

THE TRIAL BALANCE

CHAPTER OUTLINE

- ❖ The trial balance
- ❖ Methods of extraction of trial balance
- ❖ Errors that affect the trial balance
- ❖ Errors that do not affect the trial balance
- ❖ Correction of errors
- ❖ Suspense account.

Learning Objectives

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

- Explain the meaning and use of trial balance in accounting.
- Extract ledger balances in order to prepare the trial balance.
- Identify items that should be on the debit or credit side of the trial balance.
- Explain when and how to use of suspense account.
- Demonstrate the use of journal entries in correction of errors.

7.1 THE TRIAL BALANCE

The trial balance is simply defined as the list of balances extracted from the ledger accounts including the cash book at a given date according to whether they are debit or credit balance.

7.2 METHOD OF EXTRACTION OF TRIAL BALANCE

The trial balance can be extracted using either total method or balances method. In the total method, the total of both sides are extracted while only

the balances are used in the balances method. Having said this, we will concentrate more on its procedure.

Procedure:

1. Balance off the ledger accounts and bring down the balances.
2. Enter the debit balances in the ledger to the debit column of the trial balance.
3. Enter the credit balances in the ledger to the credit column of the trial balance.
4. For the cash book, transfer all the entries in the debit column of the cash book to the credit column of the trial balance and all the items in the credit column of the cash book to the debit column of the trial balance if the entries were not posted to ledger accounts, otherwise enter the debit balances in the cash book to the debit column of the trial balance and vice versa.
5. Add the two sides (Dr and Cr), the total of the two sides must agree.(i.e. must be equal).

Note that the principal aim of the trial balance is to test the arithmetical accuracy of the ledger entries. Once the double entry principle is properly observed and due care taken in recording the values, the two sides of the trial balance will always agree.

The format or listing of the trial balance is expected to appear as follows:

Particulars	Dr	Cr
All fixed (Non-current) Assets	X	
All current Assets	X	
Capital		X
All long term liabilities		X
All current liabilities		X
All income and gains		X
Return outwards		X
All reserves		X
All paid expenses	X	
All accrued expenses		X
All investments	X	

Carriage outwards	X	
Return Inwards	X	
Carriage inwards	X	
Drawings	X	
Discount received		X
Discount allowed	X	
Depreciation	X	
Provisions for depreciation		X
Share capital	X	
Share premium		X
Debenture		X
Sales		X
Purchases	X	
Subscriptions in arrears	X	
Subscription in advance		X
Interest receivable		X
Total	XX	XX

Illustration 7.1.

George White Enterprises started business on 1st January, 2000 with N9,000 cash

The following are his transactions for the period.

- Jan 3. Bought goods on credit from Holland & Co for N4, 600 and deposited N1, 000 cash immediately on account.
- Jan 7. Sold goods on credit to Musa & Co.
- 5 Packets of Singlet @ N60 each
- 6 Packets of Helmet @ N4 each
- Invoice subject to 10% trade discount
- 10 Musa returned 3 damaged packets of Singlet and was given a credit note.
- 11 Cash sales to date N1, 240
Received a credit note from Holland & Co allowing N500 for goods damaged in transit.
- 12 Bought goods for cash N2, 100
13. Cash sales to date N1, 450
15. Bought goods on credit from Gencos Ltd.
10 Cartons of Hero Beer @ N1, 300 a carton

- 6 Cartons of Amstel @ N1, 000 a carton
Invoice subject to 10% trade discount.
20. Returned 1 carton of Hero Beer which was damaged in transit.
24. Cash sales to date N1, 500
- 25 Sold goods worth N1, 000 to James & Co on credit
- 27 Paid Gencos Ltd cash on account N2, 000
- 29 Paid salaries N1, 000
- 30 General expenses paid N450
- 31 Paid rent N340
- 31 James & Co. settled account in cash

Required: Enter the necessary subsidiary books; post all the items to the ledger and extract the trial balance of George White Enterprises using balance method.

Solution 7.1.

PURCHASES DAY BOOK

Date	Name & Particulars	Folio	Details ₦	Amount ₦
January 3	Holland & Co sundry goods			4,600
15	Gencos Ltd 10 cartons of Hero Beer @ N1,300 6 Cartons of Amstel @ N1,000		13,000 6,000	
			19,000	
	Less 10% trade discount		1,900	
31	To Purchases A/c Dr.			17,100
				21,700

SALES DAY BOOK

Date	Name & Particulars	Folio	Details ₦	Amount ₦
January 7	Musa & Co. 5 pkts of singlet @ N60 each 6 Pkts of Helmet @ N40 each		300 240	
			540	
	Less 10% trade discount		54	
				486
25	James & Co. Sundry goods			1,000
31	To Sales A/c Cr.			1,486

Dr. PURCHASES ACCOUNT		Cr.	
	N		N
Jan 12 Cash	2,100		
13 PDB*	21,700	Jan 31. Bal C/d	23,800
	<u>23,800</u>		<u>23,800</u>
Feb 1. Bal B/d	23,800		

