

Rectification of Errors

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Trial Balance	Trial Balance is a statement showing balances of various accounts in the ledger and the Cash Book at a particular date.
2. One-sided Errors	Errors that affect the debit or credit side of an account.
3. Two-sided Errors	Errors that affect two or more accounts.
4. Error of Recording	It means recording the entry in subsidiary books wrongly.
5. Error of Posting	It means an entry being not posted at all or partially or being posted by wrong amount or to the wrong account.
6. Error of Balancing	It means calculating the balance in account wrongly.
7. Error of Casting	It means a mistake committed in totalling.
8. Error in Carrying Forward	It means a mistake committed in carrying forward the total of one page to the next page.
9. Error of Principle	It means recording a transaction in the books of account which is not in accordance with the accounting principles. This error involves an incorrect allocation of expenditure or receipt between Capital and Revenue.
10. Error of Omission	It means an error committed whereby a transaction is omitted to be recorded.
11. Error of Commission	Error caused by wrong recording of transactions.
12. Compensating Errors	Errors that compensate each other.
13. Suspense Account	It is an account opened to temporarily tally the Trial Balance.
14. Rectifying Entries	Entries made in books of account for correction of errors.

CHAPTER SUMMARY

- Trial Balance is prepared to check the arithmetical accuracy of the posting into the ledger accounts. The two sides of the Trial Balance must be equal, *i.e.*, the total of debit side must be equal to total of credit side. Disagreement of a Trial Balance means that there are errors in books of account. Some of the errors affect the agreement of the Trial Balance and are disclosed by the Trial Balance.
- **Errors which affect the Trial Balance**
 - (i) Posting of one aspect of the Journal entry in the Ledger.
 - (ii) Posting a Journal entry on the wrong side of an account.
 - (iii) Wrong total of subsidiary books.
 - (iv) Posting correct amount in one account and wrong amount in the other account.
 - (v) Wrong totalling or balancing of a Ledger account.
 - (vi) Omission to enter an account balance in the Trial Balance.
 - (vii) Balance of an account written in the wrong column in the Trial Balance.
- **Errors which do not affect Trial Balance**
 - (i) Errors of principle.
 - (ii) Compensating errors.
 - (iii) Error of complete omission.
 - (iv) Posting correct amount and on the correct side but in the wrong account.

- (v) Recording wrong amount in the books of the original entry.
- (vi) Recording both aspects of a transaction twice in the books of account.

• **Types of Errors**

- (i) **Errors of Principle.** It means transactions are recorded in contravention of accounting principles.
 - (ii) **Error of Omission.** If a transaction is omitted from being recorded completely or partially, it is known as an error of omission.
 - (iii) **Error of Commission.** Transaction wrongly written in the Subsidiary Book or in the Ledger or wrong posting or wrong balancing is known as error of commission.
 - (iv) **Compensating Error.** When an error is committed and it is nullified by another error, it is known as a compensating error.
- Errors may be such as affect only one account—**one-sided errors** or they affect both the accounts—**two-sided errors**.
 - **Suspense Account.** In order to avoid the delay in the preparation of Final Accounts, the difference in the Trial Balance is put to Suspense Account (which is an account of a temporary nature). When errors are located, entries are passed with the help of Suspense Account and when all errors affecting the Trial Balance are located, the Suspense Account stands closed.

Solved Questions

Illustration 1.

Rectify the following errors found in the books of Mr. Dutt. The Trial Balance as on 31st March, 2020 showed excess credit of ₹ 493. The difference was posted to the Suspense Account.

- (i) An amount of ₹ 100 was received from D. Das on 31st March, 2020, but had been entered in the Cash Book on 4th April, 2020.
- (ii) The total of Returns Inward Book for March had been cast short by ₹ 100.
- (iii) The purchase of a table for office use costing ₹ 300 had been passed through the Purchases Book.
- (iv) ₹ 375 paid for wages to workmen for making showcases had been charged to the Wages Account.
- (v) A purchase of ₹ 67 had been posted to the Creditor's Account as ₹ 60.
- (vi) A cheque for ₹ 200 received from P.C. Joshi had been dishonoured and was debited to the Allowances Account.
- (vii) ₹ 1,000 paid for the purchase of a motor cycle for Mr. Dutt had been charged to the Miscellaneous Expenses Account.
- (viii) Goods amounting to ₹ 100 had been returned by a customer and were taken into stock, but no entry in respect thereof was made in the books.
- (ix) A sale of ₹ 200 to Singhi & Co., was wrongly credited to their account.

Solution:

The following entries should be passed on 31st March, 2020:

RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank ...Dr. To D. Das (Note) (Being the amount received)		100	100
(ii)	Returns Inward A/c ...Dr. To Suspense A/c (Being the mistake in totalling the Returns Inward Book corrected)		100	100

Rectification of Errors

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(iii)	Furniture A/c To Purchases A/c (Being the purchase of furniture wrongly entered in Purchases Book, now corrected)	...Dr.	300	300
(iv)	Furniture A/c To Wages A/c (Being the wages paid to workmen for making showcases which should be capitalised and not charged to the Wages Account)	...Dr.	375	375
(v)	Suspense A/c To Creditor's A/c (Being the mistake in crediting the Creditor's Account less by ₹ 7, now corrected)	...Dr.	7	7
(vi)	P.C. Joshi To Allowances A/c (Being the cheque of P.C. Joshi dishonoured previously debited to the Allowances Account)	...Dr.	200	200
(vii)	Drawings A/c To Miscellaneous Expenses A/c (Being the motor cycle purchased for Mr. Dutt debited to his Drawings Account instead of the Miscellaneous Expenses Account as previously done by mistake)	...Dr.	1,000	1,000
(viii)	Returns Inward A/c To Debtor's A/c (Being goods returned by a customer, now recorded)	...Dr.	100	100
(ix)	Singhi & Co. To Suspense A/c (Being the correction of the mistake by which the amount of Singhi & Co. was credited by ₹ 200 instead of being debited)	...Dr.	400	400

Dr.		SUSPENSE ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹	
2020			2020			
March 31	To Difference in Trial Balance	493	March 31	By Returns Inward A/c	100	
March 31	To Creditor's A/c	7	March 31	By Singhi & Co.	400	
		500			500	

Note: The entry already passed in the Cash Book on 4th April, 2020 will be reversed by entering on the credit side of the Cash Book: "By D. Das (to reverse entry wrongly passed on 4th April) ₹ 100".

Illustration 2.

Rectify the following errors by passing Journal entries:

- (i) Preeti was paid cash ₹ 2,800 but Jyoti was debited by ₹ 2,000.
- (ii) Tables and chairs purchased for ₹ 5,000 were debited to the Purchases Account.
- (iii) Wages amounting to ₹ 7,000 for machinery erection were debited to the Wages Account.
- (iv) Machinery written off by ₹ 1,000 has not been posted to the Depreciation Account.
- (v) Goods purchased for ₹ 1,000 for the proprietor's use were debited to the Purchases Account.
- (vi) Goods purchased for ₹ 5,000 were posted as ₹ 500 to the Purchases Account.
- (vii) Goods purchased for ₹ 200 were posted as ₹ 2,000 to the Purchases Account.
- (viii) ₹ 1,000 received from Preeti was debited to her account.
- (ix) Returns Inward Book for December was totalled short by ₹ 1,000.
- (x) A Purchases return of ₹ 1,000 to Ranbir was not recorded.
- (xi) A credit sale of old furniture to Mohan for ₹ 1,700 omitted to be posted.

Solution:

RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Preeti ...Dr. To Jyoti To Suspense A/c (Being the cash paid to Preeti wrongly debited to Jyoti, now rectified)		2,800	2,000 800
(ii)	Furniture A/c ...Dr. To Purchases A/c (Being the purchase of tables and chairs debited to Purchases, now rectified)		5,000	5,000
(iii)	Machinery A/c ...Dr. To Wages A/c (Being the wages paid for machinery erection wrongly debited to Wages A/c, now rectified)		7,000	7,000
(iv)	Depreciation A/c ...Dr. To Suspense A/c (Being the depreciation on Machinery not posted to Depreciation A/c, now posted)		1,000	1,000
(v)	Drawings A/c ...Dr. To Purchases A/c (Being the goods purchased for proprietor now debited to Drawings A/c)		1,000	1,000
(vi)	Purchases A/c ...Dr. To Suspense A/c (Being the goods purchased for ₹ 5,000 recorded as ₹ 500, now rectified)		4,500	4,500
(vii)	Suspense A/c ...Dr. To Purchases A/c (Being the goods purchased for ₹ 200 recorded as ₹ 2,000, now rectified)		1,800	1,800
(viii)	Suspense A/c ...Dr. To Preeti (Being ₹ 1,000 received from Preeti debited to her account, now rectified)		2,000	2,000
(ix)	Returns Inward A/c ...Dr. To Suspense A/c (Being the Returns Inward Book short totalled for December, now rectified)		1,000	1,000
(x)	Ranbir ...Dr. To Purchases Return A/c (Being the purchase return of ₹ 1,000 to Ranbir, now recorded)		1,000	1,000
(xi)	No Journal Entry is to be passed as it has already been correctly passed in the Journal. Merely posting in both the accounts in the ledger is required.			

