

VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

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Teacher name – Ajay Kumar Sharma

Trial Balance and Rectification of Errors

6.5 Searching of Errors

If the trial balance does not tally, it is a clear indication that at least one error has occurred. The error (or errors) needs to be located and corrected before preparing the financial statements.

If the trial balance does not tally, the accountant should take the following steps to detect and locate the errors :

- Recast the totals of debit and credit columns of the trial balance.
- Compare the account head/title and amount appearing in the trial balance, with that of the ledger to detect any difference in amount or omission of an account.
- Compare the trial balance of current year with that of the previous year to check additions and deletions of any accounts and also verify whether there is a large difference in amount, which is neither expected nor explained.
- Re-do and check the correctness of balances of individual accounts in the ledger.
- Re-check the correctness of the posting in accounts from the books of original entry.
- If the difference between the debit and credit columns is divisible by 2, there is a possibility that an amount equal to one-half of the difference may have been posted to the wrong side of another ledger account. For example, if the total of the debit column of the trial balance exceeds by Rs. 1,500, it is quite possible that a credit item of Rs.750 may have been wrongly posted in the ledger as a debit item. To locate such errors, the accountant should scan all the debit entries of an amount of Rs. 750.
- The difference may also indicate a complete omission of a posting. For example, the difference of Rs. 1,500 given above may be due to omissions of a posting of that amount on the credit side. Thus, the accountant should verify all the credit items with an amount of Rs. 1,500.
- If the difference is a multiple of 9 or divisible by 9, the mistake could be due to transposition of figures. For example, if a debit amount of Rs. 459 is posted as Rs. 954, the debit total in the trial balance will exceed the credit side by Rs. 495 (i.e. $954 - 459 = 495$). This difference is divisible by 9. A mistake due to wrong placement of the decimal point may also be checked by this method. Thus, a difference in trial balance divisible by 9 helps in checking the errors for a transposed mistake.

6.6 Rectification of Errors

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

- (a) errors which do not affect the trial balance.
- (b) errors which affect the trial balance.

This distinction is relevant because the errors which do not affect the trial balance usually take place in two accounts in such a manner that it can be easily rectified through a journal entry whereas the errors which affect the trial balance usually affect one account and a journal entry is not possible for rectification unless a suspense account has been opened. Such errors are rectified by passing a nullifying entry in the respective account as explained before under 6.6.2.

6.6.1 Rectification of Errors which do not Affect the Trial Balance

These errors are committed in two or more accounts. Such errors are also known as two sided errors. They can be rectified by recording a journal entry giving the correct debit and credit to the concerned accounts.

Examples of such errors are – complete omission to record an entry in the books of original entry; wrong recording of transactions in the book of accounts; complete omission of posting to the wrong account on the correct side, and errors of principle.

The rectification process essentially involves:

- Cancelling the effect of wrong debit or credit by reversing it; and
- Restoring the effect of correct debit or credit.

For this purpose, we need to analyse the error in terms of its effect on the accounts involved which may be:

- (i) Short debit or credit in an account ; and/or
- (ii) Excess debit or credit in an account.

Therefore, rectification entry can be done by :

- (i) debiting the account with short debit or with excess credit,
- (ii) crediting the account with excess debit or with short credit.

The procedure for rectification for such errors is explained with the help of following examples :

- (a) Credit sales to Mohan Rs. 10,000 were not recorded in the sales book. This is an error of complete omission. Its affect is that Mohan's account has not been debited and Sales account has not been credited. Accordingly, recording usual entry for credit sales will rectify the error.

Mohan's A/c	Dr.	10,000	
To Sales A/c			10,000

- (b) Credit sales to Mohan Rs. 10,000 were recorded as Rs. 1,000 in the sales book. This is an error of commission. The effect of wrong recording is shown below:

Mohan's A/c	Dr.	1,000	
To Sales A/c			1,000

Correct effect should have been:

Mohan's A/c	Dr.	10,000	
To Sales A/c			10,000

Now that Mohan's account has to be given an additional debit of Rs. 9,000 and sales account has to be credited with additional amount of Rs. 9,000, rectification entry will be :

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

- (c) Credit sales to Mohan Rs. 10,000 were recorded as Rs. 12,000. This is an error of commission. The effect of wrong entry made has been :

Mohan's A/c	Dr.	12,000	
To Sales A/c			12,000

Correct effect should have been :

Mohan's A/c	Dr.	10,000	
To Sales A/c			10,000

You can see that there is an excess debit of Rs. 2,000 in Mohan's account and excess credit of Rs. 2,000 in sales account.

The, rectification entry will be recorded as follows:

Sales A/c	Dr.	2,000	
To Mohan's A/c			2,000

- (d) Credit sales to Mohan Rs. 10,000 was correctly recorded in the sales book but was posted to Ram's account. This is an error of commission. The effect of wrong posting has been :

Ram's A/c	Dr.	10,000	
	To Sales A/c		10,000

Correct effect should have been :

Mohan's A/c	Dr.	10,000	
	To Sales A/c		10,000

Notice that there is no error in sales account. But Ram's account has been debited with Rs. 10,000 instead of Mohan's account.

Hence rectification entry will be :

Mohan's A/c	Dr.	10,000	
	To Ram's A/c		10,000

- (e) Rent paid Rs. 2,000 was wrongly shown as payment to landlord in the cash book:

The effect of wrong posting has been :

Landlord's A/c	Dr.	2,000	
	To Cash A/c		2,000

Correct effect should have been :

Rent A/c	Dr.	2,000	
	To Cash A/c		2,000

Landlord's account has been wrongly debited instead of Rent account.

Hence, rectification entry will be :

Rent A/c	Dr.	2,000	
	To Landlord's A/c		2,000