Dr. RETURN OUTWARDS ACCOUNT		Cr.	
			N
		Jan 31. Sundries	1,670

Dr. RETURN INWARDS ACCOUNT		Cr.	
	N		
Jan 31. Sundries	162		

Dr. SALARIES ACCOUNT		Cr.	
	N		
Jan 29. Cash	1,000		

Dr. GENERAL EXPENSES ACCOUNT		Cr.	
	N		
Jan 30 Cash	450		

Dr. RENT ACCOUNT		Cr.	
	N		
Jan 31 Cash	340		

TRIAL BALANCE

	DR (N)	CR (N)
Capital		9,000
Iolland & Co.		3,100
Gencos Ltd		13,930
Musa & Co	324	
Sales		5,676
Purchases	23,800	
Return Outwards		1,670
Return Inwards	162	
Salaries	1,000	
General Expenses	450	
Rent	340	
Cash	7,300	
	<u>33,376</u>	<u>33,376</u>

7.3 ERRORS THAT AFFECT THE TRIAL BALANCE

Some other errors that might affect the trial balance or cause it not to balance include:

- 1. Incorrect addition or casting of figures.** This type of error occurs when balancing accounts in the ledger especially when manual approach is adopted. The figures may be wrongly added thereby leading to wrong balances which is translated to the trial balance.
- 2. Entering or posting an item only on one side of the account.** Sometimes, if the double entry principle is not observed, this may result in posting only one side of the account and failing to complete the corresponding entry. This type of error will affect the trial balance.
- 3. Incorrect entering of transaction value on one side of the account.** Cases may equally arise where one side of the account is correctly posted while the corresponding entry is made with a wrong value. For instance, if N703 and in a bid to effect the corresponding credit entry is entered as N307, this error will affect the trial balance.

4. Listing a debit balance in the ledger on the credit side of the trial balance and vice versa. During extraction of balances from the ledger to the trial balance, if a debit balance is extracted to credit side of the trial balance or vice versa, the error will affect the trial balance.

It is therefore, necessary to state that the agreement of totals in the trial balance does not in any way prove error free entries. This then implies that there are some errors that do not affect the trial balance.

7.4 ERRORS THAT DO NOT AFFECT THE TRIAL BALANCE

As stated earlier, the agreement or equality of the totals of the two sides of the trial balance does not indicate an error free ledger. The essence of the trial balance is mostly to prove the arithmetical accuracy of the entries in the ledger. It only shows that every debit entry has a corresponding credit entry and vice versa.

Some errors might be committed in the trial balance but still it will balance. Such errors include:

- 1. Error of Omission:** - This is a situation where a transaction is completely omitted from the books. i.e. there is no debit or credit entries at all and the transaction is not captured in the subsidiary books.
- 2. Error of Commission:** This is an error committed when a transaction is posted to a wrong account though in the same class of accounts. For instance, a transaction meant to be debited to Joyce is debited to Jane. Note that the correct class of account and correct amount was posted but to the wrong person. This error will not make the trial balance not to balance or agree.
- 3. Error of Principle:** This error is made if entries are posted in the correct side of the ledger but in a wrong class of account. Example, a fixed asset such as motor van transaction is debited to an expense account such as motor van expenses account instead of fixed asset account.

4. Compensating Error: This occurs when two errors in opposite sides of the accounts cancel out each other. By being equal in amount, two errors in one or two different but opposite accounts cancel each other. Example, sales account may be understated by ₦300 and salaries account equally understated by the same amount. When this happens, the two errors will compensate each other and it will not affect the agreement of the trial balance.

5. Error of Original Entries: This arises in situation where the original figure posted to the subsidiary book was wrong, yet the double entry principle was properly observed using the incorrect figures. For instance, if credit sales of ₦150 was entered as ₦105 debited to the Personal account and the same ₦105 was credited to the sales account. This error will not affect the trial balance.

6. Complete Reversal of Entries: In this type of error, the correct accounts are used but each item is shown on the wrong side of the account. Examples, cash paid to Clara by Clement which ought to be debited to Clara and credited to Clement was wrongly debited to Clement and credited to Clara. This will definitely give wrong balances for Clara and Clement balances but it will not affect the trial balance.

7.5 CORRECTION OF ERRORS

Since human beings are not infallible, there is always the tendency for some errors to be committed while posting accounting entries. In the same vein, there is a way to correct such errors whenever they occur. Generally, cancellations or mutilations of figures are not allowed in accounting. This explains the use of journal entries to effect corrections when mistakes occur.

Illustration 7.3. Error of Omission

The sale of goods for ₦590 to Chika Enterprises has been completely omitted from the books. You are required to use journal to record this transaction.

Solution 7:3

The Journal		
	Dr	Cr
	N	N
Chika enterprises	590	
Sales Account		590
Being correction of omission of Sales Invoice no.....		