Illustration 3.

The books of account of Kapil for the year ended 31st March, 2020, were closed with difference in the Trial Balance carried forward. Subsequently, the following errors were detected:

- (i) ₹ 1,500 being the total of discount column on the credit side of the Cash Book was not posted in the Ledger.
- (ii) Closing Stock was overstated by ₹ 9,000 being casting error in the schedule of inventory.

- (iii) Return outwards book was undercast by ₹ 150.
 (iv) A credit sale of ₹ 870 was wrongly posted as ₹ 780 to the Customer's Account in the Sales Ledger.
 (v) ₹ 6,000 being the cost of purchase of furniture for office was entered in the Purchases Book.
 Pass rectifying entries, prepare the Suspense Account and find the effect of correction on profit as on 31st March, 2020.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Suspense A/c To Profit and Loss Adjustment A/c (Being the discount rectified was not posted from Cash Book to Ledger, now rectified)	...Dr.	1,500	1,500
(ii)	Profit and Loss Adjustment A/c To Stock in Trade A/c (Being the Closing Stock was overcast by ₹ 9,000, now rectified)	...Dr.	9,000	9,000
(iii)	Suspense A/c To Profit and Loss Adjustment A/c (Being the Returns Outward Book undercast, now rectified)	...Dr.	150	150
(iv)	Customer's A/c To Suspense A/c (Being the credit sale of ₹ 870 was wrongly posted as ₹ 780, to the customer's account, now rectified)	...Dr.	90	90
(v)	Furniture A/c To Profit and Loss Adjustment A/c (Being the purchase of furniture was wrongly entered in Purchases Account, now rectified)	...Dr.	6,000	6,000
(vi)	Kapil's Capital A/c To Profit and Loss Adjustment A/c (Being the loss on rectification of wrong transactions transferred to Capital Account)	...Dr.	1,350	1,350

Dr. SUSPENSE ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Profit and Loss Adjustment A/c	1,500	By Balance b/d (Balancing Figure)	1,560
To Profit and Loss Adjustment A/c	150	By Customer's A/c	90
	<u>1,650</u>		<u>1,650</u>

Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Stock in Trade A/c	9,000	By Suspense A/c	1,500
		By Suspense A/c	150
		By Furniture A/c	6,000
		By Kapil's Capital A/c (Loss Transferred)	1,350
	<u>9,000</u>		<u>9,000</u>

Note: Effect of correct profit as on 31st March, 2020:

Profit will be reduced by ₹ 1,350 subject to depreciation on furniture of ₹ 6,000.

Illustration 4.

Give Journal entries to rectify the following errors:

- (i) A credit sale of ₹ 4,230 to Ram omitted to be recorded.
- (ii) A credit sale of ₹ 4,230 to Ram entered as ₹ 4,320.
- (iii) A credit sale of ₹ 4,230 to Ram entered as sale to Shyam.
- (iv) A credit sale of ₹ 4,230 to Ram entered as sale to Shyam ₹ 4,320.
- (v) A credit sale of ₹ 4,230 to Ram passed through the Purchases Book.
- (vi) A credit sale of ₹ 4,230 to Ram entered in Purchases Book as ₹ 4,320.
- (vii) A credit sale of ₹ 4,230 to Ram entered as Purchase from Shyam.
- (viii) A credit sale of ₹ 4,230 to Ram entered as purchase from Shyam ₹ 4,320.
- (ix) Sales Book overcast by ₹ 500.
- (x) Total of Sales Book ₹ 4,230 on page 25 is brought forward on page 26 as ₹ 4,320.
- (xi) Total of Sales Book ₹ 5,000 omitted to be posted.

Solution:

RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Ram ...Dr. To Sales A/c (Being credit sale omitted to be recorded, now recorded)		4,230	4,230
(ii)	Sales A/c ...Dr. To Ram (Being sale of ₹ 4,230 recorded as ₹ 4,320, now rectified)		90	90
(iii)	Ram ...Dr. To Shyam (Being sale to Ram recorded as sale to Shyam, now rectified)		4,230	4,230
(iv)	Ram ...Dr. Sales A/c ...Dr. To Shyam (Being sale to Ram ₹ 4,230 recorded as sale to Shyam ₹ 4,320, now rectified)		4,230 90	4,320
(v)	Ram ...Dr. To Sales A/c To Purchases A/c (Being sale to Ram recorded as purchase, now rectified)		8,460	4,230 4,230
(vi)	Ram ...Dr. To Sales A/c To Purchases A/c (Being sale of ₹ 4,230 recorded as purchase of ₹ 4,320, now rectified)		8,550	4,230 4,320
(vii)	Ram ...Dr. Shyam ...Dr. To Sales A/c To Purchases A/c (Being sale to Ram recorded as purchase from Shyam, now rectified)		4,230 4,230	4,230 4,230
(viii)	Ram ...Dr. Shyam ...Dr. To Sales A/c To Purchases A/c (Being sale to Ram ₹ 4,230 recorded as purchase from Shyam ₹ 4,320, now rectified)		4,230 4,320	4,230 4,320

Rectification of Errors

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(ix)	Sales A/c To Suspense A/c (Being the Sales Book overcast, now rectified)	...Dr.	500	500
(x)	Sales A/c To Suspense A/c (Being total of Sales Book ₹ 4,230 brought forward as ₹ 4,320, now rectified)	...Dr.	90	90
(xi)	Suspense A/c To Sales A/c (Being total of Sales Book omitted to be posted, now rectified)	...Dr.	5,000	5,000

Illustration 5.

Pass necessary Journal entries rectifying the following errors which were detected after preparation of Trial Balance:

- (i) A credit sale of ₹ 5,000 to Mohan omitted to be posted.
- (ii) A credit sale of ₹ 5,000 to Mohan posted as ₹ 5,500.
- (iii) A credit sale of ₹ 5,000 to Mohan credited to his account.
- (iv) A credit sale of ₹ 5,000 to Mohan credited to his account as ₹ 500.
- (v) A credit sale of ₹ 5,000 to Mohan posted to the debit of Sohan.
- (vi) A credit sale of ₹ 5,000 to Mohan posted to the debit of Sohan as ₹ 5,600.
- (vii) A credit sale of ₹ 5,000 to Mohan posted to the credit of Sohan.
- (viii) A credit sale of ₹ 5,000 to Mohan posted to the credit of Sohan as ₹ 50,000.
- (ix) A credit sale of an old machine of ₹ 5,000 to Mohan recorded as sale of goods.
- (x) A credit sale of ₹ 5,000 to Mohan passed through the Purchases Book and posted therefrom to the debit of Mohan.
- (xi) A credit sale of ₹ 5,000 to Mohan entered in the Purchases Book as ₹ 5,200 and posted therefrom to the credit of Sohan as ₹ 5,000.
- (xii) Goods (Cost ₹ 3,500, Sale Price ₹ 4,000) taken by John, the proprietor, for his personal use recorded in the Sales Book.

