

# ACCOUNTANCY

## Chapter 6: Trial Balance and Rectification of Errors



## Trial Balance And Rectification Of Errors

### Meaning of Trial Balance

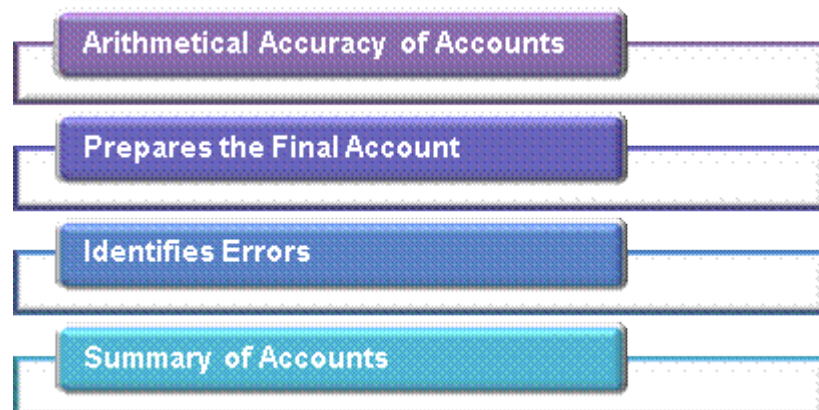
Trial balance is a statement prepared to check the arithmetical accuracy of transactions recorded in the journal and those posted to the ledger and balanced the ledger accounts. The balance of ledger accounts shows the difference between the total of the debit items and credit items in an account. A debit balance shows the total of debit items greater and a credit balance shows the total of credit items greater. These debit and credit balances are posted in the respective column of the trial balance. According to the double entry system, each debit item has a corresponding credit item. Hence, the total of the debit and credit balances are equal for different accounts in the ledger. When the debit and credit balances are equal in the trial balance, it is clear that all the posting and balancing of accounts are arithmetically correct.

According to Carter, a trial balance is the list of debit and credit balances, taken out from the ledger. It also includes cash and bank balances taken from the cash book.

#### Features of Trial Balance

- It is a complete record of all ledger accounts and cash book
- It is prepared as a result of the double entry system of book keeping, though it is not a part of it.
- It assists in verifying the arithmetic accuracy of posting entries from journal to ledger accounts
- It is not completely accurate to take any decision because there are some errors not disclosed in this trial balance. It doesn't disclose some of the errors because of which it is not considered as absolute proof of accuracy.
- It is prepared on a particular date and considered as a working paper.

#### Functions of Trial Balance



- It helps to ascertain the arithmetical accuracy of ledger accounts.

- It assists in preparing the financial statement
- It provides a summary of the ledger accounts
- It identifies the errors in book keeping work but does not disclose all the errors in book keeping.

#### + Debit Balances- Assets, debtors, drawings, expenses and losses

Examples:

- Purchases
- Sales returns
- Machinery
- Rent
- Bills Receivable

#### + Credit Balances- Liabilities, creditors, capital, incomes and gains

Examples:

- Sales
- Purchases returns
- Commission received
- Bank overdraft
- Bills payable

## Methods of Preparing a Trial Balance

The three methods followed to prepare the trial balance are total method, balance method and total-cum- balance method. We will learn only balance method in this section.

### + Balance Method for Preparing Trial Balance

A trial balance is prepared by depicting the balances of all the ledger accounts and placing the debit and credit balances separately in the two columns. All the debit balances are recorded in the debit column and all the credit balances are recorded in the credit column.

#### Trial Balance

| <u>Account Titles</u> | <u>L.F.</u> | <u>Debit</u> | <u>Credit</u> |
|-----------------------|-------------|--------------|---------------|
| Assets                |             | XXX          |               |
| Liabilities           |             |              | XXX           |
| Equity                |             |              | XXX           |
| Drawings              |             | XXX          |               |
| Revenues              |             |              | XXX           |
| Expenses              |             | XXX          |               |
|                       |             | <u>XXX</u>   | <u>XXX</u>    |

### + Specifics of Trial Balance

- A trial balance is prepared on a particular date which should be mentioned on the top.
- Name of the account should be written in the first column.
- The page number of the ledger where the balance appears should be written in the ledger folio column.
- In the last two columns, the debit and credit balances are to be written.
- Finally, the two columns are added up.

#### ✚ Points to Prepare a Trial Balance

- Ledger and cash book are used to prepare the trial balance.
- The balances of all accounts— assets, liabilities, capital, expenses and revenue accounts (including cash balance and bank accounts) are placed in the debit and credit column of the trial balance. An account with no balance is not recorded.
- Opening stock account which has a debit balance is recorded in the debit column of the trial balance.
- However, closing stock is not recorded in the trial balance and is given as additional information below the trial balance. It shows the balance of unsold goods from the opening stock and purchases. In order to incorporate the closing stock in the books of account, debit the closing stock account and credit the trading account by the amount of unsold stock at the end. In the balance sheet, closing stock appears as an asset on the assets side of the balance sheet.
- On the other hand, if the closing stock is to appear in the trial balance, then it needs to be adjusted through purchases by debiting the closing stock and crediting the purchases account. Hence, closing stock is not shown on the credit side of the trading account. However, it appears as an asset on the asset side of the balance sheet.
- Accounts of assets with debit balance such as machinery, fixtures, land and building, bills receivable, good will, trade mark, cash in hand, copyrights and patents are recorded in the debit column of the trial balance.
- A debit bank balance is recorded in the debit column of a trial balance and a credit bank balance is recorded in the credit column of a trial balance.
- A credit balance of incomes and gains are recorded in the credit column and debit balance of expenses and losses are recorded in the debit column of a trial balance.

