

# **Chapter 14**

# **Trial Balance**

## **And**

## **Errors**

## **MEANING OF TRIAL BALANCE**

All the businessmen after completion of postings from Journal or Subsidiary Books to the Ledger, want to verify accuracy of the posting. For this purpose a statement is prepared wherein the balances of all the accounts in the Ledger are incorporated. The statement so prepared is called "Trial Balance". Accounts showing debit balances are put on the debit side of the trial balance and the accounts showing credit balances are put on its credit side. If the total of the debit side of the trial balance is equal to that of its credit side, it is presumed that the posting to the ledger is accurate.

The reason for agreement of a trial balance is that under the double entry system, each transaction is recorded two times, once on the debit side of an account and again on the credit side of another account. Thus, the total of all the entries on the debit side of all the accounts must be equal to the total of all the entries on the credit side of all the accounts. If the totals of both the sides of a trial balance are equal, it is proved that the books are at least arithmetically correct.

## **DEFINITIONS OF TRIAL BALANCE**

"Trial balance is a statement, prepared with the debit and credit balances of Ledger accounts to test the arithmetical accuracy of the books".

-J.R. Batliboi

## **FEATURES OR CHARACTERISTICS OF A TRIAL BALANCE**

**1. It is a list of balances of all ledger accounts and the cash book.**

**2. It is just a statement, and not an account.**

**3. It can be prepared at any time during the accounting period. It is always prepared on a particular date and not for a particular period.**

**4. It is prepared to check the arithmetical accuracy of the ledger accounts. If the books are arithmetically accurate, the total of all debit balances of a trial balance will be equal to the total of all credit balances.**

**5. A tallied Trial Balance is not a conclusive proof of the accuracy of the books of accounts since certain type of errors remain even when the Trial Balance tallies.**

## **OBJECTIVES OR NEED OR FUNCTIONS OF PREPARING TRIAL BALANCE**

**The following are the objects or functions of preparing a trial balance: -**

**(1) To ascertain the arithmetical accuracy of the ledger accounts.**

**(2) To help in locating errors.**

(3) To obtain a summary of the ledger accounts.

(4) To help in the preparation of Final Accounts.

## **PREPARATION OF A TRIAL BALANCE**

A trial balance may be prepared at any time, say, at the end of every month, quarter, half-year or year. Usually it is prepared at the end of the accounting period, so as to verify the arithmetical accuracy of the ledger accounts before the preparation of final accounts. There are three methods used for the preparation of a trial balance:

### **TRIAL BALANCE AND ERRORS**

- (i) Balance Method
- (ii) Total Amount Method.
- (iii) Total-cum-Balances Method

#### **(i) Balance Method**

In order to prepare a trial balance under this method, all the accounts showing debit balances in the Ledger are put on the debit side of the Trial Balance and the accounts showing credit balances are put on its credit side. If, however, an account shows no balance, i.e., the debit and credit totals of an account are equal, the account is not included in the Trial Balance. After this, the debit and credit columns of the Trial Balance are totalled and if the total is equal, it is said that the Trial Balance has tallied.

#### **(ii) Total Amount Method**

Under this method, the total amount of debit side of each ledger account is put on the debit side of the trial balance and the total

amount of credit side of each ledger account is put on the credit side of the trial balance.

(ii) **Total-cum-Balances Method:** This method is a combination of total amount method and balances method. Under this method, four columns are prepared for writing amounts. First two columns are used for writing the debit and credit totals of different accounts and the next two columns for writing the debit or credit balances of these accounts.

## **TYPES OF ERRORS**

All errors may be classified into the following two categories:

(1) **Errors affecting Trial Balance** (or errors disclosed by Trial Balance).

(2) **Errors not affecting Trial Balance** (or errors not disclosed by Trial Balance).

### **(1) Errors Affecting Trial Balance (or Errors Disclosed by Trial Balance)**

If the Trial Balance does not tally, it will indicate that certain errors have been committed which have affected the agreement of the Trial Balance. The accountant will then proceed to find out the errors and ultimately the errors will be located. Such errors are called "Errors Disclosed by Trial Balance" or 'errors which affect the agreement of Trial Balance'. Until such errors are rectified, the Trial Balance will not agree.

Some of the examples of such errors are as follows:-

(i) **Wrong Casting**

(ii) **Posting to the Wrong Side**

(iii) **Posting of Wrong**

(iv) **Omission of Posting of One Side of an Entry tally.**

**(v) Double posting in a Single Account.**

**(vi) Errors of Totalling and Balancing of Accounts in the Ledger**

## **(2) Errors not Affecting Trial Balance (or Errors Not Disclosed by Trial Balance)**

Main object of preparing a Trial Balance is to check the accuracy of the accounts. However, the equality of debits and credits of the Trial Balance does not mean that there are absolutely no errors in the books of accounts. There may be a number of errors which may remain undetected in spite of the agreement of a Trial Balance. Such errors are also called limitations of Trial Balance.

These may be discussed as below

**(i) Errors of Omission:** - If a transaction remains altogether unrecorded either in the Journal or in Subsidiary Books, it will be termed as an error of omission. Such an error will not affect the agreement of a Trial Balance, as neither the transaction has been entered on the debit side of an account nor on the credit side of any other account.

**(ii) Errors of Commission:** - If a wrong amount is entered either in the Journal or in the Subsidiary Books, the Trial Balance will tally because the same amount (though wrong) will be posted in both the accounts affected by the transaction.

**(iii) Compensating Errors:** - If the effect of one error is neutralised by the effect of some other error, such errors are called compensating errors.

**(iv) Errors of Principle:** - When some fundamental principle of Accountancy is violated while recording a transaction, the error is

termed as error of principle.

**(v) Errors of Posting in Wrong Account:** - If while posting from the books of original entry, posting is made to a wrong account but on the correct side, the error will not affect the agreement of Trial Balance.

## **SUSPENSE ACCOUNT**

Sometimes, in spite of best efforts of an accountant, all the errors are not located and the Trial Balance does not tally. In such a situation, to avoid the delay in the preparation of final accounts, the difference in the Trial Balance is placed to a newly opened account known as "Suspense Account" and the Trial Balance tallies. If the debit side of the Trial Balance exceeds the credit side, the difference will be put on the credit side of the suspense account and if the credit side of the Trial Balance exceeds the debit side, suspense account will be debited. After including the balance of suspense account in the Trial Balance, it will appear to be tallied.

Later, when the errors are located, the rectification entries will be passed with the help of the suspense account. Therefore, when all the errors have been located and rectified, the suspense account will automatically stand closed. If suspense account still shows a balance, it will be taken to the Balance Sheet on the assets side if it shows a debit balance or on the liabilities side if it shows a credit balance.