

## CHAPTER-14

# TRIAL BALANCE AND ERRORS

### INTRODUCTION

Preparation of trial balance is the third phase in the accounting process. After posting the accounts in the ledger, a statement is prepared to show separately the debit and credit balances. Such a statement is known as the trial balance. It may also be prepared by listing each and every account and entering in separate columns the totals of the debit and credit sides.

Trial balance is a statement, prepared with the debit and credit balances of Ledger accounts to test the arithmetical accuracy of the books" - J.R. Batliboi Meaning of Trial Balance : All the businessmen after completion of postings from Journal or Subsidiary Books to the Ledger, want to posting For this purpose a statement is prepared wherein the balances of all the accounts in the Ledger are incorporated. The statement so prepared is called "Trial Balance and the accounts showing credit balances are put on its credit side. If the total of the debit side of the trial balance is equal to that of its credit side, it is presumed that the posting to the ledger is accurate, accuracy of the Accounts showing debit balances are put on the debt side of the trial balance

The reason for agreement of a trial balance is that under the double entry system, each transaction is recorded two times, once on the debit side of an account and again on the credit side of another account. Thus, the total of all the entries on the debit side of all the accounts must be equal to the total of all the entries on the credit side of all the accounts. If the totals of both the sides of a trial balance are equal, it is proved that the books are atleast arithmetically correct.

### Features or Characteristics of a Trial Balance

1. It is a list of balance of all ledger accounts and the cash book
2. It is just a statement, and not an account.
3. It is neither a part of double entry system, nor does appear in the actual books of accounts. It is just a working paper.
4. It can be prepared at any time during the accounting period, say at the end of every month, every quarter, every half year or every year. Usually it is prepared at the end of accounting year before preparing the final accounts.
5. It is always prepared on a particular date and not for a particular period.
6. It is prepared to check the arithmetic accuracy of the ledger accounts.
7. If the books are arithmetically accurate, the total of all debit balances of a trial balance will be equal to the total of all credit balances.
8. A tallied Trial Balance is not a conclusive proof of the currency of the books of accounts since certain type of errors remain even when the Trial Balance tallies

### **Objectives or Need or Functions of Preparing Trial Balance**

The following are the objects or functions of preparing a trial balance

1. To ascertain the arithmetical accuracy of the ledger accounts
2. To help in locating errors
3. To obtain a summary of the ledger accounts
4. To help in the preparation of Final Accounts.

### **Preparation of a Trial Balance**

A trial balance may be prepared at any time, say, at the end of every month, quarter, half-year or year. Usually it is prepared at the end of the accounting period, so as to verify the arithmetical accuracy of the ledger accounts for the preparation of final accounts. It may be noted it is always prepared on a particular date and not for a particular period.

#### **1- OBJECTIVES OF PREPARING THE TRIAL BALANCE**

The preparation of trial balance has the following objectives:

- A) Trial balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical error.
- B) Financial statements are normally prepared on the basis of agreed trial balance; otherwise the work may be cumbersome.
- C) The trial balance serves as a summary of what is contained in the ledger; the ledger may have to be seen only when details are required in respect of an account.

#### **TRIAL BALANCE**

S.No.	Ledger Account	L.F.	Amount Dr.(Total or Balance)	Amount Cr.(Total or Balance)
(1)	(2)	(3)	(4)	(5)

#### **2- METHODS OF PREPARATION OF TRIAL BALANCE**

##### **1- TOTAL METHOD**

Under this method, every ledger account is totalled and that total amount (both of debit side and credit side) is transferred to trial balance. In this method, trial balance can be prepared as soon as ledger account is totalled.

##### **2- BALANCE METHOD**

Under this method, every ledger account is balanced and those balances only are carry forward to the trial balance. This method is used commonly by the accountants and helps in the preparation of the financial statements. Financial statements are prepared on the basis of the balances of the ledger accounts.

### **3- TOTAL AND BALANCE METHOD**

Under this method, the above two explained methods are combined. Under this method statement of trial balance contains seven columns instead of five column.