**Prepare a trial balance of Mr. Ramesh from the given ledger balances as on 31st March, 2015.**

| Particulars                | Amount ₹ | Particulars          | Amount ₹ |
|----------------------------|----------|----------------------|----------|
| Purchases                  | 33,800   | Return inwards       | 3,200    |
| Carriage inwards           | 900      | Carriage outwards    | 1,200    |
| Unpaid wages               | 4,100    | Cash in hand         | 3,800    |
| Reserve for doubtful debts | 1,300    | Outstanding expenses | 3,400    |
| Interest received          | 5,900    | Bank overdraft       | 12,600   |
| Discount allowed           | 3,100    | Debtors              | 7,400    |

|           |        |           |        |
|-----------|--------|-----------|--------|
| Insurance | 11,000 | Creditors | 37,100 |
|-----------|--------|-----------|--------|

**Trial Balance as on 31<sup>st</sup> March, 2015**

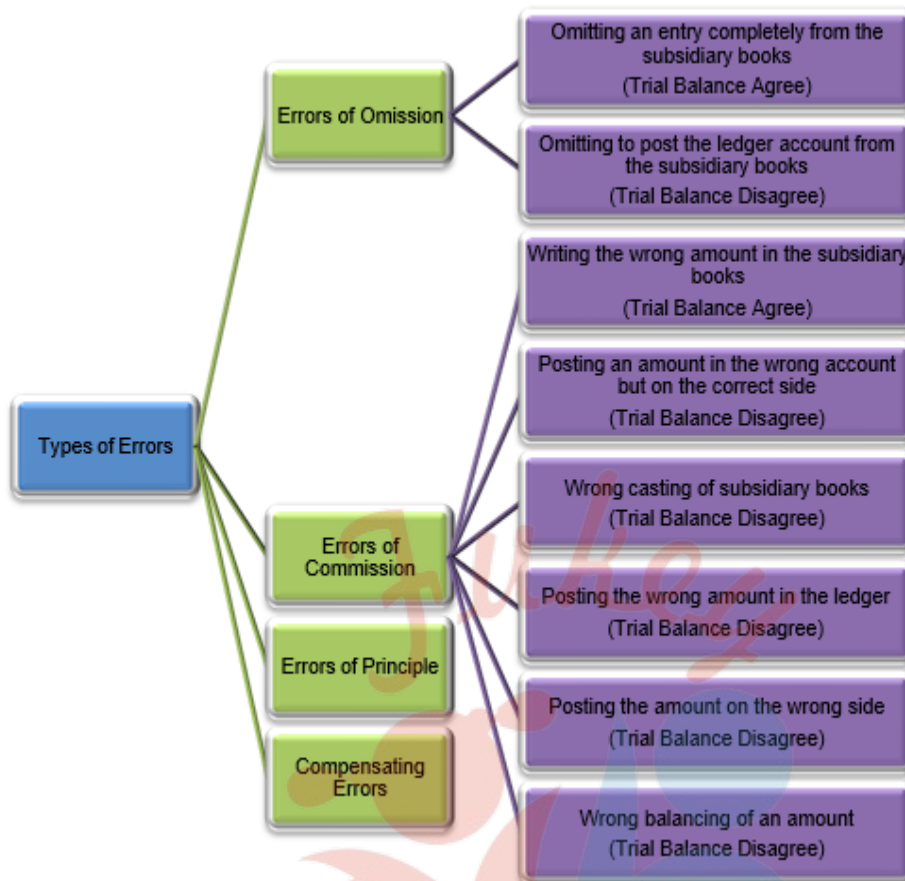
| Particulars                | L.F. | Debit<br>Balance<br>₹ | Credit<br>Balance<br>₹ |
|----------------------------|------|-----------------------|------------------------|
| Purchases                  |      | 33,800                |                        |
| Return inwards             |      | 3,200                 |                        |
| Carriage inwards           |      | 900                   |                        |
| Carriage outwards          |      | 1,200                 |                        |
| Unpaid wages               |      |                       | 4,100                  |
| Cash in hand               |      | 3,800                 |                        |
| Reserve for doubtful debts |      |                       | 1,300                  |
| Outstanding expenses       |      |                       | 3,400                  |
| Interest received          |      |                       | 5,900                  |
| Bank overdraft             |      |                       | 12,600                 |
| Discount allowed           |      | 3,100                 |                        |
| Debtors                    |      | 7,400                 |                        |
| Insurance                  |      | 11,000                |                        |
| Creditors                  |      |                       | 37,100                 |
| <b>Total</b>               |      | <b>64,400</b>         | <b>64,400</b>          |

#### ✚ Limitations of Trial Balance

- A trial balance only shows that debit and credit balances are tallied. However, it does not mean that all the recorded transactions and all the ledger entries, so made, are accurate.
- It is not absolutely error free because certain errors may occur such as omission to enter a particular transaction, incorrect journal entry or entry made to the wrong account.

### Classification of Errors





### ✚ Errors of Omission

Error of omission is an error when a transaction is completely or partially missed from being recorded in the books of account. Such errors are of two types:

- **Complete Omission:** This error arises when a transaction is not recorded completely in the books of accounts or if a transaction recorded in the journal is completely omitted to be posted in the ledger. This error does not affect the trial balance. For example, cash worth ₹1,000 taken by the proprietor for personal use and not recorded in the books.
- **Partial Omission:** This error arises when a transaction is not completely recorded in the books or if the entry is completely recorded but it may not be completely posted in the ledger of accounts. For example, ₹600 written off as depreciation on machinery and not been debited to depreciation account.

