

# Chapter 3

## Rectification of Errors

### CHAPTER OVERVIEW

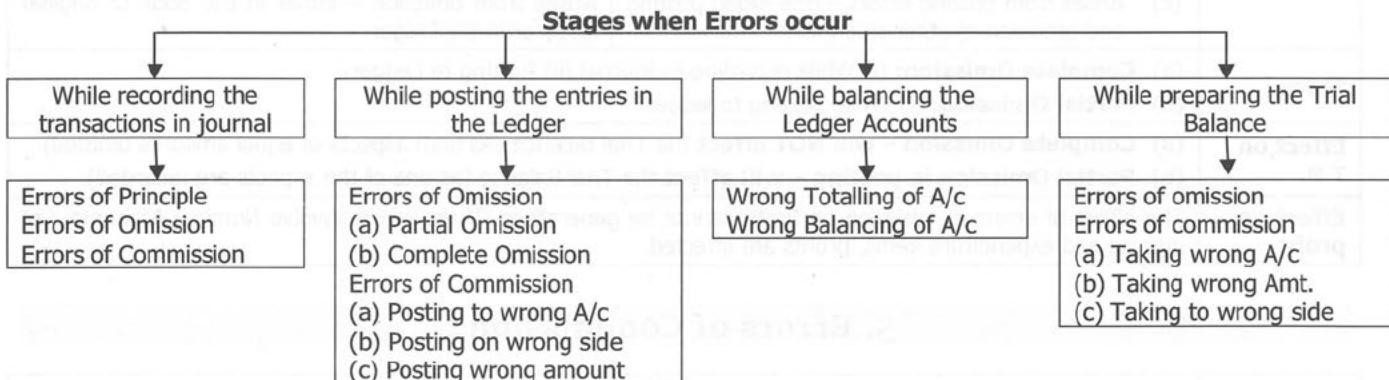
|                                                                                                                                                                                      |                                                                                                                                                                                                                                                                         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Stages of Errors<br>2. Types of Errors<br>3. Errors of Principle<br>4. Errors of Omission<br>5. Errors of Commission<br>6. Compensating Errors<br>7. Tools for Identifying Errors | 8. Trial Balance and Identification of Errors<br>9. Suspense Account<br>10. Stages of Error Rectification<br>11. Steps to rectify Errors<br>12. Steps to pass Rectification Entry<br>13. Rectification and Effect on Profits<br>14. Rectification of each type of error |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

**This Chapter covers identification and rectification of an error at any stage in the accounting process. Students are advised to refer this Chapter again after studying the Chapter on "Financial Statements of Sole Proprietorship Concerns" for better appreciation of the concepts.**

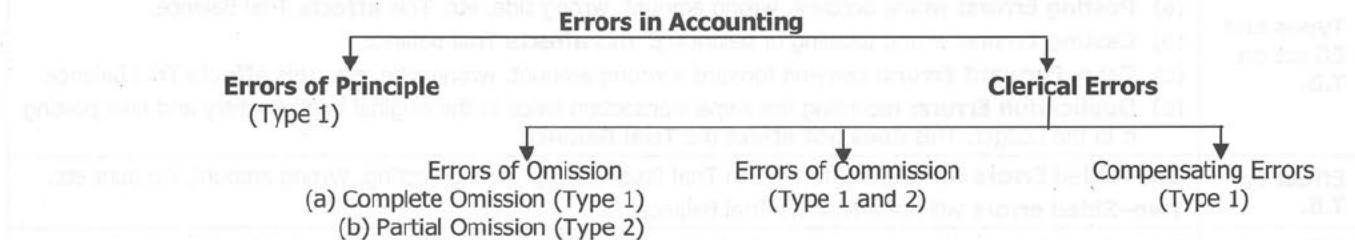
### Glossary of Significant Terms used

| Term             | Meaning                                                                                                                                                                                             |
|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Error</b>     | It refers to the mistake committed during the Accounting Process. It was <b>not intentional</b>                                                                                                     |
| <b>Fraud</b>     | It refers to the mistake / discrepancy which is committed in the accounting process and it deliberate. Hence, <b>Fraud is intentional</b> .                                                         |
| <b>Casting</b>   | The process of <b>finding the Total</b> in Journal, Ledger, Trial Balance, etc.<br>It is of 2 types – (a) Over Casting – Totalling more than actual; (b) Under Casting – Totalling less than actual |
| <b>Balancing</b> | The process of <b>finding the balance</b> in Ledger Account                                                                                                                                         |

### 1. Stages of Occurrence of Errors



### 2. Types of Errors



**Note:** Type 1 Error = Trial Balance will still agree.    Type 2 Error = Trial Balance will not agree.

### 3. Errors of Principle

|                          |                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Meaning</b>           | it arises when a financial transaction is recorded in the books in an <b>incorrect manner</b> . i.e. Journal Entry is <b>not as per the Accounting Principles</b> .                                                                                                                                                                                                                                                                 |
| <b>Example</b>           | Capital Expenditure is treated as revenue expenditure or vice versa , E.g. Repairs to machinery wrongly treated as capital expenditure and debited to Machinery Account instead of Machinery Repairs A/c.                                                                                                                                                                                                                           |
| <b>Types</b>             | They may be analysed into – <ul style="list-style-type: none"> <li>• <b>Errors which affect profits:</b> e.g. Treating Rent Paid as a Debtor instead of as Expenses, or when Capital Expenditure is treated as revenue and debited to P&amp;L Account.</li> <li>• <b>Errors which do not affect profits:</b> e.g. Manufacturing Wages posted to Trade Expenses Account or wrong classification of assets or liabilities.</li> </ul> |
| <b>Stage</b>             | Such errors are normally <b>committed while recording in the Journal</b> .                                                                                                                                                                                                                                                                                                                                                          |
| <b>Effect on T.B.</b>    | Such errors <b>WILL NOT</b> affect the Trial Balance.                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Effect on profits</b> | Errors of principle, which <b>involve income and expenditure accounts</b> , e.g. wrong distinction between capital and revenue expenditure, <b>will affect profit</b> .                                                                                                                                                                                                                                                             |

### 4. Errors of Omission

|                         |                                                                                                                                                                                                                                       |                                                                                         |
|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
| <b>Meaning</b>          | Error of Omission means that a transaction is <b>not recorded / Posted / transferred</b> either wholly or partially, in the books of accounts.                                                                                        |                                                                                         |
| <b>Types</b>            | They may be further analysed into –                                                                                                                                                                                                   |                                                                                         |
|                         | <b>Partial Omission</b>                                                                                                                                                                                                               | <b>Complete Omission</b>                                                                |
|                         | (a) One aspect of the transaction, either debit or credit, is omitted to be recorded / posted.                                                                                                                                        | Both aspects of the transaction, debit and credit, are omitted to be recorded / posted. |
|                         | (b) Trial Balance will not agree.                                                                                                                                                                                                     | Trial Balance will still agree.                                                         |
|                         | (c) Arises from posting errors – one-sided posting and omission of other side entry.                                                                                                                                                  | Arises from omission – either in the book of original entry or in the ledger.           |
| <b>Stage</b>            | <p>(a) <b>Complete Omission:</b> (i) While recording in Journal (ii) Posting to Ledger</p> <p>(b) <b>Partial Omission:</b> (i) While posting to ledger</p>                                                                            |                                                                                         |
| <b>Effect on T.B.</b>   | <p>(a) <b>Complete Omission – will NOT affect</b> the Trial Balance (As both aspects of equal amounts omitted)</p> <p>(b) <b>Partial Omission in posting – will affect</b> the Trial Balance (as one of the aspects are recorded)</p> |                                                                                         |
| <b>Effect on profit</b> | The effect of errors of omission on Profit cannot be generalised. If the errors involve Nominal Accounts, i.e. income and expenditure items, profits are affected.                                                                    |                                                                                         |

### 5. Errors of Commission

|                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Meaning</b>                  | A transaction is recorded <b>wrongly or incorrectly</b> in the books. It also includes all clerical errors during the Accounting Process.                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Types and Effect on T.B.</b> | These may be categorized into – <ul style="list-style-type: none"> <li>• <b>Posting Errors:</b> wrong account, wrong amount, wrong side, etc. This <b>affects</b> Trial Balance.</li> <li>• <b>Casting Errors:</b> wrong totalling or balancing. This <b>affects</b> Trial Balance.</li> <li>• <b>Carry Forward Errors:</b> carrying forward a wrong amount, wrong side, etc. This <b>affects</b> Trial Balance.</li> <li>• <b>Duplication Errors:</b> recording the same transaction twice in the original book of entry and also posting it to the Ledger. This <b>does not affect</b> the Trial Balance.</li> </ul> |
| <b>Effect on T.B.</b>           | <b>One-Sided Errors</b> will cause difference in Trial Balance, E.g. Wrong Posting, Wrong amount, Account etc.<br><b>Two-Sided errors</b> will not affect the Trial Balance.                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Effect on profit</b>         | The effect of errors of commission on Profit cannot be generalised. If the errors involve Nominal Accounts, i.e. income and expenditure items, profits are affected.                                                                                                                                                                                                                                                                                                                                                                                                                                                   |

## 6. Compensating Errors

|                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Meaning</b>           | One set of errors on the debit side for a specified amount is counter-balanced by another set of errors for the same amount on the credit side. Due to this, the Trial Balance is not affected.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Nature</b>            | <ul style="list-style-type: none"> <li>It is difficult to detect as such. It may or may not affect the profit.</li> <li>If the Original Error and the Compensating Error both arise in Incomes / Expenses Accounts, the profit will <b>not</b> be affected, but if one arises in a Revenue Account and the other in an Asset or Liability Account, although the Trial Balance will agree, profit will be incorrectly stated.</li> <li>Such errors arises in various ways, but most frequently casting (totalling), e.g. the cast of expenditure account may be ₹9,600 less, and the cost of asset account ₹9,600 extra, the profit and the asset being thereby increased improperly.</li> </ul> |
| <b>Effect on T.B.</b>    | Such errors <b>will not affect the Trial Balance.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Effect on profits</b> | Compensating Errors, which involve Income and Expenditure Accounts, will affect profit. However if the error occurs in Asset and Liability Accounts only, profits may not be affected.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

## 7. Tools for identifying errors

| <b>Particulars</b>                      | <b>Errors identifiable</b>                                                | <b>Errors not identifiable</b>                                                                           |
|-----------------------------------------|---------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| 1. Trial Balance                        | Totals of Debit Column & Credit Column do not match.                      | Totals of Debit Column and Credit Column may match even if some errors exist. <b>Refer next para</b>     |
| 2. Bank Reconciliation Statement        | Identifies errors in Cash Book / Pass Book / Omission to record           | The names of debtors and Creditors may not be verifiable from Bank Statement                             |
| 3. Stock Reconciliation Statement       | Identifies errors in Stock as per books, omission of stock losses etc.    | When the same error is committed while physical verification of stock and computation as per books.      |
| 4. Debtors and Creditors Reconciliation | Identifies errors in recording the entries involving debtors / creditors. | When collusion is involved with the relevant debtors / creditors                                         |
| 5. Ratio Analysis                       | Indicates the possibility of errors on an overall basis.                  | Not possible to identify the exact error. It is not only an indication and not a confirmation of errors. |

