

V.V. Easy

Unit 6: RECTIFICATION OF ERRORS

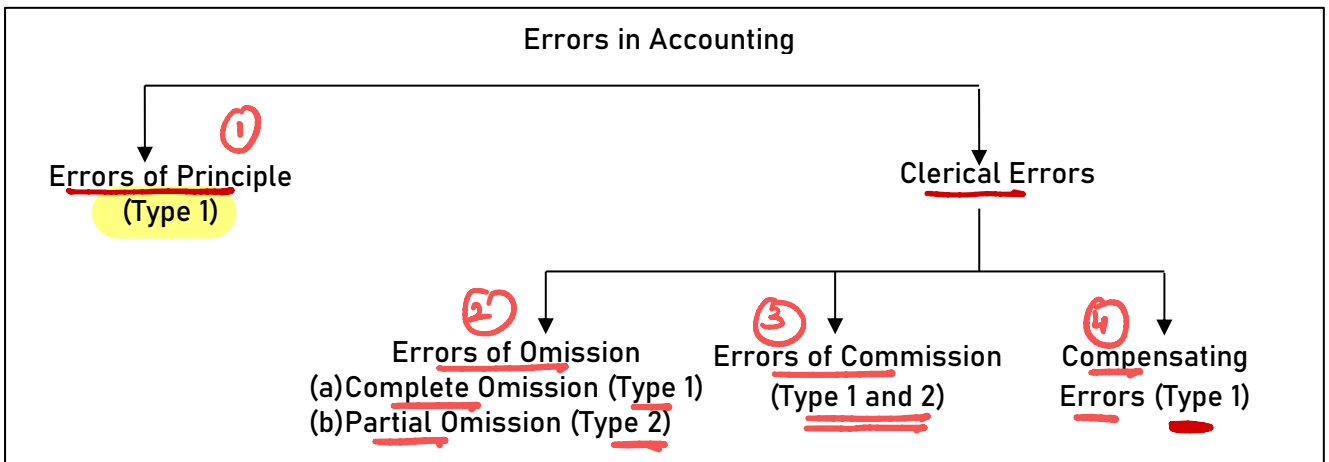
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2F

"You must have long range goals to keep you from being frustrated by short range failures."

- Accountant, as a normal human being is likely to commit mistakes while recording the transactions in the books of original entry, posting them to Ledger accounts or in preparing a Trial balance itself.
- It is essential to locate & rectify errors else Profit & Loss A/c and Balance sheet will not disclose true profit/loss and true financial position of the business respectively.

TYPE OF ERRORS



Note: Type 1 Error = Trial balance will still agree. Type 2 Error = Trial balance will not agree.

ERRORS OF PRINCIPLE

Meaning	It arises when a financial transaction is recorded in the books in an incorrect manner. i.e., Journal Entry is not as per the Accounting Principles
Example	Capital Expenditure is treated as revenue expenditure or vice versa, E.g. Repairs to machinery wrongly treated as capital expenditure and debited to Machinery Account instead of Machinery Repairs A/c.
Stage	Such errors are normally committed while recording in the journal
Effect	Such errors will not affect the Trial Balance. T.B. will agree

ERRORS OF OMISSION

Meaning	Error of Omission means that a transaction is not recorded/posted/transferred either wholly or partially, in the books of accounts.	
Types	They may be further analyzed into-	
	Partial Omission	Complete Omission
	(a) One aspect of the transaction, either debit or credit, omitted to be posted (b) Trial Balance will not agree.	Both aspects of transaction, debit & credit omitted to be recorded/posted. Trial Balance will still agree

	(c) Arises from <u>posting on one side & omission of other side entry.</u>	Arises from <u>omission-either in the book of original entry or in the ledger.</u>
Stage	(a) Complete Omission: (i) While <u>recording in Journal</u> (ii) <u>Posting to Ledger</u> (b) Partial Omission: (i) While <u>Posting to ledger</u>	
Effect	(a) Complete Omission - will <u>NOT affect Trial Balance.</u> (T.B. will agree) (b) Partial Omission in Posting - will <u>affect Trial Balance</u> (T.B. will not agree)	

ERRORS OF COMMISSION

→ Remaining Errors (Other than 3 errors)

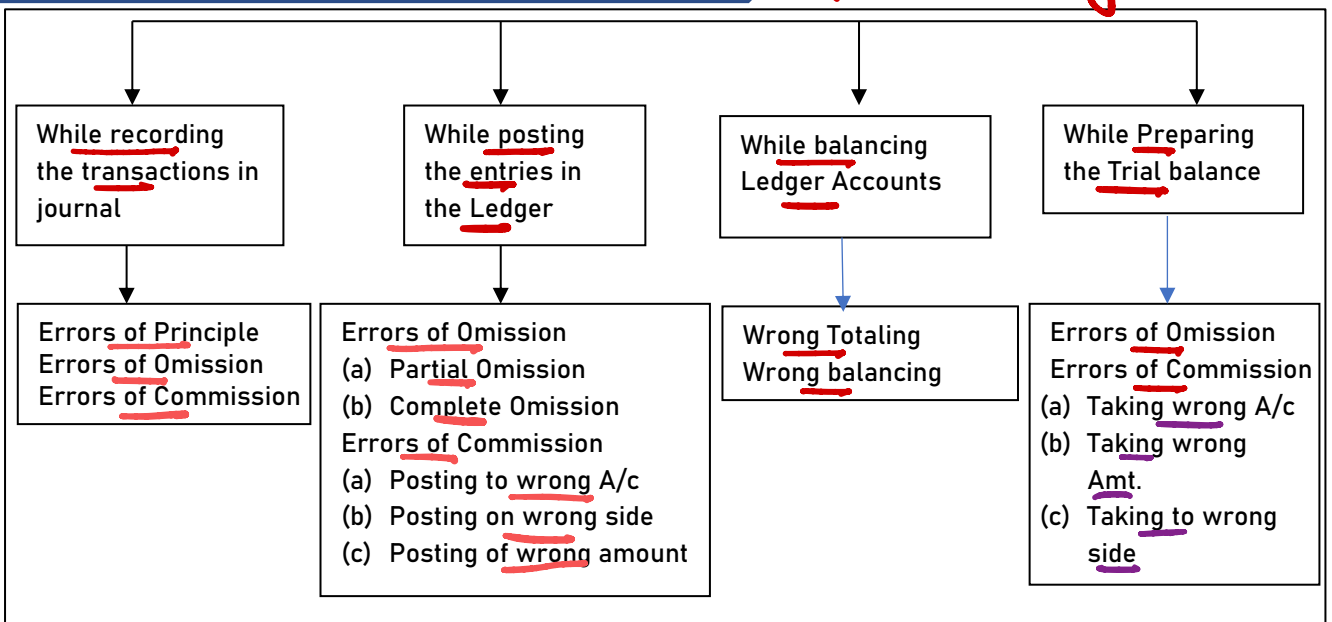
Meaning	A transaction is recorded wrongly or incorrectly in the books. It also includes all clerical errors during the Accounting process.
Types & Effect on Trial balance	These may be categorized into- (a) <u>Recording Error</u> : writing the <u>wrong amount</u> in subsidiary books. Trial balance will agree. (b) <u>Posting Error</u> : <u>wrong account, wrong amount, wrong side</u> , etc. Trial Balance may or may not agree. (c) <u>Casting Error</u> : <u>wrong totaling or balancing</u> . Trial Balance will not agree. (d) <u>Carry Forward Error</u> : <u>carrying forward a wrong amount, wrong side</u> , etc. Trial Balance will not agree. (e) <u>Duplication Error</u> : recording the same transactions twice in the original book of entry and posting it to the ledger. Trial balance will agree.

