

## INTRODUCTION

Errors are common in the process of recording transactions and can occur due to various unintentional mistakes. These errors may arise during the collection of financial data used for preparing financial statements or during the recording stage. They can result from mathematical errors, incorrect application of accounting policies, misinterpretation of facts, or oversight. To ensure the accuracy of the journal and ledger accounts, a trial balance is prepared. If the trial balance does not balance, it indicates the presence of errors that need to be rectified. While some errors impact the trial balance, others may affect the determination of profit or loss, as well as the assets and liabilities of the business, without directly affecting the trial balance itself.

### Example of Errors

After preparing ledger accounts and obtaining a trial balance, discrepancies between the debit and credit totals indicate the presence of errors. In order to understand the types of errors that can occur and how to rectify them, we will examine the following illustrative cases. By carefully analyzing these cases, we can gain insights into the nature of errors and their appropriate solutions.

### Examples of Errors in Financial Transactions

(a) **Wrong Entry:** Let's begin by examining the initial stage of the accounting process, where errors can occur in recording the values of transactions and events in subsidiary books, the Journal Proper, and the Cash Book.

**Example 1:** Credit sales of 12,320 are entered in the Sales Day Book as ₹12,230. Credit purchases of ₹7000 gross less 2% trade discount are wrongly recorded in Purchase Day Book at ₹6,000.

(b) **Wrong casting (totalling) of subsidiary books:** Periodically, the values recorded in subsidiary books are added up and transferred to the respective ledger accounts. During this process, there is a possibility of encountering totalling errors. These errors can arise due to incorrect entries or they can occur independently as separate errors.

**Example 2:** For the month of February, 2021 total of credit purchases are ₹2015500, this is wrongly totaled as ₹220500 and posted to sales account as ₹220500.

(c) **In case of a cash book,** wrong calculation of the balance c/d may arise due to wrong casting.

(d) **Wrong posting from subsidiary books:** In this scenario, there is a possibility of incorrect posting in the ledger account. The wrong amount may be entered, or the amount may

be posted on the wrong side or to an incorrect account. For example, Sales to X may be posted to Y's account.

(e) **Wrong casting of ledger balances:** Similarly, just like the Cash Book, errors can occur in casting the balances of ledger accounts. Incorrect postings can result in an incorrect balance, but that is different from a casting error in the balances. When there is an independent error in casting, it is referred to as a wrong casting of ledger balances.

**Example 3:** Following is the list of credit purchase transactions for M/s. Kumar Bros.:  
2021

June. 7 Purchases from M/s. Shakti & Co. – gross ₹50,000 less 2% trade discount.

June. 8 Purchases from M/s. Nikunj & Co. – gross ₹35,000 less 2% trade discount.

June. 11 Purchases from M/s. Shakti & Co. – gross ₹30,000 less 2% trade discount

Now let's prepare M/s. Shakti & Co.'s Account:

Dr. M/s Saurabh & Co. Account			Cr.		
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2021			2021		
Jan. 1	To Balance c/d	85400	Jan. 1	By Purchases A/c	49000
			Jan. 6	By Purchases A/c	29400
		85400			85,400*

\* An error has been made while calculating the credit side, leading to an incorrect balance in the account.

## STAGES OF ERRORS

Mistakes can happen during various stages of the accounting process, including:

### During the process of recording transactions in the journal

Various types of errors can occur at this stage:

- (i) Errors of principle,
- (ii) Errors of omission,
- (iii) Errors of commission.

### During the process of posting the entries in ledger

- (i) Errors of omission:
  - (a) Partial omission,
  - (b) Complete omission.
- (ii) Errors of commission:
  - (a) Posting to wrong account,
  - (b) Posting on the wrong side,
  - (c) Posting the wrong amount.

### During the process of balancing the ledger accounts

- (a) Wrong Totaling of accounts,
- (b) Wrong Balancing of accounts.

### During the process of preparing the Trial Balance

- (a) Errors of omission,
- (b) Errors of commission:
  - 1. Taking wrong account,
  - 2. Taking wrong amount,
  - 3. Taking to the wrong side.

Based on the mentioned criteria, we can categorize errors into four general classifications.:

- 1. Errors of Principle,
- 2. Errors of Omission,
- 3. Errors of Commission,
- 4. Compensating Errors.

## **TYPES OF ERRORS**

Basically errors are of two types:

- (a) **Errors of principle:** When a transaction is recorded in violation of accounting principles, such as incorrectly treating the purchase of an asset as an expense, it is considered an error of principle. In this situation, although the amounts are placed on the correct side, they are allocated to the wrong account. As a result, there is no impact on the trial balance, and it will still reconcile. For instance, if the purchase of a machine is debited to the building expenses account, the trial balance will remain unaffected.
- (b) **Clerical errors:** These errors occur due to mistakes made during the regular accounting process. They can be categorized into three types:
  - i) **Errors of Omission:** These errors occur when a transaction is either completely or partially omitted from the books of account. For example, not recording a credit purchase of furniture or failing to post an entry in the ledger.
  - ii) **Errors of Commission:** These errors occur when an amount is posted in the wrong account, recorded on the wrong side, incorrect totals are calculated, or an incorrect balance is struck. These errors involve incorrect actions taken during the accounting process.
  - iii) **Compensating Errors:** Compensating errors refer to errors where their effects offset each other, resulting in the trial balance still agreeing. For instance, if an amount of 1000 received from customer X is not credited to their account, but the sales book shows an excess credit of 1000, the omission of credit to x's account is compensated by the increased credit in the Sales Account.

It's important to identify and rectify these errors to ensure accurate financial reporting.

From a different perspective, errors can be categorized into two groups:

Rectification of Errors

**(a) Errors affecting the trial balance:**

These errors result in the trial balance not agreeing. They include:

- (i) Incorrect totaling of subsidiary books.
- (ii) Incorrect balancing of an account.
- (iii) Posting an amount on the wrong side.
- (iv) Posting the wrong amount.
- (v) Omitting to post an amount from a subsidiary book.
- (vi) Omitting to post the totals of subsidiary books.
- (vii) Failing to include cash book balances in the trial balance.
- (viii) Failing to include the balance of an account in the trial balance.
- (ix) Writing a balance in the wrong column of the trial balance.
- (x) Incorrectly totaling the trial balance.

**(b) Errors not impacting the trial balance:**

These errors include:

- (i) Completely omitting an entry from the subsidiary book.
- (ii) Recording an entry with an incorrect amount in the subsidiary book.
- (iii) Posting an amount in the wrong account but on the correct side. For example, debiting an amount intended for account A to account B. In this case, the trial balance will still agree.

It is crucial to identify and rectify these errors to ensure accurate financial records and a balanced trial balance.

## STEPS TO LOCATE ERRORS

It is essential to identify and rectify errors even if there is only a minor discrepancy in the trial balance. Such a small difference could be indicative of multiple errors that need to be identified and addressed. To locate errors, the following steps can be helpful:

- (i) Recalculate the totals of both columns in the trial balance. If only one amount is written instead of multiple accounts, recheck and recalculate the list of such accounts. For example, verify the Trade Receivables list to ensure the Trade Receivables balance is derived correctly.
- (ii) Verify that cash and bank balances are correctly included in the trial balance.
- (iii) Determine the exact difference in the trial balance and carefully review the ledger. It's possible that a balance equal to the difference has been omitted from the trial balance. Also, consider halving the difference, as a balance equal to half the difference might have been recorded in the wrong column.
- (iv) Rebalance the ledger accounts.
- (v) Review the casting of subsidiary books, especially when the difference is in amounts such as 1 or 10 or 1000.



- (vi) In case of a significant difference, compare the balances in various accounts with the corresponding accounts from the previous period. If the figures differ significantly, investigate potential errors. For example, if the Sales Account balance for the current year is 35,52,000, whereas it was 34,35,000 last year, there might be an error in the Sales Account.
- (vii) Double-check postings of amounts equal to the difference or half the difference. It's possible that an amount was omitted or posted on the wrong side.
- (viii) If there is still a difference in the trial balance, a thorough verification is necessary. Check all entries, including the opening entry. It may be beneficial to start with the nominal accounts.

## RECTIFICATION OF ERRORS

Errors should never be corrected by overwriting. If immediately after making an entry it is clear that an error has been committed, it may be corrected by neatly crossing out the wrong entry and making the correct entry. If however the errors are located after some time, the correction should be made by making another suitable entry, called rectification entry. In fact the rectification of an error depends on at which stage it is detected. An error can be detected at any one of the following stages:

- (a) Before preparation of Trial Balance.
- (b) After Trial Balance but before the final accounts are drawn.
- (c) After final accounts, i.e., in the next accounting period. (We use P&L Adjustment A/c)

### Before preparation of Trial Balance

There are certain errors that affect one side of an account or multiple accounts in a way that a complete rectification entry cannot be made. In such cases, the errors can be rectified by making a rectification statement on the appropriate side(s) of the respective account(s). It is important to note that these errors may involve a single account or multiple accounts. Let's look at the following examples:

- (i) The sales book for January is undercast by 500. resulting in the Sales Account being credited short by 500. Since the customers' accounts are posted with individual sales amounts and are correct, only the Sales Account needs correction. This can be done by making a credit entry of 500 on the credit side: "By undercasting of Sales Book for January 500".
- (ii) While posting in the discount column on the dr side of the cash book a discount of ₹ 50 allowed to Suresh has not been posted. cash book is correct, It can be assumed that the total of the discount column has been mistakenly debited to the discount account. The error of not crediting Ramesh by 50 can be rectified by crediting Suresh by 50.

Hence, based on the provided examples, we can conclude that the general rule stating that errors impacting two accounts can be rectified through a journal entry is not universally applicable.

Up until now, we have explored how to rectify errors that impacted either a single account or multiple accounts, without requiring complete journal entries for correction. Now, let's

delve into the correction of errors that affect multiple accounts in a way that necessitates complete journal entries for rectification. Please refer to the following example:

The purchase of furniture for ₹10,000 has been wrongly entered in the purchase book. Although, The account of the vendor (Shyam & co) has been credited by 10,000 which is correct, But the debiting the purchase account is wrong. Furniture Account should be debited. To rectify this, the debit in the purchases Account has to be transferred to the Furniture account So, now the rectifying entry will be to Credit Purchases Account and debit the Furniture account. As seen below:

Wrong Entry:			₹	₹
Purchases Account	Dr.		10,000	
To Shyam & Co.				10,000
Correct Entry:				
Furniture Account	Dr.		10,000	
To Shyam & Co.				10,000
Rectifying Entry:				
Furniture Account	Dr.		10,000	
To Purchases Account				10,000

### After Trial Balance but before Final Accounts

The approach for rectifying errors discussed thus far is suitable when errors are identified before the end of the accounting period. By making the necessary corrections, the trial balance will become balanced. However, in some cases, the trial balance may be artificially balanced by creating a suspense account and including the difference in the trial balance. If the credit column exceeds the debit column, the suspense account will be debited, and vice versa.

It is important to note that this artificial balancing of the trial balance is not a true reconciliation. Efforts should be made to locate and rectify the errors instead of relying on the suspense account.

The rule for rectifying errors detected at this stage is straightforward. Errors that couldn't be rectified through complete journal entries in the earlier stage (before the trial balance) can now be rectified by including journal entry(s) with the assistance of the suspense account. These errors are the ones that led to the creation of the suspense account in the trial balance. Other types of errors that affect multiple accounts and can be rectified through complete journal entries will follow the same process as in the earlier stage (before the trial balance).

In summary, every error detected at this stage can only be rectified by a complete journal entry. Errors that previously couldn't be rectified through journal entries will now be addressed using journal entry(s), with the suspense account accounting for the difference or the unknown side. Errors that could be rectified through entries at the earlier stage will be rectified in a similar manner.

Suppose, the sales book for May, 2020 is cast ₹500 short; as a result, the trial balance will not agree. The credit column in the trial balance will have a shortfall of 500, leading to a

credit entry of 500 in the Suspense Account. To rectify this error, the Sales Account will be credited to adjust the credit to the correct amount. With only one remaining error, it is necessary to close the Suspense Account by debiting it.