## 8. Trial Balance and Identification of Errors

- Purpose:**
  - The purpose of Trial Balance is to ensure **arithmetical accuracy** of the Books of Accounts
  - Hence, Trial Balance can be used to identify the errors made during the accounting process.
- Method of Identification of errors:** Errors are identified if **Debit Column Total ≠ Credit Column Total**
- Situations in which Debit Column Total will not be equal to Credit Column Total:**

| <b>Stage of Error</b>                                                        | <b>Description of the error</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Stage 1:</b> Recording in Journal                                         | Not Possible                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Stage 1:</b> Recording in Subsidiary Books<br>(if Journal not maintained) | <ol style="list-style-type: none"> <li>Wrong Casting of any of the Subsidiary Book.</li> <li>Wrong amount recorded in the subsidiary book, but correct amount recorded for the other aspect in ledger.</li> <li>Wrong carry forward from one page to next page in subsidiary book</li> </ol>                                                                                                                                                                                                                                 |
| <b>Stage 2:</b> Posting to Ledger                                            | <ol style="list-style-type: none"> <li>One aspect to the ledger account, while the other aspect is not posted</li> <li>Out of the 2 aspects, one aspect is posted to the ledger for wrong amount, while the other aspect is properly recorded</li> <li>Posting to the wrong side of the correct account</li> <li>Posting to the wrong side of the wrong account</li> <li>Posting of wrong amount to the wrong side of the correct account</li> <li>Posting of wrong amount to the wrong side of the wrong account</li> </ol> |

| <b>Stage of Error</b>                        | <b>Description of the error</b>                                                                                                                                                                           |
|----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Stage 3:</b> Balancing of Ledger Accounts | (a) Wrong casting on either of the sides of the ledger accounts<br>(b) Wrong balancing of ledger accounts                                                                                                 |
| <b>Stage 4:</b> Preparation of Trial Balance | (a) Wrong balances transferred from Ledger to Trial Balance<br>(b) Wrong Casting of the Debit Column total / Credit Column Total<br>(c) Transferring ledger balances to the wrong column in Trial Balance |

4. **Situations in which Debit Column Total ≠ Credit Column Total (even if error exists):** So long as an account is debited and another account is credited for the same amounts, the Trial Balance will tally irrespective of whether it is wrong account / wrong side etc. Hence, in the following cases, Trial Balance will tally irrespective of errors –

| <b>Stage of Error</b>                                                     | <b>Description of the error</b>                                                                                                                                                                          |
|---------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Stage 1:</b> Recording in Journal                                      | (a) Error of Principle – Treating capital expenditure as revenue or vice versa<br>(b) Error of Complete Omission – Both aspects of a transaction are omitted<br>(c) Wrong amount recorded in the Journal |
| <b>Stage 1:</b> Recording in Subsidiary Books (if Journal not maintained) | (a) Error of Complete Omission – Transactions not recorded in Subsidiary Book<br>(b) Wrong amount recorded in the Subsidiary Books.                                                                      |
| <b>Stage 2:</b> Posting to Ledger                                         | (a) When both the aspects of a transaction are omitted to be posted<br>(b) Correct amount posted to the correct side of a wrong account                                                                  |
| <b>Stage 3:</b> Balancing of Ledger Accounts                              | Not Possible                                                                                                                                                                                             |
| <b>Stage 4:</b> Preparation of Trial Balance                              | Not Possible                                                                                                                                                                                             |

## 9. Suspense Account

- Meaning:** When the Trial Balance does not tally, then it is essential to create an account named "Suspense Account" on the **column whose total is lower**.
- Purpose:**
  - The Suspense Account is opened for the **differential amount on the column** which is lower to make the trial balance **artificially tally**. (i.e. Trial Balance is temporarily tallied by opening the suspense account).
  - It is kept till the errors are identified and rectified. After the rectification, **Suspense A/c balance will become zero**.
- Type:** Suspense A/c is a **combination of Real, Personal and Nominal Accounts**. It is a **temporary Account**.
- Nature of balance in Suspense Account:**

| <b>Situation</b>                                          | <b>Suspense A/c will appear on</b> | <b>Nature of Balance</b> |
|-----------------------------------------------------------|------------------------------------|--------------------------|
| If <b>Debit</b> Column Total < <b>Credit</b> Column Total | Debit Column                       | Debit Balance            |
| If <b>Credit</b> Column Total < <b>Debit</b> Column Total | Credit Column                      | Credit Balance           |

**Note: Suspense account will appear on the Column whose total is lower**

- Hence, Suspense Account will appear only when an error affects the Trial Balance.
- Disclosure in Balance Sheet:**

| <b>Nature of Suspense A/c Balance</b> | <b>Shown in</b> | <b>Side</b> |
|---------------------------------------|-----------------|-------------|
| Debit Balance in Suspense A/c         | Balance Sheet   | Assets      |
| Credit Balance in Suspense A/c        | Balance Sheet   | Liabilities |

**Example: Consider the Illustration given in Chapter 2C – Trial Balance. Assume in that illustration that**

- Cash Account is wrongly balanced as ₹85,000 instead of ₹77,000
- Purchases Account is wrongly casted as ₹95,000 instead of ₹1,05,000
- Furniture Account balanced as ₹48,500 instead of ₹49,500

Prepare the Trial Balance based on the above information and also create suspense account.

| Trial Balance as on _____ (Only Balances Method)          |  | Debit ₹         | Credit ₹        |
|-----------------------------------------------------------|--|-----------------|-----------------|
| Head of Account                                           |  |                 |                 |
| Krishna's Capital A/c (A)                                 |  |                 | 1,50,000        |
| Drawings A/c (B)                                          |  | 32,000          |                 |
| Furniture A/c (C)                                         |  | 48,500          |                 |
| Cash A/c (D)                                              |  | 85,000          |                 |
| Sales A/c (E)                                             |  |                 | 1,55,000        |
| Purchases A/c (F)                                         |  | 95,000          |                 |
| Depreciation A/c (G)                                      |  | 5,500           |                 |
| Electricity Charges and Rent A/c (H)                      |  | 12,000          |                 |
| Shop Manager's Salary A/c (I)                             |  | 18,000          |                 |
| Discount Allowed A/c (J)                                  |  | 1,000           |                 |
| Balram Ltd A/c (Sundry Debtors) (K)                       |  | —               | —               |
| Raghu Ltd A/c (Sundry Debtors) (L)                        |  | 15,000          |                 |
| Ram Ltd A/c (Sundry Creditors) (M)                        |  |                 | 10,000          |
| <b>Total</b>                                              |  | <b>3,12,000</b> | <b>3,15,000</b> |
| <b>Suspense Account (Bal. Fig.)</b> (3,15,000 – 3,12,000) |  | <b>3,000</b>    |                 |
| <b>Total</b>                                              |  | <b>3,15,000</b> | <b>3,15,000</b> |

Note: Suspense Account has a **Debit balance of ₹3,000**. It will be Zero if above errors are rectified.

## 10. Stages of Rectification of Errors

Error in the accounts can be detected and rectified in any of the following stages –

| Stage                                                                | Treatment                                                                                                                                                                                                                                                                                                                                                                                                                     |
|----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Before preparation of Trial Balance                               | <ul style="list-style-type: none"> <li>Errors of Complete Omission are rectified by recording the same fully and properly.</li> <li>Errors of Partial Omission are rectified by making the relevant posting.</li> <li>Errors of Principle are rectified by making the rectification Journal Entry.</li> <li><b><i>Suspense Account shall not be opened. Direct rectification is done.</i></b></li> </ul>                      |
| 2. After Trial Balance but <b>before</b> Final Accounts are prepared | <ul style="list-style-type: none"> <li>Errors of Complete Omission are rectified by recording the same fully and properly.</li> <li>Errors of Partial Omission are rectified by rectification Journal Entry, <b>by using the Suspense Account.</b></li> <li>Errors of Principle are rectified by making the rectification Journal Entry.</li> <li>Errors of Commission are rectified based on the nature of error.</li> </ul> |
| 3. <b>After</b> Final Accounts i.e. in the next a/cing period        | <ul style="list-style-type: none"> <li>Errors of Partial Omission are rectified by way of rectification Journal Entry, by using the <b>Suspense Account</b>.</li> <li><b>Errors which have an impact on Profit (Nominal Accounts) are rectified by using the P&amp;L Adjustment Account. Instead of Nominal Accounts, P&amp;L Adjustment A/c is debited or credited</b></li> </ul>                                            |

## 11. Steps to Locate Errors

- Verify the total of the two columns of Trial Balance again.
- Verify the total of account heads where items are numerous, e.g. Sundry Debtors, Sundry Creditors, Loans, etc.
- See whether Cash and Bank Balances have been incorporated in the Trial Balance.
- See whether Bank Balances have been taken as per Balance in Cash Book, and not balance in Pass Book.
- See whether the exact difference between the columns of the Trial Balance matches with any of the Ledger Balances, to see possible omission or double inclusion.
- Compare whether half of the difference in TB is reflected in any Ledger Account Balance, because it is possible that any ledger balance equal to half the amount of difference may be entered on the wrong side of Trial Balance.
- Check the balances / casting of Ledger Accounts again.
- Check the casting of Subsidiary Books again.
- Verify whether the Opening Balances in Ledger Account is properly brought forward from last year's Balance Sheet.
- If the difference still persists, a complete checking is necessary. Casting and Carry Forward from the book of original entry should be checked.

## 12. Steps to pass Rectification Entry

| Steps | Particulars                                                                                                                                                                                                                                       |
|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| I     | Identify the nature of error (after following the steps given in previous para). i.e. Error of Omission, Principle etc.                                                                                                                           |
| II    | Identify the Actual (wrong) entry passed / mistake done                                                                                                                                                                                           |
| III   | Identify the Correct Entry that should have been passed / correct posting                                                                                                                                                                         |
| IV    | Check whether the error affects T/B. (If the error has debit and credit for the same amount, T/B wont be affected)                                                                                                                                |
| V     | If yes, then one of the aspects in the rectification shall be "Suspense A/c". Otherwise, suspense A/c will not appear.<br><b>Note:</b> Suspense A/c will be credited, if because of the error, the suspense a/c has debit balance and vice versa. |
| VI    | Pass the Rectification Journal Entry                                                                                                                                                                                                              |

**Note:**

1. If the error involves wrong side of an account, then the rectification entry shall be passed for **DOUBLE the amount**
2. If the error is rectified after preparation of Financial Statements, then "**P&L Adjustment A/c**" is debited / credited instead of nominal Accounts
3. **Students have to remember the COMMON SENSE RULES to pass journal entries (Refer Chapter on Journal)**
4. If the errors are found before preparing Trial Balance, Rectification is directly made without any rectification entry.

