

# ACCOUNTANCY

## Chapter 6: Trial Balance And Rectification Of Errors



For example, sales book totaled as ₹5,000 instead of ₹50,000. Here, the total sales of the book are short by ₹45,000. This error can be rectified by any of the following two:

- If the error is located before preparing trial balance, then ₹45,000 should be recorded in the credit side of sales account.
- If an error is located after preparing the trial balance, then assuming that a suspense account is opened, the following entry needs to be recorded.

Rectified Entry	
Suspense A/c	Dr. 45,000
To Sales A/c	45,000
(Being sales book wrongly totaled as ₹5,000 instead of ₹50,000)	

### Important Questions

#### Multiple Choice Questions-

Question 1. Goods lost by fire should be credited to:

- a) Trading A/c
- b) Loss by Fire A/c
- c) Sales A/c
- d) Profit & Loss A/c

Question 2. Sales of Rs.10,000 recorded as Rs. 1,000 is an example of:

- a) Compensating Error
- b) Errors of principle
- c) Errors of omission
- d) Errors of commission

Question 3. Trial Balance might match in spite of presence of:

- a) Errors of complete omission, Errors of principle
- b) Errors of complete omission
- c) Errors of commission
- d) Errors of principle

Question 4. Compensating errors are of a \_\_\_\_\_ nature.

- a) Neutralizing
- b) Consistent
- c) Concealing
- d) Accommodating

Question 5. Rectification entries are passed in -

- a) Journal Proper
- b) Purchase Book
- c) Sales Book
- d) None of the options

Question 6. Under casting of Sales book is corrected by \_\_\_\_\_ Sales Account

- a) Crediting
- b) Debiting
- c) Balancing
- d) Ignoring

Question 7. A Suspense Account will give the

- a) Debit or Credit balance
- b) Debit balance
- c) Credit balance
- d) None of the options

Question 8. Purchase of office furniture worth Rs. 5,000 has been debited to General expenses account. Identify the error.

- a) Error of Principle
- b) Clerical error
- c) Error of omission
- d) None of the options

Question 9. Rs. 2000 received from Smith whose account was previously written off as bad debt should be credited to -

- a) Bad debts recovered Account
- b) Smiths Account
- c) Cash Account
- d) None of the options

Question 10. A Trial Balance is prepared to

- a) Ensure Arithmetical accuracy
- b) Locate Errors of Principle
- c) Locate Errors of omission
- d) Locate Errors of commission

### Very Short-

1. Define trial balance?

- 2 Explain two objectives of preparing a trial balance.
3. While preparing a Trial balance which error cannot be disclosed.
4. State one example of an error of commission?
- 5 Define a compensating error.
6. Give an example of principal error.

### Short Questions-

- 1 If the amount is posted in the wrong account or it is written on the wrong side of account, what error is it?
2. What do you understand by rectification of errors?
3. Give two examples of two-sided error.
4. Give one example of one-sided errors.
5. Discuss the balance method of preparing trial balance.

### Long Questions-

1. A book-keeper of a trading concern having failed to agree the trial balance, opened a suspense account and entered the difference in the trial balance.
  - i. Goods sold to Manohar for Rs 550 was posted as Rs 5,500.
  - ii. Purchases return book was carried forward as Rs 1,220 instead of Rs 1,120.

You are required to pass the journal entries for rectification of the above errors

2. Rectify the following errors
  - i. Depreciation provided on machinery Rs 4,000 was not posted.
  - ii. Bad debts written-off Rs 5,000 were not posted.
  - iii. Discount allowed to a debtor Rs 100 on receiving cash from him was not posted.
  - iv. Bill receivable for Rs 2,000 received from a debtor was not posted.
3. Rectify the following errors
  - i. Sales book overcast by Rs 700.
  - ii. Purchase book overcast by Rs 500.
  - iii. Sales return book overcast by Rs 300.
  - iv. Purchase return book overcast by Rs 200

### Case Study Based Question-

1. Read the following hypothetical text and answer the given questions: -

An accountant while balancing his books on 31st December 2016 found that there was a difference of ₹ 270 in the trial balance. Being required to prepare the final accounts he placed the difference to a newly opened Suspense A/c, which was carried forward to the next year when the following errors were discovered:

Salary for the month of March was posted twice ₹ 155.

Interest on investment collected by the bankers, were posted directly in concerned accounts through the pass book, but no entry was made in the bank column of the cash book ₹ 75.

Rent of ₹ 350 received from Ashok credited both to Rent Account and Ashok Account.

A purchase of a chair from Karnal Furniture Mart for ₹ 65 has been entered in the purchase book as ₹ 56.

Old Machinery sold to the proprietor Keshav for ₹400 was entered in the Sales Book as sale to Kishore.

Cash Purchases from Ajay ₹ 189 were recorded in Cash Book as well as in Purchases Book and posted from both.

Closing Stock has been undervalued by ₹ 300.