### ✚ Errors of Commission

Errors of commission are committed because of wrong recording, wrong posting, wrong balancing and wrong casting of subsidiary books. Such errors affect the accuracy of the trial balance.

- Cash received from a creditor worth ₹5,000 is recorded in the cash book as ₹500. The transaction is recorded in the cashbook as ₹500 instead of ₹5,000. This is an error because of wrong recording of amount in the cash book.

- Amount received from Arun, ₹2,000, is wrongly posted in Tarun's account. In this transaction, Tarun's A/c is credited instead of Arun's A/c. This is referred to as an error of wrong posting of transactions.
- Purchases returns book is totaled as ₹8,000 instead of ₹10,000. In this transaction, there is an error in totaling called an error of casting.
- The total of purchases returns book is carried forward as ₹6,000 instead of ₹2,000. This is an error committed in carrying forward a total from one page to the next page. Such error called 'error in carrying forward'

#### ✚ Errors of Principle

Generally accepted accounting principles are to be followed while recording the accounting entries. When accounting entries are recorded in contravention of accounting principles, it is known as an error of principle. For example, wages paid for construction of building are debited to wages account

#### ✚ Compensating Errors

When two or more errors occur in such a way that the net effect of these errors on the debits and credits of respective accounts are nil, it is known as compensating errors.

For example, on 2nd March, 2016, a sum of ₹2,000 paid to Ashok was posted as ₹200 to his account on the debit side and on 26th March, 2016, a sum of ₹200 paid to Dipesh was posted as ₹2,000 to his account on the debit side.

In the first transaction, Ashok's A/c was undercast by ₹1,800 on the debit side and in the second transaction Dipesh's A/c was overcast by ₹1,800 on the debit side. Hence, the net effect of these.

#### ✚ One Sided Errors

One-sided errors are those errors which affect the agreement of the trial balance. These errors affect only one account and only one side i.e. debit or the credit side of the account. Errors of partial omission, recording transactions with wrong casting and wrong posting are examples of one-sided errors. For example, goods worth of ₹3,000 purchased for cash, correctly entered in the cash book, but while posting to purchase book, it is entered as ₹30,000. Thus, the transaction has been recorded wrongly in the purchase book.

#### ✚ Two Sided Errors

Two-sided errors do not affect the agreement of the trial balance. These errors occur in two or more accounts. Such errors are rectified by passing journal entries. Errors of complete omission, errors of principle and compensatory errors are examples of two sided-errors. For example, credit purchases from Sohan of ₹15,000 were not recorded in the purchases book; an error of complete omission because purchases account is not debited and Sohan's account is not credited.

#### ✚ Steps to Identify the Errors

- Recast the totals of debit and credit columns of the trial balance
- Compare each account head and its amount appearing in the trial balance with that of the ledger to detect any difference in amount or omission of any account

- Compare the trial balance of the current year with that of the previous year to check the additions or deletions of any accounts and to verify if there is any unexplained difference in amounts.
- Re-check the correctness of balances of individual accounts in their respective ledgers.
- Re-check the accuracy of the postings in individual accounts from the transactions entered in the books of original entry.
- If the difference between the debit and credit columns is ₹1, ₹10, ₹100 or ₹1000, the casting of the subsidiary books should be re-checked.
- If the difference between the debit and credit columns is divisible by 2, then there is a possibility that an amount equal to half of the difference may have been posted to the wrong side of another ledger account.
- The above point may also indicate a complete omission of a posting.
- If the difference is divisible by 9, the mistake could be because of transposition of figures.
- Still, if it is not possible to locate the errors, the difference in the trial balance for that moment is transferred to the suspense account. All the one-sided errors detected are rectified through this account

## Rectification of Errors

Errors may or may not affect the trial balance. However, they must be identified and corrected for the preparation of final accounts. Rectification of errors is the procedure to rectify the errors committed and to correct the accounting records. . The main objectives for rectifying the errors are as follows:

- To prepare correct accounting records
- To ascertain the profit or loss of the accounting period by preparing the profit and loss account with the correct amount
- To show the actual financial status of the company at a particular date by preparing the balance sheet with the correct amount

### A. Errors may be classified under the following categories:

1. Rectification of errors before the preparation of the trial balance.
2. Rectification of errors after preparation of the trial balance but before the preparation of the final accounts.

### ❖ Rectification of Errors before the Preparation of the Trial Balance

Errors which affect only one account or one-sided errors

One-sided errors are those errors which affect the agreement of the trial balance. These errors affect only one account and one side i.e. debit or the credit side of the account. If these errors are identified before the preparation of the trial balance, they are rectified by writing an explanatory note. Errors are rectified by debiting the relevant account for short



debit or excess credit and by crediting the account for short credit or excess debit.

Examples of errors which affect one account are casting, carry forward, posting, balancing and omitting to show an account in the trial balance.

**Debit Account = Short Debit / Excess Credit**  
**Credit Account = Short Credit / Excess Debit**

#### ❖ Rectification of errors caused by casting and carry forward

While carrying over the balance from one page to the next page, the error of carry forward or casting arises. This error can be rectified by writing an explanation and by passing an appropriate entry.

For example, individual entries are correctly recorded in a sales return book but the totaling or casting of the sales return book is undercast or overcast by ₹20,000. This error can be rectified by entering the amount in the sales return account as To Undercasting of Sales Return Book ₹20,000.

