
CHAPTER 6

TRIAL BALANCE AND RECTIFICATION OF ERRORS

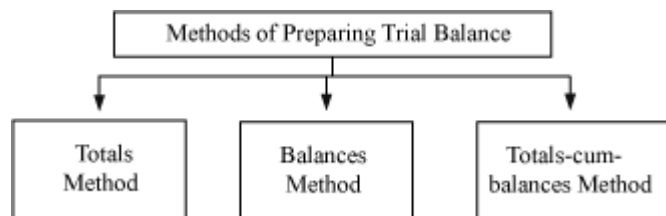
❖ Meaning

Trial Balance is a statement that shows different accounts corresponding to their balances. It also depicts the total of debit and credit balances of different accounts.

❖ Objectives

- To verify the arithmetical accuracy of recorded transactions
- To locate and rectify the various errors committed It helps in the preparation of financial statements
- It helps to present all the accounts in a summarised manner.

❖ Methods of Preparing Trial Balance



- **Totals Method**

According to this method, the total of debit and credit side of an account is shown in the debit and credit columns of the Trial Balance. If the total of the debit column and the total of credit column of Trial Balance are equal then the Trial Balance is said to agree, otherwise not.



Example:

Trial Balance (Totals Method)

Particulars	Debit Total Rs	Credit Total Rs
Capital		1,00,000
Salary	5,000	
Debtors	10,000	4,000
Creditors	6,000	20,000
Purchaser	80,000	
Cash	30,000	5,000
Bank	4,000	6,000
	1,35,000	1,35,000

- **Balances Method**

According to the Balances Method, the balance of ledger accounts is shown in the debit and credit column of the Trial Balance. The balance of ledger may be either debit balance or credit balance. If the sum of the balances in the debit column equals the sum of the balances in the credit column of the Trial Balance, then the arithmetical accuracy is ensured.

Example:

Trial Balance (Balances Method)



Particulars	Debit Balances Rs	Credit Balances Rs
Capital		1,00,000
Salary	5,000	
Debtors	6,000	
Creditors		14,000
Purchases	80,000	
Cash	25,000	
Bank (Overdraft)		2,000
	1,16,000	1,16,000

- **Totals cum Balances Method**

It is a combination of both the methods, i.e., totals method and balances method. Arithmetical accuracy is ensured if the sum of the *Debit Totals* is equal to the sum of the *Credit Totals* and the sum of the *Debit Balances* is equal to the sum of the *Credit Balances*.

Example:

Trial Balance (Totals cum Balances Method)

Particulars	Debit Total Rs	Credit Total Rs	Debit Balance Rs	Credit Balance Rs
Capital		1,00,000		1,00,000
Salary	5,000		5,000	
Debtors	10,000	4,000	6,000	
Creditors	6,000	20,000		14,000
Purchases	80,000		80,000	
Cash	30,000	5,000	25,000	
Bank	4,000	6,000		2,000
	1,35,000	1,35,000	1,16,000	1,16,000

❖ **Trial Balance And Errors**

If the Trial Balance agrees, then it should not be taken for granted that there is absolutely no errors. In fact, there do exist some errors that are **not** revealed by a Trial Balance like, wrong recording, transaction omitted to be recorded in the books of journal and complete omission of posting of a transaction from journal to ledger.

