



**Indian Accounting Association**

**Subject: Financial Accounting**

**Topic Name:**

**Rectification of Errors**

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## Unit IV: Rectification of Errors

*Learning Outcomes:*

- *Helps to understand different types of errors while recoding transactions*
- *Helps to understand different methods of rectification of errors*

### 1. Introduction

Errors may occur at the time of recording financial transactions in the books of accounts. These errors may be clerical or due to principles. Due to these errors, trial balance may or may not agree. If trial balance agrees then the inherent error still remains present and that lead to depict false picture in the final financial statement. So that, the errors can be identified in the three steps as follows:

- a) Before preparation of Trial Balance.
- b) After preparation of Trial Balance but before preparation of Final Accounts; and
- c) After preparation of Final Accounts or rectification in the next accounting period.

### 2. Types of Errors

Accounting errors can be divided mainly in two types as follows:

#### A. *On the basis of nature*

- (a) Errors of Omission.
- (b) Errors of Commission.
- (c) Errors of Principle; and
- (d) Compensating Errors.

#### B. *On the basis of impact on ledger accounts*

- (a) One-sided Errors; and
- (b) Two-sided Errors.

### 3. Concept of Errors (in brief)

- **Errors of Omission:** It arises due to complete or partial omission of recording of the financial transactions. This error arises on the part of the person responsible for the maintenance of the books of account. This error can be further segregated in complete error and partial error. Under complete error, a transaction is totally omitted to be recorded in the books of account. As a result, this will not impact the trial balance agreement. In case of partial error, recording in subsidiary books were done but posting in both the ledgers has not been done properly.
- **Errors of Commission:** It results due to wrong entry in the Journal or Ledger. Due to this error, agreements of trial balance become affected.
- **Errors of Principle:** These errors come out from a wrong application of principles of accounting. Incorrect differentiation between capital and revenue expenditure is the prime cause of these errors. Trial balance may not be affected due to these errors but the final financial statements represent wrong information.
- **Compensating Errors:** These errors do not affect the trial balance agreement. When more than one error neutralized each other and cancelled out the arithmetical inaccuracy.
- **One-sided Errors:** These errors arise due to posting a recorded transaction correctly in one account while the corresponding account is not correctly posted. These errors affect only one side of an account which may be either its debit side or credit side.
- **Two-sided Errors:** These errors affect two separate accounts, debit side of the one and credit side of the other. Trial balance may or may not be affected in agreement due to these errors.

### 4. Rectification of Errors

Identification of Errors is the prime objective of any accountant. At which steps the errors were occurred is the main concern for any accountant for rectification.

- **Rectification of errors before preparation of Trial Balance:** Some errors which affect one side of an account are called one-sided errors. Some errors affect more than one account is called two-sided errors.

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- **One-sided Errors:** This kind of errors does not require any proper journal entry. Only concerned Ledger to be debited or credited according to the rectification amount. Few illustrations are as follows:

(i) Purchase day book was cast Rs. 100 in place of Rs. 150. It indicates Purchase account has been debited Rs. 50 short. So, for rectification, Purchase account should be debited by the balance Rs. 50.

(ii) Sales day book was cast Rs.300 in place of Rs. 200. It implies Sales account has received excess credit for Rs. 100. So, Sales account to be debited by Rs. 100 for rectification.

- **Two-sided Errors:** For rectification of two-sided errors, three journal entries should be considered. First one is the original wrong entry, second one is the right entry that should have been passed. Based on these two entries made in the working notes, finally a composite entry is passed from the last two entries for rectification. Few illustrations are as follows:

(i) A purchase of Rs. 2500 from S. Das entered in the Day book as 250.

<b>Original Wrong Entry</b>	
Purchase A/C.....Dr.	250
To, S. Das A/C	250
<b>Right Entry</b>	
Purchase A/C.....Dr.	2500
To, S. Das A/C	2500
<b>Rectification Entry</b>	
Purchase A/C.....Dr.	2250
To, S. Das A/C (2500 – 250)	2250

(ii) Rs. 500 received from B. Biswas has been credited in the account of S. Sarkar.

