

## Class XI

### Trial Balance and Rectification of Errors

It is a statement prepared with the debit and credit balances of the ledger accounts. It also includes the balances of cash and Bank taken from the Cash Book. The total of debit and credit columns should be equal.

The agreement of **Trial Balance** ensures arithmetical accuracy and not accounting accuracy.

*“The Statement prepared with the help of ledger balances, at the end of financial year or at any other date, to find out whether debit total agrees with credit total, is called a Trial Balance.”*

*- William Pickles*

### Objectives of Trial Balance

Ascertain Arithmetical Accuracy

Facilitate Preparation of Financial Statements

Provides Summary of Ledger Accounts

Helps in Locating Errors

Helps to make Comparison, Draw Results and make Decisions.

### Preparation of Trial Balance

**Following guidelines should be followed while preparing Trial Balance**

All Expenses and Losses have a debit balance

All Income and Gains have a credit balance

All Assets have a debit balance

All Liabilities have a credit balance

Capital has a credit balance but some time, it has a debit balance also

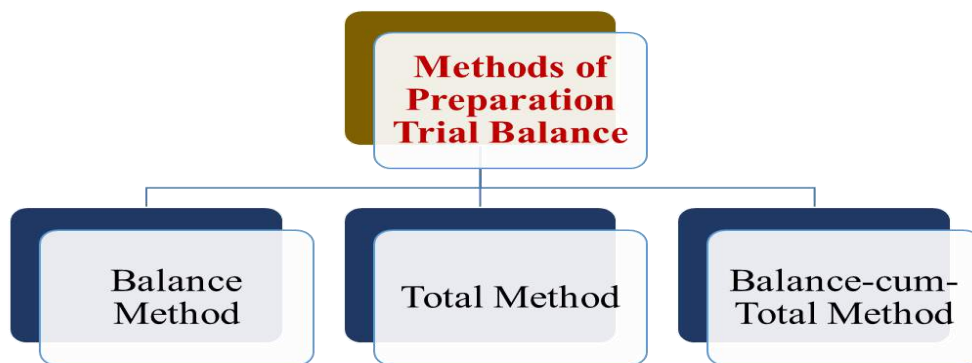
## Trial Balance as at .....

Particulars	L.F.	Dr. Amount	Cr. Amount

1. **Particulars:-** In this column the names of those accounts are written which are to be shown in Trial Balance.
2. **Ledger Folio (L.F.):-** In this column the page number of ledger is written on which the concerned account is appeared.
3. **Debit Amount:-** In this column the debit balance or debit total of concerned account is written.
4. **Credit Amount:-** In this column the credit balance or credit total of concerned account is written.

## Methods of Preparation of Trial Balance

A business organisation can prepare a trial balance at any time. It can be prepared monthly, quarterly, half-yearly or yearly. It is prepared on a particular date and not for a particular period. There are three methods for preparation of Trial Balance



### Balance Method:-

Under this method, all the accounts having debit balances in the ledger are shown on the debit side or in debit column of trial balance and all the accounts having credit balances are shown on the credit side or in credit column of the trial balance. When an account shows no balance, *i.e.*, the debit and credit side of an account are equal, is not shown in the trial balance.

*As per latest CBSE syllabus, only Balance Method of preparing Trial Balance is prescribed.*

## Illustration:-

From the following balances prepare Trial Balance:-

### Bank A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019				2019			
Mar. 3	To Sales A/c		8,000	Mar. 31	By Balance c/d		18,000
Mar. 6	To Cash A/c		2,000				
Mar. 6	To Sales A/c		8,000				
			<u>18,000</u>				<u>18,000</u>
			=====				=====

### Capital A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019				2019			
Mar. 31	To Balance c/d		1,00,000	Mar. 31	By Cash A/c		1,00,000
			<u>1,00,000</u>				<u>1,00,000</u>
			=====				=====

