SYLLABUS

B.B.A. I SEM

Subject – Basic Accounting

UNIT – I	Purpose of Accounting and its. Place in Business, Limitations, Relationship with other Financial Areas. Advantages & Importance.
UNIT – II	Basic Accounting Concepts and convensions : Money Measurement Concept, Entity Concept, Going Concern Concept, Cost Concept, Dual Aspect Concept, Accrual Concept, Conservatism, Materiality Concept, Consistency concept, and accounting convensions
UNIT – III	Accounting Structure : Process of Accounting Journal, Ledger and Trial Balance Errors & their rectification based on Double Entry Book-Keeping System,

UNIT-I

According to American Institution of Certified Public Accountant Committee:-
"Accounting as the art of recording, classifying and summarizing in a significant manner and in terms of money transactions and events which are in part at least, of a financial character, and interpreting the results thereof".
From the above definition, it can be said that "Accounting is science of recording and classifying trading transaction of financial nature and is an art in which financial results are summarized and interpreted."

Characteristics of Accounting

1) Accounting is science as well as an art.
2) The transaction and events relating to financial nature are recorded in it.
3) All transaction and events are recorded in monetary terms.
4) It maintain complete, accurate, permanent and legible records of all transaction in a systematic manner.
5) It analyses the results of all the transaction in detail.

Objectives of Accounting

1. To Maintain a Systematic Record

Accounting is done to maintain a systematic record of the monetary transactions of the firm which is the initial step leading to the creation of the financial statements. Once the recording is complete, the records are classified and summarized to depict the financial performance of the enterprise.

2. To Ascertain the Performance of the Business

The income statement also known as the profit and loss account is prepared to reflect the profits earned or losses incurred. All the expenses incurred in the course of conducting the business are aggregated and deducted from the total revenues to arrive at the profit earned or loss suffered during the relevant period.

3. To Protect the properties of the Business

The information about the assets and liabilities with the help of accountancy, provides control over the resources of the firm, because accounting gives information about how much the business has to pay to others ? And how much the business has to recover from others?

4. To Facilitate Financial Reporting

Accounting is the precursor to finance reporting. The vital liquidity/solvency position is comprehended through the Cash and Funds Flow Statement elucidating the capital transactions.

5. To Facilitate Decision making

Accounting facilitates in decision making. The American Accounting Association has explained this while defining the term accounting, it says accounting is, the process of identifying measuring and communicating economic information to permit informed judgments and decisions by users of the information.

Accounting As Science and Art

Accounting is both a science and an art. Science as well we know is the systematical body of knowledge establishing relationship between causes and their effects. In other words, science has its own concepts, assumptions and principles which are universal and verifiable. Accounting as discipline has also its own assumptions, concepts and principles, which have got universal application. Accounts have systematically and scientifically developed accounting equation and rules of debit and credit. It makes accounting, Science.
Art is the practical application of the knowledge. Accounting as discipline is used in the maintenance of books of accounts practically in the real life situations and day-to day affairs of the business, so it is an art also. It can now be safely concluded that Accounting is both science and an art.

Advantages, importance or necessity of Book-Keeping & Accountancy

Advantages to Businessmen

1) To raise loan for business – It helps the proprietor to raise loan for business. Property maintained accounts are good security for loan.
2) Important information – It helps in acquiring importance information about the profit/loss, debtors, creditors, assets and liabilities of business.
3) To control – It helps in controlling and checking the employees.
4) To compare the progress of business – It helps the proprietor to compare the progress of business in various years and to get important information.
5) Disputes – In the case of incoming and outgoing partnership firms or its dissolution disputes can easily be stored out if the accounts are properly kept.
6) Good evidence – It helps the proprietor to produce a good evidence in the court of law as and when dispute arises.
7) Large scale business – For large scale business, it is almost necessary.
8) Tax-liability – It helps in the assessment of tax liability.
9) Valuation of goodwill – Properly kept accounts act as a good basis for valuation of goodwill of business.
10) Take over a business concern – It helps in buying and selling of going business concern.

Advantages to Employees –

1) Assessing the efficiency – Systematically kept accounts, help in assessing efficiency of workers.
2) To settle the disputes – Accounting records help the employees to settle the disputes.

