



TRIAL BALANCE

Whenever you attempt a question in arithmetic you try to verify whether your answer is correct or not. If you attempt to solve any other type of problem you want to ensure that it has been correctly solved. For this you try to find out some ways or means. Similarly an accountant also wants to be sure that the ledger accounts he/she has prepared are correct in respect of amount, side, balance, etc. To check the accuracy of posting in the ledger a statement is prepared. This statement is called Trial Balance. You also know that accounts are prepared by applying double entry system. According to this system every debit of a transaction has corresponding credit for the same amount. Hence the total of debit balances of different accounts in the ledger must be equal to the total of the credit balances in the remaining accounts, provided transactions have been correctly posted in the ledger. A statement is prepared containing these balances with two columns i.e. debit column containing debit balances and credit column containing credit balances and the debit column total is compared with credit column total. If the columnar totals are same it implies that ledger accounts are arithmetically accurate.

In this lesson, you will learn about meaning, objectives and preparation of Trial Balance.



OBJECTIVES

After studying this lesson you will be able to :

- state the meaning of Trial Balance;
- explain the objectives of preparing Trial Balance
- prepare a Trial Balance as per the format;
- identify the need for a Suspense A/c in case the Trial Balance does not tally;
- infer the possibility of errors even if the Trial Balance tallies.

10.1 MEANING AND OBJECTIVES OF PREPARING TRIAL BALANCE**Notes**

If you recollect the steps in the accounting procedure you find that at first the transactions are entered in the Journal and Special Purpose Books like Cash Book, Purchases Book, Sales Book, etc. From these books items are posted in the ledger in their respective accounts. Finally, at the end of the accounting year these accounts are balanced. To check the accuracy of posting in the ledger a statement is prepared with two columns i.e. debit column and credit column which contain debit balances of accounts and credit balances of accounts respectively. Total of the two columns are if equal, it means the ledger posting is arithmetically correct. This statement is called Trial Balance.

Trial Balance may be defined as a statement which contains balances of all ledger accounts on a particular date.

Trial Balance consists of a debit column with all debit balances of accounts and credit column with all credit balances of accounts. The totals of these columns if tally it is presumed that ledger has been maintained correctly. However, Trial Balance proves only the arithmetical accuracy of posting in the ledger.

Objectives of Preparing a Trial Balance

Following are the objectives of preparing Trial Balance

(i) To check arithmetical accuracy

Arithmetical accuracy in ledger posting means writing correct amount, in the correct account and on its correct side while posting transactions from various original books of accounts, such as Cash Book, Purchases Book, Sales Book, etc. It also means not only the correct balance of ledger account but also the totals of the special purpose Books.

(ii) To help in preparing Financial Statements

The ultimate objective of the accounting is to prepare financial statements i.e. Trading and Profit and Loss Account, and Balance sheet of a business enterprise at the end of an accounting year. These statements contain balances of various ledger accounts. As Trial Balance contains balances of all ledger accounts, in financial statements the balances of ledger accounts are carried from the Trial balance for proper analysis.



Notes

(iii) Helps in locating errors

If total of two columns of the trial balance agrees it is a proof of arithmetical accuracy in the ledger posting. However, if the totals of the two columns do not tally it indicates that there is some mistake in the ledger accounts. This prompts the accountant to find out the errors.

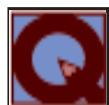
(iv) Helps in comparison

Comparison of ledger account balances of one year with the corresponding balances with the previous year helps the management taking some important decisions. This is possible by using the Trial Balances of the two years.

(v) Helps in making adjustments

While making financial statements adjustments regarding closing stock, prepaid expenses, outstanding expenses etc are to be made. Trial balance helps in identifying the items requiring adjustments in preparing the financial statements.