#### KEY POINTS TO REMEMBER

- Errors are corrected before the preparation of the trial balance. Hence, the correction is made without the help of suspense account.
- One-sided error can be rectified by passing a journal entry with the help of suspense account.
  - **Casting:** The process of totaling the amount of all the transaction recorded at the end of an accounting period is called casting. Purchases book, sales book, purchases return and sales return are posted in an individual account such as purchases, sales, purchases return and sales return for a particular period i.e. the total amount of all the books except cash and journal proper are posted to the ledger at the end of the accounting period.
  - **Errors of casting effect:** Error of casting affects only the particular account to which the total of the book is posted and where the total amount has been posted to the ledger. Here, the error may be undercasting or overcasting if the total of the book is wrongly calculated.
  - **Undercasting:** Undercasting of sales return book means under totaled amount in the sales return book. This implies that the sales return account has been debited less with the amount of under total of the sales return book.
  - **Overcasting:** Overcasting of purchases return book means over totaled amount in the purchases return book. This implies that the purchases return account has been credited more with the amount of over total of the purchases return book.
  - **Occurrence of error in journal proper:** Both the side entries of journal proper are posted with an individual amount. For example, there is an error of omission in posting the transactions of journal proper, say machinery purchased on credit from Mr. Ramesh for ₹1,20,000 was not posted. This implies that machinery account and

Mr. Ramesh account has not been posted.

#### ❖ Rectification of errors of posting

Error of posting occurs while posting the entries from the subsidiary book into ledger account, an entry is completely omitted to post or partially omitted to post or is posted with an incorrect amount or posted to an incorrect account. These errors are identified with the help of certain key terms such as posted, debited and credited.

- Posted: The appropriate side of the account where the amount is to be posted.
- Debited: It stands for debit side of the account.
- Credited: It stands for credit side of the account.

#### ❖ Rectification of errors of balancing

Error of balancing arises during the process of totaling the balance of an account. This affects the trial balance if an incorrect balance of the account is entered in it. In order to rectify the error of balancing, an explanatory note is written either on the debit side or credit side of the account as per the requirement

| Effect of Errors and their Rectification   |  |
|--|--|
| Effect of Error  | Rectification  |
| <input checked="" type="checkbox"/> Excess credit                                | Difference on the debit side   |
| <input checked="" type="checkbox"/> Excess debit                                 | Difference on the credit side  |
| <input checked="" type="checkbox"/> Less credit                                  | Difference on the credit side  |
| <input checked="" type="checkbox"/> Less debit                                   | Difference on the debit side   |
| <input checked="" type="checkbox"/> Credit omitted                               | Omitted amount on the credit side                                    |
| <input checked="" type="checkbox"/> Debit omitted                                | Omitted amount on the debit side                                     |
| <input checked="" type="checkbox"/> A credit item wrongly debited in the account | Amount to be credited plus amount wrongly debited on the credit side |
| <input checked="" type="checkbox"/> A debit item wrongly credited in the account | Amount to be debited plus amount wrongly credited on the debit side  |

#### B. Two-sided errors which affect only two or more accounts

Two-sided errors are those errors which do not affect the agreement of the trial balance but arise in two or more accounts. Such errors are rectified by passing the journal entries. Errors of complete omission, errors of principle, errors of recording, errors of posting to wrong account and compensatory errors are examples of two sided-errors.

#### ❖ Error of Recording

Error of recording arises at the recording stage in the subsidiary book. It affects the two accounts

i.e. in the first stage, incorrect recording affects the totaling of the book and this wrong totaling gets posted and in the second stage, individual account is also incorrectly posted. For example, credit sale of ₹5,700 to Anjali was recorded as sales to Tina.

| Wrong Entry     |     |       |
|-----------------|-----|-------|
| Tina A/c        | Dr. | 5,700 |
| To Sales A/c    |     | 5,700 |
| Reverse Entry   |     |       |
| Sales A/c       | Dr. | 5,700 |
| To Tina A/c     |     | 5,700 |
| Correct Entry   |     |       |
| Anjali A/c      | Dr. | 5,700 |
| To Sales A/c    |     | 5,700 |
| Rectified Entry |     |       |
| Anjali A/c      | Dr. | 5,700 |
| To Tina         |     | 5,700 |

### ❖ Error of Posting to Wrong Account

Error of posting arises when a transaction is posted to the wrong account but on the

- Correct side and with the correct amount
- Correct side and with an incorrect amount
- Incorrect side and with an incorrect amount
- Incorrect side and with the correct amount

Here, an explanatory note is provided to rectify these errors. For example, machinery purchased on credit from Seeta for ₹25,000 but posted as ₹2,500.

| Wrong Entry      |     |        |
|------------------|-----|--------|
| Machinery A/c    | Dr. | 2,500  |
| To Seeta A/c     |     | 2,500  |
| Reverse Entry    |     |        |
| Seeta A/c        | Dr. | 2,500  |
| To Machinery A/c |     | 2,500  |
| Correct Entry    |     |        |
| Machinery A/c    | Dr. | 25,000 |
| To Seeta         |     | 25,000 |
| Rectified Entry  |     |        |
| Machinery A/c    | Dr. | 22,500 |
| To Seeta A/c     |     | 22,500 |

### ❖ Error of Principle

Error of principle arises during the allocation of expenditure or receipt between capital and revenue. It does not affect the trial balance. Following points to be kept in mind during the allocation:

- Purchase of an asset: Asset account will be debited but not purchases account
- Purchase of an asset and expense incurred in purchase of that asset: Asset account will be debited but not the expense account. If the expense account is debited, it can be rectified by crediting the expense account and debiting the asset account.

