inward on transportation of newly purchased machinery.
 3. Transit insurance in respect of newly purchased machinery.
 4. Custom duty and clearance charges paid for import of machinery.
 5. Stamp Duty and Registration charges towards purchase of premises.
 6. Legal charges for drafting an agreement in respect of purchase of immovable property.
- These are the incidental charges in connection with acquiring of a new asset, hence capitalisation.

II. According to AS 16 "**Borrowing Costs**", interest on money borrowed, prior to the period, an asset is put to use is a capital expenditure.

e.g. X purchased a commercial building at an agreed price of Rs. 50 lakhs by entering into an agreement with a Developer. The agreement is executed on 1st July 2018. For this purpose X borrowed Rs. 40 lakhs by way of loan from Bank of Baroda at 12% p.a. interest. The Bank released the funds on the following dates -

Date	Amount (Rs.)
1.7.2018	10,00,000
1.1.2019	10,00,000
1.7.2019	20,00,000

Shortfall of funds is made by Mr. X out of his own funds. The possession of the building is finally taken on 1st July 2019 and started using the same for business from that date. Books of Account are annually closed on 31st March.

Besides X incurred stamp duty and registration charges @ 6% on cost. Bank loan Instalment of Rs. 5,00,000 against Principal sum is paid on 1st October 2019,

Required:

1. Interest amount to be capitalised.
2. Interest amount to be charged to Profit & Loss Account for 2018-19 and 2019-20.
3. Effective cost of commercial building.

Solution:

1. Interest to be capitalised:

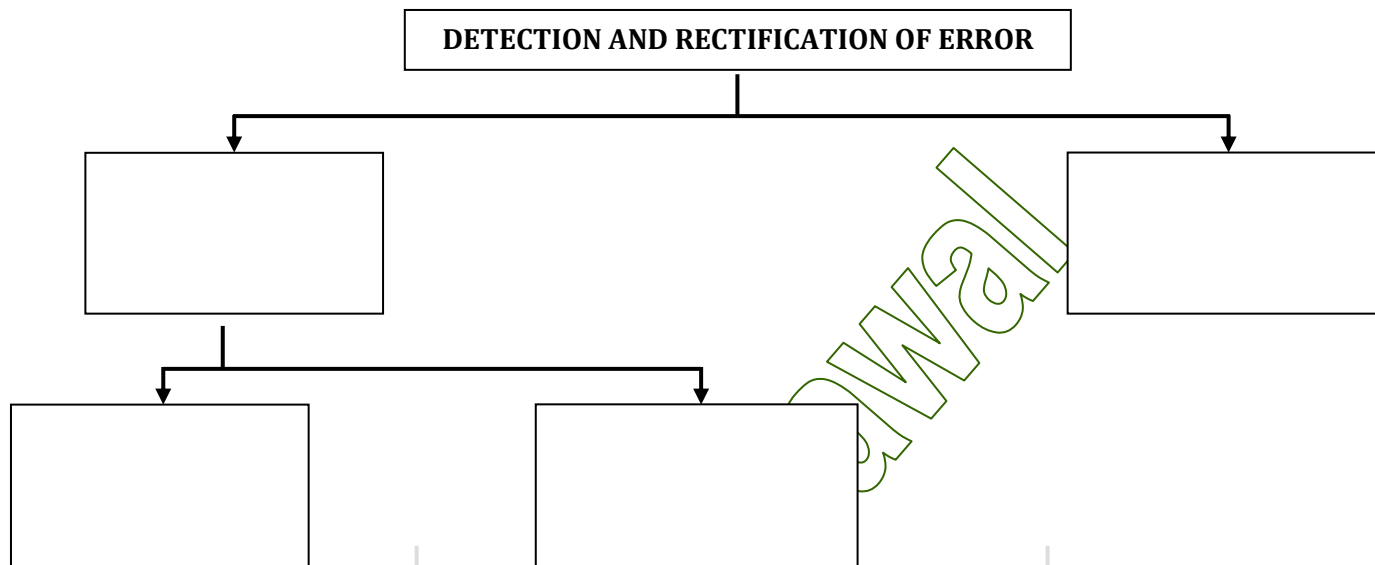
	Rs.
12% on Rs. 10,00,000 from 1.7.2018 to 30.6.2019 (12 months)	120,000
12% on Rs. 10,00,000 from 1.1.2019 to 30.6.2020 (6 months)	<u>60,000</u>
Total	<u>1,80,000</u>

