

RECTIFICATION OF ERRORS

CHAPTER

2B

PART I - HIGHLIGHTS

What are the types of errors & their effects on agreement of trial balance?**Classification of Errors (types of errors) and its effect on agreement of Trial Balance:****1. Errors of Principle:**

- That means there is error in applying some accounting principle.
- Such errors will not affect the agreement of trial balance i.e. these are double sided error.

Example: Treating a revenue expense as capital expenditure or vice versa or the recording of sale of a fixed asset as ordinary sale.

2. Clerical Errors:

- These are the errors committed in applying the accounting procedure.
- Such errors may or may not affect the agreement of trial balance.

These can be further classified as follows:

(a) Errors of Omission:

- (i) Omitting an entry completely from the subsidiary book. Full omission hence Trial Balance will agree.

Example: Sale of ₹ 5,000 to A on 30.3.06 is not recorded.

- (ii) Omitting to post the ledger account from the subsidiary books - *Partly*.
Partial omission hence Trial Balance will not agree.

Example: A sale entry of ₹ 10,000 not posted to A's a/c.

(b) Errors of Commission:

- (i) Writing wrong amount in the Subsidiary book. Trial Balance will agree.

Example: A purchase of ₹ 5,000 from 'X' is entered in purchase book as ₹ 500

- (ii) Posting the wrong account in the ledger. Trial Balance will agree.

Example: From Sales book A's account is debited by ₹ 8000 instead of B's account.

- (iii) Wrong casting of subsidiary books.

Example: Total of Bills Receivable book is taken as ₹ 1,05,000 instead of ₹ 1,00,500

- (iv) Posting the wrong amount in the ledger.

Example: From Sales Return book A's account is credited by ₹ 8,000 instead of ₹ 8,800

- (v) Posting an amount on the wrong side of an account.

Example: From Sales Book L's account is credited

Rectification of Errors

(vi) Wrong balancing of an account.

Example: Balance of Furniture account is taken as ₹ 7,000 instead of ₹ 3,000

Note: In case of errors described in (iii) to (vi) above, Trial Balance will not agree.

(c) **Compensating Errors:**

Two or more mistakes which compensate the effect of each other on trial balance & hence Balance will agree.

Example: Excess debit ₹ 1,000 to Furniture a/c & Excess credit of ₹ 1,000 to Sales a/c.

Suspense Account

- ✎ When trial balance does not tally, the difference is put to an account named as Suspense a/c. Difference
 - debited (if debit side of trial balance is short) or
 - credited (if credit side of trial balance is short) to Suspense a/c
- ✎ Thus with the help of suspense a/c trial balance is artificially tallied.
- ✎ While passing rectification entry for one sided errors, the one effect Dr. or Cr. will go into the a/c in which mistake is committed & the other effect will be given to Suspense a/c.
- ✎ When all such one sided errors are rectified the Suspense a/c will become Nil
- ✎ While rectifying double sided errors, suspense account will not get affected.

PART II – TRUE OR FALSE

1. Rectifying errors in subsequent accounting period always affect the profit or loss of that period.

Ans. False: Rectifying errors in subsequent accounting period related to Personal & Real Accounts will not affect the profit of that period.

2. Errors of principle involves an incorrect allocation of expenditure or receipt between capital and revenue.

Ans. True: Recording the transaction in an incorrect fundamental manner is an error of principle.

3. Wrong casting of subsidiary books does not affect the trial balance.

Ans. False: Wrong casting of subsidiary books affects the trial balance because wrong total will be posted to account and then to the trial balance.

4. If the amount is posted in the wrong account or it is written on the wrong f side of an account, it is called an error of commission.

Ans. True: Error of commission is an error on account of wrong posting, wrong balancing, wrong carry forward, wrong totalling etc.

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5. Under or over-casting of a subsidiary book is an example of error of commission.
Ans. True: Error of commission is an error on account of wrong posting, wrong balancing, wrong carry forward, wrong totalling etc.
6. Any type of error affects the agreement of trial balance.
Ans. False: Every error does not affect the agreement of trial balance because Errors of Principle, Compensating errors etc. do not affect the agreement of trial balance.
7. Purchase of office furniture has been debited to general expenses account. It is a compensating error.
Ans. False: It is an error of principle because here an item of capital nature is treated as an item of revenue nature.
8. Errors of complete omission will be located, if trial balance is prepared.
Ans. False: Errors of Complete omission cannot be located because both debit and credit aspects of an entry are not recorded and hence it will not affect trial balance.
9. Errors of principle will affect trial balance.
Ans. False: Errors of principle will not affect trial balance because both the aspects (debit & credit) of a transaction are recorded with correct figures.
10. Error of carry-forward of totals of purchase journal affects two accounts.
Ans. False: It will affect one account i.e. purchases account so it will affect the total of trial balance.
11. If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree.
Ans. False: If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
12. 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.
Ans. False: Amount posted in the wrong account or on the wrong side of the account is an error of commission.