- Purchase of second-hand asset and if it has undergone repairing work before use: Here, the repairing charges amount will be debited in the asset account but not in the repair account. If the expense account is debited, it can be rectified by crediting the expense account and debiting the asset account.
- Sale of an asset: Asset account will be credited but not the sales account. If the sales account is credited, it will be rectified by debiting the sales account and crediting the asset account.
- Sale of an asset and its expense: Asset account will be debited but not the expense account.

For example, paid ₹8,000 for installation of plant debited to wages account

| Wrong Entry     |     |       |       |
|-----------------|-----|-------|-------|
| Wages A/c       | Dr. | 8,000 |       |
| To Bank A/c     |     |       | 8,000 |
| Reverse Entry   |     |       |       |
| Bank A/c        | Dr. | 8,000 |       |
| To Wages A/c    |     |       | 8,000 |
| Correct Entry   |     |       |       |
| Plant A/c       | Dr. | 8,000 |       |
| To Bank A/c     |     |       | 8,000 |
| Rectified Entry |     |       |       |
| Plant A/c       |     | 8,000 |       |
| To Wages A/c    |     |       | 8,000 |

For example, sold old furniture for ₹4,500 was passed through Sales Book.

| Wrong Entry      |     |       |       |
|------------------|-----|-------|-------|
| Bank A/c         | Dr. | 4,500 |       |
| To Sales A/c     |     |       | 4,500 |
| Reverse Entry    |     |       |       |
| Sales A/c        | Dr. | 4,500 |       |
| To Bank A/c      |     |       | 4,500 |
| Correct Entry    |     |       |       |
| Bank A/c         | Dr. | 4,500 |       |
| To Furniture A/c |     |       | 4,500 |
| Rectified Entry  |     |       |       |
| Sales A/c        | Dr. | 4,500 |       |
| To Furniture A/c |     |       | 4,500 |

#### ❖ Error of Complete Omission

Error of complete omission is directly recording the omitted transaction. For example, credit sale of ₹6,500 to Nishant omitted to be recorded in books

| Correct Entry   |     |       |
|-----------------|-----|-------|
| Nishant A/c     | Dr. | 6,500 |
| To Sales A/c    |     | 6,500 |
| Rectified Entry |     |       |
| Nishant A/c     | Dr. | 6,500 |
| To Sales A/c    |     | 6,500 |

#### ❖ Rectification of Errors after Preparation of the Trial Balance but before Preparation of the Final Accounts.

- Errors not affecting the trial balance or two-sided errors are rectified by passing journal entry without creating the suspense account.
- Errors affecting only one account or one-sided errors are rectified by
  - Firstly, by placing the difference in the trial balance under the suspense account.
  - Secondly, by passing the journal entry debiting or crediting the suspense account

#### ✚ Suspense Account

In certain cases, when the debit column and the credit column of a trial balance do not tally, the difference of the trial balance is then transferred to a temporary account which is called a suspense account. This

#### KEY POINTS TO REMEMBER

- If error is committed in the subsidiary books, assume that the posting has been done as per the requirement.
- If error is committed in posting, assume that recording in the subsidiary book is appropriate.

account is created to avoid any delay in creation of the financial statements. If the debit column is less than the credit column, then the suspense account is debited and if the credit column is less than the debit column, then the suspense account is credited.

When all the errors are detected and rectified, the suspense account automatically gets balanced. However, when errors still exist and are not rectified, the suspense account will not balance off and the balance amount of the suspense account will have to be transferred to the balance sheet. The debit balance of the suspense account is shown on the assets side and the credit balance is shown on the liabilities side of the balance sheet.

For example, purchases done from Rohan worth ₹10,000 recorded as ₹1,000. Here, the transaction is recorded for ₹1,000 instead of ₹10,000. This is an error of wrong recording of amount. Purchases A/c requires a further debit of ₹9,000 and Rohan's A/c requires a further credit of ₹9,000. The rectifying entry is:

| Rectified Entry   |     |       |
|---|-----|-------|
| Purchases A/c   | Dr. | 9,000 |
| To Rohan's A/c  |     | 9,000 |
| (Being goods purchased from Rohan of ₹10,000 wrongly recorded as ₹1,000, now rectified) |     |       |



For example, sales book totaled as ₹5,000 instead of ₹50,000. Here, the total sales of the book are short by ₹45,000. This error can be rectified by any of the following two:

- If the error is located before preparing trial balance, then ₹45,000 should be recorded in the credit side of sales account.
- If an error is located after preparing the trial balance, then assuming that a suspense account is opened, the following entry needs to be recorded.

