

## 1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 01 (Class XI, Semester - 1)
Module Name/Title	Rectification of Errors (continued) – Part 2
Module Id	keac_10402
Pre-requisites	Basic knowledge of about journalizing, Posting and summarizing
Objectives	After going through this lesson, the learners will be able to understand the following: <ul style="list-style-type: none"><li>• Identify the types of errors in the preparation of accounts</li><li>• Rectify the identified errors occurred in the preparation of accounts</li><li>• Understand the use of suspense account for rectifying errors</li></ul>
Keywords	Errors, Suspense account, Rectification of errors, Trial balance

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## **Table of Content :**

1. Errors: Meaning
2. Rectification of Errors affecting trial balance
3. Rectification of Errors not affecting trial balance
4. Use of Suspense Account in rectifying errors

### **1. Errors-Meaning**

The unintentional omission or commission of amount and accounts in the process of recording of business transactions is termed as error. The occurrences of any such errors are generally committed either at the stage of collecting the accounting data or the recording of accounting data which is further processed for the preparation of financial statements. In addition to this, errors may occur as a result of arithmetical calculations, mistakes in applying the accounting concepts, misrepresentation of facts or it can be an instance of oversight. Once any such type of errors is detected, it becomes important for the business concern to rectify them for the correctness of financial statements.

Before the business concerns proceed to prepare its financial statements, it is deemed important to evaluate the arithmetic accuracy of journal and ledger accounts and summarizing the accounting data for further processing and generation of accounting information for the benefit of users for drawing decision worthy information by both internal and external users. For this purpose trial balance is prepared it is important that the trial balance should tally. In case, the trial balance does not tally, it is inferred that there exists some kind of errors which require accountants' immediate attention and needs measures for rectification. However, it is pinpointed here that the agreement of trial balance is not a conclusive evidence of accuracy of recording of accounting data in the book of accounts. In other words, there are types of errors which do not affect the agreement of trial balance but it is important to rectify them since such errors can affect the determination of profit/loss and assets and liabilities of a business concern.

Errors can occur at any stage of maintaining the books of accounts:

*Errors at the time of recording the transactions:*

Error of Principle

Error of Omission

Error of Commission

*Errors at the time of Posting the transactions*

Errors of Omission: (i) Partial omission or (ii) Complete omission

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Error of Commission: (i) Posting to a wrong account or (ii) Posting to a wrong side of the account or (iii) Carrying Forward the balance to the wrong side of the account

*Errors at the time of balancing*

Wrong totaling of accounts

Wrong balancing of accounts

*Errors at the time of preparing the trial balance*

Error of omission

Error of Commission

Taking to the wrong account, amount or side

In accounting there are some definite methods to rectify the accounting errors. These are based on accounting practices and procedures. It is generally done by passing an entry to nullify the effect of error. Methods of rectification of accounting errors is categorized as (i) before preparing Trial Balance and (ii) after preparing the trial balance

If the error is detected immediately after making an accounting entry, it may be corrected by neatly crossing out the wrong entry and making the correct entry and the accountant should put his initials. Suppose , an amount of Rs. 1,03,500 is written as Rs. 1,30,500 can be corrected as 1,03500.

In case error is detected on a date later than the date on which the transaction was recorded but before the Trial Balance, the rectification will be made by making a correction in the affected account.

This module deals with the process of rectifying the errors under to broad categories:

Errors which do not affect trial balance i.e., double sided errors

Errors which affect trial balance i.e., single sided errors

**Points of Caution on the detection of error**

1. Errors should never be corrected by overwriting.
2. Rather, if the error is located immediately after making an entry , the wrong entry be corrected by neatly crossing the wrong entry and passing the correct entry in the book of accounts.
3. Debit and credit of the respective account with its amount in rupees and explanatory note may be given.
4. If the error is located at a later time, correction is done by recording the rectifying entry.

*6.6.1 Rectification of Errors which do not affect the trial balance*

These errors are committed in two or more accounts. Such errors are also known as two sided errors. They can be rectified by recording a journal entry giving the correct debit and credit to the concerned accounts. Examples of such errors are – complete omission to record an entry in the books of original entry; wrong recording of transactions in the book of accounts;

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complete omission of posting to the wrong account on the correct side, and errors of principle.

The rectification process essentially involves:

Cancelling the effect of wrong debit or credit by reversing it; and

Restoring the effect of correct debit or credit.

For this purpose, analysis of errors in terms of its effect on the accounts involved is taken up which may have resulted in the:

Short debit or credit in an account ; and/or

Excess debit or credit in an account.

