

## RECTIFICATION AND FINAL ACCOUNTS

## ERRORS NOT AFFECTING BALANCING OF TRIAL BALANCE

### TYPES OF ERRORS

- 1) Errors of complete omission – failure to record the transaction

Rectification – both debit and credit aspects are to be recorded

### TYPES OF ERRORS

- 2) Errors of commission – wrong recording
  - A) Lesser amount was recorded  
Rectification - pass same entry with difference amount
  - B) Higher amount was recorded  
Rectification –pass reverse entry for difference amount
  - C) Effect was given to wrong account  
Rectification – pass reverse entry to the wrong accounts and give effect to the correct accounts

### TYPES OF ERRORS

#### 3) Errors of principle

Wrong accounts were given effect not due to oversight or carelessness, but due to ignorance of accounting principles and rules.

Rectification – pass reverse entry for wrong accounts and give effect to correct accounts

### TYPES OF ERRORS

#### 4) Compensating Errors

Two errors of equal amount but on the opposite side

Rectification – pass reverse entry for wrong accounts and give effect to correct accounts

### ERRORS AFFECTING BALANCING OF TRIAL BALANCE

### TYPES OF ERRORS

#### 1) Errors of Partial omission

Only one part of the entry was recorded, other part was missed out

Rectification – Pass the missing entry

### TYPES OF ERRORS

- 1) Errors of Partial commission
  - A) Lesser amount was recorded  
Rectification - pass same entry with difference amount
  - B) Higher amount was recorded  
Rectification –pass reverse entry for difference amount
  - C) Effect was given to wrong account  
Rectification – pass reverse entry to the wrong accounts and give effect to the correct accounts

### FORMATS FOR FINAL ACCOUNTS

Dr. Manufacturing Account for the year ended..... Cr.				
Particulars	₹	₹	Particulars	₹
To Work-in-process (opening)		xxxx	By Work-in-process (closing)	xxxx
To Raw materials consumed :			By Sale of scrap	xxxx
Opening Stock	xxx		By Trading Account	xxxx
Add : Purchase	xxx		(cost of production tfd.)	
Add : Purchase expenses				
- Carriage Inward	xxx			
- Octroi duty	xxx			
- Dock dues	xxx			
- Custom duties	xxx			
Less : Purchase Returns	(xxx)			
Less : Closing stock	(xxx)	xxxx		
To Direct Wages		xxxx		
To Direct manufacturing expenses				
- Royalty related to manufacture	xxx			
- Hire of special machinery	xxx			
- Design Expenses	xxx	xxxx		
To Direct factory expenses				
- Stores, oil, grease	xxx			
- Salary to supervisors	xxx			
- Power and fuel	xxx			
- Repairs of factory assets	xxx			
- Depreciation on factory assets	xxx			
- Rent, lighting of factory building	xxx	xxxx		
Total		xxxx	Total	xxxx

Dr. Trading Account for the year ended..... Cr.			
Particulars	₹	Particulars	₹
To Opening stock (FG)	xxxx	By Sales	xxxx
To Manufacturing Account	xxxx	Less : Return inwards	(xxxx)
(cost of production tfd.)		By Goods lost or destroyed	xxxx
		By Goods taken by proprietor	xxxx
		By Goods given as free sample	xxxx
		By Closing stock (FG)	xxxx
To Gross profit c/d.....or	xxxx	By Gross loss c/d	xxxx
Total	xxxx	Total	xxxx

Dr.		Profit & Loss Account for the year ended.....		Cr.	
Particulars		₹	Particulars	₹	
To Gross loss b/d..... or		xxxx	By Gross profit b/d		xxxx
<b>Administrative Expenses</b>			<b>Other Income or Gains</b>		
To Rent, insurance & repairs		xxxx	By Commission received		xxxx
To Office salaries		xxxx	By Discount received		xxxx
To Postage, telephones, telex etc.		xxxx	By Provision for discount from		
To Printing & stationery		xxxx	creditors		xxxx
To Fees (legal/audit etc.)		xxxx	By Interest on loans given to		
To Sundry / general expenses		xxxx	outsiders		xxxx
<b>Selling &amp; Distribution Expenses</b>			By Income (dividend) on		
To Salesmen's salaries, commission,			investments		xxxx
etc.		xxxx	By Profit on sale of fixed assets		xxxx
To Travelling		xxxx			
To Carriage outwards, freight, duties		xxxx			
To Warehousing charges		xxxx			
To Packing expenses		xxxx			
To Royalties on sale		xxxx			
To Advertising & sales promotion					
expenses		xxxx			
To Goods given as free samples		xxxx			
<b>Financial Expenses &amp; Interest</b>					
To Interest & bank charges		xxxx			
To Bad debts & provision for					
bad debts		xxxx			