### **4- Adjusted trial Balance(Through Suspense Account**

If the trial balance do not agree after transferring the balance of all ledger accounts including cash and bank balance and also errors are not located timely, then the trial balance is tallied by transferring the difference of debit and credit side to an account known as suspense account.

#### **Types of Errors:**

All errors may be classified into the following two categories:

1. A Errors affecting Trial Balance (or errors disclosed by Trial Balance),
2. Errors not affecting Trial Balance (or errors not disclosed by Trial Balance).

1. **Errors Affecting Trial Balance (or Errors Disclosed by Trial Balance):** If the Trial Balance does not tally, it will indicate that certain errors have been committed which have affected the agreement of the Trial Balance. The accountant will then proceed to find out the errors and ultimately the errors will be located. Such errors are called Errors Disclosed by Trial Balance' or errors which affect the agreement of Trial Balance'. Until such errors are rectified, the Trial Balance will not agree. Some of the examples of such errors are as follows:

- (i) **Wrong Casting-** If the total of the Cash Book or some other Subsidiary Book is wrong, the Trial Balance will not tally. For example, the total of the Purchase Book has been added Rs.1,000 in excess. . When this total will be posted to the debit side of the purchase account, it will also show an excess debit of Rs.1,000 and hence, the Trial Balance will not tally.
- (ii) **Posting to the Wrong Side-**If instead of posting an amount on the debit side of an account, it is posted on the credit side, or vice versa, the Trial Balance will not tally. For example, goods for 2.000 have been purchased from Gopal. If instead of posting the amount on the credit side of Gopal's account it is posted to his debit, the debit side of the Trial Balance will exceed the credit by Rs.4,000.
- (iii) **Posting of Wrong Amount:** The Trial Balance will not tally if the posting in an account is made with an incorrect amount. For example, goods for 600 have been purchased from Mahendra, If, it has been correctly entered in the Purchase Book but while posting to Mahendra's credit, the amount posted is 60 instead of 2600, the Trial Balance will not tally.

- (iv) **Omission of Posting of One Side of an Entry** - For example, if 500 have been received from Ram and correctly entered in the Cash Book, but if it is omitted to be posted on the credit side of Ram's account, the Trial Balance will not tally.
- (v) **Double Posting in a Single Account** : For example, if Rs.500 have been received from ShyamLal and correctly entered in the Cash Book, but if it is posted twice on the credit side of ShyamLal's account, the Trial Balance will not tally.
- (vi) **Errors of Totalling and Balancing of Accounts in the Ledger**- Errors may occur in the totalling of debit or credit sides of accounts in the Ledger or in the balancing of accounts in the Ledger. Because the balances of accounts are transferred to the Trial Balance, it will not tally.

(2) **Errors not Affecting Trial Balance (or Errors Not Disclosed by Trial Balance)** -

Main object of preparing a Trial Balance is to check the accuracy of the accounts. However, the equality of debits and credits of the Trial Balance does not mean that there are absolutely no errors in the books of accounts. There may be a number of errors which may remain undetected in spite of the agreement of a Trial Balance. As such, it is true to say that "Trial Balance is not a conclusive proof of the accuracy of the books of accounts. There are certain errors which do not affect the agreement of the Trial Balance. Such errors are also called limitations of Trial Balance. These may be discussed as below:

- (i) **Errors of Omission:** If a transaction remains altogether unrecorded either in the Journal or in Subsidiary Books, it will be termed as an error of omission. Such an error will not affect the agreement of a Trial Balance, as neither the transaction has been entered on the debit side of an account nor on the credit side of any other account.  
For example, suppose goods for Rs. 2,000 have been sold to Ram on credit and the transaction was omitted to be recorded in the books. The omission will not affect the Trial Balance in any way, because neither has it been recorded on the debit side of Ram's account nor on the credit side of sales account.
- (ii) **Errors of Commission** : If a wrong amount is entered either in the Journal or in the Subsidiary Books, the Trial Balance will tally because the same amount (though wrong) will be posted in both the accounts affected by the transaction. For example, sale of goods to Ram on credit for 420 has been entered in the Journal as 240. When the entry is posted to Ledger, Double Entry will be completed with 240, Ram being debited with 240, and sales account being credited with 240. In spite of the inaccuracy in both the accounts, the Trial Balance will tally.
- (iii) **Compensating Errors:** If the effect of one error is neutralised by the effect of some other error, such errors are called compensating errors. For example, while posting on the debit side of Anil's account, 50 are posted instead of 500 and while posting on the debit side of Sunil's account 500 are posted instead of 50. These two mistakes will not

the effect of each other and in spite of the errors in both the Accounts, the Trial Balance will still agree