## 13. Rectification and Effect on Profits

1. **Meaning:** Due to errors in the accounting process, the profits or losses may be affected. If nominal accounts are involved in an error, then that may either inflate or decrease the profits / losses of the business.
2. **Effect of an error on Profits / Losses:**

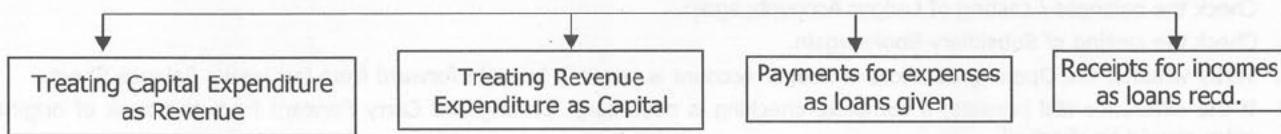
| Particulars           | Nature of error  | Impact of ERROR ON   |                      | Impact of RECTIFICATION of error on |                     |
|-----------------------|------------------|----------------------|----------------------|-------------------------------------|---------------------|
|                       |                  | Profits              | Losses               | Profits                             | Losses              |
| Income / Gains A/c    | Wrongly Credited | Increased<br>(Notes) | Decreased<br>(Notes) | Decrease<br>(Notes)                 | Increase<br>(Notes) |
| Expenses / Losses A/c | Wrongly Credited |                      |                      |                                     |                     |
| Expenses / Losses A/c | Wrongly Debited  |                      |                      |                                     |                     |
| Income / Gains A/c    | Wrongly Debited  | Decreased            | Increased            | Increase                            | Decrease            |

**Notes: Reasons for the above effects:**

1. **Income / Gains A/c Wrongly Credited and rectification thereof:**
  - (a) Normally, Incomes A/c has a credit balance. If it is further credited, then the income will further increase (as per Common Sense Rule). This will lead to increase in profits / reduction in losses.
  - (b) However, in rectification, to rectify the wrong credit, Income a/c will be debited (as per Common Sense Rule). Hence, if debit is given, income will get reduced. This will reduce the Profits / increase the losses.
  - (c) **The reasoning is exactly opposite for Wrong Debit given to Incomes A/c**
2. **Expenses / Losses A/c Wrongly Credited and rectification thereof:**
  - (a) Normally, Expenses A/c has a debit balance. If it is credited, then the expenses will decrease (as per common sense rule). Decrease in expenses will increase the profits / reduce the losses.
  - (b) However, in rectification, to rectify the wrong credit, Expenses a/c will be debited (as per Common Sense Rule). Hence, if debit is given, income will get reduced. This will reduce the Profits / increase the losses.
  - (c) **The reasoning is exactly opposite for Wrong Debit given to Expenses A/c**

## 14. Rectification of each type of error

### (a) Error of Principle



- 1. Error 1: Treating Capital Expenditure as Revenue Expenditure**, E.g. Lorry Freight paid for transportation of machinery treated as revenue expenditure – ₹10,000. (Step I – Error of Principle)

| Step II – Wrong Entry                                                        | Step III – Correct Entry                                                                                                                                                                                                                                                                         | Step IV – Effect on Trial Balance                                                                         |                                                                     |
|------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| Lorry Freight A/c Dr. 10,000<br>To Cash A/c 10,000                           | Machinery A/c Dr. 10,000<br>To Cash A/c 10,000                                                                                                                                                                                                                                                   | This error will not affect the Trial Balance as there is one debit and credit for the same amount ₹10,000 |                                                                     |
| <b>Step V – Suspense Account will not appear in the rectification entry.</b> |                                                                                                                                                                                                                                                                                                  |                                                                                                           |                                                                     |
| <b>Step VI – Rectification Entry</b>                                         |                                                                                                                                                                                                                                                                                                  |                                                                                                           |                                                                     |
| Machinery A/c Dr.<br>To Lorry Freight A/c                                    | • <b>Reasoning:</b> Lorry Freight is wrongly debited. To rectify wrong debit, it should be credited. As the expense is necessary for machinery, it should be directly debited to Machinery A/c. Hence, in rectifying, it is debited. (Cash A/c <b>not touched</b> , as it is correctly credited) |                                                                                                           |                                                                     |
| <b>If Error rectified after preparation of Final Accounts</b>                | Machinery A/c Dr.<br>To P&L Adjustment A/c                                                                                                                                                                                                                                                       | 10,000<br>10,000                                                                                          | Profits <b>increase</b> after rectification as P&L Adj. is credited |

- 2. Error 2: Treating Revenue Expenditure as Capital Expenditure**, E.g. Repairs to Machinery paid debited to Capital Expenditure – ₹5,000. (Step I – Error of Principle)

| Step II – Wrong Entry                                                        | Step III – Correct Entry                                                                                                                                                                                                                                                         | Step IV – Effect on Trial Balance                                                                        |                                                                    |
|------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| Machinery A/c Dr. 5,000<br>To Cash A/c 5,000                                 | Repairs A/c Dr. 5,000<br>To Cash A/c 5,000                                                                                                                                                                                                                                       | This error will not affect the Trial Balance as there is one debit and credit for the same amount ₹5,000 |                                                                    |
| <b>Step V – Suspense Account will not appear in the rectification entry.</b> |                                                                                                                                                                                                                                                                                  |                                                                                                          |                                                                    |
| <b>Step VI – Rectification Entry</b>                                         |                                                                                                                                                                                                                                                                                  |                                                                                                          |                                                                    |
| Repairs A/c Dr.<br>To Machinery A/c                                          | • <b>Reasoning:</b> Machinery is wrongly debited. To rectify wrong debit, it should be credited. As the expense is a revenue expense, it should be directly debited to "Repairs A/c." Hence, while rectifying, it is debited. (Cash A/c not touched as it is correctly credited) |                                                                                                          |                                                                    |
| <b>If Error rectified after preparation of Final Accounts</b>                | P& L Adjustment A/c Dr.<br>To Machinery A/c                                                                                                                                                                                                                                      | 10,000<br>10,000                                                                                         | Profits <b>decrease</b> after rectification as P&L Adj. is debited |

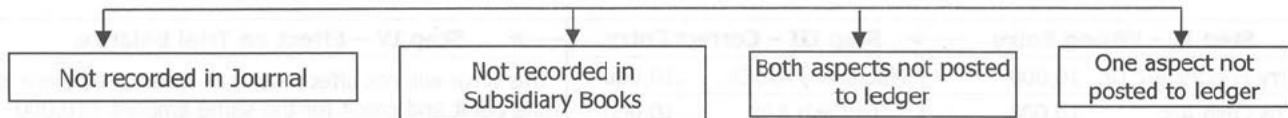
- 3. Error 3: Treating Payments for Expenses as loans given – ₹50,000 (Step I – Error of Principle)**

| Step II – Wrong Entry                                                        | Step III – Correct Entry                                                                                                                                                        | Step IV – Effect on Trial Balance                                                                         |                                                                    |
|------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| Loans A/c Dr. 50,000<br>To Bank A/c 50,000                                   | Expenses A/c Dr. 50,000<br>To Bank A/c 50,000                                                                                                                                   | This error will not affect the Trial Balance as there is one debit and credit for the same amount ₹50,000 |                                                                    |
| <b>Step V – Suspense Account will not appear in the rectification entry.</b> |                                                                                                                                                                                 |                                                                                                           |                                                                    |
| <b>Step VI – Rectification Entry</b>                                         |                                                                                                                                                                                 |                                                                                                           |                                                                    |
| Expenses A/c Dr.<br>To Loans A/c                                             | • <b>Reasoning:</b> Loans A/c is wrongly debited. To rectify the wrong debit, it is credited. Expenses A/c should have been debited. Hence, in rectifying, expenses A/c debited |                                                                                                           |                                                                    |
| <b>If Error rectified after preparation of Final Accounts</b>                | P& L Adjustment A/c Dr.<br>To Loans A/c                                                                                                                                         | 10,000<br>10,000                                                                                          | Profits <b>decrease</b> after rectification as P&L Adj. is debited |

- 4. Error 4: Treating Receipt of Income as Loans Received – ₹75,000 (Step I – Error of Principle)**

| Step II – Wrong Entry                                                        | Step III – Correct Entry                                                                                                                                                          | Step IV – Effect on Trial Balance                                                                         |                                                                      |
|------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| Bank A/c Dr. 75,000<br>To Loans A/c 75,000                                   | Bank A/c Dr. 75,000<br>To Income A/c 75,000                                                                                                                                       | This error will not affect the Trial Balance as there is one debit and credit for the same amount ₹75,000 |                                                                      |
| <b>Step V – Suspense Account will not appear in the rectification entry.</b> |                                                                                                                                                                                   |                                                                                                           |                                                                      |
| <b>Step VI – Rectification Entry</b>                                         |                                                                                                                                                                                   |                                                                                                           |                                                                      |
| Loans A/c Dr.<br>To Incomes A/c                                              | • <b>Reasoning:</b> Loans A/c is wrongly credited. To rectify the wrong credit, it is debited. Incomes A/c should have been credited. Hence, in rectifying, Incomes A/c credited. |                                                                                                           |                                                                      |
| <b>If Error rectified after preparation of Final Accounts</b>                | Loans A/c Dr.<br>To P&L Adjustment A/c                                                                                                                                            | 10,000<br>10,000                                                                                          | Profits <b>Increase</b> after rectification as P&L Adj. is credited. |

## (b) Error of Omission



1. **Error 1: Transaction not recorded in the Journal**, E.g. Credit Sales to Mr.Ram omitted to be recorded ₹80,000  
(Step I – Error of Complete Omission)

| Step II – Wrong Entry                                                        | Step III – Correct Entry                                                                                | Step IV – Effect on Trial Balance                                                                         |
|------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| No Entry is passed in Journal.                                               | Ram A/c Dr. 80,000<br>To Sales A/c 80,000                                                               | This error will not affect the Trial Balance as both the aspects in a transaction have not been recorded. |
| <b>Step V – Suspense Account will not appear in the rectification entry.</b> |                                                                                                         |                                                                                                           |
| Step VI – Rectification Entry                                                |                                                                                                         |                                                                                                           |
| Ram A/c Dr.<br>To Sales A/c                                                  | <b>Reasoning:</b> The entry is not recorded in the journal. Hence, it has to be recorded now in Journal |                                                                                                           |
| If Error rectified after preparation of Final Accounts                       | Ram A/c Dr. 80,000<br>To P&L Adjustment A/c 80,000                                                      | Profits <b>Increase</b> after rectification as P&L Adj. is credited                                       |

2. **Error 2: Transaction not recorded in Subsidiary Book**, E.g. Credit Purchases from Mohan omitted to be recorded ₹65,000 (Step I – Error of Complete Omission)

| Step II – Wrong Entry                                                        | Step III – Correct Entry                                                                                                                                                                                                                           | Step IV – Effect on Trial Balance                                                                                                                                                                          |
|------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| No Entry is passed in Purchases Book                                         | Record entry in Purchases Book for ₹65,000 from Mohan                                                                                                                                                                                              | This entry is omitted from Purchases Book. Hence, the other aspect of Mohan would not be recorded as purchases book is the base for such posting. This error won't affect T/B as both aspects are omitted. |
| <b>Step V – Suspense Account will not appear in the rectification entry.</b> |                                                                                                                                                                                                                                                    |                                                                                                                                                                                                            |
| Step VI – Rectification Entry                                                |                                                                                                                                                                                                                                                    |                                                                                                                                                                                                            |
| Purchases A/c Dr.<br>To Mohan A/c                                            | <b>Reasoning:</b> The entry is not recorded in Purchases Book. Hence, it has to be recorded now. As Purchases book would have been closed, it cannot be recorded there. All rectification entries are passed in Journal Proper as a journal entry. |                                                                                                                                                                                                            |
| If Error rectified after preparation of Final Accounts                       | P & L Adjustment A/c Dr. 65,000<br>To Mohan A/c 65,000                                                                                                                                                                                             | Profits <b>Decrease</b> after rectification as P&L Adj. is debited                                                                                                                                         |

