

## EXERCISE I

# FUNDAMENTAL PRINCIPLES OF ACCOUNTING

### Rectification of errors

#### Problem No. 1

Not all of the following journal entries are correct:

		₹	₹
(a)	Purchases Account To M/s. D. Duggal & Co. Purchase of office furniture from M/s. D. Duggal & Co.	6,500	6,500
(b)	G. Bansal To Bank Payment to G. Bansal his salary for the month.	12,450	12,450
(c)	Cash Account To Sales Account Cash sales for the day as per cash memos from. . . . to . . . .	8,320	8,320
(d)	Bhambri & Co. To Furniture Account Sale of old furniture on credit to M/s. Bhambri & Co.	2,410	2,410
(e)	D. Gupta & Co. To Purchases Account Purchases of goods from D. Gupta & Co. on credit.	7,350	7,350
(f)	Discount Account To M/s. Guha & Co. Discount allowed to M/s. Guha & Co. on their settling the account.	145	145

Pass rectifying entries where necessary.

#### Solution :

(a) The entry would be correct if the firm deals in office furniture. Otherwise, the debit should be to Furniture Account (an asset) instead of Purchases Account.

Rectifying Entry:

	Dr.	Cr.
Furniture Account To Purchases Account Purchase of furniture treated as ordinary purchase; position now corrected.	₹ 6,500	₹ 6,500

(b) It is an error of principle; the payment is an expense and is not recoverable from G. Bansal. Salaries Account should have been debited in place of G. Bansal.

Rectifying Entry:

	Dr.	Cr.
Salaries Account To G. Bansal The amount of salary wrongly debited to G. Bansal; error now rectified.	₹ 12,450	₹ 12,450

(c) The entry is correct.

(d) The entry is correct—however, if the book value of the furniture sold was different from ₹ 2,410, the profit

or loss would be transferred to Profit & Loss Account, the corresponding double entry being completed in the Furniture Account.

(e) Exactly the reverse entry should have been passed, since D. Gupta & Co. should have been credited and Purchases Account debited.

*Rectifying Entry:*

		Dr.	Cr.
	Purchases Account .. Dr.	₹ 14,700	₹ 14,700
	To D. Gupta & Co. Purchases from D. Gupta & Co. wrongly debited to them and credited to Purchases Account, error now rectified.		

(f) The entry is correct; presumably the entry for the amount received has been passed separately.

**Problem No. 2**

Correct the following errors unearthed before preparation of the trial balance.

- A welding machine purchased for ₹ 15,600 from the Oxygen Co. Ltd., has been entered in the Purchases Day Book.
- The total of the Returns Outwards Book is ₹ 100 short.
- A sale of ₹ 1,175 to M/s. Gupta & Mukherjee has been entered in the Sales Book as ₹ 1,157.
- A purchase of ₹ 8,215 from M/s. Guha & Roy has been posted to the debit of their account.
- Discount allowed to D. Majhail, ₹ 75, has not been entered in the Cash Book, but the full amount (including discount) has been credited to D. Majhail.
- Licence fee for proprietor's gun, ₹ 300 has been debited to General Expenses Account.
- A sale of ₹ 860 of old furniture has been passed through the Sales Book.

**Solution :**

JOURNAL		Dr.	Cr.
(a)	Plant & Machinery Account .. Dr. To Purchases Account Welding machine purchased for ₹ 15,600 previously charged to Purchases Account; error now corrected.	₹ 15,600	₹ 15,600
(b)	Credit Returns Outward Account		100
(c)	Gupta & Mukherjee .. Dr. To Sales Account The amount credited short in Sales Account and debited short to M/s. Gupta & Mukherjee because of wrong entry in Sales Day Book; error now corrected.	18	18
(d)	Credit Guha & Roy		16,430
(e)	Debit Discount Account .. Dr. Since the amount has not been entered on the receipts side of the Cash Book, the debit to Discount Account is short. Hence, additional debit.		75
(f)	Drawings Account .. Dr. To General Expenses Account The amount of personal expenses—licence fee for proprietor's gun—wrongly debited to General Expenses Account; error now corrected.	300	300
(g)	Sales Account .. Dr. To Furniture Account Sale of old furniture previously credited to Sales Account (because of entry in Sales Book) instead of Furniture Account; error now corrected.	860	860

**Problem No. 3**

In taking out a trial balance, a book-keeper finds that he is out ₹ 80 excess debit. Being desirous of balancing his books, he places the difference to a newly opened Suspense Account which is carried forward. Later, he discovers that (a) a credit item of ₹ 970 has been debited to a personal account as ₹ 790; (b) a sum of ₹ 950 written off Fixtures as depreciation has not been posted to Depreciation Account; (c) ₹ 15,000 paid for the furniture purchased has been charged to the ordinary Purchases Account; (d) A discount of ₹ 370 allowed to a customer has been credited to him as ₹ 730; (e) the total of the Inward Returns Book has been added ₹ 10 short, and (f) an item of sale for ₹ 590 was posted as ₹ 950 in the Sales Account.

