

CBSE CLASS 11 ACCOUNTANCY
FINANCIAL ACCOUNTING PART-1

REVISION NOTES

CHAPTER-6

TRIAL BALANCE AND RECTIFICATION OF ERRORS

➤ **Definition**

A trial balance is a statement showing the balances, or total of debits and credits, of all the accounts in the ledger with a view to verify the arithmetical accuracy of posting into the ledger accounts.

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.

➤ **Preparation**

It is normally prepared at the end of an accounting year. However, an organisation may prepare a trial balance at the end of any chosen period, which may be monthly, quarterly, half yearly or annually depending upon its requirements. In order to prepare a trial balance following steps are taken:

1. Ascertain the balances of each account in the ledger.
2. List each account and place its balance in the debit or credit column, as the case may be. (If an account has a zero balance, it may be included in the trial balance with zero in the column for its normal balance).
3. Compute the total of debit balances column.
4. Compute the total of the credit balances column.
5. Verify that the sum of the debit balances equal the sum of credit balances. If they do not tally, it indicate that there are some errors. So one must check the correctness of the balances of all accounts. It may be noted that all assets expenses and receivables account shall have debit balances whereas all liabilities, revenues and payables accounts shall have credit balances.

➤ **Objectives of Preparing the Trial Balance**

The trial balance is prepared to fulfill the following objectives.

1. To ascertain the arithmetical accuracy of the ledger accounts
2. To help in locating errors.
3. To help in the preparation of the financial statements. (Profit & Loss account and Balance Sheet).

➤ **Format of Trial Balance**

Trial Balance of as on March 31, 2018

Account Title	LF	Debit Balance Rs.	Credit Balance Rs.
<ul style="list-style-type: none">• Capital• Land and Buildings• Plant and Machinery• Equipment• Furniture and Fixtures• Cash in Hand• Cash at Bank• Debtors• Bills Receivable• Stock of Raw Materials• Stock of Finished Goods• Purchases• Carriage Inwards• Carriage Outwards• Sales• Sales Return• Purchases Return			

<ul style="list-style-type: none"> • Interest Paid • Commission/Discount Received • Salaries • Long Term Loan • Bills Payable • Creditors • Advances from Customers • Drawings 			
Total		xxx	xxx

➤ **Rectification of Errors**

From the point of view of rectification, the errors may be classified into the following two categories:

1. Errors which do not affect the trial balance.

- a. **Errors of omission:** Transactions not recorded in books.
For example: goods return to supplier not recorded.
- b. **Errors of principle:** Disobey of accounting principles, (salary paid to manager) manager's accounts are debited.
- c. **Compensating errors:** Sales of goods to Rani for Rs.100 debited to Rain's account with Rs.10 and Rs.100 cash received for Ajay was credited to Ajay with Rs.10.
- d. **Incorrect account in the original book:** Instead of Babu's account. babu's account affected by writer.
- e. **Posting to wrong account:** Instead of writing in purchases book, sales book is opened.

2. Errors which affect the trial balance.

- a. **Errors of additions and subtractions:** wrong totaling and balancing of ledger, totaling of trial wrong totaling of trial balance.
- b. **Posting at the wrong side of an account:** Instead of debiting amounts by mistake are written in credit.
- c. **Entering incorrect amount:** Incorrect copying, Transposing figure (Writing 56 in place of 65), sliding figure (8000 in place of 800), doubling the wrong figure and duplicate posting.
- d. **Errors of omission:** Not posted in subsidiary accounts, accounts are not opened in the ledger.
- e. **Wrong posting in the trial balance:** Instead of writing debit side accounts has posted in credit side.

Illustration: Rectify the following errors:

Credit purchases from Raghu Rs. 20,000.

1. were not recorded.
2. were recorded as Rs. 10,000
3. were recorded as Rs. 25,000.
4. were not posted to his account.
5. were posted to his account as Rs. 2,000
6. were posted to Raghav's account.
7. were posted to the debit of Raghu's account.
8. were posted to the debit of Raghav.
9. were recorded through sales book.

Solution:

1.

Purchases A/c	Dr.	20,000	
To Raghu's A/c			20,000

(Credit purchases from Raghu omitted to be recorded, now corrected)		
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2.

Purchases A/c	Dr.	10,000	
To Raghu's A/c (Credit purchases from Raghu recorded as Rs. 10,000 instead of Rs 20,000, now corrected)			10,000

3.

Raghu's A/c	Dr.	5,000	
To Purchases A/c (Credit purchases from Raghu recorded as Rs. 25,000 instead of Rs. 20,000).			5,000

4.

Suspense A/c	Dr.	20,000	
To Raghu's A/c (Credit purchases from Raghu not posted to his account now corrected).			20,000

5.

Suspense A/c	Dr.	18,000	
To Raghu's A/c (Credit purchases from Raghu Rs. 20,000 posted to his account as Rs. 2,000)			18,000

6.

Raghav's A/c	Dr.	20,000	
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To Raghu's A/c (Credit purchases from Raghu wrongly credited to Raghav, now corrected)		20,000
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7.

Suspense A/c	Dr.	40,000	
To Raghu's A/c			40,000

8.

Suspense A/c	Dr.	40,000	
To Raghav's A/c			20,000
To Raghu's A/c (Credited purchases from Raghu Rs. 20,000 wrongly debited to Raghav, now corrected).			20,000

9. P

Sales A/c	Dr.	20,000	
Purchases A/c	Dr.	20,000	
To Raghu's A/c (Credit purchases from Raghu wrongly recorded through sales book, now corrected)			40,000