### Cash A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019				2019			
Mar. 1	To Capital A/c		1,00,000	Mar. 2	By Purchase A/c		10,000
Mar. 2	To Sales A/c		8,000	Mar. 4	By Rent A/c		1,000
Mar. 12	To Gautam's A/c		3,000	Mar. 5	By Furniture A/c		4,000
				Mar. 6	By Office Equipment		2,000
				Mar. 6	By Bank A/c		2,000
				Mar. 18	By Refreshment A/c		1,000
				Mar. 20	By Purchase A/c		4,000
				Mar. 24	By Machinery A/c		2,000
				Mar. 25	By Fixtures & Fittings		1,000
				Mar. 27	By Drawings A/c		1,000
				Mar. 30	By Office Equipment		1,200
				Mar. 31	By Balance c/d		81,200
			<u>1,11,000</u>				<u>1,11,000</u>
			=====				=====

### Purchase A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019				2019			
Mar. 1	To Nirmal		5,000	Mar. 26	By Advertisement		1,000
Mar. 2	To Cash A/c		10,000	Mar. 31	By Trading A/c (Transferred)		18,000
Mar. 20	To Cash A/c		4,000				
			<u>19,000</u>				<u>19,000</u>
			=====				=====

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019				2019			
Mar. 31	To Balance c/d		5,000	Mar. 1	By Purchase A/c		5,000
			<u>5,000</u>				<u>5,000</u>
			=====				=====

### Rent A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019 Mar. 4	To Cash A/c		1,000	2019 Mar. 1	By P & L A/c (Transferred)		1,000
			<u>1,000</u>				<u>1,000</u>
			=====				=====

### Sales A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019 Mar. 31	To Trading A/c (Transferred)		27,600	2019 Mar. 2	By Cash A/c		8,000
				Mar. 3	By Bank A/c		8,000
				Mar. 6	By Bank A/c		8,000
				Mar. 10	By Gautam		3,600
			<u>27,600</u>				<u>17,600</u>
			=====				=====

### Furniture A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019 Mar. 5	To Cash A/c		4,000	2019 Mar. 31	By Balance c/d		4,000
			<u>4,000</u>				<u>4,000</u>
			=====				=====

### Sales Return A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019 Mar. 12	To Gautam		600	2019 Mar. 31	By Trading A/c (Transferred)		600
			<u>600</u>				<u>600</u>
			=====				=====

### Office Equipment A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019 Mar. 6	To Cash A/c		2,000	2019 Mar. 31	By Balance c/d		3,200
Mar. 30	To Cash A/c		1,200				
			<u>3,200</u>				<u>3,200</u>
			=====				=====

### Gautam A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019 Mar. 12	To Sale A/c		3,600	2019 Mar. 12	By Sales Return A/c		600
				Mar. 12	By Cash A/c		3,000
			<u>3,600</u>				<u>3,600</u>
			=====				=====

### Refreshment A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019 Mar. 18	To Cash A/c		1,000	2019 Mar. 31	By P & L A/c (Transferred)		1,000
			<u>1,000</u>				<u>1,000</u>
			=====				=====

### Drawings A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019 Mar. 27	To Cash A/c		1,000	2019 Mar. 31	By Balance c/d		1,000
			1,000				1,000
			1,000				1,000

### Machinery A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019 Mar. 24	To Cash A/c		2,000	2019 Mar. 31	By Balance c/d		2,000
			2,000				2,000
			2,000				2,000

### Fixtures & Fittings A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019 Mar. 25	To Cash A/c		1,000	2019 Mar. 12	By Balance c/d		1,000
			1,000				1,000
			1,000				1,000

### Advertisement A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
2019 Mar. 26	To Purchase A/c		1,000	2019 Mar. 31	By P & L A/c (Transferred)		1,000
			1,000				1,000
			1,000				1,000

## Solution

### Trial Balance as at 31<sup>st</sup> March, 2019

Particulars	L.F.	Dr. Amount	Cr. Amount
Bank A/c		18,000	
Cash A/c		81,800	
Capital A/c			1,00,000
Purchase A/c		18,000	
Nirmal A/c			5,000
Rent A/c		1,000	
Sales A/c			27,600
Sales Return A/c		600	
Furniture A/c		4,000	
Office Equipment A/c		3,200	
Refreshment A/c		1,000	
Machinery A/c		2,000	
Fixtures & Fittings A/c		1,000	
Advertisement A/c		1,000	
Drawings A/c		1,000	
		1,32,600	1,32,600
		1,32,600	1,32,600

## Suspense Account

Sometimes inspite of best efforts of an accountant, all the errors are not located and Trial balance does not tally. In such a situation, to avoid the delay in the preparation of final accounts, the difference is placed to a newly opened account known as 'Suspense Account'. If the debit side of the Trial Balance exceeds the credit side, the difference will be put on the credit side of Suspense Account and if credit side of the Trial balance exceeds the debit side, Suspense Account will be debited. After including the balance of suspense account in the Trial Balance, it will appear to be tallied. Later on, when the errors are located, they will be rectified and Suspense Account will be automatically closed.