2. Interest to be charged to Profit & Loss Account: 2013-14

	Rs.
12% on Rs. 40,00,000 from 1.7.2019 to 30.9.2019 (3 months)	1,20,000
12% on Rs. 35,00,000 from 1.10.2019 to 31.3.2020 (6 months)	<u>2,10,000</u>
Total	<u>3,30,000</u>

3. Cost of Commercial Property:

	Rs.
Purchase Price	50,00,000
Stamp Duty and Registration charges @ 6% on Rs. 50,00,000	3,00,000
Interest to be capitalised	<u>1,80,000</u>
Total	<u>54,80,000</u>

**14. DETECTION & RECTIFICATION OF AN ERROR - CHART**

15. SUMMARY OF ERRORS & ITS RECTIFICATION

S.N.	ERROR/TRANSACTIONS	CORRECT ENTRY	WRONG ENTRY	RECTIFICATION ENTRY IN THE SAME YEAR	RECTIFICATION ENTRY IN THE SUBSEQUENT YEAR/S
I.	RECORDING OF TRANSACTIONS IN DAY BOOK.				
1.	Omission to record a transaction. Goods sold to X & Co. Rs. 10,000 omitted to be recorded	X & Co. Dr. 10,000 To Sales Account 10,000	- -	X & Co. A/c. Dr. 10,000 To Sales A/c. 10,000	X & Co. A/c. Dr. 10,000 To P & L Adj. A/c. 10,000
2.	Transaction recorded twice. Goods returned by P & Co. Rs. 12,000	Sales Returns A/c. Dr. 12,000 To P & Co. Account 12,000	Sales Return A/c. Dr. 24,000 To P & Co. A/c. 24,000	P & Co. A/c. Dr. 12,000 To Sales Return A/c. 12,000	P & Co. A/c. Dr. 12,000 To P & L Adj. A/c. 12,000
3.	Transaction recorded in wrong Day Book. Goods returned to Q & Co. Rs. 8,900 recorded In Sales Day Book	Q & Co. A/c. Dr. 8,900 To Purchase Return A/c. 8,900	Q & Co. A/c. Dr. 8,900 To Sales A/c. 8,900	Sales A/c. Dr. 8,900 To Purchase Return A/c. 8,900	No entry, as both Dr. & Cr. Effects are to P & L Adj. A/c.
4.	Transaction recorded in the Day Book with wrong Amount. Goods Purchased from Balu Rs. 8,700 Recorded in the Day Book as Rs. 7,800	Purchases Dr. 8,700 To Balu's Account 8,700	Purchases Dr. 7,800 To Balu's A/c. 7,800	Purchases Dr. 900 To Balu's A/c. 900	P & L Adj. A/c. Dr. 900 To Balu's A/c. 900
5.	Transaction recorded on the wrong side of the Cash Book. Cheque received of Rs. 7,500 from X, wrongly recorded on the payment side of Cash Book.	Bank Account Dr. 7,500 To X Account 7,500	X A/c. Dr. 7,500 To Bank A/c. 7,500	Bank A/c. Dr. 15,000 To X A/c. 15,000	Bank A/c. Dr. 15,000 To X A/c. 15,000
6.	Transaction recorded in the wrong column of the Day Book. Cheque received for Rs. 9,900 from G & Co. after allowing cash discount of Rs. 100. While recording the transaction, amount received is entered in discount column and discount allowed is entered in amount column	Bank Account Dr. 9,900 Discount Allowed Dr. 100 To G & Co. 10,000	Bank Account Dr. 100 Disc. Allowed A/c. Dr. 9,900 To G & Co. 10,000	Bank Account Dr. 9,800 To Discount Allowed 9,800	Bank Account Dr. 9,800 To P & L Adj. A/c. 9,800
7.	Transaction recorded with wrong account head. Purchase of Office Equipment of Rs. 10,800 debited to Stationery A/c.	Office Equipment Dr. 10,800 To Cash/ Bank A/c. 10,800	Stationery A/c Dr. 10,800 To Cash/Bank A/c. 10,800	Office equipment Dr. 10,800 To Stationery A/c. 10,800 Note: Depreciation will be	Office equipment Dr. 10,800 To P & L Adj. A/c. 10,800 Note: Following additional entry is



