6.3 VERIFICATION OF A/C RECORDS

6.3.1 THE TRIAL BALANCE

- Understand that a trial balance is a statement of ledger balances on a particular date.

- Outline the uses & limitations of a trial balance:
  - It checks the arithmetical accuracy of ledger accounts.
  - It assists in
    - It gives material help in preparing final accounts.
    - To have a proof that the double entry of each transaction is made.
  - Error of omission
  - Error of commission
  - Compensating error
  - Error of misposting

- Prepare a trial balance from a given list of balances. Amend a trial balance which contains errors.

Why a trial balance might not agree:
- Wrong total
- Omission to post a ledger balance
- Wrong totalling of ledger accounts
- Amount is posted on the wrong side
- Amount is posted on the wrong side in the ledger.
- An amount is posted twice
- Omission of an account from posting in the ledger.
Identify and explain these errors which do not affect the trial balance:

- **Omission**: A transaction is completely omitted from the books.

- **Commission**: A transaction is posted to the wrong A/c of the same class.

- **Principle**: A transaction is posted to an account of the wrong class.

- **Original Entry**: An incorrect figure is used when the transaction is first recorded.

- **Reversal**: A Dr. entry is posted on the Cr. side and vice versa.

- **Compensating**: Two or more errors cancel each other out.
* Always check if an error is affecting a T.B.

* Capital expenditure relates to the purchase of an asset which will last for more than 12 months.

* Revenue expenditure relates to the day-to-day running costs of a business or the purchase of a current asset.

* A capital receipt arises when a non-current asset is sold.

* If an item of capital expenditure is wrongly recorded as revenue expenditure, profit will be understated.

* If an item of revenue expenditure is wrongly recorded as capital expenditure, profit will be overstated.

* If it is written (omitted from the T.B.) then there is a shortage on only one side. Open a Suspense A/c.