### Illustration:-

The following is the Trial Balance prepared by an inexperienced accountant. Redraft it in a correct form:-

**Trial Balance  
as at 31<sup>st</sup> March,2019**

Particulars	L.F.	Dr. Amount	Cr. Amount
Capital A/c		1,35,000	
Sales A/c			3,00,000
Expenses A/c			30,000
Opening Stock		90,000	
Fixed Assets		75,000	
Creditors			45,000
Debtors			90,000
Closing Stock			60,000
Cost of Goods Sold		2,25,000	
Salary A/c			20,000
Suspense A/c		20,000	
Total		<u>5,25,000</u>	<u>5,45,000</u>

### Solution

**Trial Balance  
as at 31<sup>st</sup> March,2019**

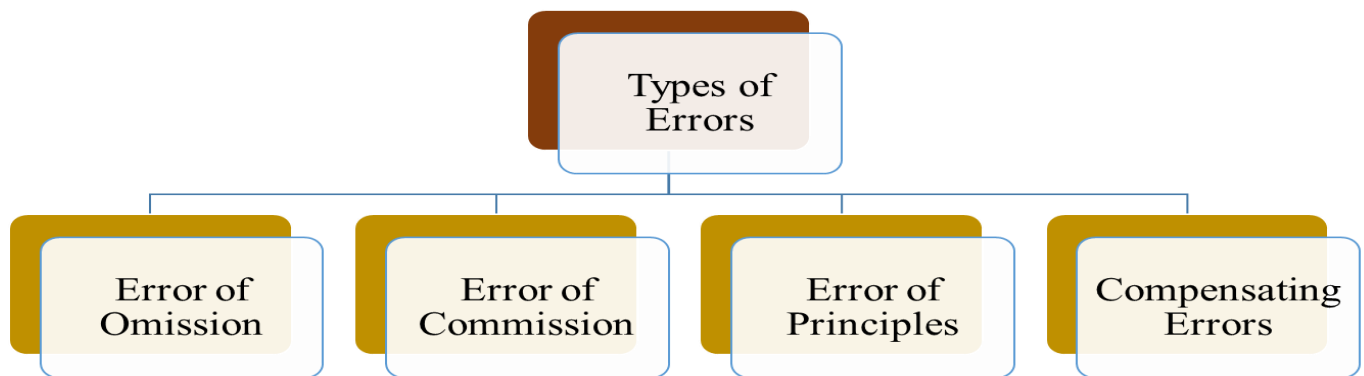
Particulars	L.F.	Dr. Amount	Cr. Amount
Capital A/c			1,35,000
Sales A/c			3,00,000
Expenses A/c		30,000	
Fixed Assets		75,000	
Creditors			45,000
Debtors		90,000	
Closing Stock		60,000	
Cost of Goods Sold		2,25,000	
Salary A/c		20,000	
Suspense A/c			20,000
Total		<u>5,00,000</u>	<u>5,00,000</u>

# Rectification of Errors

**Meaning:-** Trial Balance is prepared to check the arithmetical accuracy of the books of account. The two sides of the Trial Balance must be equal, *i.e.*, the total of the debit side must be equal to total of credit side.

Disagreement of a Trial Balance means that there are errors in books of account. Some of the errors affect the agreement of the Trial Balance and are disclosed by the Trial Balance. In the same way some of the errors does not affect the agreement of Trial Balance.