The entry will be:

Suspense Account	Dr.	₹500	
To Sales Account			₹500
(Rectification of error of undercasting the sales Book for May 2020)			

### Correction in the next Accounting Period

The process of rectifying errors that have been discussed so far assumes that it was done before closing the books for the relevant year. However, there are instances where rectification occurs in the subsequent year, with the balance in the Suspense Account either carried forward or transferred to the Capital Account. Suppose, the Purchase Book was undercast by ₹500 in December, 2021 and a Suspense Account was created with the difference in the trial balance. If the error is then rectified in the next year and the entry is passed is to debit the Purchase Account and credit the Suspense Account, it will result in a situation where the Purchases Account for the year 2022 will be ₹500 more than the amount which relates to the year 2021 resulting in less profits than the actual profits for the year 2022. Thus, rectifying errors in this manner will inaccurately represent the Profit and Loss Account.

To prevent such inaccuracies, it is recommended to rectify all amounts related to nominal accounts, such as expenses and incomes, through a dedicated account known as the "Prior Period Items" or "Profit and Loss Adjustment Account." The balance in this account should then be transferred to the Profit and Loss Account. However, it is important to note that these Prior Period Items should be accounted for after calculating the net profit of the current year. Prior Period Items refer to significant income or expenses that arise in the current period due to errors or omissions in the preparation of financial statements from one or more periods. These items should be clearly disclosed in the current statement of profit and loss, providing details of their nature and amount, in a manner that allows for a clear understanding of their impact on the current profit or loss.

## TEST YOUR KNOWLEDGE

### True and False

1. When there is a complete omission error, the trial balance will not balance equally.

**Sol. False:** In the event of a complete omission error, the trial balance will balance equally.

2. When errors are identified after the preparation of the trial balance, a suspense account is created.

**Sol. True,** In order to reconcile the discrepancy in the balances of the trial balance, a suspense account is created.

3. When an expense is incorrectly categorized as the purchase of an asset, it is referred to as an error of principle.

**Sol. True,** When the account being debited is fundamentally incorrect, it is referred to as an error of principle.

4. The trial balance agrees when compensating errors are present.

**Sol. True:** Compensating errors occur when two different mistakes result in the same amount being credited and later debited, canceling each other out. As a result, when the trial balance is prepared, these errors do not affect its balance.

5. An error of principle occurs when an amount is mistakenly recorded on the wrong side of the account.

**Sol. False,** An error of commission refers to the situation where an amount is mistakenly recorded on the wrong side of the account.

6. When purchasing furniture, the expenses incurred for repairs should be recorded by debiting the Repairs Account.

**Sol. False,** When acquiring furniture, the amount allocated for repairs should be debited to the Furniture Account, considering it as a capital expenditure.

7. To rectify the errors identified in the current accounting period, an account named "Profit & Loss adjustment account" is opened.

**Sol. False,** To correct the errors identified in the following (next) accounting period, the "Profit & Loss adjustment account" is created.

8. Correcting errors in subsequent accounting periods invariably impacts the profit or loss of that specific period.

**Sol. False,** Rectifying errors in subsequent accounting periods pertaining to Personal & Real Accounts will have no impact on the profit of that particular period.

9. Errors of principle occur when there is an incorrect allocation of expenditure or receipt between capital and revenue.

**Sol. True,** An error of principle arises when a transaction is recorded in a fundamentally incorrect manner.

10. Incorrect totaling of subsidiary books does not have any impact on the trial balance.

**Sol. False,** The trial balance is affected by the incorrect totaling of subsidiary books because it leads to inaccurate postings in the accounts and subsequently impacts the trial balance itself.

11. When an amount is erroneously posted in an incorrect account or written on the incorrect side of an account, it is referred to as an error of commission.

**Sol. True,** Error of commission encompasses various mistakes such as incorrect posting, improper balancing, inaccurate carry forward, erroneous totaling, and similar errors.

12. An instance of commission error can be illustrated by either undercasting or overcasting a subsidiary book.

**Sol. True,** Error of commission refers to an error that occurs due to incorrect posting, incorrect balancing, incorrect carry forward, incorrect totaling, and similar factors.

13. If the general expenses account has been charged for the acquisition of a computer, it results in a compensating error.



**Sol. False,** This error reflects error of principle as the capital nature (computer) item is treated as revenue nature.

14. Error of principle can have an impact on the trial balance.

**Sol. False,** The trial balance remains unaffected by errors of principle when both debit and credit aspects of a transaction are recorded accurately

15. The method for correcting errors is based on the point at which the errors are identified.

**Sol. True,** Errors can be identified at different stages, and the process of rectification depends on the stage of error detection. These stages include:

(a) Before preparing the Trial Balance.

(b) After the Trial Balance but before final accounts are prepared.

(c) After final accounts have been prepared, in the subsequent accounting period.

16. In case of complete omission, trial balance doesn't tally.

**Sol. False,** An error of omission arises when a transaction is unintentionally left unrecorded in the books of original entry.

In the scenario of a complete error of omission, the trial balance still balances because the transaction is entirely omitted from the records.

Detecting a complete omission error can be challenging since there are no corresponding debits or credits recorded. As a result, the overall balance appears to be correct.

17. When errors are identified after preparation of trial balance, suspense account is created.

**Sol. True,** If errors are detected after the trial balance has been prepared, a suspense account is established to adjust for the difference in the trial balance caused by errors that cannot be rectified with complete journal entries.

To put it simply, errors that were previously unresolvable due to the lack of suitable journal entries are now addressed by introducing one or more journal entries that account for the difference, utilizing the suspense account as a means of adjustment.

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

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

19. Errors of principle involves an Incorrect allocation of expenditure or receipt between capital and revenue.

**Sol. True,** Recording the transaction in an incorrect fundamental manner is an error of principle.

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

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

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

- Sol. True,** Error of commission is an error on account of wrong posting, wrong balancing, wrong carry forward, wrong totalling etc.
22. Under or over-casting of a subsidiary book is an example of error of commission.
- Sol. True,** Error of commission is an error on account of wrong posting, wrong balancing, wrong carry forward, wrong totalling etc.
23. Any type of error affects the agreement of trial balance.
- Sol. 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.
24. Purchase of office furniture has been debited to the general expenses account. It is a compensating error.
- Sol. False,** It is an error of principle because here an item of capital nature is treated as an item of revenue nature.
25. Errors of complete omission will be located, If trial balance is prepared.
- Sol. 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.
26. Errors of principle will affect trial balance.
- Sol. False,** Errors of principle will not affect trial balance because both the aspects (debit & credit) of a transaction are recorded, with correct figures.
27. Error of carry-forward of totals of purchase journal affects two accounts.
- Sol. False,** It will affect one account i.e. purchase account so it will affect the total of trial balance.
28. If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will disagree. **[May 2018, 2 Marks]**
- Sol. False,** If the effect of errors committed cancel out, the errors will be called compensating errors and the trial balance will agree.
29. If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called an error of principle. **[May 2019, 2 Marks]**
- Sol. False,** Amount posted in the wrong account or on the wrong side of the account is an error of commission.
30. Purchase of office furniture & fixtures of ₹ 2,500 has been debited to General Expense Account. It is an error of omission. **[Nov. 2020, 2 Marks]**
- Sol. False,** It is an error of Principle.
31. If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account. **[June 2022, 2 Marks]**
- Sol. False,** If the errors are detected after preparing trial balance, then all the errors are not rectified through suspense account. Generally double sided errors are rectified without using suspense account.
32. If the errors are detected after preparing trial balance, then all the errors are rectified through suspense account. **[Dec. 2022, 2 Marks]**

**Sol. 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, which can be rectified without opening a suspense account

### MULTIPLE CHOICE QUESTIONS

1. The error of recording goods purchased from Pankaj for 5,000 in the sales book will.....  
the gross profits: (ICAI Study Material)

- (a) Increase. (b) Decrease.  
(c) Will have no effect on. (d) Result cannot be measured.

**Sol. (a) Increase.**

2. If a purchase return of ₹500 has been erroneously debited to the sales returns account, but has been accurately recorded in the suppliers' account, the following situation arises: (ICAI Study Material)

- (a) In the Trial balance, the Debit side will be 500 more than the credit side.  
(b) In the Trial balance, the credit side will be 500 more than the debit side.  
(c) In the Trial balance, the Debit side will be 1000 more than the credit side.  
(d) None of the above

**Sol. (c) In Trial balance, the Debit side will be 1000 more than the credit side.**

3. If the amount is mistakenly recorded in an incorrect account or written on the wrong side of the account, it is referred to as (ICAI Study Material)

- (a) Error of omission. (b) Error of commission.  
(c) Error of principle. (d) None of the above

**Sol. (a) Error of commission**

4. Goods valued ₹100 given as charity should be recorded as a credit to (ICAI Study Material)

- (a) Cash account. (b) Charity account.  
(c) Purchase account. (d) None of the above

**Sol. (c) Purchase Account**

5. Sales of office furniture should be credited to (ICAI Study Material)

- (a) Sales Account. (b) Furniture Account.  
(c) Depreciation account (d) Purchase Account.

**Sol. (b) Furniture Account.**

6. The purpose of preparing a trial balance is (ICAI Study Material)

- (a) To locate errors of commission. (b) To locate errors of principle.  
(c) To locate clerical errors. (d) None of the above

**Sol. (c) To locate clerical errors.**

7. Goods purchased from X for ₹ 25,000 passed through sales book. This error will

- (a) Increase gross profit
- (b) Decrease gross profit
- (c) No effect on profit
- (d) None of the above

**Sol. (a) Increase gross profit**

8. When an amount is recorded in an incorrect account or placed on the incorrect side of the account, it is referred to as:

- (a) Error of commission
- (b) Error of omission
- (c) Error is principle
- (d) Compensating Error

**Sol. (a) Error of commission**

9. The payment of ₹ 100 for erecting a machine should be recorded as a debit to

- (a) Wages A/c
- (b) Machinery A/c
- (c) Repair A/c
- (d) None of the above

**Sol. (b) Machinery A/c**

10. Goods given as free samples should be credited to:

- (a) Purchases A/c
- (b) Charity A/c
- (c) Profit and Loss A/c
- (d) None of the above

**Sol. (a) Purchases A/c**

11. Goods taken over by Owner of the business should be credited to:

- (a) Purchases A/c
- (b) Drawings A/c
- (c) Profit and Loss A/c
- (d) None of the above

**Sol. (a) Purchases A/c**

12. Sale of office computer should be credited to:

- (a) Sales A/c
- (b) Bank A/c
- (c) Office Computer A/c
- (d) None of the above

**Sol. (c) Office Computer A/c**

13. Trial Balance is prepared for:

- (a) Finding clerical errors
- (b) Finding compensating errors
- (c) Finding errors of principle
- (d) All of the above

**Sol. (a) Finding clerical errors**

14. ₹ 500 received from Tarun whose account, was written off as a bad-debt should be credited to:

- (a) Tarun A/c
- (b) Bad debts recovered Account
- (c) Cash A/c
- (d) None of the above

**Sol. (b) Bad debts recovered Account**



## THEORETICAL QUESTIONS

1. What is the distinction between errors of omission and errors of commission?

**Sol.**

- (i) **Errors of Omission:** Errors of omission occur when a transaction is completely or partially left out from the accounting records. This can happen when a credit purchase of furniture is not recorded or when an entry is not posted in the ledger.
- (ii) **Errors of Commission:** Errors of commission refer to situations where an amount is incorrectly posted in an account, written on the wrong side, or when there are mistakes in totals or balance calculations. These errors involve actions taken but done incorrectly, such as posting an amount in the wrong account or making errors in calculations.

2. What is “error of principle”, and how does it impact the Trial Balance?

**Sol. Errors of principle:** Errors of principle occur when a transaction is recorded in violation of accounting principles. For instance, if an asset purchase is mistakenly treated as an expense, it is considered an error of principle. Despite being recorded on the correct side, but in the wrong account, this type of error does not affect the trial balance. For example, if the purchase of a typewriter is erroneously debited to the office expenses account, the trial balance will still be in agreement.

