

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Trial Balance	It is a statement showing balances of various accounts in the ledger and the Cash Book at a particular date.
2. One-sided Errors	Errors that affect the debit or credit side of a single account.
3. Two-sided Errors	Errors that affect two or more accounts.
4. Error of Recording	It means recording the entry in Subsidiary Books wrongly.
5. Error of Posting	It means an entry being not posted at all or partially or being posted by wrong amount or to the wrong account.
6. Error of Balancing	It means calculating the balance in account wrongly.
7. Error of Casting	It means an error in totalling.
8. Error in Carrying Forward	It means an error in carrying forward the total of one page to next page.
9. Error of Principle	It means recording a transaction in the books of account which is not in accordance with the accounting principles.
10. Error of Omission	It means an error committed whereby a transaction is omitted to be recorded completely or partially.
11. Errors of Commission	Errors caused by wrong recording of transactions.
12. Compensating Errors	Errors that compensate each other.
13. Suspense Account	It is an account opened to temporarily tally the Trial Balance.
14. Rectifying Entries	Entries made in books of account for correction of errors.

CHAPTER SUMMARY

- Trial Balance is prepared to check the arithmetical accuracy of the books of account. The two sides of the Trial Balance must be equal, *i.e.*, the total of the debit side must be equal to total of credit side.

Disagreement of a Trial Balance means that there are errors in books of account. Some of the errors affect the agreement of the Trial Balance and are disclosed by the Trial Balance.

- **Errors Reflected by Trial Balance**

- (i) Posting of one aspect of the Journal entry in the Ledger.
- (ii) Posting a Journal entry on the wrong side of an account.
- (iii) Wrong total of Subsidiary Books.
- (iv) Posting correct amount in one account and wrong amount in other account.
- (v) Wrong totalling or balancing of a Ledger account.
- (vi) Omission to enter an account balance in the Trial Balance.
- (vii) Balance of an account written in the wrong column in the Trial Balance.

- **Errors Not Reflected by Trial Balance (or Limitations of Trial Balance)**
 - (i) Errors of Principle.
 - (ii) Compensating Errors.
 - (iii) Error of Complete Omission.
 - (iv) Posting correct amount and on the correct side but in the wrong account.
 - (v) Recording wrong amount in the books of the original entry.
 - (vi) Recording both aspects of a transaction twice in the books of account.
 - **Types of Errors**
 - (i) **Errors of Principle:** when transactions are recorded in contravention of accounting principles.
 - (ii) **Error of Omission:** If a transaction is omitted from being recorded completely or partially, it is known as an **error of omission**.
 - (iii) **Error of Commission:** Transaction wrongly written in the Subsidiary Book or in the Ledger or wrong posting or wrong balancing is known as **error of commission**.
 - (iv) **Compensating Error:** When an error is committed and it is nullified by another error, it is known as a **compensating error**.
 - Errors may be such as affect only one account—**one-sided errors** or they affect both the accounts—**two-sided errors**.
 - **Suspense Account:** In order to avoid the delay in the preparation of Final Accounts, the difference in the Trial Balance is put to Suspense Account (which is an account of a temporary nature). When errors are located entries are passed with the help of Suspense Account and when all errors affecting the Trial Balance are located and rectified the Suspense Account stands closed.
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