S.N.	ERROR/TRANSACTIONS	CORRECT ENTRY	WRONG ENTRY	RECTIFICATION ENTRY IN THE SAME YEAR	RECTIFICATION ENTRY IN THE SUBSEQUENT YEAR/S
				provided at the end of the year.	required for depreciation for earlier year. P & L adj. A/c. Dr. To Office equipment A/c.
II CASTING MISTAKES IN DAY BOOK.					
1.	Debit side / Receipt side of Cash Book undercast by Rs. 1,000 (cash/ Bank / Discount allowed column).			Cash / Bank / Discount Allowed Dr. 1,000 TO Suspense A/c. 1,000	Cash/Bank/P&L adj. Dr.1,000 To Suspense A/c. 1,000
2.	Purchase Day Book undercast by Rs. 1,000.			Purchases Dr. 1,000 To Suspense A/c. 1,000	P & L Adj. Dr. 1,000 To Suspense A/c. 1,000
III. POSTING MISTAKES (POSTING FROM DAY BOOK TO LEDGER).					
1.	Omission to post the transaction. Cheque received from X & Co. Rs. 35,000 omitted to be posted from Cash Book	Bank Account Dr. 35,000 To X & Co. A/c. 35,000	Bank A/c. Dr. 35,000 No credit	Suspense A/c. Dr. 35,000 To X & Co. A/c. 35,000	Suspense A/c. Dr. 35,000 To X & Co. A/c. 35,000
2.	Posting taken to ledger account twice. Bank Charges Rs. 200 debited by bank, correctly recorded in the Cash Book but posted twice to Ledger Account.	Bank Charges A/c. Dr. 200 To Bank 200	Bank Charges Dr. 400 To Bank A/c. 200	Suspense A/c. Dr. 200 To Bank Charges A/c. 200	Suspense A/c. Dr. 200 To P & L Adj. A/c. 200
3.	Posting taken with wrong amount. Goods sold to Y Rs. 42,000 correctly recorded in the day book but posted to Party's Account as Rs. 24,000	Y A/c. Dr. 42,000 To Sales A/c. 42,000	Y A/c. Dr. 24,000 To Sales A/c. 42,000	Y A/c. Dr. 18,000 To Suspense A/c. 18,000	Y A/c. Dr. 18,000 To Suspense A/c. 18,000
4.	Posting taken to wrong side of ledger account. Cheque issued in favour of P & Co. Rs. 12,000 posted from the cash book to credit side of Party's Account.	P & Co. A/c. Dr. 12,000 To Bank A/c. 12,000	No Debit To Bank A/c. 12,000 To P & Co. A/c. 12,000	P & Co. A/c. Dr. 24,000 To Suspense A/c. 24,000	P & Co. A/c. Dr. 24,000 To Suspense A/c. 24,000
5.	Posting taken to wrong account. a) Goods purchased from Balu Rs. 5,000 posted from the day book to Lalu's account b) Cheque received towards interest From Tata Motors Ltd. Rs. 4,000 credited to "Dividend Received A/c"	Purchases A/c. Dr. 5,000 To Balu's A/c. 5,000 Bank A/c. Dr. 4,000 To Interest received 4,000	Purchases A/c. Dr. 5,000 To Lalu's A/c. 5,000 Bank Dr. 4,000 To Dividend received 4,000	Lalu's A/c. Dr. 5,000 To Balu's A/c. 5,000 Dividend Rec. A/c. Dr. 4,000 To Interest Rec. A/c. 4,000	Lalu's A/c. Dr. 5,000 To Balu's A/c. 5,000 No Entry as both effects are to 'P & L Adjustment Account
IV BALANCES BROUGHT FORWARD FROM PREVIOUS YEAR (REAL AND PERSONAL ACCOUNTS)					