Give the correcting entries and prepare the Suspense Account. State also the ultimate effect of these correcting entries on the Profit and Loss Account.

**Solution :**

**JOURNAL**

		Dr.	Cr.
		₹	₹
(a)	Suspense Account To .....s Account The amount of a credit item of ₹ 970 previously posted as ₹ 790 to the debit of.....s account; error now corrected.	1,760	1,760
(b)	Depreciation Account To Suspense Account Entry for the amount of depreciation previously omitted from being recorded.	950	950
(c)	Furniture Account To Purchases Account Entry for correction of the amount of purchase of furniture wrongly debited to the Purchases Account.	15,000	15,000
(d)	Customer's Account To Suspense Account Entry for correction of the amount of discount excessively credited to the customer.	360	360
(e)	Returns Inward Account To Suspense Account Entry to rectify the error because of the amount added short in Returns Inward Book.	10	10
(f)	Sales Account To Suspense Account Correcting entry for the excess credit in the Sales Account.	360	360

Dr.		Suspense Account		Cr.
		₹		₹
To.....s Account		1,760	By Difference in Trial Balance	80
			By Depreciation Account	950
			By Customer's Account	360
			By Returns Inward Account	10
			By Sales Account	360
		1,760		1,760

Dr.		Profit and Loss Account		Cr.	
To Depreciation Account	₹ 950	By Purchases Account			₹ 15,000
To Returns Inward Account	10				
To Sales Account	360				
To (Additional) Profit	13,680				
	15,000				15,000

Through correction of errors, profit has increased by ₹ 13,680.

*N.B.* — It is assumed that the corrections have to be made before the close of the concerned financial year.

#### Problem No. 4

A book-keeper, while balancing his books, finds that he is out excess credit ₹ 6,700. Being required to prepare the final accounts, he places the difference to a newly opened Suspense Account which he carries forward to the next accounting year. In the next accounting year, the following mistakes were discovered:—

- (a) Goods bought from a merchant amounting to ₹ 500 had been posted to the credit of his account as ₹ 5,500.
- (b) A dishonoured Bill of exchange receivable for ₹ 15,000 returned by the Bank had been credited to the Bank and debited to Bills Receivable Account.
- (c) An item of ₹ 710 entered in the Sales Returns Book had been posted to the debit of the customer who returned the goods.
- (d) Sundry items of plant sold amounting to ₹ 7,260 have been entered in the Sales Day book.
- (e) An amount of ₹ 3,260 owing by a customer had been omitted from the Schedule of Sundry Debtors.
- (f) Discount amounting to ₹ 140 from a creditor had been duly entered in his account but not posted to Discount Account.

Draft the journal entries necessary for rectifying the above mistakes. Prepare the Suspense Account and show the ultimate result of the mistakes on the last year's Profit and Loss Account.

**Solution :**

#### JOURNAL

		Dr.	Cr.
		₹	₹
(a)	Supplier's Account To Suspense Account For the correction of wrong credit of ₹ 5,500 instead of ₹ 500 to the supplier.	5,000	5,000
(b)	Drawee's Account To Bills Receivable Account Amount of dishonoured bill wrongly debited to Bills Receivable Account instead of Drawee's Account; error now rectified.	15,000	15,000
(c)	Suspense Account To Customer's Account The amount wrongly debited to customer's account; error now corrected.	1,420	1,420
(d)	Profit & Loss Adjustment Account To Plant Account The sale proceeds of plant wrongly treated as ordinary sales; error now rectified.	7,260	7,260
(e)	Schedule of Debtors To Suspense Account The amount omitted from the schedule of debtors; error now corrected.	3,260	3,260

(Contd.)

		₹	₹
(f)	Suspense Account To Profit & Loss Adjustment Account The amount of discount not credited to Discount Account; now done so.	140	140
(g)	Capital Account To Profit & Loss Adjustment Account Transfer of loss arising out of correction of last year's errors.	7,120	7,120

Dr.		Suspense Account		Cr.	
	₹		₹		
To Balance b/fd	6,700	By Supplier's Account		5,000	
To Customer's Account	1,420	By Schedule of Debtors		3,260	
To P. & L. Adjustment Account	140				
	8,260				8,260

Dr.		Profit & Loss Adjustment Account		Cr.	
	₹		₹		
To Plant Account	7,260	By Suspense Account		140	
		By Capital Account—transfer		7,120	
	7,260				7,260

Effect of the errors on the last year's Profit & Loss Account was that profit was increased by ₹ 7,120.