#### Rectified Entry

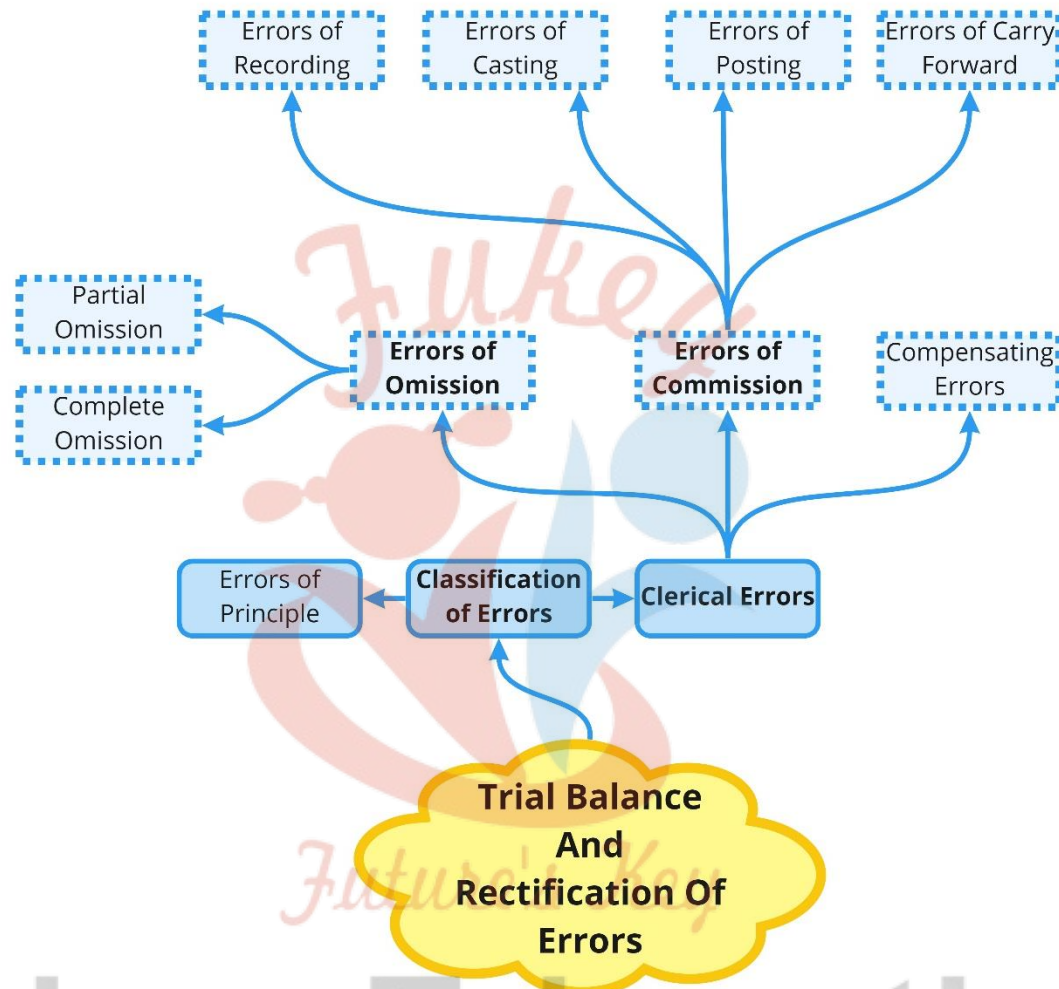
|              |     |        |        |
|--------------|-----|--------|--------|
| Suspense A/c | Dr. | 45,000 |        |
| To Sales A/c |     |        | 45,000 |

(Being sales book wrongly totaled as ₹5,000 instead of ₹50,000)



# Fukey Education

Class : 11th Accountancy  
Chapter-6 : Trial Balance And Rectification Of Errors



| S. No. | Head of Accounts    | Amount | Amount |
|--------|---------------------|--------|--------|
|        | Assets Expenses     | XXXX   |        |
|        | Capital Liabilities |        | XXX    |
|        | Total               | XXXX   | XXX    |

#### Objectives of Trial Balance

- To ascertain arithmetical accuracy
- To help in locating errors
- To provide basis for final accounts
- To find out balance of particular account

#### Features of a Trial Balance

- Prepared on a particular date
- It is a statement, not an account
- Prepared for verifying the arithmetical accuracy
- Contains all ledger balance

## Important Questions

### Multiple Choice Questions-

Question 1. Goods lost by fire should be credited to:

- a) Trading A/c
- b) Loss by Fire A/c
- c) Sales A/c
- d) Profit & Loss A/c

Question 2. Sales of Rs.10,000 recorded as Rs. 1,000 is an example of:

- a) Compensating Error
- b) Errors of principle
- c) Errors of omission
- d) Errors of commission

Question 3. Trial Balance might match in spite of presence of:

- a) Errors of complete omission, Errors of principle
- b) Errors of complete omission
- c) Errors of commission
- d) Errors of principle

Question 4. Compensating errors are of a \_\_\_\_\_ nature.

- a) Neutralizing
- b) Consistent
- c) Concealing
- d) Accommodating

Question 5. Rectification entries are passed in -

- a) Journal Proper
- b) Purchase Book
- c) Sales Book
- d) None of the options

Question 6. Under casting of Sales book is corrected by \_\_\_\_\_ Sales Account

- a) Crediting
- b) Debiting
- c) Balancing
- d) Ignoring

Question 7. A Suspense Account will give the

- a) Debit or Credit balance
- b) Debit balance
- c) Credit balance
- d) None of the options

Question 8. Purchase of office furniture worth Rs. 5,000 has been debited to General expenses account. Identify the error.

- a) Error of Principle
- b) Clerical error
- c) Error of omission
- d) None of the options

Question 9. Rs. 2000 received from Smith whose account was previously written off as bad debt should be credited to -

- a) Bad debts recovered Account
- b) Smiths Account
- c) Cash Account
- d) None of the options

Question 10. A Trial Balance is prepared to

- a) Ensure Arithmetical accuracy
- b) Locate Errors of Principle
- c) Locate Errors of omission
- d) Locate Errors of commission

### Very Short-

1. Define trial balance?
- 2 Explain two objectives of preparing a trial balance.
3. While preparing a Trial balance which error cannot be disclosed.
4. State one example of an error of commission?
- 5 Define a compensating error.
6. Give an example of principal error.

### Short Questions-

- 1 If the amount is posted in the wrong account or it is written on the wrong side of account, what error is it?
2. What do you understand by rectification of errors?

3. Give two examples of two-sided error.
4. Give one example of one-sided errors.
5. Discuss the balance method of preparing trial balance.

### Long Questions-

1. A book-keeper of a trading concern having failed to agree the trial balance, opened a suspense account and entered the difference in the trial balance.

