

Trial Balance and Rectification of Errors

Kerala · Class 11 · Accountancy — exam notes

A trial balance lists every ledger balance in two columns and checks that total debits equal total credits. It is the safety net before the final accounts. But carry one truth into the exam: A BALANCED TRIAL BALANCE DOES NOT PROVE THERE ARE NO ERRORS. Several kinds of error hide behind agreeing totals. This chapter covers the trial balance, the errors it does and does not catch, how to trace a difference, and the suspense account.

Key terms & definitions

Trial Balance

A statement listing the debit and credit balances of all ledger accounts on a given date, prepared to test the arithmetical accuracy of the books.

Error of omission (complete)

A transaction never recorded at all. Both the debit and the credit are missing, so the trial balance still agrees.

Error of partial omission

Only one side of a transaction is recorded — the entry is journalised but posted to only one account. This DOES cause a difference.

Error of principle

An entry that violates an accounting principle, such as debiting a repair expense to the Machinery account. Debits still equal credits, so the trial balance agrees.

Error of commission

A clerical mistake such as posting to the wrong personal account or writing a wrong amount. It may or may not affect the trial balance.

Compensating error

Two or more errors that cancel each other out in amount and direction, leaving the trial balance in agreement.

Error of original entry

A wrong amount recorded in the book of original entry itself, carried through to both accounts. The trial balance still agrees.

Transposition error

Digits reversed, such as ₹54 written as ₹45. The resulting difference is always divisible by 9.

Suspense Account

A temporary account opened to hold the difference when a trial balance will not agree, so that work can continue while the error is traced.

Rectifying entry

The journal entry passed to correct an error once it is located, restoring the accounts to what they should have been.

Adjusted trial balance

The trial balance after end-of-period adjustments such as depreciation, outstanding and prepaid items have been incorporated.

Arithmetical accuracy

What the trial balance actually tests — that the totals agree. It is not a test of the correctness of the entries themselves.

What a trial balance is and does

- At the end of a period, every ledger account is balanced and its closing balance listed.
- Debit balances go in the left column, credit balances in the right.
- If the two columns agree, the books are ARITHMETICALLY accurate — every debit has a matching credit somewhere.
- It is also the working paper from which the Trading Account, Profit & Loss Account and Balance Sheet are prepared.
- Normal balances: assets, expenses and drawings are DEBIT; liabilities, capital and income are CREDIT.

The truth you must carry into the exam

- A BALANCED TRIAL BALANCE DOES NOT PROVE THE ACCOUNTS ARE CORRECT.
- It proves only that total debits equal total credits.
- Whole categories of error leave both totals equal and therefore pass undetected.
- This is the single most commonly examined idea in the chapter — state it explicitly whenever it is relevant.
- Conversely, if the trial balance does NOT agree, there is definitely at least one error.

Errors NOT disclosed by the trial balance

- ERROR OF COMPLETE OMISSION: a credit sale never recorded at all. Both sides are missing equally, so totals still agree.
- ERROR OF PRINCIPLE: repairs to machinery ₹5,000 debited to Machinery A/c instead of Repairs A/c. A debit is still a debit — totals agree, but profit and assets are both wrong.
- COMPENSATING ERROR: Purchases overstated by ₹5,000 and Sales overstated by ₹5,000. One debit and one credit both grow, so the totals still match.
- ERROR OF ORIGINAL ENTRY: a ₹2,500 sale entered in the sales book as ₹5,200 and posted that way to both accounts.
- ERROR OF COMMISSION affecting the right side: cash received from Ramesh credited to Rakesh's account. Both are personal accounts credited, so the total is unchanged.
- Memory hook: if the error keeps DEBITS EQUAL TO CREDITS, the trial balance cannot catch it.

Errors DISCLOSED by the trial balance

- PARTIAL OMISSION: the entry is journalised but posted to only one of the two accounts.
- POSTING TO THE WRONG SIDE: an amount debited when it should have been credited — this creates a difference of TWICE the amount.
- WRONG AMOUNT POSTED TO ONE ACCOUNT ONLY: ₹900 debited but ₹90 credited.
- WRONG TALLING OR BALANCING of a ledger account or a subsidiary book.
- OMISSION OF A BALANCE from the trial balance itself.
- All of these break the debit–credit equality, so the totals differ.