Advantages to Government –

1) Tax-liability – Properly kept accounts helps the government in deciding the tax liability.
2) Amendments in laws – It helps the government in making amendments in law pertaining to business.
3) Progress of Business – The progress of business can be ascertained with the help of properly kept account. On the basis of this progress the trend of business and industrial growth can be measured on national level.
4) Drafting policy – It helps the government in drafting the policy for granting license.
5) Financial assistance – Properly kept accounts help the government in deciding the financial assistance to the business concerns applying for it.

Advantages to Consumers –

Accurate accounting records enable the proprietor to ascertain the cost of production and to fix the selling price. Hence, the consumer may get the articles at reasonable prices.

Advantages to Investors and creditors –

1) Authentic information – Potential investors, suppliers and financiers may get adequate and authentic information from the books of accounts.
2) Setting disputes – Properly kept accounts helps in setting disputes arising in any dealing.

Advantages to other groups –

Properly kept accounts are beneficial to management of a concern for chalking out future plan and policies. New entrepreneurs, desirous of setting up a business are also benefitted by accounting system. Similarly, research scholars, competitive concerns and political parties are also benefitted by properly kept accounts.

Limitations of Accountancy –

In spite of utility or importance or advantages of accounting for profit or loss and financial position of business and for taking decision in future, there are certain limitations or drawbacks of accounting which are under –

1) Not free from bias – There are a number of incidents when the accountant has to decide any one of the given options, for example selection of methods of charging depreciation on fixed assets, valuation of closing stock etc.
2) Danger of window dressing – When the management uses fictitious data to show exaggerated profit, assets and liabilities, the income statement does not disclose correct profit or loss and the position statement does not disclose the correct financial positions of business.
3) Ignoring qualitative elements – Accounting takes into consideration only quantitatively expressed financial transactions. Qualitative aspects are totally ignored like efficiency of management and labour, government policy, competition in market, economic and political scenario, and change in the taste of consumers etc. which do affect the financial matters.
4) Ignoring price level changes – The financial statements are prepared on the basis of historical cost of fixed asset whereas its replacement values are more than the historical cost. Unless and until we take into consideration the changes in price level, we cannot draw accurate conclusions for comparison.
5) Uncertainly of accounting traditions – Different business concerns adopt different accounting customs and traditions according to their interest, for example valuation of closing stock, deprecation or fixed assets, reserve for bad debts etc.
6) Ignorance about the value of business assets – The financial position shows the value of fixed assets at cost less depreciation which always varies from actual market price. Thus the financial position exhibits the estimated value and not actual market value.
7) Showing of value less assets in balance sheet – There are certain assets which have no value but they are written in balance sheet, for example, preliminary expenses, underwriting expenses etc.

UNIT-II
Accounting Concepts

Meaning and Significance: - Accounting concepts are those basic assumptions or conditions upon which the accounting system is based. Some of the important accounting concepts are as follows :

1) Business Entity Concept : As per this concept, business is treated as a separate entity or unit distinct from that of the proprietor. The significance of this concept is that without such a distinction the affairs of the business will be mixed up with the private affairs of the proprietor and the true picture of the business will not be available. The transactions between the proprietor and the business will be recorded in the business books separately and shown separately under the heading capital account. For example, if when the proprietor invests Rs. 50000 in this business, it will be assumed that the owner has given that much money to the business and will be shown as a liability for the business. When he withdraws, say Rs. 10000 from the business it will be charged to his capital account and the net amount due to him will be only Rs. 40000.

2) Going Concern Concept : As per this concept it is assumed that a business unit has a perpetual succession or continued existence and transactions are recorded from this point of view. Hence, while valuing the business assets, the accountant does not take into account the realizable or market values of the assets. Assets are valued at cost at which they were originally purchased less depreciations till date, which is calculated on the basis of the original cost only.

The concept presumes that the business will continue in operation long enough to charge the cost of fixed assets over their useful life against the business income. It is only on the basis of this concept that a distinction is made between capital expenditure and revenue expenditure. If it is expected that the business will exist only for a limited period, the accounting records will be kept accordingly.

3) Dual Aspect Concept : Each business transaction has two aspects, i.e., the receiving of a benefit [debit] and giving of a benefit [credit]. For example, if a business purchases furniture, it must have given up cash or have incureed an obligation to pay for it in future. Technically speaking, for every debit, there is a credit this concept is the core of accountancy and upon this the whole superstructure of Double entry system of book keeping has been raised. As each transaction has giving account and receiving account equally, the total assets of a business firm will always be equal to its total equities [i.e. liabilities]. That is

External liabilities + Capital = Total Assets

Total Liabilities = Total Assets

This is called the Accounting or Balance Sheet equation.