The correction method discussed thus far is applicable when errors are identified before the end of the accounting period. After making the necessary corrections, the trial balance will be in balance. However, in some cases, errors are masked to make the trial balance artificially agree by using a suspense account. The difference in the trial balance is posted to the suspense account, debiting it if the credit column exceeds the debit column, or crediting it in the opposite case.

Every error detected requires a complete journal entry for correction. Errors that were not rectified earlier due to journal entry limitations are now addressed through one or more journal entries, with the suspense account accounting for the difference or unknown side. Errors that could have been corrected earlier will also be rectified using the same approach.

3. What are the various categories of errors and how do they impact the agreement of a trial balance?

**Sol. Types of Errors and their Impact on the Agreement of Trial Balance:**

### **Errors of Principle:**

These errors occur when there is a deviation from accounting principles. They are double-sided errors and do not affect the agreement of the trial balance. Examples include treating revenue expenses as capital expenditures or recording the sale of a fixed asset as a regular sale.

### **Clerical Errors:**

These errors result from mistakes in following accounting procedures. They may or may not affect the agreement of the trial balance. Clerical errors can be further classified as follows:

**(a) Errors of Omission:**

These errors involve completely omitting an entry from the subsidiary book. If an entry is fully omitted, the trial balance will agree. For example, failing to record a sale of ₹3,000 to A on 30.3.21.

**(b) Errors of Commission:**

These errors include writing the wrong amount in the subsidiary book or posting the wrong account in the ledger. The trial balance will still agree despite these errors. Examples include entering a purchase of ₹1,000 from A as ₹100 or debiting P's account by ₹4,000 instead of Q's account.

**(c) Compensating Errors:**

Compensating errors occur when two or more mistakes offset each other's effect on the trial balance, resulting in agreement. For instance, an excess debit of ₹4,000 to the Furniture account and an excess credit of ₹4,000 to the Sales account.

**Note:** Errors described in (b) (ii) to (vi) above will cause the trial balance to disagree.

4. What is a suspense a/c? write a short note.

**Sol.** When the trial balance doesn't balance, the difference is recorded in an account called Suspense account. The difference is:

debited (if the debit side of the trial balance is short) or credited (if the credit side of the trial balance is short) to the Suspense account.

Thus, by utilizing the Suspense account, the trial balance is artificially balanced.

For rectifying one-sided errors, the affected amount (either debit or credit) is adjusted in the account where the mistake occurred, while the opposite effect is recorded in the Suspense account.

Once all one-sided errors are rectified, the balance in the Suspense account becomes zero.

In the case of rectifying double-sided errors, the Suspense account remains unaffected.

5. How can we define an error of principle, and what impact does it have on the Trial Balance?

**Sol.** An error of principle occurs when a transaction is recorded in violation of established accounting principles, such as incorrectly categorizing the purchase of an asset as an expense. Despite the misclassification, the trial balance remains unaffected because the amounts are placed correctly, despite being in the wrong account.

For instance, if a computer purchase is erroneously debited to the office expenses account, the trial balance will still reconcile.



## PRACTICAL QUESTIONS

1. Mr. Rohit was unable to agree the Trial Balance last year and wrote off the difference to the Profit and Loss A/c of that year. Next year, he appointed a Chartered Accountant who examined the old books and found the following mistakes:
- Purchase of a scooter was debited to conveyance A/c ₹30,000. Mr. Ratan charges 10% depreciation on scooter.
  - Purchase A/c was over cast by ₹1,00,000.
  - A credit purchase of goods from Mr. X for ₹20,000 was entered as sale.
  - Receipt of cash from Mr. Anand was posted to the A/c of Mr. Bhaskar ₹10,000.
  - Receipt of cash from Mr. Chandu was posted to the debit of his A/c, ₹5000.
  - ₹5,000 due by Mr. Ramesh was omitted to be taken to the Trial Balance.
  - Sale of goods to Mr. Ram for 20,000 was omitted to be recorded.
- (Viii) Amount of 23,950 of purchase was wrongly posted as 25,930.
- Suggest the necessary rectification entries. [July 2021, 10 Marks]

Sol.

## Journal Entry in Books of Rohit

	Particulars	L/f	Dr.	Cr.
(i)	Motor Vehicles A/c To P & L Adjustment A/c (Purchase of scooter wrongly debited to conveyance A/c now rectified; capitalization of ₹2700, i.e., ₹30,000 less 10% depreciation)	Dr.	27,000	27,000
(ii)	Suspense A/c To P & L Adjustment A/c (Purchase A/c overcast in the previous year, error now rectified)	Dr.	1,00,000	1,00,000
(iii)	P & L Adjustment A/c To Mr. X A/c (Credit purchase from Mr. X ₹20,000 entered as sales last year, now rectified).	Dr.	40,000	40,000

	Particulars	L/f	Dr.	Cr.
(iv)	Mr. Bhaskar A/c To Mr. Anand A/c (Amount received from Mr. Anand wrongly posted to the A/c of Mr. Bhaskar; now rectified.)	Dr.	10,000	10,000
(v)	Suspense A/c To Mr. Chandu's A/c (₹5000 received from Mr. Chandu wrongly debited to his A/c; now rectified.)	Dr.	10,000	10,000
(vi)	Trade Receivable (Ramesh) A/c To Suspense A/c (₹5000 due by Mr. Ramesh not taken into trial balance; now rectified.)	Dr.	5,000	5,000
(vii)	Trade Receivable (Ram's) A/c To P & L Adjustment A/c (Sales to Mr. Ram omitted last year; now adjusted)	Dr.	20,000	20,000
(viii)	Suspense A/c To P & L Adjustment A/c (Excess posting to purchase A/c last year, ₹25,930 instead of ₹23,950, now adjusted.)	Dr.	1,980	1,980
IX	P & L Adjustment A/c To Rohit's Capital A/c (Balance of P & L Adjustment A/c transferred to Capital A/c)	Dr.	1,08,980	1,08,980
X	Rohit's Capital A/c To Suspense A/c (Balance of Suspense A/c transferred to Capital A/c)	Dr.	1,06,980	1,06,980

#### P & L Adjustment A/c

Particulars	Amt	Particulars	Amt
To Mr. X's A/c	40,000	By Motor Vehicles A/c	27,000
To Mr. Rohit's Capital A/c (transferred)	1,08,980	By Suspense A/c	1,00,000
		By Mr. Ram A/c	20,000
		By Suspense A/c	1,980
<b>Total</b>	<b>1,48,980</b>	<b>Total</b>	<b>1,48,980</b>



**Suspense A/c**

Particulars	Amt	Particulars	Amt
To P & L Adjustment A/c	1,00,000	By Trade Receivable A/c	5,000
To Mr. Chandu's A/c	10,000	By Rohit's Capital A/c (Transferred)	1,06,980
To P & L Adjustment A/c	1,980		
<b>Total</b>	<b>1,11,980</b>	<b>Total</b>	<b>1,11,980</b>

2. The following is the list of errors found in the book of Keshav & Sons. Give the rectifying entries.

- (1) ₹7000 paid for Machinery purchased has been charged to Purchases A/c.
- (2) Electricity expenses incurred were debited to Building A/c for ₹1700.
- (3) Drawings by partner of ₹2000 were debited to General Expenses A/c.
- (4) ₹5000 paid for showroom rent debited to Landlord's A/c.

Sol.

**Journal**

L.F.	Particulars	Dr. ₹	Cr. ₹
(1)	Machinery A/c <span style="float: right;">Dr.</span> To Purchases A/c (Rectifying the incorrect debit entry in the Purchases A/c for the purchase of machinery)	7000	7000
(2)	Electricity expenses A/c <span style="float: right;">Dr.</span> To Building A/c (Rectification of the erroneous debit entry in the Building A/c for electricity expenses incurred.)	1700	1700
(3)	Drawings A/c. <span style="float: right;">Dr.</span> To General Expenses A/c (Correction of wrong debit to Trade Expenses A/c for cash withdrawn by the proprietor for his personal use)	2000	2000
(4)	Showroom Rent A/c <span style="float: right;">Dr.</span> To Landlord's A/c (Rectifying the erroneous debit entry in the Landlord's A/c for the payment of rent.)	5000	5000

3. The trial balance of XYZ & Sons failed to agree and the difference 10285 was put into suspense pending investigation which disclosed that:

- (i) Purchase returns day book had been correctly entered and totalled at 3080, but had not been posted to the ledger.
- (ii) Discounts received 660 had been debited to discounts allowed.
- (iii) The Sales A/c had been under added by 5,000.
- (iv) A credit sale of ₹735 had been debited to a customer A/c at 870.
- (v) A furniture bought originally for 3500 four years ago and depreciated to 600 had been sold for 750 in the beginning of the year but no entries, other than in the bank A/c had been passed through the books.
- (vi) An accrual of 280 for telephone charges had been completely omitted.
- (vii) A bad debt of 780 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 11695 with a credit provision for bad debts at 1160.
- (viii) Tools bought for 600 had been wrongly debited to purchases.
- (ix) The proprietor had withdrawn, for personal use, goods worth 980. No entries had been made in the books.

You are required to give rectification entries without narration to correct the above errors before preparing annual A/cs

Sol.

S. No.	Particular		Dr. ₹	Cr. ₹
(i)	Suspense A/c To Purchase Returns A/c	Dr.	3080	3080
(ii)	Suspense A/c To Discount Allowed A/c To Discount Received A/c	Dr.	1320	610 610
(iii)	Suspense A/c To Sales A/c	Dr.	5,000	5,000
(iv)	Suspense A/c To Customer A/c	Dr.	135	135
(v)	Suspense A/c To Furniture A/c To Profit on Sale of furniture A/c	Dr.	750	600 150
(vi)	Telephone Charges A/c To Outstanding Expenses A/c	Dr.	280	280
(vii)	Bad Debts A/c To Trade Receivables A/c	Dr.	780	780

S. No.	Particular		Dr. ₹	Cr. ₹
(viii)	Provision for Doubtful Debts A/c To Profit and Loss A/c (Refer Working Note)	Dr.	82	82
(ix)	Loose Tools A/c To Purchases A/c	Dr.	600	600
(x)	Drawings A/c To Purchases A/c	Dr.	980	980

**Working Note:**

Net Amount of Trade Receivables after Bad Debts:

Trade Receivables as per Books = ₹11695

Less: Deduction as per entry iv) = ₹(135)

Less: Bad Debts = ₹(780)

Provision to be made on = ₹10780

Percent of provision required = 10%

Amount of Provision required = 10% ₹10780 = ₹1078

Provision already existing = ₹1160

Provision to be taken back = ₹1160 - ₹1078 = ₹82

4. In 2023 Riksha found accidentally that his books for 2022 contained some errors. The errors were:
- An invoice for ₹2,000 for goods purchased from Vasu was entered in Sales Returns Book.
  - Good bought on credit from Samlal for ₹3000 were entered in the Sales Book as ₹2550.
  - A Cash Discount of ₹100 allowed to Supta remained un-posted to his A/c.
  - It was also found that a sale of ₹912 to Kabir was entered in the Sales Book as ₹1,290 from where he was debited by ₹1,230.
  - A machine purchased on 1st January, 2020 for ₹20,000 (on which ₹4,000 depreciation had been written off for the two years 2020 and 2021) had been sold on 1st July, 2022 for ₹16000 but the sale was entered in the Sales Day Book.
  - ₹450 paid for freight on machinery purchased on Nov. 1, 2022 was debited to Freight A/c as ₹650. Give journal entries to rectify the errors. Your entries must not affect current year's profit or loss. Have you any comments to offer?

Sol.

