Correction of Errors

A complete last-minute revision map: the 12-error taxonomy, suspense accounts, the 3-step correction method, and profit-impact rules — exactly as tested in PRC-1.

12 error types | Suspense accounts | 3-step correction method | Profit impact rules

1 CORE CONCEPT

An error is a non-fraudulent mistake in recording double-entry transactions — caused by lack of expertise, carelessness, weak controls, or wrong source documents.

Harder to find

Errors that do **not** affect the trial balance are hidden — both sides still match, so nothing looks wrong until investigated.

Easier to find

Errors that **do** unbalance the trial balance are spotted immediately — debits ≠ credits, so a suspense account is opened.

2 KEY DEFINITIONS

Suspense Account
A temporary account used until sufficient information is available to identify and correct an error.

Correcting Entry
The single journal entry that, combined with the original wrong entry, produces the correct result.

Nominal Account
Any income or expense account — the type of account whose movement changes reported profit.

3 IMPORTANT ACCOUNTING RULES — THE 12 ERROR TYPES

✗ Trial Balance DOES NOT Balance

Casting error
Incorrect addition in an account (under/over-cast)

Balancing error
Opening balance omitted, wrong side, or wrong amount

Extraction error
Ledger balance placed wrongly onto the trial balance

Posting error
Entry not posted, wrong amount, or wrong side of an account

Error of part omission
Only one side of an entry recorded (single-sided)

Error of different amounts
Debit and credit entries made — but at unequal figures

✓ Trial Balance STILL Balances

Complete omission
Transaction missed entirely from the records

Commission
Correct amount & type — wrong individual account

Principle
Correct amount — wrong TYPE of account (e.g. capital vs revenue)

Compensating error
Two unrelated errors that happen to offset each other

Original entry
Correct accounts — same wrong amount on both sides

Complete reversal
Correct accounts & amount — debit and credit swapped

4 FORMULAS — WRONG-SIDE CORRECTIONS

RULE 1 — CORRECT AMOUNT, WRONG SIDE

```
Correction = Amount × 2
```

Once to cancel the wrong entry, once to record it correctly — both on the correct side.

RULE 2 — WRONG AMOUNT, WRONG SIDE

```
Correction = Correct + Incorrect
```

Reverses the wrong figure AND records the right one, in a single correcting amount.

5 ACCOUNTING TREATMENT — SUSPENSE ACCOUNT

SUSPENSE ACCOUNT	
DEBIT (Dr)	**CREDIT (Cr)**
If credits > debits in the trial balance — suspense is opened with a debit balance.	If debits > credits in the trial balance — suspense is opened with a credit balance.

Two triggers for opening a suspense account:

- The trial balance fails to agree (temporary, until the error is found).
- The bookkeeper is unsure which account to use for an entry — even if the trial balance still balances.

6 STEP-BY-STEP SOLVING ROADMAP

1. **What SHOULD have been recorded?**
   Work out the correct double entry for the transaction.
2. **What WAS actually recorded?**
   Include any suspense effect the original error caused.
3. **What correcting entry is required?**
   Reverse what was wrong; record what was omitted.

Note: if one side of an entry isn't mentioned, assume it was recorded correctly.

7 JOURNAL ENTRIES — WORKED EXAMPLES

CASE — Correct amount recorded on the wrong side

```
Dr  Correct Account   Amount × 2
   Cr  Suspense            Amount × 2
```

CASE — Wrong amount recorded on the wrong side

```
Dr  Correct Account   (Correct + Incorrect)
   Cr  Suspense            (Correct + Incorrect)
```

CASE — Sales credited to Suspense in error (now identified)

```
Dr  Suspense
   Cr  Sales
```

8 LEDGER TREATMENT — SUSPENSE CLEARING EXAMPLE

A trial balance disagrees by Rs. 4,800 (credit exceeds debit). Two errors are later found: (i) a Rs. 3,000 receipt was never posted to receivables, and (ii) the sales day book was undercast by Rs. 1,800.

SUSPENSE ACCOUNT			
DEBIT (Dr)		**CREDIT (Cr)**	
Balance b/d	4,800	Receivables control	3,000
		Sales (undercast)	1,800

Once both correcting entries are posted, the two credits (3,000 + 1,800 = 4,800) exactly clear the opening debit balance — **suspense reduces to nil.**

9 FINANCIAL STATEMENT EFFECT — PROFIT IMPACT RULES

↑ **Nominal account CREDITED in correcting entry**
Net profit increases

↓ **Nominal account DEBITED in correcting entry**
Net profit decreases

= **Only balance sheet accounts involved**
No effect on profit at all

Gross profit only moves for revenue / cost-of-sales related nominal accounts. All other nominal accounts affect **net profit** only.

10 COMMON EXAM CASES — DECISION TREE

IF trial balance disagrees	→ Open a suspense account for the difference
IF unsure which account	→ Post to suspense temporarily, even if TB still balances
IF correct a/c, wrong side	→ Correct by amount × 2 on the right side
IF wrong a/c, wrong type	→ Error of principle — reclassify between the two accounts
IF sides reversed	→ Complete reversal — correct by double the original amount

11 COMMON MISTAKES / EXAM TRAPS

Trap: Commission vs Principle
Commission = wrong individual account, SAME type (e.g. wrong supplier). Principle = wrong TYPE of account (e.g. asset instead of expense). Students often swap these two.

Trap: Forgetting to double the correction
When a correct amount lands on the wrong side, students often post it once instead of × 2 — this fails to cancel the original wrong entry.

Trap: Assuming every error creates a suspense account
The 6 errors that don't unbalance the trial balance (omission, commission, principle, compensating, original entry, reversal) never involve suspense.

Trap: Mixing up gross and net profit effects
A correcting entry to an expense like rent or admin costs changes net profit only — it never touches gross profit.

★ QUICK EXAMPLE

SCENARIO
Rent received of Rs. 5,000 was correctly banked but credited to Suspense instead of Rent Income.

CORRECTING ENTRY

```
Dr Suspense 5,000
Cr Rent Income 5,000
```

PROFIT EFFECT
Rent Income (nominal) is credited → **net profit increases by Rs. 5,000.**

TWO CATEGORIES
6 errors unbalance the TB (casting, balancing, extraction, posting, part omission, different amounts). 6 don't (omission, commission, principle, compensating, original entry, reversal).

SUSPENSE TRIGGERS
TB disagreement, OR bookkeeper unsure where to post — even when the TB still balances.

SOLVING METHOD
1) What should have been recorded 2) What was recorded 3) The correcting entry needed.

PROFIT RULE
Nominal a/c credited → profit up. Nominal a/c debited → profit down. Gross profit moves only for revenue/COGS items.