



Trial Balance

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A **Trial Balance** is a list of all the ledger account balances prepared at a particular date to check the **accuracy of double-entry bookkeeping**. It shows debit and credit balances to ensure that total debits equal total credits. 

Need for Trial Balance

We prepare a trial balance to:

- Check the **arithmetical accuracy** of accounts.
- Help in the **preparation of financial statements**.
- Detect **errors** made during posting or balancing of ledger accounts.

Question

1. Started the business with \$100,000 cash and \$500,000 worth building
2. Purchased inventory for \$50,000
3. Purchased \$20,000 inventory for credit
4. Took a bank loan of \$10,000
5. Cash sales are \$150,000
6. Admin expenses for the period is \$50,000

Additional notes:

- No depreciation
- No closing inventory



Correction of Errors

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Accounting errors can happen at any stage

- when recording in prime books
- posting to ledgers
- balancing ledger accounts
- extracting balances for the trial balance

Examples: a credit sale of \$ 20,000 not recorded; \$ 50,000 entered as \$ 5,000; totals posted wrongly; or a ledger balance omitted from the trial balance. Such errors must be corrected before preparing financial statements so stakeholders get accurate information.

Errors split into two types:

- **Not revealed by the Trial Balance** (TB still balances) — e.g. complete omission, wrong value entered both sides, duplicate entry, posting to wrong account, or two compensating errors. **Correction:** make correcting entries in the **General Journal** and post to the ledges
- **Revealed by the Trial Balance** (TB doesn't balance) — e.g. single-sided entry, one correct & one wrong value, same-side postings, wrong totals, or omission in the trial balance. **Interim step:** post the difference to a **Suspense Account**; investigate and make journal corrections, then clear the Suspense once fixed.

Question – Not Revealed from TB

1. A complete omission of a transaction from the books (Error of Complete Omission)

An invoice of credit purchase \$ 50 000 has been completely omitted from the accounting books.

2. Recording the value of a transaction in an incorrect account (same element) instead of the relevant account (Error of Commission)

Wage paid \$5000 debited to electricity account.

3. An addition or totaling mistake made while adding up figures (Casting Error)

The total of the Sales Journal should be 50,000, but it was added wrongly as 45,000.

4. Recording correct double entry but with an incorrect value (Error of Original Entry)

A credit sales invoice of \$ 20 000 has been recorded as \$ 2 000 in error in the sales journal.

5. Correct amounts recorded in correct accounts but in wrong sides (Reversal of Entries of both the accounts)

Purchase invoice of \$ 10 000 on cash has been debited to cash accounts and credited to purchase account.

6. Recording the value of a transaction in an incorrect account (different element) instead of the relevant account (Error of Principle)

Office equipment that had been purchased for the business use for \$ 200 000 is debited in the purchases account.

7. Where a posting error is compensated by an error of similar value in another transaction (Compensating Error)

Sales 20,000 is recorded as 15,000 in sales account and correctly recorded in cash account. Purchase 9,000 recorded as 4,000 as purchase account and correctly recorded in the cash account

8. Same Entry posted twice (Error of Duplication in both the accounts)

Credit purchase \$10,000 recorded twice.

Write the Correction Entries

Question – Revealed from TB

1. Omission of one entry from books. (Error of Partly Omission)

Payment of telephone charges of \$ 15 000 has been recorded only in the cash book

2. Making one of the double entries with the correct value and the other entry with the incorrect value of a transaction. (Transposition Error)

Cash sales for \$ 54 000 has been debited in the cash book correctly and has been credited incorrectly as \$ 45 000 in the sales account.

3. Recording of the double entries of a transaction in the same side of the accounts. (Error of Reversal Entry One Account)

Cash received from the debtors of \$ 5 000 has been debited to both the cash book and the debtor's account

4. Errors which arise when balancing off the accounts. (Casting Error)

The correct total of the purchases account of \$ 25 000 has been erroneously totaled posted as \$ 5 000 in the purchases account.