COMPENSATING ERRORS

Meaning	One set of <u>errors on the debit side</u> for a specified amount is <u>counter-balanced</u> by another set of <u>errors for the same amount on credit side</u> . Due to this the trial Balance is not affected.
Example	Goods <u>worth 10,000</u> sold to Ram but posted to <u>Rohit's Account</u> as 1,000 and goods <u>worth 1,000</u> sold to Rohit but posted to <u>Ram's Account</u> as 10,000
Effect	Such errors will <u>not affect the Trial Balance</u> (T.B. will agree)

STAGES OF OCCURRENCE OF ERRORS

(For understanding)



TRIAL BALANCE AND IDENTIFICATION OF ERRORS

1. Purpose:

- (a) The purpose of Trial Balance is to ensure arithmetical accuracy of books of Accounts.
- (b) Hence, Trial Balance can be used to identify the errors made during the accounting process.

2. Method of Identification of errors: Errors are identified if Debit Column Total \neq Credit Column Total

Errors Affecting Trial Balance:

- Error of Casting
- Error of Carrying Forward
- Error of balancing
- Posting to wrong side of the correct amount
- Posting to the correct side with the wrong amount
- Error of partial omission

*Mainly Error of commission
Partial Omission*

Errors Not Affecting Trial Balance:

- Error of Principle
- Error of Complete Omission (Recording or Posting)
- Compensating Errors
- Wrong amount recorded in books of original entry
- Posting to the wrong account but on correct side

*Error of Principle
Complete Omission
Compensating Error
Error of Comm. (Kvch)*

SUSPENSE ACCOUNT

→ When T.B. does not tally.

1. Meaning: When the Trial Balance does not tally, then it is essential to create an account named "Suspense Account" on the column whose total is lower
2. Purpose:
 - (a) The Suspense Account is opened for the differential amount on the column which is lower to make the trial balance artificially tally. (i.e., Trial Balance is temporarily tallied by opening the suspense account).
 - (b) It is kept till the errors are identified and rectified. After the rectification, Suspense A/c balance will become zero.
3. Type: Suspense A/c is a combination of Real, Personal and Nominal Accounts. It is a temporary Account.
4. Nature of balance in Suspense Account:

Situation	Suspense A/c will appear on	Nature of Balance
If <u>Debit Column Total < Credit Column Total</u>	<u>Debit Column</u>	<u>Debit Balance</u>
If <u>Credit Column Total < Debit Column Total</u>	<u>Credit Column</u>	<u>Credit Balance</u>

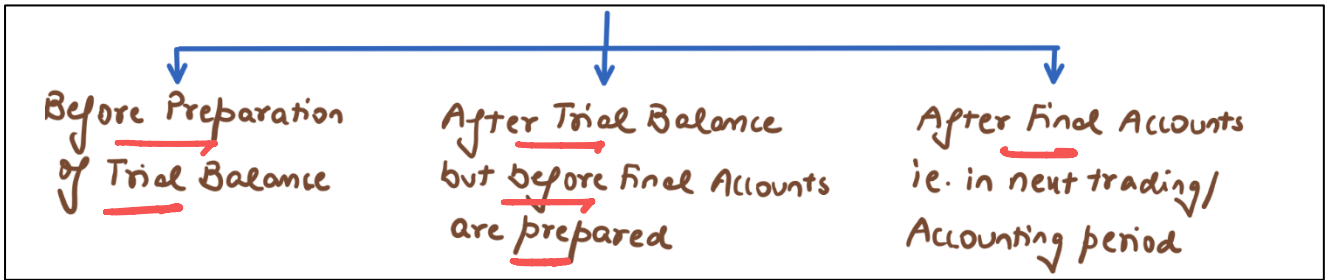
Note: Suspense account will appear on the Column whose total is lower

5. Hence, Suspense Account will appear only when error affects the Trial Balance.

6. Disclosure in Balance Sheet:

Nature of Suspense A/c Balance	Shown in	Side
<u>Debit Balance in Suspense A/c</u>	<u>Balance sheet</u>	<u>Assets</u>
<u>Credit Balance in Suspense A/c</u>	<u>Balance sheet</u>	<u>Liabilities</u>

STAGES OF RECTIFICATION OF ERRORS



Stage	Treatment
1. Before preparation of Trial Balance	<ul style="list-style-type: none"> Errors affecting Trial Balance: Direct rectification is done in relevant account. No use of Suspense Account (E.g. Error of Partial Omission) Errors not affecting Trial Balance: Rectified journal entry is passed (E.g. Error of Complete Omission, Error of Principle etc.) <p>Note: Errors of Commission are rectified based on the nature of error.</p>
2. After Trial Balance but before Final Accounts are prepared	<ul style="list-style-type: none"> Errors affecting Trial Balance: Suspense Account used while passing Journal entry. (E.g. Error of Partial Omission) Errors not affecting Trial Balance: Rectified journal entry is passed (E.g. Error of Complete Omission, Error of Principle etc.) <p>Note: Errors of Commission are rectified based on the nature of error.</p>

Con 2
Con 1,3
Con 2
Con 1,3

Rectification of Errors (Few Examples)