Therefore, rectification entry can be done by:

Cancelling the effect of wrong debit or credit by reversing it; and

Restoring the effect of correct debit or credit.

Let us now understand the kind of errors which are categorized under this:

#### *Error of Principle*

Such type of errors arises when the accounting concepts are not applied correctly and the transaction is recorded ignoring distinction between the capital items and the revenue items. This kind of error involves an incorrect allocation of expenditure or receipt between capital and revenue. In this case there is no effect on the trial balance but it disturbs the final results in the financial statements and consequently information communicated is either under stated or over stated for assets, liabilities, incomes or expenses.

#### *Error of Omission*

Such type of error occurs when a transaction is either completely or partially omitted in the book of accounts. It is the complete omission of the transaction which do not affect the agreement of trial balance i.e., the business transaction is not recorded in the book of accounts at all or the transaction is recorded in the General journal but failed to be recorded in the ledger at all.

#### *Compensating Errors*

Such type of errors is generally arithmetic errors. When one mistake nullifies the wrong effect of another, it is called a compensating error. It may be noted that such error may also involve more than two numbers balancing each other. One plus is set off by the other minus, the net effect of these two errors is nil and so they do not affect the agreement of trial balance.

The following table presents the examples of errors which do not affect trial balance:

Wages paid for installing a new machinery was charged to wages a/c instead of machinery account	Error of Principle
Purchase of Air conditioner on credit is not recorded in Purchase journal	Error of Principle
Goods purchased from M/s Sunshine pvt. Ltd., was not recorded in the book of accounts	Error of Complete Omission
Sohan's a/c is debited by Rs 3,250 while it was to be debited by Rs 3,500 and Mohan's a/c is debited by Rs 3,500 while the same was to be debited by Rs. 2,350	Compensating Error

*Procedure for rectification 'Errors not affecting Trial Balance'*

**Solved Examples**

<b>Nature of Error Committed</b>	Credit sales to Mohan Rs. 50,000 were not recorded in the Sales Journal	
	<b>Type of Error</b> Error of Complete Omission	
	<b>Effect of Error</b> Mohan's account has not been debited and Sales account has not been credited Recording usual entry for credit sales will rectify the error.	
	<b>Rectification</b>	
	Mohan's a/c	Dr. 50,000
	To Sales a/c	50,000
<b>Nature of Error Committed</b>	Goods purchased for Rs. 15,000 from Rohan was not recorded in the purchase journal	
	<b>Type of Error</b> Error of Complete Omission	
	<b>Effect of Error</b> Rohan's account has not been credited and purchases account has not been debited. Recording usual entry for credit purchase will rectify the error.	
	<b>Rectification</b>	
	Purchases a/c	Dr. 15,000
	To Rohan's a/c	15,000
<b>Nature of Error Committed</b>	Rent paid Rs. 2,000 has been shown payment to landlord account in the cash book.	
	<b>Type of Error</b> Error of Principle	
	<b>Effect of Error</b> Landlord account is wrongly debited instead of Rent account. The landlord account will be credited and Rent account will be debited.	
	<b>Rectification</b>	
	Rent a/c	Dr.
	To Landlord's a/c	
<b>Nature of Error Committed</b>	The fixed asset account is wrongly totalled and understated by Rs. 600 and the fees paid account is	

		wrongly totalled and is overstated by Rs. 600.	
<b>Type of Error</b>		Compensating Error	
<b>Effect of Error</b>		The two simultaneous errors have affected each other and the trial balance is not disagreeing.	
<b>Rectification</b>		Fixed assets a/c    Dr.	600
		To Fees paid a/c	600

#### **Steps for Rectification of two sided errors**

- ✓ Write the wrong entry (i.e., the entry recorded in the book of accounts)
- ✓ Write the reverse of wrong entry to nullify the effect of entry in step 1.
- ✓ Write the correct entry (i.e., the entry which should have been recorded)
- ✓ Write the net effect of reverse entry (step 2) and the correct entry (step 3)
- ✓ Error stands rectified.

### **Errors of Commission:**

**When a error is committed while recording a business transaction with a wrong amount or posting to wrong side of the account it is named as error of commission.**

Error of commission can be of the following types and may affect or may not affect the trial balance:

*Errors committed while recording a transaction in the Special Purpose books*

Recording in the wrong book of accounts.

Example: Credit purchase of goods from Rakesh is recorded in the Sales Book.
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Recording in the book of accounts correctly with wrong amount.