Solution:

RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Mohan To Suspense A/c (Being omission of posting to Mohan, now rectified)	...Dr.	5,000	5,000
(ii)	Suspense A/c To Mohan (Being excess debit to Mohan, now rectified)	...Dr.	500	500
(iii)	Mohan To Suspense A/c (Being wrong side posting, now rectified)	...Dr.	10,000	10,000
(iv)	Mohan To Suspense A/c (Being posting on wrong side with wrong amount, now rectified)	...Dr.	5,500	5,500
(v)	Mohan To Sohan (Being posting to wrong account, now rectified)	...Dr.	5,000	5,000

(vi)	Mohan ...Dr. Suspense A/c ...Dr. To Sohan (Being posting to wrong account with wrong amount, now rectified)	5,000 600	5,600
(vii)	Mohan ...Dr. Sohan ...Dr. To Suspense A/c (Being the wrong posting, now rectified)	5,000 5,000	10,000
(viii)	Mohan ...Dr. Sohan ...Dr. To Suspense A/c (Being posting to wrong Account on wrong side with wrong amount, now rectified)	5,000 50,000	55,000
(ix)	Sales A/c ...Dr. To Machinery A/c (Being sale of machine recorded as sale of goods, now rectified)	5,000	5,000
(x)	Suspense A/c ...Dr. To Sales A/c To Purchases A/c (Being a sale recorded as purchases, now rectified)	10,000	5,000 5,000
(xi)	Sohan ...Dr. Mohan ...Dr. Suspense A/c ...Dr. To Sales A/c To Purchases A/c (Being sale recorded as purchase with wrong amount and wrong posting therefrom, now rectified)	5,000 5,000 200	5,000 5,200
(xii)	Sales A/c ...Dr. Drawings A/c ...Dr. To John's Capital A/c To Purchases A/c (Being the goods taken by the proprietor for his personal use recorded in Sales Book, now rectified)	4,000 3,500	4,000 3,500

Illustration 6.

Rectify the following errors found in the books of Mr. R.K. Sharma. The Trial Balance had ₹ 1,860 excess credit. The difference has been posted to a Suspense Account.

- (i) The total of Returns Inward Book has been cast ₹ 2,000 short.
- (ii) The purchase of an office table costing ₹ 10,000 has been passed through the Purchases Day Book.
- (iii) ₹ 7,500 paid for wages to workman for making showcases had been charged to Wages Account.
- (iv) A purchase of ₹ 1,340 had been posted to the Creditor's Account as ₹ 600.
- (v) A cheque for ₹ 4,000 received from Mr. P.C. Jain had been dishonoured and was passed to the debit of 'Allowances Account'.

After rectification, reflect the transactions in the Suspense Account.

Solution:**In the Books of R.K. Sharma**
RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Returns Inward A/c ...Dr. To Suspense A/c (Being the Returns Inward Book cast short by ₹ 2,000, now rectified)		2,000	2,000
(ii)	Furniture A/c ...Dr. To Purchases A/c (Being purchase of office table passed through the Purchases Day Book, now rectified)		10,000	10,000
(iii)	Furniture A/c ...Dr. To Wages A/c (Being wages paid for making showcases wrongly debited to Wages Account, now rectified)		7,500	7,500
(iv)	Suspense A/c ₹ (1,340 – 600) ...Dr. To Creditor's A/c (Being purchases of ₹ 1,340 wrongly credited to Creditor's Account for ₹ 600, now rectified)		740	740
(v)	Mr. P.C. Jain ...Dr. To Allowances A/c (Being a cheque received from Mr. P.C Jain dishonoured but debited to Allowances Account, now rectified)		4,000	4,000

Dr.		SUSPENSE ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Difference in Trial Balance	1,860	By Returns Inward A/c	2,000	
To Creditor's A/c	740	By Balance c/d (Note)	600	
	2,600		2,600	

Note: The balance in the Suspense Account indicates that there are still some undetected errors in the books.

Illustration 7.

The Trial Balance extracted from a set of books of Mr. B.K. Banerjee showed a difference which was placed in a Suspense Account. Subsequently, following mistakes were detected:

- (i) A cheque for ₹ 1,000 received from Raj was dishonoured and returned by the bank had been credited to the Bank Account and debited to Sundry Creditors Account.
- (ii) Several items of furniture sold for ₹ 5,000 had been entered in the Sales Day Book.
- (iii) Goods purchased from Mr. V.K. Gupta for ₹ 310 had been posted to the debit of his Account as ₹ 130.
- (iv) ₹ 1,200 for goods sold on credit to Ajeet had been omitted to be entered in his account.

Show the necessary entries to rectify these errors and also indicate the amount of the difference in the Trial Balance.

Solution:**In the Books of B.K. Banerjee**
RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Raj ...Dr. To Sundry Creditors A/c (Being cheque dishonoured wrongly debited to Sundry Creditors Account, now rectified)		1,000	1,000
(ii)	Sales A/c ...Dr. To Furniture A/c (Being old furniture sold was wrongly entered in the Sales Day Book, now rectified)		5,000	5,000
(iii)	Suspense A/c (₹ 310 + ₹ 130) ...Dr. To V.K. Gupta (Being purchases from V.K. Gupta for ₹ 310 was wrongly debited to his account by ₹ 130, now rectified)		440	440
(iv)	Ajeet ...Dr. To Suspense A/c (Being goods sold to Ajeet on credit had been omitted to be entered in his account, now recorded)		1,200	1,200

Dr.		SUSPENSE ACCOUNT		Cr.
Particulars	₹	Particulars	₹	
To Difference in Trial Balance (Balancing Figure)	760	By Ajeet	1,200	
To V.K. Gupta	440			
	1,200			1,200

Illustration 8.

The difference in Trial Balance is kept in Suspense Account. Before preparing the final accounts, the following errors were detected:

- Purchase for ₹ 540 was written in Sales Day Book, but was posted to the correct side of Party's Account.
- Salary Account total ₹ 12,600 on page 32 was carried over to the next page as ₹ 1,260 on the wrong side.
- Interest on overdraft ₹ 650 was not posted to the Ledger from the Cash Book.
- ₹ 600 collected from a party in respect of the old dues from his which had been written off as bad two years ago, was credited to the Party's Account.

Show rectification entries and Suspense Account, state to what extent the Profit and Loss Account would have been affected if the above errors had not been detected and corrected.

(ICWA (Inter)—Adapted)

Solution:

RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Purchases A/c ...Dr. Sales A/c ...Dr. To Suspense A/c (Being Purchases wrongly posted through Sales Day Book, now rectified)		540 540	1,080

(b)	Salary A/c (₹ 12,600 + ₹ 1,260) ...Dr. To Suspense A/c (Being total of Salary Account ₹ 12,600 carried forward to next page as ₹ 1,260 on the wrong side, now rectified)	13,860	13,860
(c)	Interest A/c ...Dr. To Suspense A/c (Being interest on overdraft not posted to the ledger from cash book, now recorded)	650	650
(d)	Party's A/c ...Dr. To Bad Debts Recovered A/c (Being bad debt recovered wrongly credited to Party's Account, now rectified)	600	600

Dr. SUSPENSE ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Balance b/d (Balancing Figure)	15,590	By Purchases A/c	540
		By Sales A/c	540
		By Salary A/c	13,860
		By Interest A/c	650
	15,590		15,590

EFFECT OF RECTIFICATION OF ERRORS ON NET PROFIT

Items	(a)	(b)	(c)	(d)	Total
Increase (₹)	...	...	...	600	600
Decrease (₹)	1,080	13,860	650	...	15,590

Decrease in Net Profit = ₹ 14,990

Note: When bad debt is recovered, Cash Account is debited and Bad Debts Recovered Account is credited. At the end of the accounting period, it is transferred to the credit side of the Profit and Loss Account.

Illustration 9.

Rectify the following errors by passing Journal entries and determine their effect on the Profit and Loss Account of the concern:

- (i) Returns Inward Book for December was short-totaled by ₹ 100.
- (ii) ₹ 5,810 being cash paid to Kishan Chand was debited to Ram Chand as ₹ 5,010.
- (iii) ₹ 1,500 worth of furniture purchased on credit was debited to Purchases Account.
- (iv) A purchase made for ₹ 500 was posted to the Purchases Account as ₹ 50.
- (v) Wages paid for the erection of machinery amounting to ₹ 700 was debited to Wages Account.
- (vi) Goods purchased for proprietor's use for ₹ 1,000 was debited to Purchases Account.
- (vii) A sum of ₹ 1,000 written off from machinery has not been posted to Depreciation Account.
- (viii) ₹ 1,000 received from Raghu has been debited to Sunder.
- (ix) ₹ 5,000 received from Radhey Mohan was debited to his account.
- (x) Purchase returns of ₹ 2,000 to Shri Hari Kishan were not recorded in the books.

