

## Chapter 5

# Trial Balance and Rectification of Errors

### Learning Objectives :

After studying this chapter the students will be able to do the following work -

- Able to find out the meaning and features of Trial Balance.
- Able to know the objectives, utility or importance of trial balance.
- Able to understand the methods of preparing trial balance by different methods.
- Able to learn about the meaning of error and its types.
- Able to detect errors.
- Able to rectify errors in following cases –
  - (a) Before preparing Trial Balance,
  - (b) After preparing trial balance but before preparing final accounts.

In the first stage under double entry system all business transactions are first recorded in the books of original entry and thereafter in second stage of classification and summarization ledger accounts are opened and posting in those accounts is done with the help of subsidiary books. In the third stage, before undertaking the study of end summary, it is very important to know about the arithmetical correctness of ledger posting.

As we already know that every business transaction has two fold aspects or every business transaction affects at least two accounts in opposite direction. It means when an account of a transaction one account is debited with a certain amount, the other account in the same transaction will be credited. Thus totals of debit and credit sides of all ledger accounts are equal. If ledger accounts are balanced, the total of accounts with debit balances will be equal to the total of accounts with credit balances. For testing this arithmetical accuracy of posting in Accounts a statement is prepared which is called Trial Balance.

### Meaning of Trial Balance :

Trial Balance is a list of all ledger accounts which is prepared either with debit and credit totals of all accounts or with their debit and credit balances. If the total of debit and credit sides of this schedule of accounts is equal, it reveals the arithmetical accuracy of posting in different accounts.

### Definition of Trial Balance :

"Trial balance is a statement prepared with the debit and credit balances of ledger accounts to test the arithmetical accuracy the books"

*- JR Batliboi*

"Trial Balance is the list of debit and credit balances, taken from ledger and it includes the balances of cash and bank taken from cash book."

*- Carter*

### Characteristics of Trial Balance :

1. Trial Balance is a list or a statement.

2. It is prepared with the help of all ledger accounts and the cash book.
3. It is prepared either with the debit and credit total of all ledger accounts along with totals of cash and bank columns of cash book or with their balances.
4. It tests the arithmetical accuracy of ledger posting of all accounts done with the help of subsidiary books.
5. Final accounts are prepared with the help of trial balance prepared at the end of the financial year.
6. Trial balance may be prepared at anytime and any numbers of times severally in a year as per the requirement of Business.
7. It is neither a part of double entry system nor does it appear in the books of accounts. It is prepared on a separate working paper.

### **Objectives, Uses or Importance of preparing Trial Balance :**

The following are the objectives of preparing Trial Balance –

**1. To test the Arithmetical Accuracy of Ledger Accounts :**

When the debit and credit totals of trial balance are equal, it is assumed that double entry of all the transactions has been completed and the ledger accounts are arithmetically correct.

**2. Summary of Ledger Accounts :**

The trial balance serves as a summary of all ledger accounts whereas detailed knowledge about all accounts may be obtained from all the accounts of ledger. On observing trial balance current position about each account is known. For example how much amount to be received from Debtors, What amount is payable to creditors etc.

**3. Basis of Preparing Final Accounts :**

For knowing about the profit or loss and the financial position of the business, at the end of the financial year, final accounts are prepared. Since trial balance contains a list of all the ledger accounts, it provides a base for the preparation of final accounts.

### **Format of Trial Balance**

**Trial Balance of .....  
as on 31st March, 2017**

S.No.	Name of Ledger Accounts	L.F.	Amount ( )	
			Debit	Credit

- (i) Firm's name or the name of businessman is written at the top of Trial Balance.
- (ii) The balances of accounts shown in trial balance depict the position on certain date. As such the words 'as on' or 'as at' are prefixed with the date.

- (iii) In the first column of trial balance serial number and in second column the names of accounts, in third column page number of ledger on which particular account exists are written.
- (iv) Balances of various Ledger and cash book accounts which may be either debit or credit are written in last two columns.

#### **4. Preliminaries before Preparing Trial Balance :**

- (i) Ledger posting of all transactions upto the date of preparing trial balance should be completed.
- (ii) All transactions regarding cash and bank should be completed in cash book and the totals of discount allowed and discount received should be carried to relevant accounts in ledger.
- (iii) Debit and credit sides of all ledger accounts should be totalled and balances be extracted.
- (iv) List of debtors and creditors should be prepared separately. All individuals personal accounts are included in trial balance as 'Sundry Debtors' and 'Sundry Creditors'. The lists of debtors and creditors should be attached with the trial balance.

#### **5. Methods of Preparing Trial Balance :**

- (i) Total Amount Method
- (ii) Balances of Amount Method
- (iii) Total cum Balances Method
- (A) Total Amount Method – Under this method, the total amount of debit side of each ledger accounts is put on the debit side of trial balance and the total amount of credit side of each ledger account is put on credit side of trial balance. Thus under this method the trial balance can be prepared immediately after the completion of posting to the ledger. For example, the total of debit side of Purchases Account is ` 50,000 and of credit side ` 6,000. In trial balance, write purchases account in second column of trial balance and ` 50,000 in debit column of amount and ` 6,000 in credit column of amount.

#### **Merits of Total Amount Method :**

- (i) This method is quite easy.
- (ii) It saves time and labor both since balances of ledger accounts need not be ascertained.

Demerit of the Method :

- (i) Useful information about various accounts is not known.
- (ii) The balances of various accounts have been ascertained at the time of preparing final accounts.

#### **(B) Balance Methods :**

Under this method all the accounts showing debit balances in ledger are put on debt side of trial balance and the accounts showing credit balances are put on credit side of trial balance. Thus for preparing trial balance by this method difference of totals of debit and credit sides has to be ascertained. Those accounts showing zero balances are not written in trial balance.

#### **Merits of Balance Method :**

- (i) This method is helpful in the preparation of final accounts.
- (ii) Excluding zero balance accounts from trial balance is also correct.

**Demerits of the Method :**

- (i) It consumes more time and labor.
  - (ii) If an error is committed in the process of balancing, the trial balance will not tally.
- (C) Total cum Balance Method :

This method is a combination of total amount method and the balances method. Under this method four columns are drawn for writing amount. First two columns are used for writing the debit and credit totals of all accounts. Next two columns are used for writing the debit and credit balances of all accounts.

This method has the advantages of both the above methods but it takes more time and energy to operate.

**Illustration 1 :** Prepare a trial balance with the total amount method for the following details taken from the books of Dharam Chand as on 31st December, 2016 :

**Ledger of Dharam Chand**  
**Cash Account**

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹.)	Date	Particulars	J.F.	Amount (₹.)
	To Bank Loan A/c		10,000		By Bank A/c		15,000
	To Capital A/c		40,000		By Purchase A/c		1,700
	To Sales A/c		3,800		By Aashish Kumar		1,900
	To Dineshwar		500		By Loss by Theft		1,000
	To Commission A/c		800		By Samyak Computer		5,000
					By Salary A/c		1,000
					By Drawings A/c		200

Dr.		Stock Account				Cr.	
	To Capital A/c		20,000				

Dr.		Furniture Account				Cr.	
	To Capital A/c		5,000				

Dr.		Bank Loan Account				Cr.	
	To Bank A/c		2,000		By Cash A/c		10,000

Dr.		Bank Account				Cr.	
	To Cash A/c		15,000		By Bank Loan A/c		2,000

Dr.		Capital Account				Cr.	
	To Capital A/c		2,000		By Cash A/c		10,000
					By Stock A/c		20,000
					By Furniture A/c		5,000



Dr.				<b>Purchase Account</b>				Cr.							
<b>Date</b>		<b>Particulars</b>		<b>J.F.</b>		<b>Amount (₹.)</b>		<b>Date</b>		<b>Particulars</b>		<b>J.F.</b>		<b>Amount (₹.)</b>	
		To Ashish Kumar				2,000				By By Drawing A/c				500	
		To Cash A/c				1,700				By Charity A/c				300	
		To Nira Kumari				5,000									
Dr.				<b>Ashish Kumar</b>								Cr.			
		To Cash A/c				1,900				By Purchase A/c				2,000	
		To Discount A/c				100									
Dr.				<b>Dineshwar</b>								Cr.			
		To Sales A/c				4,000				By Sales Return A/c				2,000	
										By Cash A/c				500	
Dr.				<b>Discount Account</b>								Cr.			
		To Sales A/c				200				By Ashish Kumar				100	
Dr.				<b>Sales Account</b>								Cr.			
										By Cash A/c				3,800	
										By Discount A/c				200	
										By Dineshwar				4,000	
Dr.				<b>Loss by Theft</b>								Cr.			
		To Cash A/c				1,000									
Dr.				<b>Sales Return Account</b>								Cr.			
		To Dineshwar				2,000									
Dr.				<b>Nira Kumari</b>								Cr.			
		To Purchase Return A/c				1,500				By Purchase A/c				5,000	
Dr.				<b>Purchase Return Account</b>								Cr.			
										By Nira Kumari				1,500	
Dr.				<b>Samyak Computer</b>								Cr.			
		To Cash A/c				5,000				By Computer A/c				20,000	
Dr.				<b>Computer Account</b>								Cr.			
		To Samyak Computer				20,000									
Dr.				<b>Drawing Account</b>								Cr.			
		To Purchase A/c				500									
		To Cash A/c				200									
Dr.				<b>Charity Account</b>								Cr.			
		To Purchase				300									

