

BCM-102
FINANCIAL ACCOUNTING
UNIT-11 RECTIFICATION OF ERRORS
(B. COM. FIRST YEAR)

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Rectification of Errors: Meaning

- Rectification of errors may be defined as correction of errors which had been done in the books of accounts of company/firm due to ignorance or not knowing the principles of accounting. Sometime, errors may be due to cheating by accountant or other employees. In that case rectification of errors is so difficult because cheaters try their best to hide the error. At that time, investigation should be done by independent auditor.
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Errors

- The trial balance is prepared to check the arithmetical accuracy of accounts. If the trial balance does not tally, it implies that there are arithmetical errors in the accounts which require location, detection and rectification thereof. Even if the trial balances tallies, there may still some errors. There are two types of errors:
- (a) Errors which are not revealed by the trial balance,
- (b) Errors which are revealed by the trial balance. Errors may happen at any of the following stages of the accounting cycle.
- **A. At Recording Stage**
 - 1. Errors of principle
 - 2. Errors of omission
 - 3. Errors of commission
- **B. At Posting Stage**
 - 1. Error of omission
 - i. Complete
 - ii. Partial
 - 2. Error of commission
 - i. Posting to wrong account
 - ii. Posting on the wrong side
 - iii. Posting of wrong amount
- **C. Balancing Stage**
 - 1. Wrong totaling
 - 2. Wrong balancing
- **D. Preparation of Trial Balance**
 - 1. Error of Omission
 - 2. Error of Commission
 - i. Taking wrong amount
 - ii. Taking wrong account
 - iii. Taking to the wrong side

Errors

- **Errors of Commission:** These errors by definition are of clerical nature. These errors may be committed at the time of recording and/or posting. At the time of recording, the wrong amount may be recorded in journal which will be carried throughout. Such errors will not affect the agreement of the trial balance. These errors may also be committed at the time of posting, by way of posting wrong amount, to the wrong side of an account or in the wrong account. The errors resulting in posting to wrong account will not affect agreement of trial balance, whereas, other errors of posting will resulting disagreement of trial balance.

Errors of Omission: The errors of omission may be committed at the time of recording the transaction in the books of original entry or while posting to the ledger. An omission may be complete or partial. Such errors are known as errors of omission. For example, Machinery purchased for Rs. 50,000 by issuing a cheque is recorded first in the credit side of cash book, in the bank column. Suppose it is not posted to the debit of machinery account, it is an error of partial omission. The trial balance will not tally.

Errors

- **Errors of Principle:** Accounting entries are recorded as per the generally accepted accounting principles. If any of these principles are violated or ignored, errors resulting from such violations are known as errors of principle. As an illustration, Periodicity principle requires maintaining proper distinction between capital and revenue items. An error of principle may occur due to incorrect classification of expenditure or receipts between capital and revenue. This is very important because it will have an impact on financial statements. It may lead to under/over stating of income or assets or liabilities, etc.
- **Compensating Errors:** When two or more errors are committed in such a way that the net effect of these errors on the debits and credits of accounts is nil, such errors are called compensating errors. They do not affect the tallying of the trial balance. For example: In a credit sale transaction, the sales account is credited in excess by say, Rs.5,000 and similarly the suppliers account in case of a credit purchase is understated by Rs.5,000, this is a case of two errors compensating for each other's effect.

Classification of Errors

- From the point of view of rectification, errors are classified into two categories:
 - ⑥ Errors which affect the trial balance; and
 - ⑥ Errors which do not affect the trial balance

Rectification of Errors

- Any error when located must be rectified. However, the rectification should not be made by overwriting or by striking off the wrong entry. This would destroy the authenticity of the books of account. Hence, the errors should always be corrected by making suitable entries called rectifying entries.

For purposes of rectification the errors are divided into two categories:

- (i) One-sided errors,
- (ii) Two-sided errors.

