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TRIAL BALANCE

16.1 INTRODUCTION

By now you have learnt how to post entries into ledger and how to balance the various accounts. At this point, the accounting process culminates. Before making use of the balances of accounts, an accountant would like to be sure that posting has been done correctly. For this, he prepares a statement, in which he writes balances of all the accounts. The debit balances are written in the debit column of this statement and credit balances are written in the credit column. As each entry is made in different accounts in such a way that one account is debited and another account is credited, the totals of the debit balances will be equal to the totals of the credit balances. If the totals of these two columns of the said statement are equal, it proves that the posting is arithmetically accurate. This statement is called Trial Balance. In this lesson, you will learn about Trial Balance in detail.

16.2 OBJECTIVES

After studying this lesson, you will be able to --

- state the meaning of Trial Balance;
 - explain the objectives of preparing Trial Balance;
 - draw the format of Trial Balance;
 - prepare a Trial Balance from ledger balances and the cash balance from the Day-Book;
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- infer the possibility of errors if the Trial Balance agrees;
- identify the need for a suspense A/c, in case the Trial Balance does not agree;

16.3 MEANING, OBJECTIVES AND PREPARATION OF TRIAL BALANCE

Once the entries have been posted from Day-Book and other Subsidiary Day Books into the ledger and the ledger accounts have been balanced, these balances may be debit or credit. We may prepare a statement containing all these balances in the respective debit and credit columns of this statement. Such statement is called **Trial Balance**. If the totals of the two columns of this statement are equal, it means the posting has been made arithmetically accurate.

Therefore, we can say that Trial Balance is a statement containing the balances of all ledger accounts as at any given date, arranged in the form of debit and credit columns, placed side by side. It is prepared with the objective of checking the arithmetical accuracy of ledger posting.

Objectives of Preparing Trial Balance

The various objectives of preparing Trial Balance are as follows:

- To check arithmetical accuracy**
Arithmetical accuracy in posting of accounting transactions into ledger means writing correct amount in correct account on its correct side while posting from Cash-Book and Subsidiary Day-Books. It also means correct balancing of the ledger accounts and correct totalling of the subsidiary Day Books.
- To help in preparing Final Accounts**
Trial Balance is a summary of ledger accounts. It contains the balances of all ledger accounts. Final Accounts like Trading Account, Profit & Loss Account and the Balance Sheet are prepared with the help of these balances.
- To help in locating errors**
If the totals of the two columns of Trial Balance agree, it is the proof of arithmetical accuracy of the posting into ledger accounts

and their balancing. If the totals do not agree, it shows that there is some mistake in the ledger accounts. It prompts the accountant to find out the errors.

iv) To help in Comparison

Figures contained in Trial Balance, prepared for one accounting year, can be compared with the figures contained in the Trial Balance of the previous year. This helps the management in taking some important decisions.

Preparation of Trial Balance

A Trial Balance is prepared at the end of the accounting year. However, it can be prepared at any time during the accounting year to check the accuracy of the posting.

The following is the format of a Trial Balance :

Trial Balance of (Name of the firm)
As on (Date of Preparation)

Account Titles	Debit Balances Amount Rs.	Credit Balances Amount Rs.

Following steps are taken to prepare the Trial Balance:

- i) Balance all the ledger accounts.
- ii) Ascertain the amount of Cash in hand and Cash at Bank by balancing the Day Book.
- iii) Write the name of the account in the 'Account Titles' column and its balance in the respective Debit or Credit column.
- iv) Total the two columns after writing the balances of all accounts.
- v) Where the accounts are not balanced but directly transferred to Trading and Profit & Loss A/c the total of the expenses account is written in the Debit Column of the Trial Balance and the revenue account in the Credit Column of the Trial Balance. Total of the two columns should be equal.

Example

From the following accounts, prepare the Trial Balance.

