

404 AEC Agriculture Accounting

Lecture#5

Errors and Adjustment Entries

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In lecture four we talked about Objects of preparing Trial Balance, and say that: It is used as a test of arithmetical accuracy, and discuss Errors discovered by the Trial Balance, Errors not disclosed by Trial Balance, and Methods of locating errors in Trial Balance. And in this lecture we will talk about Adjustment Entries.

Adjustment Entries

Adjustment means putting things in order. Adjustment entries are entries made for putting everything in order. The examples are:

- i) Accrued/outstanding expenses and prepaid expenses
- ii) Accrued Income and Income received in advance
- iii) Depreciation
- iv) Bad Debts, Provision for bad and doubtful debts, Provision for discount on debtors.
- v) Commission on profits
- vi) Income tax, Advance Income-tax, Income-tax deducted at source, Provident Fund, Employees' State Insurance contributions.

Rectification Entries

Errors may be divided into two types:–

- i) Errors not affecting the trial balance.
- ii) Errors affecting the trial balance.

Errors not affecting the trial balance may be further divided into the following :–

- a) Omission of an entry in the subsidiary book.
- b) Wrong entry made in the subsidiary book.
- c) Errors of principle.
- d) Posting an amount in the wrong account but on the correct side
- e) Entry made in the wrong subsidiary book.
- f) Compensating errors.

Omission of an entry in the subsidiary book

Here a transaction is completely omitted to be recorded in the books of accounts.

e.g. a credit sales to A for Rs. 2000 was omitted to be recorded in the sales book.

Particulars	LF	Dr.	Cr.
A's A/c	Dr	2,000	
To Sales A/c			2,000
(Rectification entry passed for omission of credit sales to A being omitted to be recorded in the sales book)			

Wrong entry made in the Subsidiary Book

e.g. Credit purchases from Q for Rs. 3000 has been wrongly entered in the purchases book as Rs. 3300. Purchases book has an excess debit of Rs. 300 and Q's account has an excess credit for the same amount Therefore, the rectifying entry will be

Particulars	LF	Dr.	Cr.
Q,s A/c	Dr	300	
To Purchases A/c			300

Errors of principles

These arise when revenue expenditure is treated as a capital expenditure or *vice versa* e.g.

Furniture purchased from X for Rs. 4000 was entered in the Purchase Book.

Particulars	LF	Dr.	Cr.
<i>Wrong entry</i>			
Purchase A/c	Dr	4,000	
To X's A/c			4,000

Posting an amount in the wrong A/c but on the correct side

e.g. Credit sales to Ramanthan for Rs. 1500 has been posted to Ramamurthy's (another person) A/c

Particulars	LF	Dr.	Cr.
<i>Wrong entry</i>			
Ramamurthy's A/c	Dr	1,500	
To Sales A/c			1,500

The wrong posting like to be the following

Dr	Ramamurthy's A/C		Cr
To Sales	1500	By Balance	1500

Entry made in the wrong Subsidiary Book

e.g. Credit sales to Y Rs. 2500 was wrongly entered in the Purchases Book.

<i>Particulars</i>	LF	Dr.	Cr.
<i>Wrong entry</i>			
Purchase A/c	Dr	2,500	
To Y's A/c			2,500

Compensating Errors

If the effect of one error is multiplied by the effect of some other errors the trial balance will agree, e. g. an amount of Rs.25 received by M is not credited to his A/c and the total of the sales books is overcast by Rs. 25. The omission of credit to M's A/c is offset by the increased credit to the Sales A/c and hence the Trial Balance will agree.

Errors affecting the Trial Balance

As already discussed these errors are:

- Omission to post to the ledger from the subsidiary book.
- Posting the wrong amount in the ledger.
- Posting an amount to the wrong side.
- Wrong casting of the subsidiary book.
- Posting wrong amount to the wrong side.
- Posting a wrong amount to a wrong account
- Posting a wrong amount to the wrong side of a wrong account.

Omission of posting from a subsidiary book

Goods returned to D Rs. 300 entered in the Purchases Returns Book omitted to be posted to D's A/c. D's A/c has not been debited. Therefore his A/c should be debited with Rs. 300.

Posting the wrong amount in the ledger

Credit sales to Z for Rs. 120 was correctly entered in the sales book but posted to Z's A/c as Rs. 102. Z's A/c is debited short by Rs. 18(120-102). Therefore debit his A/c with Rs.18.

Posting an amount to the wrong side

Credit purchases from U for Rs.500 was correctly entered in the purchases book but wrongly debited to U's A/c has to be credited with Rs. 1000. U's A/c is wrongly debited with Rs. 500. To cancel this debit of Rs. 500 a credit of Rs. 500 must be given. Another credit of Rs .500 must be given to incorporate the correct entry. Therefore a total credit of Rs. 1,000 has been given.

Wrong casting of the subsidiary book

Sales book has been totaled as Rs. 4000 the correct being Rs. 4400. Sales A/c has short credit of Rs. 400. Therefore credit sales A/c by Rs. 400.

Posting wrong amount to wrong side

Sold goods to K for Rs. 136 entered in the sales book correctly but credited to K's a/c for Rs. 163.

K's A/c has to be debited with Rs. 299. K's A/c has been credited wrongly for Rs.

163. To cancel this credit a debit of Rs. 163 is given. Further a debit of Rs. 136 has to be given to accommodate the correct entry. Therefore a total debit of Rs. 299 (163 + 136) has to be given.

Posting a wrong amount to the wrong account

Credit purchases from Akila for Rs. 155 was posted to the credit Akila for Rs. 165.

Debit Akila's A/c with Rs. 165.

Credit Akila's A/c with Rs. 155.

Akila's A/c has been wrongly credited therefore it should be debited to cancel the credit.

Akila's A/c has not been credited. So credit her A/c now with the correct amount Rs. 155.

Posting the wrong amount to the wrong side of a wrong account

A credit sale to W for Rs. 153 was credited to V's A/c for Rs. 135.

Debit V's A/c with Rs. 135.

Credit W's A/c with Rs.153.

V's A/c has been credited wrongly, so his A/c is debited to cancel the wrong credit. W's A/c should have been debited in the first place.

Therefore, his A/c is now debited with Rs. 153, being the correct amount.

Errors Corrections

A) **Direct Method:** this method correct the error in one step as follow

Feed purchase Rs. 500 in cash recorded as seed purchase.

Particulars	LF	Dr.	Cr.
Wrong entry			
Seed Purchase A/c		500	
To Cash			500
Correct entry			
Feed Purchase A/c		500	
Seed Purchase A/c			500

The rule here is to record as: from right A/c to wrong A/c in the same amount of money.

B) **Indirect Method:** this method corrects the error in three steps as follow

- 1- Record wrong entry
- 2- Inverse the situation
- 3- Correct the error

Now, solve the previous example using this way

<i>Particulars</i>	LF	Dr.	Cr.
1. Wrong entry			
Seed Purchase A/c		500	
To Cash			500
2. Inverse the situation			
Cash		500	
Seed Purchase A/c			500
3. Correct entry			
Feed Purchase A/c		500	
To Cash			500