Rectification of Errors-I

Fundamentals Of Accounting
Objectives

- Understand different types of errors
- Steps involved in locating errors
- Why suspense account is opened
- Technique of correcting errors of one period in the next accounting period
What is an error

- Unintentional omission or commission of amounts and accounts in the process of recording transactions are commonly known as errors.
- Some errors may affect T/B and some may not have any impact on T/B, though may affect determination of profit or loss, assets and liabilities.
Illustrative Cases of Errors

- Wrong entry (Credit purchases of Rs. 17,270 entered in the Purchase Day Book as Rs. 17,720)
- Wrong posting from subsidiary books (For Jan, 2009 credit sales are Rs. 1,75,700 is wrongly totalled as Rs. 1,76,700 and posted to sales account as Rs. 1,76,700)
Illustrative Cases of Errors

• Wrong casting of subsidiary book (casting means totalling)

• Wrong casting of ledger balances
Stages of Errors

At the stage of recording the transactions in JOURNAL

Types of errors which happen at this stage

(a) Errors of principle
(b) Errors of commission
(c) Errors of omission
Stages of Errors

At the stage of posting entries in ledger

(i) Errors of omission
   (a) Partial omission
   (b) Complete omission

(ii) Errors of commission
    (a) Posting to wrong account
    (b) Posting to wrong side
    © Posting of wrong amount
Stages of Errors

At the stage of balancing of ledger accounts
(a) Wrong totalling of accounts
(b) Wrong balancing of accounts
Stages of Errors

At the stage of preparing the trial balance

(i) Errors of omission

(ii) Errors of commission

(a) Posting to wrong account

(b) Posting to wrong side

© Posting of wrong amount
Conclusion

We can classify the errors into 4 broad categories:

1. Errors of principle
2. Errors of omission
3. Errors of Commission
4. Compensating errors
Types of Errors

- **Errors of Principle**
  - Accounting Principle stands violated eg. Capital expenditure treated as revenue expenditure or vice versa
  - T/B agrees

- **Clerical Errors**
  - Errors of Omission
  - Errors of Commission
  - Compensating errors
Clerical Errors

• Errors of omission

(a) Omitting an entry completely from subsidiary books (T/B will agree)
(b) Omitting to post the ledger account from the subsidiary books (T/B will not agree)
Errors of Commission

- Writing the wrong amount in the subsidiary books (T/B will agree)
- Wrong casting of subsidiary books (T/B will not agree)
- Posting the wrong amount in the ledger (T/B will not agree)
- Posting an amount on the wrong side (T/B will not agree)
- Wrong balancing of account (T/B will not agree)
Compensating Errors

• Effect of one error is cancelled by the effect of some other error
• Suppose amount of Rs. 100 received from A is not credited to his account and total of sales book is Rs. 100 excess
• Trial Balance will agree
Steps to locate errors

• T/B should be totalled again (debit and credit)
• Ledgers should be balanced again
• Casting of subsidiary books should be checked again
• Posting of the amounts equal to difference or half the difference should be checked
Rectification of errors

An error can be detected at any of the following stages:
(a) Before preparation of T/B
(b) After T/B but before the final accounts are drawn
© After final accounts i.e. next accounting period
Before preparation of T/B

- It is not possible to pass a complete rectification entry
- Corrected by making rectification statement in appropriate side of the concerned account
Example 1

Sales book for November is undercast by Rs. 20,000.