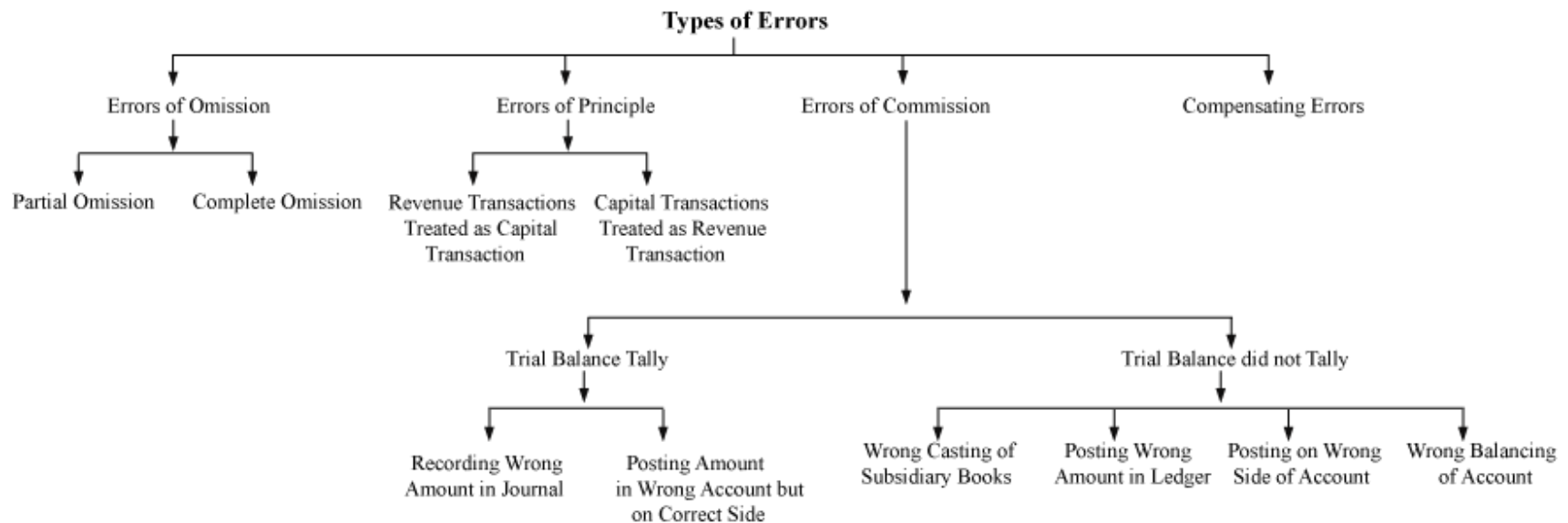
However, errors like, incomplete posting of journal into ledger, posting of wrong amount in an account from journal to ledger, wrong balancing of ledgers etc. *can be detected* with help of a Trial Balance, as in the presence of these errors the Trial Balance will not agree.



❖ Objectives of Rectifying Errors

- Keeping the books of accounts free from errors
- Ascertaining true profit and loss
- Ascertaining true financial position of the business
- Making authenticity and reliability of the accounting information

❖ Types of Errors



❖ Principle Errors

These errors occur on account of violation of accounting principles. These happen due to ignorance or lack of proper knowledge of accounting principles. These are not disclosed by the Trial Balance. The following circumstances give rise to such errors.

- When revenue expenditures are considered as capital expenditures or vice versa.
- When revenue receipts are considered as capital receipts or vice versa
- When household expenses are considered as business expenses or vice versa
- When expenses paid for the subsequent accounting period or for the preceding accounting period are considered as an expense of the current period, etc.

Examples:

- Purchase of machinery was recorded as purchases of goods.
- Purchases of house hold items were considered business expenses.

❖ Errors of Omission

These errors are committed when:

- a transaction is completely omitted to be recorded in the books of original entry (i.e. Journal Book) and/or
- a transaction is recorded in the books of original entry but omitted to be posted in its respective accounts.

Examples :

- Sold goods for Rs 2,000 to Prakash were not recorded in the Sales Book.
- Rs 500 paid as salary was not recorded anywhere.
- Cash Rs 250 was deposited in the bank but omitted to be posted.



❖ Errors of Partial Omission

These errors are committed when: a transaction is partially posted and/or

- total of subsidiary books or balances of accounts are omitted to be forwarded from one page/place to the other page/place.

Examples

Sold goods for Rs 5,000 to Anshu were only posted in the Sales Account but omitted to be posted in Anshu's account.

- Total of the Purchases Book is Rs 550 in page no. 12 but omitted to be forwarded to page no. 13.
- Balance of Depreciation Account of Rs 1,500 at the end of May omitted to be forwarded to the next month.

❖ Errors of Commission

These are manual errors unconsciously committed by the clerks and the accountants. These are committed while:

- journalising with wrong amount
- posting with wrong amount but in correct account posting in wrong account
- totaling (wrong casting) of Subsidiary books
- forwarding wrong total of Subsidiary books from one page to another
- balancing (errors in balancing) of the ledgers