	Before Trial Balance <i>Direct Rect</i>	After Trial Balance
1) Cash received from A, 1000 wrongly credited to B	B A/c - Dr 1000 To A's A/c 1000	B's A/c - Dr 1000 To A's A/c 1000
2) Cash received from A, 1000		
a) <u>Not credited to A</u>	Credit A by 1000	Suspense A/c - Dr 1000 To A 1000
b) <u>Debited to his account</u>	Credit A by 2000	Suspense A/c - Dr 2000 To A 2000
c) <u>Credited to his account, 100</u>	Credit A by 900	Suspense A/c - Dr 900 To A 900
d) <u>Credited to his account, 10000</u>	Debit A by 9000	A 9000 To Suspense 9000
e) <u>Debited to his account 100</u>	Credit A by 1100	Suspense 1100 To A 1100
f) <u>Debited to B's Account</u>	Cr A by 1000 Cr B by 1000	Suspense A/c - Dr 2000 To A 1000 To B 1000
3) <u>Repairs to Machinery 5000 wrongly Capitalised</u>	Repairs A/c - Dr 5000 To Machinery 5000	Repair 5000 To Mach. 5000
4) <u>Total of Sales Book undercast by 500</u>	Credit sales by 500	Suspense 500 To sales 500

Cash ✓
~~Cr~~
A: Cr ✓
A: Dr ✗
Cr 1000 ✓
Dr 100 ✗
Cr A ✓
Dr B ✗

Rep. To Cash Mach. To Cash

3. **Rectification of Error After Final Accounts i.e., in the Next Trading/Accounting period**
- Errors which have an impact on Profit (Nominal Accounts) are rectified by using the P&L Adjustment Account (Prior Period Item).
 - Instead of Nominal Accounts, P&L Adjustment Account debited or credited.
 - The balance in this account should be transferred to Profit & Loss A/c (or Capital A/c)
 - Prior Period items should be separately disclosed in the current statement of Profit & Loss together with their nature and amount in a manner that their impact on current profit or loss can be perceived.

Rectification of Errors (Few Examples)

	Before Trial Balance	After Trial Balance	After Final Accounts
1) Cash received from A, 1000 wrongly credited to B	B 1000 To A 1000	B 1000 To A 1000	B 1000 To A 1000
2) Cash received from A, 1000			
a) Not credited to A	Credit A by 1000	Suspense 1000 To A 1000	Suspense 1000 To A 1000
b) Debited to his account	Credit A by 2000	Suspense 2000 To A 2000	Suspense 2000 To A 2000
3) Repairs to Machinery 5000 wrongly capitalised	Repairs 5000 To Mach. 5000	Repairs 5000 To Mach. 5000	P&L Adj. 5000 To Mach. 5000
4) Total of Sales Book undercast by 500	Credit Sales by 500	Suspense 500 To Sales 500	Suspense 500 To P&L Adj. 500
5) Purchase of A, 1000 wrongly recorded in Sales Book but correctly posted to A's Account.	Dr. Purch. by 1000 Dr. Sales by 1000	Purch. 1000 Sales 1000 To Susp. 2000	P&L Adj. 2000 To Suspense 2000

✓
Purch. To A
A To sales
A: cr ✓

ASSIGNMENT QUESTIONS

Question 1 (ICAI Study Material)

Pg no. _____

How would you rectify the following errors in the book of Rama & Co.? (without opening suspense A/c)

- By Jor T.B.*
- ✓ 1. The total to the Purchases Book has been undercast by ₹100.
 - ✓ 2. The Returns Inward Book has been undercast by ₹ 50.
 - ✓ 3. A sum of ₹ 250 written off as depreciation on Machinery has not been debited to Depreciation Account.
 - ✓ 4. A payment of ₹ 75 for salaries (to Mohan) has been posted twice to Salaries Account.
 - ✓ 5. The total of Bills Receivable Book ₹ 1,500 has been posted to the credit of Bills Receivable Account.
 - ✓ 6. An amount of ₹151 for a credit sale to Hari, although correctly entered in the Sales Book, has been posted as ₹ 115.
 - ✓ 7. Discount allowed to Satish ₹ 25 has not been entered in the Discount Column of the Cash Book. The amount has been posted correctly to the credit of his personal account.
- Sel. by 75*
150
151 Dr
115 Dr

Question 2 (ICAI Study Material)

Pg no. _____

The following errors, affecting the account for the year 2023 were detected in the books of Jain Brothers, Delhi:

- ✓ (1) Sale of old Furniture ₹150 treated as sale of goods.
 - ✓ (2) Receipt of ₹ 500 from Ram Mohan credited to Shyam Sunder.
 - ✓ (3) Goods worth ₹100 brought from Mohan Narain have remained unrecorded so far.
 - ✓ (4) A return of ₹120 from Mukesh posted to his debit.
 - ✓ (5) A return of ₹ 90 to Shyam Sunder posted as ₹ 9 in his account.
 - ✓ (6) Rent of proprietor's residence, ₹ 600 debited to rent A/c.
 - ✓ (7) A payment of ₹ 215 to Mohammad Sadiq posted to his credit as ₹125.
 - ✓ (8) Sales Book casted short by ₹ 900.
 - ✓ (9) The total of Bills Receivable Book ₹ 1,500 left unposted.
- You are required to pass the necessary rectifying entries and show how the trial balance would be affected by the errors.
- SS 90*
TOPR
A/c: 9
Dr: 215
Cr: 125
- SR Dr 120*
To MJKesh 120
Cr ✓ Dr x

Question 3 (RTP May 2019) / (RTP Nov 2021) (Similar) / (RTP Nov 2023)

Pg no. _____

M/s Suman & Co. find the following errors in their books of account before preparation of Trial Balance. You are required to pass necessary journal entries:

- ✓ (i) A purchase of ₹ 5,600 from M/s Minu & Co. was recorded in the accounts of M/s Mintu & Co. as ₹ 6,500. Day Book entry has also been passed incorrectly.
- ✓ (ii) A sale of ₹ 9,800 to M/s Bantu Bros. was recorded in M/s Bindu & Co.'s account as ₹ 8,900. Day Book entry has also been incorrectly passed.
- ✓ (iii) Discount allowed ₹ 560 (as per Cash Book) has been posted to Commission Account. But the Cash Book total should be ₹ 650, because discount allowed of ₹ 90 to M/s Bantu Bros. has been omitted.
- ✓ (iv) A cheque of ₹ 9,700 drawn by M/s Bantu Bros. has been dishonoured, but wrongly debited to M/s Bhakt & Co.