Dr.				Capital A/c				Cr.			
Date	V. No.	Particulars	F.	Amount Rs.	Date	Vr. No.	Particulars	F.	Amount Rs.		
1996 Dec.31		To Balance C/d		40,000	1996 Jan.1		By Bank A/c		40,000		
				40,000					40,000		
					1997 Feb.1		By Balance b/d		40,000		

Dr.				Sales A/c				Cr.			
Date	V. No.	Particulars	F.	Amount Rs.	Date	Vr. No.	Particulars	F.	Amount Rs.		
1996 Dec 31		To Balance transferred to Trading A/c		25,000	1996 Jan.5		By Bank A/c		10,000		
				25,000	Jan.22		Ch.No..... By Rajesh A/c Inv. No.....		15,000		
									25,000		

Dr.				Purchase A/c				Cr.			
Date	V. No.	Particulars	F.	Amount Rs.	Date	Vr. No.	Particulars	F.	Amount Rs.		
1996 Jan.2		To Bank A/c		30,000	1996 Dec.31		By Stock A/c		5,000		
Jan.15		To Hari (Bill No.....)		20,000	Dec.31		By Balance transferred to Trading A/c		45,000		
				50,000					50,000		

Dr.					Rent A/c		Cr.			
Date	V. No.	Particulars	F.	Amount Rs.	Date	Vr. No.	Particulars	F.	Amount Rs.	
1996 Jan.31		To Cash A/c		1,000	1996 Dec.31		By Balance transferred to P & L A/c		1,000	
				1,000					1,000	

Dr.					Rajesh's A/c		Cr.			
Date	V. No.	Particulars	F.	Amount Rs.	Date	Vr. No.	Particulars	F.	Amount Rs.	
1996 Jan.22		To Sales A/c (Invoice No.....)		15,000	1996 Dec.31		By Balance C/d		15,000	
				15,000					15,000	
1997 Jan.1		To Balance b/d		15,000					15,000	

Dr.					Hari's A/c		Cr.			
Date	V. No.	Particulars	F.	Amount Rs.	Date	Vr. No.	Particulars	F.	Amount Rs.	
1996 Dec.31		To Balance c/d		20,000	1996 Jan.15		By Purchases A/c		20,000	
				20,000					20,000	
					1997 Jan.1		By Balance b/d		20,000	

Dr.					Commission Received A/c		Cr.			
Date	V. No.	Particulars	F.	Amount Rs.	Date	Vr. No.	Particulars	F.	Amount Rs.	
1996 Dec.31		To Balance transferred to P&L A/c		500	1996 Dec.31		By Cash A/c		500	
				500					500	

Dr.				Stock A/c		Cr.			
Date	V. No.	Particulars	F.	Amount Rs.	Date	Vr. No.	Particulars	F.	Amount Rs.
1996 Dec.31		To Purchases A/c		5,000	1996 Dec.31		By Balance C/d		5,000
				5,000					5,000

Trial Balance of _____
as on 31st Dec. 1996

Account Titles	Debit balances Rs.	Credit balances Rs.
Capital A/c	—	40,000
Sales A/c	—	25,000
Purchases A/c	45,000	—
Furniture A/c	2,000	—
Rent A/c	1,000	—
Rajesh's A/c	15,000	—
Hari's A/c	—	20,000
Commission Received	—	500
Cash in hand (taken from Day Book)	NIL	—
Cash at bank (taken from Day Book)	17,500	—
Closing Stock	5,000	—
	85,500	85,500

* Generally Capital, revenue and liabilities accounts have the Credit balances. Therefore, they appear in the credit column of Trial Balance.

* The assets and expense accounts have the debit balances. Therefore, they appear in the debit column of the Trial Balance.

INTEXT QUESTIONS 16.1

- A. Fill in the blanks with suitable word or words :
- i) Trial Balance is said to have agreed when its _____ are equal.
 - ii) The agreement of Trial Balance is a proof of _____ accuracy of the ledger posting.
 - iii) There is the _____ column and the _____ column for balances of accounts in a Trial Balance.
 - iv) Cash in hand is written in the _____ column of the Trial Balance.
- B. Given below are some statements. Some of these statements are correct and some of these statement are incorrect. Write 'correct' if the statement is correct and 'incorrect' if it is not correct.
- i) Trial Balance is an essential part of the accounting process.
 - ii) Trial Balance is prepared only once in a year.
 - iii) If the totals of the two columns of a Trial Balance are equal it means the posting has been done correctly.
 - iv) Debit Balances of the accounts are written in the Debit column and Credit balances in the credit column of the Trial Balance.
 - v) The Assets and Expenses accounts have the credit balance.
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16.4 TRIAL BALANCE AND ERRORS

You have already learnt that if the Trial Balance is in agreement, i.e., the totals of its two columns are equal, it means the accounting entries have been correctly made and have been posted correctly in the ledger. If the totals of the Trial Balance are not equal, it means there are some errors either in recording or in posting of the business transactions. The disagreement of the Trial Balance may be due to the following:

Reasons :

- i) The Subsidiary Day Books like Sales Day Book, Purchases Day Book are totalled and the totals are posted to their respective
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ledger accounts. If there is a mistake in the totals of these books, the Trial Balance will not agree.