To Discount given & prov. for discount on debtors		xxxx			
<b>Depreciation</b>					
To Depreciation on :					
- Plant & machinery		xxxx			
- Building		xxxx			
- Motor vehicles/delivery vans		xxxx			
- Office equipments		xxxx			
<b>Unusual Expenses or Losses</b>					
To Goods lost or destroyed (Cost less insurance claim)		xxxx			
To Loss on sale of fixed assets		xxxx			
<b>Appropriations</b>					
To Income-tax		xxxx			
To Reserves		xxxx			
To Net profit tfd. to capital..... or		xxxx	By Net loss tfd. to capital		xxxx
<b>Total</b>		<b>xxxx</b>	<b>Total</b>		<b>xxxx</b>

Balance Sheet as at.....					
Liabilities		₹	₹	Assets	
<b>Capital Account :</b>				<b>Fixed Assets</b>	
Balance b/d (opening)		xxxx		Goodwill	xxxx
- Add : Fresh capital brought in		xxxx		Land	xxxx
- Add : Net profit for the year		xxxx		Plant & machinery	xxxx
- Less : Drawings		(xxxx)		- Less : Depreciation	xxxx
- Less : Loss during the year		(xxxx)	xxxx	Premises / Building	xxxx
<b>Reserves</b>				- Less : Depreciation	xxxx
General Reserve			xxxx	Vehicles	xxxx
<b>Loans</b>				- Less : Depreciation	xxxx
Loans from bank		xxxx		Furniture & fittings	xxxx
Bank overdraft		xxxx	xxxx	- Less : Depreciation	xxxx
<b>Current Liabilities</b>				<b>Investments</b>	
Sundry creditors		xxxx		Investment in shares/bonds	xxxx
- Less : Provision for discount		xxxx	xxxx	<b>Current Assets</b>	
Bills payable		xxxx		Closing Stock	xxxx
Outstanding expenses		xxxx		Debtors	xxxx
Income received in advance		xxxx	xxxx	- Less : Prov. for bad debts	xxxx
				- Recoverable	xxxx
				- Less : Prov. for discounts	xxxx
				- Realisable	xxxx
				Loans and advance given	xxxx
				Bills receivable	xxxx
				Prepaid expenses	xxxx
				Cash at bank	xxxx
				Cash in hand	xxxx
				<b>Fictitious assets</b>	
				Capital account debit balance	xxxx
<b>Total</b>		<b>xxxx</b>	<b>Total</b>		<b>xxxx</b>

**FINAL ACCOUNT ADJUSTMENTS**

**OUTSTANDING EXPENSES NOT RECORDED IN FINAL ACCOUNTS**

- 1) Add the amount to existing expense head on debit side of Mnfg, Trading or P&L Ac. OR Create new expense head on debit side of Mnfg, Trading or P&L Ac.
- 2) Create new head as 'Outstanding \_\_\_\_ expense' on Liability side of Balance sheet.

**PREPAID EXPENSES NOT RECORDED**

- 1) Deduct the amount from the existing expense head on debit side of Mnfg, Trading or P&L Ac.
- 2) Create new head as 'Prepaid \_\_\_\_\_ expenses' on Assets side of Balance Sheet.

**GOODS DISTRIBUTED AS FREE SAMPLES**

- 1) Add amount to Advertisement expenses appearing on debit side of P&L Ac OR Create new head as Advertisement expenses on debit side of P&L Ac.
- 2) On credit side of Trading Account, create new head as Goods distributed as free samples.

**GOODS RECEIVED AS FREE SAMPLES**

NO ENTRY

### CLOSING STOCK

- 1) Raw materials – Deduct from Raw materials consumed on debit side of Mnfg Ac
- 2) Work in progress – Create new head 'By Closing Stock of WIP' on credit side of Mnfg Ac
- 3) Finished goods - Create new head 'By Closing Stock of Finished goods' on credit side of Trading Ac
- 4) Entry on Assets side of Balance sheet for raw materials, WIP and finished goods

### PROVISION FOR DOUBTFUL DEBTS

- 1) Calculate given percentage on amount of Debtors given in Assets side of Balance sheet.
- 2) Deduct the amount from Debtors.
- 3) Add the amount to Bad Debts on debit side of P&L Ac.

### DEPRECIATION

- 1) Calculate given percentage on amount of said asset in Assets side of Balance sheet.
- 2) Deduct the amount from the asset.
- 3) Create entry on debit side of Mnfg Account (for factory related assets) or P&L Ac (for office or other assets)

### AMOUNT WITHDRAWN BY PROPRIETOR

- 1) Deduct the amount from Capital on Liabilities side of Balance sheet.
- 2) Deduct the amount from Cash or Bank on Assets side of Balance sheet.

### EFFECT GIVEN TO WRONG ACCOUNT

- 1) Give reverse entry to wrong account by either adding or subtracting amount from that account
- 2) Add or subtract amount from correct account