<b>Original Wrong Entry</b>	
Cash A/C.....Dr.	500
To, S. Sarkar A/C	500
<b>Right Entry</b>	

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Cash A/C.....Dr. To, B. Biswas A/C	500	
<b>Rectification Entry</b>		
S. Sarkar A/C.....Dr. To, B. Biswas A/C	500	500

- Rectification of errors before preparation of Final Accounts:** When errors are detected before preparation of Final accounts i.e., after preparation of Trial Balance, a complete journal entry is needed to rectify the error. In this stage two assumptions are considered – without opening a Suspense account and opening a Suspense account. As Trial Balance has already been prepared, due to accounting error, if total debit is different from total credit, the difference is captured in Suspense Account. Few illustrations are as follows:

(i) The Sales book was Rs. 250 short in total. (Here, Sales (Cr.) is short by Rs. 250, captured in Suspense A/C (Cr.). The rectification entry:

Suspense A/C.....Dr. To, Sales A/C (Being the correction arising from under casting Sales book)	250	250
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(ii) Machinery purchased from S. Mukherjee for Rs. 5000, recorded in Purchase Day book. Here, for the error, there is no difference between debit and credit amounts and no Suspense A/C does arise. The rectification entry:

Machinery A/C.....Dr. To, Purchases A/C (Being the correction of recording purchase of Machinery as purchase)	5000	5000
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- Rectification of errors after preparation of Final Accounts:** In this stage of rectification of errors related to next accounting period. Previous year’s financial recording errors going to be rectified in the next year. For this few points needs to be taken care – Nominal accounts should be closed after preparation of Final accounts, Suspense account must be carry

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forward in the next accounting year with a disclosure in the Balance Sheet, and Real and Personal accounts should also carry forward in the next accounting year. All nominal account related items need to be adjusted as Profit & Loss Adjustment account in the next year. The motto of preparing Profit & Loss Adjustment account is to show the net effect on the Profit & Loss of the previous year. Few illustrations are as follows:

- (i) Wages paid for installation of a Plant & Machinery Rs. 2500 charged to Wages account.

Plant & Machinery A/C.....Dr.	2500
To, Profit & Loss Adjustment A/C (correction in the Plant & Machinery account)	2500

- (ii) Purchase account was undercast by Rs. 500.

Profit & Loss Adjustment A/C.....Dr.	5000
To, Suspense A/C (correction in the Purchase account)	5000

### Illustration 1:

1. The Trial Balance of HMV Pvt. Ltd. showed a difference on 31.12.2020 and the trial balance was made to agree with a help of Suspense account. The following errors were detected afterwards:

- (a) The Sales day book was overcast by Rs. 2500; (b) A sum of Rs. 500 received from S. Kanrar was wrongly credited to S. Das; (c) A creditor's balance was extracted as Rs. 3500 instead of Rs. 350; (d) A sales bill for Rs. 6750 wrongly debited to Customer's account as Rs. 7650; (e) The Purchase Day book was overcast by Rs. 1500; (f) An invoice of Rs. 2500 for the purchase of a Type-writer was debited to Purchase account.

Pass the journal entries to rectify the above errors.

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**Solution:**

In the Books of - H MV Pvt. Ltd.  
Journal

Date 2020	Particulars	L. F.	Amount s. (Dr.)	Amount Rs. (Cr.)
31.12	(a) Sale A/C.....Dr. To, Suspense A/C (Sales Day book overcast by Rs. 2500, now rectified)		2500	2500
	(b) S. Das A/C.....Dr. To, S. Kanrar A/C (Amount received from S. Kanrar but wrongly credited to S. Das Rs. 500, now rectified)		500	500
	(c) Sundry Creditors A/C.....Dr. To, Suspense A/C (A creditor's balance over extracted by Rs. 3150, now rectified)		3150	3150
	(d) Suspense A/C.....Dr. To, Sundry Debtors A/C (Amount debited in excess of Debtor account, now rectified)		900	900
	(e) Suspense A/C.....Dr. To, Purchase A/C (Purchase Day book over cast, now rectified)		1500	1500
	(f) Office Equipment A/C.....Dr. To, Purchase A/C (Purchase of Type-writer debited to Purchase account, now rectified)		2500	2500