**Problem No. 5**

The following mistakes were located in the books of a concern after its books were closed and a Suspense Account was opened in order to get the trial balance agreed :—

- (a) Sales Day Book was overcast by ₹ 100.
- (b) A sale of ₹ 750 to X was wrongly debited to the account of Y.
- (c) General Expenses of ₹ 118 was posted in the General Ledger at ₹ 180.
- (d) A bill receivable for ₹ 5,000 was passed through Bills Payable Day Book. This bill was given by P.
- (e) Legal Expenses ₹ 1,119 paid to Mr. Duftry were debited to his personal account.
- (f) Cash received from C. Dass was debited to G. Dass, ₹ 1,150.
- (g) While carrying forward the total of one page of the Purchases Book to the next, the amount of ₹ 21,235 was written as ₹ 21,325.

Find out the nature and amount of the Suspense Account and pass entries for the rectification of the above errors in the subsequent year's books.

**Solution :**

JOURNAL		Dr.	Cr.
(a)	Profit & Loss Adjustment Account To Suspense Account For the amount by which the Sales Book was overcast.	100	100
(b)	X To Y To rectify wrong debit to Y instead of X.	750	750
(c)	Suspense Account To Profit & Loss Adjustment Account For the amount of General Expenses posted as ₹ 180 instead of ₹ 118.	62	62

(Contd.)

			₹	₹
(d)	Bills Receivable Account .. Dr.		5,000	
	Bills Payable Account .. Dr.		5,000	
	To P			10,000
	For the amount of a bill receivable received from P wrongly passed through Bills Payable Book.			
(e)	Profit and Loss Adjustment Account .. Dr.		1,119	
	To Mr. Duftry			1,119
	The amount of legal expenses charged to Mr. Duftry; error now corrected.			
(f)	Suspense Account .. Dr.		2,300	
	To C. Dass			1,150
	To G. Dass			1,150
	For removal of wrong debit to G. Dass and for rightful credit to C. Dass for the amount paid by him.			
(g)	Suspense Account .. Dr.		90	
	To Profit & Loss Adjustment Account			90
	Correction of the error whereby Purchases Account was debited in excess through carry forward of the total on page.....of ₹ 21,235 as ₹ 21,325.			
	Capital Account .. Dr.		1,067	
	To Profit & Loss Adjustment Account			1,067
	The net result of the correction of the errors relating to nominal accounts, transferred to the Capital Account.			

*N.B.*—Since the correction has been carried out in the next year, entries relating to nominal accounts have to be passed through the Profit & Loss Adjustment Account.

Dr.		Suspense Account		Cr.	
	₹		₹		₹
(c) To Profit & Loss Adjustment Account (General Expenses)	62	By Difference in Trial Balance (Balancing Figure)			2,352
(f) To C. Dass	1,150	(a) By Profit & Loss Adjustment Account (Sales)			100
To G. Dass	1,150				
(g) To Profit and Loss Adjustment Account (Purchases)	90				
	2,452				2,452

The errors in the previous year made the trial balance show an excess debit of ₹ 2,352.

*Working Notes:*

Dr.		Profit & Loss Adjustment Account		Cr.	
	₹		₹		₹
(a) To Suspense Account (Sales)	100	(c) By Suspense Account (General Expenses)			62
(e) To Mr. Duftry (Legal Expenses)	1,119	(g) By Suspense Account (Purchases)			90
		By Capital Account—transfer			1,067
	1,219				1,219

The errors inflated the previous year's profit by ₹ 1,067.

**Problem No. 6**

There was a difference in the Trial Balance of Ram Gopal on 31st March 2010, and the difference in books (excess debit ₹ 1,300) was carried to a Suspense Account and the books were closed. On going through the books in April, 2010 you find that :

- (1) ₹ 540 received from M. Mehta was posted to the debit of his account.
- (2) ₹ 100 being Purchases Returns was posted to the debit of Purchases Account.
- (3) Discount, ₹ 200 received, entered in the Cash Book, was not posted to Discount Account.
- (4) ₹ 574 paid for Repairs to Motor Car, was debited to Motor Car Account as ₹ 174.
- (5) A sale of ₹ 2,350 to Sethi was entered in the Sales Book as ₹ 2,530.
- (6) While carrying forward total of one page in Kalra's account, the amount of ₹ 250 was written on the credit side instead of the debit side.
- (7) The purchase of a machine on 1st July, 2009 for ₹ 6,000 was entered in the Purchases Book. The firm writes off depreciation @ 10% per annum.

