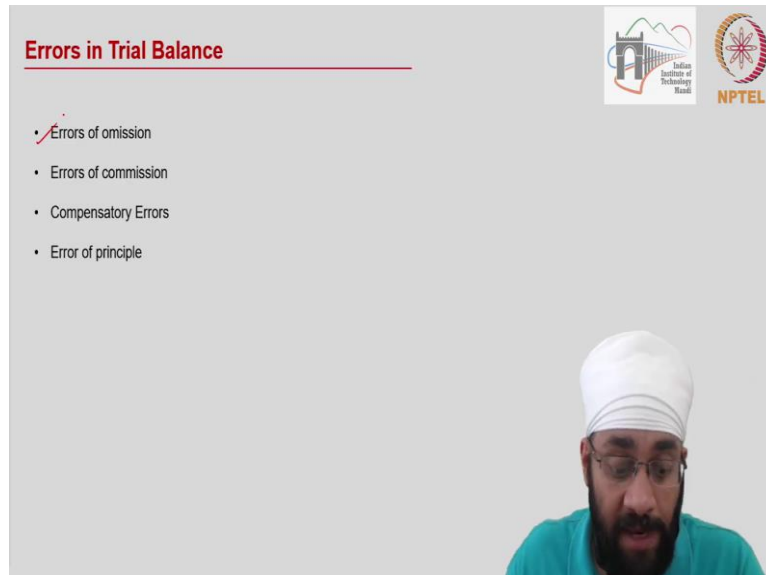


Financial Accounting
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Lecture – 49
4.5 Errors in Trial Balance

In this video we are going to talk about possible errors in the Trial Balance which may not be visible, which may not be detected. The total of the debit side on the trial balance and credit side on the trial balance may be equal, but there may still be some issues which may not be detected by just the total of the trial balance.

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Errors in Trial Balance

- Errors of omission
- Errors of commission
- Compensatory Errors
- Error of principle

The slide also features the logo of the Indian Institute of Technology Mandi and the NPTEL logo. A video inset in the bottom right corner shows the lecturer, Dr. Puran Singh, wearing a white turban and glasses.

So, here are four types of errors which may not be detected, which may not be figured out through the trial balance.

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Errors of Omission

Do not record a transaction · Sale 100

Journal → Ledger

① X X

② ✓ Cash A/c Dr. 100
✓ To Sales 100 } X
X

Let us look at these one by one. First one is an error of omission. It means that you do not record a journal entry or a transaction. Now, recording a transaction is done in the journal and then in the next step the entry is posted in the ledger. Let us say a transaction took place: the transaction was that there was a sale worth 100 and we forgot to record this transaction in the journal. This is the first kind of mistake, we did not post it, write the journal entry. Well, if you do not write the journal entry, this is not going to be visible in the ledger and hence not go to the trial balance. As trial balance only works on the principle of debits being equal to credit, there will be other account balances and debit is going to be equal to credit. So, if we have missed a transaction, you cannot figure it out from the trial balance: that is number 1.

Second possibility could be that you wrote the transaction in the journal, but you forgot to post the transaction into the ledger. You wrote the journal entry which was Cash A/c (Dr.), To Sales A/c 100 and 100, but when you prepared the ledger account, you did not post the journal entry into the cash account or into the sales account. You forgot both the accounts. When you do not post the journal entry in any of the accounts, the trial balance is still going to be equal, the debit side is going to be equal to credit side, because it is not going to affect any of these accounts. So, debits are going to be equal to credits.

This is how when you forget to enter a transaction in a journal or post that transaction from journal to ledger, such errors are not detected by the total of the trial balance.

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Errors Of commission

Incorrect Amount Sale 110

Journal ledger

Cash Ho 101 → / Dr

 Sales Ho 101 → / Cr

The slide illustrates a clerical error in recording a sale of 110. In the journal, the cash account is debited with 101 instead of 110. In the ledger, the sales account is credited with 101 instead of 110. The logos for IIT Bombay and NPTEL are in the top right corner.

Error of commission: error of commission means you write an incorrect number, incorrect amount. For example, the sale was 110. The error could be at any of these two steps, journal or ledger. The journal entry should have been cash account debit to sales 110. Instead of 110, you wrote a 101; it is a clerical mistake that anybody could do while typing in or while writing. What is going to happen is in the cash account you are going to carry 101 and also in the sales account you are going to carry 101. Both the accounts are going to be affected by the same amount. Cash account is going to have a debit balance and the sales account is going to have a credit balance. So, both the accounts will still have equal amounts. Therefore, the total of the trial balance will be equal on the debit and credit sides, but there is still an error which is not detected in that trial balance. This is another type of error: error of commission, a clerical error which is also not detectable.

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Compensatory Errors

The diagram illustrates two compensatory errors.
Error 1: A sale of 100 is recorded as 1000. This results in a T-account for Cash with a debit of 1000 and a credit of 1000.
Error 2: A sale of 1000 is recorded as 100. This results in a T-account for Cash with a debit of 100 and a credit of 100.
The trial balance shows a debit total of 1100 and a credit total of 1100, indicating that the errors are compensatory and do not affect the total balance.

Then there could be compensatory errors, which means there are two errors, at least two errors. Let us say error 1 and there could be another error, error 2. These two errors are committed in such a way that one writes off the effect of the other, one compensates for the effect of the other error. Let us say there was a sale of 100 which was recorded as 1000, and there was another sale which was 1000 and it was recorded as 100. In the first case you are going to write Cash A/c (Dr.), To sale and you by mistake write 1000 instead of 100 and in this case, Cash A/c (Dr.) 100, To sale 1000 written as 100. Eventually in the trial balance, the debit total is going to be 1100, the credit total is still going to be 1100 as well. But the mistake is that this transaction should be written here, this transaction should be written here, but the trial balance total is going to be equal. So, you will not be able to detect this mistake either in the trial balance.

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Error of Principle

Purchase of building 1000

		Dr	Cr
Building A/c	1000	→ 1000	
To Bank A/c	1000	→ -1000	
<hr/>			
Purchase A/c	1000	→ 1000	
To Bank A/c	1000	→ -1000	

And finally, there could be an error of principle which means let us say you purchase an asset, purchase of building. The journal entry for this should have been Building A/c (Dr.), To Bank A/c and the amount is 1000. Building balance would have gone on the debit side of the trial balance and this bank account would have reduced from the bank balance on the debit side. So, the trial balance would not have been affected. What you have actually written as the journal entry is that you have written purchase account instead. So, you write purchase account debit, this is an error of principle. The principle is when you purchase an asset you should write the amount in the asset account; however, it can be confused with purchase of goods. So, I am using that here. Instead of the building account you have purchase account which has been used by mistake. Amount is the same, no mistake in the amount. Purchase also has a debit balance. And the bank account is going to have the same minus 1000, same effect. There is no mistake there. So, there is only one mistake, but that mistake is of such nature, that the trial balance is not getting affected. The same impact on the debit and credit totals is happening through any of these transactions, this or this. So, this is an error of principle.

The idea is that although the trial balance is called a proof of the double entry system; it is possible that there are some errors which are not detectable, which are not seen in the trial balance. Although you can prove the arithmetic accuracy; however, there are some mistakes which are going to be left. So, we have to be careful about those mistakes is all that I wanted to communicate to you.