3. **Error 3: Both aspects of a Transaction are not posted to ledger**, E.g. Outstanding Rent of ₹15,000 recorded in Journal Proper, but not posted to Ledger in full. (Step I – Error of Complete Omission in Posting)

| Step II – Wrong Entry                                                        | Step III – Correct Entry                                                                                                                                                                                                                                          | Step IV – Effect on Trial Balance                                                              |
|------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| Both Debit and Credit aspects are not posted to the ledger                   | Post to debit side of Rent A/c and Credit Side of O/s Rent A/c – ₹15,000                                                                                                                                                                                          | As both the aspects of the transaction are omitted to be recorded, it will not affect the T/B. |
| <b>Step V – Suspense Account will not appear in the rectification entry.</b> |                                                                                                                                                                                                                                                                   |                                                                                                |
| Step VI – Rectification Entry                                                |                                                                                                                                                                                                                                                                   |                                                                                                |
| Rent A/c Dr.<br>To O/s Rent A/c                                              | <b>Reasoning:</b> Posting is not done in both rent a/c and O/s rent account. But as these two accounts would have already balanced, an addition can be made by passing the relevant journal entry in the Journal entry. Rent is expense and O/s rent is liability |                                                                                                |
| If Error rectified after preparation of Final Accounts                       | P & L Adjustment A/c Dr. 15,000<br>To O/S Rent A/c 15,000                                                                                                                                                                                                         | Profits <b>Decrease</b> after rectification as P&L Adj. is debited                             |

4. **Error 4: One aspect of Transaction not posted to ledger**, E.g. Outstanding Rent of ₹15,000 recorded in Journal Proper, but it is not posted to Rent A/c, though posted to O/s rent. (**Step I – Error of Partial Omission in Posting**)

| Step II – Wrong Entry                                                                                                                                                | Step III – Correct Entry                                                                                                                                                                                                                                          | Step IV – Effect on Trial Balance                                                                                                                            |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The Debit aspect is not posted to the ledger. (Credit aspects is already posted to ledger)                                                                           | Post to debit side of Rent A/c – ₹15,000                                                                                                                                                                                                                          | As <b>one of the aspects</b> (debit) is not posted, T/B would not tally. The debit column total is less by ₹15,000. So Suspense a/c will have debit balance. |
| <b>Step V – Suspense Account will APPEAR</b> in the rectification entry. It will be credited as it's a debit balance account which is reduced on such rectification. |                                                                                                                                                                                                                                                                   |                                                                                                                                                              |
| Step VI – Rectification Entry                                                                                                                                        | <b>Reasoning:</b> Posting should have been made to the debit side of Rent A/c, but it is not made. Hence, rent is debited now. Due to rectification of this error, the suspense account debit balance will come down by ₹15,000. Hence, suspense A/c is credited. |                                                                                                                                                              |
| Rent A/c      Dr.      To Suspense A/c                                                                                                                               | P & L Adjustment A/c Dr.<br>To Suspense A/c                                                                                                                                                                                                                       | 15,000<br>15,000                                                                                                                                             |
| <b>If Error rectified after preparation of Final Accounts</b>                                                                                                        |                                                                                                                                                                                                                                                                   | Profits <b>Decrease</b> after rectification as P&L Adj. is debited                                                                                           |

### (c) Error of Commission

| Recording in journal | Recording in Subsidiary Book | Posting entries in the Ledger                                                                                                                                                                     | Balancing Ledger A/cs / Subsidiary Books                                                                                       | Preparing the Trial Balance |
|----------------------|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| ↓                    | ↓                            | ↓                                                                                                                                                                                                 | ↓                                                                                                                              | ↓                           |
| (a) Wrong Amt.       | (a) Wrong Book               | (a) Wrong Amount (Correct A/c)                                                                                                                                                                    | Over casting – Dr. Side                                                                                                        | Taking wrong A/c            |
| (b) Wrong A/c        | (b) Wrong Amt.               | (b) Wrong Account (Correct Side)                                                                                                                                                                  | Over casting – Cr. Side                                                                                                        | Taking wrong Amt.           |
|                      | (c) Wrong Casting            | (c) Wrong Side of a Correct A/c<br>(d) Wrong Amt. to a Wrong A/c<br>(e) Wrong Side of a Wrong A/c<br>(f) Wrong Amt. to Wrong Side of a Correct A/c<br>(g) Wrong Amt. to Wrong Side of a Wrong A/c | Undercasting – Dr. Side<br>Undercasting – Cr. Side<br>Wrong Balancing of Dr. balance A/c<br>Wrong Balancing of Cr. balance A/c | Taking to wrong side        |

### (i) Error of Commission in Journal

1. **Error 1: Wrong Amount entered for the transaction Eg. Rent payable recorded for ₹10,000 instead of ₹1,000 (Step I – Error of Commission)**

| Step II – Wrong Entry                                                        | Step III – Correct Entry                                                                                                                                                                                                                                                             | Step IV – Effect on Trial Balance                                                                 |
|------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| Rent A/c Dr. 10,000<br>To O/s Rent A/c 10,000                                | Rent A/c Dr. 1,000<br>To O/s Rent A/c 1,000                                                                                                                                                                                                                                          | This error will not affect the Trial Balance as both the aspects are recorded for the same amount |
| <b>Step V – Suspense Account will not appear in the rectification entry.</b> |                                                                                                                                                                                                                                                                                      |                                                                                                   |
| Step VI – Rectification Entry                                                | <b>Reasoning:</b><br>• Rent A/c is wrongly debited for ₹10,000 instead of ₹1,000. Hence, excess debit of ₹9,000 is to be rectified. For rectification, rent a/c is to be credited for ₹9,000.<br>• Similarly an excess credit of ₹9,000 is to be rectified by debiting O/s Rent A/c. |                                                                                                   |
| O/s Rent A/c Dr. 9,000<br>To Rent A/c 9,000                                  | O/s Rent A/c Dr. 80,000<br>To P&L Adjustment A/c 80,000                                                                                                                                                                                                                              | Profits <b>Increase</b> after rectification as P&L Adj. is credited                               |
| <b>If Error rectified after preparation of Final Accounts</b>                |                                                                                                                                                                                                                                                                                      |                                                                                                   |

2. **Error 2: Wrong Account debited in the transaction Eg. Cheque paid to A is wrongly debited to B ₹10,000 – (Step I – Error of Commission)**

| <b>Step II – Wrong Entry</b>                                                                                                                                                                                                                                                                               | <b>Step III – Correct Entry</b>        | <b>Step IV – Effect on Trial Balance</b>                                                          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|---------------------------------------------------------------------------------------------------|
| B A/c Dr. 10,000<br>To Bank A/c 10,000                                                                                                                                                                                                                                                                     | A A/c Dr. 10,000<br>To Bank A/c 10,000 | This error will not affect the Trial Balance as both the aspects are recorded for the same amount |
| <b>Step V – Suspense Account will not appear in the rectification entry.</b>                                                                                                                                                                                                                               |                                        |                                                                                                   |
| <b>Step VI – Rectification Entry</b> <ul style="list-style-type: none"> <li>• <b>Reasoning:</b></li> <li>• B A/c is wrongly debited in the Journal Entry. Hence, to rectify it, Credit B A/c</li> <li>• A A/c should have been debited in the entry. Hence, on rectification, A A/c is debited.</li> </ul> |                                        |                                                                                                   |
| <b>If Error rectified after preparation of Final Accounts</b>                                                                                                                                                                                                                                              | A A/c Dr. 10,000<br>To B A/c 10,000    | No Impact on Profits as nominal account is not involved.                                          |
| <b>Note:</b> Suitable Journal Entry is to be passed if a wrong account is credited in a transaction.                                                                                                                                                                                                       |                                        |                                                                                                   |

### (ii) Error of Commission in Subsidiary Books

1. **Error 1: Recording in the Wrong Subsidiary Book Eg. Credit Purchase Returns to Ram wrongly entered in Sales Returns Books ₹40,000 – (Step I – Error of Commission)**

| <b>Step II – Wrong Entry</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <b>Step III – Correct Entry</b>                        | <b>Step IV – Effect on Trial Balance</b>                                                                                                               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purchase Returns entered in Sales Returns Book.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Entry should be made in Purchase Returns Book          | This error will not affect Trial Balance as the error is made in the source itself. Hence, from S/R Book, it would have been posted to party a/c also. |
| <b>Step V – Suspense Account will not appear in the rectification entry.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                        |                                                                                                                                                        |
| <b>Step VI – Rectification Entry</b> <ul style="list-style-type: none"> <li>• Sales Returns is wrongly recorded. Hence, Sales Returns shows a higher amount. Sales Returns A/c normally has debit balance. To reduce this balance, it should be credited.</li> <li>• Purchase Returns should be recorded. Purchase returns A/c normally has credit balance. Hence, to rectify, Purchase Returns A/c should be credited.</li> <li>• Since, entry is wrongly made in Sales Returns Book, while posting to ledger, Ram A/c would have been credited for ₹40,000. However, strictly, Ram A/c should be debited with ₹40,000. Hence, to rectify, Ram A/c is now debited with ₹80,000 to rectify a wrong credit of ₹40,000 and bring the debit balance to ₹40,000.</li> </ul> |                                                        |                                                                                                                                                        |
| <b>If Error rectified after preparation of Final Accounts</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Ram Dr. 80,000<br>To Profit and Loss Adjustment 80,000 | Profits will increase by ₹80,000 as P&L Adj. A/c is credited.                                                                                          |
| <b>Note:</b> Opposite Entry will come if the Sales Returns is recorded as Purchase Returns in the Subsidiary Books.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                        |                                                                                                                                                        |

2. **Error 2: Recording the Wrong Amount in Subsidiary Book Eg. Credit Purchases of ₹15,000 to Ram wrongly entered as ₹1,500 – (Step I – Error of Commission)**

The Rectification Approach is similar to the rectification of wrong amount in Journal.

|                                               |        |
|-----------------------------------------------|--------|
| <b>Rectification Entry:</b> Purchases A/c Dr. | 13,500 |
| To Ram A/c                                    | 13,500 |

### (iii) Error of Commission in Ledger Posting

1. **Error 1: Posting a wrong amount from Journal / Subsidiary Book to Ledger: Expenses incurred by cash ₹15,000, wrongly posted as ₹1,50,000 in the Expenses A/c – (Step I – Error of Commission)**

| Step II – Wrong Entry                                                    | Step III – Correct Entry                                                                                                                                                                                                                                    | Step IV – Effect on Trial Balance                                                                                                                                                           |
|--------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Posted ₹15,000 as ₹1,50,000 to the debit of Expenses A/c                 | ₹15,000 should be posted to debit side of Expenses A/c                                                                                                                                                                                                      | This error <b>WILL</b> affect Trial Balance as it an excess amount of ₹1,35,000 is posted to the debit of Expenses A/c whereas correct amount is posted to the credit side of Cash Account. |
| <b>Step V – Suspense Account will appear in the rectification entry.</b> |                                                                                                                                                                                                                                                             |                                                                                                                                                                                             |
| Step VI – Rectification Entry                                            | Reasoning:                                                                                                                                                                                                                                                  |                                                                                                                                                                                             |
| Suspense A/c Dr. 1,35,000<br>To Expenses A/c 1,35,000                    | <ul style="list-style-type: none"> <li>Expenses A/c is wrongly debited with an excess ₹1,35,000. To rectify this, Expenses A/c is now credited with ₹1,35,000.</li> <li>As this error affect T/B, Suspense A/c is debited to rectify this error.</li> </ul> |                                                                                                                                                                                             |
| If Error rectified after preparation of Final Accounts                   | Suspense A/c Dr. 1,35,000<br>To Profit and Loss Adjustment 1,35,000                                                                                                                                                                                         | Profits will increase by ₹1,35,000 as P&L Adj. A/c is credited.                                                                                                                             |