Solution:

RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Returns Inward A/c ...Dr. To Suspense A/c (Being Returns Inward Book undercast by ₹ 100, now rectified)		100	100
(ii)	Kishan Chand ...Dr. To Ram Chand To Suspense A/c (Being cash of ₹ 5,810 paid to Kishan Chand wrongly debited to Ram Chand as ₹ 5,010, now rectified)		5,810	5,010 800
(iii)	Furniture A/c ...Dr. To Purchases A/c (Being purchase of furniture wrongly debited to Purchases Account, now rectified)		1,500	1,500
(iv)	Purchases A/c ...Dr. To Suspense A/c (Being purchase of ₹ 500 wrongly posted as ₹ 50 to the Purchases Account, now rectified)		450	450
(v)	Machinery A/c ...Dr. To Wages A/c (Being wages paid for erection of machinery wrongly debited to Wages Account, now rectified)		700	700
(vi)	Drawings A/c ...Dr. To Purchases A/c (Being goods purchased to personal use wrongly debited to Purchases Account, now recorded)		1,000	1,000
(vii)	Depreciation A/c ...Dr. To Suspense A/c (Being depreciation on machinery not posted to Depreciation Account, now rectified)		1,000	1,000
(viii)	Suspense A/c ...Dr. To Sunder To Raghu (Being ₹ 1,000 received from Raghu wrongly debited to Sunder's Account, now rectified)		2,000	1,000 1,000
(ix)	Suspense A/c ...Dr. To Radhey Mohan (₹ 5,000 × 2) (Being cash received from Radhey Mohan of ₹ 5,000 wrongly debited to his account, now rectified)		10,000	10,000
(x)	Hari Kishan ...Dr. To Returns Outward A/c (Being purchases return to Hari Kishan not recorded in the books, now recorded)		2,000	2,000

EFFECT OF RECTIFICATION OF ERRORS ON NET PROFIT

Items	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	Total
Increase (₹)	...	...	1,500	...	700	1,000	...	...	...	2,000	5,200
Decrease (₹)	100	...	...	450	...	...	1,000	...	...	...	1,550

Net Increase in Profit = ₹ 3,650

Illustration 10.

Following errors were identified in the accounts of Sohan Lal & Sons for the year ended 31st March, 2020:

- (i) A builder's bill for ₹ 27,000 for the erection of a small shed was debited to Repairs Account.
- (ii) A cheque for ₹ 3,000 received from Rahim Bux & Co. was dishonoured and debited to Trade Expenses Account.
- (iii) Goods to the value of ₹ 1,500 returned by Gupta Bros. were included in stock, but no entry was made in the books.
- (iv) Repairs to plant amounting to ₹ 5,670 had been charged to Plant and Machinery Account.
- (v) Wages paid to the firm's own workmen for making certain additions to machinery amounting to ₹ 5,500 were posted to Wages Account.
- (vi) A cheque for ₹ 750 received from Lala Ram was credited to the account of Sita Ram and debited incorrectly to Cash Account.
- (vii) A sum of ₹ 1,000 drawn by the proprietor for personal use was debited to Travelling Expenses Account.

Pass Journal entries to rectify these errors. Which of these errors, if any, will cause disagreement of the Trial Balance? Give reasons for your answer.

Solution: (i)

In the Books of Sohan Lal & Sons
RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Building A/c To Repairs A/c (Being a builder's bill for the erection of a small shed wrongly debited to Repairs Account, now corrected) ...Dr.		27,000	27,000
(ii)	Rahim Bux & Co. To Trade Expenses A/c (Being a cheque received from Rahim Bux & Co. got dishonoured and was wrongly debited to Trade Expenses Account, now rectified) ...Dr.		3,000	3,000
(iii)	Returns Inward A/c To Gupta Bros. (Being goods returned by Gupta Bros. omitted to be recorded, now recorded) ...Dr.		1,500	1,500
(iv)	Repairs A/c To Plant and Machinery A/c (Being repairs to plant and machinery wrongly debited to Plant and Machinery Account, now corrected) ...Dr.		5,670	5,670
(v)	Plant and Machinery A/c To Wages A/c (Being wages paid for making certain additions to machinery wrongly debited to Wages Account, now rectified) ...Dr.		5,500	5,500

(vi) (a)	Sita Ram To Lala Ram (Being cheques received from Lala Ram wrongly credited to Sita Ram instead of to Lal a Ram, now corrected)	...Dr.	750	750
(b)	Bank A/c To Cash A/c (Being cheque received from Lala Ram wrongly debited to Cash Account instead of to Bank Account, now rectified)	...Dr.	750	750
(vii)	Drawings A/c To Travelling Expenses A/c (Being amount drawn by the proprietor wrongly debited to Travelling Expenses Account, now corrected)	...Dr.	1,000	1,000

(ii) Effect of Errors on the Disagreement of the Trial Balance

All the errors given in the problem do not affect the agreement of the Trial Balance because these errors are errors of complete omission in a subsidiary book or errors of posting to the correct side but in the wrong account or errors of principle or compensating errors. These errors do not affect the agreement of the Trial Balance because figures of debit and credit remain the same by such errors.

Illustration 11.

An accountant prepared a Trial Balance which revealed a difference in the books of account. He put the difference in a newly opened Suspense Account. Subsequently, he detected the following errors:

- A dishonoured bill receivable for ₹ 15,000 returned by the bank had been credited to the Bank Account and debited to Bills Receivable Account.
- Sundry items of plant sold for ₹ 10,000 had been entered in the Sales Book, the total of which had been posted to the Sales Account.
- ₹ 100 discount received from a creditor had been duly entered in his account but not posted to Discount Received Account.
- Goods worth ₹ 2,000 returned by Gaurav were recorded in the Sales Book and were posted accordingly.
- Goods purchased from a merchant for ₹ 5,450 had been posted to the credit of his account as ₹ 4,540.
- An item of ₹ 100 entered in the Sales Return Book had been posted to the debit of the customer who returned the goods.
- An entry of ₹ 1,450 representing the selling price of goods returned to Shiv had been made in Returns Outwards Book and posted. The amount should have been ₹ 1,300, the invoice value of the goods in question.
- Goods worth ₹ 1,500 taken by the proprietor had been omitted to be recorded in the books.
- Amount of ₹ 4,200 received from Mr. Rahim which was written off as bad debt last year has been credited to his account.
- On scrutinising the accounts of a defaulting cashier it was discovered that he had received ₹ 20,000 from customers and ₹ 10,000 from cash sales and had paid ₹ 4,800 to a creditor (after deducting ₹ 200 for discount), but none of these transactions were recorded in the books of account.

Pass Journal entries to rectify the above mentioned errors. Ascertain the total amount of difference in Trial Balance.

Solution:

RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Acceptor's A/c ...Dr. To Bills Receivable A/c (Being bill dishonoured wrongly debited to Bills Receivable Account and not to the Acceptor's Account, now rectified)		15,000	15,000
(b)	Sales A/c ...Dr. To Plant A/c (Being a sale of sundry items of plant wrongly credited to the Sales Account instead of Plant Account, now rectified)		10,000	10,000
(c)	Suspense A/c ...Dr. To Discount Received A/c (Being rectification of the discount allowed by a creditor omitted to be posted to Discount Received Account)		100	100
(d)	Returns Inward A/c ...Dr. Sales A/c ...Dr. To Gaurav (Being goods returned by Garuav wrongly entered in the Sales Book, now rectified)		2,000 2,000	4,000
(e)	Suspense A/c ...Dr. To Merchant's A/c (Being rectification of a less credit given to Merchant Account)		910	910
(f)	Suspense A/c ...Dr. To Customer's A/c (Being goods worth ₹ 100 returned by a customer wrongly debited to him instead of being credited, now rectified)		200	200
(g)	Returns Outward A/c ...Dr. To Shiv (Being goods returned charged at selling price and not at invoice price at which these were purchased, now rectified)		150	150
(h)	Drawings A/c ...Dr. To Purchases A/c (Being goods taken by the proprietor omitted to be recorded, now recorded)		1,500	1,500
(i)	Mr. Rahim ...Dr. To Bad Debts Recovered A/c (Being the amount received from Mr. Rahim written off as irrecoverable last year wrongly credited to Mr. Rahim instead of Bad Debts Recovered Account, now stands corrected)		4,200	4,200
(j)	Cash A/c ...Dr. To Customers' A/c To Sales A/c (Being cash received from debtors and cash sales omitted to be recorded, now recorded)		30,000	20,000 10,000

21.16

Double Entry Book Keeping—ISC XI

Creditor's A/c To Cash A/c To Discount Received A/c (Being cash paid to a creditor and discount allowed by him omitted to be recorded, now recorded)	...Dr.	5,000	4,800 200
Cashier's A/c To Cash A/c (Being cash defaulted by the cashier)	...Dr.	25,200	25,200

SUSPENSE ACCOUNT			
Dr.			Cr.
Particulars	₹	Particulars	₹
To Discount Received A/c	100	By Difference in Books as per Trial Balance (Balancing Figure)	1,210
To Merchant's A/c	910		
To Customer's A/c	200		
	1,210		1,210

Note: Suspense Account indicates that there was a difference of ₹ 1,210 in the Trial Balance before deducting the errors. Debit side of the Trial Balance exceeded credit side by ₹ 1,210.