4) Historical Cost Concept : This concept is based on the going concern concept According to this concept, assets purchased are normally entered in the accounting books at the cost at which they are purchased and this cost is the basis for all subsequent accounting for asset. The market value is immaterial for accounting purpose since the business is not going to be liquidated but is to be continued for a long time to come. This concept also prevents arbitrary values being used for recording purposes, mainly those resulting in the acquisition of assets.

5) Money Measurement Concept : According to this concept, accounting records only those transactions, which can be expressed in terms of money. Events or transactions, which cannot be expressed in terms of money cannot find place in the books, however important they may be. Qualitative or non monetary transactions are either omitted or recorded separately. For example a strained relationship between production manager and sales manager, which may affect directly the operating results of the business, does not find place in accounting records.

6) Realization Concept : According to this concept, the revenue is recognized only when the sale is made. But the sale is a gradual process, which starts with the purchase of raw materials for production and ends with the sale. If no sale is effected, no revenue is recognized. This is important to stop business firms from inflating their profits. However, there are certain exceptions to this concept like hire purchase sale, or contract etc.

7) Accrual Concept : This concept is based on the economic that all transactions are settled in cash but even if cash settlement has not yet taken place, it is proper to bring the transaction or event concerned into the books. Expenditure incurred during the year but not paid and Income earned but not received is called as accrued items. According to this concept these items will be taken into consideration while arriving at profit or loss. This concept enables to define income and expense.

8) Matching Concept : The matching concept provides the guidelines as to how the expense be matched with revenues. In other words, costs are reported as expenses in the period in which the associated revenue is reported. Note that costs are matched with, revenues, not the other way round. The expense shown in an income statement must refer to the same accounting period, production units, division or department of business unit to which revenue refers.

9) Accounting Period concept: - It is also known as periodicity concepts or time period assumption. According to this assumption, the economic life of an enterprise is artificially split into periodic intervals which are known as accounting periods, at the end of which financial position. The use of this assumption further requires the allocation of expenses between capital and revenue. That portion of capital expenditure which is consumed during the current period is charged as an expense to income statement and t he unconsumed during the current period is charged as an expense to income statement and the unconsumed portion is shown in the balance sheet as an asset for future consumption. Truly speaking, measuring since, actual income can be determined only on the liquidation of the enterprise. It may be noted that the custom of using twelve month period applied only for external reporting. For internal reporting, accounts can be prepared even for shorter periods, say monthly, quarterly or half yearly.

10) Verifiable Objective Concept:- according to this principle, the accounting data should be definite, verifiable and free from personal bias of the accountant. in other words, this principle requires that each recorded transaction/event in the books of accounts should have an adequate evidence to support it. in historical cost
accounting, the accounting data are verifiable since, the transactions are recorded on the basis of source documents such as vouchers, receipts, cash memos, invoices, and the like. the supporting documents form the basis for their verification by auditors afterwards.

Accounting Conventions

Meaning and Significance :- Accounting conventions, are those customs, usage and traditions that are being followed by the accountant for along time while preparing the accounting statements.

1) Convention of Conservatisms : According to this convention, financial statements are usually drawn up on a conservative basis. While preparing accounts and statements, the accountants are expected not to take into account anticipated profits but to provide for all possible anticipated losses. It is only on the basis of this convention, the inventory is valued at cost or market price whichever is lower. Similarly provision for bad and doubtful debts is made in the books before ascertaining profits.

2) Convention of Consistency : According to this convention, accounting practices should remain unchanged for a fairly long time. And they should not be changed unless it becomes absolutely essential to change them. For example, if a particular method of charging depreciation on a particular asset is followed, it should be followed consistently. However, consistency does not prevent the introduction of new improved accounting methods or techniques. If any change is required, such change and its effects should be stated clearly. The aim of this convention is to provide for continuity in accounting practices and methods and enable meaningful comparison of accounting statements over a period or between different firms.

3) Convention of Material Disclosure : Apart from the legal requirements, good accounting practice demands that all vital information should be disclosed. For example, in addition to asset values, the mode of valuation should also be disclosed. The practice of giving footnotes, references, and parentheses in the statements is in accordance with this convention only. Accountants should report only material information and ignore insignificant details while preparing the accounting statements. What is material depends upon the circumstances and the discretion of the accountant.