2. **Error 2: Posting correct amount from Journal / Subsidiary Book to a Wrong Account: Rent paid by cash ₹15,000, posted to debit of Rent received A/c – (Step I – Error of Commission)**

| Step II – Wrong Entry                                                        | Step III – Correct Entry                                                                                                                                                                                    | Step IV – Effect on Trial Balance                                                                    |
|------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------|
| Posted ₹15,000 to the debit of Rent received A/c                             | ₹15,000 should be posted to debit side of Rent Paid A/c                                                                                                                                                     | This error <b>will not</b> affect the Trial Balance as there is a debit and credit for equal amount. |
| <b>Step V – Suspense Account will not appear in the rectification entry.</b> |                                                                                                                                                                                                             |                                                                                                      |
| Step VI – Rectification Entry                                                | Reasoning:                                                                                                                                                                                                  |                                                                                                      |
| Rent Paid A/c Dr. 15,000<br>To Rent Received A/c 15,000                      | <ul style="list-style-type: none"> <li>Rent Received A/c is wrongly debited. To rectify this, Rent Received A/c is credited. Rent Paid is to be debited. Hence, on rectification, it is debited.</li> </ul> |                                                                                                      |
| If Error rectified after preparation of Final Accounts                       | Profit and Loss Adjustment A/c Dr. 15,000<br>To Profit and Loss Adjustment 15,000                                                                                                                           | No Impact on Profits as there is a debit and credit for same amount.                                 |

3. **Error 3: Posting correct amount from Journal / Subsidiary Book to a Wrong Side of a Correct Account: Rent paid by cash ₹15,000, posted to credit side of Rent Paid A/c – (Step I – Error of Commission)**

| Step II – Wrong Entry                                                    | Step III – Correct Entry                                                                                                                                                                                                                                                                                                                    | Step IV – Effect on Trial Balance                                                                                                                                                                          |
|--------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Posted ₹15,000 to the Credit of Rent paid A/c                            | ₹15,000 should be posted to debit side of Rent Paid A/c                                                                                                                                                                                                                                                                                     | This error <b>will</b> affect the Trial Balance. A wrong credit for ₹15,000 is made in Rent Paid A/c. Already Cash A/c would be credited with ₹15,000. Hence there are 2 credits for ₹30,000, but no debit |
| <b>Step V – Suspense Account will appear in the rectification entry.</b> |                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                            |
| Step VI – Rectification Entry                                            | Reasoning:                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                            |
| Rent Paid A/c Dr. 30,000<br>To Suspense A/c 30,000                       | Rent Paid A/c is wrongly credited, instead of being debited for ₹15,000. Hence, before rectification, Rent Paid A/c has a credit balance of ₹15,000. However, Rent paid A/c should have a debit balance of ₹15,000. Hence, to rectify this, rent paid A/c is debited with ₹30,000 so that the net balance in Rent Paid A/c is ₹15,000 (Dr.) |                                                                                                                                                                                                            |
| If Error rectified after preparation of Final Accounts                   | Profit and Loss Adjustment A/c Dr. 30,000<br>To Suspense A/c 30,000                                                                                                                                                                                                                                                                         | Profits will decrease by ₹30,000 as P&L Adjustment is debited.                                                                                                                                             |

4. **Error 4: Posting Wrong Amount from Journal / Subsidiary Book to a Wrong Account: Rent paid by cash ₹15,000, posted to debit side of Rent received A/c as ₹1,50,000 – (Step I – Error of Commission)**

| Step II – Wrong Entry                                                    | Step III – Correct Entry                                | Step IV – Effect on Trial Balance                                                       |
|--------------------------------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------------------------------------|
| Posted ₹1,50,000 to the debit of Rent Received A/c                       | ₹15,000 should be posted to debit side of Rent Paid A/c | This error <b>will</b> affect the Trial Balance. An Excess debit is made for ₹1,35,000. |
| <b>Step V – Suspense Account will appear in the rectification entry.</b> |                                                         |                                                                                         |

|                                                               |                                                                                                                                                                                                                                                                        |                                                                   |
|---------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|
| <b>Step VI – Rectification Entry</b>                          | <b>Reasoning:</b> Rent Paid A/c should be debited for ₹15,000. Hence, it is now debited. Rent received A/c is wrongly debited for ₹1,50,000. To rectify this wrong debit, it should be credited for ₹1,50,000. The difference of ₹1,35,000 is debited to Suspense A/c. |                                                                   |
| <b>If Error rectified after preparation of Final Accounts</b> | Suspense A/c Dr. 1,35,000<br>To P&L Adj. A/c 1,35,000 (1,50,000–15,000)                                                                                                                                                                                                | Profits will increase by ₹1,35,000 as P&L Adjustment is credited. |

**5. Error 5: Posting Correct Amt from Journal / Subsidiary Book to Wrong Side of Wrong A/c: Rent paid by cash ₹15,000, posted to Credit side of Rent received A/c as ₹15,000 – (Step I – Error of Commission)**

| Step II – Wrong Entry                                                    | Step III – Correct Entry                                                                                                                                                                                                                                                                                                                  | Step IV – Effect on Trial Balance                                                                                                                                             |
|--------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Posted ₹15,000 to the Credit of Rent Received A/c                        | ₹15,000 should be posted to debit side of Rent Paid A/c                                                                                                                                                                                                                                                                                   | This error <b>will</b> affect Trial Balance. There is a wrong credit instead of a debit. So Credit side will be higher by ₹30,000 (already one credit in Cash + wrong credit) |
| <b>Step V – Suspense Account will appear in the rectification entry.</b> |                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                               |
| <b>Step VI – Rectification Entry</b>                                     | <b>Reasoning:</b> Rent Paid A/c should be debited for ₹15,000. Hence, it is now debited. Rent received A/c is wrongly credited for ₹15,000. To rectify this wrong credit, it should be debited for ₹15,000. This error leads to ₹30,000 difference in Trial Balance. Hence, to rectify this, the Suspense Account is credited for ₹30,000 |                                                                                                                                                                               |
| <b>If Error rectified after preparation of Final Accounts</b>            | P&L Adjustment A/c Dr. 30,000<br>To Suspense A/c 30,000                                                                                                                                                                                                                                                                                   | Profits will decrease by ₹30,000 as P&L Adjustment is debited.                                                                                                                |

**6. Error 6: Posting Wrong Amount from Journal / Subsidiary Book to a Wrong Side of Correct Account: Rent paid by cash ₹15,000, posted to Credit side of Rent Paid A/c ₹15,000 – (Step I – Error of Commission)**

| Step II – Wrong Entry                                                    | Step III – Correct Entry                                                                                                                                                                                                                                                   | Step IV – Effect on Trial Balance                                                                                                                                             |
|--------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Posted ₹15,000 to the Credit of Rent Paid A/c                            | ₹15,000 should be posted to debit side of Rent Paid A/c                                                                                                                                                                                                                    | This error <b>will</b> affect Trial Balance. There is a wrong credit instead of a debit. So Credit side will be higher by ₹30,000 (already one credit in Cash + wrong credit) |
| <b>Step V – Suspense Account will appear in the rectification entry.</b> |                                                                                                                                                                                                                                                                            |                                                                                                                                                                               |
| <b>Step VI – Rectification Entry</b>                                     | <b>Reasoning:</b> Rent Paid A/c should be debited for ₹15,000. However, it is credited for ₹15,000. To rectify this wrong credit, it is debited for ₹15,000. Further, to show debit balance in Rent Paid A/c, it is debited for further ₹15,000. So, Total Debit = ₹30,000 |                                                                                                                                                                               |
| <b>If Error rectified after preparation of Final Accounts</b>            | P&L Adjustment A/c Dr. 30,000<br>To Suspense A/c 30,000                                                                                                                                                                                                                    | Profits will decrease by ₹30,000 as P&L Adjustment is debited.                                                                                                                |

**7. Error 7: Posting Wrong Amt. from Journal / Subsidiary Book to Wrong Side of Wrong A/c: Rent paid by cash ₹15,000, posted to Credit side of Rent Received A/c ₹1,50,000 – (Step I – Error of Commission)**

| Step II – Wrong Entry                                                    | Step III – Correct Entry                                                                                                                                                                                                                                                                              | Step IV – Effect on Trial Balance                                                                                                                                                                                       |
|--------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Posted ₹1,50,000 to the Credit of Rent Received A/c                      | ₹15,000 should be posted to debit side of Rent Paid A/c                                                                                                                                                                                                                                               | This error <b>will</b> affect Trial Balance. There is a wrong credit instead of a debit for a wrong amount. So Credit side will be higher by ₹1,65,000 [already one credit in Cash (₹15,000)+ wrong credit (₹1,50,000)] |
| <b>Step V – Suspense Account will appear in the rectification entry.</b> |                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                         |
| <b>Step VI – Rectification Entry</b>                                     | <b>Reasoning:</b> Rent Paid A/c should be debited for ₹15,000. So, it is now debited. However, a wrong credit is given in Rent Received A/c for ₹1,50,000. To rectify this wrong credit, it is debited for ₹1,50,000. This error has led to Suspense A/c. So, Suspense A/c is credited for ₹1,65,000. |                                                                                                                                                                                                                         |
| <b>If Error rectified after preparation of Final Accounts</b>            | P&L Adjustment A/c Dr. 1,65,000<br>To Suspense A/c 1,65,000                                                                                                                                                                                                                                           | Profits will decrease by ₹1,65,000 as P&L Adjustment is debited.                                                                                                                                                        |

## (iv) Error of Commission in Balancing Ledger A/cs / Subsidiary Books

1. **Error 1: Over-casting on the Debit side of a ledger Account – Eg. Purchases Book / Purchases Account has been over-cast by ₹10,000 (Step I – Error of Commission)**

| Step II – Wrong Entry                                                                        | Step III – Correct Entry                                                                                                                                                                                                                                                    | Step IV – Effect on Trial Balance                                                                                                             |
|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| ₹15,000 totalled in excess on the debit side of the Bank A/c or Bank Column in the Cash Book | Debit Total of Bank A/c or Bank Column to be reduced by ₹15,000                                                                                                                                                                                                             | This error <b>will</b> affect Trial Balance. The debit of bank column is totalled in excess. Hence, debit balances will be > Credit balances. |
| <b>Step V – Suspense Account will appear in the rectification entry.</b>                     |                                                                                                                                                                                                                                                                             |                                                                                                                                               |
| Step VI – Rectification Entry                                                                | <b>Reasoning:</b> Bank Account is totaled in excess by ₹15,000 on the debit side. Due to this, the debit balance of bank account would be higher. To reduce this debit balance, bank account should be credited. Suspense A/c is debited as this affects the trial balance. |                                                                                                                                               |
| Suspense A/c                    15,000<br>To Bank A/c                    15,000              |                                                                                                                                                                                                                                                                             |                                                                                                                                               |
| If Error rectified after preparation of Final Accounts                                       | Suspense A/c                    15,000<br>To Bank A/c                    15,000                                                                                                                                                                                             | No impact on profits as nominal account is not involved.                                                                                      |

