

CBSE Class 11 Accountancy
Revision Notes
Chapter-8 Rectification of Errors

Introduction

Trial balance is a statement prepared with debit and credit totals or balances extracted from the ledger to verify the arithmetic accuracy of accounts. The objectives of Trial balance are :

- i. To ascertain the arithmetic accuracy of accounts.
- ii. To help in locating errors.
- iii. To help in preparation of single account.

Learning Objectives

After studying this lesson you should be able to:

- Differentiate different types of errors and their examples.
- Rectify the Error: Two sided errors i.e. Error not affecting Trial Balance and One sided i.e. errors which affect Trial Balance.
- To understand meaning and Utility of Suspense A/c.
- Maintain the suspense A/c.

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

Need of Rectification

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

Classification of Errors

(On the basis on Nature)

Type of Error with Meaning	Sub-Types with Examples
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<p>1. Error of Omission (When a transaction is completely or partially omitted to be recorded in the books)</p>	<p>a) Error of complete Omission Good-sold to X on credit but not recorded in Sales Book.</p>
	<p>b) Partial Commission Purchase machinery Rs. 5,000 in cash recorded in cash Book but not recorded in Machinery A/c.</p>
<p>2. Error of Commission (These errors are caused due to wrong recording of transaction, wrong totalling of subsidiary books of Ledger A/c, Wrong posting and wrong carry forward)</p>	<p>a) Error of Recording in the Book of Original Entry Goods purchased from Ravi for Rs. 450, but Goods recorded as Rs. 540, in the Purchases Book.</p>
	<p>b) Wrong Totalling of Subsidiary Book Example: Purchase Books has been undercast (short totalled) by Rs. 100.</p>
	<p>c) Error in Totalling or Balancing of Ledger A/cs* Example: Creditors A/c has been balanced short by Rs. 500.</p>
	<p>d) Error of Posting</p>
	<p>i) Posting to the wrong side but correct account Goods sold to X for Rs. 550, entered to the credit of Rs. X's A/c instead of posting to the debit side of his account.</p>
	<p>ii) Posting with wrong amount.</p>
	<p>iii) Posting twice in an A/c. iv) Errors in posting to the wrong A/c but correct side don't affect Trial Balance.</p>
<p>e) Error in carrying forward Total of purchases book Rs. 2,500 is carried forward as Rs. 2050.</p>	

<p>3. Errors of Principal (These error are caused due to the violation of accounting principal i.e. allocation between Capital and Revenue items)</p>	<p>a) Treating capital items as revenue item example: Wages paid for the installation of a new machinery charged to Wages A/c instead of machinery A/c.</p>
<p>4. Compensating Errors (Two or more errors committed in such a way that the net effect of these errors in nil).</p>	<p>b) Treating revenue items as Capital item Example: Rs. 200 paid for the repairs of an old Machinery but debited to Machinery A/c instead of Repairs A/c.</p> <p>Example: Cash paid to Ram Rs. 5,000 but debited-him as Rs. 500 and paid Mohan Rs. 500 but debited him as Rs. 5,000 so, net effect will be nil.</p>

TYPES OF ERRORS FROM RECTIFICATION POINT OF VIEW

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

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

Case II : Errors which affect the Trial Balance OR one Sided Errors.

Errors don't Affecting Trial Balance

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

Errors Affecting Trial Balance

1. Error in totalling of subsidiary books as undercast and overcast.
2. Error in the balancing of ledger accounts.
3. Error in posting to the correct Account but wrong amount.
4. Error of partial omission.

Rectification of Errors

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

- The Type of error and
- The time of depiction of an error

Time of Depiction of an error means.

- i. Errors detected before the preparation of Trial Balance.
- ii. Errors detected after preparing Trial Balance but before preparing final accounts.
- iii. Errors detected after preparing Final Accounts.

RECTIFICATION OF TWO SIDED ERRORS

Two sided errors are those errors which affect two sides of Accounts.

These errors don't affect trial Balance as discussed earlier.

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

Steps for Rectification

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

Examples (With Explanation)

i) When an account has wrongly been debited in place of another A/c.

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

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

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

debited.

Rectifying Entry is

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Machinery A/c Dr.		10,000	
	To Purchases A/c			10,000
	(For Purchases of machinery wrongly debited to Purchases A/c)			

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

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

Solution : This error also affects the two A/c

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

Hence Rectifying Entry is

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Sales A/c Dr.		5,000	
	To Furniture A/c			5,000
	(Sales of old Furniture wrongly Credited to Sales A/c)			

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

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

Solution :

- Here Seema's A/c is debited by 90 short and Sales A/c is credited by 90 short.
- Therefore rectification will be done by Debiting Seema's A/c Crediting Sales A/c. Hence

Rectifying entry is:

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Seema A/c Dr.		90	
	To Sales A/c			90
	(For goods sold to Seema for 540 wrongly entered 450.)			

IV) When there is an Excess Debit in on A/c and Excess Credit in an-other A/c.

Example : Goods Purchases from Mohan is Debited and credited by 3,000 instead of 300 i.e. 2,700 more.

- Here Purchases A/c is Debited by 3,000 instead of 300, i.e. 2,700 more.
- Mohan's Ac is also Credited by Rs. 2,700 more.
- Rectification will be done by debiting Mohans' A/c & Crediting Purchases A/c by Rs. 2,700 i.e. the entry in the reverse direction.

Rectifying Entry

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Mohan Dr.		2,700	
	To Purchases A/c			2,700
	(For purchases of goods from Mohan for 300 wrongly entered Rs. 3000)			

RECTIFICATION OF ONE SIDED ERRORS

These errors affect only one side of an Account either debit or credit.

Therefore these errors effect the Trial Balance.

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

- Before preparing the Trial Balance.
- After preparing the Trial Balance.

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

When these errors are rectified before preparing Trial Balance i.e. transferring the difference in the Trial Balance to the Suspense Account. (Which will be explained later on), then it is done directly by debiting or crediting the concerned ledger account.

For Short Debit → Concerned A/c is Debited.

For Excess Credit → Concerned A/c is Debited.

For Short Credit → Concerned A/c is Credited.

For Excess Debit → Concerned A/c is Credited.

Cash II : Rectification of one Sided Error after preparing Trial Balance.

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

- Short debit in one Account → Debit that Account and Credit the Suspense A/c.
- Excess Credit in one Account → Credit that A/c and Debit the Suspense A/c.
- Short Credit in one Account → Credit that A/c and Debit the Suspense A/c.
- Excess Debit in one Account → Credit that A/c and Debit the Suspense A/c.

Suspense Account and its Disposal

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

Important

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