Unit-III

JOURNAL

It is the fundamental book of account which is necessarily used by each organization whether it is a small or large institution. It can be known as foundation stone of accounting palace.
A journal may be defined as the book of original entry containing a chronological record of the transactions. The process of recording the transactions in a journal is called Journalizing.

Date	Particulars	L/F	Debit amount	Credit Amount
2009 July,25	…………………………A/c Dr To ……………………A/c (………………………………….)			

COMPOUND JOURNAL ENTRY
If two or more transactions of the same nature occur on the same day and either debit account and/or credit account are common in them, instead of passing a separate entry for each such transaction, one combined entry may be passed. Such type of entry is known as compound journal entry.

Example: Postage a/c Dr.
Stationary a/c Dr.
Cartage a/c Dr.
To Cash a/c

DISCOUNT
Types of Discount:-

1) **Trade discount**: is allowed at the time of purchase or sale of goods by one trader another in order to promote sales. For example, a manufacturer may allow discount on sale goods to wholesaler or wholesaler may allow discount to a retailer. It is always allowed a certain percentage on sale price i.e., invoice price. The trade discount is not normally record in the books of account. In other words, only the net amount of purchase or sale i.e., invoice price minus trade discount is recorded in the journal.
2) **Cash discount**: is a discount allowed at the time of making payments or receipts of cash. It is allowed as certain percentage the amounts due. It is allowed to a debtor by a creditor in order to induce him to pay on time. As the cash discount is calculated on the amounts already recorded in the books, it is shown in the book. Cash discount allowed to a debtor is a loss and it should be debited to discount a/c. Cash discount received from a creditor is a gain and it should be credited to discount a/c.

DISTINCTIONS BETWEEN TRADE DISCOUNT AND CASH DISCOUNT

S.No.	Trade Discount	Cash Discount
1.	It is allowed at the time of making purchases or sales.	It is allowed at the time of making payments or receipts of cash.
2	It is calculated as certain percentage on the invoice price of goods purchased or sold.	It is calculated as certain percentage on the amounts due to creditors or amounts due from debtors.
3	It is not shown in the books of accounts. Only the net amount of purchase or sale is recorded in the books.	It is shown in the books: discount allowed as debit entry and discount received as a credit entry.
4	It is allowed in order to promote more sales of purchases	It is allowed in order to encourage parties to make payments on time.

CLASSIFICATION OF ACCOUNTS

1) PERSONAL ACCOUNTS

a) Natural Personal Account: The term Natural persons mean persons who are created by the almighty. For example: Shyam's Account, Gopals's Account etc.

b) Artificial Personal Account: These accounts include accounts of institutions or companies which are recognized as persons in business dealings. For example, the account of a Club, the account of an Insurance Company, Banking Company.

c) Representative Personal Account: These are accounts which represent a certain person or group of persons. For example, if the rent is due to the landlord, an account for the outstanding amount will be opened. Likewise for salaries due to the employees (not paid) an outstanding salaries account will be opened. The outstanding rent account represents the account of the landlord to whom the rent is to be paid while the outstanding salaries account represents the account of the person to whom the salaries have to be paid therefore such accounts are called as representative personal accountant.

2) REAL ACCOUNTS

a. Intangible Assets: These accounts represent things which cannot be touched. However, they can be measured in terms of money, for example goodwill account, patents accounts.
b. Tangible Accounts: Tangible accounts are those which relate to things which can be touched, felt, measured etc. Examples of such accounts are furniture account, stock account, building account etc.

3) Nominal Accounts: -

Accounts related to income and gain or expenditure and loss are known as Nominal Accounts, e.g. Rent A/c, Interest A/c, Salary A/c, discount A/c, etc.

Nominal Accounts are divided into two parts as:

i. Revenue Account: - Such as rent received, interest received, commission paid, salary paid, discount allowed, etc.
ii. Expenditure Account: - Such as rent paid, interest paid, commission paid, salary paid, discount received, etc.

At the end of each financial year, the balances of nominal accounts are transferred to Trading A/c or Profit & Loss A/c

RULES OF DOUBLE ENTRY SYSTEM

The rules related to debit and credit of any account in double entry system is as under:

Personal accounts	**:-**	**Debit the receiver, and credit the giver**.
Real accounts	**:-**	**Debit what comes in, and credit what goes out**
Nominal accounts	**:-**	**Debit all expenses and losses and credit all incomes and gains**.