Illustration 12.

Raj prepared his Trial Balance as on 31st March, 2020 with a difference of ₹ 41,016.

TRIAL BALANCE as on 31st March, 2020

Heads of Accounts	L.F.	Dr. (₹)	Cr. (₹)
Capital		...	10,00,256
Plant and Machinery		2,50,000	...
Furniture		26,500	...
Car		4,85,000	...
Building		6,20,000	...
Cash		69,000	...
Bank		72,000	...
Depreciation		46,500	...
Opening Stock		45,800	...
Purchases		6,90,000	...
Wages		1,90,000	...
Manufacturing Expenses		2,06,000	...
Salary		1,20,000	...
Rent		2,40,000	...
Postage and Telephone		89,000	...
Electricity		94,000	...
General Expenses		12,500	...
Sales		...	10,25,000
Interest		...	4,500
Fixed Assets		2,50,000	...
Outstanding Expenses		...	63,500
Sundry Debtors		96,000	...
Sundry Creditors		...	2,00,060
Unsecured Loan		...	13,50,000
Suspense		41,016	...
Total		36,43,316	36,43,316

Rectification of Errors**21.17**

On analysis you have found the following errors:

	₹
1. Sales Return considered as Purchases	2,693
2. Purchases Return considered as Sales	4,923
3. Ramu who is a creditor considered as Debtor	22,500
4. Sales register's total actually was	10,52,000
5. Receipts side of the Bank Book for the month of March undercast by	80,000
6. Salary advance wrongly considered as outstanding expenses	12,000
7. Discount received not considered in Trial Balance	984
8. Sundry Debtors undercast by	10,000

You are required to pass Journal entries to rectify the above errors and prepare a rectified Trial Balance. Also show the Suspense Account.

Solution:
In the Books of Raj
 RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020				
March 31	Sales Return A/c To Purchases A/c (Being sales return considered as purchases, now rectified)	...Dr.	2,693	2,693
March 31	Sales A/c To Purchases Return A/c (Being purchases return considered as sales, now rectified)	...Dr.	4,923	4,923
March 31	Suspense A/c To Sundry Creditors A/c To Sundry Debtors A/c (Being creditor considered as debtor, now rectified)	...Dr.	45,000	22,500 22,500
March 31	Suspense A/c To Sales A/c (Being sales undercast, now adjusted)	...Dr.	27,000	27,000
March 31	Bank A/c To Suspense A/c (Being Bank Book undercast, now rectified)	...Dr.	80,000	80,000
March 31	Advance Salary A/c Outstanding Expenses A/c To Suspense A/c (Being salary advance considered as outstanding expenses, now rectified)	...Dr. ...Dr.	12,000 12,000	24,000
March 31	Suspense A/c To Discount Received A/c (Being discount received not considered, now adjusted)	...Dr.	984	984
March 31	Sundry Debtors A/c To Suspense A/c (Being debtors undercast, now adjusted)	...Dr.	10,000	10,000

TRIAL BALANCE as on 31st March, 2020

Heads of Accounts	L.F.	Dr. (₹)	Cr. (₹)
Capital		...	10,00,256
Plant and Machinery		2,50,000	...
Furniture		26,500	...
Car		4,85,000	...
Building		6,20,000	...
Cash		69,000	...
Bank		1,52,000	...
Depreciation		46,500	...
Opening Stock		45,800	...
Purchases		6,87,307	...
Sales Return		2,693	...
Wages		1,90,000	...
Manufacturing Expenses		2,06,000	...
Salary		1,20,000	...
Rent		2,40,000	...
Postage and Telephone		89,000	...
Electricity		94,000	...
General Expenses		12,500	...
Sales		...	10,47,077
Purchases Return		...	4,923
Interest		...	4,500
Fixed Assets		2,50,000	...
Outstanding Expenses		...	51,500
Advance Salary		12,000	...
Sundry Debtors		83,500	...
Sundry Creditors		...	2,22,560
Unsecured Loan		...	13,50,000
Discount Received		...	984
Total		36,81,800	36,81,800

Dr. SUSPENSE ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Balance b/d	41,016	By Bank A/c	80,000
To Sundry Creditors A/c	22,500	By Advance Salary A/c	12,000
To Sundry Debtors A/c	22,500	By Outstanding Expenses A/c	12,000
To Sales A/c	27,000	By Sundry Debtors A/c	10,000
To Discount Received A/c	984		
	1,14,000		1,14,000

Illustration 13.

Following errors committed by the accountant of Sita Dye Chemicals:

- Cash ₹ 3,500 paid to Triman Chemicals posted as ₹ 5,300.
- Purchase of Stationery worth ₹ 1,500 remained unposted from the Cash Book.
- ₹ 2,600 paid for purchase of new office furniture charged to Office Expenses Account (Ignore depreciation).
- Credit sales to Trivedi & Co., of ₹ 4,000 was posted to the credit of their account.
- Purchase of ₹ 4,200 from Mantri & Co. was passed through the Sales Day Book as ₹ 2,400.

How would you rectify the errors assuming that:

- (i) They were detected after preparing Trial Balance, but before preparing final accounts (the difference being taken to Suspense Account)?
- (ii) They were detected after preparing final accounts?
(Narrations to Journal Entries not required)

Solution:

- (i) When errors are rectified after preparing the Trial Balance but before preparing Final Accounts:

RECTIFYING JOURNAL ENTRIES				
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Suspense A/c ...Dr. To Triman Chemicals		1,800	1,800
(b)	Stationery A/c ...Dr. To Suspense A/c		1,500	1,500
(c)	Furniture A/c ...Dr. To Office Expenses A/c		2,600	2,600
(d)	Trivedi & Co. ...Dr. To Suspense A/c		8,000	8,000
(e)	Purchases A/c ...Dr. Sales A/c ...Dr. To Mantri & Co.		4,200 2,400	6,600

- (ii) When errors are rectified after preparing Final Accounts:

RECTIFYING JOURNAL ENTRIES				
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Suspense A/c ...Dr. To Triman Chemicals		1,800	1,800
(b)	Profit and Loss Adjustment A/c ...Dr. To Suspense A/c		1,500	1,500
(c)	Furniture A/c ...Dr. To Profit and Loss Adjustment A/c		2,600	2,600
(d)	Trivedi & Co. ...Dr. To Suspense A/c		8,000	8,000
(e)	Profit and Loss Adjustment A/c ...Dr. To Mantri & Co.		6,600	6,600
	Capital A/c ...Dr. To Profit and Loss Adjustment A/c		5,500	5,500

Note: Profit and Loss Adjustment Account has been given debit or credit in place of nominal accounts because errors have been discovered after the preparation of final accounts. The last entry relates to balance of Profit and Loss Adjustment Account transferred to Capital Account being loss due to rectification of all errors.

Illustration 14.

Trial Balance of P.K. Traders as at 31st March, 2020 did not match. In order to close the books, the accountant placed the difference to the newly opened Suspense Account and carried forward this difference to the next period for necessary adjustments. Later, the following errors arising in 2019–20 were identified:

- A purchase of ₹ 1,620 was recorded in the Day Book as ₹ 620 and posted to debit side of Supplier's Account as ₹ 260.
- Sales Day Book was overcast by ₹ 1,000 in January, 2020.
- Furniture purchased for ₹ 25,000 cash was posted to the Purchases Account in the Ledger.
- Credit sale of ₹ 970 was posted to the credit of the Customer's Account as ₹ 790.
- ₹ 500 allowed as cash discount to a trade debtor was not debited to the Discount Allowed Account.

Pass the necessary Journal entries to rectify these errors and show Suspense Account, Profit and Loss Adjustment Account and state the ultimate effect of these correcting entries in the books for 2019–20.