Dr. <b>Salary Account</b>				Cr.			
Date	Particulars	J.F.	Amount (₹.)	Date	Particulars	J.F.	Amount (₹.)
	To Cash A/c		1,000				

Dr. <b>Commission Account</b>				Cr.			
					By Cash A/c		800

**Trial Balance of Dharam Chand**

Solution : as on 31st December, 2016 (By Total Method)

S.No.	Name of Ledger Accounts	L.F.	Amount (₹)	
			Debit	Credit
1.	Cash A/c		55,100	25,800
2.	Stock A/c		20,000	-
3.	Furniture A/c		5,000	-
4.	Bank Loan A/c		2,000	10,000
5.	Bank A/c		15,000	2,000
6.	Capital A/c		-	65,000
7.	Purchase A/c		8,700	800
8.	Aashish Kumar		2,000	2,000
9.	Dineshwar		4,000	2,500
10.	Discount A/c		200	100
11.	Sales A/c		-	8,000
12.	Loss by theft A/c		1,000	-
13.	Sales Return A/c		2,000	-
14.	Nira Kumari		1,500	5,000
15.	Purchase Return A/c		-	1,500
16.	Samyak Computer		5,000	20,000
17.	Computer A/c		20,000	-
18.	Drawing A/c		700	-
19.	Charity A/c		300	-
20.	Salary A/c		1,000	-
21.	Commission A/c		-	800
	<b>Total</b>		<b>1,43,500</b>	<b>1,43,500</b>

(Solve Illustration No. 1 by Balancing Method)

**Trial Balance of Dharam Chand**  
as on 31st March, 2016

(By Balancing Method)

S.No.	Name of Ledger Accounts	L.F.	Amount (₹)	
			Debit	Credit
1.	Cash A/c		29,300	-
2.	Stock A/c		20,000	-
3.	Furniture A/c		5,000	-
4.	Bank Loan A/c		-	8,000
5.	Bank A/c		13,000	-
6.	Capital A/c		-	65,000
7.	Purchase A/c		7,900	-

8.	Dineshwar		1,500	-
9.	Discount A/c		100	-
10.	Sales A/c		-	8,000
11.	Loss by Theft A/c		1,000	-
12.	Sales Return A/c		2,000	-
13.	Nira Kumari		-	3,500
14.	Purchase Return A/c		-	1,500
15.	Samyak Computer		-	15,000
16.	Computer A/c		20,000	-
17.	Drawings A/c		700	-
18.	Charity A/c		300	-
19.	Salary A/c		1,000	-
20.	Commission A/c		-	800
	<b>Total</b>		<b>1,01,800</b>	<b>1,01,800</b>

Prepare Trial Balance from Illustration No. 1 using total and Balancing Method both.

**Trial Balance of Dharam Chand**  
as on 31st December, 2015

(Solution) :

(By Total & Balancing Method)

S.No.	Name of Ledger Accounts	L.F.	Total Method Amount (₹)		Balancing Method Amount (₹)	
			Debit	Credit	Debit	Credit
1.	Cash A/c		55,100	25,800	29,300	-
2.	Stock A/c		20,000	-	20,000	-
3.	Furniture A/c		5,000	-	5,000	-
4.	Bank Loan A/c		2,000	10,000	-	8,000
5.	Bank A/c		15,000	2,000	13,000	-
6.	Capital A/c		-	65,000	-	65,000
7.	Purchase A/c		8,700	800	7,900	-
8.	Aashish Kumar		2,000	2,000	-	-
9.	Dineshwar		4,000	2,500	1,500	-
10.	Discount A/c		200	100	100	-
11.	Sales A/c		-	8,000	-	8,000
12.	Loss by theft A/c		1,000	-	1,000	-
13.	Sales Return A/c		2,000	-	2,000	-
14.	Nira Kumari		1,500	5,000	-	3,500
15.	Purchase Return A/c		-	1,500	-	1,500
16.	Samyak Computer		5,000	20,000	-	15,000
17.	Computer A/c		20,000	-	20,000	-
18.	Drawing A/c		700	-	700	-
19.	Charity A/c		300	-	300	-
20.	Salary A/c		1,000	-	1,000	-
21.	Commission A/c		-	800	-	800
	<b>Total</b>		<b>1,43,500</b>	<b>1,43,500</b>	<b>1,01,800</b>	<b>1,01,800</b>

## 6. Preparation of Trial Balance by Balance of Ledger Accounts Method :

Generally the balances of ledger accounts are given, on the basis of which Trial Balance is to be prepared. In this case balances of Accounts are to be identified and the amount should be put in correct column, Debit or Credit. The following points, in this regard, should be kept in consideration :

### (i) Regarding Personal Accounts :

The balance of Sundry Debtors accounts in debit while that of Sundry Creditors, the balance is credit. Loan advanced Account, Bank A/c and Drawing A/c have debit balance whereas Capital Account, Bank overdraft account and Loan Received Account reveal credit balance. The accounts showing debit balances are put on the debit side of the trial balance and the accounts showing credit balances are put on the credit side of trial balance.

**(ii) Regarding Real Accounts :** (A) Assets Account – The assets accounts have debit balances, for example, building account, furniture account, machinery & plant account, investment, patent, trade mark and goodwill accounts have debit balances.

**(B) Accounts Relating to goods** – Opening Stock account, Purchases Account and Sales Return Account show debit balances, While purchases Return A/c and Sales Account have credit balances. These accounts should be put in trial balance on the basis of their respective balances.

**(iii) As Regards Nominal Accounts :** All accounts related to losses and expenses reveal debit balances. For example Salary, Freight, Wages, Telephone Charges, Discount Allowed, Rent, Rates and taxes etc. But all accounts pertaining to Income and Profit have credit balances. For example commission received, rent received, interest and dividend received, discount received etc. information about an account is clearly given for example Interest (Dr.) discount received or rent received etc., we should follow the same.

### (iv) Important points to be kept in consideration :

- (A) In the absence of clear information about such expenses which can either be losses or profit, expenses or Income, then the same should be treated as expenses and losses, for example: Rent, Interest and Discount etc.
- (B) The amount of closing stock is given outside the trial balance since this account is the result of adjustment entries which are passed at the time of preparation of final accounts, it is not to be included in trial balance unless its adjustment has been done through purchases account.
- (C) Ascertainment of debit or credit balance for accounts is also possible through passing Journal entry of the transaction. If an account is debited in Journal entry, it has debit balance and if credited, it has credit balance.

**Illustration 4 :** Prepare trial balance as on 31st March, 2016 in the books of Narendra from following information :

**Opening Stock :** ₹ 15,000, Purchase ₹ 1,60,000, Sales ₹ 1,80,000, Debtors ₹ 50,000 Creditors ₹ 40,000, Purchase Return ₹ 3,500, Sales Return ₹4,000, Cash in Hand ₹ 2,000, Salaries ₹ 20,000, Telephone Expenses ₹1,700, Cash at Bank ₹ 4,500, Insurance & Tax ₹ 700, Capital ₹ 61,400, Computer Set ₹ 25,500, Rent ₹ 2,000, Closing Stock ₹ 25,000.