Journal Entry in Books of Riksha

	Particulars	L/f	Dr.	Cr.
i.	P & L Adjustment A/c To P & L Adjustment A/c <i>Alternatively No entry need to be passed</i>	Dr.	2,000	2,000
ii.	P & L Adjustment A/c To Samlal A/c (Being purchase on credit from Samlal for ₹3000 entered in Sales Book as ₹2550, now rectified)	Dr.	5,550	5,550
iii.	Suspense A/c To Supta (Being Discount of ₹100 to Supta omitted to record in his A/c, now rectified)	Dr.	100	100
iv.	P&L Adj. A/c To Kabir A/c To Suspense A/c (Being sale of ₹912 entered as ₹1290 and debited to kabir by ₹1230, now rectified)	Dr.	378	318 60
v	P & L Adjustment A/c To Machinery A/c (Being sale of machine having book value of Rs. 15000 (after deducting 6m depn., of Rs. 1000) was sold for 16000 at profit of Rs. 1000 was recorded as normal sales, now rectified)	Dr.	15,000	15,000
vi.	Machinery A/c Suspense A/c To P & L Adjustment A/c (Being freight paid on machinery debited to Freight A/c as ₹650, now rectified)	Dr. Dr.	450 200	650
Note: Balance of P&L adjustment A/c after all rectification, Dr. is transferred to capital A/c.				
	Capital A/c To P & L Adjustment A/c		20,089	20,089



**P&L Adjustment A/c**

Particulars	Amt	Particulars	Amt
To Samlal A/c	5,550	By Machinery A/c	450
To Kabir A/c	159	By Suspense A/c	200
To Suspense A/c	30	By Capital A/c (Bal. Fig)	20089
To Machinery A/c	15000		
	<b>20739</b>		<b>20739</b>

**Suspense A/c**

Particulars	Amt	Particulars	Amt
To Supta A/c	100	By P&L Adj. A/c	30
To P&L Adj. A/c	200	By By Difference in TB ( Bal. Figure)	270
	<b>300</b>		<b>300</b>

**Comment:**

- Balance in suspense A/c indicates that in last year's Trial balance, Credit side was short by ₹270.

5. Mr. Sahil, an Accountant finds the difference in the Trial Balance amounting to ₹1,000 and puts it in the Suspense A/c. Later on he detects the following errors.

1. Purchased goods from Ankit ₹20,000 but entered into Sales Book.
2. Received one bill for ₹30,000 from Aku but recorded in Bills Payable Book.
3. An item of ₹8,500 relating to prepaid rent A/c was omitted to be brought forward.
4. An item of ₹7,000 in respect of purchase returns, had been wrongly entered in the purchase book, party A/c was correctly posted.
5. ₹30,000 paid to Jat against our accept our acceptance were debited to Jatish A/c.
6. Bills received from Sanvi for repairs done to Machine ₹7,500 and Machine supplied for ₹50,000 were entered in the Purchase Book as ₹51,000. Sanvi A/c was credited with ₹58,500.

Give rectifying journal entries with full narration and prepare Suspense A/c.

**Sol.**

**Journal Entry in Books of Mr. Sahil**

	Particulars		L/f	Dr.	Cr.
1.	Purchase A/c	Dr.		20000	
	Sales A/c	Dr.		20000	
	To Ankit A/c				40000
	(being Purchased from Ankit entered into Sales Book., now rectified)				

	Particulars		L/f	Dr.	Cr.
2.	B/R A/c B/P A/c To Arun A/c (being bill recd. from Aku but recorded in Bills Payable Book, now rectified)	Dr. Dr.		30000 30000	60000
3.	Prepaid rent A/c To Suspense A/c (being prepaid renr of omitted to be brought forward, now rectified)	Dr.		8500	8500
4.	Suspense A/c To Purchase Return To Purchase A/c (being purchase returns wrongly entered in the purchase book, party A/c was correctly posted ,now rectified)	Dr.		14000	7000 7000
5.	B.P. A/c To Jatin A/c (being ₹30,000 paid to Jat against our acceptance were debited to Jatish A/c,now rectified)	Dr.		30000	30000
6.	Repairs A/c Machine A/c Sanvi A/c To Purchase A/c To Suspense A/c (being repairs to Machine and New Machine purchase in the Purchase Book and credited to sanvi with ₹58,500,now rectified)	Dr. Dr. Dr.		7500 50000 1000	51000 7500

#### Suspense A/c

Particulars	Amt	Particulars	Amt
To Diff. in T.B. (Bal. figure)	1,000	By Prepaid rent A/c	8,500
To Purchases Return A/c	7,000	By Sundry A/c	6,500
To Purchase A/c	7,000		
	15,000		15,000

6. Rectify the following errors which were detected before preparing the Trial Balance:

- (i) Purchase book has been undercast by ₹5,000.
- (ii) Purchase from X ₹7500 has been omitted to be posted to his A/c.
- (iii) Purchase from Y ₹20,000 has been wrongly posted to his A/c as ₹30,000
- (iv) Purchase from Z ₹40,000 has been posted to the wrong side of his A/c.

Sol.

- (i) The error occurred during the totaling of the Purchase Book and not during the initial entry in the book. As the amounts recorded in the Purchase Book are accurate, the individual creditors' A/cs will also be correct. However, the mistake affects only the Purchase A/c, where a short posting of ₹5,000 has been made on the debit side. To rectify this, the following notation will be written on the debit side of the Purchase A/c:

“To undercasting of Purchase Book ..... ₹5,000.”

For example:

Purchase A/c

Date	Particulars	Amount	Date	Particulars	Amount
	To undercasting of Purchase Book	5,000			

- (ii) The error occurred during the posting process in the ledger. As the entry in the Purchase Book is accurate, the total of the Purchase Book and the posting to the Purchase A/c will be correct. However, the mistake affects only X's A/c, where ₹7,500 has not been posted to the credit side. To rectify this, the following notation will be written on the credit side of P's A/c:

“By omission in posting ..... ₹7500”

For example:

X's A/c

Date	Particulars	Amount	Date	Particulars	Amount
				By omission in posting	7500

- (iii) An error occurred during the ledger posting process. As the entry in the Purchase Book is accurate, the total of the Purchase Book and the posting to the Purchase A/c will also be correct. However, the mistake only impacts Y's A/c, where an excessive amount of ₹10,000 has been posted on the credit side. To rectify this, the following notation will be written on the debit side of Y's A/c:

“To excess amount on the credit side ..... ₹10,000”

For example:

Y's A/c

Date	Particulars	Amount	Date	Particulars	Amount
	To excess amount on the credit side	5,000			

- (iv) An error occurred during the ledger posting process. Both the Purchase Book and the Purchase A/c will be accurate. However, the mistake only affects Z's A/c, where ₹20,000 has been incorrectly debited instead of being credited. To rectify this, the correction will be made by doubling the amount of the entry. Therefore, ₹40,000 will be written on the credit side of Z's A/c :

“By Error in posting to the wrong side..... ₹80,000.”

For example:

Z's A/c

Date	Particulars	Amount	Date	Particulars	Amount
				By Error in posting to the wrong side	80,000

7. Lal Path Lab were unable to agree the Trial Balance as on 31st March, 2020 and have raised a Suspense A/c for the difference. Next year the following errors were discovered:
- Repairs made during, the year were wrongly debited to the building A/c - ₹12,500.
  - The addition of the 'Freight' column in the purchase journal was short by ₹1,500.
  - 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.
  - Sundry items of furniture sold for ₹30,000 had been entered in the sales book, the total of which had been posted to sales A/c.
  - 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 A/c.

You are required to pass journal entries to rectify the above mistakes.

[Nov. 2020, 5 Marks]

Sol.

Journal Entry in Books of Lal Path Lab

	Particulars	L/f	Dr.	Cr.
(i)	P & L Adjustment A/c To Building A/c (Being repairs debited to building A/c, now rectified)	Dr.	12,500	12,500
(ii)	P & L Adjustment A/c To Suspense A/c (Being under casting of 1,500 in freight column, rectified)	Dr.	1,500	1,500
(iii)	Suspense A/c To Rani & Co. A/c (Being Rani's A/c debited instead of crediting, now rectified)	Dr.	2,100	2,100
(iv)	P & L Adjustment A/c To Furniture A/c (Being sale of furniture credited to sales A/c, now rectified)	Dr.	30,000	30,000
(v)	Raj & Co. A/c To Bills receivables A/c (Being dishonour of bill wrongly debited to Bills receivable A/c, now rectified)	Dr.	20,000	20,000
	Capital A/c To P & L Adjustment A/c (Being Balance of P & L Adjustment A/c transferred to Capital A/c)	Dr.	44,000	44,000



**P & L Adjustment A/c**

Particulars	Amt	Particulars	Amt
To Building A/c	12,500	By Capital A/c (Bal. fig.)	44,000
To Suspense A/c	1,500	(Loss on adjustment)	
To Furniture A/c	30,000		
<b>Total</b>	<b>44,000</b>	<b>Total</b>	<b>44,000</b>

8. To rectify errors identified during the preparation of the Trial Balance, please provide the specific errors or details of the transactions, be passing the necessary journal entries:

- (i) Wages paid for construction of office building debited to wages A/c ₹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 debt in the previous year was unexpectedly recovered and has been posted to the personal A/c of Mahesh Chand.
- (iv) goods (Cost being ₹5,000 and Sales price being ₹6,000) distributed as free sample among prospective customers were not recorded anywhere.
- (v) Goods worth ₹1,500 returned by Green have not been recorded anywhere.

Sol.

**Journal Entry in Books of \_\_\_\_\_**

	Particulars	L/f	Dr.	Cr.
1	Building A/c <span style="float: right;">Dr.</span> To Wages A/c (Being wages paid for construction of building wrongly debited to wages A/c, now rectified)		20,000	20,000
2.	Ramesh A/c <span style="float: right;">Dr.</span> To Purchases A/c To Sales A/c (Being goods sold to Ramesh wrongly recorded in purchase book, now rectified)		2,400	1,200 1,200
3.	Mahesh Chand A/c <span style="float: right;">Dr.</span> To Bad Debts Recovered A/c (Being bad debts recovered from Mahesh Chand wrongly credited to his A/c, now rectified)		2,000	2,000

	Particulars	L/f	Dr.	Cr.
4.	Advertisement A/c To Purchases A/c (Being goods distributed as samples not recorded earlier, now recorded)	Dr.	5,000	5,000
5.	Return Inward A/c To Green's ac/ (Being goods returned by Green not recorded earlier, now recorded)	Dr.	1,500	1,500

9. The trial balance of a M/s Raju is out. The following errors were found subsequently, to have been committed. Pass journal entries to correct them, and ascertain the difference in the Trial Balance.

- An amount of ₹200 was received from Dinesh on 31st December, 2022, but had been entered in the Cash Book on 1st January, 2023.
- The Returns Inwards Books for November has been cast ₹200 short.
- The purchase of an office chair costing ₹600 had been passed through the Purchase Day Book.
- ₹3000 paid for wages to workers for making show cases. had been charged to wages A/c.
- A purchase of ₹971 had been posted to the 'debit of the creditor's A/c as ₹917. The creditor is Q. Quest & Co.
- A cheque for ₹400 received from P.C Jain has been dishonoured on maturity and was passed to the debit of Allowances A/c.
- Goods amounting to ₹200 had been returned by a customer and were taken into stock but no entry in respect thereof was made in the books.
- ₹4,000 paid for the purchase of a car for Miss Diya (a partner) had been charged to Miscellaneous Expenses A/c.
- A sale of ₹400 to Pawan & Co. was credited to their A/c.
- A sale of ₹2,000 had been passed through the Purchase Day Book. The customer's A/c has, however, been correctly debited.
- While carrying forward the total of the sales book from one page to the next, the amount was written as ₹49,415 instead of ₹47,142.

Sol.