S.N.	ERROR/TRANSACTIONS	CORRECT ENTRY	WRONG ENTRY	RECTIFICATION ENTRY IN THE SAME YEAR	RECTIFICATION ENTRY IN THE SUBSEQUENT YEAR/S
1.	Balance omitted to be brought forward Amount due from X & Co. Rs. 10,500 omitted to be brought forward.			X & Co. A/c. Dr. 10,500 To Suspense A/c. 10,500	X & Co. A/c. Dr. 10,500 To Suspense A/c. 10500
2.	Balance brought forward twice Credit balance in P & Co. Account Rs. 10,500 brought forward twice.			P & Co. A/c. Dr. 10,500 To Suspense A/c. 10,500	P & Co. A/c. Dr. 10,500 To Suspense A/c. 10,500
3.	Balance brought forward with wrong amount. Balance in Plant & Machinery A/c Rs. 36,000 brought forward as Rs. 63,000.			Suspense A/c. Dr. 27,000 To Plant & Machine. A/c. 27,000	Suspense A/c. Dr. 27,000 To Plant & Machine. A/c. 27,000 Note : It is also necessary to rectify depreciation effect of an earlier year.
4.	Balance brought forward to wrong side. Amount due from X & Co. Rs. 10,000 brought forward as credit balance.			X & Co. A/c. Dr. 20,000 To Suspense A/c. 20,000	X & Co. A/c. Dr. 20,000 To Suspense A/c. 20,000
5.	Balance brought forward in wrong account. Amount due from Babu Rs. 11,500 brought forward in Sabu's A/c.			Babu's A/c. Dr. 11,500 To Sabu's A/c. 11,500	Babu's A/c. Dr. 11,500 To Sabu's A/c. 11,500
V. CASTING AND BALANCING MISTAKES IN LEDGER ACCOUNTS.					
1.	Freight outward account debit side overcast by Rs. 1,000.			Suspense A/c. Dr. 1,000 To Freight Outward A/c. 1,000	Suspense A/c. Dr. 1,000 To P & L Adj. A/c. 1,000
2.	X & Co. Account credit side undercast by Rs. 1,000.			Suspense A/c. Dr. 1,000 To X & Co. A/c. 1,000	Suspense A/c. Dr. 1,000 To X & Co. A/c. 1,000
3.	Purchases account under balanced by Rs. 1,000.			Purchases A/c. Dr. 1,000 To Suspense A/c. 1,000	P & L Adj. A/c. Dr. 1,000 To Suspense A/c. 1,000
4.	Sales account under balanced by Rs. 1,000.			Suspense A/c. Dr. 1,000 To Sales A/c. 1,000	Suspense A/c. Dr. 1,000 To P & L Adj. A/c. 1,000

Note: No rectification entry is required for mistakes, while preparing a Trial Balance. These mistakes are not in the books of accounts. Trial Balance is a statement and not forming part of books of accounts.



16. PRACTICAL PROBLEMS

Q1. Classification of Errors (RTP N18)

REG. PAGE NO.

Classify the following errors under the three categories – Errors of Omission, Errors of Commission and Errors of Principle.

- (i) Sale of furniture credited to Sales Account.
- (ii) Purchase worth Rs. 4,500 from M not recorded in subsidiary books.
- (iii) Credit sale wrongly passed through the Purchase Book.
- (iv) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.
- (v) Goods worth Rs. 5,000 purchased on credit from Ram recorded in the Purchase Book as Rs. 500.

Q2. Rectification at all 3 Stages (RTP M18, N19 & N20)

REG. PAGE NO.

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

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

Q3. Rectification in Stage-1 & Stage-2 (CA-F-N19 Exam 10M)

REG. PAGE NO.