## Types of Errors



### Errors of Omission:-

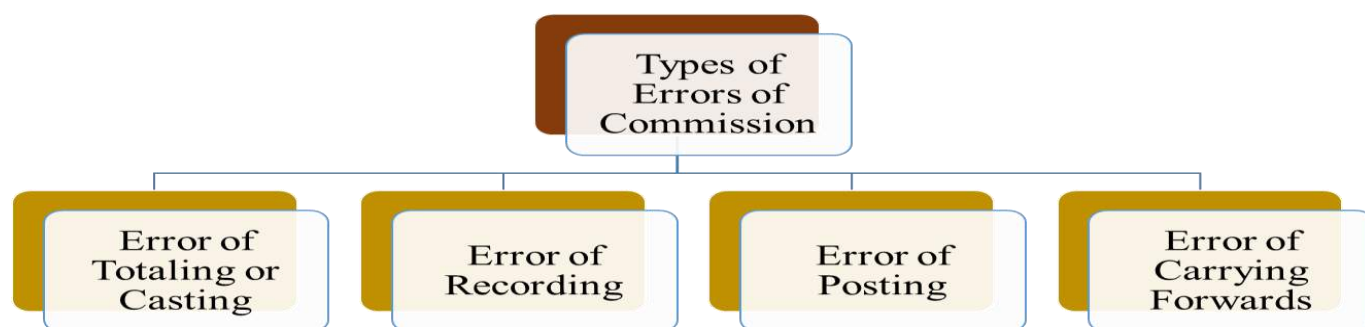
Errors which arise due to non-recording of business transactions wholly or partially are called errors of omission. These errors usually occur when a transaction needs to be posted to the books of original entry, *i.e.*, the journal or with regard to omission to post a transaction into the ledger.

Error of Omissions are generally of two types:-

- (a) Error of Complete omission
- (b) Error of Partial Omission

## Errors of Commission:-

When an entry is incorrectly recorded either wholly or partially for reasons like posting of incorrect amount, posting to incorrect account, wrong calculation, wrong totalling, wrong casting or balancing and similar others, the error are called as errors of commission. For example, if an amount of Rs.2,500 was paid to Suresh and the cash account was correctly credited but the personal account of Suresh was debited with an amount of Rs.250.



## Errors of Principle:-

These type of errors come into existence due to non-obedience of principles of accounting. They have no effect on Trial Balance because they do not occur due to faulty recording as discussed above, but due to lack of understanding of fundamental accounting principles.

For examples:-

- (a) When purchase of an asset (machinery, building, etc.) is debited to Purchases Account and not to Asset Account.
- (b) When expenses incurred on purchase or installation of assets are debited to expenses account and not to that particular Asset Account.

## Compensating Errors:-

Errors which counter balance each other, *i.e.*, cancel the effect of each other are called compensating errors. Such errors do not affect Trial Balance, *e.g.*, Rs.2,000 paid to Sonika



is recorded as Rs.20,000 and Rs.20,000 paid to Monika is recorded as Rs.2,000. These type of errors does not affect the trial balance.

## **Classification of Errors on the basis of affects of Trial Balance**

**Errors affecting the Trial Balance or one-sided errors.**

**Errors not affecting the Trial Balance or two-sided errors**

### **Errors affecting Trial Balance or One Sided Errors**

One sided errors affect the Trial Balance as they affect only one account. Examples of one-sided errors are:

- (a) Error of casting, *i.e.*, when a subsidiary book is undercast or overcast.
- (b) Error of carrying forward.
- (c) Wrong totalling or wrong balancing of a ledger account.
- (d) Error of posting to the correct account but with wrong amount.
- (e) Error of posting to the correct account but on the wrong side.
- (f) Error of posting to the wrong side with the wrong amount.
- (g) Error of partial omission.
- (h) Error of omission by posting the total of subsidiary book into the respective ledger.
- (i) Error of omission to show an account in the trial balance.

### **Errors not affecting Trial Balance or Two Sided Errors**

Two-sided errors do not affect the trial balance. Examples of two-sided errors are:

- a) Errors of complete omission from posting to the account.
- b) Errors of posting to the wrong account but on the correct side.
- c) Wrong recording in the books of original entry (Subsidiary books).
- d) Errors of principles.
- e) Compensating Errors.