**Trial Balance of Narendra**  
as on 31st December, 2017

(By Total Method)

Solution :

S.No.	Name of Ledger Accounts	L.F.	Amount (₹)	
			Debit	Credit
1.	Opening Stock A/c		15,000	-
2.	Purchase A/c		1,60,000	-
3.	Sales A/c		-	1,80,000
4.	Debtors		50,000	-
5.	Creditors		-	40,000
6.	Purchase Return A/c		-	3,500
7.	Sales Return A/c		4,000	-
8.	Cash in Hand		2,000	-
9.	Salaries		20,000	-
10.	Telephone Expenses		1,700	-
11.	Cash at Bank		4,500	-
12.	Insurance & Tax		700	-
13.	Capital A/c		-	61,400
14.	Computer Set		25,000	-
15.	Rent A/c		2,000	-
	<b>Total</b>		<b>2,84,900</b>	<b>2,84,900</b>

**Illustration :** On the basis of following information, prepare trial balance in the books of M/s. Rajkumar as on 31st March 2016

S.No.	Particulars	Amount (₹.)	Date	Particulars	Amount (₹.)
1.	(Capital A/c)	1,83,400		(Sales A/c)	6,80,000
2.	(Debtors A/c)	1,15,000		(Cash A/c)	15,000
3.	(Machinery A/c)	60,000		(Creditors A/c)	55,000
4.	(Purchase A/c)	5,50,000		(Lands Building A/c)	1,25,000
5.	(Bank Overdraft A/c)	1,10,000		(01-04-2015) (Stock A/c)	45,000
6.	(Depreciation A/c)	20,000		(Goodwill A/c)	26,000
7.	(Wages & Salary A/c)	65,000		(Bills Receivable A/c)	60,000
8.	(Cr. ) (Rent A/c) (Cr.)	12,000		(Dr.) (Discount A/c)	3,000
9.	(Bills Payable A/c)	25,000		(Commission Received A/c)	4,600
10.	(Bank Loan A/c)	1,48,000		(Loan to Chirag A/c)	14,000
11.	(Loss by fire A/c)	1,25,00		(Insurance Premium A/c)	4,000
12.	(Drawings A/c)	30,000		(Purchase Return A/c)	15,000
13.	(Carriage Inward A/c)	2,000		(Sales Return A/c)	20,000
14.	(Interest on overdraf A/c)	7,000		(Carriage Outward A/c)	1,500
15.	(Furniture A/c)	40,000		(Invetstment A/c)	18,000

**Trial Balance of Rajkumar**  
as on 31st March, 2017

Solution :

S.No.	Name of Ledger Accounts	L.F.	Amount (₹)	
			Debit	Credit
1.	Capital A/c		-	1,83,400
2.	Debtors A/c		1,15,000	-
3.	Machinery A/c		60,000	-
4.	Purchase A/c		5,50,000	-
5.	Bank Overdraft		-	1,10,000
6.	Depriciation A/c		20,000	-
7.	Wages & Salary A/c		65,000	-
8.	Rent A/c (Cr.)		-	12,000
9.	B/P A/c		-	25,000
10.	Bank Loan A/c		-	1,48,000
11.	Loss by Fire A/c		12,500	-
12.	Drawings A/c		30,000	-
13.	Carriage inword A/c		2,000	-
14.	Interest on Bank Overdraft		7,000	-
15.	Furniture A/c		40,000	-
16.	Sales A/c		-	6,80,000
17.	Cash A/c		15,000	-
18.	Creditors A/c		-	55,000
19.	Land & Building A/c		1,25,000	-
20.	Opening Stock (01.04.2015)		45,000	-
21.	Good will A/c		26,000	-
22.	B/R A/c		60,000	-
23.	Discount (Dr.)		3,000	-
24.	Commission Received		-	4,600
25.	Loan to Chirag		14,000	-
26.	Insurance Premium A/c		4,000	-
27.	Purchase Return A/c		-	15,000
28.	Sales Return A/c		20,000	-
29.	Carriage Outword A/c		1,500	-
30.	Investment A/c		18,000	-
	<b>Total</b>		<b>12,33,000</b>	<b>12,33,000</b>

**Suspense Account :**

When all entries under double accounting system are correctly passed, trial balance installed. But if these is difference in the Debit and Credit totals of trial balance, efforts must be made to locate the errors. Inspite of best efforts, all the errors are not located and the trial balance does not tally, in such a situation, to avoid

delay in the preparation of final accounts, the difference in the trial balance is placed to a newly opened 'suspense account' to tally trial balance. If the debit side of trial balance exceeds the credit side of trial balance difference should be put on credit side of suspense account. On the other hand if credit side of trial balance exceeds the debit side, suspense account should be debited. This is illustrated with the help of an example as given below –

**Example No. 6 :** Prepare Suspense account from following information if:

(A) Total of debit side of Trial Balance is ₹ 1,20,000 and that of credit side is ₹ 1,06,000.

(B) Total of credit side of Trial Balance exceeds that of debit side by ₹ 21,500.

Solution : (A)

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹.)	Date	Particulars	J.F.	Amount (₹.)
	To Balance c/d		14,000		By Difference in Books		14,000
			14,000				14,000

Solution : (B)

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹.)	Date	Particulars	J.F.	Amount (₹.)
	To Difference in Books		21,500		To Balance c/d		21,500
			21,500				21,500

**Illustration 7 :** Following Trial balance has been prepared by an trainee accountant.  
Prepare it again as per rules

**Trial Balance as on**  
31st March, 2016

Name of Ledger Account	Debit (₹.)	Name of Ledger Account	Credit (₹.)
Opening Stock	3,000	Machinery	24,000
Capital	36,000	Furniture	2,000
Debtors	9,000	Good will	1,600
Creditors	12,000	Purchases	18,000
Bills Payable	2,000	Sales	27,000
Interest Received	1,600	Carriage in word	225
Purchase Return	900	Discount Received	300
Cash in Hand	12,000	Repair & Renewals	1,600
Salaries	1,800	Stationary	75
Advertisement	600	Closing Stock	5,000
Bad Debts	900		
	<b>79,800</b>		<b>79,800</b>



**Trial Balance**  
as on 31st March, 2016

Solution :

S.No.	Name of Ledger Accounts	L.F.	Amount (₹)	
			Debit	Credit
1.	Opening Stock A/c		3,000	-
2.	Capital A/c		-	36,000
3.	Debtors A/c		9,000	-
4.	Creditors A/c		-	12,000
5.	Bills Payable A/c		-	2,000
6.	Interest Received A/c		-	1,600
7.	Purchase Return A/c		-	900
8.	Cash in hand A/c		12,000	-
9.	Salaries A/c		1,800	-
10.	Advertisement A/c		600	-
11.	Bad Debts A/c		900	-
12.	Machinery A/c		24,000	-
13.	Furniture A/c		2,000	-
14.	Good will A/c		1,600	-
15.	Purchase A/c		18,000	-
16.	Sales A/c		-	27,000
17.	Carriage inwards A/c		225	-
18.	Discount Received A/c		-	300
19.	Repair & Renewals A/c		1,600	-
20.	Stationery A/c		75	-
21.	Suspense A/c		5,000	-
				79,800
	<b>Total</b>		<b>79,800</b>	<b>79,800</b>

Note : Closing Stock ₹. 5,000.

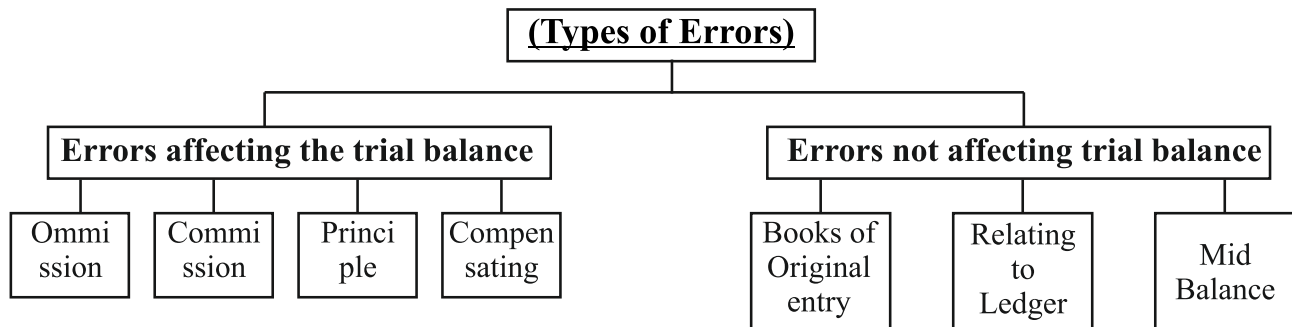
**Illustration 8 :** Prepare suspense account from Illustration No. 7

Dr.				Cr.			
Suspense Account							
Date	Particulars	J.F.	Amount (₹.)	Date	Particulars	J.F.	Amount (₹.)
	To Balance c/d		14,000		By Difference in Books		14,000
			14,000				14,000

## Errors and Their Rectification

### Meaning of Errors in Accountancy :

The mistake committed ignorantly in the process of passing entries of transactions by double entry system is called accounting error.



