

VISHESH ACADEMY OF COMMERCE

DSS-33, OLD COURT COMPLEX NEAR FAWARA CHOWK HISAR
CA-FOUNDATION

CHAPTER – RECTIFICATION OF ERRORS

Marks: 30

Question 1: State with reasons whether the following statement is true or false:

(ii) Tallying of the Trial Balance only proves arithmetical accuracy. **(1 Mark)**

Question 2: State with reasons whether the following statement is true or false:

(3) Compensating errors do not disturb agreement of Trial Balance. **(1 Mark)**

Question 3: State with reasons whether the following statement is True or False:

(c) Errors of complete omission will be located, if a Trial Balance is prepared. **(1 Mark)**

Question 4: Briefly explain the difference between the following:

Errors of Principle and Errors of Omission. **(3 Marks)**

Question 5: State which type of errors are not disclosed by the agreement of the trial Balance.

(4 Marks)

Question 6: A book-keeper, while preparing his trial balance finds that the debit exceeds by Rs. 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:

- (a) A sale of Rs. 4,000 has been passed through the Purchase Day-book. The entry in customer's account has been correctly recorded.
- (b) Goods worth Rs. 2,500 taken away by the proprietor for his use has been debited to Repairs Account.
- (c) A Bill receivable for Rs. 1,300 received from Krishna has been dishonoured on maturity, but no entry passed.
- (d) Salary Rs. 650 paid to a clerk has been debited to his Personal Account.
- (e) A Purchase of Rs. 750 from Raghubir has been debited to his account. Purchases Account has been correctly debited.
- (f) A sum of Rs. 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.

(6 Marks)

Question 7: On 31st March, 2018, a book-keeper finds the difference in the Trial Balance and he puts it in the Suspense Account. Later on he detects the following errors:

- (i) Rs. 50,000 received from A was posted to the debit of his Account.
- (ii) Rs. 20,000 being purchases returns were posted to the debit of Purchases Account.
- (iii) Discount of Rs. 8,000 received were posted to the debit of Discount Account.
- (iv) Rs. 9,060 paid for repairs of Motor Car was debited to Motor Car Account as Rs. 7,060.
- (v) Rs. 40,000 paid to B was debited to A's Account.

Required: Give Journal Entries to rectify the above errors and ascertain the amount transferred to Suspense Account on 31st March, 2018 by showing the Suspense Account, assuming that the Suspense Account is balanced after the above corrections. **(5 Marks)**

Question 8: The difference in Trial Balance is kept by Rajesh in Suspense account. Before preparing the Final Accounts, the following errors were detected by him:

- (i) Purchase for Rs. 1,080 was written in Sales day book, but was posted to the correct side of the Party's account.
- (ii) Salary account total Rs. 25,200 was carried over to the next page as Rs. 2,520 on the wrong side.
- (iii) Interest on Overdraft Rs. 1,300 was not posted to the Ledger from the Cash-book.

Pass the Rectification entries and prepare the suspense account.

(3 Marks)

Question 9: An accountant, while balancing his books found that there was a difference of Rs. 270 in the trial balance. Being required to prepare the final accounts he placed the difference to a newly opened Suspense Account, which was carried forward to the next year when the following errors were discovered:

- (a) Salary for month of March was posted twice, Rs. 155

- (b) Interest on Investment collected by the bankers, were posted directly in concerned accounts through the pass book, but no entry was made in the bank column of the cash book Rs. 75
- (c) Goods worth Rs. 700 were distributed as free samples but this fact has not been taken into Books.
- (d) Rent of Rs. 350 received from Ashok credited both to Rent Account and Ashok Account.
- (e) A purchase of a chair from Kamal Furniture Mart for Rs. 65 has been entered in purchases book as Rs. 56.
- (f) Old Machinery sold to the proprietor Keshav for Rs. 400 was entered in Sales Book as sale to Kishore.
- (g) Cash Purchases from Ajay Rs. 189 were recorded in Cash Book as well as in Purchases Book and posted from Both.
- (h) Closing Stock has been under valued by Rs. 300.

You are informed that last year's Profit & Loss A/c disclosed a net profit of Rs. 15,000. Give necessary rectifying entries. Also prepare a Suspense Account and a revised Profit & Loss Account.

(6 Marks)

ANSWER KEY:

Answer 1: True: Trial Balance helps to establish the arithmetical accuracy of ledger books. A tallied trial balance will not reveal errors of principle and compensating errors. .

Answer 2: True: in case of compensating errors, the effect of errors committed cancel (out, and thus these errors do not disturb agreement of trial balance.

Answer 3: False: Trial balance only helps to check the arithmetical accuracy of the books of accounts. 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.

Answer 4:- Error of Principle: It is the error which arises when transactions are recorded ignoring the difference being the capital and revenue items. Error of Principle is involved whenever the amount paid or received is not properly allocated between revenue and capital. This error does not affect the trial balance. E.g. Furniture purchased on credit wrongly recorded in purchase Journal instead of Journal proper

Error of Omission: It is the error which arises when a transaction is partially or completely not recorded in books of accounts. This error may or may not affect the trial balance. E.g. Furniture purchased from Sohan was not recorded anywhere in the books of account.

Answer 5:-The types of errors which are not disclosed by the agreement of the Trial Balance may be discussed as follows:

(i) **Error of Omission:** If any transaction is not recorded in the books of original entry, it will not affect the ledger

account from which the trial Balance is prepared.