## Effect of Errors on Final Accounts

Nominal Accounts, affect the profits and Personal and Real Accounts affect the Balance Sheet. For example, Stock Account, Purchases Account, Wages Account, Salaries Account, Commission Account, Bad Debts Account, etc., affect the Net profit because they are shown either in Trading Account or Profit and Loss Account. *If any of these accounts is debited in the rectification entry, it reduces the Profit and if any of these accounts is credited then it increases the Profit.*

*Balances of Personal and Real Accounts form part of a Balance Sheet, so errors in such types of accounts will affect Balance Sheet only, not Profit and Loss Account.*

## Stages of Rectification of Errors

Rectification of errors may be explained in two stages:

- 1. Rectification before the Preparation of Trial Balance:** In this stage, errors are located before transferring the difference in the trial balance to Suspense Account. Rectification entries are passed concerning specific accounts.
- 2. Rectification after the Preparation of Trial Balance:** In this stage, the difference in the trial balance gets transferred to Suspense Account. So, wherever applicable, suspense account is used while passing rectification entries.

## Rectification of One Sided Errors before Preparation of Trial Balance

Rectify the following transactions which were detected before preparation of Trial balance:-

- The total of purchase book has been undercast by Rs.10,000.
- Payment of salary of Rs.1,000, posted twice in salary account.
- Depreciation of Rs.2,000 on furniture written off, not recorded in depreciation account.

### Solution:-

- Total of purchase book undercast, it means the Purchase Account is debited short by Rs.10,000. So, we have to debit Purchase Account by Rs.10,000 to rectify the error.**

### Purchase A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
	To Undercasting of Purchase Book for the month of -----		10,000				

b) Salary account is debited Rs.1,000 more, so, to rectify this error we have to credit salary account by Rs.1,000.

### Salary A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
					By Rectification of wrong debit of salary account		1,000

c) Depreciation on furniture Rs.2,000 not recorded in depreciation account, to rectify this error we have to record this in depreciation account on debit side.

### Depreciation A/c

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
	To Omission of depreciation on furniture -----		2,000				

## Rectification of Two Sided Errors before Preparation of Trial Balance

As these errors affect two accounts simultaneously, they are hence called two-sided errors. They have no effect on Trial Balance. These are mainly *errors of recording, errors of principle, error of posting to wrong account and error of complete omission*. Rectification of these errors is done with the help of journal entries.

In this process of rectification, for the sake of understanding, three journal entries are passed – the correct entry, wrong entry, and the rectifying entry.

1. **The correct entry denotes the journal entry which should have been recorded.**
2. **The wrong entry signifies the incorrect entry that has actually been passed in the books.**
3. **The rectifying entry represents the journal entry passed to rectify the error.**

## Rectification of Two Sided Errors

- 1. Wrong debit in one or more accounts:** For example, purchase of machine for Rs.4,000 is debited to purchase account.

**Wrong Entry:-**

Purchase A/c	Dr.	4,000	
To Cash A/c			4,000

**Correct Entry:-**

Machine A/c	Dr.	4,000	
To Cash A/c			4,000

**An analysis of above two entries shows that purchase A/c is debited instead of machine A/c. So, the rectification entry Machine A/c will be debited and Purchase A/c will be credited.**

**Rectification Entry:-**

Machine A/c	Dr.	4,000	
To Purchase A/c			4,000

- 2. Short Debit or Credit in one or more accounts:** For example, purchase of furniture for Rs.5,000 is entered in the books as Rs.500.

**Wrong Entry:-**

Furniture A/c	Dr.	500	
To Cash A/c			500

**Correct Entry:-**

Furniture A/c	Dr.	5,000	
To Cash A/c			5,000

**An analysis of above two entries shows that furniture is short debited by Rs.4,500 and cash is short credited by Rs.4,500. So, the rectification entry will be:-**

**Rectification Entry:-**

Furniture A/c	Dr.	4,500	
To Cash A/c			4,500

- 3. Wrong credit in one or more accounts:** For example, sale of machine for Rs.6,000 on credit to X, passed through sale book.