Solution:

In the Books of M/s. P.K. Traders
RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020 April 1	Profit and Loss Adjustment A/c (₹ 1,620 – ₹ 620) ...Dr.		1,000	
(a)	Suspense A/c (₹ 260 + ₹ 620) ...Dr. To Supplier's A/c (Being purchase of ₹ 1,620 entered in the Purchase Book as ₹ 620 but posted to the debit of Supplier's A/c as ₹ 260, now rectified)		880	1,880
(b)	Profit and Loss Adjustment A/c ...Dr. To Suspense A/c (Being Sales Day Book overcast by ₹ 1,000, now rectified)		1,000	1,000
(c)	Furniture A/c ...Dr. To Profit and Loss Adjustment A/c (Being furniture purchased has been posted to the Purchases Account, now rectified)		25,000	25,000
(d)	Customer's A/c (₹ 970 + ₹ 790) ...Dr. To Suspense A/c (Being credit sale of ₹ 970 wrongly posted to the credit of Customer's Account, as ₹ 790, now rectified)		1,760	1,760
(e)	Profit and Loss Adjustment A/c ...Dr. To Suspense A/c (Being discount allowed not posted to Discount Allowed Account, now rectified)		500	500
(f)	Profit and Loss Adjustment A/c ...Dr. To Capital A/c (Being the net adjusted profit transferred to Capital Account)		22,500	22,500

Dr.		SUSPENSE ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d (Balancing Figure)	2,380	By Profit and Loss Adjustment A/c			1,000
To Supplier's A/c	880	By Customer's A/c			1,760
		By Profit and Loss Adjustment A/c			500
	<u>3,260</u>				<u>3,260</u>

PROFIT AND LOSS ADJUSTMENT ACCOUNT			
Dr.		Cr.	
Particulars	₹	Particulars	₹
To Supplier's A/c	1,000	By Furniture A/c	25,000
To Suspense A/c	1,000		
To Suspense A/c	500		
To Capital A/c (Balancing Figure)	22,500		
	25,000		25,000

Effect of Corrections:

- Suspense Account will be nil;
- Sundry Debtors Account will be increased by ₹ 1,760;
- Sundry Creditors Account will be increased by ₹ 1,880;
- Furniture Account will be increased by ₹ 25,000;
- Capital Account will be increased due to increase in profit by ₹ 22,500; subject to depreciation on furniture wrongly posted to the Purchases Account.

Illustration 15.

There was a difference in Trial Balance of Sushant, a trader, on 31st March, 2020 and the difference in books was carried to a Suspense Account and the books were closed. Subsequently, on going through the books, the following errors were located:

- ₹ 2,296 paid for repairs of motor car, was debited to Motor Car Account as ₹ 696.
- A sale of ₹ 1,400 to J. Das entered in the Sales Book as ₹ 2,120.
- A cash discount of ₹ 800 received was entered in the Cash Book but was not posted in the ledger.
- ₹ 400 being purchase returns posted to the debit of Purchases Account.
- The purchase of a machine on 1st April, 2019 for ₹ 24,000 was entered in the Purchases Book.
- While carrying forward total of one page in N. Das's Account, the amount of ₹ 1,000 was written on the credit side instead of the debit side.
- A cheque of ₹ 6,192 received from S. Das (after allowing a discount of ₹ 92) was endorsed to P. Ghosh in full settlement for ₹ 7,000. The cheque was finally dishonoured but no entry is passed in the books.

Give Journal entries to rectify the above errors and prepare Suspense Account.

Solution:**In the Books of Sushant**

RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020 April 1	Profit and Loss Adjustment A/c ...Dr.		2,296	
(a)	To Motor Car A/c			696
	To Suspense A/c			1,600
	(Being repairs to motor car of ₹ 2,296 wrongly debited to Motor Car Account as ₹ 696, now rectified)			
(b)	Profit and Loss Adjustment A/c ...Dr.		720	
	To J. Das			720
	(Being a sale of ₹ 1,400 wrongly entered in the Sales Day Book as ₹ 2,120, now rectified)			

(c)	Suspense A/c To Profit and Loss Adjustment A/c (Being discount received entered in the cash book but wrongly not posted in Ledger, now rectified)	...Dr.	800	800
(d)	Suspense A/c To Profit and Loss Adjustment A/c (Being purchase returns of ₹ 400 posted wrongly to the debit of Purchases Account, now rectified)	...Dr.	800	800
(e)	Machinery A/c (Note) To Profit and Loss Adjustment A/c (Being purchase of machinery for ₹ 24,000 entered wrongly in the Purchases Day Book, now rectified)	...Dr.	24,000	24,000
(f)	N. Das To Suspense A/c (Being a debit amount of ₹ 1,000 wrongly carried forward as credit amount, now rectified)	...Dr.	2,000	2,000
(g)	S. Das (₹ 6,192 + ₹ 92) Profit and Loss Adjustment A/c To P. Ghosh (Being a cheque of ₹ 6,192 received from Mr. S. Das endorsed to P. Ghosh for full settlement of ₹ 7,000 and dishonoured but no entry was passed, now rectified)	...Dr. ...Dr.	6,284 716	7,000
	Profit and Loss Adjustment A/c To Capital A/c (Being net profit transferred to Capital Account)	...Dr.	21,868	21,868

Note: For lack of information regarding depreciation rate, no effect has been given in the Profit and Loss Adjustment Account.

Dr. SUSPENSE ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Balance b/d (Balancing Figure)	2,000	By Profit and Loss Adjustment A/c	1,600
To Profit and Loss Adjustment A/c	800	By N. Das	2,000
To Profit and Loss Adjustment A/c	800		
	3,600		3,600

Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Motor Car A/c	696	By Suspense A/c	800
To Suspense A/c	1,600	By Suspense A/c	800
To J. Das	720	By Machinery A/c	24,000
To P. Ghosh	716		
To Capital A/c (Balancing Figure)	21,868		
	25,600		25,600

Illustration 16.

Sumant has matched his Trial Balance by placing the difference in Suspense Account and has prepared a Trading and Profit and Loss Account and the Balance Sheet. On subsequent scrutiny, errors as detailed below were identified. Rectify these errors and ascertain the amount carried to Suspense Account:

- (i) A sale of goods to Kamal for ₹ 3,500 has been credited to his account.
- (ii) Goods purchased from Dharam amounting to ₹ 7,500 were entered in the Purchases Day Book but were omitted from Dharam's Account in the Ledger.
- (iii) A computer printer purchased for ₹ 5,000 was debited to Purchases Account.
- (iv) Goods returned to S. Sen of ₹ 750 were debited to P. Sen's Account.
- (v) Repair to office car of ₹ 7,500 were debited to the Office Car Account.
- (vi) Goods sold to R. Banerjee valued at ₹ 7,300 have been posted into his account as ₹ 3,700.

Will the above rectification affect the profit figure? if so, to what extent.

Solution:

In the Books of Sumant
RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Kamal (₹ 3,500 × 2) To Suspense A/c (Being sale of goods to Kamal for ₹ 3,500 wrongly credited to his account, now rectified)	...Dr.	7,000	7,000
(ii)	Suspense A/c To Dharam (Being goods purchased from Dharam not credited to his account, now rectified)	...Dr.	7,500	7,500
(iii)	Printer A/c To Profit and Loss Adjustment A/c (Being purchase of printer passed through Purchases Account, now rectified)	...Dr.	5,000	5,000
(iv)	S. Sen To P. Sen (Being goods returned to S. Sen wrongly debited to P. Sen Account, now rectified)	...Dr.	750	750
(v)	Profit and Loss Adjustment A/c To Office Car A/c (Being repair to car debited to Office Car Account, now rectified)	...Dr.	7,500	7,500
(vi)	R. Banerjee To Suspense A/c (Being goods sold to R. Banerjee for ₹ 7,300 wrongly posted to his account as ₹ 3,700, now rectified)	...Dr.	3,600	3,600
	Capital A/c To Profit and Loss Adjustment A/c (Being net loss transferred to Capital Account)	...Dr.	2,500	2,500

Dr.		SUSPENSE ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance b/d (Balancing Figure)	3,100	By Kamal	7,000		
To Dharam	7,500	By R. Banerjee	3,600		
	10,600				10,600

Dr.		PROFIT AND LOSS ADJUSTMENT ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Office Car A/c	7,500	By Printer A/c	5,000		
		By Capital A/c (Balancing Figure)	2,500		
	7,500		7,500		

Illustration 17.