- ii) The items from the Day Books and Journal may be posted either to the wrong side of the account or a wrong amount may be posted in the wrong account.
- iii) There may be an error in balancing an account.
- iv) There may be mistake in carrying balances from the ledger accounts to the Trial Balance.

Agreement of Trial Balance is not a conclusive proof of the correctness of recording and posting of accounting transactions. There can be errors and the totals of two columns of the Trial Balance may still be equal. For example, an item of purchases from Mr. X is not entered in the Purchases Day Book. The Trial Balance will still be in agreement. Taking another example if payment to Ramesh has been posted to the debit of Suresh, the Trial Balance will agree though there is a mistake. The reason is very simple. A Trial Balance will agree if the business transactions are so recorded and posted to ledger that all debits have the credits for the same amount and vice versa. In the above given examples, the debits are matched by credits though there are mistakes in recording and posting. You will learn about the accounting errors in detail in the next lesson.

Trial Balance and Suspense A/c

You have learnt by now that if the Trial Balance is in agreement, i.e., the totals of its two columns are equal, it is the proof of correct balancing of the ledger accounts. When the Trial Balance does not agree, it means that there is some error in the posting of various Day Books and Journal. The amount of difference between the two sides of the Trial Balance is written against Suspense A/c. This account appears on the lesser side of the Trial Balance and the Trial Balance is, thus, made to agree.

The Suspense A/c is, however, a temporary arrangement to tally the Trial Balance. It remains till the error or errors are rectified.

Its continuation reminds that there exists the error or errors. As soon as the is rectified, the suspense A/c will disappear.

Example 2

From the following Day Book and Accounts prepare the Trial Balance:

Receipts				Day Book		Payments			
Date	V. No.	Particulars	F.	Amount Rs.	Date	Vr. No.	Particulars	F.	Amount Rs.
1996 Apr.1		To Capital A/c (Being the amount of capital brought)		50,000	1996 Apr.5		By Furniture A/c (Being amount paid vide Cash Memo No.10)		10,000
Apr15		To Sales A/c (Being the amount of cash sales vide Cash Memo No.1)		12,000	Apr10		By Purchases A/c (Being amount paid vide Cash Memo No.24)		15,000
					Apr30		By Rent A/c (Being amount paid for the month vide Rent Memo No.25)		1,000
					Apr30		By Balance c/d		36,000
				<u>62,000</u>					<u>62,000</u>
May1		To Balance b/d		36,000					

Dr.				Ledger		Cr.			
				Capital A/c					
Date	V. No.	Particulars	F.	Amount Rs.	Date	Vr. No.	Particulars	F.	Amount Rs.
					1996 April 1		By Amount as per Day Book		50,000
1996 April 30		To Balance c/d		<u>50,000</u>					<u>50,000</u>
				<u>50,000</u>	May 1		To Balance b/d		50,000

Dr.				Sales A/c				Cr.			
Date	V. No.	Particulars	F.	Amount Rs.	Date	Vr. No.	Particulars	F.	Amount Rs.		
1996 Apr30		To Trading A/c		12,000	1996 Apr30		By Amount as per Day Book vide Cash Memo No.1		12,000		
				12,000					12,000		

Dr.				Purchases A/c				Cr.			
Date	V. No.	Particulars	F.	Amount Rs.	Date	Vr. No.	Particulars	F.	Amount Rs.		
1996 Apr10		To Amount as per Day Book vide Cash Memo No.24		15,000	1996 Apr30		By Trading A/c		15,000		
				15,000					15,000		

Dr.				Furniture A/c				Cr.			
Date	V. No.	Particulars	F.	Amount Rs.	Date	Vr. No.	Particulars	F.	Amount Rs.		
1996 Apr 5		To Amount as per Day Book vide Cash Memo No.110		10,000	1996 Apr30		By Balance c/d		10,000		
				10,000					10,000		