Should the Trial Balance tally without rectification of errors?

Question 4 (ICAI Study Material)

Pg no. _____

Correct the following errors (i) without opening a Suspense Account and (ii) opening a Suspense Account:

- (a) The Sales Book has been totalled ₹100 short.
- (b) Goods worth ₹150 returned by Green & Co. have not been recorded anywhere.
- (c) Goods purchased ₹250 have been posted to the debit of the supplier Gupta & Co.
- (d) Furniture purchased from Gulab & Bros, ₹1,000 has been entered in Purchases Day Book.
- (e) Discount received from Red & Black ₹15 has not been entered in the Discount Column of the Cash Book.
- (f) Discount allowed to G. Mohan & Co. ₹18 has not been entered in the Discount Column of the Cash Book. The account of G. Mohan & Co. has, however, been correctly posted.

CR ✓
Dr x

Question 5 (ICAI Study Material) Pg no. _____

The following errors were found in books of Ram Prasad & Sons. Give the necessary entries to correct them.

- (1) ₹ 500 paid for furniture purchased has been charged to ordinary Purchases Account.
- (2) Repairs made were debited to Building Account for ₹ 50.
- (3) An amount of ₹100 withdrawn by the proprietor for his personal use has been debited to Trade Expenses Account.
- (4) ₹100 paid for rent debited to Landlord's Account.
- (5) Salary ₹125 paid to a clerk due to him has been debited to his personal account.
- (6) ₹100 received from Shah & Co. has been wrongly entered as from Shaw & Co.
- (7) ₹ 700 paid in cash for a typewriter was charged to Office Expenses Account.

Question 6 Pg no. _____

On 31st March 2023, a book-keeper finds the difference in the Trial Balance and the puts it in the Suspense Account. Later on he detects the following errors:-

- (a) ₹ 50,000 received from A was posted to the debit of his account.
- (b) ₹ 20,000 being purchases returns were posted to the debit of Purchases Account.
- (c) Discount of ₹ 8,000 received were posted to the debit of Discount Account.
- (d) ₹ 9,060 paid to repairs of Motor Car was debited to Motor Car Account as ₹ 7,060.
- (e) ₹ 40,000 paid to B was debited to A's Account.

Give Journal Entries to rectify the errors & ascertain the amount transferred to Suspense Account, assuming that the Suspense Account is balanced after the above corrections.

Question 7 Pg no. _____

A book keeper finds the differences in the Trial Balance amounting to ₹ 1,000 and puts it in the Suspense Account.

Later on he detects the following errors:-

- (a) Purchased goods from Ravi ₹ 15,000 but entered into Sales Book.
- (b) Received one bill for ₹ 25,000 from Arun but recorded in Bills Payable Book.
- (c) An item of ₹ 3,500 relating to prepaid rent account was omitted to be brought forward.
- (d) An item of ₹ 2,000 in respect of purchase returns, had been wrongly entered in the purchase book.
- (e) ₹ 25,000 paid to Harish against our acceptance were debited to Harish's Account.
- (f) Bills (invoice) received from Janki for repairs done to radio ₹ 2,500 and radio supplied for ₹ 45,000 were entered in the Purchase Book as ₹ 46,000.
- (g) Bad Debts aggregating ₹500 were written off during the year in the Sales ledger but were not adjusted in the General Ledger.

Purch. Ravi x
To Ravi B/P To Sales Arun To B/P

B/P

x Bad debt
✓ To Suspense

Give rectifying journal entries and prepare Suspense Account.

P.R. BOOK → ✓ Creditive TO P.R.
Purch TO Creditor
B/P ✓ To Cash
Harish x To Cash

Question 8 (ICAI Study Material)

Pg no. _____

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

- ✓ a) Purchase returns day book had been correctly entered and totalled at ₹6,160, but had not been posted to the ledger.
- ✓ b) Discounts received ₹1,320 had been debited to discounts allowed. Debit 1470
- ✓ c) The Sales account had been under added by ₹10,000. To Sales 1470
- ✓ d) A credit sale of ₹1,470 had been debited to a customer account at ₹1,740.
- ✓ e) A vehicle bought originally for ₹7,000 four years ago and depreciated to ₹1,200 had been sold for ₹1,500 in the beginning of the year but no entries, other than in the bank account had been passed through the books.
- ✓ f) An accrual of ₹560 for telephone charges had been completely omitted.
- ✓ g) A bad debt of ₹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 ₹23,390 with a credit provision for bad debts at ₹2,320.
- ✓ h) Tools bought for ₹1,200 had been inadvertently debited to purchases.
- ✓ i) The proprietor had withdrawn, for personal use, goods worth ₹1,960. No entries had been made in the books.

You are required to pass rectification entries without narration to correct the above errors before preparing annual accounts.

Question 9 (ICAI Study Material)

Pg no. _____

On going through the Trial balance of Ball Bearings Co. Ltd. you find that the debit is in excess by ₹150. This was credited to "Suspense Account". On a close scrutiny of the books the following mistakes were noticed:

- ✓ a) The totals of debit side of "Expenses Account" have been casted in excess by ₹ 50. Dr. Cr. 6150 6000
- ✓ b) The "Sales Account" has been totalled in short by ₹100. (150)
- ✓ c) Supplier account has been overcasted by ₹225.
- ✓ d) The sale return of ₹100 from a party has not been posted to that account though the Party's account has been credited. SR To Customer
- ✓ e) A cheque of ₹500 issued to the Suppliers' account (shown under Trade payables) towards his dues has been wrongly debited to the purchases. TR To Sales → ✓ Dr Cr TP ✓ Purch. X To Bank To Bank
- ✓ f) A credit sale of ₹50 has been credited to the Sales and also to the Trade receivables Account.

You are required to

- ✓ 1) Pass necessary journal entries for correcting the above;
- ✓ 2) Show how they affect the Profits; and
- ✓ 3) Prepare the "Suspense Account" as it would appear in the ledger.

Question 10 (RTP May 2018) / (RTP Nov 2019) / (RTP Nov 2020)

Pg no. _____

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

- ✓ a) Credit sale of ₹ 400 to Trivedi & Co. was posted to the credit of their account.
- ✓ b) Purchase of ₹ 420 from Mantri & Co. passed through Sales Day Book as ₹ 240

How would you rectify the errors assuming that:

- 1) they were detected before preparation of Trial Balance.
- 2) they were detected after preparation of Trial Balance but before preparing Final Accounts, the difference was taken to Suspense A/c.
- 3) they were detected after preparing Final Accounts.