2. **Error 2: Over-casting on the Credit side of a ledger Account – Eg. Debtors Account has been over-cast by ₹25,000 on the Credit Side. (Step I – Error of Commission)**

| Step II – Wrong Entry                                                         | Step III – Correct Entry                                                                                                                                                                                                                                                      | Step IV – Effect on Trial Balance                                                                                                               |
|-------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| ₹25,000 totalled in excess on the Credit side of the Debtors A/c              | Credit Total of Debtors A/c to be reduced by ₹25,000                                                                                                                                                                                                                          | This error <b>will</b> affect Trial Balance. The Credit side of Debtors is totalled in excess. Hence, Credit balances will be > Debit balances. |
| <b>Step V – Suspense Account will appear in the rectification entry.</b>      |                                                                                                                                                                                                                                                                               |                                                                                                                                                 |
| Step VI – Rectification Entry                                                 | <b>Reasoning:</b> Credit Side of Debtors Account is totalled in excess by ₹25,000. Due to this, the debit balance of Debtors account would be lower. To increase the debit balance, Debtor account should be debited. Suspense A/c is credited as this affects Trial Balance. |                                                                                                                                                 |
| Debtors A/c                    25,000<br>To Suspense A/c               25,000 |                                                                                                                                                                                                                                                                               |                                                                                                                                                 |
| If Error rectified after preparation of Final Accounts                        | Suspense A/c                    25,000<br>To Bank A/c                    25,000                                                                                                                                                                                               | No impact on profits as nominal account is not involved.                                                                                        |

3. **Error 5: Under-Casting on the Debit side of a ledger Account / Subsidiary Book – Eg. Sales Returns Book is under-cast by ₹40,000 (Step I – Error of Commission)**

| Step II – Wrong Entry                                                          | Step III – Correct Entry                                                                                                                                                                                                                                                     | Step IV – Effect on Trial Balance                                                                                                                       |
|--------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| ₹40,000 totalled in short in Sales Returns Book                                | Total of Sales Returns Book to be increased by ₹40,000                                                                                                                                                                                                                       | This error <b>will</b> affect Trial Balance. The Debit side of Sales Returns A/c is totalled in short. Hence, Credit balances will be > Debit balances. |
| <b>Step V – Suspense Account will appear in the rectification entry.</b>       |                                                                                                                                                                                                                                                                              |                                                                                                                                                         |
| Step VI – Rectification Entry                                                  | <b>Reasoning:</b> Sales Returns Book is totalled in short by ₹40,000. Due to this, the debit balance of Sales Returns Account would be lower. To increase the Debit balance, Sales Returns account should be Credited. Suspense A/c is Credited as it affects Trial Balance. |                                                                                                                                                         |
| Sales Returns A/c               40,000<br>To Suspense A/c               40,000 |                                                                                                                                                                                                                                                                              |                                                                                                                                                         |
| If Error rectified after preparation of Final Accounts                         | P&L Adj. A/c A/c               40,000<br>To Suspense A/c               40,000                                                                                                                                                                                                | Profits will be reduced by ₹40,000 as P&L Adjustment Account is debited                                                                                 |

4. **Error 4: Under-casting on the Credit side of a ledger Account – Eg. Sales Account has been under-cast by ₹55,000 on the Credit Side. (Step I – Error of Commission)**

| <b>Step II – Wrong Entry</b>                                             | <b>Step III – Correct Entry</b>                                                                                                                                                                                                                                           | <b>Step IV – Effect on Trial Balance</b>                                                                                                     |
|--------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| ₹55,000 totalled in short on the Credit side of the Sales A/c            | Credit Total of Sales A/c to be increased by ₹55,000                                                                                                                                                                                                                      | This error <b>will</b> affect Trial Balance. The Credit side of Sales is totalled in short. Hence, Debit balances will be > Credit balances. |
| <b>Step V – Suspense Account will appear in the rectification entry.</b> |                                                                                                                                                                                                                                                                           |                                                                                                                                              |
| <b>Step VI – Rectification Entry</b>                                     | <b>Reasoning:</b> Credit Side of Sales Account is totalled in short by ₹55,000. Due to this, the Credit balance of Sales Account would be lower. To increase the Credit balance, Sales account should be Credited. Suspense A/c is debited as this affects Trial Balance. |                                                                                                                                              |
| If Error rectified after preparation of Final Accounts                   | Suspense A/c                    55,000<br>To P&L Adj. A/c                55,000                                                                                                                                                                                           | Profits will increase by ₹55,000 as P&L Adjustment Account is credited                                                                       |

|                                                              |                                                                |
|--------------------------------------------------------------|----------------------------------------------------------------|
| <b>5. Error 5: Wrong Balancing of Debit Balance Account</b>  | Same treatment as given above for Wrong Casting of the totals. |
| <b>6. Error 6: Wrong Balancing of Credit Balance Account</b> |                                                                |

#### Comprehensive Illustration for Rectification of Errors

1. Total of Purchases Book undercast by ₹90,000
2. Returns Inward Book has been overcast by ₹1,00,000
3. ₹25,000 paid towards Salary has been credited in Cash Book, but has not been posted in the Salary a/c.
4. Electricity Charges ₹15,000 has been debited to Electrical Fittings (Asset) Account.
5. Total of Discount Received from Suppliers as per Cash Book ₹3,000 has not been posted in the Nominal Ledger. But, the Parties Ledger has been properly recorded.
6. Credit Sales ₹1,80,000 made to Ram is correctly recorded in Sales Book, but posted as ₹1,00,000 in Ram's Account.
7. Sale of Old Machinery ₹45,000 has been recorded in the Sales Book.
8. ₹30,000 received from Ashwin (a Customer), has been credited to Balram's Account.
9. Rent paid ₹15,000 to Arun (Landlord) has been debited to his personal A/c.
10. Given that the debit balance in Suspense Account is ₹92,000

**Solution:**

**Stage I: Rectification before preparation of Trial Balance**

|    |                                                                                                 |                                                                                                                                                |  |
|----|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|--|
| 1. | Entry in the Purchase Account will be – "To undercasting of Purchases Book ₹ 90,000".           |                                                                                                                                                |  |
| 2. | Entry in the Sales Returns Account will be – "By overcasting of Sales Returns Book ₹ 1,00,000". |                                                                                                                                                |  |
| 3. | Entry in the Salary Account will be – "To omission of posting on..... ₹ 25,000".                |                                                                                                                                                |  |
| 4. | This will be rectified by the Journal Entry                                                     | Electricity Charges A/c                    Dr. 15,000<br>To Electrical Fittings (Asset) A/c                15,000                              |  |
| 5. | Entry in the Discount Received Account will be – "By omission of posting on..... ₹ 3,000".      |                                                                                                                                                |  |
| 6. | Entry in Ram A/c will be – "To wrong posting of Invoice No..... ₹ 80,000"                       |                                                                                                                                                |  |
| 7. | This will be rectified by the Journal Entry                                                     | Sales A/c                                              Dr. 45,000<br>To Machinery A/c                                      45,000              |  |
| 8. | This will be rectified by the Journal Entry                                                     | Balram A/c                                              Dr. 30,000<br>To Ashwin A/c                                              30,000        |  |
| 9. | This will be rectified by the Journal Entry                                                     | Rent A/c                                                      Dr. 15,000<br>To Arun (Landlord) A/c                                      15,000 |  |

**Stage II: Rectification after preparation of Trial Balance but before Final Accounts**

|    | <b>Particulars</b>                                                                                                                        | <b>Debit</b> | <b>Credit</b> |
|----|-------------------------------------------------------------------------------------------------------------------------------------------|--------------|---------------|
| 1. | Purchases A/c<br>To Suspense A/c<br>(Being wrong undercasting of Purchases Book, now rectified)                                           | Dr. 90,000   | 90,000        |
| 2. | Suspense A/c<br>To Sales Returns A/c<br>(Being wrong overcasting of Sales Returns Book, now rectified)                                    | Dr. 1,00,000 | 1,00,000      |
| 3. | Salary A/c<br>To Suspense A/c<br>(Being omission of posting of Salary A/c, now rectified)                                                 | Dr. 25,000   | 25,000        |
| 4. | Electricity Charges A/c<br>To Electrical Fittings (Asset) A/c<br>(Being Electricity Charges wrongly capitalized, now rectified)           | Dr. 15,000   | 15,000        |
| 5. | Suspense A/c<br>To Discount Received A/c<br>(Being omission of posting of Discount Received, now rectified)                               | Dr. 3,000    | 3,000         |
| 6. | Ram (Sundry Debtors)A/c<br>To Suspense A/c<br>(Being wrong posting of Ram's A/c as 1,00,000 instead of 1,80,000, rectified)               | Dr. 80,000   | 80,000        |
| 7. | Sales A/c<br>To Machinery A/c<br>(Being sale of old m/c, wrongly recorded in Sales Book, now rectified)                                   | Dr. 45,000   | 45,000        |
| 8. | Balram (Sundry Debtors) A/c<br>To Ashwin (Sundry Debtors) A/c<br>(Being collection from Ashwin wrongly credited to Balram, now rectified) | Dr. 30,000   | 30,000        |
| 9. | Rent A/c<br>To Arun (Landlord)A/c<br>(Being rent expense wrongly debited to Personal A/c, now rectified)                                  | Dr. 15,000   | 15,000        |

**Suspense A/c**

| <b>Particulars</b>           | <b>₹</b>        | <b>Particulars</b>             | <b>₹</b>        |
|------------------------------|-----------------|--------------------------------|-----------------|
| To balance b/d               | <b>92,000</b>   | By Purchases A/c (1)           | 90,000          |
| To Sales Returns A/c (2)     | 1,00,000        | By Salary A/c (3)              | 25,000          |
| To Discount Received A/c (5) | 3,000           | By Ram (Sundry Debtors)A/c (6) | 80,000          |
| <b>Total</b>                 | <b>1,95,000</b> | <b>Total</b>                   | <b>1,95,000</b> |

**Note:** Before rectification of the above errors, the Trial Balance will be showing a Balance (short debit) of ₹92,000. That difference will be rectified by the above rectification of errors. Hence, there will be no balance in Suspense A/c.

