

LESSON-12

ERROR'S AND THEIR RECTIFICATION

SUMMARY

An accountant can commit errors while recording business transactions in books of accounts, in their posting or balancing the accounts and so on. These errors should be located and corrected as soon as possible so that accounts give true and fair results of the operations of the business enterprise.

MEANING OF ACCOUNTING ERRORS AND THEIR LOCATION

If an accountant make mistakes or commit errors while recording and posting transactions. These are called 'Accounting Errors'.

Accounting errors can take the following forms:

- # Omission of recording a business transaction in the Journal or Special purpose Books
- # Not posting the recorded transactions in various books of accounts to the respective accounts in ledger
- # Mistakes in totalling or in carrying forward the totals to the next page
- # Mistake in recording amount wrongly, writing it in a wrong account or on the wrong side of the account.

CLASSIFICATION OF ACCOUNTING ERRORS

Various accounting errors can be classified as follows:

- A. On the basis of their nature
 - Errors of omission
 - Errors of commission
 - Errors of principle
- B. On the basis of their impact on ledger accounts
 - One sided errors
 - Two sided errors.

RECTIFICATION OF ACCOUNTING ERRORS

In accounting practice there are some definite methods to rectify the accounting errors. These are based on accounting practices and procedures. Rectification of errors using these methods is called rectification of accounting errors. So it is a process of rectification. It is generally done by passing an entry to nullify the effect of error.

Methods of rectification of accounting errors :

- I. Before preparing Trial Balance
 - (i) instant correction
 - (ii) correction in the affected account
- II. After preparing Trial Balance

RECTIFICATION OF ERROR'S THROUGH SUSPENSE ACCOUNT

The Trial Balance prepared at the end of a period by the business concern must agree. It means the sum of its debit column and sum of credit column should agree. But if the totals do not agree the difference amount is written in a new account. This account is called Suspense Account.

If the total of the debit side of the Trial Balance is more than the total of its credit side, the difference amount will be written in Suspense A/c on its credit side i.e. Suspense A/c is credited and vice-versa.

Opening of a Suspense Account is a temporary arrangement. As soon as the errors that has led to creation of Suspense Account are rectified, this account will disappear. One point needs to be noted that balance shown in Suspense Account is the net result of one sided errors. So one sided errors are corrected through Suspense A/c.

Completing the double entry when an error corrected by placing the correct amount on the debit of the proper account, the credit is placed in Suspense Account or vice-versa.

ACTIVITY

Your father has appointed a person to maintain accounts of his business but he is not very competent due to which often he commits accounting errors. Your father has asked you to look into the accounts and make a list of various errors he commits. Find out which type of errors he commits more frequently. Classify these errors and explain to him how not to make such errors in future.