

## CHAPTER-19

# RECTIFICATION OF ERRORS

"To error is human." Accountant, as a human being is likely to commit mistakes while recording the transactions in the books of original entry, posting them to Ledger accounts or in preparing a trial balance itself. It is essential locate and rectify errors, otherwise profit and loss account will not disclose the true profit or loss of the business and the balance sheet will not present a true and fair view of the financial position of the business.

Errors should never be corrected by overwriting or erasing because it reduces the authenticity of accounting records and gives the impression that something is being concealed.

Method of rectification depends on the stage at which the errors are rectified. If an is located in the books of original entry before its posting to the Ledger, it may be corrected by neatly crossing out the wrong figure by a single line and writing the correct figure above the crossed figure. Similarly, if a wrong figure has been posted to the correct Ledger account, it may also be corrected in the same manner.

If, however, an error is located after some time, it should be corrected by passing a suitable Journal entry, called rectifying entry.

From the rectification point of view, all errors can be classified into the following two categories:

- (A) Errors which do not affect the Trial Balance or Two-sided Errors
- (B) Errors which affect the Trial Balance or One-sided Errors

### **(A) Errors which do not affect the Trial Balance or Two-sided Errors:-**

Errors which affect two accounts simultaneously are called two-sided errors. Such errors may include the following types of errors:

- (1) Omission to pass an entry in the books of original records,
- (2) Wrong recording of a transaction in the books of original records,
- (3) Posting to the wrong account, and
- (4) Errors of principle.

All these errors are rectified by passing a Journal entry, one account being debit and the other account being credited. Following rules should be observed while passing entries to rectify the two-sided errors

- I. The account showing an excess debit should be credited in the rectifying entry.
- II. The account showing a short debit should be debited in the rectifying entry.
- III. The account showing an excess credit should be debited in the rectifying entry.
- IV. The account showing a short credit should be credited in the rectifying entry.

**(B) Errors which affect the Trial Balance or One Sided Errors-** These errors affect only one account. If, for example, a sum of Rs.2,500 given to Ajay is correctly recorded in the Cash Book but omitted to be posted to the Debit of Ajay, the error will be termed as one sided error because the error exists in the account of Ajay only

Such type of errors occur in the following cases

- (i) When a subsidiary book is undercast (totalled less) or Overcast (totalled in excess).
- (ii) When the posting to an account is altogether omitted.
- (iii) When the posting of a wrong amount is done.

Rectification of such errors depends on the stage at which the errors are located -

When the posting is made on the wrong side of an account.

(A) When the errors are located and rectified before the closing of accounts (i.e, before preparing the Trial Balance and before opening of Suspense A/c).

(B) When the errors are located and rectified after the closing of accounts (i.e, after preparing the Trial Balance and after opening of Suspense A/c).

**(A) When the errors are located and rectified before the closing of accounts (i.e, before preparing the Trial Balance and before opening of Suspense A/c).**

Rectification of errors at this stage does not require rectification entries. Only the amount is written on the debit or credit side of the account which is affected by the error. For example, the total of the Purchase Book for the month of October is undercast (totalled less) by 1,000. To rectify this error, the amount of 1,000 will be

put on the debit side of the purchase account by writing the words To undercasting of Purchase Book for the month of October.

## **SUSPENSE ACCOUNT**

### **Meaning and utility.**

When in spite of the best efforts, the Trial Balance does not tally, the difference is put to a newly opened account named 'Suspense Account and the Trial Balance is thus made to tally. This is done to avoid the delay in the preparation of Final Accounts.