5. One side duplicated (Error of Duplication).

Cash Sales 10,000 recorded twice in Sales Account.

6. Errors that arise when preparing the trial balance.

The balance in the building rent expense account of \$ 10 000 has not been extracted to the trial balance.

Write the correction entries

Errors Not Revealed by the Trial Balance

1. **Error of Complete Omission** – A transaction completely missed.
2. **Error of Commission** – Recorded in the wrong account of the same class (e.g., both admin expenses).
3. **Casting Error** – Mistake in totaling figures in journals or ledger accounts. (*✓ but note: casting errors can sometimes affect TB if totals are posted wrongly*)
4. **Error of Original Entry** – Wrong amount recorded in both debit and credit sides.
5. **Reversal of Entries** – Correct accounts used, but debited and credited to wrong sides.
6. **Error of Principle** – Recorded in the wrong type/class of account (e.g., expense vs asset).
7. **Compensating Error** – Two errors of equal value cancel each other.
8. **Error of Duplication** – Same entry recorded twice.

Errors Revealed by the Trial Balance

1. **Error of Partial Omission** – One side of a double entry missed.
2. **Transposition Error** – Figures recorded with digits reversed or one side with a wrong value.
3. **Error of Reversal (One Account)** – Both entries recorded on the same side.
4. **Casting Error** – Ledger account totaled or carried forward incorrectly.
5. **Duplication Error (One Side)** – Entry duplicated on one side only.
6. **Error in Extracting Balances** – A balance omitted or entered wrongly in the Trial Balance.

Question

Even though the totals of the trial balance prepared by a business as at 31-12-20xx agree, the following errors were identified subsequently.

1. A purchase invoice of \$ 20 000 has been completely omitted from the books of accounts.
2. A computer bought for office use to the cost of \$ 40 000 has been debited to the purchases account.
3. Payment of electricity charges of \$ 5 000 has been erroneously debited to the Insurance charges account.
4. Withdrawals of goods worth of \$ 12 000 by the owner for his own use has not been recorded in the books.

Required:

Write the necessary journal entries to correct of the above errors.

Question

The trial balance prepared as at 31 of December 20xx of Samitha's business did not tally. The difference of the trial balance of \$ 5 500 was credited to the suspense account. On subsequent examination, the following errors were found.

1. Total of the telephone charges account is understated by \$ 5 000.
2. Payment of building repair expense of \$ 30 000 has been correctly credited to the cash account, but it has been debited to building account in error.
3. A cheque issued for purchases of \$ 45 000 of trade stocks has been correctly recorded in the bank account, but it has been debited to the purchases account as \$ 54 000.
4. The balance of the salary account of \$ 5 000 has been extracted to the trial balance as \$ 500.
5. The total of the sales account has been understated by \$ 6 000.

Required:

1. Write the journal entries for the correction of the above errors.
2. Write-up the suspense account

Question

Given below are the accounting errors that occurred in Muditha's business for the year ending 2017/03/31.

1. An invoice for \$30,000 in respect of credit sales to Ashan has not been recorded.
2. Repairs to buildings costing \$12,000 has been debited to the Buildings a/c.
3. Payment of \$2,000 for electricity has been posted twice.
4. Purchase of a stock of goods for \$18,000 on credit from Pasindu has been entered in the Purchases Journal as \$8,100.
5. A cash sale of \$4,000 has been correctly entered in the Cash Receipt Journal but not recorded in the Sales a/c, while a payment of \$24,000 to Ravindu has been correctly recorded in the Cash Payments Journal but debited to Ravindu's a/c as \$20,000.

Required:

- i. Show the Journal entries to make the necessary corrections.
- ii. If the draft accounts of Muditha's business show a net profit of \$ 128,000 for the year ended 2017/03/31, prepare a statement correcting the net profit.

Note

If suspense has a credit balance, it should be recorded as a liability in SOFP

If suspense has a debit balance, it should be recorded as an expense in SOPL