**Illustration 2**

The following errors were discovered in the books of J. Koley for the year ended on 31<sup>st</sup> December, 2020:

- (a) The total of the Purchase Day book had been undercast by Rs. 550; (b) The discount column of the debit side of the Cash Book had been posted to the credit the Discount Received account Rs. 70; (c) Rs. 50 paid for repairs of a Car had been taken to Car account; (d) A cheque received from B. Biswas for Rs. 75 had been debited to Cash book but the double entry had not been completed; (e) The Return Outward book had been overcast by Rs. 150.

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Show the rectification entries considering that the Final Accounts had already been prepared and the net profit arrived at amounted 31650 (before correction). Show the calculation of the net profit for the year.

**Solution:**

In the Books of – J. Koley  
Journal

Date 2020	Particulars	L. F.	Amount Rs. (Dr.)	Amount Rs. (Cr.)
31.12	(a) Profit & Loss Adjustment A/C.....Dr. To, Suspense A/C (Purchase Day book undercast, now rectified)		550	550
	(b) Profit & Loss Adjustment A/C.....Dr To, Suspense A/C (Discount received credited instead of Discount allowed debited, now rectified)		140	140
	(c) Profit & Loss Adjustment A/C.....Dr. To, Car A/C (Repair to Car debited to Car account, now rectified)		50	50
	(d) Suspense A/C.....Dr. To, B. Biswas A/C (Cash received from B. Biswas not credited to his account, now rectified)		75	75
	(e) Profit & Loss Adjustment A/C.....Dr. To, Suspense A/C (Over casting of Return Outward book, now rectified)		150	150

Dr. Profit & Loss Adjustment Account Cr.

Particulars	Amount Rs.	Particulars	Amount Rs.
To, Suspense A/C	550	By, Net Profit b/f	31650
”, Suspense A/C	140		
”, Car A/C	50		
”, Suspense A/C	75		
”, Capital A/C (Adjusted net profit) – Balancing figure	30835 ..... 31650		..... 31650



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## Exercise

### ✓ Multiple Choice Questions:

1. *Goods were purchased from John for Rs. 1500 with no entry made in the purchases book. This is an example of:*

- a. Error of posting
- b. Error of omission**
- c. Error of principle
- d. Compensating error

2. *When a transaction is wholly or partially recorded incorrectly, it is called:*

- a. Error of commission**
- b. Error of principle
- c. Error of omission
- d. Error of posting

3. *Salaries of Rs. 1000 were wrongly posted to the salaries account as Rs. 100. This is an example of:*

- a. Error of principle
- b. Error of posting
- c. Error of commission**
- d. Compensating error

4. *If no distinction between capital and revenue expenditures is made while a recording transaction, it is:*

- a. Compensating error
- b. Error of principle**
- c. Error of omission
- d. Error of posting

5. *Errors of omission do not disturb the trial balance.*

- a. True**
- b. False

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6. *One-sided errors detected before the preparation of the trial balance are rectified without journal entries.*

- a. True
- b. False

7. *Errors in personal and real accounts affect the net profit.*

- a. True
- b. False

8. *Agreement of trial balance means that there is no error in the books of account.*

- a. True
- b. False

9. *Which of the following is true about Compensating Error?*

- a. **It is not disclosed in the trial balance, one error is nullified by other**
- b. It is disclosed in the trial balance
- c. It is captured through Suspense A/C
- d. None of the options

### ✓ Subjective Type Question:

1. What are the stages of rectification of errors?
2. Which errors do not affect the Trail Balance?
3. When is a suspense Account opened? How are errors rectified through Suspense A/c?
4. Does rectification of errors in a subsequent accounting period always affect the trading result of the current accounting period? Explain with examples.