✓ Purch. 420 X M & Co. 240
 To M & Co. 420 To Sales 240

Question 11

Pg no. _____

The Trial Balance of ABC Ltd., as on Dec 31st, 2022 did not agree. The difference was put to a Suspense Account. During the next trading period, the following were discovered:

180 Less
SR
To Susp.

- ✓ a) The total of the Sales-book of one page ₹ 6,531 was carried forward to the next page as ₹ 6,351.
- ✓ b) Goods returned by a customer for ₹1,200, but entered in Purchases Return Book.
- ✓ c) Personal Car Expenses amounting to ₹ 250 were debited to Trade Expenses.
- ✓ d) Sales Return Book was under cast by ₹ 2,750.
- ✓ e) ₹ 50 discount allowed by a supplier, was wrongly posted to debit side of Discount Account.
- ✓ f) An item of Purchases of ₹ 151 was entered in Purchases Book as ₹ 15 and posted to Supplier's Account as ₹ 51.

Draw To Trade Exp.

You are required to give journal entries to rectify the errors through Profit & Loss Adjustment A/c in a way so as to show the current year's profit or loss correctly.

Question 12

(ICAI Study Material)

Pg 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 a Chartered Accountant who examined the old books and found the following mistakes:

- ✓ (1) Purchase of a scooter was debited to conveyance account ₹3,000.
- ✓ (2) Purchase account was over-cast by ₹10,000.
- ✓ (3) A credit purchase of goods from Mr. P for ₹2,000 entered as a sale.
- ✓ (4) Receipt of cash from Mr. A was posted to the account of Mr. B ₹1,000.
- ✓ (5) Receipt of cash from Mr. C was posted to the debit of his account, ₹500.
- ✓ (6) ₹ 500 due by Mr. Q was omitted to be taken to the trial balance.
- ✓ (7) Sale of goods to Mr. R for ₹2,000 was omitted to be recorded.
- ✓ (8) Amount of ₹2,395 of purchase was wrongly posted as ₹2,593.

→ Susp. To Acc.

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Mr. Roy used 10% depreciation on vehicles. Suggest the necessary rectification entries.

Handwritten rectification entries:

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    ✓ Vehicle To Cash
    ✓ Dep. To Veh.
    ✓ Purch. To P

    X Conv. To Cash
    X P To Sales

    R.E.
    Vehicle To Conv.
    Dep. To Vehicle
    Purch Sales To P
    
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PRACTICE QUESTIONS**MULTIPLE CHOICE QUESTIONS**

- 1) Goods purchased from A for ₹10,000 passed through sales book. The error will result in
 - (a) Increase in gross profit.
 - (b) Decrease in gross profit.
 - (c) No effect on gross profit.
- 2) If a purchase return of ₹1,000 has been wrongly posted to the debit of the sales returns account, but has been correctly entered in the suppliers' account, the total of the
 - (a) Trial balance would show the debit side to be ₹1,000 more than the credit.
 - (b) Trial balance would show the credit side to be ₹1,000 more than the debit.
 - (c) The debit side of the trial balance will be ₹2,000 more than the credit side.
- 3) If amount is posted in wrong a/c or it is written on the wrong side of the account, it is called
 - (a) Error of omission.
 - (b) Error of commission.
 - (c) Error of principle.
- 4) ₹200 paid as wages for erecting a machine should be debited to
 - (a) Repair account.
 - (b) Machine account.
 - (c) Capital account.
- 5) On purchase of old furniture, the amount of ₹1,000 spent on its repair should be debited to
 - (a) Repair account.
 - (b) Furniture account.
 - (c) Cash account.
- 6) Goods worth ₹50 given as charity should be credited to
 - (a) Charity account.
 - (b) Sales account.
 - (c) Purchase account.
- 7) Goods worth ₹100 taken by proprietor for domestic use should be credited to
 - (a) Sales account.
 - (b) Proprietor's personal expenses.
 - (c) Purchases account
- 8) Sales of office furniture should be credited to
 - (a) Sales Account.
 - (b) Furniture Account.
 - (c) Purchase Account.
- 9) The preparation of a trial balance is for:
 - (a) Locating errors of commission.
 - (b) Locating errors of principle.
 - (c) Locating clerical errors.
- 10) 200 received from Smith whose account was written off as bad debt should be credited to
 - (a) Bad Debts Recovered account.
 - (b) Smith's account.
 - (c) Cash account.

- 11) Purchase of office furniture ₹1,200 has been debited to General Expense Account. It is:
- A clerical error.
 - An error of principle.
 - An error of omission.

ANSWERS MCQs

1. (a) 2. (c) 3. (b) 4. (b) 5. (b) 6. (c) 7. (c) 8. (b) 9. (c) 10. (a) 11. (b)

TRUE / FALSE

State with reasons whether the following statement is true or false:

- The method of rectification of errors depends on the stage at which are errors are detected.
- In case of errors of complete omission, the trial balance does not tally
- When errors are detected after preparation of trial balance, suspense account is opened
- When purchase of an asset is treated as an expense, it is known as error of principle
- Trial balance agrees in case of compensating errors
- When amount is written on wrong side, it is known as an error of principle
- On purchase of old furniture, the amount spent on repairs should be debited to repairs account
- Profit & Loss Adjustment account is opened to rectify the errors detected in the current accounting period
- Rent paid to Landlord of the proprietor house must be debited to Rent account
- If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account. *(June 2022)/(Dec 2022)*
- Any type of error affects the agreement of Trial Balance.
- Error of carry forward of totals of Purchase Journal affects two accounts.
- The debts written off as bad if recovered subsequently are credited to debtors account.
- Error of principle involves an incorrect allocation of expenditure or receipt between capital and revenue.
- Freight & cartage expenses paid on purchase of goods is added to amount of purchases.
- If the amount is posted in the wrong account or it is written on the wrong side of an account it is called error of omission.
- Tallying of the Trial Balance only proves the arithmetical accuracy.
- A tallied balance means that the books of accounts have been prepared as per accepted accounting principles.
- Compensating errors do not disturb agreement of Trial Balance.
- The trial balance does not ensure the arithmetical accuracy of the books.
- Under or overcasting of subsidiary book is example of error of Commission. *(June 2023)*
- Rectifying errors in subsequent accounting period always affects the profit or loss of that period.
- If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree. *(May 2018)*
- The rationale behind the opening of a suspense account is to tally the trial balance.
- If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle. *(May 2019)*
- Sale of Office Furniture should be credited to Profit & Loss Account.
- Purchase of office furniture & fixtures of ₹ 2,500 has been debited to General Expense Account. It is an error of omission. *(Nov 2020)*
- Prior period items need not be separately disclosed in current statement of profit & loss.