#### Journal Entry in Books of M/s Raju

	Particulars	L/f	Dr.	Cr.
(a)	Bank A/c To Dinesh A/c (Being amount received from Dinesh on 31st December, 2022, entered in the Cash Book on 1st January, 2023, now rectified)	Dr. Dr.	200	200

	Particulars	L/f	Dr.	Cr.
(b)	Sales return To Suspense A/c (Being The Returns Inwards Books cast ₹200 short, now rectified)	Dr.	200	200
(c)	Furniture A/c To Purchase A/c (Being furniture purchase passed through the Purchase Book., now rectified)	Dr.	600	600
(d)	Furniture A/c To Wages A/c (Being wages for making show cases charged to wages A/c, now rectified)	Dr.	3000	3000
(e)	Suspense A/c To Q. Quest A/c (Being purchase of ₹971 debited to Q. Quest & Co debit 917, now rectified)	Dr.	1888	1888
(f)	P.C. Jain A/c To Allowance A/c (Being cheque dishonoured was debited of Allowances A/c, now rectified)	Dr.	400	400
(g)	Sales return To Customer A/c (Being Entry in respect goods returned omitted, now rectified)	Dr.	200	200
(h)	Drawing A/c To Misc. A/c (Being amount paid for purchase of car for Miss Diya (a partner) had been charged to Miscellaneous Expenses A/c, now rectified)	Dr.	4000	4000
(i)	Pawan & Co A/c To Suspense A/c (Being sale to Pawan & Co. credited. to their A/c, now rectified)	Dr.	800	800
(j)	Suspense A/c To Sales A/c To Purchase A/c (Being sale passed through the Purchase Day Book. The customer's A/c has, however, been correctly debited, now rectified)	Dr.	4000	2000 2000

	Particulars	L/f	Dr.	Cr.
(k)	Sales A/c To Suspense A/c (Being sales amount was wrongly carried forward, now rectified)	Dr.	2273	2273

**Suspense A/c**

Particulars	Amt	Particulars	Amt
To Q. Quest A/c	1,888	By Sales return A/c	200
To Sundry A/c	4,000	By Pawan & Co. A/c	800
		By Sales A/c	2,273
		By Difference. in T.B. (Bal. figure)	2,615
	<b>5,888</b>		<b>5,888</b>

10. The following mistakes were located in the books of a firm after its books were closed and a Suspense A/c was opened in order to get the Trial Balance agreed:

- (i) Sales Day Book was overcast by ₹1,000.
- (ii) A sale of ₹5,000 to X was wrongly debited to the A/c of Y.
- (iii) General expenses of ₹180 were posted in the General Ledger as ₹810.
- (iv) A Bill Receivable for ₹1,550 was passed through Bills Payable Book. The Bill was given by P.
- (v) Legal expenses ₹1,190 Paid to Mrs. Neetu was debited to her personal A/c.
- (vi) Cash received from Ram was debited to Shyam ₹1,500.
- (vii) 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 A/c and pass entries (including narration) for the rectification of the above errors in the subsequent year's books.

[Nov. 2018, 10 Marks]

Sol.

Journal Entries in the books of \_\_\_\_\_

	Particulars	L/f	Dr.	Cr.
(i)	P&L Adjustment A/c To Suspense A/c (Being sales day book over cast by ₹1,000, now rectified)	Dr.	1,000	1,000
(ii)	X's A/c To Y's A/c (Being sale of ₹5,000 to X wrongly debited to Y, now rectified)	Dr.	5,000	5,000



	Particulars	L/f	Dr.	Cr.
(iii)	Suspense A/c To P&L Adjustment A/c (Being amount of general expenses wrongly posted now rectified)	Dr.	630	630
(iv)	Bills Receivable A/c Bills Payable A/c To Suspense Ac (Being B/R wrongly recorded in B/P Book, now rectified)	Dr. Dr.	1,550 1,550	3,100
(v)	P&L Adjustment A/c To Neetu's A/c (Being Legal Exp. wrongly posted to Neetu's A/c, now rectified)	Dr.	1,190	1,190
(vi)	Suspense A/c To Ram's A/c To Shyam's A/c (Being amount of purchase book wrongly carried forward, now rectified)	Dr.	3,000	1,500 1,500
(vii)	Suspense A/c To P&L Adjustment A/c (Being amount of purchase book wrongly carried forward, now rectified)	Dr.	90	90
	Capital A/c To Profit and Loss Adjustment A/c (Being balance in P&L Adjustment to Capital A/c)	Dr.	1,470	1,470

#### Suspense A/c

Particulars	Amt	Particulars	Amt
To P&L Adjustment A/c	630	By Difference in Trial Balance	2,720
To Ram's A/c	1,500	(Balancing fig.)	
To Shyam's A/c	1,500	By P&L Adjustment A/c	1,000
To P&L Adjustment A/c	90		
	<b>3,720</b>		<b>3,720</b>

**P&L Adjustment A/c**

Particulars	Amt	Particulars	Amt
To Suspense A/c	1,000	By Suspense A/c	630
To Neet's A/c	1,190	By Suspense A/c	90
		By Capital A/c (Bal. Trf)	1,470
	2,190		2,190

11. Miss Riya, Accountant while preparing his trial balance finds that the debit exceeds by ₹14,500 Being required to prepare the final A/c for the year 2023, he places the difference to a Suspense A/c In the next year i.e. 2024 the following mistakes were discovered:

- (a) A sale of ₹8,000 has been passed through the Purchase Day-book. The entry in customer's A/c has been correctly recorded.
- (b) Goods worth ₹5000 taken away by the proprietor for his use has been debited to Repairs A/c.
- (c) A Bill receivable for ₹2600 received from Krish has been dishonoured on maturity but no entry passed.
- (d) Salary ₹1300 paid to a clerk has been debited to his Personal A/c.
- (e) A Purchase of ₹1500 from Raghu has been debited to his A/c. Purchases A/c has been correctly debited.
- (f) A sum of ₹4500 written off as depreciation on furniture has not been . debited to Depreciation A/c.

Draft the Journal entries for rectifying the above mistakes and prepare Suspense A/c.

Sol.

**Journal Entry in Books of Miss Riya**

	Particulars		L/f	Dr.	Cr.
(a)	Suspense A/c <span style="float: right;">Dr.</span> To P & L Adjustment A/c (Being sale passed through the Purchase Day-book. The entry in customer's A/c has been correctly recorded., now rectified)			16000	16000
(b)	Drawings A/c <span style="float: right;">Dr.</span> To P & L Adjustment A/c (Being Goods taken by proprietor for his personal use debited to Repairs A/c, now rectified)			5000	5000
(c)	Krish A/c <span style="float: right;">Dr.</span> To B/R A/c (Being Bill receivable Krish has been dishonoured on maturity but no entry passed, now rectified)			2600	2600

	Particulars	L/f	Dr.	Cr.
(d)	P & L Adjustment A/c To Clerk A/c (Being Salary paid to a clerk debited to Personal A/c., now rectified)	Dr.	1300	1300
(e)	Suspense A/c To Raghu A/c (Being Purchase from Raghu has debited to his A/c. However, Purchases A/c has been correctly debited, now rectified)	Dr.	3000	3000
(f)	P & L Adjustment A/c To Suspense A/c (Being sum of ₹4500 written off as depreciation on furniture has not been debited to Depreciation A/c, now rectified)	Dr.	4500	4500
	Balance P & L Adjustment A/c indicating that last years profit was shown less, transferred to capital A/c. P & L Adjustment A/c To Capital A/c	Dr.	15200	15200

**Suspense A/c**

Particulars	Amt	Particulars	Amt
To P&L A/c	16000	By Difference in TB ( Bal. Figure)	14500
To Raghu A/c	3000	By P&L Adj. A/c	4500
	<b>19000</b>		<b>9500</b>

**P&L Adjustment A/c**

Particulars	Amt	Particulars	Amt
To Clerk A/c	1300	By suspense A/c	16000
To Suspense A/c	4500	By Drawings A/c	5000
To Capital A/c (cr. transferred)	15200		
	<b>21000</b>		<b>21000</b>

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

- (i) The purchase of furniture on credit from Nigam for ₹3,000 was erroneously posted to Shubham's A/c as ₹300.
- (ii) The sales return of ₹5,000 to Jyothy, despite being accurately recorded in the stock book, was inadvertently omitted from the financial A/cs.
- (iii) The sale of investments, amounting to ₹75,000 with a profit of ₹15,000, was incorrectly recorded in the Sales A/c.

- (iv) An amount of ₹10,000 withdrawn by the proprietor (Darshan) for his personal use has been debited to Trade Expenses A/c. [May 2018, 4 Marks]

Sol.

Journal Entry in Books of \_\_\_\_\_

	Particulars	L/f	Dr.	Cr.
(i)	Shubham A/c Furniture A/c To Nigam A/c (Being purchase of furniture on credit from Nigam for ₹3,000 was erroneously posted to Subham's A/c as ₹300, now rectified)	Dr. Dr.	300 2,700	3,000
(ii)	Sales Returns A/c To Jyothy A/c (Being sales return to Jyothy, omitted, now rectified)	Dr.	5,000	5,000
(iii)	Sales A/c To P&L A/c (Gain on sale of investment) To Investment A/c (Being sale of investments, recorded in the Sales A/c, now rectified)	Dr.	75,000	15,000 60,000
(iv)	Drawings A/c To Trade Expenses A/c (Being ₹10,000 withdrawn by the proprietor debited to Trade Expenses A/c., now rectified)	Dr.	10,000	10,000

13. Tapesh drew a Trial Balance of his operations for the year ended 31.03.2023 . There was a difference in the Trial Balance which he closed with a Suspense A/c. On a scrutiny by CA Rishabh, auditor , the following errors were found:

- (1) Purchases day book for the month of April, was undercast by ₹2000
- (2) Sales day book of December, was overcast by ₹20,000
- (3) A table purchased for ₹9,100 was entered in the Furniture A/c as ₹910.
- (4) A bill for ₹20,000 drawn by Tapesh was not entered in the Bills Receivable Book.
- (5) A machine purchased for ₹20,000 was entered in the purchased day book.

Pass necessary Journal Entries to rectify the same and ascertain the difference in the Trial Balance that was shown under the Suspense A/c in respect of the above items.



Sol.

Journal Entry in Books of Tapesesh

	Particulars	L/F	Dr.	Cr.
1	Purchase A/c To Suspense A/c (Being Purchases day book undercast, now rectified)	Dr.	2,000	2,000
2	Sales A/c To Suspense A/c (Being Sales day book overcast by ₹20,000, now rectified)	Dr.	20,000	20,000
3	Furniture A/c To Suspense A/c (Being table purchased for ₹9,100 entered as ₹910, now rectified)	Dr.	8,190	8,190
4	B/R A/c To Party A/c (Being, bill drawn not entered in the Bills Receiveable Book, now rectified)	Dr.	20,000	20,000
5	Machine A/c To Purchase A/c (Being, machine purchased was entered in the purchased book, now rectified)	Dr.	20,000	20,000

Suspense A/c

Particulars	Amt	Particulars	Amt
To Difference in Trial balance (Bal. Figure)	30,190	By Sales A/c	20,000
		By Purchase A/c	2000
		By Furniture A/c	8190
	30,190		30,190

14. Give journal entries (with narrations) to rectify the following errors located in the books of M/s DRC after preparing the Trial Balance:

- (i) An amount of ₹4,500 received on A/c of Interest was credited to Commission A/c.
- (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 A/c.

[May 2019, 4 marks]

Sol.

Journal Entry in Books of M/s DRC

	Particulars	L/f	Dr.	Cr.
1.	Commission A/c To Interest A/c (Being amount received on A/c of interest credited to commission A/c, now rectified)	Dr.	4,500	4,500
2.	M/s. Sobhag Traders A/c To Suspense A/c (Being sales understated in M/s Sobhag Traders' A/c, now rectified)	Dr.	90	90
3.	Drawings A/c To Machinery A/c (Being amount of drawings debited to Machinery A/c, now rectified)	Dr.	35,000	35,000
4.	Sales Return A/c To Customer A/c (Being entry for goods returned by customer not passed in the books of A/c, now recorded)	Dr.	5,000	5,000

15. Last year, Mr. Vivek encountered difficulties in reconciling the Trial Balance and decided to write off the discrepancy in the Profit and Loss A/c for that particular year. In the following year, he sought the assistance of a Chartered Accountant to review the previous books, and the Accountant identified the following errors:

- (1) Purchase of a motorcycle was debited to transport expenses A/c 5,000.
- (2) The total of the Purchase A/c was mistakenly overstated by 9,000.
- (3) There was an error in recording a credit purchase of goods from Mr. A for ₹3,000, which was mistakenly entered as a sale.
- (4) The cash of ₹2000 received from Mr. X was mistakenly posted to the A/c of Mr. Y.
- (5) Receipt of cash from Mr. Q was posted to the debit of his A/c ₹700.
- (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.

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

Sol.