Correct the following errors

- (i) without opening a Suspense Account and
- (ii) with opening a Suspense Account:
 - (1) The sales book has been totalled Rs.2,100 short.
 - (2) Goods worth Rs.1,800 returned by Gaurav & Co. have not been recorded anywhere.
 - (3) Goods purchased Rs.2,250 have been posted to the debit of the supplier Sen Brothers.
 - (4) Furniture purchased from Mary Associates, Rs.15,000 has been entered in the purchase Day book.
 - (5) Discount received from Black and White Rs.1,200 has not been entered in the books.
 - (6) Discount allowed to Radhe Mohan & Co. Rs. 180 has not been entered in the Discount Column of the Cash book. The account of Radhe Mohan & Co. has, however, been correctly posted.

Q4. ROE in same year (Revise Trans.)

REG. PAGE NO.

Rectify the entries in respect of the following transactions assuming that errors are located within the same year, Trial Balance being agreed with Suspense Account as on 31st March 2018.

- a. The total of the Discount Column on the credit side of the Cash Book for March 2018 was undercast by Rs. 9.
- b. Rs. 600 paid for purchase of office furniture was posted to the Purchase Account.
- c. The Sales Account was understated by Rs. 1,000 because of a wrong carry over in the Sales Day Book.
- d. Goods of the value of Rs. 100 returned by Mr. Sharma were entered in the Sales Day Book and posted there from to the credit of his account.
- e. An amount of Rs. 150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods.
- f. A sale of Rs. 200 made to Mr. Ghansham was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radhesham as Rs. 20.
- g. The total of 'Discounts Allowed' column in the Cash Book for the month of September 2017, amounting to Rs. 250 was not posted.

Q5. ROE in same year (Revise Trans.)

REG. PAGE NO.

Write out the journal entries to rectify the following errors using a Suspense Account:

1. The total of 'Discount Allowed' from the Cash Book for the month of March 2018 amounting to Rs. 350 was not posted.

2. An amount of Rs. 175 entered in the Sales Return Book has been posted to the debit of Mr. Robert who returned the goods.
3. Goods of value of Rs. 500 returned by Mr. Smith were entered in the Sales Day Book and posted therefrom to the credit of his account.
4. A sale of Rs. 800 made to Mr. Peter was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Armstrong as Rs. 80.

Q6. ROE in same year (Revise Trans.) REG. PAGE NO.

- Pass journal entries to rectify the following errors, the difference being already put to suspense account:
- a. Purchased goods from Dinesh Rs. 800, passed through Sales Book.
 - b. Received final dividend of Rs. 40 from Vibhore, whose account had already been written off as bad debts, was credited to a newly opened account and was included in the list of creditors.
 - c. Bill received from Ahmed for repairs done to radio Rs. 250, and radio supplied for Rs. 950, was entered in the purchase book, as Rs. 1000.
 - d. Received one bill from Garun Rs. 500, passed through bills payable book.
 - e. Bills receivable from Mr. Ramesh of Rs. 1,000 was posted to the credit of bill payable account and also credited to the account of Mr. Ramesh.
 - f. An item of purchase of Rs. 158, was entered in the purchases book as Rs. 15, and posted to the supplier's account as Rs. 58.

Q7. ROE in same year (Revise Trans.) REG. PAGE NO.

- Rectify the following errors through suitable journal entries:
- a. Purchased goods from Mathai Rs. 300, passed through sales book.
 - b. Received one bill from Arun for Rs. 500, passed through bills payable book.
 - c. An item of Rs. 150 relating to prepaid rent account was omitted to be brought forward.
 - d. An item of Rs. 40 in respect of purchase returns instead of being debited to the personal account from returns outward book, had been wrongly entered in the purchases book and posted therefrom wrongly to the debit of personal account.
 - e. Rs. 500 paid to M/s Mehta Brothers against our acceptance were debited to M/s Malhotra Brothers Account.
 - f. Received final dividend of Rs. 20 from Ajit whose account had already been written off as bad debt, was credited to a newly opened account and was included in the list of creditors.
 - g. A bill received from Janaki Das for repairs done to radio Rs. 150, and radio supplied for Rs. 950, was entered in the invoice book as Rs. 1,000.