### ✓ Practical Problems:

1. Show how you will rectify the following errors (Post Trial Balance):  
  
(a) A credit sale of Rs. 450 to B. Biswas was debited to S. Das; (b) A purchase of goods for Rs. 750 from S. Mukherjee, was debited to her account; (c) An office Almirah purchased for Rs.

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750 was debited to Repairs account; (d) A sum of Rs. 350 received from a Debtor was debited to his account; (e) Purchase of goods for the consumption of the proprietor was debited to Purchase account for Rs. 800; (f) Discount allowed Rs. 75 was credited to Discount received account.

2. A book-keeper, while preparing his trial balance finds that the debit exceeds by Rs. 7250. Being required to prepare the final accounts, he places the difference to a Suspense account. In the next year, the following mistakes were discovered:

(a) A Sale of Rs. 4000 has been passed through the Purchase Day book. The entry in the customer's account has been correctly recorded; (b) Goods of Rs. 2500 taken away by the proprietor for his use has been debited to Repairs account; (c) A Bills Receivable for Rs. 1300 received from Shankar has been dishonoured on maturity, but no entry passed; (d) Salary of Rs. 650 paid to a clerk has been debited to his personal account; (e) A purchase of Rs. 750 from Sourav has been debited to his account. Purchase account has been correctly debited; (f) A sum of Rs. 2250 written off as depreciation on furniture has not been debited to Depreciation account.

Draft the journal entries for rectifying the above mistakes and prepare Suspense account.

3. In the books of account of S. Sarkar for the year ending on 31<sup>st</sup> March 2021 were closed with a difference in books carried forward. The following errors were detected subsequently:

(a) Goods Rs. 125 returned to Das Bros. were recorded in the Return inward book as Rs. 251 and from there it was posted to the Debit side of Das Bros. account; (b) A credit sale of Rs. 760 was wrongly posted as Rs. 670 to the customer's account in the sales ledger; (c) Closing stock was overcast by Rs. 5000 being casting error in schedule of inventory; (d) Paid acceptance to Jyotirmoy for Rs. 7600 was posted to the debit of Biswajit as Rs. 670; (e) Goods purchased from Das & Co. Rs. 3250 entered in the Sales day book for Rs. 3520; (f) Rs. 1500 being the total of the discount column on the credit side of the Cash book was not posted.

Pass rectification entries in the next year.

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4. The following mistakes were located in the books of a concern after its book was closed and a Suspense account was created in order to get the Trial Balance agreed.

(a) Sales day book was overcast by Rs. 400; (b) A sales of Rs. 1000 to Soumen was wrongly debited to the account of Soumita; (c) Repairing expenses Rs. 360 was posted as Rs. 630; (d) A Bill Receivable received from Biswajit for Rs. 600 was passed through Bills Payable account; (e) Legal expenses Rs. 9000 paid to Advocate Sarkar was posted to his personal account; (f) Cash received from Abhijit was debited to Abhishek account for Rs. 300; (g) While carrying forward the total of one page of the Purchase Book to the next, the amount of Rs. 2345 was written as Rs. 3245.

Pass the rectification entries and (i) Find out the amount of difference that originally arose in the Trail Balance; (ii) Prepare the Suspense account; (iii) Show the effect of last year's profit (before rectification); (iv) Show the effect of rectifications of errors on profit.

### Suggested Readings:

- Batty, J. *Principles of Accounting*.
- Grewal, T.S. *Introduction to Accountancy*. S. Chand and Co. New Delhi
- Gupta R. L. and Gupta, V.K. *Principles & Practice of Accounting*. Sultan Chand and Sons, New Delhi.
- Haneef and Mukherjee. *Accountancy-I & II*, Tata McGraw Hill Co
- Jain S.P. & Narang, K.L. *Accountancy-I*. Kalyani Publishers.
- Jawaharlal Lal. *Financial Accounting*. Himalaya Publishing House.
- Sehgal, Deepak. *Fundamentals of Financial Accounting*. Tax Mann Publication
- Tulasian, *Accountancy-I & II*: Tata McGraw Hill Co.