

12

Correction of accounting errors



The following facts are discussed in this chapter.

- 12.1 The need to correct accounting errors
- 12.2 The occasions when accounting errors occur
- 12.3 Identification of accounting errors
- 12.4 Errors that do not affect the agreement of trial balance
- 12.5 Accounting errors that affect the agreement of the trial balance

12.1 The need to correct accounting errors

Accounting is expected to provide accurate information to stakeholders in making decisions. However, errors may occur when business transactions are recorded in prime entry books, posted to the ledger, balancing the ledger accounts as well as when extracting accounting balances for the trial balance. If such errors had occurred in the accounting process, correct information cannot be supplied to the stakeholders to make decisions. Therefore, such errors should be corrected before the financial statements are prepared.

12.2 The occasions when accounting errors may occur

The occasions when accounting errors may occur is stated below.

01. When transactions are recorded in the prime entry books

Errors may occur when recording transactions in prime entry books.

Examples :-

A sales invoice of Rs. 20 000 of credit sales has not been recorded in the sales journal.

A purchase invoice of Rs. 50 000 has been entered erroneously as Rs. 5 000 in the purchases journal.

02. When the transactions are posted to the ledger from the prime entry books

Errors may occur when transactions are posted to the ledger accounts.

Examples :-

The total of the purchases journal that amounts to Rs. 50 000 has not been posted to the purchases account.

The total of the sales journal that amounts to Rs. 155 000 has been entered erroneously as Rs. 150 000 in the sales account.

03. When balancing of ledger accounts

Errors may arise when balancing ledger accounts at the end of the period.

Examples :-

Total of the sales account has been totaled less by Rs. 10 000
Total of the rent account is overstated by Rs. 5 000

04. When the trial balance is prepared

Errors may occur in the preparation of the trial balance using the balances of the ledger accounts.

Examples :-

The balance of the electricity bill account of Rs. 15 000 has not been extracted to the trial balance.

The balance of the insurance account of Rs. 10 000 has been entered as Rs. 1 000 in the trial balance.

Errors may occur in this way at different stages in the accounting process. Therefore, as the first step, a business should identify such errors.

12.3 Identification of accounting errors

Transactions of a business are recorded according to the double entry principle. Accordingly, every debit entry should have a corresponding credit entry. As a result, the total of the debit column should be equal to the total of the credit column of the trial balance prepared by the business.

If both the totals are not equal, it is an indication that errors have occurred in the accounting process. However, even if the totals agree, still there might be errors. Hence, the agreement of credit and debit balances in the trial balance only confirms that similar value of debits have been recorded as credits and the accounts are balanced.

Accordingly, accounting errors can be categorized in to two.

- * Errors that do not affect the agreement of the trial balance
- * Errors that affect the agreement of the trial balance

Accordingly, errors should be corrected using the general journal. There after, the erroneous ledger accounts need to be corrected.

Now, let us study how each of the errors mentioned above is corrected.

12.4 Errors that do not affect the agreement of trial balance

Some errors that occur in the accounting process might not affect the agreement of the trial balance. Therefore, even if such errors had occurred, the total of the debit column would be equal to the total of the credit column of the trial balance. These errors are also known as "the errors that are not revealed by the trial balance." Examples for such errors are stated below.

01. A complete commission of a transaction from the books

If a particular transaction is not recorded in the prime entry book, such a transaction would not be entered in the ledger accounts as well. These errors are known as "errors of omission." The double entry of the omitted transaction should be entered properly in the relevant ledger accounts to correct this error.

Example :-

An invoice of credit purchase Rs. 50 000 has been completely omitted from the accounting books.