### Errors not affecting Trial Balance or Errors not disclosed by Trial Balance :

There are certain errors which do not affect the agreement of trial balance. Their location, therefore, is a difficult task. They are usually found out when statement of accounts are received by the Business or sent to the customer or during the course of internal or external audit or by chance. Even if both the debit and credit columns of trial balance are equal to each other, it can never be taken as conclusive proof of accuracy. It means, there are certain errors which remain untested by trial balance. Such mistakes are as given below –

#### 1. Errors of omission :

**(A) A transaction not recorded in the books of original entry.**

**Example** – Bought goods of Murlidhar ₹ 4,200 but not recorded.

Effect of error – No entry passed on debit side of Purchases Account not on the credit side of Murlidhar. Thus both sides of trial balance remain unaffected. Total under cast by ₹ 4,200.

**(B) A transaction recorded in the books of original entry but omitted to be posted in Ledger.**

**Example** : Sold goods to Praveen Chand ₹ 1,800 but omitted to be posted in Ledger.

Effect of the Error : Both, Praveen Chand and Sales Accounts will be short of Debit and Credit Sides respectively. Thus total of trial balance will tally.

#### 2. Errors of Commission : This error may be committed in two ways.

**(A) Wrong posting of a transaction but with the same amount.**

**Example** : Goods worth ₹ 1,500 was returned to Manju Lata but was recorded in purchase return book as ₹ 500.

**Effect of Error :**

- (i) Posting in both Ledger Accounts, under cast by ₹ 1,000. Both sides of trial balance has been effected by the similar amount and hence it will tally.
- (ii) Posting with correct amount but in other party's account.

**Example** : Paid ₹ 1,300 to Bimal but was posted to Kamal's account.

**Effect of Error :** Kamal's account is debited instead of Bimal. This error will not affect trial balance.

### **3. Errors of Principle : An error involving accounting principle.**

For example, treating revenue expenditure as capital expenditure.

**Example :** Amount spent on repairing machine ₹ 1,100 was debited to Machine Account.

Effect of Error : Amount spent on repair of machine is a revenue expenditure which was capitalized, which is wrong but it will not affect the tally of trial balance since correct amount is recorded in trial balance.

### **4. Compensatory Errors : These errors are those errors by which the effect of two or more errors are neutralized by the effect of another error.**

**Example :** Paid ₹ 3,000 to Meena but was posted her account as ₹ 300, and ₹ 300 was paid to Teena was posted to her account as ₹ 3,000. These two mistakes compensate each other the commitment of mistakes. Trial balance will tally.

### **Errors related to Trial Balance –**

Certain errors may be there in recording, classifying and summarizing of the financial transactions which affect the agreement of trial balance. Such errors are as follows –

#### **(I) Errors in Accounting :**

##### **(a) Errors in the books of original entries**

- (i) Mistake in totalling subsidiary books or mistake in carrying total on next page.
- (ii) Mistake in ascertaining balances of cash and bank columns of cash book or carrying forward on next page.
- (iii) Contra entry in cash book not completed.

##### **(b) Errors related to Ledger :**

- (i) Omission of posting of a transaction in one of the two accounts,
- (ii) Posting of the wrong amount of a transaction in one of the two accounts.
- (iii) Posting at the wrong side of an account but correctly in another account.
- (iv) Posting on one side twice by mistake.
- (v) Not writing opening balance of an account or mistake in finding balance or mistake in carrying forward the total on next page.

#### **(II) Errors related to Trial Balance –**

- (1) Omission in writing balance of an account in Ledger.
- (2) Writing balance of an account twice.
- (3) Writing balance of an account on wrong side.
- (4) Writing wrong amount of an account.
- (5) Writing the amount of closing stock in Trial balance when it was not to be written.

## **Types of Errors on the basis of Sides :**

A. Single or one Sided Errors : When an error affects one side of the account or more than one account, it is called one sided error.

**Example :** Received commission ₹ 400 but omitted to be posted in commission account.

Effect of the mistake : In this case entry has passed in Cash Book but omitted to be posted in commission account in Ledger. Thus the error affecting only. Commission account and so it is one sided error.

B. Double Sided Errors : The error which affects both sides of a transaction is called double sided error.

For example : Goods sold to Surendra for ₹ 2,000 was wrongly entered in Purchase book.

Effect of Error : This transactions should have to be entered in Sales Book but was entered as purchases in purchase book. This wrong entry of the transaction has affected both the sides i.e. no entry on credit side of sales account and Surendra's account is debited instead of crediting. Thus it is double sided error.

## **Locating the Errors :**

### **A. Location of errors, books of original entries :**

- (i) Check the totals of subsidiary books to confirm the correctness of balances carried forward on next page.
- (ii) To check whether the totals on each page of cash book are correct or not and also to see that correct amount is carried forward on next page.
- (iii) To check that all the transactions are correctly recorded in the books of original entries and the rules and principles are duly taken into consideration and to check that no error of omission or that of principle has been committed.

### **B. Location of Errors regarding Ledger :**

- (i) To confirm that previous year's balances in difference ledger accounts are correctly brought forward as opening balances.
- (ii) To check that all the accounts are correctly balanced and no error was committed in Balance carried forward and Balance brought forward.
- (iii) To check that ledger posting from the books of original entries are correctly done according to rules and principles and nothing is left unposted.
- (iv) To confirm that the balances of all the ledger accounts along with the balances of cash and bank columns of cash book are taken to trail balance.

### **C. Location of Errors regarding Trial Balance :**

- (i) The exact figure of difference in trail balance should be ascertained and then to see that no account is left to be written in Trail Balance of the amount of difference.
- (ii) To see that balance of any account is not written in twice Trail Balance.
- (iii) The difference amount should be divided by two to find out if some figure equal to this amount has been posted on wrong side of an account thereby making the difference double.
- (iv) If the difference of amount is divisible by 9 completely it can be a mistake of transposition of figures. For example, writing 987 in place of 789. The difference of both these figures is 198 which is completely divisible by 9. It can be seen on any figure.

- (v) Total of lists of Debtors and Creditors should be checked again. It should also be confirmed that all Debtors and Creditors accounts are included in the List.

### Wrong Method of Rectification of Errors :

“The reliability of Account Books should be maintained”, is the language of Business. As such, as far as possible cuttings in account books should be avoided otherwise reliability of account books will be under suspicion and credit of the firm in the eyes of investors, bankers, society and the creditors will be adversely affected. Therefore, errors in account books should not be rectified in the following manner –

- (i) By means of cutting, for example, rectifying ₹ 12,000 to make it ₹ 1,200 by cutting one zero. This is wrong.
- (ii) Cutting an entry, for example salary paid ₹ 1,800 which was entered wrongly in Salary account as follows -

#### Salary Account

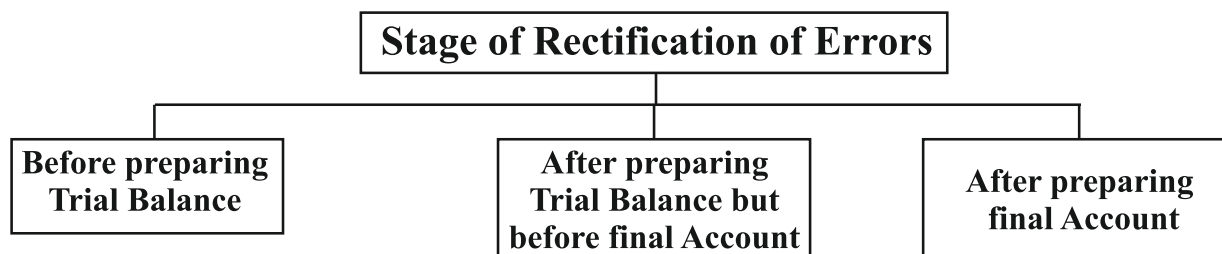
					By Cash A/c		—1,600—
--	--	--	--	--	-------------	--	---------

- (iii) Tearing a page – No paper from the account books should be torn for any reason.
- (iv) Cutting in vouchers should not be made for any reason.

### Rectification of Errors

The errors of accounting should be rectified by adopting correct process of its rectification. There is a general principle for rectification of errors, “**Undo What is wrong and do what is correct**”. Which means reverse the wrong and write the correct on the same side. The following sequence should be followed while passing entry for rectification –

- (1) What should be the correct entry of the transaction ?
- (2) What is the error committed in recording ?
- (3) To keep status quo for correct work in wrong entry.
- (4) To do correct work by undoing wrong work.