Solution

- 1) True: There are 3 different stages when the mistakes are identified and then the rectification depends on the stage of identification
- 2) False: In case of error of complete omission, the trial balance tallies
- 3) True: In order to balance difference of balances in trial balance suspense a/c is opened.
- 4) True: Where the accounts being debited is principally incorrect it is termed as error of principle
- 5) True: Compensating errors cancel out each other when Trial balance is prepared as the mistake pertains to the same amount being credited and later debited on account of two different mistakes
- 6) False: When amount is written on wrong side, it is known as error of commission
- 7) False: On purchase of furniture, the amount spent on repairs should be debited to furniture account as it is a capital expense
- 8) False: Profit & Loss Adjustment account is opened to rectify the errors detected in the next accounting period
- 9) False: Rent paid to Landlord of the proprietor house must be debited to Drawings account
- 10) False: If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. There may be Errors of Principle, Compensating errors, Errors of complete omission which can be rectified without opening a suspense account.
- 11) False: - Any type of error does not affect the agreement of trial balance e.g. compensating errors do not affect the Trial Balance.
- 12) False: - Error of carry-forward of totals of Purchase Journal will affect only one account i.e. Purchases A/c and finally it will result in disagreement of Trial Balance.
- 13) False: - The debts written off as bad if recovered subsequently shall be treated as gain and be credited to Profit & Loss A/c or to Bad debts Recovered A/c.
- 14) True: - Recording the transaction in a fundamentally incorrect manner in contravention of accounting principles is an error of principle.
- 15) True: - Freight and cartage expenses paid to bring goods purchased into the business premises factory are included in the 'Cost of Purchases'.
- 16) False: - Posting amount on wrong side or to wrong a/c is called an error of commission.
- 17) True: - Trial Balance helps to establish the arithmetical accuracy of ledger books. A tallied trial balance will not reveal errors of principle and compensating errors.
- 18) False: - The balance only checks the arithmetical accuracy of books. Errors of principles and errors of omission will not affect the agreement of trial balance.
- 19) True: - In cases of compensating errors, the effect of errors committed cancel out, and thus errors do not disturb agreement of trial balance.
- 20) False: - Trial balance helps to establish the arithmetical accuracy of ledger balances. However, a tallied trial balance will not reveal error of principle and compensating errors.
- 21) True: - If an amount is posted in the wrong account or it is written on the wrong side or totals are wrong or wrong balance is struck, it will be a case of "errors of commission." Thus, under or over casting of subsidiary books is an example of error of commission.
- 22) False: - If errors are rectified in the subsequent accounting period as prior period items, profit of subsequent period is not affected.
- 23) False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
- 24) False: The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements.
- 25) False: If an amount is posted in the wrong account or is written on the wrong side of the correct account, it is case of "errors of commission" and is not "error of principle".

- 26) False: Sale of Office Furniture should be credited to Furniture Account since it is a capital receipt
- 27) False: When a transaction is recorded in contravention of accounting principles, like treating the purchase of an asset as an expense, it is an error of principle. Purchase of office furniture and fixtures is a capital expenditure, if debited to General Expenses account, is an error of principle and not an error of omission.
- 28) False: Prior Period Items should be separately disclosed in the current statement of profit and loss together with their nature and amount in a manner that their impact on current profit or loss can be perceived

HOMWORK QUESTIONS

Question 1 (CA Foundation Nov 2019) (10 Marks) Pg 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 ₹ 2,100 short.
- 2) Goods worth ₹ 1,800 returned by Gaurav & Co. have not been recorded anywhere.
- 3) Goods purchased ₹ 2,250 have been posted to the debit of the supplier Sen Brothers.
- 4) Furniture purchased from Mary Associates, ₹ 15,000 has been entered in the purchase Daybook.
- 5) Discount received from Black and White ₹ 1,200 has not been entered in the books.
- 6) Discount allowed to Radhe Mohan & Co. ₹ 180 has not been entered in the Discount Column of the Cashbook. The account of Radhe Mohan & Co. has, however, been correctly posted.

Question 2 (ICAI Study Material) Pg no. _____

Give journal entries to rectify the following:

- (1) A purchase of goods from Ram amounting to ₹150 has been wrongly entered through the Sales Book.
- (2) A Credit sale of goods amounting ₹120 to Ramesh has been wrongly passed through the Purchase Book.
- (3) On 31st December, 2023 goods of the value of ₹300 were returned by Hari Saran and were taken inventory on the same date but no entry was passed in the books.
- (4) An amount of ₹ 200 due from Mahesh Chand, which had been written off as a Bad Debt in a previous year, was unexpectedly recovered, and had been posted to the personal account of Mahesh Chand.
- (5) A Cheque for ₹100 received from Man Mohan was dishonoured and had been posted to the debit of Sales Returns Account.

MM SR
To Bank To Bank

Question 3 Pg no. _____

The accountant of X prepared the Trial Balance for the year ended 31st March, 2023. But there was a difference and the accountant put the difference in Suspense Account. Rectify the following errors found and prepare the Suspense Account.

- a) The total of the Returns outward book, ₹ 420 has not been posted to the ledger.
- b) A purchase of ₹ 350 from Y has been entered in the sales book. However Y's account has been correctly entered.
- c) A sale of ₹ 390 to Z has been credited to his account as ₹ 290
- d) Old furniture sold for ₹ 5,400 had been entered as ₹ 4,500 in sales account.
- e) Goods taken by the proprietor, ₹ 500 have not been entered in the books at all.

Z : Dr 390 ✓
Cr 290 X

Question 4 (ICAI Study Material) / (RTP May 2019)/(May 2021)/(Nov 2023) (Similar) Pg no. _____

Write out the Journal Entries to rectify the following errors, using a Suspense Account.

- (1) Goods of the value of ₹100 returned by Mr. Sharma were entered in the Sales Day Book and posted therefrom to the credit of his account;
- (2) An amount of ₹150 entered in the Sales Returns Book, has been posted to the debit of Mr. Philip, who returned the goods;
- (3) A sale of ₹ 200 made to Mr. Ghanshyam was correctly entered in the Sales Day Book but wrongly posted to the debit of Mr. Radheshyam as ₹ 20;
- (4) The total of "Discount Allowed" column in the Cash Book for the month of September, 2023 amounting to ₹ 250 was not posted.