Example: Goods sold to Shabnam of Rs. 4200 was recorded in the Sales Book as Rs.2,400.
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## **2. Rectification of Errors Affecting Trial Balance**

Accounting errors that affect only one side of an account which may be either its debit side or credit side, is called one sided error. The reason of such error is that while posting a recorded transaction one account is correctly posted while the corresponding account is not correctly posted. For example, Sales Book is overcast by Rs.1000. In this case only Sales account is wrongly credited by excess amount of Rs.1000 while the corresponding account of the various debtors have been correctly debited. Another example of one sided error is Rs 2500 received from Ishita is wrongly debited to her account. In this case, only Ishita's account is affected, amount in the cash-book is correctly written. This type of mistake does affect the trial balance.

## 1. Errors of Omission : Partial Omission

The error of omission other than an error of complete omission is known as error of partial omission. This type of error affects the agreement of trial balance.

### Error of Commission

In continuation to the discussion on this type of error under ' Errors do not affect the trial balance' , the following points highlights the instances where the error of commission leads to disagreement of trial balance:

*Wrong totalling* : There may be an error in the totalling subsidiary Books or ledger accounts. The totalled amounts may be less than (under casting) or more than (over casting) the actual amount.

Example: The total of Purchases Book is written as Rs.56, 800 while actual total is Rs. 56,300, the total of Sales Day Book is written as Rs.72,500 while it is Rs.72,900

*Wrong balancing:* While closing the books of accounts at the end of the accounting period, the ledger accounts are balanced. Balance is calculated of the totals of the two sides of the account. It may be wrongly calculated.

Example: The total of the debit column of Sanjay's A/c is Rs.9,600 and that of credit column is Rs.6,900. The balance is calculated as Rs. 1,700 instead of 2,700.

*Wrong carry forward of balances or totals:* Totals or balances are carried forward to the next page. These may be carried forward incorrectly.

Example: The total of one page of the Purchases Book of Rs.65,600 is carried to next page as Rs.56,600.

*Wrong Posting* : Transactions from the journal or subsidiary books are posted to the respective accounts in the ledger. It may take various forms such as, posting to wrong account, to the wrong side of the account or posted twice to the same account.

Example: Goods purchased of Rs.5,400 from Avadhesh was either:

posted to the debit of Swadhesh or

posted twice to his account or

posted to the credit of Swadesh.

### *Procedure for rectification : Solved Examples*

Example 1:

A sum of Rs 1,25,789 paid to M/s Swami Narayan has been wrongly credited to his account.

**Account affected : M/S Swami Narayan's account is affected because his account is credited instead of being debited. In this case M/s Swami Narayan's will be debited to nullify the effect of its being wrongly credited at the same time it is to be debited for cash payment.**

**Rectification:****M/S Swami Narayan Account**

Dr.

Cr.

Date	Particulars	L.F.	Amount (Rs.)	Date	Particulars	L.F.	Amount (Rs.)
	Amount wrongly credited		1,25,789		Cash		1,25,789

Example 2: Purchase of furniture of Rs 15,00,000 was entered in the Purchases Book.

Account affected: Furniture Account and Purchases account have been affected. Furniture Account has been omitted to be debited while Purchases account is wrongly credited. In this case Purchases account is credited to nullify as it is wrongly credited as furniture account is debited in it was to be debited but was omitted.

**Rectification:**

Dr.

Cr

Date	Particulars	LF	Amount (Rs.)	Amount (Rs.)
	Furniture A/c To Purchase A/c  (Furniture purchased on credit is wrongly entered in the purchases Book is now corrected)		15,00,000	15,00,000

Example 3: an amount of Rs 27,39,456 received from Shri Ram Avtar was credited to Shri Avtar Hari. Rectify giving journal entry.

**Affected accounts: The two accounts affected are Ram Avtar account which is not credited and Avtar Hari account which is wrongly credited.**

**Rectification**

Ram Avtar's a/c                      27,39,456

    Avtar Hari's a/c                      27,39,456

(Amount received from Shri Ram Avtar wrongly credited to Shri Avtar hari is now rectified.)



Example 4 : Cash received from Avni Rs 12,750 were posted to her account as Rs.12,057 Accountant erased amount of Rs 12,057 and wrote Rs 12,750 in its place. Is the action of accountant justified on this ground?

Yes            No

Example 5: Accountant corrected an error of writing Rs 11,72,990 instead of Rs 72,11,909 as: 11,72,990    72,11,909 . Is the action of accountant justified on this ground?