Rectification of Errors in Accounting depends upon the fact that under which situation rectification is required to do ? Rectification under I and II situations will be studied in details in this chapter.

### Rectification of Errors before preparing Trial Balance :

In this situation all the accounts in Ledger remain opened. In other words the ledger accounts are not balanced. In this situation rectification entry is not passed but necessary rectification is done as under in the related account –

- (1) First of all those accounts will be prepared in which error is committed and which is to be rectified.
- (2) In erroneous account, amount is not written, short amount is written, or entry is made on wrong side, rectification entry will be made on that side on which entry was to be made.
- (3) If excess amount is written in erroneous account, difference of amount is written on opposite side to rectify the error.
- (4) When a side of error is changed then the account is affected by double amount. For example amount received from Poonam ₹ 600 was wrongly debited in his account as ₹ 660. This wrong posting of wrong amount will have the effect of ₹ 600 + ₹ 660 = ₹ 1,260.
- (5) On rectifying the wrong entry, the reason for rectification is written.

**Example 9 :** Following errors were detected from the books of Laxman Brothers before preparing Trial Balance rectify them by appropriate method.

1. Purchase book was undercast by ₹5,000.
2. Sales Return Book was overcast by ₹ 1,200.
3. Rent paid ₹ 2,000 was posted in Rent account as ₹ 2,200.
4. Received ₹ 1,500 from Kalpesh was not posted in the account of Kalpesh.
5. Total of Purchase Return Book of ₹ 8,000 was carried forward on the next page as ₹ 8,800.
6. Received ₹ 300 as commission was credited to Interest Account.

**Solution :** On account of undercast of purchase book by ₹. 5,000, for rectification of entry Purchase Account debited by ₹. 5,000

Dr. <b>Purchase Account</b>				Cr.			
Date	Particulars	J.F.	Amount (₹.)	Date	Particulars	J.F.	Amount (₹.)
	To Purchase Undercast, now rectified		5,000				

2. Sales Return book is overcast by Rs. 1,200 as such Sales return accounts is debited in excess by Rs. 1,200. Therefore, rectification of error will be done by crediting Sales Return Account with Rs. 1,200.

#### Salary Return Account

					By Sales Return Book Overcast now rectified		(₹) 1,200
--	--	--	--	--	---	--	--------------

3. On debit side of Rent account ₹. 200 (₹. 2200-2000) is written in excess and so ₹. 200 will be written on the credit side for rectification.

#### Rent Account

					By over posting, now corrected		(₹) 200
--	--	--	--	--	--------------------------------	--	------------

4. Amount received from Kamlesh was to be written in his Account on credit side but posted in the Account of Kalpesh, which is to be cancelled

### Kalpesh

					By mistake in posting now corrected		(₹) 1,500
--	--	--	--	--	--	--	--------------

5. Excess amount ₹. 800 (₹. 8,800-8000) was written on credit side of Purchase Return Account ₹. 800 will be written on its debit side is rectify be error.

### Purchase Return Account

	To total of P/R book overcast now rectified		(₹) 800				(₹)
--	---	--	------------	--	--	--	-----

6. Commission received ₹. 300 was credited to Interest Account it will be rectified as under -

### Commission Account

					By mistake in posting now corrected		(₹) 300
--	--	--	--	--	---	--	------------

### Interest Account

	To wrong by posted in this A/c now corrected		(₹) 300				(₹)
--	--	--	------------	--	--	--	-----

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

(A) Rectification of Errors affecting Trial Balance : On account of such errors which affect the tally of trial balance Suspense Account is opened. While rectifying such errors with a view to complete the entry of rectification Suspense Account is used. These errors are rectified given below -

#### 1. Rectification of Errors regarding the total of Subsidiary Books –

- (i) Which account is affected by the error and to see what is its balance. For example, for purchases book, purchases account is affected (debit balance)
- (ii) If the total of subsidiary book is not posted or posted with less amount or total is under cast or less amount carried to next page, then the account with debit balance will again be debited and account having credit balance will again be credited.
- (iii) On the other hand, if posting of total of subsidiary book has been done with excess amount or more amount is carried to next page, then for rectification of error the account with debit balance will be credited and the account having credit balance will be debited.

**Example 10 :** Following errors were detected after preparing Trial Balance in the books of Babulal & Co. give journal entries for rectification of errors and prepare Suspense Account.

- (i) Purchase book was over casted by ₹ 2,500.
- (ii) The total of sales Returns Book was carried forward to the next page as ₹ 13,000 instead of ₹ 13,300.
- (iii) The total of Purchase Book was casted as ₹ 20,000 in place of ₹ 22,000.
- (iv) The cash balance of page of Cash Book was carried forward ₹ 1,600 less.



**Journal Proper of Babulal & Company**  
(Rectification Entries)

Date	Particulars	L.F.	Amount (₹)	
			Debit	Credit
1.	Suspense A/c Dr. To Purchase A/c (Being Purchase book overcast, now rectification)		2,500	2,500
2.	Sales Return A/c Dr. To Suspense A/c (Sales return book under carried forward, now rectification)		300	300
3.	Sales Suspensen A/c Dr. To Sales A/c (Sales book under cast, now rectification)		1800	1,800
4.	Cash A/c Dr. To Suspense A/c (Balance of cash book under carried forward, not carried)		1,600	1,600
	<b>Total</b>		<b>6,200</b>	<b>6,200</b>

Dr.				Cr.			
Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
	To Purchase A/c		2,500		By Deference in Book (b.f)		2,400
	To Sales A/c		1,800		By Sales Return A/c		300
					By Cash A/c		1,600
			4,300				4,300

**2. Rectification of Error as regards posting in Ledger Account :**

(i) **Ledger posting of one of the accounts of a transaction not done or done with less amount.**

**For example :** Insurance premium paid ₹ 1,400 but entered as ₹ 400 in Insurance Premium Account.

**Effect of Error :** Insurance Premium is debited less by ₹ 1,000

**Rectification Entry :** Insurance premium account will further be debited by ` 1,000 and to complete the entry suspense account will be credited.

Insurance Premium A/c	Dr.
To Suspense A/c	
(Being insurance premium under poster by ₹ 1,000 now rectified)	

**(ii) Posting in correct account but on the wrong side :**

**For example :** ₹ 4,000 was paid to Pankaj but was wrongly credited to his account.

**Effect :** Pankaj's A/c was credited instead of debiting. Thus, the error is committed for double the amount i.e. ₹ 4000 + ₹ 4000 = ₹ 8,000. It means the effect of this wrong entry is of ₹ 8,000. So Pankaj should be debited with ₹ 8,000 and to complete the entry Suspense A/c will be credited.

Pankaj's A/c	Dr.	₹ 8,000
To Suspense A/c		₹ 8,000

(Pankaj's A/c wrongly credited instead of debit now rectified)

**(iii) Posting in Wrong Account on wrong side :**

**For example :** Purchased goods from Chitrang for ₹ 1,800 but was posted in Trilok's Account as ₹ 800 on debit side.

**Effect :** Chitrang's Account will be credited with ₹ 1,800 (Do) and Trilok's A/c with ₹ 800 (to undo) because his account was wrongly debited and for completing the entry suspense account will be debited with ₹ 1,800 + ₹ 800 = ₹ 2,600

Suspense A/c	Dr.	₹ 2,600
To Chitrang		1,800
To Trilok		800

(Trilok's Account wrongly debited instead of crediting Chitrang's A/c, now rectified)

**Example 11 :** Mohabbat Singh, an accountant has placed has difference in trial balance ₹ 1,210 on the credit side of suspense Account. Later, he detected the following errors. Give journal entries for rectification and prepare Suspense Account.

- (a) Goods purchased from Raghuvir ₹ 2,000 was omitted to be posted in his account.
- (b) Received ₹ 2,100 from Deepchand was debited in his account as ₹ 1,200.
- (c) Goods sold to Karishma ₹ 1,700 was credited to Karina's account.
- (d) The debit balance of ₹ 800 of Amar's account was carried forward on the next page on credit side.
- (e) The total of discount received column of cash book of ₹ 900 was casted as ₹ 990.
- (f) Bad debts recovered ₹ 500 from Jagdish was debited to Bad debts account.

