



Revision Notes

Class 11 Accountancy

Chapter 6 - Trial Balance And Rectification Of Errors

Definition:

- A trial balance is a statement showing the balances, showing the debit and credit total of ledger accounts so as to provide arithmetic accuracy.
- Trial balance provides proof of the accounting accuracy of recording the transactions but one cannot rely on Trial Balance wholly as sometimes it may not be accurate because of errors of complete omission or other errors that cannot be detected easily, but still the debit and credit sides being balanced.
- Trial balance is an important statement in the accounting process as it shows the final position of all accounts and helps in preparing the final statements.

Objectives of Preparing Trial Balance:

The trial balance is prepared to fulfill the following objectives :

1. To help in achieving arithmetical accuracy of different ledgers accounts.
2. To help in locating errors while recording transactions.
3. To aid in preparation of the financial statements of the company.

Limitation of the Trial Balance:

Trial balance does not find and evaluate all types of errors, so it doesn't ensure 100% accuracy. Some of the errors which we cannot find while preparing the Trial balance are:

- i. When posting the same entries twice by mistake.
- ii. When posting made in the wrong account but the amount is correct.
- iii. When both accounts have the wrong amount posted.
- iv. When a transaction is completely left out and not posted in Journals

Preparation of Trial Balance:

Trial Balances are generally prepared at the end of an accounting year but companies can prepare trial balance at the ends of the different periods to ascertain the accuracy of the accounts.

Trial Balance of
as on 31st March, 2021

Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
Capital		
Land and Buildings		
Plant and Machinery		
Equipment		
Furniture and Fixtures		
Cash in Hand		
Cash at Bank		
Debtors		
Bills Receivable		
Stock of Raw Materials		
Work in Progress		
Stock of Finished Goods		
Prepaid Insurance		
Purchases		
Carriage Inwards		
Carriage Outwards		
Sales		
Sales Return		
Purchases Return		
Interest Paid		
Commission/Discount Received		
Salaries		
Long Term Loan		
Bills Payable		
Creditors		
Outstanding Salaries		
Outstanding Interest Earned		
Advances from Customers		
Drawings		
Reserve Fund		
Provision for Doubtful Debts		
Total		XXXXXXX	XXXXXXX

Rectification of Errors:

Errors are of two types:

- Errors that do not affect the Trial Balance
- Errors that affect the Trial Balance.

Errors that do not affect the Trial Balance:

These are those errors that are being committed in two or more accounts so that it doesn't affect the balances in Trial Balance. To rectify this a rectifying journal entry is passed.

There are following types of errors that do not affect the Trial Balance:

i. Error of Omission: When the transaction is omitted to be recorded in the books of account. For Example, Goods sold to Mohan were omitted to be recorded in the Sales Book.

ii. Compensating errors: When the net effects of two or more errors result in nil it is referred to as compensating errors. For example, if the purchase account has an excess debit of Rs. 5,000 and the Sales Return Account is undercast by the same amount.

iii. Errors of Principle: If any accounting principle is violated while recording the transaction such errors do not affect the Trial balance. For example, An addition to machinery was wrongly debited to Repairs and Maintenance Account considering as revenue expenditure instead of capital expenditure.

iv. Incorrect account in the original book: Instead of Babu's account, Shyam account is maintained.

v. Posting to the wrong account: Instead of posting in the purchase account, the transaction is posted in the sales account.

Errors that affects the Trial Balance:

These are those errors that are being committed in one account and they can be rectified by opening The Suspense Account.

There are following errors that affects the Trial Balance:

i. Error of Omission: When entry is not recorded in only one account giving rise to undercasting or overcasting of the account. For example, Credit Sales to Mohan was recorded in the Sales book but was not posted to Mohan's Account.

ii. Error of Commission: When an error is made while adding, subtracting, or totalling the ledger accounts it affects the Trial Balance and is called as Error of commission.

iii. Wrong Posting: There may be a chance that there is a wrong posting of amount or posting the amount on the wrong side in the ledger account. Sometimes the amount posted in the ledger is correct but while posting to the trial balance itself it is posted wrong. In such situations these errors affect the Trial balance.

Illustration: 1

Trial Balance of ABC Ltd. doesn't meet, It showed an excess credit Rs. 20,000. They put the difference to a suspense account. The errors that they located were:

(i) Sales return book overcast by Rs. 2,000.

(ii) Purchases book was undercast by Rs. 1200.

(iii) In the sales book total of page no. 4 was carried forward to page 5 as Rs. 2,000 instead of Rs. 2,400 and total of page 8 was carried forward to page 9 as Rs. 11,200 instead of Rs. 10,000.

(iv) Goods returned to Ram Rs. 2,000 were recorded through sales book.

(v) Credit purchases from M & Co. Rs. 16,000 were recorded through sales books.

(vi) Credit purchases from S & Co. Rs. 10,000 were recorded through sales books. However, S & Co. were correctly credited.

(vii) Salary paid Rs. 4,000 was debited to employee's personal account.

Ans: Rectification entries:

(i) Sales return book overcast by Rs. 2,000.

Suspense A/c Dr.	2,000	
To Sales Return A/c		2,000
(Being Sales returns book overcast by Rs. 2,000, now corrected).		

(ii) Purchases book was undercast by Rs. 1,200.

Purchase A/c Dr.	1,200	
To Suspense A/c		1,200
(Being Purchase book undercast by Rs. 1200, now corrected)		

(iii) In the sales book total of page no. 4 was carried forward to page 5 as Rs. 2,000 instead of Rs. 2,400 and total of page 8 was carried forward to page 9 as Rs. 11,200 instead of Rs. 10,000.

Sales A/c Dr.	800	
To Suspense A/c		800
(Being Error in carry forward of sales book, now corrected)		

(iv) Goods returned to Ram Rs. 2,000 were recorded through sales book.

Sales A/c Dr. To Returns Outwards A/c (Being Return Outwards wrongly recorded through sales book, now rectified)	2,000	2,000
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(v) Credit purchases from M & Co. Rs. 16,000 were recorded through sales books.

Purchase A/c Dr. Sales A/c Dr. To M & Co.'s A/c (Being Credit purchases wrongly recorded through sales book, now rectified)	16,000 16,000	32,000
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(vi) Credit purchases from S & Co. Rs. 10,000 were recorded through sales books. However, S & Co. were correctly credited.

Purchase A/c Dr. Sales A/c Dr. To Suspense A/c (Being Credit purchases wrongly recorded through sales book, however suppliers account correctly credited, now rectified)	10,000 10,000	20,000
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(vii) Salary paid Rs. 4,000 was debited to employee's personal account.

Salary A/c Dr. To Employees Personal A/c (Being Salary paid wrongly debited to employee's personal account, now corrected)	4,000	4,000
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Suspense A/c

Date	Particulars	J. F.	Amount (Dr.)	Date	Particulars	J. F.	Amount (Cr.)
	To Difference as per Trial balance		20,000		By Purchases		1,200
	To Sales Returns		2,000		By Sales		800
					By Purchases		10,000
					By Sales		10,000

	Total				Total		
			22,000				22,000

