

SEMESTER I

FINANCIAL ACCOUNTING

Meaning

- Financial accounting is a specific branch of accounting involving a process of recording, summarizing, and reporting the myriad of transactions resulting from business operations over a period of time.
- These transactions are summarized in the preparation of financial statements, including the balance sheet, income statement and cash flow statement, that record the company's operating performance over a specified period.

Rectification of Errors

- Once an error is located, it should be properly corrected. The correction of accounting errors in a systematic manner is called rectification of errors.
- Trial balance is a list of closing balances of Ledger account on a certain date and is the first step towards the preparation of financial statements.

Types of Errors

- Two sided errors (not effecting trial balance agreement)
 - Error of Omission
 - Error of Commission
 - Error of Original Entry
 - Compensating Error
 - Error of Principal
- One sided errors (effecting trial balance agreement)

Two sided Errors

- **Error of Omission:** It means that a transaction has been completely omitted from the original books of accounts.
- **Error of Commission:** It means that a transaction instead of being recorded in the right account, has been recorded in the wrong account of the same class.
- **Error of Original Entry:** It means that the amount of a transaction has been wrongly recorded in the journal and the same wrong amount was also posted in the Ledger.
- **Error of Principal:** Error of principle mean errors caused due to violation of generally accepted accounting principles e.g., incorrect allocation between capital and revenue items.
- **Compensating Errors:** It means that some errors in amount have occurred on the opposite side of two or more accounts and have cancelled themselves in the net result.

One sided Errors

- Only one side of the account, that is either credit or debit, is affected by errors is called one-sided errors. For example: Posting a wrong amount, wrong totaling of subsidiary books, posting on the wrong side. This error is rectified by posting additional information on the affected side of the ledger account.

THANK YOU