Journal Entries in the books of Mr. Vivek

Date	Particulars		Dr. ₹	Cr. ₹
(1)	Motor Vehicles A/c To Profit and Loss Adjustment A/c (The erroneous debit entry made to the Transportation expense A/c for the purchase of a motorcycle has now been corrected). -capitalisation of 4500, i.e., ₹5,000 - 10% depreciation)	Dr.	4,500	4,500
(2)	Suspense A/c To P & L Adjustment A/c (In the previous year, there was an overcast error in the Purchase A/c, which has now been rectified.).	Dr.	9,000	9,000
(3)	P & L Adjustment A/c To A's A/c (error in recording a credit purchase of 3,000 from A, which was incorrectly entered as sales. This error has now been rectified.)	Dr.	6,000	6,000
(4)	Y's A/c To X's A/c (The amount received from X was incorrectly posted to Y's A/c. We have now rectified this error)	Dr.	2,000	2,000
(5)	Suspense A/c To Q's A/c (The amount of ₹700 received from Q was incorrectly debited to his A/c. We have now rectified this error)	Dr.	700	700
(6)	Trade receivables To Suspense A/c (₹500 due by Q not taken into trial balance; now rectified)	Dr.	500	500
(7)	R's A/c To P & L Adjustment A/c (Sales to R omitted last year; now adjusted)	Dr.	2,000	2,000
(8)	Suspense A/c To P & L Adjustment A/c (Excess posting to purchase A/c last year, ₹2,593, instead of ₹2,395, now adjusted)	Dr.	198	198

Date	Particulars		Dr. ₹	Cr. ₹
(9)	P & L Adjustment A/c To Roy's Capital A/c (Balance of P & L Adjustment A/c transferred to Capital A/c)	Dr.	10,898	10,898
(10)	Roy's Capital A/c To Suspense A/c (Balance of Suspense A/c transferred to the Capital A/c)	Dr.	10,698	10,698

Note : Entries No. (2) and (8) may even be omitted; but this is not advocated.

**Profit and Loss Adjustment A/c**  
(Prior Period Items)

	₹		₹
To A	6,000	By Motor Vehicles A/c	4500
To Vivek's Capital (transfer)	7500	By Suspense A/c	9,000
	<b>13500</b>		<b>13500</b>

**Suspense A/c**

	₹		₹
To P & L Adjustment A/c	9000	By Vivek's Capital A/c (Transfer)	9700
To Q	700		
	<b>9700</b>		<b>9700</b>

16. Rectify the following discrepancies discovered in Mr. Subhash's records. The Trial Balance exhibited an excess credit of 345. Consequently, the difference has been recorded in a Suspense A/c.

- A sum of ₹500 received from Naman, was inadvertently omitted from being recorded in the Cash Book.
- The total of the Returns Inward Book for the month of May is 50 less than it should be due to an undercasting error.
- A furniture purchase amounting to ₹250 has been recorded in the Purchases Day Book.
- The purchase of 75 was erroneously recorded as 70 in the trade payables' A/c.
- The cheque received from K Sharma amounting to ₹100 was dishonoured and erroneously debited to the "Allowances A/c".
- The amount of 800 paid for the purchase of a motor cycle for Mr. Subhash was wrongly recorded under the "Miscellaneous Expenses A/c".



- (g) Goods with a value of 200 were returned by a customer and included in the inventory, but no entry was made in the books to A/c for this transaction.
- (h) Rectifying the error where a sale of 150 to Vishal & Co. was erroneously credited to their A/c instead of being correctly recorded in the sales book.

Sol. (a)

Journal Entries

	Particulars	L.F.	₹	₹
(a)	Cash A/c To Naman (entry passed for amount received)	Dr.	500	500
(b)	Returns Inward A/c To Suspense A/c (Correcting the error in totalling the Returns Inward Book.)	Dr.	50	50
(c)	Furniture A/c To Purchases A/c (Rectifying the mistake of recording the purchase of furniture in the Purchases Book and incorrectly debiting it to the Purchases A/c.)	Dr.	250	250
(d)	Suspense A/c To Creditors A/c (The Trade Payables A/c was mistakenly credited 5 less, which has now been rectified.)	Dr.	5	5
(e)	K Sharma To Allowances A/c (The cheque issued by K Sharma which was dishonoured, was incorrectly debited to the Allowances A/c, now rectified)	Dr.	100	100
(f)	Drawings A/c To Miscellaneous Expenses (Rectifying entry for charging motorcycle amount to drawings instead of miscellaneous expenses)	Dr.	800	800
(g)	Returns Inward A/c To Debtors (Personal) A/c (rectifying entry for recording return inwards)	Dr.	200	200

	Particulars	L.F.	₹	₹
(h)	Vishal & Co. To Suspense A/c <i>(Rectifying the error where the A/c of Vishal &amp; Co. was mistakenly credited by 150 instead of being debited, the correction is made to debit the A/c of Vishal &amp; Co. by 150.)</i>	Dr.	300	300

**Suspense A/c**

Dr.

Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
**	To Difference in Trial Balance		**	By Returns	
	To Trade Payables A/c	345		Inwards A/c By Singh & Co.	50
“ “		5	“ “		300
		350			350

17. Miss Rekha was unable to agree the Trial Balance last year and wrote off the difference to the profit and loss A/c of that year. On verifying the old books by a Chartered Accountant next year, the following mistakes were found: [May 2018, 10 Marks]

- (i) Purchase A/c was undercast by ₹8,000.
- (ii) Sale of goods to Mr. Rahim for ₹2,500 was omitted to be recorded.
- (iii) Receipt of cash from Mr. Asok was posted to the A/c of Mr. Anbul ₹1,200.
- (iv) Amount of ₹4,167 of sales was wrongly posted as ₹4,617.
- (v) Repairs to Machinery was debited to Machinery A/c ₹1,800.
- (vi) A credit purchase of goods from Mr. Paul for ₹3,000 entered as sale.

Sol.

**Journal Entries in the books of Miss Daisy**

	Particulars	L/f	Dr.	Cr.
(i)	P & L Adjustment A/c To Suspense* A/c <i>(Purchase A/c under cast in the previous year; error now rectified)</i>	Dr.	8,000	8,000
(ii)	Rahim's A/c To P & L Adjustment A/c <i>(Sales to Rahim omitted last year; now adjusted)</i>	Dr.	2,500	2,500

	Particulars	L/f	Dr.	Cr.
(iii)	Anbul's A/c To Ashok A/c (Amount received from Ashok wrongly posted Anbul; now rectified)	Dr.	1,200	1,200
(iv)	P & L Adjustment A/c To Suspense A/c (Excess posting to sales A/c, now rectified)	Dr.	450	450
(v)	P & L Adjustment A/c To Machinery A/c (Repairs to machinery wrongly debited repairs A/c, now rectified)	Dr.	1,800	1,800
(vi)	P & L Adjustment A/c To Mr. Paul A/c (Credit purchase of goods from Mr. Paul entered as sale last year, now rectified)	Dr.	6,000	6,000
	Daisy's Capital A/c To Profit and Loss Adjustment A/c (Being balance in P&L Adjustment to Capital A/c)	Dr.	13,750	13,750
	Suspense A/c To Daisy's Capital A/c (Being balance of Suspense A./c transferred to Capital A/c)	Dr.	8,450	8,450

**Profit and Loss Adjustment A/c**

Particulars	Amt	Particulars	Amt
To Suspense A/c	8,000	By Rahim's A/c	2,500
To Suspense A/c	450	By Daisy's Capital A/c	13,750
To Machinery A/c	1,800	(Bal. Transfer)	
To Mr. Paul's	6,000		
	<b>16,250</b>		<b>16,250</b>

**Suspense A/c**

Particulars	Amt	Particulars	Amt
To Daisy's Capital A/c (Bal. trf)	8,450	By P&L Adj. A/c	8,000
		By P&L Adj. A/c	450
	<b>8,450</b>		<b>8,450</b>

18. The following mistakes were located in the books of M/s Aarti after its books were closed and a Suspense A/c was credited ₹200 in order to get the Trial Balance agreed.
- Sales Day Book was over cast by ₹200.
  - A sales of ₹100 to Q was wrongly debited to the A/c of R
  - General Expenses of ₹18 was posted in the General Ledger at ₹80.
  - A bill receivable for ₹255 was passed through Bills payable Day Book - This bill was given by Riya.
  - Legal expenses ₹219 paid to Mr. Ravi was debited to his personal A/c
  - Cash received from Chanda. was debited to F. Chanda ₹300.
  - While carrying forward the total of one page of the Purchases Book to the next the amount of ₹1355 was written as ₹1535.

Find out the nature and amount of the Suspense A/c and pass entries for the rectification of the above errors in the subsequent year's books.

Sol.

Journal Entry in Books of M/s Aarti

	Particulars	L/f	Dr.	Cr.
a.	P & L Adjustment A/c To Suspense A/c (Being Sales Day Book over cast , now rectified)	Dr.	200	200
b.	Q A/c To R A/c (Being sales to Q wrongly debited to R, now rectified)	Dr.	100	100
c.	Suspense A/c To P & L Adjustment A/c (Being General Expenses of ₹18 posted in the General Ledger at ₹80, now rectified)	Dr.	62	62
d.	B.R. A/c B.P. A/c To Riya A/c (Being bill receivable for ₹255 was passed through Bills payable Book, now rectified)	Dr. Dr.	255 255	510
e.	P & L Adjustment A/c To Mr. Ravi A/c (Being Legal expenses paid to Ravi was debited to his personal A/c , now rectified)	Dr.	219	219
f.	Suspense A/c To F. Chanda To Chanda (Being Cash received from Chanda. debited to F. Chanda, now rectified)	Dr.	600	300 300

	Particulars	L/f	Dr.	Cr.
g.	Suspense A/c To P & L Adjustment A/c (Being Purchases Book Total wrongly carried forward, now rectified)	Dr.	180	180
	Note: Balance of P&L adjustment A/c, after all rectification is transferred to capital A/c. Capital A/c To P & L Adjustment A/c		177	177

#### Suspense A/c

Particulars	Amt	Particulars	Amt
To Sundries	600	By Bal. b/d	352
To P&L Adj A/c	62	By P&L Adj. A/c	200
To P&L Adj A/c	180	By Difference in TB ( Bal. Figure)	290
	842		842

#### P&L Adjustment A/c

Particulars	Amt	Particulars	Amt
To Suspense A/c	200	By Suspense A/c	62
To Mr. Ravi A/c	219	By Suspense A/c	180
		By Capital A/c (Bal. transferred)	177
	419		419

**Note:** Debit balance ₹177 indicates that last year's profit was shown excess.

19. A merchant's trial balance as on June 30, 2021 did not agree. The difference was put to a Suspense A/c. During the next trading period, the following errors were discovered:
- The total of the Purchases Book of one page, 5427 was carried forward to the next page as ₹5472.
  - A sale of ₹683 was entered in the Sales Book as ₹863 and posted to the credit of the customer.
  - A return to a creditor, ₹255 was entered in the Returns Inward Book; however, the creditor's A/c was correctly posted.
  - Cash received from Kamal, ₹3100 was posted to the debit of Gaurav.
  - Goods worth ₹420 were dispatched to a customer before the close of the year but no invoice was made out.
  - Goods worth ₹500 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.



Sol.