- **One-sided Errors:** Certain errors affect only one side of an account, either the debit side or the credit side. Such errors are called 'one-sided errors'. Examples of one-sided errors are:

- i) Rs. **100** received from Deshmukh was posted to his account as Rs. **10**. It means Deshmukh's Account has been credited with Rs. **10** instead of Rs. 100 and there is no mistake in the Cash Book. Thus, this error has affected only one side of an account.

- **Two-sided Errors** : Certain errors may affect two or more accounts. Such errors are called 'two-sided errors'. Examples of two-sided errors are:

- (i) A credit sale of Rs. 1,080 to Anand was wrongly recorded in the Sales Book for Rs. 1,800. This error will affect two accounts via., Anand's Account and Sales Account. Anand's Account has been debited by Rs. 1,800 instead of Rs. 1,080. The Sales Account has also been credited by an additional amount of Rs. 720 (Rs. 1,800-Rs. 1,080), the Sales Book will show a higher total.

Rectification of One-sided and Two Errors

- **Rectification of One-sided Errors:** Generally errors are corrected by passing suitable journal entries. You know passing a journal entry means debiting one account and crediting another. But in the case of one-sided error only one account is involved. So it cannot be corrected by passing journal entry. It is rectified by noting the correction on the appropriate side. Take the first example of one-sided error. Deshmukh's Account was credited short by Rs. 90. This will be corrected by an additional entry for RS: 90 on the credit side of his account as follows:
 - **Rectification of Two-sided Errors:** One-sided errors are corrected by noting the correction on the appropriate side of the account affected by the error. They cannot be rectified by suitable journal entries because only one account was involved. Two-sided errors are mostly rectified by journal entries. It is because such errors affect two or more accounts and in most cases the debit and credit are equally affected. Take the case of first example of two-sided errors given earlier. A credit sale of Rs. 1,080 to Anand was wrongly recorded in the Sales Book as Rs. 1.800.

Rectification of Errors Through Suspense Account

- Trial Balance prepared at the end of a period by the business concern must agree. It means the sum of its debit column and sum of credit column should agree. But if the totals do not agree the difference amount is written in a new account. This account is called Suspense Account. If the total of the debit side of the Trial Balance is more than the total of its credit side, the difference amount will be written in Suspense A/c on its credit side i.e. Suspense A/c is credited and vice-versa. You have also learnt that the two sides of the Trial Balance do not agree because there is some error or errors in the accounts, which is reflected in the Suspense Account. Thus, Suspense A/c is a summarized account of errors. 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. One point needs to be noted that Suspense A/c is the result of one sided errors. So one sided errors are corrected through Suspense A/c. completing the double entry when an error is corrected by placing the correct amount on the debit of the proper account, the credit is placed in Suspense Account or vice-a-versa.

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 assumes 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. If a transaction is recorded in cash book, then the error in posting relates to the other affected account, not to cash account/bank account
- 10. If a transaction is recorded through journal proper, then the phrase 'transaction was not posted' indicates error in both the accounts involved, unless stated otherwise.
- 11. Error in casting of subsidiary books will affect only that account where total of the particular book is posted leaving the individual personal accounts unaffected.

Summary

- When the Trial Balance does not tally it means there are errors in the books of account. In this you learnt about the errors that affect the Trial Balance and also studied the procedure for locating such errors. In the process of rechecking, a number of errors are detected. These errors must be rectified before preparing the final accounts. In this unit you will learn about the method of rectifying various errors and study the effect of the rectification on the profit of the business. You are advised to go through lesson once again and note the errors that are usually committed in the process of recording various transactions in subsidiary books and their postings. An error which affects the debit or credit side of one account only. An error which involves two or more accounts and both the debit and credit aspects. An account opened to make the Trial Balance tally temporarily. It represents the net effect of undetected one-sided errors.

References

- SILM developed by Uttarakhand Open University for BCM-102 (Financial Accounting), Year 2017, ISBN: 978-93-85740-44-2