Implications:

• Only sales A/c is to be corrected
• No error in customer A/c
• Credit side: ‘By undercasting of sales for November Rs. 20,000.'
Example 2

Rs. 25,000 received from Ram entered on the Dr side of his account

Implications:

- Cash book is correctly written
- Wrong debit is to be removed and also credit is to given
- Cr side: “By posting on wrong side Rs. 25,000
Example 3

- B/R from Mr. B of Rs. 8,000 was posted to the credit side of B/P and also Cr to Mr. B Account

- Implications:
  - Dr side B/P "To wrong posting Rs. 8,000
  - Dr side B/R "To omission of posting Rs. 8,000
Exercise

• Payment of Rs. 75 for salaries (to Mohan) has been posted to the credit side of B/R Account
• Total of B/R book Rs. 1,500 has been posted to the credit side B/R Account
• Amount of Rs. 151 for credit sale to Hari, although entered in sales book, has been posted at Rs. 115
Answers

• Cr Salaries Account “By double posting on Rs. 75”
• Dr B/R “To wrong posting of B/R received on Rs. 3,000
• Dr Hari A/c “To wrong posting Rs. 36
Illustration

1. Rs. 500 paid for furniture purchased has been charged to ordinary Purchases A/c
2. Repairs made were Dr to building Account for Rs. 50
3. Amount of Rs. 100 withdrawn by the proprietor for his personal use has been Dr to Trade expenses A/c
Illustration Continued:

4. Rs. 100 paid for rent Dr to landlord’s Account
5. Salary Rs. 125 paid to clerk due to him has been Dr to his personal Account
6. Rs. 100 received from Shah and Co has been wrongly entered as from Shaw and Co.
7. Rs. 700 paid in cash for a typewriter was charged to office expenses account
Answers

1. Furniture A/c ------- Dr 500
   To Purchases A/c 500

Correct entry:
Furniture 500
  To Cash 500

Wrong entry:
Purchases 500
  To Cash 500
Answers

2. Repairs A/c --------Dr 50
   To Buildings A/c 50

Correct entry:
Repairs------------Dr 50
   To Cash 50

Wrong entry:
Building --------Dr 50
   To Cash 50
Answers

3. Drawings A/c ------Dr 100
   To Trade Expenses 100

Correct entry:
Drawings ----------Dr 100
   To Cash 100

Wrong entry:
Trade expenses ----Dr 100
   To Cash 100
Answers

4. Rent A/c --------Dr  100
   To landlord personal A/c 100
Correct entry:
Rent --------------Dr  100
   To Cash      100
Wrong Entry:
Landlord personal A/c ------Dr 100
   To Cash      100
Answers

5. Salaries A/c -----Dr 125
   To Clerk personal A/c 125
Correct Entry:
Salaries A/c -------Dr 125
   To Cash 125
Wrong entry:
Clerk personal A/c ----Dr 125
   To Cash 125
Answers

6. Shaw & Co ------Dr
   To Shah & Co
Correct entry:
Cash A/c -------Dr
   To Shah & Co.
Wrong entry:
Cash A/c -------Dr
   To Shaw & Co
Answers

7. Typewriter A/c ----Dr 700
   To office expenses A/c 700
Correct Entry:
   Typewriter A/c -----Dr 700
   To Cash 700
Wrong entry:
   Office Expenses A/c ----Dr 700
   To Cash 700
Exercise

1. Purchase of goods from Ram amounting to Rs. 150 has been wrongly entered through the sales book.

2. Credit sale of goods amounting to Rs. 120 to Ramesh has been wrongly passed through the purchase book.

3. Goods of the value Rs. 300 were returned by Hari Saran and were taken into stock on the same date but no entry was made in the books.
Exercise

4. Amount of Rs. 200 due from Mahesh Chand which has been written off as a bad debt in a previous year was unexpectedly recovered and has been posted to the personal account of Mahesh Chand.

5. A cheque of Rs. 100 received from Man Mohan was dishonoured and has been posted to the debit of sales return account.
Answers to Exercise

1. Purchases A/c -------Dr 150  
   Sales A/c --------------Dr 150  
   To Ram 300

2. Ramesh ---------------Dr 240  
   To Purchases 120  
   To Sales 120
Answers to Exercise

3. Return Inwards --------Dr 300
   To Hari Saran 300

4. Mahesh Chand --------Dr 200
   To Bad Debt 200
   Recovered A/c

5. Man Mohan -----------Dr 100
   To Sales Return 100
THE END

Rectification of Errors