Journal Entries

S. No.	Particular		Dr. ₹	Cr. ₹
(i)	Suspense A/c To Profit and Loss Adjustment A/c (Being Purchases A/c over debited last year by ₹45, now rectified)	Dr.	45	45
(ii)	Profit & Loss Adjustment A/c Customer's A/c To Suspense A/c (Being Correction of the entry - Sales A/c was over credited by ₹180 and Customer was credited by ₹863 instead of being debited by ₹683)	Dr. Dr.	180 683	863
(iii)	Suspense A/c To P & L Adjustment A/c (Being Returns Inward A/c was debited by ₹255 instead of Returns Outwards A/c being credited by ₹255, now rectified)	Dr.	510	510
(iv)	Suspense A/c To Kamal A/c To Gaurav A/c (Being cash received from Kamal, ₹620 was posted to the debit of Gaurav, now rectified)	Dr.	620	310 310
(v)	Customer's A/c To P & L Adjustment A/c (Being goods worth ₹420 were dispatched to a customer before the close of the year but no invoice was made out, now rectified)	Dr.	420	420
(vi)	P & L Adjustment A/c Inventory A/c To Customer's A/c	Dr. Dr.	100 400	500
(vii)	P & L Adjustment A/c To Capital A/c (Being transfer of P & L Adjustment A/c balance to the Capital A/c)	Dr.	695	695

**P & L Adjustment A/c**

Particulars	Amount	Particulars	Amount
To Suspense A/c	180	By Suspense A/c	45
To Customer's A/c	100	By Suspense A/c	510
To Capital A/c	695	By Customer's A/c	420
(Balancing Figure)			
-	975		975

20. Ramesh drew a Trial Balance for the year ended 31.03.2021. There was a difference in the Trial Balance which he reflects in a Suspense A/c. On a scrutiny by the Firm's Auditors, the following errors were found:

1. Purchases day book for the month of April, was undercast by ₹500.
2. Sales day book of October, was overcast by ₹5000.
3. A Computer purchased for ₹4050 was entered in the Computer A/c as ₹405.
4. A bill for ₹5,000 drawn by Ramesh was not entered in the Bills Receivable Book.
5. A machinery purchased for ₹5,000 was entered in the Purchase book.

Pass necessary Journal Entries to rectify the same and ascertain the difference in the Trial Balance that was shown under the Suspense A/c in respect of the above items.

Sol.

Date	Particulars	L.F	Debit	Credit
1.	Purchase A/c <span style="float: right;">Dr.</span> To Suspense A/c		500	500
2.	Sales A/c <span style="float: right;">Dr.</span> To Suspense A/c		5000	5000
3.	Computer A/c <span style="float: right;">Dr.</span> To Suspense A/c		3645	3645
4.	B/R A/c <span style="float: right;">Dr.</span> To Party A/c		5,000	5,000
5.	Machinery A/c <span style="float: right;">Dr.</span> To Purchase A/c		5,000	5,000

**Suspense A/c**

To Difference in Trial Balance	9145	By Purchase A/c	500
(Balancing figure)-	9145	By Sales A/c	5000
		By Furniture A/c	3645
			9145

21. The books of A/c of Lazy & Co. for the year ending 31st March, 2023 were closed with a difference in books carried forward. The following errors were detected subsequently:
- Goods ₹251 returned to Rita Bros. were recorded in the Returns Inward Book as ₹351 and from there it was posted to the debit of Rita Bros A/c.
  - A credit sale of ₹860 was wrongly posted as ₹680 to the customer A/c in the Sales ledger.
  - Closing Stock was overstated by ₹10,000 being casting error in the schedule of inventory.
  - paid acceptance to Ram for ₹8,600 was posted to the debit of Sita as ₹6,800.
  - Goods purchased from D & Co/ ₹4,250 entered in the Sales Day Book for ₹4,520.
  - ₹3000 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.

Sol.

**Journal Entry in Books of Lazy & Co.**

	Particulars	L/f	Dr.	Cr.
(a)	Suspense A/c (602+100) To P&L Adjustment A/c (251 + 351) To Rita Brothers A/c (351 - 251) (Being error of commission, now rectified)	Dr.	702	602 100
(b)	Customer A/c To Suspense A/c (Being short debit to customer A/c, now rectified)	Dr.	180	180
(c)	P&L Adjustment A/c To Opening stock A/c (Being closing stock of last year overcast, now rectified)	Dr.	10000	10000
(d)	Bills payable A/c To Sita A/c To Suspense A/c (Being debit to Sita instead of bills payable A/c now rectified)	Dr.	8600	6800 1600
(e)	P&L Adjustment A/c (4250 + 4520) To D & Co. A/c (Being goods purchase entered in sales day book, now rectified)	Dr.	8770	8770
(f)	Suspense A/c To P&L Adjustment A/c (Being omission of posting to Discount received A/c, rectified)	Dr.	3000	3000
	Capital A/c To P&L Adjustment A/c	Dr.	15168	15168

**Suspense A/c**

Particulars	Amt	Particulars	Amt
To P&L Adj. A/c	602	By Customer A/c	180
To Rita Brothers A/c	100	By Bill Payable A/c	1600
To P&L Adj. A/c	3000	By Difference in Trial Bal.(Bal. Fig)	1922
	<b>3702</b>		<b>3702</b>

**P&L Adjustment A/c**

Particulars	Amt	Particulars	Amt
To Opening stock A/c	10000	By Suspense A/c	602
To D & Co. A/c	8770	By Suspense A/c	3000
		By Capital A/c (Bal. Fig)	15168
	<b>18770</b>		<b>18770</b>

**22** Gaurav trial balance as on 31st March, 2020 did not agree. The difference was put to a Suspense A/c. During the next trading period, the following errors were discovered:

- (i) The total of the Purchases Book of one page, ₹5,615 was carried forward to the next page as ₹6,551.
- (ii) A sale of ₹281 was entered in the Sales Book as ₹821 - and posted to the credit of the customer.
- (iii) A return to creditor, ₹295 was entered in the Returns Inward Book; however, the creditor's A/c was correctly posted.
- (iv) Cash received from Senu, ₹895 was posted to debit of Sethu.
- (v) Goods worth ₹1,400 were dispatched to a customer before the close of the year but no invoice was made out.
- (vi) Goods worth ₹1600 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.
- (vii) ₹600 due from Mr. Q was omitted to be taken to the trial balance.
- (viii) 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. [Jan. 2021, 10 Marks]

**Sol.**

**Journal Entry in Books of Gaurav**

	Particulars		L/f	Dr.	Cr.
(i)	Suspense A/c <span style="float: right;">Dr.</span>			936	
	To P & L Adjustment A/c				936
	(Being the total of the Purchases Book of one page, ₹6,551, now rectified)				

	Particulars	L/f	Dr.	Cr.
(ii)	Trade receivables A/c P & L Adjustment A/c To Suspense A/c (Being a sale of ₹281 entered in the Sales Book as ₹821 and posted to the credit of the customer, now rectified)	Dr. Dr.	1102 540	1642
(iii)	Suspense A/c To P & L Adjustment A/c (Being a return to creditor, ₹295 entered in the Returns Inward Book, now rectified)	Dr.	590	590
(iv)	Suspense A/c To Senu A/c To Sethu A/c (Being cash received from Senu, ₹895 posted to debit of Sethu, now rectified)	Dr.	1,790	895 895
(v)	Trade receivables A/c To P & L Adjustment A/c (Being Goods worth ₹1,400 were dispatched to a customer before the close of the year but no invoice was made out, now rectified)	Dr.	1,400	1,400
(vi)	P & L Adjustment A/c (1600 × 20%) Closing Stock A/c (1600 × 80%) To Trade receivable A/c (Being goods worth ₹1,600 were sent on sale or return basis to a customer and no intimation has been received from him, at the close of year, now adjusted in books)	Dr. Dr.	320 1,280	1,600
(vii)	Trade receivable (Q) A/c To Suspense A/c (Being ₹600 due from Q omitted to be taken to the trial balance, now rectified)	Dr.	600	600
(viii)	Trade receivable (R) A/c To P & L Adjustment A/c (Being sale of goods to Mr. R for ₹3,000 omitted to be recorded, now rectified)	Dr.	3,000	3,000
(ix)	P & L Adjustment A/c To Capital A/c (Being Profit on adjustment transferred to Capital A/c)	Dr.	5,066	5,066



**P & L Adjustment A/c**

Particulars	Amt	Particulars	Amt
To Suspense A/c	540	By Suspense A/c	936
To Trade receivable A/c	320	By Suspense A/c	590
To Capital A/c (Bal. fig.)	5,066	By Trade receivables A/c	1,400
		By Trade receivables	3,000
<b>Total</b>	<b>16,250</b>	<b>Total</b>	<b>5,926</b>

**23.** Pass necessary journal entries to rectify the following errors:

- (i) The withdrawal of ₹400 by the proprietor for personal use has been mistakenly debited to the trade expenses A/c.
- (ii) A purchase of goods from Mohan amounting to ₹600 has been wrongly entered through the sales-book.
- (iii) A credit sale of ₹200 to Raman has been wrongly passed through the purchases-book.
- (iv) ₹300 received from Joshi have been credited to Jain.
- (v) ₹600 paid on A/c of salary to the cashier Rohit stands debited to his personal A/c.
- (vi) A contractor's bill for extension of premises amounting to ₹5000 has been debited to building repairs A/c.
- (vii) On 30th June, goods of the value of ₹1000 were returned by Rohan and were taken into stock but the returns were entered in the books under date 1st July, i.e., after the expiration of the financial year on 30th June.
- (viii) The entry of a ₹400 bill for the sale of old office chair to Divya was incorrectly recorded in the sales daybook.
- (ix) The periodical total of the sales-book was cast short by ₹200.

**Sol.**

Journal Entry in Books of \_\_\_\_\_

	Particulars		L/f	Dr.	Cr.
(i)	Drawing A/c <span style="float: right;">Dr.</span> To Trade expense A/c (Being rectification of drawing wrongly debited to trade expense A/c)			400	400
(ii)	Sale A/c <span style="float: right;">Dr.</span> Purchase A/c <span style="float: right;">Dr.</span> To Mohan A/c (Being Purchase entered in sales book, consequently sales is credited & Mohan A/c debit instead of debiting purchase & crediting Mohan, now rectified)			600 600	1200

	Particulars	L/f	Dr.	Cr.
(iii)	Raman A/c To Purchase A/c To Sales A/c (Being sale wrongly entered in purchase book now rectified)	Dr.	400	200 200
(iv)	Jain A/c To Joshi A/c (Being wrongl credit given to jain instead of Joshi, now rectified)	Dr.	300	300
(v)	Salary A/c To Rohit A/c (Being salary wrongly debit to Rohit's personal A/c instead Now rectified)	Dr.	600	600
(vi)	Building A/c To Repairs A/c (Being Capital expenditure wrongly debited to revenue exp. Now rectified)	Dr.	5000	5000
(vii)	Sales Return A/c To Rohan A/c (Being sales return was not recorded in current year now entered, Entry already passed in the next year's books will have to be reversed).	Dr.	1000	1000
(viii)	Sales A/c To Furniture A/c (Being sale of asset wrongly entered in sales book now rectified)	Dr.	400	400
(ix)	Suspense A/c To Sales A/c (Being wrong credit to commission instead of Interest A/c now rectified)	Dr.	180	180

24. Kavita closes his books on 31st December. In 2023, his books showed a difference which he transferred of his Capital A/c and prepared the Profit and Loss A/c and Balance Sheet after doing so he found that the under mentioned errors had been committed in 2023.

- (i) A machine, book value ₹16400 was sold on credit to Tara for ₹15000. The amount was posted to the credit of Tari.
- (ii) A cheque for ₹4200 was received from Jaso and was correctly dealt with. It was, however, returned dishonoured and was then posted to the debit of Trade Expenses A/c.

- (iii) The closing stock sheets for 2023 were found to be totalled ₹20,000 in excess.
- (iv) The income tax paid on behalf of the proprietor, ₹3270 was debited to Income Tax A/c as ₹2370.
- (v) A metal cupboard was purchased for ₹2500, it was debited to General Expenses A/c as ₹5200. Give journal entries to carry out the corrections required. How much was the difference in the books on December 31, 2023?

Sol.

