

CBSE Quick Revision Notes and Chapter Summary

Class-11 Accountancy

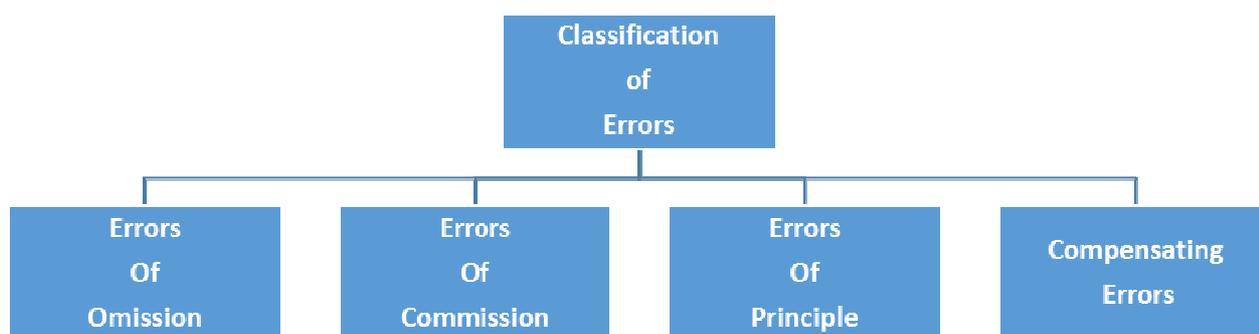
Chapter 1 – Rectification of Errors

Meaning : Errors & Their Rectification

We make so many mistakes in our life but we correct them as soon as possible. In the same way an error is a mistake committed in the books of accounts. It is a mistake committed either at the time of Journalising the transactions or posting it into ledger. It is important to know these errors as soon as possible and rectify them.

ERRORS:

An 'error' in accounting refers to a mistake made during the course of recording business transactions in the books of account.



Types of Errors

1. Error of omission
2. Error of Commission
3. Error of Principle
4. Compensating Error

Reasons For Errors

1. Non-conducive work environment.
2. Lack of Job Satisfaction
3. Lack of proper knowledge
4. Heavy work load.

Objects of Rectification of Errors

- a) Errors are to be rectified to report true profit or loss ;
 - b) Rectification is necessary to indicate the true financial position of a business concern ;
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- c) Errors are to be rectified to make the accounting records reliable and acceptable by various interest Groups.

Methods of Rectification

- i) By erasing wrong figure and writing up the correct figure ;
- ii) By altering the figure ;
- iii) By passing a rectifying entry to cancel the effect of the error and restore the correct position.

One side errors

It is very difficult to make the Journal entry when there is one side error. As we know that for every debit there should be corresponding credit and vice versa. To make the complete Journal entry we take the help of suspense account. Errors which affect the trial balance is known as one sided error.

Some examples of one side errors are:

- i) Error of casting
- ii) Error of balancing
- iii) Error of Posting on the wrong side of account
- iv) Error of carrying forward
- v) Error of posting to correct account
- vi) Error of posting wrong amount on the wrong side

Two Sided errors

Two sided errors are ignored by the Trial Balance or two sided errors do not affect the Trial Balance. These errors may be rectifying by passing the rectifying entry. When the error affects the Debit and Credit aspects equally or when the Double aspect of a transaction is not complete.

Types of two sided errors:

- a) Error of Principle (amount is correct, but wrong names are debited or credited)
- b) Error of omission, complete or partially
- c) Wrong entry of a transaction
- d) Wrong account is debited or credited

ERRORS REVEALED BY THE TRIAL BALANCE

Following can be the errors due to which the trial balance does not agree.

- (i) Wrong totaling of subsidiary books i.e. sales books is under cast. This error will reduce credit total of trial balance.
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- (ii) Posting an amount to the wrong side of the ledger account i.e. Rs.500 paid to a person posted to the credit side. This error will increase the credit total of the balance of Rs.1000.
 - (iii) Wrong balance of a ledger account, i.e. while balancing furniture account at the end of the year, debit balance of account is wrongly taken Rs.3000 instead of Rs.3200. This error will make the debit total of the trial balance Rs.200 short.
 - (iv) Posting an account twice i.e. purchase of Rs.150 from a supplier of goods posted to his account twice. This will increase the credit side total of trial balance by Rs.15 because the amount has been written twice on the credit side of the supplier's account.
 - (v) Omission of posting of an from a subsidiary book i.e., a credit purchase of Rs.5000 from Mohan may not have been posted to Mohan's A/C in the ledger from the purchased book. This error will reduce the figure of credit side of the trial balance will be Rs.5000 less as compared to the total of debit side of the trial balance.

ERRORS NOT REVEALED BY THE TRIAL BALANCE

A trial balance is not a conclusive proof of the accuracy of ledger account because there may be certain errors which are not revealed by the trial balance inspite of its agreement. These errors are.

- (i) Posting an item to the correct side but in the wrong account i.e Rs.500 paid to Geeta wrongly debited to Geeta's account will not affect the agreement of trial balance.
- (ii) Omission of an entry subsidiary books i.e., a credit purchase of Rs.2000, omitted to be recorded in the purchases book. It means that both the debit and credit aspects of the trial balance will not be affected in any way.
- (iii) Wrong entry in a subsidiary book i.e., a credit sale of Neeraj for Rs.1500 is wrongly written as Rs.150 in the sales book. As a result posting on both the debit side of Neeraj's A/C and credit side of sales A/C will wrong amount of Rs.150 and so the trial balance will agree.
- (iv) Errors of principle: Whenever a liability is treated as an income or vice-versa or an asset is treated as an expense or vice-versa, the error so made is an error of principle.

Suspense Account

A suspense account is an account in the general ledger in which amounts are temporarily recorded. The suspense account is used because the proper account could not be determined at the time that the transaction was recorded. When the proper account is determined, the amount will be moved from the suspense account to the proper account.