**Journal Proper**  
(Rectification Entries)

Date	Particulars	L.F.	Amount (₹)	
			Debit	Credit
1.	Suspense A/c Dr. To Raghuveer A/c (Goods Purchase from Raghuveer not posted in his a/c now rectified)		2,000	2,000
2.	Sales Suspence A/c Dr. To Deepchand A/c (Deepchand's a/c wrongly debited instead of credit, now rectified )		3,300	3,300
3.	Karishma Dr. Karina Dr. To Suspance A/c (Karina's a/c wrongly Credited instead of Karishma's a/c debited, now rectified)		1,700 1,700	3,400
4.	Amar Dr. To Suspense A/c (Debit Balance of Amar's a/c b/f on caredit side, now rectified)		1,600	1,600
5.	Discount A/c Dr. To Suspense A/c (The Discount column of Credit side of cash book overcast, now rectified)		90	90
6.	Suspense A/c Dr. To Bad Debts A/c To Bad Debts Recovered A/c (Bad debts recovered wrongly debited in Bad debts A/c., now rectified)		1,000	500 500
	<b>Total</b>		<b>11,300</b>	<b>11,300</b>

Dr.

**Suspense Account**

Cr.

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
	To Raghuveer A/c		2,000		By Deference in Trial Balance		1,200
	To Deepchand A/c		3,300		By Karishma		1,700
	To Bad debts A/c		500		By Karina		1,700
	To Bad debts recovered A/c		500		By Amar		1,600
					By Discount		900
			6,300				6,300

**(B) Rectification of Errors not affecting Trial Balance :**

1. Passing no entry of a transaction : In this case we should pass the entry of the transaction for which entry was not passed.

**Example :** Bought furniture from sharad ₹ 1,800 but no entry was passed.

**Effect of Error :** Furniture A/c not debited and sharad A/c not credited with ₹ 1,800 each.

Rectification Entry

Furniture A/c	Dr.	1,800	
			1,800
	To Sharad's		

(Furniture purchased from Sharad, but not entered, now rectified)

Example 12 : The account book of Mohanlal revealed that following transactions were omitted from either being entered or posted. Give rectification entries.

- Proprietor withdraw cash ₹ 1,600 and goods worth ₹ 1,100 for private purpose, but not entered.
- Goods purchased from Prahlad ₹ 2,500 but not recorded in purchase book.
- Electricity bill was paid by the proprietor personally which was recorded but omitted to be posted ₹ 1,750.
- Goods returned by Yashpal ₹ 950 but not recorded.

**Journal Proper**  
(Rectification Entries)

Date	Particulars	L.F.	Amount (₹)	
			Debit	Credit
1.	Drawings A/c Dr. To Cash A/c To Purchase A/c (Goods & cash taken away for personal use not entered, rectified now)		2,700	1,100 1,100
2.	Purchase A/c Dr. To Prahlad A/c (Sales return book under carried forward, now rectification)		2,500	2,500
3.	Electricity A/c Dr. To Capital A/c (Electricity bill of business paid by business, not posted, now rectified)		1,750	1,750
4.	Sales Return A/c Dr. To Yashpal A/c (Goods returned from yashpal not entered, now corrected)		950	950
	<b>Total</b>		<b>7,900</b>	<b>7,900</b>

**2. Recording a transaction on both sides with wrong but similar amount :**

**Example :** Sold goods to Khushbu for ₹ 2,600 but was entered as ₹ 6,200.

**Effect of Error :** Khushbu's A/c is overcast by ₹ 6,200 – ₹ 2,600 = ₹ 3,600 along with Sales Account.

Rectification Entry : Sales A/c should be debited and Khushbu's A/c be credited with ₹ 3,600 each.

Sales A/c	Dr.	3,600
	To Khushbu	3,600

(Goods sold to Khushbu over entered by ₹ 3,600 now rectified)

**3. Accounting on Correct side of wrong account with correct amount :**

**Example :** Paid Pallavi ₹ 1,850 was wrongly debited in the Account of Sundar.

**Effect of Error :** Pallavi's should now be debited and Sundar's A/c be credited for cancellation of wrong debit.

**Rectification Entry :** Pallavi should now be debited and Sundar's A/c be credited for cancellation of wrong debit.

Pallavi A/c	Dr.	1,850	
To Sundar			1,850

(Amount paid to Pallavi wrongly debited to Sundar, now rectified)

**Example 13 :** Following errors were detected from the account books of Surendra Brothers. Give necessary rectification entries.

- Goods purchased from Hemant ₹ 500
- Bad debts recovered from Saroj ₹ 800 was credited in his account.
- An amount of ₹ 700 from Jitendra was posted to Jitendra's account.
- Freight of ₹ 200 on purchase of furniture was debited to freight account.
- Commission received from Prakash ₹ 350 was credited to Prakash's account.
- Goods returned by Rakesh ₹ 600 was recorded as ₹ 900.

**Solution :**

S. No.	Correct entry of the Transaction	Wrong Entry Passeed	Rectification Entry
1.	Purchase A/c Dr. 5,000 To Hemant 5,000	Purchase A/c Dr. 500 To Hemant 500	Purchase A/c Dr. 4500 To Hemant 4,500 (Goods sold to Hemant entered ₹. 500 instead of ₹ 5,000, now rectified)
2.	Cash A/c Dr. 5,000 To B.D. Recovered 800	Cash A/c Dr. 800 To Saroj 800	Saroj Dr. 800 To B.D. recovered A/c 800 (Bad debts recovered entered in personal a/c. now rectified)
3.	Cash A/c Dr. 700 To Jitendra 700	Cash A/c Dr. 700 To Hitendra 700	Saroj Dr. 700 To Jitendra 800 (Amount received from Jitendra wrongly credited to Hitendra no rectified)
4.	Furniture A/c Dr. 200 To Cash A/c 200	Carriage A/c Dr. 200 To Cash A/c 200	Furniture A/c. Dr. 200 To Carriage A/c 2800 (Carriage on furniture Purchased wrongly debited in carriage A/c. now rectified.)
5.	Cash A/c Dr. 350 To Commission A/c 350	Cash A/c Dr. 350 To Prakash A/c 350	Prakash Dr. 350 To Commission A/c 350 (Commission received wrongly credited to personal A/c. now rectified.)
6.	Sales Return A/c Dr. 600 To Rakesh A/c 600	Sales Return A/c Dr. 900 To Rakesh 350	Rakesh Dr. 300 To Sales Return A/c 300 (Goods returned from Rakesh over entered in sales return book now rectified .)

#### 4. Recording in Wrong Subsidiary Book :

In this case for rectifying error, correct entry is passed (DO) and wrong entry is cancelled by passing reverse entry (undo)

Solution :

S. No.	Correct entry of the Transaction	Wrong Entry Passed	Rectification Entry
1.	Purchase A/c Dr. 1,000 To Dharmendra 1,000	Dharmendra A/c Dr. 1000 To Sales A/c. 1000	Purchase A/c Dr. 1000 To Sales 1,000 To Dharmendra 2,000 (Credit purchase wrongly entered in Sales book, now rectified)
2.	Durga Dr. 1,450 To Sales A/c. 1,450	Durga A/c Dr. 1400 To Purchase A/c. 1400	Durga Dr. A/c 50 Purchase Return A/c 1,400 To Sales A/c 1,450 (Credit Sales wrongly entered in Purchase Return book, now rectified)
3.	Jai Narayan Dr. 700 To Purchase A/c. 700	Sales Return A/c Dr. 700 To Jai Narayan 700	Jai Narayan Dr. A/c 1,400 To Sales Return A/c 700 To Purchase Return A/c 700 (Purchase Return wrongly entered in Sales Return book, now rectified)
4.	Jinal Dr. 2,200 To Printer A/c. 2,200	Jinal Dr A/c 2,200 To Sales A/c 2,200	Sales A/c. Dr. 2,200 To Printer A/c 2,200 (Assest sold wrongly entered in sales book, now rectified)
5.	Sales Return A/c Dr. 1,800 To Chirag A/c. 1,800	Chira Dr. A/c. 2,800 To P/R A/c 2,800	S/R A/c Dr. 1,800 P/R A/c Dr. 2,800 To Chirag 4,600 (S/R wrongly entered in P/R book, now rectified)
6.	Purchase A/c Dr. 600 To Cash A/c. 600	Purchase A/c. Dr. 600 To Vivek 600	Vivek A/c Dr. 600 To Cash A/c 4,600 (Cash Purchased entered in Purchased book, now rectified)

Example 15 : A transaction relating to the business of stationary and probable errors have been given. Write the type of error and give rectification entries.

