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(Affiliated to CBSE up to +2 Level)

Class: 11th

Subject: Accountancy

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Trial Balance and Rectification of Errors Notes

Question 1:

State the meaning of a Trial Balance?

ANSWER:

Trial Balance is a statement prepared with debit and credit balances of all accounts in ledger, to verify the arithmetical accuracy of the accounts. It is prepared after balancing all the accounts of ledger. There are two columns in a Trial Balance: debit and credit. While debit side includes all the debit balances, credit side includes all the credit balances of the accounts. It also helps in preparing financial statements, as it is a summarise version of the ledger. It is generally prepared on monthly or yearly basis.

Question 2:

Give two examples of errors of principle?

ANSWER:

'Errors of principle' refer to those errors that are committed when recording of transactions is done against the accounting principle. Below given are the examples of error of principle

1. Wages paid for construction of building debited to Wages Account

In this transaction, wages paid for the construction of building is a capital expenditure and accordingly building account should have been debited. However, in this case, it is treated as revenue expenditure and is debited to Wages Account. This error violates the accounting principle.

2. Amount spent on repair of machinery debited to Machinery Account

In this transaction, amount of repair is a revenue expenditure and **not** a capital expenditure. It should have been debited as 'Repairs', but was wrongly debited to the Machinery Account.

Question 3:

Give two examples of errors of commission?

ANSWER:

Errors of Commission refer to those errors that are committed when transactions are recorded with wrong amounts; wrong balancing or wrong posting and/or wrong carrying forwarding is done. Below given are the examples of error of commission.

1. Goods purchased worth Rs 20,000 on credit are recorded in the Purchases Book as Rs 10,000.

This transaction should have been recorded in the Purchases Book with an amount of Rs 20,000; however, it was recorded as Rs 10,000. This is an error due to wrong recording of amount.

2. Total of Sales Book is carried forward as Rs 5,000 instead of Rs 500.

In this case, wrong amount is carried forwarded from one accounting period to another or from an end of one page to the beginning of another page. This is referred to as an error of carrying forward.

Question 1:

Describe the purpose for the preparation of trial balance.

ANSWER:

The important purposes for the preparation of Trial Balance are explained with the help of the following points.

1. **Ascertaining the arithmetical accuracy**– When the total of all debit balance accounts are equal to all credit balance accounts, it is assumed that at least posting from journal to the respective accounts is arithmetically correct.

2. **Summarising the ledger accounts**– Trial Balance acts as a consolidated statement, providing a comprehensive list of all the accounts. Thus, a Trial Balance provides a summarised version of each account.
3. **Preparing final accounts**– As the Trial Balance provides a summarised version of each account, so different accounts can be directly transferred to Trading, Profit and Loss Account, and Balance Sheet without referring to different ledgers.
4. **Locating and rectifying errors**– If the Trial Balance does **not** agree, it indicates the occurrence of arithmetical error, which can be easily located. However, Trial Balance only helps in locate and rectify arithmetical error and **not** other types of errors.

Question 2:

Explain errors of principle and give two examples with measures to rectify them.

ANSWER:

Errors of Principle refer to those errors that are committed when recording of transactions in the original book of entry is done against the accounting principle. These errors are **not** reflected in the Trial Balance. These errors are committed when proper distinction is **not** made between capital expenditure and revenue expenditure, or vice versa or between capital income and revenue income or vice versa.

The following examples will illustrate the process of understanding and rectification of such errors.

Let us consider first example. Wages paid for construction of building are debited to Wages Account.

Wrong entry made is:

Wages A/c	Dr.
To Cash A/c	
(Wages paid in cash)	

In this case, Wages paid for the construction of building should be treated as a capital expenditure and accordingly should be debited to the building account. However, the Wages Account is wrongly debited. Thus, the correct entry that should have been made is:

Building A/c	Dr.
To Cash A/c	
(Wages paid for construction of building)	

In order to rectify this error, the rectifying entry should be:

Building A/c	Dr.
To Wages A/c	
(Wages paid for construction of building was debited to Wages Account, now rectified)	

The second example of errors of principle is the sale of old machinery recorded as sales.

Wrong entry made:

Cash A/c	Dr.
To Sales A/c	
(Sales of old machinery, recorded as sales)	

In this case, the sale of old machinery should **not** be recorded as sales; in fact the Machinery Account should be credited. Thus, the correct entry that should have been made is:

Cash A/c	Dr.
To Machinery A/c	
(Old machinery sold for cash)	

In order to rectify this error, Sales Account will be debited, as it is wrongly credited and machinery will be credited, as it will **not** be recorded in the books. Thus, the rectifying entry will be:

Sales A/c	Dr.
To Machinery A/c	
(Sale of old machinery recorded as sales, now rectified)	

Question 3:

Explain the errors of commission and give two examples with measures to rectify them.