- i. Goods sold to Manohar for Rs 550 was posted as Rs 5,500.
- ii. Purchases return book was carried forward as Rs 1,220 instead of Rs 1,120.

You are required to pass the journal entries for rectification of the above errors

2. Rectify the following errors

- i. Depreciation provided on machinery Rs 4,000 was not posted.
- ii. Bad debts written-off Rs 5,000 were not posted.
- iii. Discount allowed to a debtor Rs 100 on receiving cash from him was not posted.
- iv. Bill receivable for Rs 2,000 received from a debtor was not posted.

3. Rectify the following errors

- i. Sales book overcast by Rs 700.
- ii. Purchase book overcast by Rs 500.
- iii. Sales return book overcast by Rs 300.
- iv. Purchase return book overcast by Rs 200

### Case Study Based Question-

1. Read the following hypothetical text and answer the given questions: -

An accountant while balancing his books on 31st December 2016 found that there was a difference of ₹ 270 in the trial balance. Being required to prepare the final accounts he placed the difference to a newly opened Suspense A/c, which was carried forward to the next year when the following errors were discovered:

Salary for the month of March was posted twice ₹ 155.

Interest on investment collected by the bankers, were posted directly in concerned accounts through the pass book, but no entry was made in the bank column of the cash book ₹ 75.

Rent of ₹ 350 received from Ashok credited both to Rent Account and Ashok Account.

A purchase of a chair from Karnal Furniture Mart for ₹ 65 has been entered in the purchase book as ₹ 56.

Old Machinery sold to the proprietor Keshav for ₹400 was entered in the Sales Book as sale to Kishore.



Cash Purchases from Ajay ₹ 189 were recorded in Cash Book as well as in Purchases Book and posted from both.

Closing Stock has been undervalued by ₹ 300.

The Profit & Loss Account disclosed a net profit of ₹ 15,000 for the year ended 31st March 2016.

### Questions:

1. What will be the journal entry for the balance of Profit and Loss Adjustment Account?

(a) Profit & Loss Adjustment A/c Dr. 300

To Suspense A/c 300

(Being balance of Profit & Loss Adjustment A/c transferred to Suspense A/c)

(b) Profit & Loss Adjustment A/c Dr. 300

To Capital A/c 300

(Being balance of Profit & Loss Adjustment A/c transferred to Capital A/c)

(c) Profit & Loss Adjustment A/c Dr. 300

To Profit & Loss Appropriation A/c 300

(Being balance of Profit & Loss Adjustment A/c transferred to Profit & Loss Appropriation A/c)

(d) No entry will be passed.

2. What will be the rectification entry of the salary for the month of march posted twice?

(a) Suspense A/c Dr. 155

To Profit & Loss Adjustment A/c 155

(Being rectification of salary posted twice in the books)

(b) Suspense A/c Dr. 310

To Profit & Loss Adjustment A/c 310

(Being rectification of salary posted twice in the books)

(c) Profit & Loss Adjustment A/c Dr. 155

To Suspense A/c 155

(Being rectification of salary posted twice in the books)

(d) Profit & Loss Adjustment A/c Dr. 155

To Suspense A/c 155

(Being rectification of salary posted twice in the books)

2. Read the following hypothetical Trial Balance extracted from the books of M/s Ravilal

and Company and answer the given questions:

In the books of M/s Ravilal and Company

**Trial Balance as on 31/3/2018**

| Particulars                                | L.F.     | Debit (₹) | Credit (₹) |
|--|----------|-----------|------------|
| Stock on 1.4.2017                          |          | 2,50,000  |            |
| Purchases                                  |          | 6,50,000  |            |
| Sales                                      |          |           | 10,00,000  |
| Motor Vans                                 |          | 3,80,000  |            |
| Debtors and Creditors                      |          | 1,50,000  | 94,000     |
| Premises                                   |          |           | 3,00,000   |
| Shop Fittings                              |          |           | 20,000     |
| Interest on Bank Overdraft                 |          |           | 16,000     |
| Purchase Returns                           |          | 10,000    |            |
| Sales Returns                              |          |           | 20,000     |
| Lighting and Heating                       |          | 18,000    |            |
| Capital                                    |          |           | 5,00,000   |
| Discount received                          | 2,000    |           |            |
| Repairs                                    | 2,500    |           | 6,500      |
| Electricity                                |          |           |            |
| Bank Overdraft                             | 2,00,000 |           |            |
| Stock on 31.3.2018                         | 3,30,000 |           | 15,000     |
| Rent from subletting                       |          |           | 8,000      |
| Bills Receivable                           |          |           | 13,000     |
| Suspense Account (difference in the books) |          |           |            |
|  |          | 19,92,500 |            |

**Questions:**

1. Which of the following items appears on the wrong side of the trial Balance?

- (a) Purchases
- (b) Motor Vans
- (c) Premises
- (d) Capital

2. What should be the actual total in the rectified Trial Balance?

- (a) ₹ 18,21,000
- (b) ₹ 19,92,500
- (c) ₹ 19,21,000
- (d) ₹ 18,92,500

## Answer key

### MCQ Answers-

1. Answer: Trading A/c
2. Answer: Compensating Error
3. Answer: Errors of complete omission, Errors of principle
4. Answer: Neutralizing
5. Answer: Journal Proper
6. Answer: Crediting
7. Answer: Debit or Credit balance
8. Answer: Error of Principle
9. Answer: Bad debts recovered Account
10. Credit; Ensure Arithmetical accuracy

### Very Short Answers-

1. **A trial balance is a worksheet record book that reflects the debit and credit balance** of all the registered accounts. This worksheet statement is used to prepare the final account report of the company. Trial balance also determines the accuracy of the account. However, it doesn't ensure that the account is error-free but surely gives mathematical precision. Ans The debit balance in passbook means overdraft.
2. Ans. The two objectives of preparing a trial balance
  - To determine the financial accuracy of the ledger accounts
  - To help in finding an error.
3. While preparing a Trial balance the following errors cannot be disclosed
  - Error of Omission
  - Error of Commission
4. Ans. Error of commission can be represented by the following example:  
Purchase of goods for ₹5,000 entered in the purchase book as ₹500.
5. Ans. A compensating error can be defined as when one error compensates or neutralizes the other error.
6. Ans. Principal error can be represented by the following example:  
When a purchase of furniture is debited to purchase account instead of a furniture account.