The above error is corrected as,

General Journal					
Date	Voucher No.	Description	L/F	Dr. Rs.	Cr. Rs.
		Purchases account Dr. Creditor's account (Correction of error of omission of purchase invoice of Rs. 50 000)		50 000	50 000

02. Recording incorrect value of a transaction in the prime entry books

This refers to recording lesser or higher than the correct value of the transaction in the prime entry books. Then, both the values entered as debit and credit entries have the erroneous value. However, there is no impact on the agreement of the trial balance because both the values recorded as debits and credits are the same. Therefore, recording the difference between the correct and incorrect value that was recorded is sufficient to correct the error.

Example :-

A credit sales invoice of Rs. 20 000 has been recorded as Rs. 2 000 in error in the sales journal.

Here, both the debtor's account and the sales account have been understated by Rs. 18 000 (Rs. 20 000 - Rs. 2 000) and therefore, both accounts should be corrected by recording Rs. 18 000. The journal entry to correct this error is as follows.

General Journal					
Date	Voucher No.	Description	L/F	Dr. Rs.	Cr. Rs.
		Debtor's account Dr. Sales account (Correction of under statement of sales and debtor's account by Rs. 18 000)		18 000	18 000

Example :-

The discount received of Rs. 1 500 from a creditor has been recorded as Rs. 1 300 in the discount received column of the cash book column.

Here, both creditors and the discount received accounts have been recorded less by Rs. 200 (Rs. 1 500 - Rs. 1 300) and should be adjusted in both accounts.

General Journal					
Date	Voucher No.	Description	L.P.	Dr. Rs.	Cr. Rs.
		Creditor's account Dr. Discount received account (Correction of the recording less of Rs. 200 in creditor's and discount received accounts)		200	200

03. Recording same transaction twice in the accounting books

Sometimes, a transaction might have been recorded twice in the prime entry books, and accordingly, posted to ledger accounts twice. This error can be corrected by reversing the additional entry with the value of the transaction in both of the relevant accounts.

Example :-

Purchase invoice of Rs. 10 000 on credit has been entered twice in the books.

General Journal

Date	Voucher No.	Description	L/F	Dr. Rs.	Cr. Rs.
		Creditor's account Purchases account (Correction of recording a purchase invoice of Rs. 10 000 on credit twice in the accounts)	Dr.	10 000	10 000

04. Recording the value of a transaction in an incorrect account instead of the relevant account

There are occasions when the value of a transaction is recorded in an incorrect account instead of the relevant account. However, there is no impact on the agreement of the trial balance due to this error, as the same value had been recorded as both debit and credit entries.

Example :-

Office equipments that had been purchased for the business use for Rs. 200 000 is debited in the purchases account.

The purchases account shows the value of the goods bought for the purpose of resale by the business. Here, the office equipment were purchased only for the business use, and therefore, it should be debited to the asset account known as the office equipment account.

General Journal

Date	Voucher No.	Description	L/F	Dr. Rs.	Cr. Rs.
		Office equipments Purchases account (The correction of recording Rs. 200 000 worth of office equipment that was purchased for the business use, which was erroneously recorded in the purchases account)	Dr.	200 000	200 000



Activity 01

An apprentice bookkeeper has prepared a trial balance on 31-12-20xx and says that it is not necessary to check again the accounts as both the balances of debit and credit columns of the trial balance agree, as well as the final accounts can be prepared correctly.

Comment on the above statement.



Activity 02

Even though the totals of the trial balance prepared by a business as at 31-12-20xx agree, the following errors were identified subsequently.

- i. A purchase invoice of Rs. 20 000 has been completely omitted from the books of accounts.
- ii. A computer bought for office use to the cost of Rs. 40 000 has been debited to the purchases account.
- iii. Payment of electricity charges of Rs. 5 000 has been erroneously debited to the Insurance charges account.
- iv. Withdrawals of goods worth of Rs. 12 000 by the owner for his own use has not been recorded in the books.

Required:

Write the necessary journal entries to correct of the above errors.

12.5 Accounting errors that affect the agreement of the trial balance

A difference would arise between the total of debit and credit columns of a trial balance due to certain errors that had occurred in the process of accounting. These errors are known as the errors which affect the agreement of the trial balance. The ledger accounts should be checked to identify what such errors are. However, it would take a considerable amount of time to detect such errors. Therefore, such a difference should be posted to a suspense account until those errors are identified and corrected.