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



INTEXT QUESTIONS 10.1

Fill in the blanks with suitable word or words :

- (i) Trial balance has column and column of balances of accounts.
- (ii) If totals of two columns of Trial Balance are equal it means the is correct.
- (iii) Trial Balance proves only the accuracy of ledger posting.
- (iv) One of the objectives of preparing Trial Balance is helping to locate
- (v) While preparing the ledger account balances are carried from the Trial Balance.



Notes

10.2 PREPARATION OF TRIAL BALANCE

Trial Balance is not an account. It is only a list or schedule of balances of ledger accounts including cash and bank balances. It is prepared on a particular date. The accounts having a debit balance are entered in the debit amount column and credit balance accounts are entered in the credit amount column. The totals of the two sides of the accounts may also be used to prepare trial balance. The sum of each column should be equal. The standard format of a trial balance is given below :

Trial Balance of
As at(closing date)

Name of the Account	LF	Dr. Balance (Rs.)	Cr. Balance (Rs.)

The name of the business firm is written on the top of the statement with Trial Balance. Under this we write the date on which Trial Balance is prepared.

Trial Balance has three columns : Name of the Ledger Account, Debit Amount and Credit Amount.

In the ledger account column we write the name of the account. In the Debit amount column we write the amount of debit balance of the account (or the total of the debit side of the account). Similarly in the credit amount column we write the amount of credit balance of the account (or the total of the credit side of the account).

Finally, columnar total is done and compared.

Steps to prepare Trial Balance

- (i) At first ascertain the balance account wise of all the ledger accounts.
- (ii) Write the name of the ledger account in the ledger account column.
- (iii) Write against the name of the ledger account, the balance amount/total amount, debit balance/total in the debit column; and credit balance/total in the credit column.
- (iv) Add the debit balance/total amount column and credit balance/total amount column.



Notes

There are three methods of preparing Trial Balance

- (i) Balance Method
- (ii) Total Method
- (ii) Balance Totals Method

(i) Balance Method

In this Balance method, the balance of each account (which may be debit balance or credit balance) is extracted and written against each account; we write debit balance in the debit column and credit balance in the credit column.

(ii) Total Method

In this method the total of both sides of every account in the ledger is written against the name of the respective account without balancing them in the form of debit and credit balances respectively.

(iii) Balance totals Method

Trial Balance is prepared by combining the first and second methods.

However, in practice the trial balance is prepared with debit and credit balances of various accounts in the ledger. Normally balance method is used.

Illustration 1

From the following ledger accounts of a trader closed as on 31st January, 2006, prepare Trial Balance.

Capital A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006				2006			
Jan 31	Balance c/d		100000	Jan	Bank A/c		100000
			100000				100000
				Feb. 1	Balance b/d		100000



Notes

Sales A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006				2006			
Jan 31	Balance transferred to Trading A/c		70000	Jan. 8	Bank A/c		24000
				Jan. 15	Vikram's A/c		46000
			70000				70000

Purchases A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006				2006			
Jan. 5	Pranaya's A/c		40000	Jan. 31	Stock A/c		15000
Jan. 14	Bank A/c		55000	Jan. 31	Balance transferred to Trading A/c		80000
			95000				95000

Vikram's A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006				2006			
Jan. 15	Sales A/c		46000	Jan. 31	Balance c/d		46000
			46000				46000
Feb. 1	Balance b/d		46000				

Pranaya's A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006				2006			
Jan. 31	Balance c/d		40000	Jan. 5	Purchases A/c		40000
			40000				40000
				Feb. 1	Balance b/d		40000



Notes

Rent Received A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006				2006			
Jan. 31	Balance transferred to Profit and Loss A/c		1500	Jan. 31	Bank A/c		1500
			1500				1500

Bank A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
	Capital A/c		100000		Purchases A/c		55000
	Sales A/c		24000		Commission A/c		18000
	Rent received		1500		Drawings A/c		2200
			125500		Balance c/d		66700
							125500

Commission A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006				2006			
Jan. 20	Bank A/c		1800	Jan. 31	Balance transferred to Profit and Loss A/c		1800
			1800				1800

Stock A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006				2006			
Jan. 31	Purchases A/c		15000	Jan. 31	Balance cld		15000
			15000				15000
Feb. 1	Balance b/d		15000				



Drawings A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2007				2007			
Jan. 31	Bank A/c		2000	Jan. 31	Balance c/d		2000
			2000				2000
Feb. 1	Balance b/d		2000				

Notes

Solution.

