



Accountancy Notes PDF

On

Trial Balance and Rectification of Errors

(Class - 11 / Chapter - 6)

Trial Balance is a statement which accounts for all the balances of the Personal account, Real account, and Nominal account regardless of either Revenue or Capital A/c. It comprises 2 columns viz., debit and credit. If the transactions are documented systematically by providing a dual-sided effect and later posted methodically, then the total of both the columns would be similar.

In other words, a trial balance is a worksheet record book that reflects the debit and credit balance of all the registered accounts. This worksheet statement is used to prepare the final account report of the company. Trial balance also determines the accuracy of the account. However, it doesn't ensure that the account is error-free but surely gives mathematical precision.

Objectives of Preparing the Trial Balance

1. To determine the financial efficiency of the ledger accounts- The trial balance helps to keep a record of all the credit and debit transactions properly in the ledger and to check if the accounts have been balanced correctly. If both the balance is correct, then it is assumed that the record of the trial balance is correct.

2. To help in the rectification of errors- Whenever the trial balance does not tally, management should know that there is at least one error in the accounting process. Few errors that occur are.

- Subsidiary book total
- Recording journal entries in a ledger
- Account balance calculation
- Transferring account balance to the trial balance
- Trial balance total

3. To help in the formation of the financial statements- To prepare a financial statement, the final tallied trial balance is required. Here, all expense and revenue accounts registered in the trial balance are carried to the profit and loss account, and all liabilities, assets, and capital accounts are carried to the balance sheet.

Preparation of Trial Balance

There are three ways in which a trial balance can be prepared.

1. Total Method- In this method, the total balance of the credit and debit is determined in an individual column and displayed in the trial balance. Both the column's total should be equal as it is based on the double-entry system.

2. Balances Method- This method is used widely and is prepared by determining the balance of all the ledger accounts and then summing up the debit and credit total of the trial balance to ensure accuracy.

3. Total-cum-balance Method- This method is the amalgamation of both the total and balance method. In this method, four columns for the amount are made. Two for writing credit and debit totals and the other two for credit and debit balance of the account.

Types of Errors

According to trial balance and rectification of errors, there are four major types of errors committed while recording various business transactions in the trial balance. These are errors of omission, errors of principle, errors of commission, and compensating errors. Let us take an intricate look at them-

- **Errors of Omission:** When you miss an entry while posting transactions or recording in books, this type of error happens. There are two types in it- partial and complete omission.
- **Errors of Principle:** This error occurs when the transactions are recorded against the principles of accounting. These errors lay a direct effect on the trial balance.
- **Errors of Commission:** Any transaction that has a wrong amount, wrong posting, wrong carrying forward, and wrong balancing, comes under this category of errors. It is of two types- trial balance tally and trial balance did not tally.
- **Compensating Errors:** Compensating errors are the errors that get canceled by the effect of another mistake. There is no sub-category under this error.

Steps to Identify Errors in the Trial Balance

- Check the total amount of both columns of the trial balance.
- Recheck if the bank balance, cash balance, discount allowed and discount received are entered correctly.
- Evaluate the difference and check if there is an omission or error in the trial balance.
- Recheck the ledger balance and accounts. Also, check the posting of ledger balance to trial balance.
- Check the subsidiary account to identify any lapses in carrying forward and bringing forward.
- Companies need to recheck different accounts when the difference is bigger. They can do that by comparing the current and previous year's trial balance.
- Companies should also check if the right amount is posted on the right side of the account.
- In the case where errors cannot be identified, the difference is transferred to the suspense account. Any one-sided error found can be rectified through a suspense account only.

Limitations of Trial Balance

- Cannot detect errors known as Errors of Complete Omission which arise when an entry is not recorded in the Journal.
- Cannot detect errors of principle that may take place in the account.
- Cannot detect errors due to wrong entry in accounts, which can lead to errors.
- Cannot detect errors known as Compensatory Errors which is the effect of one error that is canceled by the effect of another error.
- The Trial Balance fails to reflect errors such as if the correct amount is posted in the correct side; but, in the wrong account and if wrong amount is posted in the wrong side, but in the correct account.

Trial Balance and Rectification of Errors Format

Account Title	L.F	Debit Balance (₹)	Credit Balance (₹)
Capital		-	-
Buildings and Land		-	-
Machinery and Plant		-	-
Equipment		-	-
Fixtures and Furniture		-	-
Cash in Hand		-	-
Cash at Bank		-	-
Debtors		-	-
Receivable Bills		-	-
Raw Materials Stocks		-	-
Finished Goods Stocks		-	-
Purchases		-	-
Carriage Inwards		-	-
Carriage Outwards		-	-
Sales		-	-
Sales Return		-	-
Purchases Return		-	-
Interest Paid		-	-
Commission / Discount Received		-	-
Salaries		-	-
Long Term Loan		-	-
Bills Payable		-	-
Creditors		-	-
Advances from Customers		-	-
Drawings		-	-
Total		--	--

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