Ledger

Ledger is the principal book or final book under double entry system of accounting in which the transactions recorded in subsidiary books are classified in various accounts chronologically with a view to knowing the position of business account-wise in a particular period.

Characteristics of Ledger

1. Major or principal book of accounts.
2. Index- The initial pages of ledger are left for indexing. These pages are not numbered. With the help of index one can find on which page of ledger a particular account is opened.
3. Pages booked- For every account one separate page or pages called folio is engaged in ledger.
4. One debit one credit- For every transaction one account is debited and other account is credited.
5. Books of final entry- Ledger is the last stage of daily accounting or book keeping.
6. Classification of transactions- While journal a bunch of various accounts, ledger is the classification of these accounts.

Utility or importance or Advantages of Ledger

1. Knowledge of account
2. Details of income and expenditure
3. Assessment of financial position
4. Text of accuracy
5. Knowledge of profit and loss
6. Economy of time
7. Knowledge of assets
8. Knowledge of liabilities
9. Assessment of overall position of business
10. Evidence in business disputes-

Difference between journal and Ledger

S. No.	Basic of Differences	Journal	Ledger
1	Nature of book	It is the book of first or original entry	It is the book of final entry
2	Record	It is the book for chronological record	It is the book of analytical record
3	Weight in legal evidence	It is the book of source entry and has a greater weight as legal evidence	It has a lesser weight us legal evidence as it is based on journal
4	Unit of classification of data	The unit of classification of data within the journal is transaction	The unit of classification of data within the ledger is account
5	Process of recording	The process of recording in the journal is called 'journaling'	The process of recording in the ledger is called 'posting'
6	Place	More than one transactions regarding one account are written at different places date-wise	More than one transaction regarding one account are written at one place

Performa of Account

Name of Account

Dr. Date	Particular	J.F.	Account	Date	Particular	J.F.	Cr. Amount
	To				By		

Posting

When the transactions entered in journal are recorded in the ledger, it is called posting. It other words, posting is the process transferring the debits and credits of journal entries to the ledger account. The subject of such posting to have a fixed classified record of various transactions pertaining to each account.

Procedure for Posting

1. Opening of separate account – Since each transaction affect two accounts. separate accounts. Therefore, will be opened in the ledger in the ledger, such accounts may be personal, real and nominal.
2. Posting journal entry to the concerning side – the debit side of the journal is posted to the debit side of the account and on the side the reference is given of the fact which is put on the credit side of the journal entry.
3. Sides to the posted - The credit side of the journal entry is posted to he credit side of the account and on that side the reference is given of that fact which put on the debit side of the credit side of the journal entry
4. use of ward," To" and "By" – The word "To" is prefixed to the posting of debit side and the ward " By" is prefixed to the credit side in each account.

Ledger posting o Opening Journal Entry

While making ledger accounts of assets and liabilities appearing in the opening journal entry opening balance as represented in the journal entry must be shown in the beginning of the ledger account a "To

Balance b/d" at the debit side for assets and "by balance b/d" at the credit side of liabilities. Remaining posting in the concurred A/c will be made as usual.

Balancing of ledger Accounts

Assets, liabilities and capital accounts have certain closing balance of the end of accounting period, so their values are to be carried forward to the next accounting period. This is why they are closed as "By Balance b/d" or "To Balance c/d. The balance of those accounts carried forward to the next accounting period, because the firm has to carry on tits business with these assets, liabilities and capital in hand. While closing these accounts we write the 'Balance c/d' to show the closing balance of the account.
While closing nominal accounts or those accounts which are either an expense or revenue. We do not use the word balance C/D because the balance of these accounts need be carried forward to the next period. Whatever has been paid on account of expenses has been paid once and forever. This is the expense of the business. So it should be directly posted to the debit side of the profit and loss account or trading account. It the same way, account relating to income or gain or revenues are also closed by transfer to profit and loss account. Receipts i.e. rent, interest and discount are revenue of the business, so while closing these accounts their balance will be transferred to profit and loss account.

Trial Balance

Meaning

When all the accounts of a concern are balanced off they are put in a list, debit balances on one side and credit balances on the other side. The list so prepared is called trial balance. The total of the debit side of the trial balance must be equal to that of its credit side. This is based on the principle that in double entry system. For every debit there must be a corresponding credit. The preparation of a trial balance is an essential part of the process because if totals of both the sides are the same then it is proved that book is at least arithmetically correct.