Trial Balance

	Dr.	Cr.
Name of the Ledger Account	Balance (Rs.)	Balance (Rs.)
Capital		100000
Sales		70000
Purchases	80000	
Vikram	46000	
Pranaya		40000
Commission	1800	
Rent received		1500
Drawings	2000	
Closing Stock	15000	
Cash at Bank	66700	
	211500	211500

Illustration 2

From the following ledger accounts of Rohan Bros prepare Trial Balance by (i) total method (ii) combined method (both balance method and total method) :

Cash A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006				2006			
Jan 1	Capital A/c		50000	Jan 2	Bank A/c		40000

MODULE - 2

Trial Balance and Computers



Notes

Trial Balance

" 28	Ranjeet		9900	" 12	Freight A/c		200
				" 31	Salary A/c		3000
				" 31	Rent A/c		2400
			59900				45600

Bank A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006				2006			
Jan 2	Cash A/c		40000	Jan. 8	Furniture A/c		12000
" 14	Sales A/c		16000	" 10	Purchases A/c		20000
				"20	Vikas		12000
				" 31	Drawings		4000
			56000				48000

Furniture A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006				2006			
Jan. 8	Bank A/c		12000				
			12000				

Capital A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
				2006			
				Jan. 1	Cash A/c		50000
							50000



Purchases A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006							
Jan. 10	Bank A/c		20000				
" 12	Vikas		15000				
			35000				

Notes

Sales A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
				2006			
				Jan. 14	Bank A/c		16000
				" 20	Ranjeet		14000
							30000

Vikas A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006				2006			
Jan. 20	Bank A/c		12000	Jan. 12	Purchases A/c		15000
			12000				15000

Ranjeet A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006				2006			
Jan. 20	Sales A/c		14000	Jan. 25	Cash A/c		9900
				" 28	Discount A/c		100
			14000				10000

Freight A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006				2006			
Jan. 12	Cash A/c		200				
			200				

MODULE - 2

Trial Balance and Computers



Notes

Trial Balance

Salary A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006							
Jan. 31	Cash A/c		3000				
			3000				

Rent A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006							
Jan. 31	Cash A/c		2400				
			2400				

Drawings A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006				2007			
Jan. 31	Bank A/c		4000				
			4000				

Discount A/c

Dr.				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
2006							
Jan. 28	Ranjeet		100				
			100				

Solution.

Trial Balance of Rohan Brothers as on 31st January, 2006

Name of the Ledger Account	Dr.	Cr.
	Balance (Rs.)	Balance (Rs.)
Cash	59900	45600
Bank	56000	48000
Furniture	12000	—

Trial Balance

Capital	–	50000
Purchases	35000	–
Sales		30000
Vikas	12000	15000
Ranjeet	14000	10000
Freight	200	–
Salary	3000	
Rent	2400	
Drawings	4000	
Discount	100	
	198600	198600

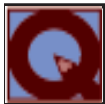
MODULE - 2*Trial Balance and Computers***Notes**

**Trial Balance of Rohan Brothers
as on 31st January, 2006**

Name of the Ledger Account	Dr.		Cr.	
	Total Amounts (Rs.)	(Rs.)	Balance Amounts (Rs.)	(Rs.)
Cash	59900	45600	14300	–
Bank	56000	48000	8000	–
Furniture	12000	–	12000	–
Capital	–	50000	–	50000
Purchases	35000	–	35000	–
Sales		30000	–	30000
Vikas	12000	15000	–	3000
Ranjeet	14000	10000	4000	–
Freight	200	–	200	–
Salary	3000	–	3000	–
Rent	2400	–	2400	–
Drawings	4000	–	4000	–
Discount	100	–	100	–
	198600	198600	83000	83000