- (iv) **Error of Principle** : When some fundamental principle of Accountancy is Violated while recording a transaction, the error is termed as error of principle. These errors are committed in those cases where a proper distinction between capital and revenue items is not made, *i.e.*, capital expenditure is treated as a revenue expenditure or vice-versa These errors may be of two types-

(a) **When a capital expenditure is treated as revenue expenditure**: For example, if the purchase of furniture is treated as an ordinary purchase and is thus debited to purchase account instead of furniture account, it will be an error of principle Similarly, if amount spent on the extension of building is debited to repairs account instead of building account, it is also an error of principle.

(b) **When a revenue expenditure is treated as capital expenditure**: For example, if the amount spent on the repair of an old machinery is debited to machinery account instead of repairs account.

(c) **Errors of Posting in Wrong Account** : If, while posting from the books of original entry, posting is made to a wrong account but on the correct side, the error will not affect the agreement of Trial Balance. If, for example, goods are sold. To Ram on credit but Shyam's account is debited in place of Ram's account in Ledger, the Trial Balance would tally in spite of errors in both the accounts.

**Suspense Account-** Sometimes, in spite of best efforts of an accountant, all the errors are not located and the Trial Balance does not tally. In such a situation, to avoid the delay in the preparation of final accounts, the difference in the Trial Balance is placed to a newly opened account known as "Suspense Account" and the Trial Balance tallies. If the debit side of the Trial Balance exceeds the credit side, the difference will be put on the credit side of the suspense account and if the 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, when the errors are located, the rectification entries will be passed with the help of the suspense account. Therefore, when all the errors have been located and rectified, the suspense account will automatically stand closed. If suspense account still shows a balance, it will be taken to the Balance Sheet - on the assets side if it shows a debit balance or on the liabilities side if it shows a credit balance.

### **SHORT ANSWER QUESTIONS**

1. What is a Trial Balance? State any four function of a Trial Balance.
2. Trial Balance is a link between ledger and final accounts.

3. ‘‘Is Trail Balance merely a proof of Arithmetical accuracy’’? Explain the errors which are not disclosed by a Trail Balance.
4. give two example of compensating errors.
5. What is meant by errors of omission? Give any one example.
6. What is error of principal? Give two examples.
7. Name four errors which cannot be disclosed by preparing A Trail Balance.
8. What is suspense account? What is it opened?
9. on which side of the Trail Balance, the following Ledger balance will appear: -

- I. Purchased Return
- II. Furniture
- III. Bank Loan
- IV. Discount allowed
- V. Capital
- VI. Drawing
- VII. Return Inwards
- VIII. Bills Receivable

[Ans. Dr. Balance—II, IV, VI, VII, VIII, Cr. Balance— I, III, V]

10. State whether the balance of the following accounts should be placed in the debit (or) the credit columns of the Trail Balance:

- (i) Plant and Machinery
- (ii) Discount Allowed
- (iii) Bank Overdraft
- (iv) sales
- (v) Interest paid
- (vi) Bad Debts

[Ans. Dr. Balance (i), (ii), (v), (vi); Cr. Balances (iii), (iv)]

11. State whether the following accounts will indicate a debit or credit balance:

- (i) Drawings
- (ii) Advance Rent Received
- (iii) Bad Debts
- (iv) Sales Return
- (v) Furniture
- (vi) Bank Overdraft

[Ans. Dr. Balances (i), (iii), (iv), (v); Cr. Balances (ii), (vi)]

12. What is Trail Balance? Does the balancing of this ensure accuracy of books of accounts?

Ans. Trail Balance: it is a statement prepared with the help of ledger balances at the end of financial year to test the arithmetical accuracy of books of accounts.