Yes                                   No           

### Suspense Account

Even if the trial balance does not tally due to the existence of one sided errors, accountant has to carry forward his accounting process prepare financial statements. The accountant tallies his trial balance by putting the difference on shorter side as ‘suspense account’. This may be noted that the opening of a suspense account is a temporary arrangement. As soon as the error that has led to suspense account is rectified, this account will disappear. Suspense Account is the result of one sided errors. The process of opening of suspense account can be understood with the help of the following example.

Consider the sales book of an organisation.

Sales Book (Journal)

<i>Date</i>	<i>Invoice No.</i>	<i>Name of customers</i>	<i>L.F.</i>	<i>Amount (Rs.)</i>
		Ashok traders		20,000
		Bimal service centre		10,000
		Chopra enterprises		5,000
		Diwakar & sons		15,000
<b>Total</b>				<b>50,000</b>

If sales to Diwakar & sons were not posted to his account, ledger will show the following position :

### Ashok Traders Account

Dr.

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			\				\
	Sales		20,000		Balance c/d		20,000
			20,000				20,000

### Bimal Service Centre's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			\				\
	Sales		10,000		Balance c/d		10,000
			10,000				10,000

### Chopra Enterprises Account

Dr.

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			\				\
	Sales		5,000		Balance c/d		5,000
			5,000				5,000

### Sales Account

Dr.

Cr.

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
			\				\
					Sundries		50,000

**Analysis:** The trial balance when prepared on the basis of above balances will not tally. Its credit column total will amount to Rs. 50,000 and debit column total to Rs. 35,000. The trial balance would differ with Rs. 15,000. This difference will be temporarily put to *suspense account* and trial balance will be made to agree in the ledger.

In this case, difference in trial balance has arisen due to one sided error (omission of posting to Diwakar & sons's account). In a real situation, there can be many other such one-sided errors which cause a difference in trial balance and thus result in opening of the suspense account. Till the all errors affecting agreement of trial balance are not located it is not possible to rectify them and tally the trial balance in such a situation, is shown in the

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Suspense account, make the total of debit and credit columns and proceed further with the accounting process.

### **Rectification steps using Suspense Account**

While rectifying one-sided errors using suspense account, the following steps are taken:

Identify the account affected due to error.

Ascertain the amount of excess debit/credit or short debit/credit in the affected account.

If the error has resulted in excess debit or short credit in the affected account, credit the account with the amount of excess debit or short credit.

If the error has resulted in excess credit or short debit in the affected account, debit the account with the amount of excess credit or short debit.

Complete the journal entry by debiting or crediting the suspense account as another account affected otherwise.

### **Example using Suspense Account**

*Credit sales to Mohan Rs. 10,000 was not posted to his account. This is an error of partial omission committed while posting entries of the sales book.*

#### **Wrong effect has been**

Mohan's a/c	Dr.	Nil
To Sales a/c		10,000

#### **Correct effect**

Mohan's a/c	Dr.	10,000
To Sales a/c		10,000

#### **Rectification**

Mohan's a/c	Dr.	10,000
To Suspense a/c		10,000

*Credit sales to Mohan Rs. 10,000 were posted to his account as Rs. 7,000.*

#### **Wrong effect has been**

Mohan's a/c	Dr.	7,000
To Sales a/c		10,000

#### **Correct effect**

Mohan's a/c	Dr.	10,000
To Sales a/c		10,000

#### **Rectification**

Mohan's a/c      Dr.                      3,000  
     To Suspense a/c                      3,000

Credit sales to Mohan Rs. 10,000 were posted to his account as Rs. 12,000.

**Wrong effect has been**

Mohan's a/c      Dr.                      12,000  
     To Sales a/c                      12,000

**Correct effect**

Mohan's a/c      Dr.                      10,000  
     To Sales a/c                      10,000

**Rectification**

Suspense a/c      Dr.                      2,000  
     To Mohan's a/c                      2,000

**Purchases book overcast by Rs. 1,000** (i.e., instead of Rs. 21,000 it is calculated as Rs. 22,000)

*[Errors in casting of subsidiary books affect only those accounts where totals of the subsidiary books involved are posted. The accounts of individual parties are not affected.]*

Consider the following example.

**Purchases (Journal) Book**

Date	Invoice No.	Name of suppliers (Accounts to be credited)	L.F.	Amount
		Dheru		8,000
		Chandraprakash		7,000
		Sachin		6,000
Total				22,000

**Dheru's Account**

**Dr.**

**Cr.**

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
					Purchases		8,000

**Chandraprakash's Account**

**Dr.**

**Cr.**

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
					Purchases		7,000

## Sachin's Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
					Purchases		6,000

## Purchases Account

Dr.

Cr.