Notes

**INTEXT QUESTIONS 10.2**

Fill in the blanks with suitable word/words :

- (i) Trial Balance has columns.
- (ii) There are methods of preparing Trial Balance.
- (iii) In practice, method of preparing Trial Balance is used.
- (iv) The last step of preparing trial balance is to ascertain the of its two amount columns.

10.3 TRIAL BALANCE AND ERRORS

You have learnt that if the sum of the two columns of Trial Balance is equal i.e. the Trial Balance is in agreement, it means that the accounting entries have been arithmetically correct and correctly posted in the ledger. If the totals do not tally it means there are some errors in recording and/or in posting in the ledger of the business transactions.

The reasons due to which the totals of the two columns of Trial balance may not agree and can be listed as follows :

- (i) The totals of the Special Purpose Books like Sales Book, Purchases Book, etc are not totalled correctly or there is some mistake in the posting of these totals in their respective accounts in the ledger.
- (ii) The items from different Special Purpose Books and Journal may be posted to the wrong side of the account or a wrong amount is posted or posted to the wrong account.
- (iii) The balancing of an account is not done correctly.
- (iv) There may be mistake in carrying balance from the ledger account to the Trial Balance.

You may conclude that if the trial balance is in agreement, the business transactions have been correctly recorded or posted into ledger. However, the agreement of Trial Balance is not a conclusive proof of the correctness of recording and posting of business transactions. There can be errors and the sum of each column of the Trial Balance may still be equal. As you have learnt that business transactions are so recorded that all debits have



the credits for the same amount and vice-a-versa. So the Trial Balance must necessarily agree. But if the debits are matched by credits though there are mistakes in recording and posting the Trial balance will still agree. For example, if goods have been purchased from Surender, and if not entered in the Purchases Book, this error will not affect the agreement of the Trial Balance.

Trial Balance and Suspense A/c

Now suppose the Trial Balance does not agree i.e. there is a difference of some amount in the totals of the two columns of the Trial Balance. What will you do with this difference? A different account i.e Suspense Account is opened with the difference in amount put in this account. This will result in agreement of Trial Balance. The suspense account with the amount of difference will be put on the lesser side of the Trial Balance. For example total of the debit column exceeds the total of the credit column by Rs.500. This amount of Rs 500 will be written on the credit column against Suspense Account to make the Trial Balance tally.

The suspense A/c is however a temporary arrangement to make the Trial Balance agree. This account will remain till the error or errors are rectified, this account will disappear as soon as the error or errors are rectified.

Illustration 3

From the following Cash Book and Accounts prepare the Trial Balance as on 31st January 2006.

Cash Book

Date	Particulars	LF	Amount Rs	Date	Particulars	LF	Amount Rs
2006				2006			
Jan. 1	Capital A/c		75000	Jan. 10	Furniture A/c		15000
Jan. 10	Sales A/c		25000	Jan. 15	Purchases A/c		25000
				Jan. 31	Rent A/c		2000
				Jan. 31	Telephone expenses A/c		1000
					Balance cld		57000
			100000				100000



Notes

Ledger

Capital A/c

Dr.				Cr			
Date	Particulars	LF	Amount Rs	Date	Particulars	LF	Amount Rs
2006 Jan. 31	Balance cld		75000	2006 Jan. 1	Amount as per Cash Book		75000
			75000				75000
				Feb. 1	Balance b/d		75000

Sales A/c

Dr.				Cr			
Date	Particulars	LF	Amount Rs	Date	Particulars	LF	Amount Rs
2006 Jan. 31	Trading A/c		25000	2006 Jan. 10	Amount as per Cash Book		25000
			25000				25000