Trade Transaction Computer purchased from Jodhpur ₹ 22,500

### Expected Errors

1. Entered in purchase book.
2. Debited to the account of Jodharam
3. Forget to enter in books.
4. Posted to the account of Jodharam as ₹ 22,000
5. Entered as ₹ 20,500
6. Posted to Ram's account in place of Jodharam

Solution :

### Types of Error and Rectification Entries

S.No.		Particulars	L.F.	Amount (₹)	
				Debit	Credit
1.	Error of Principles	Computer A/c Dr. To Purchase A/c (Being Assets Purchased but entered in Purchase book, now rectified)		22,500	22,500
2.	Enterer in wrong side of correct Account	Suspense A/c Dr. To Jodharam (Being Credit purchase of assets wrongly debited in personal a/c, now rectified)		45,000	45,500
3.	Error of Ommission	Computer A/c Dr. To Jodharam (Being Computer purchased from Jodharam not entered, now rectified)		22,500	22,500
4.	Entered in correct account from wrong amount	Suspense A/c Dr. To Jodharam (Being Amount under posted in Jodharam a/c, now rectified)		500	500
5.	Error of Comission	Suspense A/c Dr. To Jodharam (Being Computer purchased under posted, now rectified)		2000	2000
6.		Ram A/c Dr. To Jodharam (Being Credit purchase of computer credited to ram instead Jodharam, now rectified)		22,500	22,500



**Example**— Sold goods to Ritesh for ₹ 7,500 which was wrongly entered in Purchase A/c.

**Effect :** Ritesh A/c is credited instead of debiting. His A/c is affected by ₹ 7,500 + ₹ 7,500 = ₹ 15,000 whereas instead of crediting Sales A/c, purchases A/c is debited.

Correct Entry	Wrong Entry	Rectification Entry
Ritesh      Dr 7,500 To Sales A/c              7,500	Purchase A/c      Dr 7,500 To Ritesh A/c              7,500	Ritesh                      Dr 15,000 To Sales A/c              7,500 To Purchase A/c              7,500

**Example 14 :** Following errors were detected after preparing Trial Balance give necessary entries for rectification :

- Goods purchased from Dharmendra ₹ 1,000 was recorded in Sales Book.
- Goods sold to Durga ₹ 1,450 was recorded in Purchase book as ₹ 1,400.
- Goods returned to Narayan ₹ 700 was entered in Sales Return Book.
- An old printers of was sold to Jinal for ₹ 2,200 was passed through Sales Book.
- Chirag returned goods worth ₹ 1,800 was entered in purchased returns book ₹ 2,800.

### Rectification of Errors after preparing Final Accounts :

Although this case is not prescribed in your syllabus yet it is reasonable to give brief introduction of the same. After studying final accounts, look to this situation again, it will be easy for you to understand it. The main points of this situation are as follows –

- Under this situation all accounts of Revenue nature are closed. The other accounts remain opened in books.
- In passing rectification entries, the accounts which remain opened will be used where required. But those accounts which are closed (accounts of revenue nature) will not be used, but instead of them 'Profit & Loss Adjustment' is used.
- Suspense Account may be used as usual where needed.
- In the end, the balance of Profit and Loss Account is to be transferred to capital account.

### Summary

- Trial Balance :** It is a list of totals or balances of ledger accounts. When debit and credit totals of trial balance are equal, it is presumed to be arithmetically correct.
- Objects, Uses & Important of Trial Balance :** (i) to test arithmetical accuracy of ledger posting, (ii) to get summarized information of ledger accounts, (iii) to use as basis of final accounts, (iv) to use for making adjustments.
- The balances of accounts showed in trial balance shows the position of various accounts on a certain date.
- All transactions upto the date of preparing trial balance should be completed along with cash book. The lists of debtors and creditors should also be completed.

5. Three methods of preparing trial balance, namely (1) Total of amount Method, (2) Balance method, (3) Combination of both these methods.
6. **Suspense Account :** When both sides of trial balance do not tally despite best efforts, suspense account is opened. The balance of this method is automatically finished after rectification of errors.
7. **Types of Errors :** (A) Errors not affecting totals of trial balance, such as (i) errors of omission, (ii) errors of commission, (iii) errors of principle & (iv) compensating errors. (B) Errors affecting tally of trial balance. Such as (i) errors in subsidiary books, (ii) errors in Ledger posting, (iii) errors of trial balance.
8. **Errors on the basis of sides :** Two types, (i) One sided, (ii) Two sided.
9. **Location of Errors :** (i) To locate errors in Subsidiary books, (ii) to locate errors relating Ledger, and (iii) to located to errors related to trial balance.
10. Cutting in account books, cutting accounting entry, tearing pages, cutting and overwriting in vouchers, these are incorrect methods of rectifying errors. One should adopt correct method for rectification of errors.
11. **General principle of rectification of errors :** Undo what is wrong and to do what is correct. Correct serial of rectification is – (i) recording correct entry, (ii) What is wrong recording ?, (iii) To keep status quo of right in wrong entry, (iv) reversing wrong entry to complete it.
12. **Situation of Rectifying errors :** (1) Before preparing trial balance, (2) After preparation of trial balance but before preparing final accounts, (3) After preparing final accounts. While rectifying errors one should find out the situation of correction.
13. Before the trial balance is prepared, all ledger accounts remain opened. So rectification is done in the Ledger Account itself by writing reason of rectification. No entry is passed.
14. Journal entry is passed for rectification of errors after preparing trial balance. Suspense account is not used for rectification of those errors which do not affect tally of trial balance but it may be used for those errors which affect the tally of trial balance. Suspense Account is used to complete Journal Entry.

### Important Words

- |                           |                       |
|---------------------------|-----------------------|
| 1. Trial Balance          | 2. Error              |
| 3. Suspense Account       | 4. Error of Omission  |
| 5. Error if Communication | 6. Error of Principle |
| 7. Compensating Errors    | 8. Rectification      |
| 9. Total Amount Method    | 10. Balance Method    |

### Questions for Exercise

#### Multiple Choice Questions :

1. Trial Balance is .....
 

(a) Final Account	(b) A List
(c) Subsidiary Book	(d) An Account

2. Paid ₹ 5,000 to Naresh, but entered on debt side of Mahesh's Account. This is an error of –
  - (a) Omission
  - (b) Commission
  - (c) Compensating
  - (d) Principle
3. Total of both sides of Trial Balance will not tally if –
  - (a) ₹ 800 received from Uma wrongly credited to Usha.
  - (b) Bhawana returned goods of ₹ 1,200 was omitted to be recorded.
  - (c) Received commission ₹ 250 from Bhanwarlal was wrongly debited to commission account.
  - (d) Purchased Furniture ₹ 3,700 was debited to Purchases Account.
4. Credit Balance of Trial Balance is excess of ₹ 4,000, the reason is –
  - (a) Amount of ₹ 4,100 bad debts recovered from Shristhi was credited to her personal account.
  - (b) An old machine was sold to Vinod for ₹ 8,000, wrongly entered its Sales Book.
  - (c) Sold goods to Mamta ₹ 1,000 omitted to recorded in books.
  - (d) Paid ₹ 2,000 to Anand but was credited to his account.
5. Main objective of preparing Trial Balance is –
  - (a) For testing, ledger posting of subsidiary books.
  - (b) For testing arithmetical accuracy of books of accounts.
  - (c) For testing arithmetical accuracy of books of accounts.
  - (d) For writing all accounts at one place.
6. When totals of both sides of trial balance are not equal, the amount of difference is written in –
  - (a) In Suspense A/c
  - (b) In Trading A/c
  - (c) In Profit & Loss A/c
  - (d) In any Account

### Very Short Answer Type Questions :

1. What is a trial balance ?
2. What are different methods of preparing trial balance ? Name them.
3. Explain the meaning of Suspense Account.
4. Debit side total of trial balance is ₹ 10,000 and that of credit of ₹ 8,700, prepare Suspense Account.
5. Name the errors which do not affect the tally of trial balance.
6. Give two examples of errors which will affect the tally of trial balance.
7. “Is tallied trial balance a conclusive proof of arithmetical accuracy” ? Explain.
8. Before preparing trial balance it was ascertained that ₹ 250 received from Surbhi was written on debit side of her account. Rectify.
9. After preparing trial balance, it was ascertained that goods bought from Iqbal ₹ 1,500 was written ₹ 500 in purchases account and ₹ 1,050 in Iqbal's personal account. Give entry for rectification.

10. Give one example of compensating error.
11. State the meaning of error of principle.
12. Name different types of errors on the basis of sides.
13. State the names of two real accounts having debit balance.
14. Total of purchases return book ₹ 4,000, recorded on debit side of purchases return account with ₹ 400. With what amount trial balance will show difference on account of this mistake ? Which side will be under cast ?