### Short Answers-

1. Ans. Give one example of one-sided errors.

2. While recording business transactions, some errors are committed. There are 4 kinds of errors, namely;

- Error of Principle
- The error of Commission.
- Error of Omission
- Compensatory Error.

These errors have to be corrected before finalization of account. The process of correcting these errors is known as Rectification of Errors.

3. Ans. Two-sided errors refer to those errors that do not affect the agreement (tallying) of the trial balance.

- Machinery purchased recorded in the purchases book.
- Old furniture sold is recorded as sales of goods.

4. Errors due to partial omission is an example of one-sided error.

5. Ans. Trial balance is a statement that is prepared to make sure that the transactions for a particular period have been duly recorded in the journal and properly posted to the relevant ledger accounts. It has debit and credit columns to record the balances extracted from ledger accounts with a view to test the arithmetical accuracy of the books of accounts. Under balance method the following procedure is adopted to draw up a trial balance:

- i. First of all the name of all accounts is written along with serial number.
- ii. The total balances of all accounts are taken and debit balances are written in the debit column & credit balances in the credit column in the Trial Balance.
- iii. The total of debit & credit columns of the Trial Balance is calculated. Total of both columns of Trial Balance should be equal.

## Long Answers-

### 1. Answer - Journal

| Date | Particulars  |     | L/F | Debit Amount (Rs) | Credit Amount (Rs) |
|------|--|-----|-----|-------------------|--------------------|
|      | Suspense A/c<br>To Manohar's A/c<br>(Being the sales of goods-wrongly over-debited to customer, now rectified) | Dr. |     | 4,950             | 4,950              |

|  |  |     |     |     |
|--|--|-----|-----|-----|
|  | Purchase Return A/c<br>To Suspense A/c<br>(Being the error in carrying forward of total of purchases return book, now rectified) | Dr. | 100 | 100 |
|--|--|-----|-----|-----|

A suspense account is a general ledger account in which amounts are temporarily recorded. The suspense account is used because the appropriate general ledger account could not be determined at the time that the transaction was recorded.

## 2. Rectification Journal Entries

| S. No. | Particulars   | L.F. | Dr. (Rs) | Cr. (Rs) |
|--------|---|------|----------|----------|
| 1      | Depreciation A/c<br>To Machinery A/c<br>(Being depreciation omitted to be recorded earlier, now recorded.)                    | Dr   | 4,000    | 4,000    |
| 2      | Bad Debts A/c<br>To Debtor's A/c<br>(Being bad debts written-off omitted to be recorded earlier, now recorded.)               | Dr   | 5,000    | 5,000    |
| 3      | Discount Allowed A/c<br>To Debtor's A/c<br>(Being discount allowed to debtors omitted to be recorded earlier, now recorded.)  | Dr   | 100      | 100      |
| 4      | Bills Receivable A/c<br>To Debtor's A/c<br>(Being bills receivable from debtors omitted to be recorded earlier, now recorded) | Dr   | 2,000    | 2,000    |
|        |   |      | 11,100   | 11,100   |

## 3. Answer



| Date | Particulars  |    | LF | Amt (Dr) | Amt (Cr) |
|------|--|----|----|----------|----------|
|      | Sales A/c  | Dr |    | 700      |          |
|      | To Suspense A/c<br>(Being sales books overcast by 700, now rectified)              |    |    |          | 700      |
|      | Suspense A/c   | Dr |    | 500      |          |
|      | To Purchases A/c<br>(Being purchase book overcast by Rs 500, now rectified)        |    |    |          | 500      |
|      | Suspense A/c   | Dr |    | 300      |          |
|      | To Sales Return A/c<br>(Being sales return book overcast by Rs 300, now rectified) |    |    |          | 300      |
|      | Purchases Return A/c   | Dr |    | 200      |          |
|      | To Suspense A/c<br>(Being purchase return book overcast by Rs 200, now rectified)  |    |    |          | 200      |

In all the given cases, one-sided errors can be discovered as there has been an overcasting of the accounts. Therefore, the rectification has been done by reversing the accounts opposite to their normal balance.

### Case Study Answer-

1. Answer:

1. (b)

**Solution:** The journal entry for the balance of Profit and Loss Adjustment Account  
Profit & Loss Adjustment A/c Dr. 300

To Capital A/c 300

(Being balance of Profit & Loss Adjustment A/c transferred to Capital A/c)

2. (a)

**Solution:** The rectification entry of the salary for the month of march posted twice

Suspense A/c Dr. 155

To Profit & Loss Adjustment A/c 155

(Being rectification of salary posted twice in the books)

2. Answer:

1. (c) Premises

**Solution:** Premises is an asset for business and like all other assets of business which has debit balance as normal default balance it also has debit balance.

2. (a) ₹ 18,21,000

**Solution:** The actual total in the rectified Trial Balance is ₹ 18,21,000.



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