ANSWER:

Errors of commission refer to those errors that are committed when transactions are recorded with wrong amounts, wrong balancing is done, wrong posting and/or wrong carrying forwarded is done. The following examples will illustrate the process of understanding and rectification of such errors.

1. Let us consider the first example. Sales made to Mr. X of Rs10,000 recorded as 1,000 from invoice. In this case, Mr. X’s account has been debited with Rs 1,000 instead of Rs 10,000; hence, the error of commission is committed. This requires a further debit of Rs 9,000, in order to rectify this error of commission. This will be rectified by passing the following entry:

Mr X's A/c	Dr.	9,000	
To Sales A/c			9,000

(Goods sold to Mr X of Rs 10,000 was wrongly posted as Rs 1,000,now rectified)

2. Purchase book was undercast by Rs 10,000.

This error can be rectified in any of the following two stages:

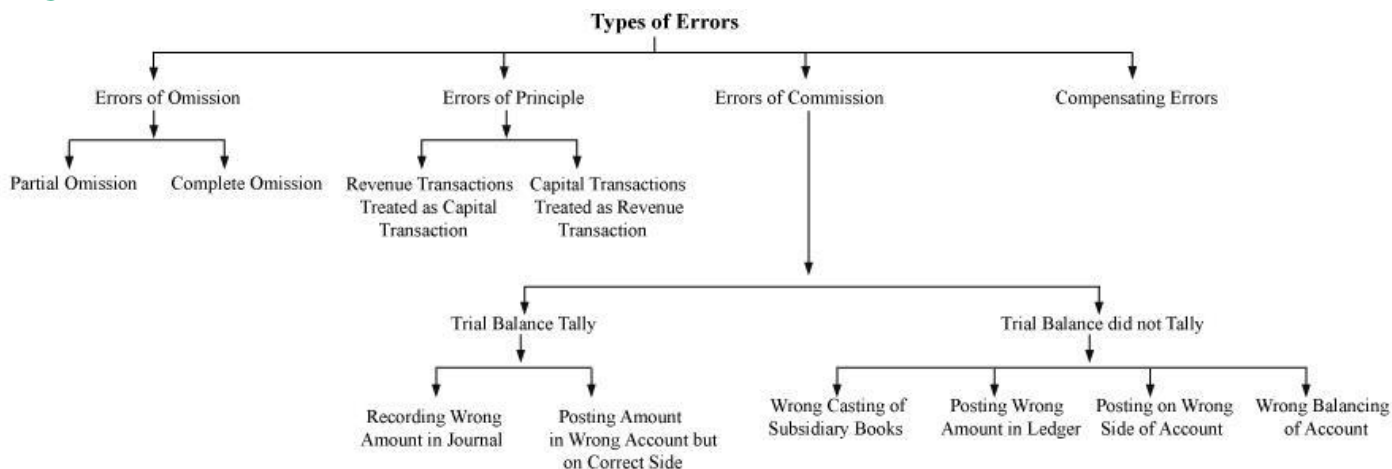
- a. If an error is located before preparing trial balance, then Rs 10,000 should be recorded in the debit side of Purchases Account.
- b. If an error is located after preparing Trial Balance, then the following entry need to be recorded.

Purchase A/c	Dr.	10,000	
To Suspense A/c			10,000

Question 4:

What are the different types of errors that are usually committed in recording business transaction?

ANSWER:



1. **Errors of omission**– When an entry gets omitted during recording in the book of original entry or during posting the transaction, then error of omission is committed. There are two types of errors of omission, viz.:
 1. **Partial omission**– When a transaction is correctly recorded in one side of account but is **not** recorded in the other side of the account. For example, goods sold to Mahesh recorded in sales but omitted to be recorded in Mahesh’s account. It affects the trial balance.
 2. **Complete omission**– When a transaction gets completely omitted to be recorded in the books, then it is the case of complete omission . For example, transaction related to purchase of goods from Rakesh is not recorded in the purchases book. Such omissions does **not** affect the trial balance.
2. **Errors of principle**– These refer to those errors that are committed when recording of transactions in the book of the original entry is done against the accounting principle. These errors affect the trial balance.
3. These errors are committed when proper distinction is **not** made between revenue income or expenditure and capital income or expenditure. These are of two types:

When revenue transactions are treated as capital transactions
When capital transactions are treated as revenue transactions.
For example, repairs made to machinery, recorded in machinery account.

