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Trial Balance and Rectification of Errors

Question 1:

Describe the purpose for the preparation of trial balance.

ANSWFR:

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)

Building A/c

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:

To Cash A/c

(Wages paid for construction

of building)

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

Building A/c

To Wages A/c

(Wages paid for construction

of building was debited to Wages Account, now rectified)

Dr.

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