On preparing a Trial Balance on 31st March, 2020, Ashish observed that the credit balances exceeded debit balances and he transferred this difference to Suspense Account to tally the Trial Balance. Following errors were subsequently identified:

- ₹ 7,200 owing by a customer had been omitted from the schedule of sundry debtors.
- The total of the Returns Inward Book was added ₹ 100 more.
- Wages outstanding ₹ 25,000 had not been taken into account.
- A sale of ₹ 5,010 had been entered in the Sales Book as ₹ 7,050 and posted to the credit of the customer.
- Goods costing ₹ 10,000 were sent to a customer on sale or return basis for ₹ 11,500. These had been recorded in the books as actual sales but no information regarding their acceptance by the customer was received up to 31st March, 2020.
- Unexpired insurance ₹ 2,500 has not been taken into account while preparing Profit and Loss Account for the year 2019–20.
- On 20th March, 2020 a sum of ₹ 50,000 spent on extension of building had been wrongly debited to Repairs to Building Account.
- Cash ₹ 10,000 paid to M. Roy was credited to the account of N. Roy.

You are required to give Journal entries to rectify the errors in a way so as to show the current year's profit or loss correctly.

Solution:

RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Sundry Debtors A/c ...Dr. To Suspense A/c (Being the omission of a balance of a customer from the schedule of a sundry debtors, now added. It is a trial balance error, so it does not affect an account)		7,200	7,200
(b)	Suspense A/c ...Dr. To Profit and Loss Adjustment A/c (Being overcasting of the Returns Inward Book, now rectified. Last year's profit was decreased by ₹ 100 because of the excess returns inwards, so Profit and Loss Adjustment Account has been credited)		100	100
(c)	Profit and Loss Adjustment A/c ...Dr. To Outstanding Wages A/c (Being outstanding wages not recorded, now recorded. Last year's profit was overstated by ₹ 25,000 because of not recording of outstanding wages, so Profit and Loss Adjustment Account has been given debit)		25,000	25,000

(d)	Profit and Loss Adjustment A/c Customer's A/c To Suspense A/c (Being a sale of ₹ 5,010 wrongly entered in the Sales Book as ₹ 7,050 and posted to the credit of the customer, now corrected) Note: Last year's profit was increased by ₹ 2,040 because of excess of sale of ₹ 2,040 (i.e., ₹ 7,050 – ₹ 5,010), so Profit and Loss Adjustment Account has been debited with ₹ 2,040. Customer's Account has been debited with ₹ 12,060 (i.e., ₹ 7,050 + ₹ 5,010) because Customer's Account was credited with ₹ 7,050 instead of being debited with ₹ 5,010.	...Dr. ...Dr.	2,040 12,060	14,100
(e)	Stock A/c Profit and Loss Adjustment A/c To Customer's A/c (Being goods costing ₹ 10,000 sent to a customer on sale or return basis wrongly treated as actual sales for ₹ 11,500, now rectified)	...Dr. ...Dr.	10,000 1,500	11,500
(f)	Unexpired Insurance A/c To Profit and Loss Adjustment A/c (Being unexpired insurance not recorded, now recorded. Last year's profit was understated by ₹ 2,500 because of the higher amount of insurance, so Profit and Loss Account has been credited)	...Dr.	2,500	2,500
(g)	Building A/c To Profit and Loss Adjustment A/c (Being amount spent on extension of building wrongly debited to Repairs Account, now corrected)	...Dr.	50,000	50,000
(h)	M. Roy N. Roy To Suspense A/c (Being cash paid to M. Roy wrongly credited to N. Roy instead of being debited to M. Roy, now corrected)	...Dr. ...Dr.	10,000 10,000	20,000
	Profit and Loss Adjustment A/c (Note) To Capital A/c (Being profit due to rectification of all errors—balance of Profit and Loss Adjustment Account—transferred to Capital Account)	...Dr.	24,060	24,060

Note:

Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Outstanding Wages A/c	25,000	By Suspense A/c	100
To Suspense A/c	2,040	By Unexpired Insurance A/c	2,500
To Customer's A/c	1,500	By Building A/c	50,000
To Capital A/c (Balancing Figure)	24,060		
	52,600		52,600

Illustration 18.

Balaji tallied his Trial Balance placing the difference in the Suspense Account. But, he finds the following mistakes and needs your help in correcting Trial Balance. With the data given below you are asked to prepare:

(a) Profit and Loss Adjustment Account for the year ended 31st March, 2020.

(b) Corrected Trial Balance as on 31st March, 2020.

- (i) Profit before the following corrections—₹ 22,950.
- (ii) Purchase of goods from Gayathri recorded as ₹ 5,900 instead of ₹ 9,500.
- (iii) Payment to Padma posted to Priya's Account—₹ 22,200.
- (iv) Electricity bill of residence posted to Electricity Expenses Account—₹ 18,000.
- (v) Cash Balance as on 31st March, 2020 recorded as ₹ 90,000 instead of ₹ 9,000.
- (vi) Cash sale ₹ 45,000 not recorded at all.
- (vii) Salary to Pappu debited to his Personal Account.
- (viii) Depreciation on Car provided at 15% instead of 20%.
- (ix) Credit card expenses of Balaji debited to Interest Account—₹ 15,000.
- (x) Loan from Yamini shown as cash sale—₹ 12,500.

TRIAL BALANCE
as on 31st March, 2020

Heads of Accounts	Dr. (₹)	Cr. (₹)
Profit and Loss	...	22,950
Gayathri	3,600	...
Padma	...	22,200
Priya	22,200	...
Cash	90,000	...
Pappu	24,000	...
Car	42,500	...
Suspense	...	81,000
Capital	...	56,150
Total	1,82,300	1,82,300

(ICWA—Foundation)

Solution: (a)

In the Books of Balaji

PROFIT AND LOSS ADJUSTMENT ACCOUNT

Dr.		Cr.	
for the year ended 31st March, 2020			
Particulars	₹	Particulars	₹
To Gayathri (₹ 9,500 – ₹ 5,900)	3,600	By Balance b/d	22,950
To Pappu	24,000	By Capital A/c (Electricity Bill)	18,000
To Depreciation on Car (WN 2)	2,500	By Cash A/c (Cash Sale)	45,000
To Loan from Yamini's A/c	12,500	By Capital (Credit Card Expenses)	15,000
To Balance c/d	58,350		
	1,00,950		1,00,950

(b)

TRIAL BALANCE
as on 31st March, 2020 (after corrections)

Heads of Accounts	Dr. (₹)	Cr. (₹)
Profit and Loss	...	58,350
Cash (WN 1)	54,000	...
Loan from Yamini	...	12,500
Car	40,000	...
Capital (WN 3)	...	23,150
Total	94,000	94,000

Working Notes:

1. Cash Balance as on 31st March, 2020	₹
Balance as per the Trial Balance	90,000
Less: Suspense (₹ 90,000 – ₹ 9,000)	<u>81,000</u>
	9,000
Add: Cash Sales	<u>45,000</u>
	<u>54,000</u>
2. Difference in Depreciation Charges	
Car as per Trial Balance	42,500
Value of car before depreciation @ 15% (₹ 42,500 × 100/85)	<u>50,000</u>
Depreciation at 20% on ₹ 50,000	10,000
Less: Depreciation at 15% on ₹ 50,000	<u>7,500</u>
Additional depreciation to be charged	<u>2,500</u>
3. Capital Account	
Balance as per Trial Balance	56,150
Less: Electricity Bill	18,000
Credit Card Expenses	<u>15,000</u>
	<u>33,000</u>
	<u>23,150</u>

Illustration 19.

A bookkeeper while preparing his Trial Balance finds that the debit exceeds by ₹ 7,250. For preparing the Final Accounts he places the difference in Suspense Account. In the next year, the following errors were discovered:

- (i) A sale of ₹ 4,000 has been passed through the Purchases Book. The entry in Customer's Account has been correctly recorded.
- (ii) Goods worth ₹ 2,500 taken by the proprietor for his use have been debited to Repairs Account.
- (iii) A Bill Receivable for ₹ 1,300 received from Krishna has been dishonoured on maturity but no entry was passed.
- (iv) Salary ₹ 650 paid to Manhad has been debited to his Personal Account.
- (v) A purchase of ₹ 750 from Raghubir has been debited to his account. Purchases Account has been correctly debited.
- (vi) A sum of ₹ 2,250 written off as depreciation on furniture has not been debited to Depreciation Account.

Pass Journal entries for rectifying the above errors and prepare the Suspense Account.