How to trace a difference — a systematic search

- STEP 1: re-add both columns of the trial balance.
- STEP 2: check that every ledger account has been correctly totalled and balanced.
- STEP 3: confirm that every ledger balance has actually been carried into the trial balance.
- STEP 4: compare each posting in the ledger against the original journal entry — right amount, right account, right side.
- SHORTCUT 1: if the difference is DIVISIBLE BY 9, suspect a transposition — digits reversed, such as ₹54 written as ₹45.
- SHORTCUT 2: if the difference is DIVISIBLE BY 2, suspect an amount posted to the WRONG SIDE; the item to look for is half the difference.
- Check items equal to the exact difference first — a single omitted balance is the commonest cause.

Worked example — Rajesh Kumar's shop

- Balances: Cash ₹25,000 Dr; Purchases ₹1,20,000 Dr; Debtors ₹35,000 Dr; Rent Paid ₹24,000 Dr; Salaries ₹36,000 Dr; Sales ₹2,00,000 Cr; Creditors ₹40,000 Cr; Capital ₹5,000 Cr.
- DEBIT TOTAL = 25,000 + 1,20,000 + 35,000 + 24,000 + 36,000 = ₹2,40,000.
- CREDIT TOTAL = 2,00,000 + 40,000 + 5,000 = ₹2,45,000.
- DIFFERENCE = ₹5,000, with credits exceeding debits.
- The trial balance therefore does NOT agree; a Suspense Account is debited with ₹5,000 to make it balance temporarily.
- The capital figure of only ₹5,000 is suspiciously small beside assets of ₹60,000 — capital is the most likely account to have been understated, and is where the search should start.
- (c) Even had the totals agreed, that would not prove the accounts correct — errors of principle, omission and compensating errors would still be possible.

The Suspense Account

- When the difference cannot be found quickly, it is parked in a temporary Suspense Account so that the final accounts can be started.
- If the DEBIT side is short, Suspense A/c is credited; if the CREDIT side is short, Suspense A/c is debited.
- As each error is located, a rectifying entry is passed THROUGH the Suspense Account.
- When all errors have been corrected, the Suspense Account automatically closes to nil.
- It is a TEMPORARY account and must not be allowed to remain in the books — a surviving suspense balance means errors are still undiscovered.
- Only errors that affected the trial balance pass through Suspense; two-sided errors are rectified directly.

Rectification — one-sided and two-sided errors

- A TWO-SIDED error (both debit and credit are wrong) is rectified by a normal journal entry, WITHOUT touching Suspense.
- Example: repairs ₹5,000 wrongly debited to Machinery → Repairs A/c Dr. ₹5,000 / To Machinery A/c ₹5,000.
- A ONE-SIDED error (only one account is wrong) is rectified THROUGH the Suspense Account.
- Example: Sales A/c undercast by ₹1,000 → Suspense A/c Dr. ₹1,000 / To Sales A/c ₹1,000.
- Ask first: did this error make the trial balance disagree? If yes, Suspense is involved. If no, it is not.

Why rectification matters

- An error of principle leaves the totals agreeing but makes both the profit and the Balance Sheet wrong.
- Treating repairs as machinery overstates assets and overstates profit — the reader of the accounts is misled.
- Correcting errors before the final accounts ensures the statements give a true and fair view.
- Errors found AFTER the final accounts are prepared are corrected through a Profit & Loss Adjustment Account.
- The habit of rectifying promptly is what keeps the books trustworthy.

Three misconceptions to clear

- WRONG: 'If my trial balance balances, my accounts must be correct.' It proves only arithmetical equality of totals.
- WRONG: 'An error of principle will make the trial balance disagree.' It will not — a debit is still recorded as a debit, merely in the wrong account.
- WRONG: 'A Suspense Account can stay in the books if the error is hard to find.' It is strictly temporary and must be closed once all errors are traced.