Suspense account

When there is a difference between the totals of debit and credit balances in the trial balance, that difference should be recorded temporarily into an account called the Suspense account until such errors are identified and corrected.

A suspense account is created in the following way.

- i. Identify the difference between the totals of the debit and credit balances of the trial balance.
- ii. Insert that difference on the side where the deficit exists in the trial balance and balance the trial balance.
- iii. As the reason for this shortage is not known yet write the words "Suspense account" in front of the difference in the trial balance.
- iv. Then, record the value of the shortage in a separate Suspense account.

Accordingly, if a difference exists on the credit column of the trial balance, record such difference on the credit side of the suspense account. On the other hand, if the difference exists on the debit column of the trial balance insert such difference on the debit side of the suspense account.

The trial balance as at 31st of December 20xx of Janaka's business is given bellow. It has been balanced temporarily by writing Suspense account in front of the difference of the trial balance.

Janaka's Business
Trial balance as at 31.12.20xx

Accounts	Dr. Rs.	Cr. Rs.
Cash account	50 000	
Transport expense account	11 000	
Sales account		350 000
Purchase account	130 000	
Capital account		360 000
Motor vehicle account	520 000	
Bank loan account		190 000
Drawings account	24 000	
Equipment account	140 000	
Electricity expense	20 000	
Suspense account	5 000	
	<u>900 000</u>	<u>900 000</u>

The difference of the above trial balance should be recorded in a suspense account as follows.

Dr.		Suspense account				Cr.	
Date	Description	L/F	Value Rs.	Date	Description	L/F	Value Rs.
	The difference in the trial balance		5 000				



Activity 03

Following are the totals of the debit and the credit balances of the trial balance prepared as at 31.03.20xx for Naveen's business.

Total of the debit column - Rs. 545 000

Total of the credit column - Rs. 520 000

Find the value of the difference and record it in a suspense account.

Correction of accounting errors that affect the agreement of trial balance

The reason or reasons for the difference in the trial balance should be identified after recording the difference in a suspense account. Therefore, certain entries have to be made in the suspense account to correct the errors. The suspense account will be eliminated from the books of accounts after the correction of all accounting errors that affects the agreement of the trial balance. The reasons for the balance in the suspense account are only the errors which had affected the agreement of the trial balance. Therefore, when such errors are corrected one of the double entries for the correction should be entered in the suspense account.

Let us now consider the errors that are revealed by the trial balance and how such errors are corrected.

01. Omission of one entry from books

Example :-

Payment of telephone charges of Rs. 15 000 has been recorded only in the cash book.

Here, the relevant value is not debited to the telephone charges account. Therefore, the telephone charges account should be debited to correct this error. On the other hand, the cash book is already credited correctly. The total of the debit column of the trial balance is less by Rs. 15 000 due to this error. As a result, a debit balance of Rs. 15 000 appears in the suspense account. Accordingly, the relevant general journal entry to correct this error is shown below, credit entry of Rs. 15 000 should be made to correct this in the suspense account.



Figure 12.1

General Journal

Date	Voucher No.	Description	L/F	Dr. Rs.	Cr. Rs.
		Telephone charges account Dr. Suspense account (Correction of the omission of the telephone charges of Rs. 15 000 in the telephone charges account)		15 000	15 000

02. Making one of the double entries with the correct value and the other entry with the incorrect value of a transaction.

Example :-

Cash sales for Rs. 54 000 has been debited in the cash book correctly and has been credited incorrectly as Rs. 45 000 in the sales account.

Here, the sales account has been credited less of Rs. 9 000. Due to crediting Rs. 9 000 less in the sales account, the total of credit column of the trial balance is Rs. 9 000 less and a balance of Rs. 9 000 would appear in the credit side of the suspense account. To correct the error, the suspense account should be debited with Rs. 9 000 and the sales account should be credited Rs. 9 000. By doing this, the suspense account will be removed.