Errors of Commission	Errors	Trial Balance	Examples
Journalising with wrong amount	When the transaction is recorded with the (same) wrong amount both in the	No effect	Sold goods of Rs 2,000 on cash but were wrongly recorded in the Sales



	debit and credit side in the Journal Book		Book as Rs 200
	When the transaction is recorded with different wrong amounts both in the debit and credit side in the Journal Book	Effects	Sold goods of Rs 2,000 for cash were recorded in the Cash Account as Rs 20,000 and in the Sales Account as Rs 200
	When the transaction is recorded with wrong amounts either in the debit or in the credit side in the Journal Book	Effects	Sold goods of Rs 2,000 on cash were recorded in the Sales Account with the correct amount but in the Cash Account as Rs 200
Posting in wrong account	When posting from Journal is done in the wrong account but in the right column (debit or credit)	No Effect	Paid commission of Rs 500 for purchases of goods were wrongly debited to the Purchases Account instead of Commission Account.
	When posting from Journal is done in the right account but in the wrong column (debit or credit)	Effects	Paid commission of Rs 500 on Purchases was wrongly credited to the Commission Account instead of debiting.
	When posting from Subsidiary Book is done in the wrong account	May or May Not Effect	The total of Sales Book Rs 12,000 was posted to Purchases Account instead of Sales Account



Posting of wrong amount	When posting from Journal is done in the correct account but with the wrong amount	May or May Not Effect	Sale of goods to Rakesh Rs 500 were correctly posted in the Sales Account but posted in the Rakesh Account with wrong amount of Rs 50
Error in totaling (casting of Subsidiary Books)	When the total of the Subsidiary Books (Sales Book, Purchases Book, etc) are wrong, i.e. wrong casting	Effects	Sales Book undercast by Rs 200
Error in forwarding	When the wrong total of Subsidiary Book is forwarded from one page to another. In other words, when wrong balance is carried forwarded.	Effects	The total of the Sales Book Rs 2,020 on page no. 11 was wrongly forwarded to page no. 12 as Rs 2200
Errors while balancing the ledgers	While balancing the accounts	Effects	Machinery Account shows balance of Rs 5,000 instead of Rs 5,500

❖ Compensating Errors

When effects of one error are cancelled by the effects of another error of an equal amount, then compensating errors are committed. For example, Mr. A's Account was credited by Rs 2,000 instead of 200 and Mr. B's Account was credited by Rs 200 instead of 2,000. In this case, the error in Mr. A's Account will be compensated by the error in Mr. B's Account.

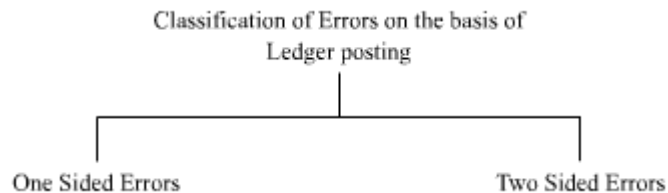


❖ Detection and Rectification of Errors

The different stages in which errors can be detected and rectified are:

- Before preparation of Trial Balance
- After preparation of Trial Balance but before Financial Statements are prepared
- After preparation of Financial Statements

❖ Classification of Errors



❖ Rectification of Errors Before Preparation of Trial Balance

- *One Sided Errors*

These errors affect only one account. These errors can be rectified either by passing necessary journal entries or by making necessary adjustments in the accounts by giving explanatory notes.

- *Two Sided Errors*

These errors affect more than one account simultaneously. These errors are generally rectified by passing necessary Journal entries, as it is easier than rectifying by giving explanatory notes.

❖ Rectification of Errors After Preparation of The Trial Balance but Before Preparation of Financial Statements

- *One Sided Errors*

If Trial Balance does not agree, then the difference between the debit and credit side is shown by opening Suspense Account.

Suspense Account is shown unless the errors are rectified.

- *Two Sided Errors*

These errors are rectified by passing necessary rectifying Journal entries without opening Suspense Account

❖ Suspense Account

When the Trial Balance does **not** agree, i.e., when the total of the debit column does **not** match with that of the credit column, then this difference is transferred to a temporary account in order to avoid delay in preparation of the Financial Statements. This temporary account is termed as Suspense Account.

- If the debit column falls short of the credit column, then the Suspense Account is debited.
- If the credit column falls short of the debit column then the Suspense Account is credited.

❖ Rectification of Errors After Preparation of Financial Statements

In this case, the Suspense Account is transferred to the next accounting period. When these errors are rectified (in the next accounting period), the effect of rectification is shown by debiting or crediting Profit and Losses Adjustment Account. .

❖ Locating Errors in the Trial Balance

In case of one sided errors, when the Trial Balance does not agree, then following flow chart helps in locating the errors.