Formulas & formats

- Trial Balance as at

Name of Account	L.F.	Debit ₹	Credit ₹
Cash		25,000	
Purchases		1,20,000	
Sales			2,00,000
...			
TOTAL		2,40,000	2,45,000
- Normal balances:
DEBIT → Assets, Expenses, Drawings, Purchases, Sales Returns
CREDIT → Liabilities, Capital, Income, Sales, Purchase Returns
- Difference shortcuts:
Divisible by 9 → transposition of digits (54 written as 45)
Divisible by 2 → an amount posted on the WRONG SIDE; look for difference ÷ 2
- Suspense Account:
Debit side short → credit Suspense A/c
Credit side short → debit Suspense A/c
(Closes to NIL when every error has been rectified)
- Rectification rule:
Two-sided error → normal journal entry, NO Suspense
One-sided error → rectify THROUGH Suspense A/c

Important questions & model answers

3 marks What is a trial balance? State its objectives.

- A trial balance is a statement showing the debit and credit balances of all ledger accounts on a particular date, prepared to test the arithmetical accuracy of the books.
- OBJECTIVES: to check that total debits equal total credits; to provide a summary of all ledger balances in one place;
- to help locate errors in recording and posting; and to serve as the basis for preparing the final accounts.

4 marks 'A balanced trial balance is a proof that the accounts are free from all errors.' Do you agree? Give reasons.

- No. A balanced trial balance proves only that total debits equal total credits — that is, arithmetical accuracy.
- Errors that affect BOTH sides equally remain undetected, namely:
- ERRORS OF COMPLETE OMISSION — a transaction never recorded at all;
- ERRORS OF PRINCIPLE — for example repairs debited to the Machinery account;
- COMPENSATING ERRORS — two errors of equal amount and opposite effect;
- ERRORS OF ORIGINAL ENTRY — a wrong amount carried into both accounts.
- Therefore agreement of the trial balance is a necessary but not a sufficient test of accuracy.

5 marks Rajesh's ledger shows Cash ₹25,000, Purchases ₹1,20,000, Debtors ₹35,000, Rent ₹24,000, Salaries ₹36,000, Sales ₹2,00,000, Creditors ₹40,000 and Capital ₹5,000. Prepare the trial balance, state the difference and how it is handled.

- DEBIT BALANCES: Cash ₹25,000 + Purchases ₹1,20,000 + Debtors ₹35,000 + Rent ₹24,000 + Salaries ₹36,000 = ₹2,40,000.
- CREDIT BALANCES: Sales ₹2,00,000 + Creditors ₹40,000 + Capital ₹5,000 = ₹2,45,000.
- The trial balance does NOT agree; credits exceed debits by ₹5,000.
- A SUSPENSE ACCOUNT is debited with ₹5,000 so that the totals agree at ₹2,45,000 and work can proceed.
- The capital of only ₹5,000 against assets of ₹60,000 suggests capital has been understated, and the search should begin there.
- The Suspense Account must be closed by a rectifying entry once the error is located.

4 marks Explain, with one example each, any four errors that are NOT disclosed by a trial balance.

- ERROR OF COMPLETE OMISSION — a credit sale to Anil of ₹4,000 never recorded anywhere; both the debit and the credit are missing.
- ERROR OF PRINCIPLE — ₹5,000 spent on repairing machinery debited to Machinery A/c instead of Repairs A/c; a debit is still a debit.
- COMPENSATING ERROR — Purchases overcast by ₹5,000 and Sales overcast by ₹5,000; the two cancel out.
- ERROR OF ORIGINAL ENTRY — a sale of ₹2,500 entered in the sales book as ₹5,200 and posted at that figure to both accounts.
- In every case debits still equal credits, so the totals agree despite the error.

3 marks What is a Suspense Account? When is it opened and when is it closed?

- A Suspense Account is a temporary account opened to record the difference in a trial balance that does not agree, when the error cannot immediately be traced.
- If the debit column is short, the Suspense Account is credited; if the credit column is short, it is debited — so that the trial balance agrees provisionally and the final accounts can be started.
- As each one-sided error is discovered, a rectifying entry is passed through the Suspense Account.
- When all errors have been rectified, the Suspense Account automatically shows nil and is closed. It must never be allowed to remain permanently in the books.