Give journal entries to rectify the above errors. Comment upon the balance in the Suspense Account.

Solution :

JOURNAL

		Dr.	Cr.
(1)	Suspense Account . . . Dr. To M. Mehta For the amount received from M. Mehta wrongly posted to his debit; error now corrected.	₹ 1,080	₹ 1,080
(2)	Suspense Account . . . Dr. To Profit & Loss Adjustment Account For the amount of Purchases Returns wrongly debited to Purchases Account instead of crediting the Purchases Returns Account; error now rectified.	200	200
(3)	Suspense Account . . . Dr. To Profit & Loss Adjustment Account For the amount of discount received omitted from being posted to Discount Account.	200	200
(4)	Profit & Loss Adjustment Account . . . Dr. To Motor Car Account To Suspense Account For the amount of repairs to motor car, ₹ 574, being wrongly debited to Motor Car Account as ₹ 174—this credit now removed and full debit given to Profit & Loss Adjustment Account.	574	174 400
(5)	Profit & Loss Adjustment Account . . . Dr. To Sethi For the amount of sales of ₹ 2,350 wrongly entered in Sales Book as ₹ 2,530 resulting in excess debit to Sethi and excess credit to Sales Account.	180	180
(6)	Kalra . . . Dr. To Suspense Account For the amount of ₹ 250 written on the credit side instead of the debit in Kalra's account.	500	500
(7)	Machinery Account . . . Dr. To Profit & Loss Adjustment Account Machinery purchased on 1st July, 1999 previously charged to Purchases Account; cost, less 10% depreciation for 9 months, now brought into account.	5,550	5,550

Dr.	Suspense Account		Cr.
	₹		₹
To Balance <i>ofd</i>	1,300	By Difference in Trial Balance	1,300
(1) To M. Mehta	1,080	By Balance <i>b/fd</i>	1,300
(2) To Profit & Loss Adjustment Account	200	(4) By Profit & Loss Adjustment Account	400
(3) To Profit & Loss Adjustment Account	200	(6) By Kalra	500
To Balance <i>ofd</i>	720		
	2,200		2,200
		By Balance <i>b/d</i>	720

Since the Suspense Account shows a credit balance of ₹ 720, there is at least one other mistake which has not been located yet. The total of the three digits (7+2+0) is 9; this suggests that some amount has been written with figures interposed.

#### Problem No. 7

In May, 2012 Sen found accidentally that his books for the year ended 31st March, 2012 contained some errors. The errors were :—

- (i) An invoice for ₹ 1,000 for goods purchased from Basu was entered in Sales Returns Book; in the Ledger, the amount was debited to Basu.
- (ii) Goods bought on credit from Ramlal for ₹ 1,500 were entered in the Sales Book as ₹ 1,050; Ram Lal was credited with ₹ 1,050 in the Ledger.
- (iii) A cash discount of ₹ 50 allowed to G. Gupta remained unposted to his account.
- (iv) The Sales Book for the month of April, 2011 was overcast by ₹ 100. It was also found that a sale of ₹ 456 to Kabir was entered in the Sales Book as ₹ 645 from where he was debited by ₹ 615.
- (v) A machine purchased on April 1, 2009 for ₹ 10,000 (on which ₹ 2,000 depreciation had been written off for the two years 2009-10 and 2010-11) had been sold on 1st September, 2011 for ₹ 8,500 but the sale was entered in the Sales Day Book. Full year's depreciation was provided on machine on 31st March, 2012.
- (vi) ₹ 460 paid for freight on machinery purchased on October 1, 2011 was debited to Freight Account as ₹ 640.

Give journal entries to rectify the errors. Your entries must not affect current year's profit or loss. Sen provides depreciation on Machinery @ 10% per annum on straight line basis.

Prepare Profit & Loss Adjustment Account and Suspense Account.

#### Solution :

#### JOURNAL

	Dr.	Cr.
(i) Suspense Account To Basu For the amount put to the debit of Basu's account instead of his credit; there is no effect on profit since the amount has already been debited to a nominal account though in Sales Returns Account instead of Purchases Account.	2,000	2,000
(ii) Profit & Loss Adjustment Account To Ram Lal To Suspense Account To remove the effect of credit of ₹ 1,050 to Sales Account instead of debit to Purchases Account of ₹ 1,500; credit to Ramlal raised by ₹ 450 to make it ₹ 1,500.	2,550	450 2,100
(iii) Suspense Account To G. Gupta For the amount of cash discount remaining unposted to G. Gupta's account.	50	50

(Contd.)