- (ii) Error of commission: These errors are due to wrong posting, recording or casting etc. these are also known as mis-postings. These errors do not affect the trial balance if debit balances are equal to credit balances.
- (iii) **Error of Principle:** If a certain principle of book, keeping/while recording a transaction, has not been- followed; it will not disturb the trial balance:-
- (iv) **Compensating Errors:** When two of more errors are committed which may compensate the effect of each other, they are called compensating errors. Such errors compensate each other and they will also not effect the trial balance.
- (v) **Error in Subsidiary Book:** An error in the books of original entry will also not affect the trial balance if debit balances are equal to credit balances.

Solution 6:

JOURNAL

Date	Particulars	Dr.(Rs.)	Cr.(Rs.)
(a)	Suspense A/c Dr. To P & L Adjustment a/c (Entry for rectifying a credit sale entered in purchase book)	8,000	8,000
(b)	Drawing A/c Dr. To P & L Adjustment A/c (Goods drawn for personal use wrongly debited to repairs, now rectified)	2,500	2,500
(c)	Krishna's A/c Dr. To Bills Receivable A/c (Being entry for bill dishonoured on maturity)	1,300	1,300
(d)	P & L Adjustment A/c Dr. To Clerk's A/c (Being salary wrongly debited to Clerk's A/c, now rectified)	650	650
(e)	Suspense A/c Dr. To Raghurir's A/c (Being wrong debit to Raghurir's A/c, now rectified)	1,500	1,500
(f)	P & L Adjustment A/c Dr. To Suspense A/c (Being depreciation on furniture not posted to Depreciation A/c, now rectified)	2,250	2,250

DR.		SUSPENSE ACCOUNT		CR.	
Particulars	Rs.	Particulars	Rs.		
To P & L Adjustment A/c	8,000	By Balance b/d	7,250		
To Raghurir's A/c	1,500	By P & L Adjustment A/c	2,250		
	9,500		9,500		

Solution 7:

JOURNAL

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
(i)	Suspense A/c Dr. To A's A/c (Being the rectification of error by which Amount received from A was wrongly debited to his account)	1,00,000	1,00,000
(ii)	Suspense A/c Dr. To Purchase A/c To Purchases Returns A/c (Being the rectification of error by which purchases returns had been wrongly posted to the purchases account)	40,000	20,000 20,000
(iii)	Suspense A/c Dr.	16,000	

PRINCIPLES AND PRACTICE OF ACCOUNTING

(iv)	To Discount A/c (Being the rectification of error by which discount received wrongly was debited to discount account)		16,000
	Motor Car Repairs A/c To Motor Car A/c To Suspense A/c (Being the rectification of error by which motor car repair expenses Rs. 9,060 wrongly debited to motor car account as Rs. 7,060)	Dr.	9,060 7,060 2,000
(v)	B's A/c To A's A/c (Being the rectification of error by which amount paid to B had been wrongly debited to A)	Dr.	40,000 40,000

DR.		SUSPENSE ACCOUNT		CR.	
Particulars	Rs.	Particulars	Rs.		
To A's A/c	1,00,000	By Difference in trial balance (balancing figure)	1,54,000		
To Purchases A/c	20,000		2,250		
To Purchases Returns A/c	20,000	By Motor Car Repairs A/c	2,000		
To Discount A/c	16,000				
	1,56,000		1,56,000		

Solution 8:

JOURNAL

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	Sales A/c Purchases A/c To Suspense A/c (Being Purchase wrongly recorded, now rectified)	Dr. Dr.	1,080 1,030 2,160
	Salary A/c To Suspense A/c (Being Salary A/c total wrongly carried over, now rectified)	Dr.	27,720 27,720
	Interest & Overdrafts A/c To Suspense A/c (Being interest on O/D omitted to be posted, now rectified)	Dr.	1,300 1,300

DR.		SUSPENSE ACCOUNT		CR.	
Particulars	Rs.	Particulars	Rs.		
To Difference in Trial Balance	31,180	By Sales A/c By Purchase A/c By Salary A/c By Interest on Overdraft	1,080 1,080 27,720 1,300		
	31,180		31,180		

Solution 9:

JOURNAL

Date	Particulars	L.F.	Amount Dr.	Amount Cr.
S. No. (i)	Suspense A/c To Salary A/c (Salary posted twice in the books)	Dr.	155	155

(ii)	Bank A/c To Suspense A/c (interest collected by the bank not entered in Cash Book)	Dr.		75	75
(iii)	Advertisement or Free Samples A/c To Purchases A/c (Goods distributed as free samples not recorded in the books.)	Dr.		700	700
	Ashok To Suspense A/c (Rent received wrongly credited to Ashok Account)	Dr.		350	350
(e)	Furniture A/c To Purchases A/c To Kamal Furniture Mart (Furniture purchased wrongly entered in the purchase book with wrong amount)	Dr.		65	56 9
(f) (1)	Sales A/c To Machine A/c (Old Machinery sold wrongly entered in Sales Book)	Dr.		400	400
(II)	Keshav (Proprietor) To Kishore (Sale of machinery to proprietor wrongly debited To Kishore's Account)	Dr.		400	400
(g)	Ajay To Purchases A/c (Cash purchases wrongly entered in Purchase Book)	Dr.		189	189
(h)	Closing Stock A/c To Trading A/c (Under valuation of stock corrected)	Dr.		300	300

Dr.		SUSPENSE ACCOUNT		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Difference in Trial Balance (Balancing Figure)	270	By Bank A/c	75		
To Salary A/c	155	By Ashok	350		
	425				425
Dr.		RECEIVED PRIFIT & LOSS ACCOUNT		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Advertisement	700	By Net Profit h/d	15,000		
To Sales	400	By Salary	155		
To Correct Net Profit	15,300	By Purchases	700		
		By Purchases	56		
		By Purchases	189		
		By Closing Stock	300		
	16,400				16,400