The Profit & Loss Account disclosed a net profit of ₹ 15,000 for the year ended 31st March 2016.

### Questions:

1. What will be the journal entry for the balance of Profit and Loss Adjustment Account?

(a) Profit & Loss Adjustment A/c Dr. 300

To Suspense A/c 300

(Being balance of Profit & Loss Adjustment A/c transferred to Suspense A/c)

(b) Profit & Loss Adjustment A/c Dr. 300

To Capital A/c 300

(Being balance of Profit & Loss Adjustment A/c transferred to Capital A/c)

(c) Profit & Loss Adjustment A/c Dr. 300

To Profit & Loss Appropriation A/c 300

(Being balance of Profit & Loss Adjustment A/c transferred to Profit & Loss Appropriation A/c)

(d) No entry will be passed.

2. What will be the rectification entry of the salary for the month of march posted twice?

(a) Suspense A/c Dr. 155

To Profit & Loss Adjustment A/c 155

(Being rectification of salary posted twice in the books)

(b) Suspense A/c Dr. 310

To Profit & Loss Adjustment A/c 310

(Being rectification of salary posted twice in the books)

(c) Profit & Loss Adjustment A/c Dr. 155

To Suspense A/c 155

(Being rectification of salary posted twice in the books)

(d) Profit & Loss Adjustment A/c Dr. 155

To Suspense A/c 155

(Being rectification of salary posted twice in the books)

2. Read the following hypothetical Trial Balance extracted from the books of M/s Ravilal and Company and answer the given questions:

In the books of M/s Ravilal and Company

**Trial Balance as on 31/3/2018**

Particulars	L.F.	Debit (₹)	Credit (₹)
Stock on 1.4.2017		2,50,000	
Purchases		6,50,000	
Sales			10,00,000
Motor Vans		3,80,000	
Debtors and Creditors		1,50,000	94,000
Premises			3,00,000
Shop Fittings			20,000
Interest on Bank Overdraft			16,000
Purchase Returns		10,000	
Sales Returns			20,000
Lighting and Heating		18,000	
Capital			5,00,000
Discount received	2,000		
Repairs	2,500		6,500
Electricity			
Bank Overdraft	2,00,000		
Stock on 31.3.2018	3,30,000		15,000
Rent from subletting			8,000
Bills Receivable			13,000
Suspense Account (difference in the books)			
		19,92,500	

**Questions:**

- Which of the following items appears on the wrong side of the trial Balance?
  - Purchases
  - Motor Vans
  - Premises

- (d) Capital
2. What should be the actual total in the rectified Trial Balance?
- (a) ₹ 18,21,000  
(b) ₹ 19,92,500  
(c) ₹ 19,21,000  
(d) ₹ 18,92,500

### Answer key

#### MCQ Answers-

1. Answer: Trading A/c
2. Answer: Compensating Error
3. Answer: Errors of complete omission, Errors of principle
4. Answer: Neutralizing
5. Answer: Journal Proper
6. Answer: Crediting
7. Answer: Debit or Credit balance
8. Answer: Error of Principle
9. Answer: Bad debts recovered Account
10. Credit; Ensure Arithmetical accuracy

#### Very Short Answers-

1. **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. Ans The debit balance in passbook means overdraft.
2. Ans. The two objectives of preparing a trial balance
  - To determine the financial accuracy of the ledger accounts
  - To help in finding an error.
3. While preparing a Trial balance the following errors cannot be disclosed
  - Error of Omission
  - Error of Commission
4. Ans. Error of commission can be represented by the following example:  
Purchase of goods for ₹5,000 entered in the purchase book as ₹500.
5. Ans. A compensating error can be defined as when one error compensates or

neutralizes the other error.

6. Ans. Principal error can be represented by the following example:

When a purchase of furniture is debited to purchase account instead of a furniture account.

### Short Answers-

1. Ans. Give one example of one-sided errors.

2. While recording business transactions, some errors are committed. There are 4 kinds of errors, namely;

- Error of Principle
- The error of Commission.
- Error of Omission
- Compensatory Error.

These errors have to be corrected before finalization of account. The process of correcting these errors is known as Rectification of Errors.

3. Ans. Two-sided errors refer to those errors that do not affect the agreement (tallying) of the trial balance.

- Machinery purchased recorded in the purchases book.
- Old furniture sold is recorded as sales of goods.

4. Errors due to partial omission is an example of one-sided error.

5. Ans. Trial balance is a statement that is prepared to make sure that the transactions for a particular period have been duly recorded in the journal and properly posted to the relevant ledger accounts. It has debit and credit columns to record the balances extracted from ledger accounts with a view to test the arithmetical accuracy of the books of accounts. Under balance method the following procedure is adopted to draw up a trial balance:

- i. First of all the name of all accounts is written along with serial number.
- ii. The total balances of all accounts are taken and debit balances are written in the debit column & credit balances in the credit column in the Trial Balance.
- iii. The total of debit & credit columns of the Trial Balance is calculated. Total of both columns of Trial Balance should be equal.