Date	Particulars	J.F.	Amount (Rs.)	Date	Particulars	J.F.	Amount (Rs.)
	Sundaries		22,000				

As you can notice that there is no error in accounts of Dheeru, Chandraprakash and Sachin. Only purchases account has been debited with Rs. 1,000 extra. Hence, rectification entry will be :

Rectification			
Suspense a/c	Dr.	1,000	
To Purchases a/c		1,000	

### 6.6.3 Rectification of Errors in the Next Accounting Year

When errors are committed during an accounting year and are not located and rectified before the finalisation of financial statements, suspense account cannot be closed and its balance is carried forward to the next accounting period till the time errors are located and rectified.

#### Guiding Principles of Rectification of Errors

1. If error is committed in books of original entry then assume all postings are done accordingly.
2. If error is at the posting stage then assume that recording in the subsidiary books has been correctly done.
3. If error is in posting to a wrong account (without mentioning side and amount of posting) then assume that posting has been done on the right side and with the right amount.
4. If posting is done to a correct account but with wrong amount (without mentioning side of posting) then assume that posting has been done on the correct side.
5. If error is posting to a wrong account on the wrong side (without mentioning amount of posting) then assume that posting has been done with the amount as per the original recording of the transaction.
6. If error is of posting to a wrong account with wrong amount (without mentioning the side of posting) then assume that posting has been done on the right side.
7. If posting is done to a correct account on the wrong side (without mentioning amount of posting) then assume that posting has been done with correct amount as per original recording.
8. Any error in posting of individual transactions in subsidiaries books relates to

individual account only, the sales account, purchase account, sales return account or purchases return account are not involved.

9. Unless and otherwise stated, all errors related to casting of any subsidiary books affect the related accounts only, viz. Error in casting of sales book affects sales account and error in casting of purchase book affects the purchase account etc.
10. When transaction is recorded through cash book, it should be assumed that error has been committed in other affected accounts related to that transaction and not to cash/bank account.

Example: Rectify the following errors if a suspense account was opened. Ascertain the difference in trial balance.

Goods returned to Murthy Rs. 40,000 were posted to the credit of M.Murthy as Rs. 30,000.

Cash Sales Rs. 400 were posted to commission received account as Rs. 4,000.

Credit purchase from Banwaril Lal Rs. 18,000 were posted to the debit of his account as Rs. 81,000.

Credit sales to Narender Kumar Rs. 7,000 were posted to Mahender as Rs. 5,000.

Goods returned from Chandani's Rs.12,000 were recorded in Purchase Return Book.

However, Chandani's account was correctly credited

Sales book undercast by Rs.600.

Wrong Entry		Correct Entry		Rectification	
To M. Murthy	30,000	Murthy's a/c	Dr. 40,000	M.Murthy's a/c	Dr. 30,000
		To Purchases Return a/c	40,000	Murthy's a/c	Dr. 40,000
				To Suspense A/c	70,000
To Commission a/c	4,000	Cash a/c	Dr. 400	Commission	Dr. 4,000
		To Sales a/c	400	received a/c	
				To Sales a/c	400
				To Suspense a/c	3,600
Banwari Lal' a/c	81,000	Purchases a/c	Dr. 18,000	Suspense a/c	Dr. 99,000
		To Banwari Lal'	18,000	To Banwari Lal	99,000
Mahender's a/c	5,000	Narender Kumar	Dr. 7,000	Narender Kumar's a/c	Dr. 7,000
		To Sales A/c	7,000	To Mahender's a/c	5,000
				To Suspense a/c	2,000
Mahesh's a/c	Dr. 2,800	Purchases a/c	Dr. 2,800	Sales A/c	Dr. 2,800
To Sales a/c	2,800	To Mahesh's a/c	2,800	Purchases a/c	Dr. 2,800

		To Mahesh's a/c	5,600
To Purchase Return a/c Rs. 12,000	Sales Return a/c Dr. 12,000 To Chandni's A/c 12,000	Sales Return a/c Dr. 12,000 Purchase Return a/c Dr. 12,000 To Suspense a/c 24,000	
To under casting of sales book by Rs. 600	Credit sales book by 600	Suspense a/c Dr. 600 To Sales a/c 600	

### Suspense Account

Dr.

Cr.

Date	Particulars	J.F	Amount (Rs.)	Date	Particulars	J.F	Amount (Rs.)
	To Banwari Lal		99,000		By M.Murthy		30,000
	To Sales		600		By Murthy		40,000
					By Commission received By Narender Kumar		3,600 2,000
					Sales Return		12,000
					Purchase Return		12,000
			<b>99,600</b>				<b>99,600</b>