Cr 150
↓
Dr 150

G: Dr 200
R: Dr 20
SR

Sharma Sharma
To Sales Cr ✓
X

Firm: Nigam

3000

3000 ✓

To Nigam 3000

Subham : 300

Question 5 (CA Foundation May 2018) (4 Marks) / (RTP May 2020)

Pg no. _____

Give journal entries (narrations not required) to rectify the following:

- ✓ a) Purchase of Furniture on credit from Nigam for ₹ 3,000 posted to Subham account as ₹ 300.
- ✓ b) A Sales Return of ₹ 5,000 from Jyothy was not entered in the financial accounts though it was duly taken in the stock book.
- ✓ c) Investments were sold for ₹ 75,000 at a profit of ₹ 15,000 and passed through Sales account.
- ✓ d) An amount of ₹ 10,000 withdrawn by the proprietor (Darshan) for his personal use has been debited to Trade Expenses account.

Bank 7500
To Inv. 6000
To Profit 1500

Bank
To sales Pg no. _____

Question 6

The difference in Trial Balance is kept by Rajesh in Suspense Account. Before preparing the Final Accounts, the following errors were detected by him:

- a) Purchase for ₹ 1,080 was written in Sales day book, but was posted to the correct side of the Party's account.
- b) Salary account total ₹ 25,200 was carried over to the next page as ₹ 2,520 on the wrong side.
- c) Interest on Overdraft ₹ 1,300 was not posted to the Ledger from the Cash-book.

Pass the Rectification entries and prepare the suspense account.

Question 7 (RTP Nov 2018) / (RTP Nov 2021)

Pg no. _____

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

- a) Sale of furniture credited to Sales Account.
- b) Purchase worth ₹ 4,500 from M not recorded in subsidiary books.
- c) Credit sale wrongly passed through the Purchase Book.
- d) Machinery sold on credit to Mohan recorded in Journal Proper but omitted to be posted.
- e) Goods worth ₹ 5000 purchased on credit from Ram recorded in the Purchase Book as ₹ 500.

Question 8 (CA Foundation May 2019) (4 Marks) / (RTP Nov 2022)

Pg no. _____

Give journal entries (with narrations) to rectify the following errors located in the books of a Trader after preparing the Trial Balance:

- (i) An amount of ₹ 4,500 received on account of Interest was credited to Commission account.
- (ii) A sale of ₹ 2,760 was posted from Sales Book to the Debit of M/s Sobhag Traders at ₹ 2,670
- (iii) ₹ 35,000 paid for purchase of Air conditioner for the personal use of proprietor debited to Machinery A/c.
- (iv) Goods returned by customer for ₹ 5,000. The same have been taken into stock but no entry passed in the books of accounts

Question 9 (ICAI Study Material)

Pg no. _____

Correct the following errors found in the books of Mr. Dutt. The Trial Balance was out by ₹ 493 excess credit. The difference thus has been posted to a Suspense Account.

- ✓ a) An amount of ₹100 was received from D.Das on 31st December, 2023 but has been omitted to enter in the Cash Book.
- b) The total of Returns Inward Book for December has been casted short by ₹100.

- c) The purchase of an office table costing ₹ 300 has been passed through the Purchases Day Book.
- d) ₹ 375 paid for Wages to workmen for making show-cases had been charged to "Wages Account".
- e) A purchase of ₹ 67 had been posted to the trade payables' account as ₹ 60.
- f) A cheque for ₹ 200 received from P.C. Joshi had been dishonoured and was passed to the debit of "Allowances Account".
- g) ₹ 1,000 paid for the purchase of a motorcycle for Mr. Dutt for his personal use had been charged to "Miscellaneous Expenses Account".
- h) Goods amounting to ₹100 had been returned by customer and were taken into inventory, but no entry in respect thereof, was made into the books.
- i) A sale of ₹ 200 to Singh & Co. was wrongly credited to their account. Entry was made correctly made in sales book.

Question 10 (CA Foundation Dec 2021) (5 Marks)

Pg no. _____

Pass the Journal entries to rectify the following errors detected during preparation of the Trial Balance:

- (i) Wages paid for construction of office building debited to wages account ₹ 20,000.
- (ii) A credit sale of goods ₹ 1,200 to Ramesh has been wrongly passed through the Purchase Book.
- (iii) An amount of ₹ 2,000 due from Mahesh Chand which had been written off as a bad debit in the previous year was unexpectedly recovered and has been posted to the personal account of Mahesh Chand.
- (iv) Goods (Cost being ₹ 5,000 and Sales price being ₹ 6,000) distributed as free samples amount prospective customers were not recorded anywhere.
- (v) Goods worth ₹ 1,500 returned by Green have not been recorded anywhere.

Question 11 (CA Foundation Dec 2022) (10 Marks)

Pg no. _____

Before preparation of the Trial Balance, the following errors were found in the books of Hare Rama & Sons. Give the necessary entries to correct them.

- a. Minor Repairs made to the building amounting to ₹ 1,850 were debited to the Building Account.
- b. An amount of ₹ 3,000 due from Shayam Lal, which had been written off as bad debts in the previous year, recovered in the current year, and had been posted to the personal Account of Shayam Lal.
- c. Furniture purchased for office use amounting to ₹ 20,000 has been entered in the purchase day book.
- d. Goods purchased from Ram Singh amounting to ₹ 8,000 have remained unrecorded so far.
- e. College fees of proprietor's son, ₹ 15,000 debited to the Audit fees Account.
- f. Receipt of ₹ 4,500 from Meet Kumar credited to the Pinki Rani.
- g. Goods amounting to ₹ 6,200 had been returned by a customer and were taken into inventory, but no entry was made in the books.
- h. ₹ 1500 paid for wages to workmen for making office furniture had been charged to wages account.
- i. Salary paid to a clerk ₹ 12,000 has been debited to his personal account.
- j. A purchase of goods from Raghav amounting to ₹ 20,000 has been wrongly entered through the sales book.