**Wrong Entry:-**

X	Dr.	6,000	
To Sales A/c			6,000

**Correct Entry:-**

X	Dr.	6,000	
To Machine A/c			6,000

**An analysis of above two entries shows that Sales A/c is credited in place of Machine A/c. So, the rectification entry will be:-**

**Rectification Entry:-**

Sales A/c	Dr.	6,000	
To Machine A/c			6,000

**4. Excess debit/credit in one or more accounts:** For example, sale of machine for Rs.6,700 is recorded as Rs.7,600.

**Wrong Entry:-**

Cash A/c	Dr.	7,600	
To Machine A/c			7,600

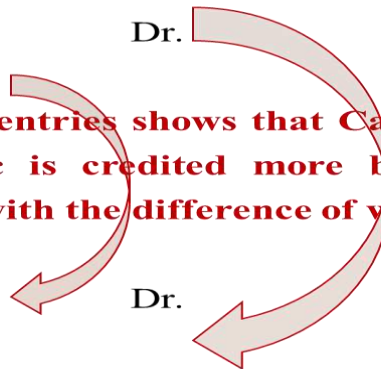
**Correct Entry:-**

Cash A/c	Dr.	6,700	
To Machine A/c			6,700

**An analysis of above two entries shows that Cash A/c is debited more by Rs.900 and Machine A/c is credited more by Rs.900. So, Cash and Machine A/c is cancelled with the difference of wrong and correct entry.**

**Rectification Entry:-**

Machine A/c	Dr.	900	
To Cash A/c			900



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

Some times error could not be found before the preparation of trial balance. Thus, in such situation the amount of difference in the Trial Balance is transferred to a newly opened account called *Suspense Account*. Here also two types or errors:-

1. Two Sided Errors:- Rectified by passing a single journal entry without opening Suspense Account.
2. One Sided Errors:- Rectified by passing a single journal entry by opening Suspense Account.

## Suspense Account

When the totals of debit and credit side of Trial Balance do not agree with each other and the errors made in accounts are not detected, then the amount of difference in totals of both sides is transferred to suspense account. As the errors are rectified, the balance of suspense account goes on reducing.

The suspense account is a nominal account. The prime objective of opening this account is to balance the Trial Balance. In the financial statements, the suspense account is shown in the Balance Sheet on either the assets or liabilities side depending on the nature of its balance.

## Rectification of One Sided Error after Preparation of Trial Balance

Assuming that a Suspense Account have a balance of Rs.430, correct the following errors which were discovered after the preparation of trial balance and also prepare Suspense Account:

1. Purchases book is carried forward Rs.850 less.
2. Sales book total is carried forward Rs.2,500 more.
3. The total of Rs.7,580 in the purchases book has been carried forward as Rs.8,570.
4. The total of the sales book Rs.6,550 on page 20 was carried forward to page 21 as Rs.5,560.
5. Purchases return book was carried forward as Rs.3,520 instead of Rs.5,320.

### Solution:-

S.No.	Nature of Error	Effect of Error	Rectification of Error
1.	Carried forward less amount in purchase book	Short Debit in Purchase A/c	Give further debit to Purchase A/c
2.	Carried forward excess amount in sales book	Excess credit in Sales A/c	Debit the Sales A/c
3.	Carried forward excess amount in purchase book	Excess debit in Purchase A/c	Credit the Purchase A/c
4.	Carried forward less amount in sales book	Short credit in Sales A/c	Give further credit to Sales A/c
5.	Carried forward less amount in purchase return book	Short credit in Purchase Return A/c	Give further credit to Purchase Return A/c

## Rectification Entries:-

Date	Particulars	Dr. Amount	Cr. Amount
1.	Purchase A/c            Dr. To Suspense A/c (Purchase book carried forward less)	<b>850</b>	<b>850</b>
2.	Sales A/c                Dr. To Suspense A/c (For sales book total carried forward more)	<b>2,500</b>	<b>2,500</b>
3.	Suspense A/c         Dr. To Purchase A/c (For purchase book carried forward as Rs.8570 instead of Rs.7580)	<b>990</b>	<b>990</b>
4.	Suspense A/c         Dr. To Sales A/c (For total of sales book carried forward less)	<b>990</b>	<b>990</b>
5.	Suspense A/c         Dr. To Purchase Return A/c (For purchase return book carried forward less)	<b>1,800</b>	<b>1,800</b>

## Suspense A/c

Particulars	Amount	Particulars	Amount
<b>To Purchase A/c</b>	<b>990</b>	<b>By Balance b/d</b>	<b>430</b>
<b>To Sale A/c</b>	<b>990</b>	<b>By Purchase A/c</b>	<b>850</b>
<b>To Purchase Return A/c</b>	<b>1,800</b>	<b>By Sales A/c</b>	<b>2,500</b>
	_____		_____
	<b>3,780</b>		<b>3,780</b>
	=====		=====