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**VIRTUAL LEARNING CLASSES
ORGANISED BY BOS, ICAI**

**FOUNDATION LEVEL
PAPER 1: PRINCIPLES AND PRATICE OF
ACCOUNTING**

Faculty: CA VS Hiranmai



CHAPTER 2- Unit 6- Rectification of Errors

- There are 6 units in total for this chapter
- This chapter mainly deals with the basics to the recording, classifying and summarizing steps of accounting.
- This unit 6 deals with rectification of errors. This is an important concept from the point of view of the examination and always comes for 5-10 marks
- To err is to human. So even when the books of accounts are being prepared there can be many mistakes which the accountant can make.
- The mistakes are generally classified into-
 - Errors of Principle
 - Clerical errors- Errors of omission, Errors of commission, Compensating errors



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- **Errors of principle-**

- When there is mistake of the accounting principles, then such types of errors are called as errors of principle. This is due to not having conceptual understanding of the concepts.
- For ex- Purchases of Fixed assets debited to purchases A/c instead of the Asset A/c.
- **Impact on Trial balance-** it will still tally as the debit matches with the credit.

- **Clerical errors- which are done due to mistakes committed in the regular course of business-**

- **Errors of omission-** Where a transaction is either partially or completely omitted from the books of accounts. For ex- not recording purchase of furniture in the books or not posting a journal into a ledger. Partial omission the trial balance will not tally. But in case of complete omission the trial balance will tally.
- **Errors of commission-** These are the mistakes such as wrong totaling., wrong side posting of the amounts, etc which does not allow the Trial balance to agree.
- **Compensating errors-** Those errors which are compensatory in nature which agree the Trial balance. Where there is an excess credit in the books erroneously that is compensated with an excess erroneous debit.



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- Now in order to rectify the errors that were committed, we need to find out as to when the mistakes are being identified.
- The mistakes can be committed while passing the journal entries, while posting them into the ledgers or even when preparation of the Trial balance or after it. Hence, it becomes important as to when the mistakes are identified to be rectified.
- **Before the Trial balance is prepared**
- **After the trial balance is prepared**
- **Or in the subsequent accounting period.**
- The way to rectify the errors differs based on the three stages.
- The next step is to classify the types of errors. Now we have earlier for theory purposes classified the errors into many types. But for the purpose of rectification – the following classification is done.



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- Errors classification for the purpose of rectification
 - **TYPE 1-** Mistake in only one account- like under casting/overcasting, not posting in one side, wrong posting in one side of the account.
 - **TYPE 2-** Mistake in both the accounts- like errors of principle, compensating errors, complete omission errors.
- When the **type 1 mistake** is identified at various stages- the following rectification shall be done-
- **Before preparing the Trial balance-** Rectify it **directly by posting in the respective ledger** where the mistake has happened.
- **After preparing the trial balance-** WE need to rectify it by **passing an journal entry** and introducing a **suspense account**.
- **For ex-** under casting of the purchases book.



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- When the **type 2 mistake** is identified at various stages- the following rectification shall be done-
- **Before preparing the Trial balance and after preparing the Trial balance**
- There is only one treatment in both the cases –to rectify it by **passing an journal entry** since both the accounts are known
- **For ex-** When purchases of Furniture has been wrongly debited to Purchases account.
- **Rectification entry-**

Furniture A/c Dr
 To Purchases A/c



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- From the exam point of view- they might ask you to rectify both Type 1 and type 2 errors under the conditions of before and after preparation of Trial balance.
- Hence, step wise- first identify if the mistake is identified before or after the preparation of the Trial balance in the current period.
- Then identify which type of Mistake it is- If it is type 1 mistake then there is different treatment in both the cases. If it is type 2 mistake then same treatment of passing an entry to rectify the mistake.
- When we work out the problems in class- have full concentration and also refer to the recorded lecture again and again, only after which you will be able to get a full clarity over the topics.
- Try out the illustrations even if they are clear. Practice them again and again.



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- When the mistakes are identified in the **subsequent accounting period**- it is the same treatment as identified after preparing the Trial balance.
- **Type 1 and type 2 have to rectified in the same manner by passing journal entries.** The only difference is that since we are rectifying the mistakes in the next year, any Profit and loss item shall be debited to a separate account called as- Profit and loss adjustment account.
- Since the nominal accounts like the expenses and the incomes will be transferred during the previous year, in the current period any mistakes in such nominal accounts shall be treated as prior period items and taken to **Profit and loss adjustment account.**



THANK YOU