Errors which remain undetected even if trial balance agrees:

- (i) Errors of Omission: If a transaction remains unrecorded in Journal or subsidiary books.
- (ii) Errors of Commission: When wrong amount is entered either in journal or subsidiary books.

- (iii) Compensating Errors: if the effect of one error is neutralized by the effect of some other error.
- (iv) Errors of principle: When fundamental principle of accountancy is violated while recording a transaction.

**OBJECTIVE TYPE QUESTIONS**

**Choose the Best Alternate:**

1. Which of the following errors is revealed by the Trial Balance?
  - (a) Wrong amount entered into the bank of original entry
  - (b) Wrong amount posted in the ledger Account
  - (c) complete omission of an entry from the books of original entry
  - (d) When accounting principle is violated while recording a transaction in the books of Account
  
2. Which item shows a debit balance in the Trail Balance?
  - (a) Purchase Return
  - (b) Salary outstanding
  - (c) Sales
  - (d) Prepaid Expense
  
3. Which of the following errors will not affect the trail balance:
  - (a) Wrong balancing of an account
  - (b) Wrong totaling of an account
  - (c) Omission of an account from the trail balance
  - (d) Writing an amount in the wrong account but on the correct side

**VERY SHORT ANSWER QUESTIONS**

**1. What is a Trail Balance?**

Ans. Trail Balance is a statement, prepared with the debit and credit balances of ledger accounts to test the arithmetical accuracy of the books.

**2. Give two objectives of preparing a Trail Balance.**

Ans. (i) To ascertain the arithmetical accuracy of the ledger accounts.  
(ii) To help in locating errors.

**3. Is a trail balance conclusive proof of the accuracy of the books of accounts?**

Ans. A trail balance is not an absolute or conclusive proof of the accuracy of the books of accounts since there may be certain types of errors which may remain undetected inspite of the agreement of trail balance.

**4. Name two errors which cannot be disclosed by preparing a Trail Balance.**

Ans. (i) Errors of Omission.

(ii) Errors of Commission.

**5. What are errors of Omission?**

Ans. If a Transaction remains altogether unrecorded either in the journal or in Subsidiary Books, it will be termed as an error of omission. Such an error will not affect the agreement of a Trail Balance, as neither the transactions has been entered on the debit side of an account nor on the credit side of any other account.

**6. Give one example of error of omission.**

Ans. Suppose goods for Rs. 10,000 have been purchased from Dinesh on credit and the transactions was omitted to be recorded in the books. The omission will not affect the Trail Balance in any way, because neither has it been recorded on the credit side of Dinesh nor on the debit side of purchases account.

**7. What are errors of commission?**

Ans. If wrong amount is entered either in the Journal or in the Subsidiary Books it is called errors of Commission. Trail Balance will tally because the same amount (though wrong) will be posted in both the accounts affected by the transactions.

**8. Give one example of error of Commission.**

Ans. Purchase of goods from Ravi for Rs. 5,000 on credit entered in the purchase book as Rs. 500.

**9. What are Compensating Errors?**

Ans. If the effect of one error is neutralised by the effect of some other error, such errors are called compensating errors.

**10. Give one example of Compensating error.**

Ans. While posting on the debit side of Anil's account, Rs.80 are posted instead of Rs.800 and while posting on the debit side of Sunil's account Rs.800 are posted instead of Rs.80. These two mistakes will nullify the effect of each other and in spite of the errors in both the accounts, the Trail Balance will still agree.

**11. What are Errors of Principle?**

Ans. When some fundamental principle of Accountancy is violated while recording a transaction, the errors is termed as error of principle. Distinction between capital and revenue items is not made, i.e., a capital expenditure is treated as a revenue expenditure or vice- versa.

**12. Give an example of error of principle.**

Ans. Purchase of furniture is debited to purchase account instead of furniture account.

**13. Name the error committed by violating the rules of Accounting.**

Ans. Error of Principle.