Journal Entry in Books of Kavita

	Particulars	L/f	Dr.	Cr.
(i)	Tara A/c Tari A/c To Suspense A/c (Being machine sold on credit to Tara posted to the credit of Tari, now rectified)	Dr. Dr.	15000 15000	30000
(ii)	Jaso A/c To P & L Adjustment A/c (Being cheque of Jaso dishonoured and posted debit of Trade Expenses, now rectified)	Dr.	4200	4200
(iii)	P & L Adjustment A/c To Op. Stock (Being closing stock for 2023 overcast, now rectified)	Dr.	20000	20000
(iv)	Drawing A/c To Suspense A/c To P & L Adjustment A/c (Being proprietor income tax paid debited to Income Tax A/c, rectified)	Dr.	3270	900 2370
(v)	Furniture Suspense A/c To P & L Adjustment A/c (Being purchase of asset debited to General Expenses A/c, now rectified)	Dr. Dr.	2500 2700	5200
	Balance in Suspense A/c now credited to Capital A/c because diff., in Trial balance was last year debited to Capital A/c, instead of Suspense A/c Suspense A/c To Capital	Dr.	28200	28200
	Balance in P&L adj. indicating that last year profit was shown excess now rectified by debiting to Capital A/c. Capital A/c To P&L Adj.	Dr.	8230	8230

**Suspense A/c**

Particulars	Amt	Particulars	Amt
To P&L Adj. A/c	2700	By Tari A/c	15000
To Capital A/c (Bal. Fig)	28200	By Tara A/c	15000
		By Drawing A/c	900
	<b>30900</b>		<b>30900</b>

**P&L Adjustment A/c**

Particulars	Amt	Particulars	Amt
To Op. Stock A/c	20000	By Jaso A/c	4200
		By Drawings A/c	2370
		By Furniture A/c	2500
		By Suspense A/c	2700
		By Capital A/c (Bal. Fig.)	8230
	<b>20000</b>		<b>20000</b>

25. Before preparation of the Trial balance, the following errors were found in the books of Radhe & Sons. Give the necessary entries to correct them:

- (i) Minor Repairs made to the building amounting ₹1,850 were debited to the Building A/c.
- (ii) 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 A/c of Shayam Lal.
- (iii) Furniture purchased for office use amounting to ₹20,000 has been entered in the purchase day book.
- (iv) Goods purchased from Ram Singh amounting to ₹8,000 have remained unrecorded so far.
- (v) College Fees of proprietor's son, ₹15,000 debited to the Audit fees A/c.
- (vi) Receipt of ₹4,500 from Meet Kumar credited to the Pinki Rani.
- (vii) Goods amounting to ₹6,200 had been returned by a customer and were taken in to inventory, but no entry was made in the books.
- (viii) ₹1500 paid for wages to workmen for making office furniture had been charged to wages A/c.
- (ix) Salary paid to clerk ₹12,000 has been debited to his personal A/c.
- (x) A purchase of goods from Raghav amounting to ₹20,000 has been wrongly entered through the sales book.

[Dec. 2022, 10 Marks]

Sol.

In the books of Radhe & Sons  
Journal Entries

S.No.	Particulars	L.F.	Dr. ₹	Cr. ₹
(i)	Repairs A/c To Building A/c (Being repairs made to building wrongly debited to building A/c, now corrected)	Dr.	1,850	1,850
(ii)	Shyam Lal A/c To Bad debt Recovered A/c (Being bad debts recovered wrongly credited to Shyam Lal A/c, now corrected)	Dr.	3,000	3,000
(iii)	Furniture A/c To Purchases A/c (Being furniture purchased wrongly recorded in purchases book, now corrected)	Dr.	20,000	20,000
(iv)	Purchases A/c To Ram Singh A/c (Being goods purchased from Ram Singh not recorded earlier, now recorded)	Dr.	8,000	8,000
(v)	Drawings A/c To Audit Fees A/c (Being college fees of proprietor's son wrongly debited to audit fees A/c, now corrected)	Dr.	15,000	15,000
(vi)	Pinki Rani A/c To Meet Kumar A/c (Being amount received from Meet Kumar wrongly credited to Pinki Rani A/c, now corrected)	Dr.	4,500	4,500
(vii)	Sales Return A/c To Customer A/c (Being sales return from a customer not recorded earlier, now recorded)	Dr.	6,200	6,200
(viii)	Furniture A/c To Wages A/c (Being wages paid for furniture wrongly debited to wages A/c, now corrected)	Dr.	1,500	1,500
(ix)	Salary A/c To Clerk Personal A/c (Being salary paid to clerk wrongly debited to his personal A/c, now corrected)	Dr.	12,000	12,000



S.No.	Particulars	L.F.	Dr. ₹	Cr. ₹
(x)	Purchases A/c Sales A/c To Raghav A/c (Being purchase of goods wrongly recorded in sales book, now corrected)	Dr. Dr.	20,000 20,000	40,000

26. Pass Journal Entries to rectify the following errors:

- (I) Goods costing ₹500 have been purchased on credit from Mohan, but no entry has been made in the books, although the goods were taken into stock.
- (II) Goods amounting to ₹2000 have been sold on credit, but no entry has been made in the books.
- (III) No entry has been made for Purchases Return of ₹100.
- (IV) No entry has been made for Sales Return of ₹225.
- (V) Goods purchased from Kamlesh on Credit for ₹2500 was recorded in the purchase book as ₹250.
- (VI) Sales of ₹300 to Tarun were recorded as ₹30 in the Sales Book.
- (VII) Goods purchased on Credit from Rajan for ₹200 was recorded as ₹2000 in the purchase book.

Sol.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Purchases A/c To Mohan (Goods purchased from Mohan , not entered in the books)	Dr.	500	500
2.	Debtors A/c To Sales A/c (Goods sold on credit, not entered in the books)	Dr.	2000	2000
3.	Creditors A/c To Purchase Return A/c (Purchase Return not recorded in the books)	Dr.	100	100
4.	Sales Return A/c To Debtors A/c (Sales Return not recorded in the books)	Dr.	225	225
5.	Purchases A/c To Kamlesh ( Less amount recorded in the Purchase book )	Dr.	2250	2250

Date	Particulars	L.F	Debit ₹	Credit ₹
6.	Tarun A/c To Sales A/c ( Less amount recorded in the Sales book )	Dr.	270	270
7.	Rajan To Purchases A/c ( Excess amount recorded in the Purchase book )	Dr.	1800	1800

27. Give rectifying entries for the following errors:

- (1) Purchase of stock from Shyam amounting to ₹800 has been wrongly entered in the Sales Book.
- (2) A Credit sale of ₹280 to Suresh has been wrongly entered in the Purchase Book.
- (3) Goods worth ₹500 were returned by Som and were taken stock on the same date but no entry was recorded in the books.
- (4) A sum of ₹900, which was previously written off as a Bad Debt in a prior year, has been unexpectedly recovered from Sachin. However, it was mistakenly posted to Sachin's personal A/c.
- (5) A cheque worth ₹5000 received from Mohit was not honored and was incorrectly posted as a debit to the Sales Returns A/c.

Sol.

Journal

	Particulars	L.F.	Dr. ₹	Cr. ₹
(1)	Purchases A/c Sales A/c To Shyam (Rectification of an incorrect entry in the sales book for the purchase of goods from Shyam)	Dr. Dr.	800 800	1600
(2)	Suresh A/c To Purchases A/c To Sales A/c (Rectification of an erroneous entry in the Purchases Book involving a credit sale of goods to Suresh.)	Dr.	560	280 280
(3)	Returns Inwards A/c To Som A/c (Entry for goods returned by Som and taken in stock omitted from the records)	Dr.	500	500

	Particulars	L.F.	Dr. ₹	Cr. ₹
(4)	Sachin A/c To Bad Debts Recovered A/c (Rectification of erroneous credit to Personal A/c for the recovery of previously written off bad debts.)	Dr.	900	900
(5)	Mohit A/c To Sales Return A/c (Rectification of erroneous debit to Sales Returns A/c for the dishonour of a cheque received from Mohit.)	Dr.	5000	5000

Hence, it can be concluded that errors identified prior to the creation of the trial balance can be rectified either by using rectification statements (not entries) or by rectification entries.

28. The Accountant of Daniel & Co. prepared the Trial Balance for the year ended 31st March, 2023. But there was a difference and the Accountant put the difference in Suspense A/c. Rectify the following errors found.

- (1) The total of the Returns outward book, ₹400 has not been posted in the ledger.
- (2) Purchase of ₹300 from Yamini has been entered in the sales book. However Yamini's A/c has been correctly entered.
- (3) A sale of ₹350 to Zara has been credited to his A/c as ₹150.
- (4) Old chair sold for ₹6,400 had been entered as ₹4,600 in sales A/c.
- (5) Goods taken by proprietor, ₹1,000 have not been entered in the books at all.

Sol.

*Journal Entry in Books of Daniel & Co.*

	Particulars	L/f	Dr.	Cr.
1.	Suspenses A/c To Purchase return. (Being total of the Returns outward book not posted in the ledger, now rectified)	Dr.	400	400
2.	Sales A/c Purchase A/c To Suspense A/c (Being Purchase from Yamini has been entered in the sales book. However Yamini's has been correctly entered, now rectified)	Dr. Dr.	300 300	600
3.	Zara A/c To Suspense A/c (Being A sale of ₹350 to Zara credited to his A/c as ₹150, now rectified)	Dr.	500	500

	Particulars	L/f	Dr.	Cr.
4.	Suspense A/c Sales A/c To Old Furniture A/c (Being Old chair sold for ₹6,400 entered as ₹4,600 in sales A/c, now rectified)	Dr. Dr.	1800 4600	6400
5.	Drawing A/c To Purchase A/c (Being Goods taken by proprietor, ₹1,000 not recorded, now rectified)	Dr.	1000	1000

**Suspense A/c**

Particulars	Amt	Particulars	Amt
To Purchase Return A/c	400	By Sales A/c	300
To Furniture	1800	By Purchase A/c	300
		By Zara A/c	500
		By Difference in Trial Balance (Bal. Fig).	500
	<b>2,200</b>		<b>2,200</b>

29. Correct the following errors (i) without opening a Suspense A/c and (ii) with opening a Suspense A/c:

- (1) There is a shortfall of ₹2,100 in the total of the sales book.
  - (2) The return of goods valued at ₹1,800 by Gaurav & Co. has not been documented in any record.
  - (3) The purchase of goods amounting to ₹2,250 has been incorrectly debited to the A/c 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 A/c of Radhe Mohan & Co. has, however, been correctly posted.
- [Nov. 2019, 10 Marks]**

Sol. (i) Without opening a Suspense A/c

- (1) In the credit side of the Sales A/c:-

“By wrong totalling of the Sales Book ₹2100”

(2)

Date	Particulars	L.F.	Amount	Amount
	Sales Return A/c To Gaurav & Co.'s A/c (Being goods returned by Gaurav & Co. not recorded anywhere)	Dr.	1800	1800

(3) In the credit side of Supplier Sen Brother A/c:-  
    "By error in posting ₹4500"

(4)

Date	Particulars	L.F.	Amount	Amount
	Furniture A/c To Purchases A/c (Being correction of Furniture purchased entered in the Purchase Day Book)	Dr.	15000	15000

(5)

Date	Particulars	L.F.	Amount	Amount
	Black and White A/c To Discount received A/c (Being rectification of the entry omitted)	Dr.	1200	1200

(6) In the debit side of Discount allowed A/c:-  
    "To omission of entry in the Cash book ₹180"

(ii) With opening a Suspense A/c

Journal Entry in Books of \_\_\_\_\_

Particulars	L/f	Dr.	Cr.
Suspense A/c To Sales A/c (Being correction arising from under casting of sales day book)	Dr.	2100	2100
Sales return A/c To Gaurav & Co.'s A/c (Being the recording of unrecorded returns)	Dr.	1800	1800
Suspense A/c To Sen Brother's A/c (Being the correction of the error by which Sen Brothers was debited instead of being credited by ₹2250)	Dr.	4500	4500



Particulars	L/f	Dr.	Cr.
Furniture A/c To Purchases A/c (Being correction of recording purchase of furniture as ordinary purchases)	Dr.	15000	15000
Black and White To Discount received A/c (Being the recording of discount omitted to be recorded)	Dr.	1200	1200
Discount allowed A/c To Suspense A/c (Being correction of discount allowed not entered in the cash book)	Dr.	180	180

*Suspense A/c*

Date	Particulars	L.F.	Amount	Date	Particulars	J.F.	Amount
	To Sales A/c		2100		By Discount allowed A/c		180
	To Sen Brothers' A/c		4500		By Difference in TB (Bal. Fig.)		6420
	<b>Total</b>		<b>6600</b>		<b>Total</b>		<b>6600</b>

□□□