Dr.				Rent A/c				Cr.			
Date	V. No.	Particulars	F.	Amount Rs.	Date	Vr. No.	Particulars	F.	Amount Rs.		
1996 Apr30		To Amount as per Day Book vide Rent Memo No.25		1,000	1996 Apr30		By Profit and Loss A/c		1,000		
				1,000					1,000		

Solution

Trial Balance of
As on

Account Titles	Dr. Balances Rs.	Cr. Balances Rs.
Capital A/c	—	50,000
Sales A/c	—	12,000
Purchases A/c	15,000	—
Furniture A/c	1,000	—
Rent A/c	1,000	—
Cash in hand	36,000	—
	53,000	62,000
Suspense A/c	9,000	
	62,000	62,000

In the above example we see that the totals of the two columns of the Trial Balance are not equal. This shows that there is some mistake in posting from the Day book to the ledger. The difference of the two sides is Rs.9,000/-. The credit side is heavier by this amount. To make the two sides of the Trial Balance equal, we can put Rs.9,000/- in the Suspense A/c on the debit column of the Trial Balance. This amount will remain in this account till the error is detected and rectified. There is an error in taking the balance of Furniture A/c to the Trial Balance.

INTEXT QUESTIONS 16.2

Fill in the blanks with suitable word or words.

- i) If there is the error in totalling the Subsidiary Day Books, the totals of Trial Balance will _____.
- ii) The Trial Balance will not agree if there is an error in carrying out _____ from ledger.

- iii) Agreement of Trial Balance is not a _____ of the correctness of posting.
 - iv) When the totals of the two columns of Trial Balance are not equal, the difference is put in _____ A/c to make the Trial Balance agree.
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16.5 WHAT YOU HAVE LEARNT

- i) Trial balance is a statement containing the balances of all ledger accounts at any given date.
- ii) It has two columns, Debit and Credit. Amount of debit balance of an account is written in the Debit column and that of credit balance is written in the Credit column.
- iii) The totals of two columns of a Trial balance should be equal because for each transaction there is debit and credit for the same amount.
- iv) Trial Balance is prepared to test the arithmetical accuracy of ledger posting.
- v) If the totals of two columns of Trial Balance are not equal this means that there are some errors in posting.
- vi) If the totals of two columns of Trial Balance do not agree, the amount of difference is put to Suspense A/c and the totals of Trial Balance are equated.
- vii) The existence of the Suspense A/c in the Trial Balance shows that there are some errors which are to be detected and rectified.
- viii) Accounting errors may still remain even if the totals of the Trial Balance are equal.

16.6 TERMINAL QUESTIONS

1. State the meaning and objectives of Trial Balance.
 2. Why should the totals of the two sides of a Trial Balance be always equal?
 3. Is the agreement of Trial Balance a conclusive proof of the accuracy of accounts? If not, why?
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4. What is a Suspense A/c? What does its appearance in Trial Balance indicate?
5. Prepare a Trial Balance of M/s Janata Enterprises as on 31.12.96 from the following balances:

Accounts	Balances Rs.	Accounts	Balances Rs.
Cash in hand	3,700	Sales A/c	74,000
Cash at bank	12,000	Opening Stock	10,000
Capital A/c	60,000	Rent A/c	2,000
Drawings A/c	8,000	Wages A/c	6,000
Debtors A/c	15,800	Carriage Inward A/c	500
Creditors A/c	12,800	Machine A/c	15,000
Purchases A/c	60,000	Depreciation A/c	750
Closing Stock	5,000		

6. Prepare a Trial Balance as on 31.12.97 from the following balances:

Accounts	Dr. Balances Rs.	Cr. Balances Rs.
Cash in hand	3,200	
Cash at bank	12,600	
Ashok's Capital A/c		20,250
Ram Naresh's A/c		7,200
Furniture A/c	2,300	
Dass & Co.	3,500	
Sales A/c		2,000
Interest A/c	250	
Rent A/c	400	
Depreciation A/c	200	
	29,450	29,450

16.7 ANSWERS TO INTEXT QUESTIONS

- 16.1 A. i) totals ii) arithmetical
iii) Debit, Credit iv) Debit
- B. i) Incorrect ii) Incorrect
iii) Correct iv) Correct
v) Incorrect
- 16.2 i) Not agree
ii) Balances
iii) Proof
iv) Suspense A/c