### Short Answer Type Questions :

1. What is meant by trial Balance ? Give its three characteristics.
2. Explain the objectives of preparing trial balance in brief.
3. Explain the Total Amount and Balance Methods of preparing trial balance.
4. How will you locate the errors while preparing trial balance ?
5. Give two examples for each of one sided errors and double sided errors.
6. Prepare a table on the basis of Debtor credit balances of the following accounts :  
Cash A/c, Purchase Return A/c, Capital A/c, Drawing A/c, Purchases A/c, Sales A/c, Debtors A/c and Creditors A/c, Machinery A/c, Salaries A/c, Building A/c, Bank Loan A/c, Sales Return S/c, Investment A/c, Discount, Received A/c, Opening Stock A/c, Hansa's Loan A/c, Goods destroyed by fire A/c.
7. Explain in brief the errors which do not affect trial balance.
8. Explain giving examples four errors which affect the trial balance.
9. What is the difference between trial balance prepared by Total Amount Method and Balance method ?
10. Which of the following errors will affect and not affect the trial balance ?  
(a) Bought goods from Shyam ₹ 2,800 entered in Sales book as ₹ 2,000.  
(b) Received ₹ 1,200 from Ramlal was entered in the debit of Mohanlal.  
(c) Bought furniture ₹ 4,300 for personal use was debited to Furniture Account.  
(d) Stationary Account appearing of credit side of cash book was omitted to be posted in Ledger.
11. The following errors were found before preparing trial balance, rectify them :  
(a) Total of Sales Book is undercast by ₹ 2,200.  
(b) Depreciation of Machinery ₹ 1,400 was debited to Depreciation Account as ₹ 400.  
(c) Amount paid to Kavita ₹ 3,200 was omitted to be posted in her account.
12. The following errors were found after preparing trial balance. Give journal entries to rectify them and prepare suspense account :  
(a) The total on a page of Sales Return Book was ₹ 6,500 but carried forward on next page as ₹ 5,600.  
(b) Old Furniture sold to Divya for ₹ 1,250, which was entered in Sales Book.  
(c) Total of discount column on debit side of cash book is over cast by ₹ 200.

13. The following errors were found after preparing trial balance, give rectifying entries :
- Purchased goods from Vishal ₹ 3,000 was wrongly entered in Sales Book.
  - Goods returned to Rishab was wrongly entered in Sales Return Book.
  - Sold goods to Kritika ₹ 2,600 was entered in Purchases Return Book.
  - Bought Furniture from Priyanka ₹ 2,000 was entered in Purchases Book.
14. The accountant noticed the following errors before the preparation of trial balance. rectify those errors directly in concerned account –
- Received ₹ 200 from Mohan was not entered in his account.
  - Received commission ₹ 120 was posted in commission account as ₹ 420.
  - Total of purchase return book ₹ 2,111 carried forward as ₹ 21.

(Sec. Board, 2010)

15. Rectify the following errors found after preparation of trial balance by means of Journal entries –
- Credit Sales ₹ 531 was written as ₹ 351 in Sales Book.
  - A cheque of ₹ 320 received from Vikas was dishonored was returned. It was posted in Discount Account instead of Vikas.
  - A computer was sold for ₹ 15,400 which was entered in Sales Book.

(Sec. Board, 2010)

### Essay Type Questions :

- What steps will you take to locate errors when total of trial balance do not tally.
- What is meant by errors in Accounting ? What are those errors which affect the trial balance tally ?
- Explain the errors with examples which do not affect the trial balance.
- Explain in detail the first and second situations of rectifying errors.

### Numerical Questions :

- Prepare trial balance with the help of following accounts by total method and balancing method –

#### Anwar's Account

	To Sales A/c		30,000		By Cash A/c		12,000
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#### Wages Account

	To Cash A/c		3,000				
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#### Rent Account

	By Cash A/c		12,000				
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#### Commission Account

							600
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2. From the following account balance taken from the books of Mohammad Yunus, prepare trial balance as on 31st March 2016.

Stock (01.04.2015) – ₹ 30,000, Purchase – ₹ 57,500, Sales – ₹ 80,500, Capital – ₹ 13,000, Creditors ₹ 19,295, Sales Return – ₹ 3,000, Bank Loan – ₹ 7,500, B/R – ₹ 1,000, Purchase Return – ₹ 2,500, Debtors – ₹ 12,500, Machinery – ₹ 5,500, Building – ₹ 4,950, Rent Paid – ₹ 1,500, Interest Paid on Bank Loan – ₹ 500, Commission Received – ₹ 1,855, Bad Debts – ₹ 200, Bank Balance – ₹ 2,250, Cash Balance – ₹ 4,500, Furniture – ₹ 1,500, Drawings – ₹ 1,000, B/P – ₹ 1,250, Stock (31.03.2017) – ₹ 20,000

(Total of Trial balance : ₹ 1,25,900)

3. Prepare trial balance in the books of Remaehs Kumar as on 31st December 2016, from the following information :

Name of Ledger Account	Debit (₹)	Name of Ledger Account	Credit (₹)
Opening Stock	27,500	Carriage in word	2,000
Discount Cr.	100	Insurance Premium	1,750
Wages	6,200	Sales Return	1,550
Debtors	80,250	Trade Exp.	1,725
Creditors	40,875	Cash in hand	16,000
Purchase	96,250	Investment	4,000
Purchase Return	2,000	Capital	42,750
Bank Overdraft	15,000	Drawings	8,500
Rent & Rates	1,625	Loan to Prithvi	16,000
Sales	1,46,000	Interest on Bank Overdraft	1,125
Commission Received	750	Closing Stock	35,000
Furniture	3,000		

Ans. : Total of Trial Balance, Credit Balance of Suspense Account

4. Rectify the following trail balance prepared by an inexperienced accountant Tejpal (31st March, 2017)

Name of Ledger Account	Debit (₹)	Name of Ledger Account	Credit (₹)
Opening Stock	1,7000	Sales Return A/c	3,500
Purchase A/c	32,000	Sundry Expenses A/c	12,000
Discount Received	3,200	Debtors A/c	40,000
Bank Balance	5,000	Creditors A/c	18,000
Capital	51,000	Furniture A/c	2,000
Purchase Return A/c	3,000	Loan from Yunus	11,300
Machinery A/c	27,000	Sales A/c	52,000
Suspense A/c(B/F)	600		

:5. Give rectification for the following errors detected after the trial balance was prepared and prepare suspense account.

- (a) The purchase book was under cast by ₹ 2,000.
- (b) Interest received from Mangilal ₹ 1,500 was credited to the account of Motilal as ₹ 500.
- (c) Cash purchased of ₹ 3,000 from Ramkrishan was entered in Purchase book.
- (d) The total of discount received column of cash book was under cast by ₹ 200.
- (e) Freight ₹ 600 paid on purchase of goods was not recorded in the books.
- (f) Paid for stationary ₹ 700 was credited to stationery account.

[Ans. : Opening balance of suspense account – ₹ 2,600 (Debit)]

6. Rectify the errors given in Q.No. 5 assuming that these errors were detected before trial balance was prepared.

7. Following errors were detected after transferring the difference of trial balance in suspense a/c. Give rectifying entries and prepare suspense a/c.

- (a) An old machine was sold for ₹ 2,500 which was entered in Sales Book.
- (b) The total of Purchase Return Book was carried forward as ₹ 4,100 instead of ₹ 1,400.
- (c) Paid ₹ 800 to Naresh was credited to Mahesh's A/c.
- (d) The sales book was overcast by ₹ 2,000.
- (e) Depreciation on Machinery ₹ 1,000 was written as ₹ 1,100 in Depreciation A/c.

(Ans. : Opening debit balance of suspense account ₹ 5,700)

8. Following errors were detected before preparing trial balance, make necessary rectification :

- (a) A credit sale of Pushpa worth ₹ 1,800 was posted as ₹ 800 only in her personal account.
- (b) The debit balance of ₹ 1,300 from Deepak's Account was carried forward as ₹ 130 on credit side.
- (c) An omission of ₹ 150 was made in discount column of credit side of cash book.
- (d) Carriage paid on purchase of furniture ₹ 500 was debited to carriage account.
- (e) Goods returned to Praveen ₹ 2,100 was passed through Sales Book.

**Multiple Choice Questions Answer :**

1. (B)      2. (B)      3. (C)      4. (D)      5. (B)      6. (A)