Main Characteristics and uses of a Trial Balance

Following are the main characteristics of a trial balance:
1. It is a statement prepared in a tabular form. It has two columns- one for debit balance and another for credit balance.
2. Closing balance, i.e., balance at the end of the period as shown by ledger accounts, are shown in the statement.
3. Trial balance is not an account. It is only a statement of balance.
4. It can be prepared on any date provided accounts are balanced.
5. It is a consolidated list of all ledger balances at the end of a period at one place.
6. It is a method of verifying the arithmetical accuracy of entries made in the ledger. The agreement of the trial balance means that the total of the debit column agrees with the total of the credit column of the trial balance.
7. It is a big help in preparation of Trading A/c, Profit and Loss A/c and Balance Sheet at the end of the period which exhibit the financial position of the firm.

Objects of preparing a Trial Balance

The following are the important objects or purposes of preparing a trial balance:
1. If the two sides of the trial balance are equal, it is proved that the books are at least arithmetically correct.
2. Error in casting the books of subsidiary records in immediately known.
3. Error in posting from the books of subsidiary records to ledger is found out.
4. Error in balancing the ledger accounts is found out.
5. Schedules of debtors and creditors are verified to be correct.

Limitations of a Trial Balance

A trial balance is not a conclusive proof of the absolute accuracy of the accounts books. If the trial balance agrees, it does not mean that now there are absolutely no errors in books. Even if trial balance agrees, some errors may remain undetected and will not be disclosed by the trial balance. This is the limitation of a trial balance. The errors which are not disclosed by a trial balance are as under:

Errors of Omission: - If an entry has not been recorded in the original or subsidiary book at all, then both the aspects of the transaction will be omitted and the trial balance will not be affected.

1. **Errors of Commission: -** Posting an item on the correct side but to the wrong account.
2. **Error it subsidiary books-** Wrong amount entered in the subsidiary book.
3. **Compensating errors-** These are errors arising from the excess-debits on under debits of accounts being neutralized by excess credit or under credit to the same extent of some other accounts.
4. **Error of principle-** Whenever any amount is not properly allocated between capital and revenue or some double entry principles are violated the error so made is known as error of principle.
5. **Compensatory Errors-** Under it, the errors on one side of the ledger account are compensated by errors of the same amounts on the other side or on the same side.

<u>Methods of Preparation of Trial Balance</u> –

1. **Total Method –** Under this method debit and credit total of each account of ledger are recorded in trial balance.

Trial Balance
(As on …………….)

Title of Accounts	L.F.	Debit Total Rs.	Credit Total Rs.
Total			

2. **Balance Method-** Under this method only balance of each account of ledger is recorded in trial balance.

Trial Balance
(As on …………….)

Title of Accounts	L.F.	Debit Balance Rs.	Credit Balance Rs.
Total			

3. **Total Cum Balance Method-** This method is a combination of Total method and Balances method.

Trial Balance
(As on …………….)

Title of Accounts	L.F.	Debit Total Rs.	Credit Total Rs.	Debit Balance Rs.	Credit Balance Rs.
Total					

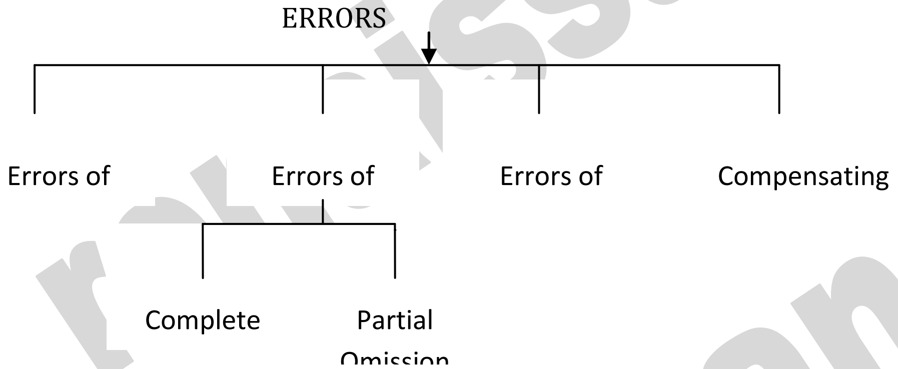
Rectification of Errors

Financial Accounts are prepared at the final stage to give the financial position of the business on the basis of information supplied by the trail balance. Thus, the accuracy of the trail balance determines to a great extent. Trial balance provides only proof of the arithmetical accuracy of the books of accounts. But it is not a conclusive proof.