Figure 12.2

The relevant general journal entry to correct this error is as follows

General Journal

Date	Voucher No.	Description	L/F	Dr. Rs.	Cr. Rs.
		Suspense account Dr. Sales account (Correction of sales account by Rs. 9 000, which was recorded less erroneously)		9 000	9 000

03. Recording of the double entries of a transaction in the same side of the accounts

Both the entries of a transaction may have been entered in the same side of the accounts in error.

Example :-

Cash received from the debtors of Rs. 5 000 has been debited to both the cash book and the debtor's account.

Due to the above error, each account has been debited by Rs. 5 000. No account has been credited. Therefore, the total of the credit column of the trial balance is understated by Rs. 10 000. Therefore, the suspense account has a credit balance of Rs. 10 000. Accordingly, Rs. 10 000 should be debited to cancel the suspense account. Rs. 5 000 should be credited to the debtor's account to cancel the amount debited incorrectly. In addition, Rs. 5 000 should be credited to the debtor's account to correct the error. Accordingly, the debtors account should be credited a total of Rs. 10 000 to correct the error. The general journal entry is shown below.

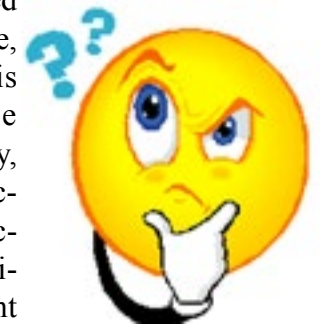


Figure 12.3

General Journal

Date	Voucher No.	Description	L/F	Dr. Rs.	Cr. Rs.
		Suspense account Dr. Debtors account (Correction of the erroneous debiting of Rs. 5 000 in the debtor's account for the receipt of cash to the debtors account)		10 000	10 000

04. Errors which arise when balancing off the accounts

Example :-

The correct total of the purchases account of Rs. 25 000 has been erroneously totaled posted as Rs. 5 000 in the purchases account.

The total of the debit column of the trial balance is Rs. 20 000 less due to the shortage of Rs. 20 000 in the purchase account. Therefore, the suspense account has a debit balance of Rs. 20 000. Rs. 20 000 should be credited to the suspense account to cancel this balance. The purchase account should be debited by Rs. 20 000 to correct the purchase account as it is understated by Rs. 20 000.



Figure 12.4

General Journal

Date	Voucher No.	Description	L/F	Dr. Rs.	Cr. Rs.
		Purchases account Dr.		20 000	
		Suspense account			20 000
		(Correction of erroneous total of Rs. 5 000 in the purchase account for the correct value of Rs. 25 000)			

05. Errors that arise when preparing the trial balance

Although all ledger accounts are correct, there is the possibility of errors to occur when preparing the trial balance.

Following errors may occur when preparing the trial balance,

- * Not extracting balances of certain accounts to the trial balance
- * Entering incorrect values of account balances instead of correct values in the trial balance
- * Entering value of account balances to the incorrect column of the trial balance

Errors that occur when the trial balance is prepared have a special feature in correction when compared with other errors. Here, no error has occurred in the relevant ledger accounts. The errors had occurred only in the trial balance. Therefore, correction of ledger accounts is not required. Nevertheless, the difference in the totals of the trial balance have to be recorded in the suspense account.

Example :-

The balance in the building rent expense account of Rs. 10 000 has not been extracted to the trial balance.

Here, as there is no impact on the building rent expense account, it is not necessary to correct it. However, the suspense account has a debit balance due to the debit column of the trial balance being understated by Rs. 10 000. Therefore, the error of understatement can be cancelled by crediting Rs. 10 000 to the suspense account and entering the building rent expense account to the trial balance.