Illustration 7.4. Error of Commission

A purchase of goods worth N500 by K.C was entered in error to K.K. You are required to raise a journal to effect the necessary correction.

Solution 7:4

The Journal		
	Dr	Cr
	N	N
K.C	500	
K.K		500
Being purchase invoice no.... wrongly entered in a wrong personal account.		

Illustration 7.5. Error of Principle

Purchase of machine worth N2, 000 was debited to Purchases Account instead of being debited to Machinery Account. You are required to effect the correction using Journal.

Solution 7:5

JOURNAL		
	Dr	Cr
	N	N
Machinery Account	2,000	
Purchases Account		2,000
Being correction of error on purchase of fixed asset debited to Purchases Account.		

Illustration 7.6. Compensating Error

Sales Account and Wages Account were separately overcast by N4, 000. The journal for its correction will be as shown below:

Solution 7:6

JOURNAL		
	Dr	Cr
	N	N
Sales Account	4,000	
Wages Account		4,000
Being correction of overcast of N4, 000 each in the Sales and Wages Accounts respectively.		

Illustration 7.7. Error of Original Entry.

A sale of N8, 800 of John Best was entered as N8, 000 of sales. There is need to use a journal to correct this error.

Solution 7:7

JOURNAL		
	Dr	Cr
	N	N
John Best	800	
Sales Account		800
Being correction of error whereby sales was understated.		

Illustration 7.8. Error of Complete Reversal of Entry.

Payment of cash of N270 to S.Malachy was entered on the debit side of cash book and credited to S. Malachy's account.

Note that the original correct entry would have been

CASH ACCOUNT		
Dr		Cr
		N
	S. Malachy	270
Total after		
Suspens		
Total		

Dr	S. Malachy Account	Cr
	N	
Cash	270	
But wrongly posted thus:		

	CASH ACCOUNT	
Dr		Cr
	N	
S. Malachy	270	
Dr		Cr
	Cash	270

The implication of this error is that cash was received from Malachy instead of Malachy receiving. To correct this error, a journal is to be raised.

Solution 7:8

	JOURNAL	
	Dr	Cr
	N	N
S. Malachy	540	
Cash		540

Being payment of cash of N270 debited to cash and credited to S. Malachy in error on now corrected. The correction above is N540, so that when the N270 is cancelled, the balance of N270 becomes the correct posting. Whenever a Journal is to be raised, the following points should be borne in mind:

- a. Identify the account to be debited
- b. Identify the account to be credited
- c. Know the cause of the error to be stated in the short narration.

7.6 SUSPENSE ACCOUNT

This is an account in which the difference in a trial balance total is recorded pending the location and correction of the error(s). Sometimes especially in an examination condition, the trial balance may refuse to balance due to some errors committed in one or some of the accounts. When such happens and every effort made to trace the error proved abortive, a suspense account is temporarily opened. The trial balance totals should be made to agree with each other by inserting the amount of the difference between the two sides in a suspense account opened for it. Such inserted figure is then extracted from the trial balance so as to balance the trial balance.

Illustration 7.9 The trial balance of Nweze refused to agree thus:

	Nweze's	
	Trial Balance as at 31 st Dec 2000.	
	Dr	Cr
	N	N
Total after listing all the accounts	307,000	306,000.

When the situation above occurs and every effort to trace the difference proved abortive, the proper thing to do at that point is to open a suspense account as shown below.

	Suspense Account	
Dr		Cr
		N
	Dec 31, 2000 Difference per Trial Balance	1,000.

This Suspense Account balance is therefore extracted to the trial balance to make it balance as follows.

	Nweze's	
	Trial Balance as at 31 st Dec 2000.	
	Dr	Cr
	N	N
Total after listing all the account	307,000	306,000
Suspense account		1,000
Total	<u>307,000</u>	<u>307,000</u>

If this error remains undiscovered till the end of the period when a final account is prepared, the balance of ₦1,000 being a credit balance is shown on the capital and liabilities side of the statement of financial position. The difference may be added to current liabilities if it is a credit balance or to current asset if it is a debit balance. When the cause of the error is finally discovered, it will be corrected by raising a journal giving a brief narration of the error and its accounting treatment.

Assume that in the case above that the error is found to be that Sales Account was undercast by ₦1, 000. This means that the Sales Account should be credited while suspense account should be debited as the corresponding entry because only one account is involved in the error.

Solution 7:9

The Journal

		Dr	Cr
		₦	₦
2001 Feb 2	Suspense Account	1,000	
	Sales Account		1,000
Being correction of sales account under cast by ₦1, 000.			

This journal entry will now be posted to suspense account to nil it off and to sales account thus:

		Suspense Account	
Dr		₦	Cr
Feb 2	Sales	1,000	
	Difference per TB		1,000
		Sales Account	
Dr		₦	Cr
	Feb, 2 Suspense account		1,000