**Stage III: Rectification of errors in next accounting period**

|    | <b>Particulars</b>                                                                                                  | <b>Debit</b> | <b>Credit</b> |
|----|---------------------------------------------------------------------------------------------------------------------|--------------|---------------|
| 1. | Profit and Loss Adjustment A/c<br>To Suspense A/c<br>(Being wrong undercasting of Purchases Book, now rectified)    | Dr. 90,000   | 90,000        |
| 2. | Suspense A/c<br>To Profit and Loss Adjustment A/c<br>(Being wrong overcasting of Sales Returns Book, now rectified) | Dr. 1,00,000 | 1,00,000      |
| 3. | Profit and Loss Adjustment A/c<br>To Suspense A/c<br>(Being omission of posting of Salary A/c, now rectified)       | Dr. 25,000   | 25,000        |

|    | <b>Particulars</b>                                                                                                                        | <b>Debit</b> | <b>Credit</b> |
|----|-------------------------------------------------------------------------------------------------------------------------------------------|--------------|---------------|
| 4. | Profit and Loss Adjustment A/c<br>To Electrical Fittings (Asset) A/c<br>(Being Electricity Charges wrongly capitalized, now rectified)    | Dr. 15,000   | 15,000        |
| 5. | Suspense A/c<br>To Profit and Loss Adjustment A/c<br>(Being omission of posting of Discount Received, now rectified)                      | Dr. 3,000    | 3,000         |
| 6. | Ram (Sundry Debtors)A/c<br>To Suspense A/c<br>(Being wrong posting of Ram's A/c as 1,00,000 instead of 1,80,000, rectified)               | Dr. 80,000   | 80,000        |
| 7. | Profit and Loss Adjustment A/c<br>To Machinery A/c<br>(Being sale of old m/c, wrongly recorded in Sales Book, now rectified)              | Dr. 45,000   | 45,000        |
| 8. | Balram (Sundry Debtors) A/c<br>To Ashwin (Sundry Debtors) A/c<br>(Being collection from Ashwin wrongly credited to Balram, now rectified) | Dr. 30,000   | 30,000        |
| 9. | Profit and Loss Adjustment A/c<br>To Arun (Landlord)A/c<br>(Being Rent Expense wrongly debited to Personal A/c, now rectified)            | Dr. 15,000   | 15,000        |

#### **Suspense A/c**

| <b>Particulars</b>                    | <b>₹</b>        | <b>Particulars</b>                    | <b>₹</b>        |
|---------------------------------------|-----------------|---------------------------------------|-----------------|
| To balance b/d                        | 92,000          | By Profit and Loss Adjustment A/c (1) | 90,000          |
| To Profit and Loss Adjustment A/c (2) | 1,00,000        | By Profit and Loss Adjustment A/c (3) | 25,000          |
| To Profit and Loss Adjustment A/c (5) | 3,000           | By Ram (Sundry Debtors)A/c (6)        | 80,000          |
| <b>Total</b>                          | <b>1,95,000</b> | <b>Total</b>                          | <b>1,95,000</b> |

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

| <b>Particulars</b>                     | <b>₹</b>        | <b>Particulars</b>  | <b>₹</b>        |
|----------------------------------------|-----------------|---------------------|-----------------|
| To Suspense A/c (1)                    | 90,000          | By Suspense A/c (2) | 1,00,000        |
| To Suspense A/c (3)                    | 25,000          | By Suspense A/c (5) | 3,000           |
| To Electrical Fittings (Asset) A/c (4) | 15,000          |                     |                 |
| To Machinery A/c (7)                   | 45,000          |                     |                 |
| To Arun (Landlord)A/c (9)              | 15,000          | By balance c/d      | 87,000          |
| <b>Total</b>                           | <b>1,90,000</b> | <b>Total</b>        | <b>1,90,000</b> |

**Note:** Depreciation on Furniture purchased, and Loss on Sale of Old Machinery is ignored.

### Practical Illustrations

1. A book-keeper 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. From the following, Give appropriate Journal Entries with full narration and prepare Suspense A/c.
- Purchased Goods from Ravi ₹15,000 but entered into Sales Book.
  - Received one Bill for ₹25,000 from Arun but recorded in Bills Payable Book.
  - An item of ₹3,500 relating to Prepaid Rent Account was omitted to be brought forward.
  - An item of ₹2,000 in respect of Purchases Return had been wrongly entered in the Purchase Book.
  - ₹25,000 paid to Hari against our acceptance were debited to Harish's Account.
  - Bills received from Janaki for Repairs done to Radio ₹2,500 and Radio supplied for ₹45,000 were entered in the Purchase Book as ₹46,000.

**Solution:**

#### 1. Rectification Entries

|    | Particulars                                                                                                                                                                                          | Dr.        | Cr.                                    |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------------------------------------|
| 1. | Purchases<br>A/c Sales A/c<br><br>To Ravi A/c<br><br>(Being the rectification of error by which Purchases were wrongly entered into Sales Book)                                                      | Dr.<br>Dr. | 15,000<br>15,000<br><br>30,000         |
| 2. | Bills Receivable A/c<br>Bills Payable A/c<br><br>To Arun A/c<br><br>(Being the rectification of recording in Bills Payable Book instead of Bills Receivable Book)                                    | Dr.<br>Dr. | 25,000<br>25,000<br><br>50,000         |
| 3. | Prepaid Rent A/c<br><br>To Suspense A/c<br><br>(Being the error by which Prepaid Rent A/c was omitted to be brought forward, rectified)                                                              | Dr.        | 35,000<br><br>35,000                   |
| 4. | Suspense A/c<br><br>To Purchases A/c<br>To Purchases Returns A/c<br><br>(Being the rectification of error by which Purchase Returns had been wrongly entered in the Purchase Book)                   | Dr.        | 4,000<br><br>2,000<br>2,000            |
| 5. | Bills Payable A/c<br><br>To Harish A/c<br><br>(Being the rectification of wrong debit to Harish Account instead of Bills Payable Account)                                                            | Dr.        | 25,000<br><br>25,000                   |
| 6. | Repairs<br>A/c Radio<br>A/c<br><br>To Purchases<br>A/c To Suspense<br>A/c<br><br>(Being the rectification of wrong recording of amount of Repairs and cost of Radio purchased in the Purchases Book) | Dr.<br>Dr. | 2,500<br>45,000<br><br>46,000<br>1,500 |

#### 2. Suspense Account

| Dr.                     | Particulars  | ₹                        | Cr.          |
|-------------------------|--------------|--------------------------|--------------|
| To Balance b/d          | 1,000        | By Prepaid Rent A/c      | 3,500        |
| To Purchases A/c        | 2,000        | By Repairs and Radio A/c | 1,500        |
| To Purchase Returns A/c | 2,000        |                          |              |
| <b>Total</b>            | <b>5,000</b> | <b>Total</b>             | <b>5,000</b> |

2. The Accountant of X prepared the Trial Balance for the year ended 31<sup>st</sup> March. But there was a difference and the Accountant put the difference in Suspense Account. Rectify the following errors found and prepare the Suspense Account:
- The total of the Returns Outward Book, ₹420 has not been posted in the Ledger.
  - A Purchase of ₹350 from Y has been entered in the Sales Book. However, Y's Account has been correctly entered.
  - A Sale of ₹390 to Z has been credited to his account as ₹290.
  - Old Furniture sold for ₹5,400 had been entered as ₹4,500 in Sales Account.
  - Goods taken by Proprietor, ₹500 have not been entered in the books at all.

**Solution:**

**1. Rectification Entries**

|    | Particulars                                                                                                                                                             | Dr.        | Cr.                       |
|----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|---------------------------|
| 1. | Suspense A/c<br>To Return Outward A/c<br>(Being the rectification of error of Return Outward A/c not posted)                                                            | Dr.<br>Dr. | 420<br>420                |
| 2. | Sales A/c<br>Purchases A/c<br><br>To Suspense A/c<br>(Being the Rectification of the wrong Credit to Sales A/c and placing the correct Debit to Purchases Account)      | Dr.<br>Dr. | 350<br>350<br><br>700     |
| 3. | Z A/c<br>To Suspense A/c<br>(Being the conversion of credit of ₹290 into a debit of ₹390 in the account of Z)                                                           | Dr.        | 680<br>680                |
| 4. | Sales A/c<br>Suspense<br>A/c<br><br>To Furniture A/c<br>(Being the rectification of error by which Sales A/c was credited by ₹4,500 instead of ₹5,400 in Furniture A/c) | Dr.<br>Dr. | 4,500<br>900<br><br>5,400 |
| 5. | Drawings A/c<br>To Purchases A/c<br>(Being the error relating to omission of entry of ₹500 worth of goods taken by the Proprietor rectified)                            | Dr.        | 500<br>500                |

**2. Suspense Account**

| Dr.                                                 | ₹            | Cr.                  |
|-----------------------------------------------------|--------------|----------------------|
| To Difference in Trial Balance ( <b>Bal. fig.</b> ) | 60           | By Sales Account     |
| To Return Outward Account                           | 420          | By Purchases Account |
| To Furniture Account                                | 900          | By Z Account         |
| <b>Total</b>                                        | <b>1,380</b> | <b>Total</b>         |
|                                                     |              | <b>1,380</b>         |

3. A book-keeper while preparing his Trial Balance finds that the Debit exceeds by ₹7,250. Being required to prepare the Final Accounts he places the difference to a Suspense Account. In the next year, the following mistakes were discovered.
- Sale of ₹ 4,000 has been passed through the Purchase Day Book. Entry in Customer's A/c has been correctly recorded.
  - Goods worth ₹ 2,500 taken away by the Proprietor for his use has been debited to Repairs Account.
  - A Bill Receivable for ₹ 1,300 received from Krishna has been dishonored on maturity but no Entry passed.
  - Salary ₹650 paid to a Clerk has been debited to his Personal Account.
  - A purchase of ₹750 from Raghubir has been debited to his Account. Purchases Account has been correctly debited.
  - A sum of ₹2,250 written off as Depreciation on Furniture has not been debited to Depreciation Account.

Draft the Journal Entries for rectifying the above mistakes and prepare Suspense Account.

**Solution:****1. Journal Entries**

|    | <b>Particulars</b>                                                                                                                       | <b>Dr.</b>     | <b>Cr.</b> |
|----|------------------------------------------------------------------------------------------------------------------------------------------|----------------|------------|
| 1. | Suspense A/c<br>To P & L Adjustment A/c<br>(Being Rectification of Credit Sale wrongly passed through the Purchase Day Book)             | Dr. 8,000      | 8,000      |
| 2. | Drawings A/c<br>To P & L Adjustment A/c<br>(Being Goods withdrawn for personal use wrongly debited to Repairs A/c, now rectified)        | Dr. 2,500      | 2,500      |
| 3. | Krishna A/c<br>To Bills Receivable A/c<br>(Being Entry for Bill drawn on Krishna dishonoured on maturity)                                | Dr. 1,300      | 1,300      |
| 4. | P & L Adjustment A/c<br>To Clerk's Personal A/c<br>(Being Salary paid to a Clerk wrongly debited to his Personal Account, now rectified) | Dr. 650        | 650        |
| 5. | Suspense A/c<br>To Raghbir A/c<br>(Being Goods purchased from Raghbir wrongly debited to his Account, rectified)                         | Dr. 1,500<br>Q | 1,500      |
| 6. | P & L Adjustment A/c<br>To Suspense A/c<br>(Being Depreciation of Furniture not posted to Depreciation Account now rectified)            | Dr. 2,250      | 2,250      |

**2. Suspense Account**

| <b>Particulars</b>      | <b>₹</b>     | <b>Particulars</b>      | <b>₹</b>     |
|-------------------------|--------------|-------------------------|--------------|
| To P & L Adjustment A/c | 8,000        | By Balance b/d          | 7,250        |
| To Raghbir A/c          | 1,500        | By P & L Adjustment A/c | 2,250        |
| <b>Total</b>            | <b>9,500</b> | <b>Total</b>            | <b>9,500</b> |

**Note:** Instead of using Profit & Loss Adjustment Account for the purpose of rectification of errors affecting revenue items, another account namely Prior Period Adjustment Account may be opened for this purpose. The balance of the Prior Period Adjustment Account is to be ultimately transferred to Profit & Loss Account.

4. The following mistakes were located in the books of a Concern after its books were closed and a Suspense Account was opened in order to get the Trial Balance agreed: N 18

- (a) Sales Day Book was overcast by ₹ 1,000.
- (b) A Sale of ₹ 5,000 to X was wrongly debited to the Account of Y.
- (c) General Expenses ₹ 180 was posted in the General Ledger as ₹ 810.
- (d) A Bill Receivable for ₹ 1,550 was passed through Bills Payable Book. The Bill was given by P.
- (e) Legal Expenses ₹ 1,190 paid to Mrs. Neetu was debited to her Personal Account.
- (f) Cash received from Ram was debited to Shyam ₹ 1,500.
- (g) 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 Account and pass Entries (including narration) for the rectification of the above errors in the subsequent year's books.