Question 12 (ICAI Study Material)

Pg no. _____

Mr. A closed his books of account on September 30, 2022 in spite of a difference in the trial balance. The difference was ₹830 the credits being short; it was carried forward in a Suspense Account. In 2023 following errors were located:

- A sale of ₹2,300 to Mr. Lala was posted to the credit of Mrs. Mala.
- The total of the Returns Inward Book for July, 2022 ₹1,240 was not posted in the ledger.
- Freight paid on a machine ₹5,600 was posted to the Freight Account as ₹6,500. 10% Depreciation is charged on this machine.
- While carrying forward the total in the Purchases Account to the next page, ₹65,590 was written instead of ₹56,950.
- A sale of machine on credit to Mr. Mehta for ₹9,000 on 30th Sept. 2022 was not entered in the books at all. The book value of the machine was ₹6,750.

Mach - 5600
Susp - 900
To Freight 6500

Pass journal entries to rectify the errors. Have you any comments to make?

Question 13 (CA Foundation Nov 2018) (10 Marks) / (RTP May 2020)

Pg no. _____

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

- Sales Day Book was overcast by ₹1,000
- A Sale of ₹5,000 to X was wrongly debited to the account of Y
- General expenses ₹180 was posted in the General Ledger as ₹810
- Bill Receivable for ₹1,550 was passed through Bills Payable Book. The bill was given by P
- Legal Expenses ₹1,190 paid to Mrs. Neetu was debited to her personal account.
- Cash received from Ram was debited to Shyam ₹1,500
- While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹1,235 was written as ₹1,325.

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

(Cr. Bal.)

Question 14 (ICAI Study Material)

Pg no. _____

A merchant's trial balance as on June 30, 2022 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:

- The total of the Purchases Book of one page, ₹4,539 was carried forward to the next page as ₹4,593.
- A sale of ₹573 was entered in the Sales Book as ₹753 and posted to the credit of the customer.
- A return to a creditor, ₹510 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.
- Cash received from C. Dass, ₹620 was posted to the debit of G. Dass.
- Goods worth ₹840 were despatched to a customer before the close of the year but no invoice was made out.
- Goods worth ₹1,000 were sent on sale or return basis to a customer and entered in the Sales Book. At the close of the year, the customer still had the option to return the goods. The sale 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.

Question 15 (RTP May 2022)

Pg no. _____

The books of accounts of Dime Ltd. for the year ending 31.3.2023 were closed with a difference in books carried forward. The following errors were detected subsequently:

- (i) Return outward book was under cast by ₹ 100.
 - (ii) ₹ 1,500 being the total of discount column on the credit side of the cash book was not posted.
 - (iii) ₹ 6,000 being the cost of purchase of office furniture was debited to Purchase A/c.
 - (iv) A credit sale of ₹ 760 was wrongly posted as ₹ 670 to the customers' A/c. in the sales ledger.
 - (v) The Sales of ₹ 10,000 was omitted to be recorded.
- Pass rectification entries in the next year.

Question 16 (CA Foundation Nov 2020) (5 Marks)

Pg no. _____

M/s. Applied Laboratories were unable to agree the Trial Balance as on 31st March, 2023 and have raised a suspense account for the difference. Next year the following errors were discovered:

- (i) Repairs made during the year were wrongly debited to the building A/c - ₹ 12,500.
 - (ii) The addition of the 'Freight' column in the purchase journal was short by ₹ 1,500.
 - (iii) Goods to the value of ₹ 1,050 returned by a customer, Rani & Co., had been posted to the debit of Rani & Co. and also to sales returns.
 - (iv) Sundry items of furniture sold for ₹ 30,000 had been entered in the sales book, the total of which had been posted to sales account.
 - (v) A bill of exchange (received from Raja & Co.) for ₹ 20,000 had been returned by the bank as dishonoured and had been credited to the bank and debited to bills receivable account.
- You are required to pass journal entries to rectify the above mistakes.

Question 17 (CA Foundation Jan 2021) (10 Marks)

Pg no. _____

Mr. Joshi's trial balance as on 31st March, 2023 did not agree. The difference was put to a Suspense Account. During the next trading period, the following errors were discovered:

- a) The total of the Purchases Book of one page, ₹ 5,615 was carried forward to the next page as ₹ 6,551.
- b) A sale of ₹ 281 was entered in the Sales Book as ₹ 821 and posted to the credit of the customer.
- c) A return to creditor, ₹ 295 was entered in the Returns Inward Book; however, the creditor's account was correctly posted.
- d) Cash received from Senu, ₹ 895 was posted to debit of Sethu.
- e) Goods worth ₹ 1,400 were dispatched to a customer before the close of the year but no invoice was made out.
- f) Goods worth ₹ 1,600 were sent on sale or return basis to a customer and entered in the Sales Book at the close of the year, the customer still had the option to return the goods. The gross profit margin was 20% on Sale.
- g) ₹ 600 due from Mr. Q was omitted to be taken to the trial balance.
- h) Sale of goods to Mr. R for ₹ 3,000 was omitted to be recorded.

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.

Question 18 (CA Foundation May 2018) (10 Marks) / (RTP May 2023) (Similar)

Pg no. _____

Miss Daisy was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss account of that year. On verifying the old books by a Chartered Accountant next year the following mistakes were found.

- a) Purchase account was undercast by ₹ 8,000.
- b) Sale of goods to Mr. Rahim for ₹ 2,500 was omitted to be recorded.
- c) Receipt of cash from Mr. Asok was posted to the account of Mr. Anbu ₹ 1,200.

- d) Amount of ₹ 4,167 of sales was wrongly posted as ₹ 4,617.
e) Repairs to Machinery was debited to Machinery Account ₹ 1,800.
f) A credit purchase of goods from Mr. Paul for ₹ 3,000 entered as sale.
Suggest the necessary rectification entries.

Question 19 (CA Foundation July 2021) (10 Marks)

Some or less & over

Pg no. _____

Mr. Ratan 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 a Chartered Accountant who examined the old books and found the following mistakes:

- a) Purchase of a scooter was debited to conveyance account ₹ 30,000. Mr. Ratan charges 10% depreciation on scooter.
b) Purchase account was over cast by ₹ 1,00,000.
c) A credit purchase of goods from Mr. X for ₹ 20,000 was entered as sale.
d) Receipt of cash from Mr. Anand was posted to the account of Mr. Bhaskar ₹ 10,000.
e) Receipt of cash from Mr. Chandu was posted to the debit of his account, ₹ 5,000.
f) ₹ 5,000 due by Mr. Ramesh was omitted to be taken to the Trial Balance.
g) Sale of goods to Mr. Ram for ₹ 20,000 was omitted to be recorded.
h) Amount of ₹ 23,950 of purchase was wrongly posted as ₹ 25,930.

Suggest the necessary rectification entries.