Solution:

RECTIFYING JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Suspense A/c ...Dr. To Profit and Loss Adjustment A/c (Being the rectification of a credit sale wrongly passed through the Purchases Book)		8,000	8,000
(ii)	Drawings A/c ...Dr. To Profit and Loss Adjustments A/c (Being the goods withdrawn for personal use wrongly debited to Repairs Account, now rectified)		2,500	2,500
(iii)	Krishna ...Dr. To Bills Receivable A/c (Being the entry for bill drawn on Krishna dishonoured on maturity)		1,300	1,300

(iv)	Profit and Loss Adjustment A/c To Manhad (Being the salary paid to Manhad wrongly debited to his Personal Account, now rectified)	...Dr.		650	650
(v)	Suspense A/c To Raghbir (Being the goods purchased from Raghbir wrongly debited to his account, now rectified)	...Dr.		1,500	1,500
(vi)	Profit and Loss Adjustment A/c To Suspense A/c (Being the depreciation of furniture not posted to depreciation account, now rectified)	...Dr.		2,250	2,250

Dr.		SUSPENSE ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Profit and Loss Adjustment A/c	8,000	By Balance b/d	7,250		
To Raghbir	1,500	By Profit and Loss Adjustment A/c	2,250		
	9,500				9,500

Unsolved Questions

- The book keeper of a firm found that his Trial Balance was out (excess credit) by ₹ 742. He placed the amount in a Suspense Account and subsequently found the following errors:
 - A discount of ₹ 178 was allowed to Ramesh but in his account only ₹ 100 is recorded.
 - The credit side of R. Ray's Account in the Ledger has been overcast by ₹ 100.
 - A sale of ₹ 375 to Kohli was entered in the Sales Book as ₹ 735.
 - From the Purchases Book, Bose's Account was debited with ₹ 175.
 - Cash ₹ 250 received from Maitra against debt previously written off was credited to his account.
 - Purchase of office furniture worth ₹ 750 on credit from Delhi Furnitures was entered in the Purchases Book.
 - While carrying forward the total of the Sales Book from one page to another the amount of ₹ 11,358 was written as ₹ 11,538.
 - The proprietor took goods of the value of ₹ 150 for his domestic consumption. No record of it has been made in the books.
 - Repairs bill for the proprietor's personal car, ₹ 410, has been paid by the firm and debited to the Repairs Account.
 - A sale to Kassim of ₹ 700 has been entered in the Purchases Book.
 Rectify the errors by means of suitable Journal entries and show the Suspense Account.
- A merchant while balancing his books finds that it is out with excess credit of ₹ 850. Being required to prepare the final accounts, he places the difference to a newly opened Suspense Account which he carried forward to the next year. In the next year, the following mistakes were discovered:
 - A dishonoured bill of exchange receivable for ₹ 10,000 returned by the bank had been credited to the Bank Account and debited to Bills Receivable Account.
 - Discount amounting to ₹ 50 from a creditor had been duly entered in his account but not posted to Discount Received Account.
 - A cheque for ₹ 4,000 received from Amar was dishonoured and had been posted to the debit of Sales Return Account.

- (iv) An amount of ₹ 950 due from Kailash, which has been written off as bad in the past, was unexpectedly recovered in the previous year, and had been credited to the personal account of Kailash.
- (v) A discount allowed to A. Chaudhary had been posted to his account as ₹ 80 in place of ₹ 180.
- (vi) Goods purchased from B. Banerjee amounting to ₹ 100 had been posted to the credit of his account as ₹ 1,100.

Pass Journal entries for rectifying above mistakes. Prepare the Suspense Account and show the ultimate result of the mistakes on the last year's Profit and Loss Adjustment Account. Also, pass a Journal entry for transferring the balance of Profit and Loss Adjustment Account.

3. The Trial Balance extracted from the books of Ram on 31st March, 2020 had not agreed. In 2020–21 the following errors were discovered:

- (i) The total of a page of the Sales Book was carried forward to the next page as ₹ 6,785 instead of ₹ 6,587.
- (ii) The total of Purchases Book was ₹ 1,000 short.
- (iii) A sale of ₹ 350 to Dutta was entered in the Sales Book as ₹ 530.
- (iv) Cash received ₹ 150 from M. Roy was debited to the account of N. Roy.
- (v) ₹ 580 spent on repairs to the Delivery Van was debited to Motor Vehicles Account at ₹ 580.
- (vi) The total of the discount column in the Cash Book on the debit side was ₹ 385 on a page but was carried forward to the next page as ₹ 538.
- (vii) Goods returned, ₹ 200, by Mirza were not entered in the books at all.

You are required to give Journal entries to rectify the errors in a way not to affect the profit or loss for 2020–21.

4. Shiv Mohan closes his books on 31st March every year. In August, 2020, he found that his books for the year 2019–20 contained some errors in spite of an agreed Trial Balance. The errors were:

- (i) ₹ 800 paid for purchase of Office Furniture was posted to the Purchases Account.
- (ii) The Sales Book was overcast by ₹ 250.
- (iii) ₹ 275 paid for freight on machinery purchased was debited to Freight Account with ₹ 525.
- (iv) Closing Stock was overstated by ₹ 3,000 by a wrong casting in the inventory.
- (v) An amount of ₹ 700 was received in full settlement for a customer after allowing him a discount of ₹ 70, but while writing the books, the amount received was entered in the discount column and the discount allowed was entered in the amount column.
- (vi) A cheque of ₹ 7,330 received from Mr. Rao, after allowing him a discount of ₹ 70 was endorsed to Mr. Ray in full settlement for ₹ 7,500. The cheque was dishonoured but no entry for dishonour was passed in the books.

Give Journal entries to rectify the above errors.

5. A bookkeeper on taking out a Trial Balance as on 31st March, 2020, found that it did not agree. He immediately proceeded to check the entries in the books and discovered the following errors:

- (i) A cheque from A for ₹ 150 had been correctly entered in the Cash Book but had been posted to the credit of A as ₹ 100.
- (ii) Goods returned by the firm B amounting to ₹ 80 had been recorded in the Sales Return Book but the entry had not been posted to the Personal Account.
- (iii) A sale of ₹ 365 to C had been correctly entered in the Sales Book but was posted as ₹ 360.
- (iv) Goods of ₹ 5,000 (Purchase Cost) taken by the proprietor have not been entered in the books.
- (v) Goods of an invoice value of ₹ 300 had been returned by E and were taken into stock but the returns had not been entered in the books.

Pass rectifying Journal entries.

6. Pass rectifying entries for the following transactions:
- A sum of ₹ 1,500 owed by R. Gupta, a customer, had been omitted from the list of Sundry Debtors.
 - The balance in the account of Mr. Rahim ₹ 1,000 had been written off as bad but no other account has been debited.
 - An addition in the Returns Inward Book had been cast ₹ 100 short.
 - A cheque for ₹ 200 drawn for the Petty Cash Account has been posted in the account of Asif.
 - A cheque of ₹ 150 received from Sharad has been dishonoured and debited in the Discount Account.
 - Ramesh's Account was credited with ₹ 840 twice instead of once.
7. A bookkeeper of a trading concern, having failed to agree the Trial Balance, opened a Suspense Account and entered the difference in the Trial Balance. The following errors were subsequently discovered:
- Sales Book was overcast by ₹ 200.
 - Purchased furniture for ₹ 300 was passed through the invoice book and from there the Furniture House Account was credited with ₹ 30.
 - Sold goods to Ram for ₹ 55 was credited as ₹ 550.
 - Purchases Book was overcast by ₹ 80.
 - Purchases Return Book was carried forward as ₹ 122 instead of ₹ 112.
 - Sold goods worth ₹ 20 entered in the Sales Book as ₹ 200.
- You are required to find out the difference in the Trial Balance and create the Suspense Account. Pass necessary rectification Journal entries.
8. Following errors were found in the books of Gupta Traders on 31st March, 2020:
- Machinery repair expenses worth ₹ 1,200 were included in the cost of Machinery.
 - An amount of ₹ 200 withdrawn by the proprietor for his personal use was debited to the Travelling Expenses Account.
 - A cheque of ₹ 3,000 received from Ramesh was credited to Mahesh's Account.
 - Cheque worth ₹ 500 received from Shiv Govind was dishonoured and was debited to the Allowances Account.
 - Goods returned by a customer worth ₹ 600 was included in the stock but no entry was made in the books.
 - ₹ 7,000 was spent on the extension of the building but was debited to the Repairs Account.
- Pass necessary Journal entries for rectification of errors in the books of Gupta Traders.

GUIDE TO ANSWERS

2. Total of Suspense Account—₹ 1,000;
For transferring the balance of Profit and Loss Adjustment A/c:
Dr. Profit and Loss Adjustment A/c and Cr. Capital A/c—₹ 5,000.
3. Profit of current year will reduce by ₹ 2,005 and will be debited to Capital Account.
4. Current year's profit will be decreased by ₹ 1,395 and will be debited to Capital Account.