4. **Errors of commission**– These refer to those errors that are committed when transactions are recorded with wrong amounts, wrong balancing, wrong posting and/or wrong carrying forwarded is done.
5. These are of two types:
 1. **Trial balance does not agree**

When trial balance does not agree, then there exist one-sided errors that affect only one account and thereby are easily detectable. These one-sided errors exist due to the following reasons:

- i. Wrong casting of subsidiary book
Posting wrong amount in ledger
Posting on the wrong side of account
Wrong balancing of account
2. **Trial balance agrees**
 - i. When the trial balance agrees, then it should **not** be taken for granted that there are no errors, as the tallied trial balance just ensures the absence of arithmetical errors. These errors are **not** easily detectable; as these do **not** affect the trial balance. These errors arise due to: Recording wrong amount in the original book
 - ii. Posting amount in the wrong account but in the correct side
6. **Compensating errors**– When effects of one error are cancelled by the effects of another error of an equal amount, then compensating errors are committed. For example, Mr. A's account was credited by Rs 2,000 instead of 200 and Mr. B's account was credited by Rs 200 instead of 2,000. In this case, the error in Mr. A's account will be compensated by the error in Mr. B's account.

Question 5:

As an accountant of a company, you are disappointed to learn that the totals in your new trial balance are not equal. After going through a careful analysis, you have discovered only one error. Specifically, the balance of the Office Equipment account has a debit balance of Rs. 15,600 on the trial balance. However, you have figured out that a correctly recorded credit purchase of pen-drive for Rs 3,500 was posted from the journal to the ledger with a Rs. 3,500 debit to Office Equipment and another Rs. 3,500 debit to creditors accounts. Answer each of the following questions and present the amount of any misstatement :

- (a) Is the balance of the office equipment account overstated, understated, or correctly stated in the trial balance?
- (b) Is the balance of the creditors account overstated, understated, or correctly stated in the trial balance?
- (c) Is the debit column total of the trial balance overstated, understated, or correctly stated?
- (d) Is the credit column total of the trial balance overstated, understated, or correctly stated?
- (e) If the debit column total of the trial balance is Rs. 2,40,000 before correcting the error, what is the total of credit column.

ANSWER:

According to the given information, trial balance does **not** agree. Pen-drive is wrongly debited to office equipment account, instead of stationery account and supplier account is debited instead of crediting. Due to these mistakes, the following errors are committed:

1. The balance of office equipment is overstated by Rs 3,500.
2. The balance of creditors account is understated by Rs 7,000.
3. The total of the debit column of the trial balance is correctly stated.
4. The total of the credit column of the trial balance is understated by Rs 7,000.
5. If the total of the debit column of the trial balance is Rs 2,40,000 before rectifying error, the total of the credit column of the trial balance is Rs 2,33,000 (i.e., Rs 2,40,000 – Rs 7,000).

Question 6:

Rectify the following errors:

- (i) Credit sales to Mohan Rs 7,000 were not recorded.
- (ii) Credit purchases from Rohan Rs 9,000 were not recorded.
- (iii) Goods returned to Rakesh Rs 4,000 were not recorded.
- (iv) Goods returned from Mahesh Rs 1,000 were not recorded.

ANSWER:

S.No.	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
(i)	Mohan To Sales A/c (Goods sold to Mohan were not recorded, now recorded)	Dr.	7,000	7,000
(ii)	Purchases A/c To Rohan (Goods purchased to Rohan were not recorded, now recorded)	Dr.	9,000	9,000
(iii)	Rakesh To Purchases Return A/c (Goods returned to Rakesh were not recorded, now recorded)	Dr.	4,000	4,000
(iv)	Sales Return A/c To Mahesh (Goods returned from Mahesh were not recorded, now recorded)	Dr.	1,000	1,000

Question 7:

Rectify the following errors:

- (i) Credit sales to Mohan Rs 7,000 were recorded as Rs 700.
- (ii) Credit purchases from Rohan Rs 9,000 were recorded. as Rs 900.
- (iii) Goods returned to Rakesh Rs 4,000 were recorded as Rs 400.
- (iv) Goods returned from Mahesh Rs 1,000 were recorded as Rs 100.

ANSWER:

Journal

S.No.	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
(i)	Mohan To Sales A/c (Goods sold to Mohan Rs 7,000 were recorded as Rs 700, now rectified)	Dr.	6,300	6,300
(ii)	Purchases A/c	Dr.	8,100	

	To Rohan (Goods purchased from Rohan Rs 9,000 were recorded as Rs 900, now rectified)			8,100
(iii)	Rakesh To Purchases Return A/c (Goods returned to Rakesh Rs 4,000 were recorded as Rs 400, now rectified)	Dr.	3,600	3,600
(iv)	Sales Return A/c To Mahesh (Goods returned from Mahesh Rs 1,000 were not recorded as Rs 100, now rectified)	Dr.	900	900

Question 8:

Rectify the following errors:

- (i) Credit sales to Mohan Rs 7,000 were recorded as Rs 7,200.
- (ii) Credit purchases from Rohan Rs 9,000 were recorded as Rs 9,900.
- (iii) Goods returned to Rakesh Rs 4,000 were recorded as Rs 4,040.
- (iv) Goods returned from Mahesh Rs 1,000 were recorded as Rs 1,600.

