

404 AEC Agriculture Accounting

Lecture#5

Errors & Rectification

By

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Classification of errors

Clerical errors

Errors of omission

Errors of commission

Compensating errors

(a) complete <> (b) partial

(a) Not affecting TB

(b) affecting TB

Not affecting trial balance (TB)

1. Wrong amount in J
Not affecting TB

2. Wrong total in J
affecting TB

3. Wrong posting in L
affecting TB

4. posting to wrong side
affecting TB

5. wrong balance of AC
affecting TB

Errors of Principle

- Treating Capital Expenditure as revenue Expenditure
- Treating revenue Expenditure as Capital Expenditure
- Treating Income as Liability
- Treating Liability as Income

Not affecting trial balance (TB)

Rectification Entries

Errors may be divided into two types:–

- i) Errors not affecting the trial balance.
- ii) Errors affecting the trial balance
 - a) Errors affecting One Account
 - b) Errors affecting two or more accounts

i) Errors not affecting the trial balance

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

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

Omission of an entry in the journal :

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 journal :

e.g. Credit purchases (returned purchases) from Q for Rs. 3000 has been wrongly entered in the purchases book as Rs. 3300.

	Dr.	Cr.
Purchases AC	3300	
Q,s AC		3300

	Dr.	Cr.
Q,s AC	3300	
returned Purchases AC		3300

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.

Indirect method

Particulars	LF	Dr.	Cr.
Purchase A/c	Dr	4,000	
To X's A/c			4,000
Wrong entry			
To X's A/c		4,000	
Purchase A/c			4,000
Inv. Entry to make balance			
Furniture A/c	Dr	4,000	
To X's A/c			4,000
Correct entry			

Direct method

Furniture A/c	Dr	4,000	
To Purchase A/c			4,000
Rectifying Entry			

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

e.g. Credit sales to Ramadan for Rs. 1500 has been posted to Ramy's A/c

Indirect method

Particulars	LF	Dr.	Cr.
Ramy's A/c	Dr	1,500	
To Sales A/c			1,500
Wrong entry			
Sales A/c	Dr	1,500	
To Ramy's A/c			1,500
Inv. Entry to make balance			
Ramadan A/c	Dr	1,500	
To Sales A/c			1,500
Correct entry			

Direct method

Ramadan A/c	Dr	1,500	
To Ramy A/c			1,500
Rectifying Entry			

Entry made in the wrong Journal book:

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

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

Particulars	LF	Dr.	Cr.
Purchase A/c	Dr	2,500	
To Y's A/c			2,500
Wrong entry			
Y's A/c	Dr	2,500	
To Purchase A/c			2,500
Inv. Entry to make balance			
Y's A/c	Dr	2,500	
To Sales A/c			2,500
Correct entry			
Direct method			
Y's A/c	Dr	5000	
Purchase A/c			2,500
To Sales A/c			2,500
Rectifying Entry			

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.

ii) Errors affecting the Trial Balance

As already discussed these errors are:

- a) Omission to post to the ledger from Journal.
- b) Posting the wrong amount in the ledger.
- c) Posting an amount to the wrong side.
- d) Wrong casting of Journal.
- e) Posting wrong amount to the wrong side.
- f) Posting a wrong amount to a wrong account
- g) Posting a wrong amount to the wrong side of a wrong account.

Omission of posting from Journal :

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 Journal :

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.

Sale of goods **Rs.1200** to Mr. Kumar has been entered in the sales book as **Rs.1100**.

Journal Entries

Particulars	LF	Dr.	Cr.
a) Kumar's A/c	Dr	1200	
To Sales A/c			1200
(Rectifying entry passed for short credit-sales A/c and short debit to Kumar's A/c)			

Machinery purchased for Rs. 11500 from XYZ Co. Ltd has been entered in the Purchases book.

Particulars	Dr.	Cr.
Purchases A/c	11,500	
To XYZ Co. Ltd A/c		11,500
(wrong entry)		

Particulars	Dr.	Cr.
Machinery A/c	11,500	
To Purchases A/c		11,500
(Rectifying entry passed to correct machinery purchased charged to Purchases A/c)		

Suspense Account

The difference in the Trial Balance may be put in an account known as the Suspense Account, where the error causing difference cannot be located immediately and the books of accounts have to be closed. Suspense account is an account to which the difference in the trial balance has been put temporarily.

Suspense Account

If the debit side is short this account is debited and if the credit side is short it will be credited. However the opening of a suspense account does not mean that the errors need not be found out.