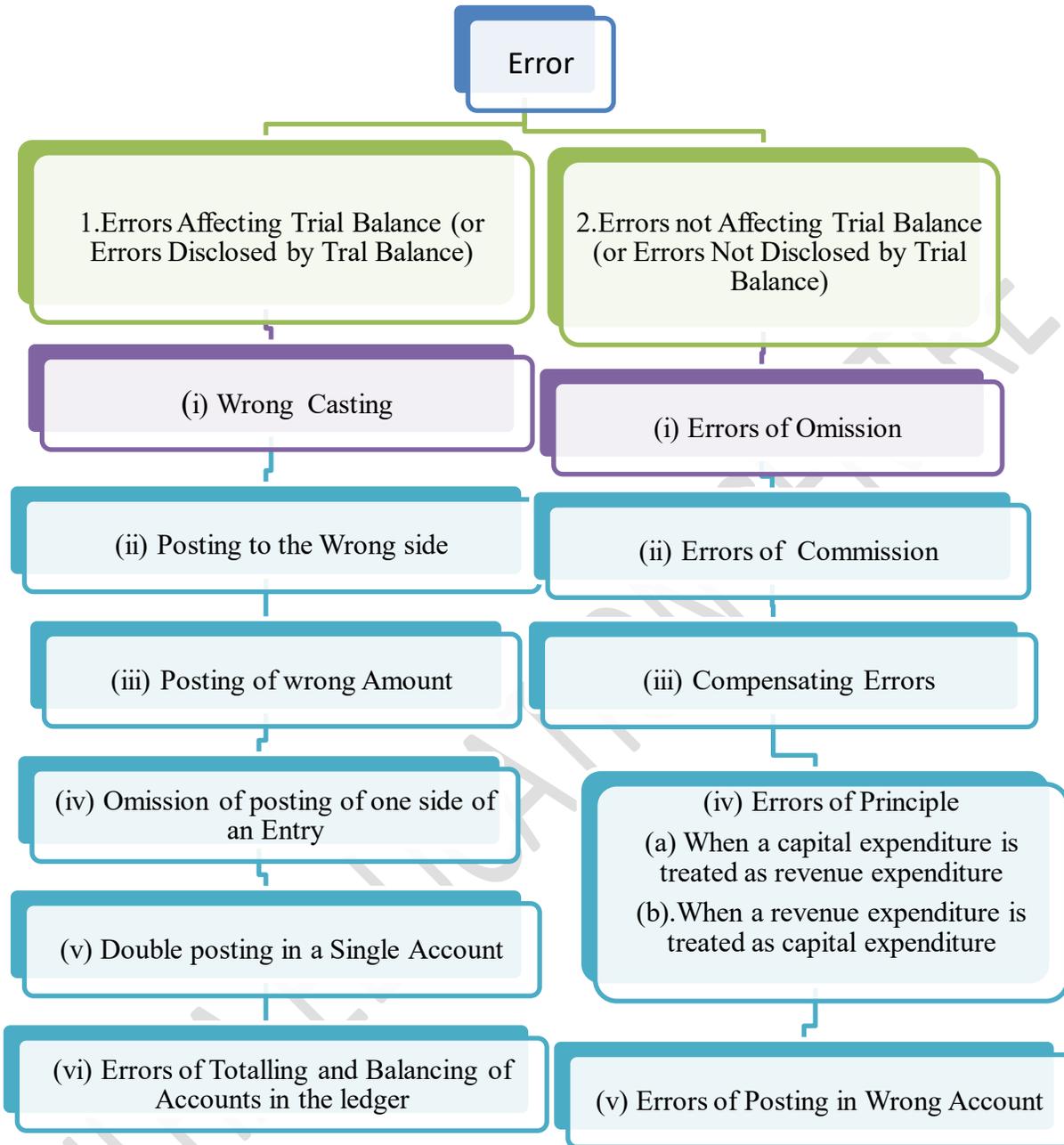
In case, the debit side of the Trial Balance exceeds the credit side, the difference is put on the credit side of the trial balance. In this case 'Suspense Account will show a credit balance.

Likewise, if the credit side of the Trial Balance exceeds the debit side, the difference is put on the debit side of the trial balance. In this case 'Suspense Account will show a debit balance.

