

Objectives

At the end of this chapter, students should be able to:

- Explain the need of trial balance;
- Extract balances from ledger to the trial balance;
- Balance the trial balance;
- Correct errors that affect the trial balance;
- Identify errors that do not affect the trial balance and correct them.

9.1 Introduction

A trial balance is a book-keeping record prepared to prove the accuracy of the postings in the ledger. It is an attempt to check the agreement of total of the debits with the total of credits of the accounts in the ledger.

Definition

Trial Balance is a summary of all the debit and credit balances of various accounts in the ledger and the cashbook to prove arithmetical accuracy. The trial balance is usually prepared from the closing balance in the ledgers before the preparation of trading, profit and loss account and a balance sheet.

9.2 The Need for Trial Balance

The purpose of the trial balance is to verify the agreement of total debit with total of credit in the ledger. Under double-entry book-keeping, for every debit entry, there must be a corresponding credit entry. Therefore, the total debit must be equal to the total credits in the ledgers. When the totals of debit and credit in the trial balance do not agree, there must be an error in the book.

The ultimate purpose of the trial balance is to facilitate location of errors in the ledger and correct them so as to ensure accurate accounting.

9.3 Extraction of Trial Balance from the Ledger

The procedure for preparing a trial balance is as follows:

- i. Close the ledger accounts one by one.
- ii. Write the correct heading: Trial balance as at Dec.31...
- iii. List ledger accounts with debit balances and the cash book.
- iv. List ledger accounts with credit balances.
- v. Ignore all ledger accounts with nothing outstanding, that is, all the ledger account in which the total of debit entries equals to the total of credit entries.

vi. Find the total of the debit balances and the total of the credit balances.

Trial balance is not a final account. It can be prepared at any given time e.g. at the end of the month or periodically to check the arithmetical accuracy of the account in the ledger. However, it is essential to prepare a trial balance before the trading account and profit and loss accounts are prepared.

Example 9.1

The following are the balances of the ledger of Ojo Enterprises on 31st December, 2009. Debit balances: Debtors N20,000 Wages and Salaries N25,000 , Motor vehicle N230,000 Credit balances: Capital N155,000 Creditor N120,000

Solution

Ojo Enterprises trial balance as at 31st December, 2009

Dr		Cr
Debtor	20,000	
Wages & Salaries	25,000	
Motor vehicle	230,000	
Capital		155,000
Creditors		120,000
	275,000	275,000

9.4 Correction of Errors

Some of the common errors are as discussed below.

9.4.1 Errors that affect the Trial Balance

There are errors which throw the totals of the trial balance out of agreement. Efforts must be made to trace the mistake or mistakes causing such disagreement. Some typical errors that might cause the totals of a trial balance to disagree include the following:

- Errors in the addition of the trial balance
- Listing an account balance in the wrong column of the trial balance.
- Mistakes in arithmetic when adding ledger balances.
- Copying an amount incorrectly when journalising or posting.

When a trial balance fails to balance, a systematic for locating the errors should be followed. The following steps are recommended:

- Re-add the trial balance columns to prove the accuracy of the addition.
- Check the addition in both books of original entry and the ledger.
- Check the ledger control accounts and the cash book to ensure that all the balances have been entered in the trial balance.
- Check the books of original entry to ascertain that all the items are posted and entered correctly in the ledger.

- v. Divide the amount of the difference between the two totals of the Trial balance by 2. Look through the accounts to see if this amount has been recorded on the wrong side of an account. Also, check to see if this amount has been written in the wrong column of the trial balance. For example, if the difference between the two columns of the trial balance is N80 look for N40 on the wrong side of an account or in the wrong column of the Trial balance.
- vi. Divide the amount of the difference between the two totals of the Trial Balance by 9. If the difference is divisible by 9, look for an amount in the trial balance in which the digits have been transposed in copying the balance from the ledger. Also look through the accounts for an amount in which the digits have been transposed in posting from the journal. For example, if the trial balance is out of balance by N27, this amount is divisible by 9 with a quotient of N3. The amount of the quotient indicates that there is a difference of 3 between the two digits that have been transposed.
- Therefore, for amounts containing at least fewer digits with transposition between the third and the fourth digits from the right, such as N14.55 written as N41.55 or N25.40 written as N52.40 or N136.84 written as N163.84.
- The amount of difference that is divisible by 9 may indicate that the decimal point has been incorrectly moved one or more spaces to the right or to the left such as writing N768.00 as N76.80 or N7,680.