ANSWER:

Journal

S. No.	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
(i)	Sales A/c To Mohan (Goods sold to Mohan Rs 7,000 were recorded as Rs 7,200, now rectified)	Dr.	200	200
(ii)	Rohan To Purchases A/c (Goods purchased from Rohan Rs 9,000 were recorded as Rs 9,900, now rectified)	Dr.	900	900
(iii)	Purchases Return A/c To Rakesh (Goods returned to Rakesh Rs 4,000 were recorded as Rs 4,040 now rectified)	Dr.	40	40
(iv)	Mahesh To Sales Return A/c	Dr.	600	600

(Goods returned from Mahesh Rs 1,000 were recorded as Rs 1,600, now rectified)			
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Question 9:

Rectify the following errors:

- (a) Salary paid Rs 5,000 was debited to employee's personal account.
- (b) Rent Paid Rs 4,000 was posted to landlord's personal account.
- (c) Goods withdrawn by proprietor for personal use Rs 1,000 were debited to sundry expenses account.
- (d) Cash received from Kohli Rs 2,000 was posted to Kapur's account.
- (e) Cash paid to Babu Rs 1,500 was posted to Sabu's account.

ANSWER:

Journal

S. No.	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
(a)	Salaries A/c To Employee (Salary paid Rs 5,000 were wrongly debited to Employee's personal Account, now rectified)	Dr.	5,000	5,000
(b)	Rent A/c To Land Lord A/c (Rent paid Rs 4,000 was posted to Landlord's Account, now rectified)	Dr.	4,000	4,000
(c)	Drawings A/c To Sundry Expenses A/c (Goods drawn by proprietor were wrongly debited to Sundry Expenses Account, now rectified)	Dr.	1,000	1,000
(d)	Kapur To Kohli (Cash received from Kohli was posted to Kapur's Account, now rectified)	Dr.	2,000	2,000
(e)	Babu To Sabu (Cash paid to Babu was posted wrongly to Sabu's Account, now rectified)	Dr.	1,500	1,500

Question 10:

Rectify the following errors:

- (a) Credit Sales to Mohan Rs 7,000 were recorded in purchases book.

- (b) Credit Purchases from Rohan Rs 900 were recorded in sales book.
- (c) Goods returned to Rakesh Rs 4,000 were recorded in the sales return book.
- (d) Goods returned from Mahesh Rs 1,000 were recorded in purchases return book.
- (e) Goods returned from Nahesh Rs 2,000 were recorded in purchases book.

ANSWER:

Journal

S.No.	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
(a)	Mohan Dr. To Sales A/c To Purchases A/c (Goods sold on credit to Mohan were recorded in Purchases Book, now rectified)		14,000	7,000 7,000
(b)	Sales A/c Dr. Purchases A/c Dr. To Rohan (Goods purchased from Rohan were recorded in Sales Book, now rectified)		900 900	1,800
(c)	Rakesh Dr. To Purchases Return A/c To Sales Return A/c (Goods returned to Rakesh were recorded in Sales Return Book, now rectified)		8,000	4,000 4,000
(d)	Sales Return A/c Dr. Purchases Return A/c Dr. To Mahesh (Goods returned from Mahesh were recorded in Purchases Return Book, now rectified)		1,000 1,000	2,000
(e)	Sales Return A/c Dr. To Purchases A/c (Goods returned from Mahesh were recorded in Purchases Book, now rectified)		2,000	2,000

Question 11:

Rectify the following errors:

- (a) Sales book overcast by Rs 700.
- (b) Purchases book overcast by Rs 500.
- (c) Sales return book overcast by Rs 300.
- (d) Purchase return book overcast by Rs 200.

ANSWER:**Journal**

S.No.	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
(a)	Sales A/c To Suspense A/c (Sales Book overcast by Rs 700, now rectified)	Dr.	700	700
(b)	Suspense A/c To Purchases A/c (Purchases Book overcast by Rs 500, now rectified)	Dr.	500	500
(c)	Suspense A/c To Sales Return A/c (Sales Return Book overcast by Rs 300, now rectified)	Dr.	300	300
(d)	Purchases Return A/c To Suspense A/c (Purchases Return Book overcast by Rs 200, now rectified)	Dr.	200	200