4 marks Repairs to machinery costing ₹5,000 were debited to the Machinery Account. Name the error, state whether it affects the trial balance, and pass the rectifying entry.

- This is an ERROR OF PRINCIPLE — a revenue expense has been treated as a capital expenditure.
- It does NOT affect the trial balance, because ₹5,000 has still been debited; only the account chosen is wrong.
- Its effect is that machinery is overstated by ₹5,000 and profit is overstated by ₹5,000.
- RECTIFYING ENTRY: Repairs A/c Dr. ₹5,000 / To Machinery A/c ₹5,000.
- Since both sides of the entry are corrected, the Suspense Account is NOT involved.

3 marks The Sales Account was undercast by ₹1,000. Does this affect the trial balance? Pass the rectifying entry.

- Yes. Only the Sales Account is wrong, so the credit total falls short by ₹1,000 and the trial balance does not agree.
- This is a ONE-SIDED error and is rectified through the Suspense Account.
- RECTIFYING ENTRY: Suspense A/c Dr. ₹1,000 / To Sales A/c ₹1,000.
- After this entry both the Sales Account and the Suspense Account are corrected.

2 marks State two shortcuts for locating a difference in the trial balance.

- If the difference is DIVISIBLE BY 9, a transposition of digits is likely — for example ₹54 written as ₹45, or ₹540 as ₹450.
- If the difference is DIVISIBLE BY 2, an amount has probably been posted on the WRONG SIDE; the item to look for equals half the difference.
- It is also worth checking first for a single omitted balance equal to the exact amount of the difference.

3 marks Distinguish between an error of omission and an error of commission.

- An ERROR OF OMISSION occurs when a transaction is left out of the books, either wholly or partly. A complete omission does not affect the trial balance; a partial omission does.
- An ERROR OF COMMISSION is a clerical mistake in recording or posting — a wrong amount, a wrong account of the same class, or a wrong side.
- An error of commission may or may not affect the trial balance, depending on whether debits still equal credits.
- Example of omission: a credit purchase never recorded. Example of commission: cash received from Ramesh credited to Rakesh.

3 marks Why must errors be rectified before the final accounts are prepared?

- Uncorrected errors distort both the profit figure and the Balance Sheet, so the statements would not give a true and fair view.
- An error of principle, for example, can simultaneously overstate assets and overstate profit even though the trial balance agrees.
- Users such as banks, tax authorities and the proprietor would then take decisions on wrong information.
- Errors discovered only after the final accounts are prepared have to be corrected through a Profit & Loss Adjustment Account, which is more cumbersome.

Exam tips

- Whenever the topic allows, write the sentence: 'Agreement of the trial balance proves arithmetical accuracy only, not the absence of errors.' It is a marked point.
- Learn the two lists cold — errors disclosed and errors NOT disclosed — and be able to give an example of each.
- Before writing a rectifying entry, ask: did this error affect the trial balance? Yes → Suspense is involved. No → it is not.
- Show your debit and credit totals separately and state the difference explicitly before opening a Suspense Account.
- Remember the divisible-by-9 and divisible-by-2 shortcuts; quoting them earns marks in 'how would you locate' questions.
- In the trial balance, put Purchases and Sales Returns on the DEBIT side, Sales and Purchase Returns on the CREDIT side. This is a frequent slip.
- State clearly that the Suspense Account is temporary and closes to nil once all errors are rectified.

Quick revision

- Trial balance = list of all ledger balances; tests ARITHMETICAL accuracy only.
- Balanced TB ≠ error-free accounts.
- NOT disclosed: complete omission, principle, compensating, original entry, commission on the correct side.
- DISCLOSED: partial omission, wrong side, wrong amount in one account, wrong totalling/balancing, balance omitted from TB.
- Difference ÷ 9 → transposition. Difference ÷ 2 → posted to wrong side.
- Rajesh: debits ₹2,40,000 vs credits ₹2,45,000 → ₹5,000 difference → Suspense A/c Dr. ₹5,000.
- Suspense: debit side short → credit Suspense; credit side short → debit Suspense.
- Two-sided error → plain journal entry. One-sided error → through Suspense.
- Suspense is temporary and must close to nil.