9.4.2 Errors That Do Not Affect the Trial Balance

There are a number of errors that are not generally disclosed by the trial balance. Such are normally corrected by means of journal entry in a general ledger. Below is a list of type of errors which do not affect the agreement of the trial balance .

1. **Error of omission:** This is an error in which entries for a transaction has been entirely omitted from the books.

Example 9.2

Sales of goods worth N21,118 to D.Ikena has been completely omitted from the books. This transaction is not recorded in any of the books and it has no effect on the trial balance. Therefore, the two sides of the trial balance will agree. However, correction must be made in order to show the final position of the business.

The correcting journal's entry will be thus:

The Journal	Dr N	Cr N
D. Ikena Sales account Being correction of omission of sales invoice N... from sales journal	21,118	21,118

2. **Error of Commission:** This is made up of entries of transactions in a wrong account of the same class e.g. debiting or crediting P. Mba's account instead of the account of A. Mba and Co.

Example 9.3

A purchase of goods worth N13,200 from O. Ikena was entered in error in C. Ikena and Co Limited account.

The Journal	Dr N	Cr N
D.Ikena and Co Ltd O. Ikena Being purchases invoice No... entered in error in the account of C. Ikena and Co ltd	13,200	13,200

3. Error of Principle: This consists of entries of transactions in the wrong class of account e.g. debiting on asset account, real account instead of an expense account, nominal account and vice-versa.

Example 9.4

The purchase of a machine N8,000 is entered in repair of machinery account.

Solution

The Journal	Dr N	Cr N
Machinery Repairs of machine Being correction of error of amount of fixed assets debited to expense account	8,200	8,200

4. Error of Original Entry: Errors of original entry which do not affect the trial balance may come about, when an entry is made incorrectly in a book of prime entry and the incorrect amount is posted to the ledger.

Example 9.5

A sale of N1,960 to E-Abadon was entered in the book as N1760 Here, there is an error of omission of N200 from the book since the amount N1,960.00 was entered as N1,760. The correcting entry in the journal will be as follows:

Solution

The Journal	Dr N	Cr N
E. Abadon Sales account Being correction of error where sales were understated by N200	200	200

5. Compensating Errors: This is a situation whereby incorrect entry on the debit side of an account is compensated, coincidentally by incorrect entries of an equal value of the credit side of the other account in the ledger.

Example 9.6

The purchase account was over-stated by N9,000; the debit side of the trial balance was therefore increased by N9,000. Again, a creditor for Gbenga Egbeson's account by some coincidence was also overstated by N9,000. This also means that the two sides of the Trial balance have been increased by equal amount. These two errors therefore do not affect the trial balance. In correcting the errors, the journal entry will be as follows:

The Journal	Dr N	Cr N
Gbenga Egbeson's Account	9,000	
Purchases account		9,000
Being correction of over statement of N9 000 each in the purchases account and Gbenga Egbeson's account which compensated for each other		

9.5 Suspense Account

We discussed the errors which affect the trial balance and how these errors can be traced and corrected. If all these efforts fail to locate a mistake, then a suspense account has to be raised. A suspense account is an account in which a transaction is posted temporarily pending the time the correct account for the transaction is known. When a difference in the trial balance is discovered and the cause cannot be immediately traced, the difference is posted to the suspense account.

Example 9.7

Jumai Rufai's trial balance drawn up to December 31st failed to agree, the debit side exceeded the credit side by N 400.

Solution

In this case, the N400 will be credited to suspense account and entered into the trial balance to make the two sides agree.