**Disposal of Suspense Account** - Suspense Account is an imaginary account used as temporary measure only for the purpose of reconciling a Trial Balance. Later, as and when the errors affecting the suspense account are located, rectification entries are passed with the help of suspense account. Thus when all the errors are located and rectified, the suspense account will automatically stand closed, i.e., it will not show any balance. But if Suspense Account still shows a balance, it will indicate that certain errors are still to be discovered and rectified. In such cases, if the suspense account shows a debit balance, it is taken to the balance sheet on the assets side and on the contrary, if it shows a credit balance it is taken to the balance sheet on the liabilities side

Following points should be noted while passing rectification entries with the help of suspense account:

- (i) Suspense account is used to rectify only those errors which affect the Trial Balance,
- (ii) (a) If the account which is to be rectified is debited in the rectifying entry, suspense account will be credited to complete the double entry.  
(b) If the account which is to be rectified is credited in the rectifying entry, suspense account will be debited to complete the double entry.



**VERY SHORT ANSWER QUESTIONS**

**1. What is meant by rectifying entry?**

Ans. When an error is rectified by passing a Journal entry, one account being debited and the Other account being credited; it is called a rectifying entry.

**2. Give an example of two sider error.**

Ans. Machinery purchased for Rs. 5,000 has been debited to Purchases A/c.

**3. Give an example of one sided error.**

Ans. A sum of Rs. 2,500 given to Ajay is correctly recorded in the Cash Book but omitted to be posted to the Debit of Ajay. The error will be termed as one sided error because the error exists in the account of Ajay only.

**4. What do you mean by Suspense Account?**

Ans. When a Trail Balance does not tally, the difference is put to a newly opened account Named 'Suspense Account' and the Trail Balance is Thus made to tally. In case, the debit side of the Trail Balance exceeds the credit side, the difference is put on the credit side of 'Suspense Account'. Likewise, if the credit side of the Trail Balance exceeds the debit side, the difference is put on the debit side of 'Suspense Account'.

**OBJECTIVE TYPE QUESTIONS**

**(A) Select the most suitable alternative: -**

1. Wages paid to Mohan for erecting a machine should be debited to:
    - (a) Wages A/c
    - (b) Machine A/c
    - (c) Mohan's A/c
    - (d) Cash A/c
  
  2. Sale of typewriter that has been used in the office should be credited to:
    - (a) Sale A/c
    - (b) Cash A/c
    - (c) Capital A/c
    - (d) Typewriter A/c
  
  3. Suspense Account in the Trail Balance will be entered in the:
    - (a) Manufacturing A/c
    - (b) Trading A/c
    - (c) Profit & Loss A/c
    - (d) Balance Sheet
  
  4. Suspense Account is a
    - (a) Real Account
    - (b) Personal Account
    - (c) Nominal account
    - (d) Any of these
  
  5. It is easy to detect.....than to .....
- (a) Frauds, errors
  - (b) mistakes, frauds

- (c) errors, frauds
- (d) errors, mistakes

6. Errors are

- (a) Undetected mistakes
- (b) Intentional Mistakes
- (c) Frauds
- (d) Unintentional Mistakes

Ans.

1.(b)	2.(d)	3.(d)	4.(d)	5.(c)	6.(d)
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**(B) Mention weather the following statement are true or false: -**

- (i) Suspense Account always shows debit balance.
- (ii) Goods given as charity should be credited to Purchases Account.
- (iii) It is incorrect to debit repairs account for the amount spent on the repairs of plant Purchased second hand.
- (iv) Goods taken by the proprietor for domestic use will be credited to Drawings Account.
- (v) If a cheque received from a customer is dishonoured, it will be debited to the Customer's Account.
- (vi) Interest received from Mohan will be credited to Mohan's Account.
- (vii) Goods were returned to X for Rs. 351 and his account was credited with Rs. 351. In the Retifying entry, his account will be debited with Rs. 882.

[Ans. True: (ii); (iii); (v); (vii).

False: (i); (iv); (vi).]