Q8. ROE in same year (Revise Trans.) REG. PAGE NO.

- On going through the trial balance of Lakshya Ltd. you find that the debit is in excess by Rs. 150. This was credited to Suspense Account. On close scrutiny of the books, the following mistakes were noticed:
- a. The total of debit side of Expense Account have been cast in excess by Rs. 50.
 - b. The sales account has been totaled in short by Rs. 100.
 - c. One time of purchases of Rs. 25 has been posted from the day book to ledger as Rs. 250.
 - d. The sales return of Rs. 100 from party has not been posted to that account though the party's account has been credited.
 - e. A cheque of Rs. 500 issued to the supplier's account (shown under Trade Payables) towards his dues has been wrongly debited to the purchases.
 - f. A credit sales of Rs. 50 has been credited to the sales and also to the Trade Receivables account.
- You are required to Pass Journal Entries for correcting the above errors, show how they affect the profits and prepare the suspense account as it would appear in the ledger.

Q9. ROE in subsequent year (Revise Trans.) REG. PAGE NO.

- 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 an Accountant who examined the old books and found the following mistakes:
1. Purchase of a scooter was debited to conveyance account Rs. 3,000.
 2. Purchase account was over cast by Rs. 10,000.
 3. A credit purchase of goods from Mr. P for Rs. 2,000 was entered as a sale.
 4. Receipt of cash from Mr. A was posted to the account of Mr. B Rs. 1,000.



5. Receipt of cash from Mr. C was posted to the debit of his account Rs. 500.
 6. Rs. 500 due from Mr. Q was omitted to be taken to trial balance.
 7. Sale of goods to Mr. R for Rs. 2,000 was omitted to be recorded.
 8. Payment of Rs. 2,395 for purchase was wrongly posted as Rs. 2,593.
 9. Mr. Roy used to charge 10 % depreciation on vehicles.
- Give the necessary rectification entries.

Q10. ROE in subsequent year (Revise Trans.)**REG. PAGE NO.**

A merchant's trial balance as on 30th June 2015 did not agree. The difference was put to suspense account. During the next trading period, the following errors were discovered.

- a. The total of purchase book of one page, Rs. 4,539 was carried forward to the next page as Rs. 4,593.
- b. A sale of Rs. 573 was entered in the sales day book as Rs. 753 and posted to the credit of the customer's account.
- c. A return to a creditor, Rs. 510 was entered in the Return Inwards book, however the creditor's account was correctly posted.
- d. Cash received from C. Dass Rs. 620 was posted to the debit of G. Dass.
- e. Goods worth Rs. 840 were dispatched to a customer before the close of the year but no invoice was made out.
- f. Goods worth Rs. 1,000 were sent on sale or return basis to customer and entered in the sales book. At the close of the year, the customer still had the option to return the goods. The sales 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.

Q11. DARNA ZAROORI HAI (ICAI SM Q1)**REG. PAGE NO.**

The trial balance of Mr. W & H failed to agree and the difference Rs.20,570 was put into suspense pending investigation which disclosed that:

- (i) Purchase returns day book had been correctly entered and totalled at Rs.6,160, but had not been posted to the ledger.
- (ii) Discounts received Rs.1,320 had been debited to discounts allowed.
- (iii) The Sales account had been under added by Rs.10,000.
- (iv) A credit sale of Rs.1,470 had been debited to a customer account at Rs.1,740.
- (v) A vehicle bought originally for Rs.7,000 four years ago and depreciated to Rs.1,200 had been sold for Rs.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 Rs.560 for telephone charges had been completely omitted.
- (vii) A bad debt of Rs.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 Rs.23,390 with a credit provision for bad debts at Rs.2,320.
- (viii) Tools bought for Rs.1,200 had been inadvertently debited to purchases.
- (ix) The proprietor had withdrawn, for personal use, goods worth Rs.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.

“Financial Management’s Law – One in Hand is better than two in bushes”

- Anshul A. Agrawal