**Solution:****1. Rectification Entries**

|    | <b>Particulars</b>                                                                                                                              | <b>Debit(₹)</b> | <b>Credit(₹)</b> |
|----|-------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|------------------|
| 1. | Profit and Loss Adjustment A/c<br>To Suspense A/c<br>(Being wrong over casting of Sales Day Book, now rectified)                                | Dr. 1,000       | 1,000            |
| 2. | X (Sundry Debtors) A/c<br>To Y (Sundry Debtors) A/c<br>(Being Sale to X wrongly debited to Y, now rectified)                                    | Dr. 5,000       | 5,000            |
| 3. | Suspense A/c (₹ 810 – ₹ 180)<br>To Profit and Loss Adjustment A/c<br>(Being wrong posting of General Expenses as 810 instead of 180, rectified) | Dr. 630         | 630              |

|    | Particulars                                                                                                                                            | Debit(₹)       | Credit(₹)      |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| 4. | Bills Receivable A/c<br>Bills Payable A/c<br>To Suspense A/c<br>(Being Bills Receivable passed through Bills Payable Book, now rectified) [Note]       | 1,550<br>1,550 | 3,100          |
| 5. | Profit and Loss Adjustment A/c<br>To Neetu A/c<br>(Being Legal Expenses wrongly debited to Neetu's A/c, now rectified)                                 | 1,190          | 1,190          |
| 6. | Suspense A/c<br>To Ram (Sundry Debtors) A/c<br>To Shyam (Sundry Debtors) A/c<br>(Being Cash received from Ram wrongly debited to Shyam, now rectified) | 3,000          | 1,500<br>1,500 |
| 7. | Suspense A/c (₹ 1,325 – ₹ 1,235)<br>To Profit and Loss Adjustment A/c<br>(Being wrong overcasting of Purchase Book, now rectified)                     | 90             | 90             |

**Note:** It is assumed that it is correctly entered in P's A/c. If it is assumed that it is wrongly entered in P's A/c, Entry will be –

|                                                                           |     |       |       |
|---------------------------------------------------------------------------|-----|-------|-------|
| Bills Receivable A/c                                                      | Dr. | 1,550 |       |
| Bills Payable A/c                                                         | Dr. | 1,550 |       |
| To P A/c                                                                  |     |       | 3,100 |
| (Being Bills Receivable passed through Bills Payable Book, now rectified) |     |       |       |

## 2. Suspense A/c

| Particulars                           | ₹            | Particulars                           | ₹            |
|---------------------------------------|--------------|---------------------------------------|--------------|
| <b>To balance b/d (Bal. fig.)</b>     | <b>380</b>   | By Profit and Loss Adjustment A/c (1) | 1,000        |
| To Profit and Loss Adjustment A/c (3) | 630          | By Bills Receivable A/c (4)           | 1,550        |
| To Ram (Sundry Debtors) A/c (6)       | 1,500        | By Bills Receivable A/c (4)           | 1,550        |
| To Shyam (Sundry Debtors) A/c (6)     | 1,500        |                                       |              |
| To Profit and Loss Adjustment A/c (7) | 90           |                                       |              |
| <b>Total</b>                          | <b>4,100</b> | <b>Total</b>                          | <b>4,100</b> |

**Note:** Nature & Amount of Suspense Account = ₹ 380 (Dr. Balance).

5. Give journal entries (with narrations) to rectify the following errors located in the books of a Trader after preparing the Trial Balance: M 19
- (i) An amount of ₹ 4,500 received on account of Interest was credited to Commission account
  - (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 accounts.

**Solution:**

### 1. Rectification Entries after preparation of Trial Balance but before preparation of Final Accounts

| Sl No. | Particulars                                                                                                                                                | Dr.    | Cr.    |
|--------|------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------|
| 1.     | Commission A/c<br>To Interest A/c<br>(Being the rectification of error by which Interest received wrongly credited to Commission Account)                  | 4,500  | 4,500  |
| 2.     | Sobhag Traders A/c (4,760-4,670)<br>To Suspense A/c<br>(Being the conversion of debit of ₹ 2,670 into a debit of ₹ 2,760 in the account of Sobhag Traders) | 90     | 90     |
| 3.     | Drawings A/c<br>To Machinery A/c<br>(Being Air Conditioner withdrawn for personal use wrongly debited to Machinery A/c, now rectified)                     | 35,000 | 35,000 |

| Sl No. | Particulars                                                                                                        | Dr.       | Cr.   |
|--------|--------------------------------------------------------------------------------------------------------------------|-----------|-------|
| 4.     | Sales Return A/c<br>To Customer A/c<br>(Being the error relating to omission of entry of goods of ₹ 5,000 returns) | Dr. 5,000 | 5,000 |

**Question 6: Rectification of Errors****N 19**

Correct the following errors (i) without opening a Suspense Account and (ii) with opening a Suspense Account:

- (1) The sales book has been totalled ₹ 2,100 short.
- (2) Goods worth ₹ 1,800 returned by Gaurav & Co. have not been recorded anywhere.
- (3) Goods purchased ₹ 2,250 have been posted to the debit 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 account of Radhe Mohan & Co. has, however, been correctly posted.

**Solution:****(i) without opening a Suspense Account can be done if Rectification of errors is before preparation of Trial Balance**

|    |                                                                                           |                      |            |                                |
|----|-------------------------------------------------------------------------------------------|----------------------|------------|--------------------------------|
| 1. | Entry in the Sales Account will be – "By under-casting of Sales Book ₹ 2,100".            |                      |            |                                |
| 2. | This will be rectified by the Journal Entry                                               | Sales Return A/c     | Dr. 1,800  | To Gaurav & Co A/c 1,800       |
| 3. | Entry in the Sen Brothers Account will be – "By wrong posting on Debit Side ₹ 4,500".     |                      |            |                                |
| 4. | This will be rectified by the Journal Entry                                               | Furniture A/c(Asset) | Dr. 15,000 | To Purchase A/c 15,000         |
| 5. | This will be rectified by the Journal Entry                                               | Black and White A/c  | Dr. 1,200  | To Discount Received A/c 1,200 |
| 6. | Entry in Discount Allowed A/c will be – "To Radhe Mohan & Co. omitted to be posted ₹ 180" |                      |            |                                |

**(ii) with opening a Suspense Account**

|    | Particulars                                                                                                                                                | Debit      | Credit |
|----|------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|--------|
| 1. | Suspense A/c<br>To Sales A/c<br>(Being wrong undercasting of Sales Book, now rectified)                                                                    | Dr. 2,100  | 2,100  |
| 2. | Sales Return A/c<br>To Gaurav & Co<br>(Being omission of Return of Goods by Gaurav & Co, now rectified)                                                    | Dr. 1,800  | 1,800  |
| 3. | Suspense A/c<br>To Sen Brothers A/C<br>(Being wrong posting of Purchases made from Sen Brothers on the Debits side of Sen Brothers Account, now rectified) | Dr. 4,500  | 4,500  |
| 4. | Furniture (Asset) A/c<br>To Purchases A/c<br>(Being Purchase of Furniture wrongly recorded in purchase daybook, now rectified)                             | Dr. 15,000 | 15,000 |
| 5. | Black and White A/c<br>To Discount Received A/c<br>(Being omission of Recording of Discount Received from Black and White, now rectified)                  | Dr. 1,200  | 1,200  |

|    | <b>Particulars</b>                                                                                        | <b>Debit</b> | <b>Credit</b> |
|----|-----------------------------------------------------------------------------------------------------------|--------------|---------------|
| 6. | Discount Allowed A/c<br>To Suspense A/c<br>(Being omission of posting of Discount Allowed, now rectified) | Dr. 180      | 180           |

**State with reasons, whether the following statements are True or False:**

| <b>Statements</b>                                                                                                                          | <b>T/F</b>     | <b>Reasoning</b>                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. If the amount is posted in the wrong account or it is written on the wrong side of the account, it is called error of principle. [M 19] | False          | The Error of Commission represents that amount which is posted in the wrong Account or written on the wrong side of an Account.                                                                                                                                                                                                                       |
| 2. Errors of Principle will effect Trial Balance.                                                                                          | False          | In case of Errors of Principle, Double Entry Principle is followed and so Trial Balance is not affected.                                                                                                                                                                                                                                              |
| 3. Rectification of Mistakes is necessary to tally the Trial Balance.                                                                      | False          | Trial Balance can be tallied by debiting or crediting the amount to Suspense Account. However, Rectification of Mistakes is necessary to have a Proper Accounting.                                                                                                                                                                                    |
| 4. 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.     | True           | The Error of Commission represents that amount which is posted in the wrong Account or written on the wrong side of an Account.                                                                                                                                                                                                                       |
| 5. Wrong casting of Subsidiary Books does not affect the Trial Balance.                                                                    | False          | Wrong casting of Subsidiary Books affects the Trial Balance.                                                                                                                                                                                                                                                                                          |
| 6. A tallied Trial Balance will not reveal Compensation Errors and Errors on account of wrong balancing.                                   | True/<br>False | A tallied Trial Balance will not reveal Compensating Errors as it will agree inspite of the existence of these Errors. However, in the case of errors on account of wrong balancing, the Trial Balance will not tally. However, the Statement will be true in the limited cases where the Errors on account of wrong balancing get fully compensated. |
| 7. Compensating Errors do not disturb agreements of Trial Balance.                                                                         |                |                                                                                                                                                                                                                                                                                                                                                       |
| 8. Any type of Error affects the agreement of Trial Balance.                                                                               | False          | Every Error does not affect the agreement of Trial Balance.<br><b>Example:</b> Compensating Errors do not affect Trial Balance.                                                                                                                                                                                                                       |
| 9. Purchase of Office Furniture has been debited to General Expenses A/c. It is a Compensating Error.                                      | False          | It is an Error of Principle, since this transaction is recorded in contravention of accounting principles, i.e. the item of Capital nature treated as an item of Revenue Nature.                                                                                                                                                                      |
| 10. Error of carry-forward of totals of Purchase Journals affects two Accounts.                                                            | False          | It will affect only one Account, i.e. Purchases Account and finally it will result in disagreement of Trial Balance.                                                                                                                                                                                                                                  |
| 11. Errors of Principle involves incorrect allocation of Expense / Receipt between Capital and Revenue.                                    | True           | Recording the transaction in incorrect manner                                                                                                                                                                                                                                                                                                         |
| 12. Travelling Expenses of ₹ 80,000 paid to a Technician for the Installation of a New Machine is debited to Profit and Loss Account.      | False          | The Expenditure is a Capital Expenditure, since it has been incurred to put the Asset in working condition. So, it should be capitalized by debiting to the Machine Account.                                                                                                                                                                          |
| 13. Errors of complete omission will be located, if Trial Balance is prepared.                                                             | False          | In case of error of complete omission, both debit and credit aspects of an Entry are not recorded and therefore, it will not affect Trial Balance, hence cannot be located.                                                                                                                                                                           |
| 14. Under or over-casting of a Subsidiary Book is an example of Error of Commission.                                                       | True           | Errors of commission includes errors on account of wrong balancing of an Account, wrong carry forward, wrong totaling etc., whether of Subsidiary or any other Books.                                                                                                                                                                                 |
| 15. Rectifying Errors in subsequent accounting period always effects the Profit or Loss of that period.                                    | False          | When Errors affecting Profit or Loss are rectified in a subsequent accounting period, a Profit and Loss Adjustment A/c is opened, which is charged with such Rectifications (Prior Period Items) after deriving Net Profit of later period, hence Profit of that period is not affected.                                                              |