It can be concluded, therefore, that if the trial balance does not agree, there are errors, and if trial balance does agree there may be errors in the account books.

TYPES OF ERRORS

The types of errors can be illustrated in the following chart:



Rectification of Errors –

The errors must be rectified at the earliest from the point of view of rectification; the errors may be classified into the following two categories:

(a) Error which do not affect the Trail balance
(b) Errors which affect the Trail balance

This distinction is relevant because the errors which do not affect the trial balance usually take place in two accounts in such a manner that is can be easily rectified through a journal entry whereas the errors which affect the trial balance usually affect one account and a journal entry is not possible for rectification unless a suspense account has been appended.

(1) Rectification of Errors which do not affect the trail Balance –

These errors are committed in two or more accounts. Such errors are also known as two sided errors. They can be rectified by recording a journal entry giving the correct debit and credit to the concerned accounts.

These errors are explained below:

1. Errors of Omission- An error of omission is one where a transaction has not been recorded in the books of account.

For example omission to record goods sold to Rajesh, the rectify entry is

Rajesh A/c Dr.
To Sales
(Being goods sold was not passed through books)

2. Error of Recording – Errors of recording means a wrong amount is recorded in the subsidiary books.

For e.g. a purchase of Rs. 8,000 to Mahesh is recorded as Rs. 800.

The rectifying entry will be –

Purchases A/c	Dr.	7,200	
To Mahesh			7200

3. Errors of Posting to wrong Account- Following are the errors of posting to

Wrong account.

(a) Correct Amount on the correct side to wrong account
(b) Wrong Amount on the correct side to wrong account
(c) Wrong Amount on the wrong side to wrong account
(d) Correct Amount on the wrong side to wrong account

For e.g. Sales to Ravina Rs. 10,000 is posted to Ravi's A/c Rectify entry is

Ravina	Dr.	10,000	
To Ravi			10,000

4. Error of Principle- Sometimes errors of recording are made due to ignorance of principles, i.e., correct distinction is not made between capital receipt and revenue receipt, between capital expenditure and revenue expenditure, between capital losses and gains and revenue losses and gains etc.

For e.g. Furniture purchased on credit wrongly recorded in purchases book

Rectify entry is –

Furniture A/c Dr.
To Purchases A/c

(2) Rectification of Errors which affect the trial balance:-.

There are some errors due to which the trail balance does not agree. These are the errors which are disclosed by the trial balance. These errors are also called one-sided errors.

Such errors should first be located and then rectified by giving an explanatory note or by giving a journal entry with the help of a suspense account

Following are some errors responsible for disagreement of trial balance

(1) **Errors of Casting** – Casting is the process of totaling the transactions at the end of a period. An error of casting may be due to over casting or under casting. This type of errors may arise in any subsidiary book.

For e.g. If the sales book has been under cast by Rs. 100 The rectification of the error will be done by crediting sales account.

(2) **Errors of Posting –** Errors of posting means a posting of wrong amount or posting in the wrong side.

For e.g. Raj's account is debited with Rs. 750 instead of Rs. Rs. 705 the mistake lies only in this account. This will rectified by crediting Raj's A/C with 45. If there is a suspense A/c, the entry will be

Suspense A/c	Dr.	45	
To Raj			45

(3) **Errors of Carry forward -** The errors occurs when total of one page is wrongly copied on the next page. In order to rectify such errors, an explanatory note is given and if the suspense A/c is opened, then the correction is through a journal entry with the help of a suspense Account.

SUSPENSE ACCOUNT

When the Trial Balance does not tally, efforts are made to make the trail balance tally, but if these efforts fail, then temporarily the difference of Trail Balance is transferred to an account which is called "Suspense Account". Suspense Account. Will be shown in the Balance Sheet on asset aside if debit balance or on the liabilities side if credit balance.

During the course of preparation of final accounts errors are located, they are corrected through the suspense A/c

Effect on Profit and Losses Account

All such rectifying entries which are related to normal account, affect profit or loss, hence after making rectifications, all nominal account which are affected should be taken into consideration and their amounts be considered for assessing the exact amount of loss or profit.

Effect on Balance Sheet

All such rectifying entries which are related with personal and real accounts affect the Balance Sheet. Rectifying entries related with nominal account affect profit or loss and this profit or loss is taken to Balance Sheet. Hence, these entries also affect Balance Sheet