Dr	Suspense Account	Cr
	Difference in books	N400

In some cases, errors may have occurred in the Trial Balance and later be discovered. This means that rectification must be carried out. Rectification entries for the errors will consist of a journal entry affecting the error account and the suspense account.

Example 9.8

The following errors were discovered in the detailed items of a trial balance:

1. A cheque for N6,600 received for rent due from a tenant was posted to the cash book, but its double-entry has not been completed.

2. The account of a debtor for N3,200 has been written off as bad debt but the entry which has been made in the personal account only showed the suspense account after the correction of the errors in February 2009.

The Journal	Dr N	Cr N
Suspense a/c Dr	6,600	
Rent Received a/c Being rent received but not posted		6,600
Bad debt Dr Suspense a/c Being bad debts written off	3,200	3,200

A note of warning must be sounded here that a suspense account is only a temporary measure pending the discovery of whatever mistake had been made.

2009			2009		
Feb 1	Rent received	N 6,600	Jan 31 Feb 1	Difference in books Bad debt	N 3,400 3,200
		6,600			6,600

The double-entry will be completed by:

- (i) crediting rent received with N6,600;
- (ii) debiting bad debts with N3,200;

Activity 9.1

1. Turn to chapter 2 and 3, close the accounts in the ledgers and prepare a trial balance.

9.6 Summary

In this chapter, students have learnt:

- That a trial balance is needed to check the arithmetical accuracy of the accounts in the ledger.
- How to extract balances from the ledger to a trial balance.
- How to balance the trial balance.
- How to identify errors that affect the trial balance and how to correct them.
- How to identify errors that do not affect the trial balance and how to correct them.

9.7 Revision Questions

1. Trial balance is needed to _____.
 - A. close the accounts in the ledger
 - B. balance the ledger
 - C. check arithmetical accuracy of account
 - D. check entries of accounts
2. A trial balance fails to balance when the two sides _____.
 - A. overlap
 - B. disagree

C. agree

D. correlate

3. Error of omission occurs when_____.

A. a wrong figure is posted from the journal

B. an incorrect amount debited is also credited

C. when an amount of a transaction is completely omitted from the books

D. entries of transactions are made in a wrong account

4. The purchase of N450 is entered in the book as N415. This is an error of_____.

A. commission

B. compensation

C. original entry

D. principle

5. A suspense account is a_____.

A. floating account

B. temporary account

C. control account

D. final account

6. Explain the need for a trial balance.

7. Give four reasons, with examples, why a trial balance may not balance.

8. State and explain four errors that are not usually disclosed in the trial balance.

9. Draw up a trial balance from the following ledger balances extracted on Dec. 31, 2007 from the book of Chidimma Enterprises:

	N
Sales	9,200
Capital	10,000
Creditors	7,900
Wages	2,600
Cost of goods sold	5,700
Stock of goods	1,500
Delivery: bicycles	3,000
Other expenses	1,500
Debtors	6,500
Furniture	6,000
Cash	500
Bank	500

10. On extracting a trial balance, a book-keeper found that there was a difference of N181,500 This was posted to the credit side of the suspense account. On looking through the books, the following errors were discovered:

- a. An overcast in purchases day book of N400
- b. P. Oladimeji returned goods worth N31.35. This was recorded in his personal account but no corresponding entry was made in the returns inward account.
- c. Equipment sold for N300 had been credited to sales account.
- d. Goods worth N120 sold to D. Bolaji was credited to his account.
- e. Rent received account, N36,350 was omitted from the Trial Balance.

Give the journal entries necessary to correct the books and show relevant entries in the suspense account.

11. The trial balance did not agree and the book-keeper opened a suspense account and entered the difference amount.

The following errors were later discovered:

- (a) Interest received account of N252 was omitted from the trial balance.
- (b) Goods worth N40 returned by Y. Komolafe were mistakenly entered in returns outward book.
- (c) The sales day book addition should have been N6 ,752 and not N 6, 952.
- (d) Equipment bought was posted from cash book as N72 instead of N27 .

Prepare a statement to show by how much the totals of the trial balance disagree. Also the suspense account.