Figure 12.5

General Journal

Date	Voucher No.	Description	L/F	Dr. Rs.	Cr. Rs.
		Suspense account			10 000
		(Correction of the error for not extracting the building rent expense account balance to the trial balance)			



Figure 12.6

When correcting errors that affect the agreement of the trial balance, one entry is recorded in the suspense account and the other entry is recorded in the relevant ledger account.

However, when correcting the errors which do not affect the agreement of the trial balance, only the two accounts which are affected should be identified and corrected, and no entries are required in the suspense account.

Example :-

The trial balance prepared as at 31st of December 20xx by Kasuni's business did not balance. That trial balance is given below.

Kasuni's Business
trial balance as at 31-12-20xx

Description	Dr. Rs.	Cr. Rs.
Cash account	56 000	
Telephone charges account	5 000	
Sales Account		300 000
Purchases account	150 000	
Capital account		400 000
Land and building account	500 000	
Bank loan account		200 000
Drawings account	34 000	
Furniture and equipment account	130 000	
Interest income account	10 000	
Suspense account	15 000	
	900 000	900 000

The following accounting errors have been identified,

01. The balance of the electricity bill account of Rs. 16 000 has not been extracted to the trial balance.
02. The balance of the interest income account of Rs. 10 000 has been entered in the debit column of the trial balance.
03. Repayment of bank loan of Rs. 30 000 has been recorded only in the cash book.
04. The balance of the purchases account of Rs. 130 000 has been entered in the trial balance as Rs. 150 000 in error.
05. The drawings account has been balanced erroneously as Rs. 34 000, instead of the correct value of Rs. 43 000.

The correction of above errors of Kasuni's business can be explained as follows.

01. The total of debit column of the trial balance has been understated by Rs. 16 000 due to not entering the balance of the electricity bill account. Therefore, Rs. 16 000 should be included in the debit column of the trial balance and credited to the suspense account.

02. Interest income account is an income account and should be shown on the credit column of the trial balance. Therefore, the credit column total of the trial balance is in short of Rs. 20 000 because of entering the interest income account balance of Rs. 10 000 in the debt column of the trial balance. Accordingly, Rs. 20 000 should be entered in the credit column of the trial balance and the suspense account should be debited with this value.
03. When the part of the bank loan is repaid, the bank loan account should be debited. However, the bank loan account is not debited with repayment of Rs. 30 000. Accordingly, the bank loan account is overstated by Rs. 30 000. Further, as a result, the credit column of the trial balance is overstated by Rs. 30 000 and is therefore included in the suspense account. Therefore, to correct this error, the bank loan account should be debited and the suspense account should be credited with Rs. 30 000.
04. The total of the debit column of the trial balance is overstated by Rs. 20 000 due to entering the purchase account balance as Rs. 150 000 instead of the correct value of Rs. 130 000. This error has to be corrected.
05. The total of the debit column of the trial balance has been understated by Rs. 9 000 due to the understatement in the drawings account by Rs. 9 000. Therefore, Rs. 9 000 should be credited to the suspense account and debited to the drawings account.

The journal entries to correct accounting errors explained above is shown below.

General journal

Date	Voucher No.	Description	L/F	Dr. Rs.	Cr. Rs.
		Suspense account (correction of not extracting the balance of the electricity bill account of Rs. 16 000 to the trial balance)			16 000
		Suspense account (Correction of extracting the balance of Rs. 10 000 of the interest income account to the debit column of the trial balance)	Dr.	20 000	
		Bank loan account Suspense account (Correction of not debiting the loan repayment of Rs. 30 000 to the bank loan account)	Dr.	30 000	30 000
		Suspense account (Correction of recording of the purchases account balance as Rs. 150 000 erroneously, instead of Rs. 130 000)	Dr.	20 000	
		Drawings account Suspense account (Correction of understating the total of the drawings account by Rs. 9 000)	Dr.	9 000	9 000

The suspense account prepared based on the above correction entries is as follows,

Dr.				Suspense account				Cr.			
Date	Description	E/P	Value Rs.	Date	Description	E/P	Value Rs.				
	The difference in trial bal.		15 000		.....		16 000			
	.....		20 000		Bank loan account		30 000			
	.....		20 000		Drawings account		9 000			
			<u>55 000</u>				<u>55 000</u>				



Activity 04

The trial balance prepared as at 31 of December 20xx of Samitha's business did not tally. The difference of the trial balance of Rs. 5 500 was credited to the suspense account. On subsequent examination, the following errors were found.