### Long Answers-

#### 1. Answer - Journal

Date	Particulars		L/F	Debit Amount	Credit Amount



				(Rs)	(Rs)
	<b>Suspense A/c</b> <b>To Manohar's A/c</b> <b>(Being the sales of goods-wrongly over-debited to customer, now rectified)</b>	<b>Dr.</b>		<b>4,950</b>	<b>4,950</b>
	<b>Purchase Return A/c</b> <b>To Suspense A/c</b> <b>(Being the error in carrying forward of total of purchases return book, now rectified)</b>	<b>Dr.</b>		<b>100</b>	<b>100</b>

A suspense account is a general ledger account in which amounts are temporarily recorded. The suspense account is used because the appropriate general ledger account could not be determined at the time that the transaction was recorded.

## 2. Rectification Journal Entries

S. No.	Particulars		L.F.	Dr. (Rs)	Cr. (Rs)
1	<b>Depreciation A/c</b> <b>To Machinery A/c</b> <b>(Being depreciation omitted to be recorded earlier, now recorded.)</b>	<b>Dr</b>		<b>4,000</b>	<b>4,000</b>
2	<b>Bad Debts A/c</b> <b>To Debtor's A/c</b> <b>(Being bad debts written-off omitted to be recorded earlier, now recorded.)</b>	<b>Dr</b>		<b>5,000</b>	<b>5,000</b>
3	<b>Discount Allowed A/c</b> <b>To Debtor's A/c</b> <b>(Being discount allowed to debtors omitted to be recorded earlier, now recorded.)</b>	<b>Dr</b>		<b>100</b>	<b>100</b>

4	Bills Receivable A/c To Debtor's A/c (Being bills receivable from debtors omitted to be recorded earlier, now recorded)	Dr		2,000	2,000
				11,100	11,100

## 3. Answer

Date	Particulars		LF	Amt (Dr)	Amt (Cr)
	Sales A/c	Dr		700	
	To Suspense A/c (Being sales books overcast by 700, now rectified)				700
	Suspense A/c	Dr		500	
	To Purchases A/c (Being purchase book overcast by Rs 500, now rectified)				500
	Suspense A/c	Dr		300	
	To Sales Return A/c (Being sales return book overcast by Rs 300, now rectified)				300
	Purchases Return A/c	Dr		200	
	To Suspense A/c (Being purchase return book overcast by Rs 200, now rectified)				200

In all the given cases, one-sided errors can be discovered as there has been an overcasting of the accounts. Therefore, the rectification has been done by reversing the accounts opposite to their normal balance.

## Case Study Answer-

1. Answer:

1. (b)

**Solution:** The journal entry for the balance of Profit and Loss Adjustment Account

Profit & Loss Adjustment A/c Dr. 300

To Capital A/c 300

(Being balance of Profit & Loss Adjustment A/c transferred to Capital A/c)

2. (a)

**Solution:** The rectification entry of the salary for the month of march posted twice

Suspense A/c Dr. 155

To Profit & Loss Adjustment A/c 155

(Being rectification of salary posted twice in the books)

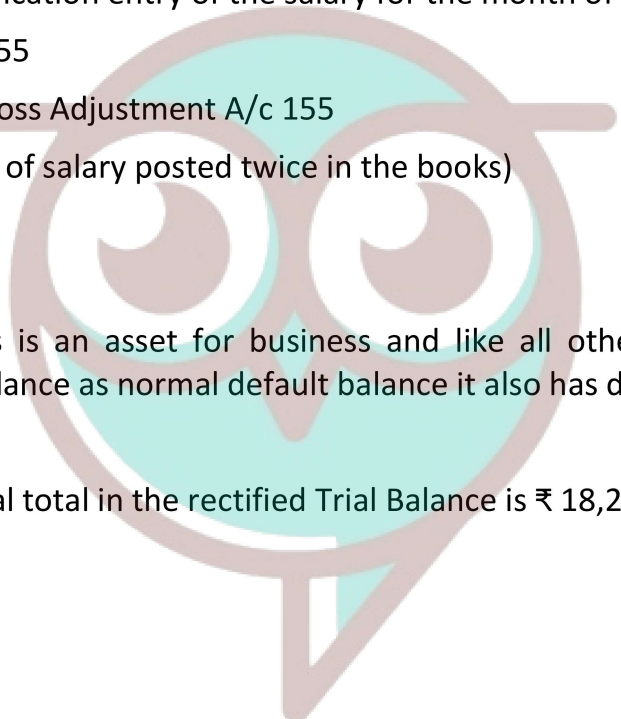
2. Answer:

1. (c) Premises

**Solution:** Premises is an asset for business and like all other assets of business which has debit balance as normal default balance it also has debit balance.

2. (a) ₹ 18,21,000

**Solution:** The actual total in the rectified Trial Balance is ₹ 18,21,000.



Swotters