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शक्तिउत्थानआश्रमलखीसरायबिहार

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Trial Balance and Rectification of Errors

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.**

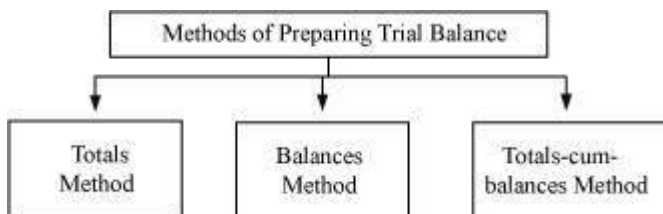
In this case, wrong amount is carried forwarded from one accounting period to another or from an end of one page to the beginning of another page. This is referred to as an error of carrying forward.

Question 4:

What are the methods of preparing trial balance?

ANSWER:

Below are diagrammatically explained methods to prepare Trial Balance.



Let us understand these methods of preparing Trial Balance with the help of an abstract account of Mr. A.

Mr. A's Account							
Dr.				Cr.			
2011				2011			
Apr.1	Balance b/d		50,000	Apr.7	Cash		30,000
Apr.3	Sales	20,000	Apr.8	Sales Return	20,000		
Apr.10	Sales	40,000	Apr.16	Bank	50,000		
				Apr.30	Balance c/d		10,000
			1,10,000				1,10,000

1. **Totals method:** According to the Totals method, the total of debit and credit sides of an account is shown in the debit and credit columns of the Trial Balance. If the total of the debit column and the total of credit column of Trial Balance are equal, then the Trial Balance is said to agree, otherwise not.

For example, in the above example, the total of the debit side of Mr. A Account, i.e., Rs 1,10,000 is shown in the debit column of the Trial Balance and the total of the credit side of Mr. A Account, i.e., Rs 1,10,000 is shown in the credit column of the Trial Balance. The total of debit column and the total of the credit column of the Trial Balance are equal to each other.

Trial Balance as on April 30, 2011			
Accounts	L.F.	Debit Total Rs	Credit Total Rs
Mr. A's Account		1,10,000	1,00,000

3. **Balance method:** According to the Balance method, the balance of ledger accounts is shown in the debit and credit column of the Trial Balance. The balance of ledger may be either debit balance or credit balance. In the former case, the debit side of an account exceeds its credit side; whereas, in the latter case the credit side exceeds the debit side of the account. The sum total of the balances in the debit column of the Trial Balance must be equal to the sum total of the balances in the credit columns of the Trial Balance. It is a commonly used method.
4. For example, Mr A's account shows a debit balance of Rs 10,000, as the total of the debit side (Rs 1,10,000) exceeds the total of the credit side (Rs 1,00,000). The debit balance of Rs 10,000 will be shown in the debit column of the Trial Balance.
- 5.

Trial Balance as on April 30, 2011				
			Debit Balance Rs	Credit Balance Rs
Accounts	L.F.			
Mr. A's Account			10,000	

5. **Total cum balance method:** It is a combination of both of the above methods, i.e., Totals method and Balance method.

Trial Balance as on April 30, 2011						
			Debit Total Rs	Credit Total Rs	Debit Balance Rs	Credit Balance Rs
Accounts	L.F.		Total Rs			
Mr. A's Account			1,10,000	1,00,000	10,000	

Question 5:

What are the steps taken by an accountant to locate the errors in the trial balance?

ANSWER:

The following are various steps that an accountant takes to locate the errors in the Trial Balance.

1. Re-totalling of the debit and the credit columns of the Trial Balance to locate the difference in the total of both the columns.
2. Checking whether any account is omitted to be recorded with the exact difference amount.
3. Half the difference, then check whether any amount is posted in the wrong column of the Trial Balance.
4. Divide the difference by 9, if it is completely divisible, it is an error of transposition of figure, i.e. 546 is written as 645.
5. If there exist differences especially of Rs 1, Rs 10, Rs 100, Rs 1000, etc., it suggests that the casting of Subsidiary Books should be checked once again.
6. If difference still exists and it is **not** possible to detect the reason for the difference, then for the time being, the difference is transferred in the suspense account in order to proceed further. Otherwise, a complete checking is suggested