- Total of the telephone charges account is understated by Rs. 5 000.
- Payment of building repair expense of Rs. 30 000 has been correctly credited to the cash account, but it has been debited to building account in error.
- A cheque issued for purchases of Rs. 45 000 of trade stocks has been correctly recorded in the bank account, but it has been debited to the purchases account as Rs. 54 000 in error.
- The balance of the salary account of Rs. 5 000 has been extracted to the trial balance as Rs. 500 in error.
- The total of the sales account has been understated by Rs. 6 000.

Required :-

- Write the journal entries for the correction of the above errors.
- Write-up the suspense account.



Activity 05

The total of the debit column of the trial balance of a business exceeds the total of the credit column by Rs 8 000.

Later, following errors were revealed.

- Insurance premium paid of Rs 5 600 has been debited in the insurance account as Rs. 6 500.
- Rent received of Rs. 9 000 has been debited only in the cash book.
- The cash drawings of Rs. 1 500 is recorded only in the cash book.
- The debit entry for the cash payment of Rs. 7 500 for the loan repayment has not been made.
- Balance of the salary account Rs. 7 100 has not been extracted to the trial balance.

Required :-

- Journal entries for the correction of the above errors.
- Suspense account.



Activity 06

The trial balance prepared for Dinithi's business as at 31.12.20xx did not balance and the difference was posted to a suspense account. Later the reasons were found and corrected by passing journal entries.

Following suspense account is prepared by the accounts clerk when the errors were corrected.

Dr.				Suspense account				Cr.			
Date	Description	L/F	Value Rs.	Date	Description	E/P	Value Rs.				
	Sales account		11 000		Office equipment acc.		10 000				
	Insurance account		2 000		Wages account		5 000				
					Purchases account		4 000				

Answer the following questions.

1. What was the balance in the trial balance before these corrections were made?
2. Which column of the trial balance is understated?
3. If the total of the debit column of the trial balance is Rs. 25 455 before the difference is entered in the suspense account, what should had been the total of the credit column?
4. List out as much as possible of possible errors that might have occurred in the ledger accounts of this business. Get the help of your friend in answering this question.



Activity 07

The totals of the debit and the credit columns of the trial balance which was prepared for Sanduni's business as at 31.12.20xx did not tally. The difference was posted to a suspense account and the following errors were identified later.

01. Machine repair expense of Rs. 20 000 has been debited to the machine account.
02. The total of the purchase account has been overstated by Rs. 5 000.
03. Payments of electricity bill of Rs. 7 000 has been debited as Rs. 700 in the electricity changes bill account.
04. Payment of telephone charges of Rs. 8 000 has been recorded as Rs. 10 000 in the telephone charges account and interest income received Rs. 16 000 has been credited in the interest income account as Rs. 18 000.
05. Withdrawal of goods by the owner for his personal use has been debited twice in the drawings account.
06. A credit sale of goods for Rs. 25 000 has been completely omitted from the books.
07. Additional capital of Rs. 60 000 invested by the owner has been debited to the cash account and credited to the sales account.
08. Travelling expenses of Rs. 250 in the petty cash book (total of the travelling expense column) has not been entered in the travelling expense account.

Required :-

01. List the errors and give the journal entries for the correction of errors above that do not affect the agreement of the trial balance.
02. Write-up the suspense account and find the difference which had existed between the totals of the trial balance.

(All the pictures appeared in this book have been downloaded from the internet)