Preparation of Trial balance

Total method

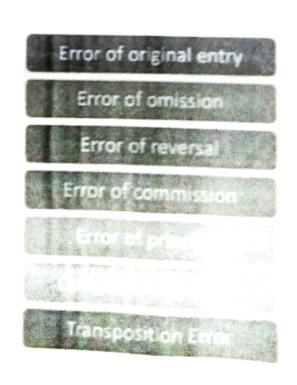
- Under this method, two sides of the accounts are totalled.
- The total of the debit side is called the "debit total" and the total of the credit side is called the "credit total".
- Debit totals are entered on the debit side of the Trial Balance while the credit total is entered on the credit side of the Trial Balance.
- If a particular account has total in one side, it will be entered either in the debit column or the credit column as the case may be.

Balance Method

- Under this method, all the accounts are balanced or the difference of each account is extracted
- If debit side of an account is bigger in amount than credit side, the difference is put in the debit column of Trial balance
- If the credit side is bigger, the difference is written in credit column of trial balance
- The balances may be either "debitbalance" or "credit balance"

Trial Balance Errors

- A trial balance only checks the sum of debits against the sum of credits.
- That is why it does not guarantee that there are no errors.
- There are classes of errors that are not detected by the trial balance.



Error of Original Entry

 When both sides of a transaction include the wrong amount to a ledger account.

- Example:

If a purchase invoice for Rs. 210 is entered as Rs. 120, this will
result in an incorrect debit entry (to purchases), and an
incorrect credit entry (to the relevant creditor account), both
for Rs. 90 less, so the total of both columns will be Rs. 90
less, and will thus balance.

Example:

 A credit sale of Rs. 2000 to James wrongly posted to i. account as Rs 200. The effect of this error will be that the figure of sundry debtors will be reduced by Rs. 1800 less than the total of credit side of Trial balance.

Transposition Error

- An error caused by switching the position of two adjacent digits.
- Since the resulting error is always divisible by 9, accountants use this fact to locate the mis-entered number.
- When two adjacent numbers are transposed, the resulting mathematical error will always be divisible by 9 (e.g. (72-27)/9 = 5).

Example:

— If a credit purchase of Rs 465 from Joe is wrongly written as Rs 564 in purchase book, such error will not be disclosed by the Trial balance. As posting on both the debit side of purchase account and credit side of Joe account will be with wrong amount of Rs 564, so Trial balance will agree. The result is divisible by 9. (i.e. (564-465)/9=11)

Error of Commission

 When the entries are made at the correct amount, and the appropriate side (debit or credit), but one or more entries are made to the wrong account of the correct type.

Example

 If fuel costs are incorrectly debited to the postage account (both expense accounts). This will not affect the totals.

Example

 If a purchase of Rs 500 from James has been credited to Joe instead of James, it will not affect the Trial balance, so the Trial balance will not detect any error.

Error of principle

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- When the entries are made to the correct amount, and the appropriate side (debit or credit), as with an error of commission, but the wrong type of account is used.
- Such errors arise when an asset is treated as an expense or vice versa or a liability is treated as an income or vice versa

Example:

- If fuel costs (an expense account), are debited to stock (an asset account). This will not affect the totals.
- Rs. 6550 spent on extension of building wrongly debited to Repairs Account instead of Building Account will affect the agreement of Trial balance.

Compensating errors

- Multiple unrelated errors that would individually lead to an imbalance, but together cancel each other out.
- These results compensate themselves in the net results i.e. over debits or under debits of various accounts being neutralised by over credits or under credits to same extent of other accounts

Example:

- Under posting of Rs 500 on the debit side of a certain account would be compensated by under posting of Rs 100 on the credit side of another account and an omission of credit posting of Rs. 400 to a third account. This error may also be neutralised by over posting of Rs. 500 on debit side of some other account or accounts.

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Disagreement of Trial Balance

- An item omitted to be posted from a subsidiary book in the ledger
- Example:
 - A purchase of Rs 1000 from Mike omitted to be credited to her account. As a result of this error, the figure of sundry creditors to be shown in the trial balance will be reduced by Rs 1000 and the total of the credit side of the trial balance will be Rs. 1000 less as compared to the debit side of trial balance.
- Posting an amount to a wrong side of ledger account
- Example:
 - Rs. 50 discount allowed to a customer wrongly posted to the credit side of Trial balance instead of debit side of discount account. As a result of this error, credit side of trial balance will exceed by Rs. 100 (double the amount of this error)

Disagreement of Trial Balance

- Wrong additions or balancing of ledger accounts
 - Example: While balancing capital account at the end of the financial year, credit balance of Rs 89000 wrongly taken as Rs 79000. as a result of this error, the credit total of trial balance will be short by Rs. 10,000.
- Wrong totalling of subsidiary books
 - Example: Sales book is overcast by Rs. 10. As a result of this error credit side of Trial balance will be Rs. 10 too much because sales account will appear at a higher figure on credit side of Trial balance.
- · An item in subsidiary book posted twice to a ledger account
 - Example: Payment of Rs.1000 to creditor Paula posted twice to his account.

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Disagreement of Trial Balance

- Omission of a balance in the account in trial balance
 - Example: cash and bank balance may have been omitted to be included in trial balance.
- Balance of some account wrongly entered in t 14
 Trial balance
 - Example: A balance of Rs. 513 in Stationary account wrongly entered as Rs 315 in Trial balance.
- Error in totalling of trial balance
 - Example: The balance of commission earned account wrongly shown to the debit side instead of credit side of Trial balance.