Purchases A/c

Dr.				Cr			
Date	Particulars	LF	Amount Rs	Date	Particulars	LF	Amount Rs
2006 Jan. 15	Amount as per Cash Book		25000	2006 Jan. 31	Trading A/c		25000
			25000				25000

Furniture A/c

Dr.				Cr			
Date	Particulars	LF	Amount Rs	Date	Particulars	LF	Amount Rs
2006 Jan. 10	Amount as per Cash Book		15000	2006 Jan. 31	Balance cld		15000
			15000				15000



Rent A/c

Dr.				Cr			
Date	Particulars	LF	Amount Rs	Date	Particulars	LF	Amount Rs
2006				2006			
Jan. 31	Amount as per Cash Book		200	Jan. 31	Profit and Loss A/c		200
			200				200

Notes

Telephone charges A/c

Dr.				Cr			
Date	Particulars	LF	Amount Rs	Date	Particulars	LF	Amount Rs
2006				2006			
Jan. 31	Amount as per Cash Book		1000	Jan. 31	Profit and Loss A/c		1000
			1000				1000

Solution.

**Trial Balance
As on 31st Jan. 2006**

Name of the Account	Dr.	Cr.
	Balances (Rs.)	Balances (Rs.)
Capital		75000
Sales		25000
Purchases	25000	
Furniture	15000	
Commission		
Rent	200	
Telephone charges	1000	
Cash in hand	57000	
Suspense	1800	
	100000	100000



Notes

In the above example we see that the totals of the two columns of the Trial Balance do not tally. Credit side is more than that of debit side by Rs.1800. It is to make the two columns of the trial balance equal, suspense A/c is written in the column against it is written the amount of Rs.1800 in the debit column. As soon as error/errors are detected and rectified, this suspense A/c will disappear.

Illustration 4

From the following balances extracted from the books of a trader, prepare Trial Balance as on 31st March, 2006.

	Rs
Cash in hand	4200
Cash at Bank	16800
Bills Receivable	18000
Bills payable	16000
Sundry debtors	24600
Sundry creditors	32400
Capital	50000
Drawings	18000
Sales	105000
Purchases	75000
Carriage Inward	2700
Salaries	12000
Advertisement	2400
Insurance	1600
Furniture	7500
Stock	18600
Office Rent	2000



Solution :

Trial Balance

Name of the Account	Dr	Cr
	Balances (Rs)	Balances (Rs)
Cash	4200	
Bank	16800	
Bills Receivable	18000	
Bills payable		16000
Sundry Debtors	24600	
Sundry creditors		32400
Capital		50000
Drawings	18000	
Sales		105000
Purchases	75000	
Carriage Inward	2700	
Salaries	12000	
Advertisement	2400	
Insurance	1600	
Furniture	7500	
Rent	2000	
Stock	18600	
Total	203400	203400

Notes



INTEXT QUESTIONS 10.3

Answer the following in one or two words :

- (i) If the totals of two amount columns of trial balance do not agree, in which account the difference amount is written?
- (ii) If the total of the debit column of a trial balance is more than the total of its credit column in which of the two amount of columns of the trial balance will you write the difference in amount?



- (iii) If the total of the Purchases Book is posted to Purchases Account wrongly, will the trial balance still agree?
- (iv) When the accounting error or errors are rectified what happens to the suspense A/c?



WHAT YOU HAVE LEARNT

- Trial balance is a statement containing balances of all ledger accounts of a business concern on a particular date.
- Trial Balance is prepared to check the arithmetical accuracy of the ledger posting, it helps in preparing financial statements; it helps in locating accounting errors; helps in management as it enables comparison of account balances of different periods and helps in making adjustments while preparing financial statements.
- 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.
- If the totals of two columns of trial Balance tally it means the ledger posting has been correctly done.
- If the totals of two columns of Trial Balance do not agree, it means there is some mistake in the ledger posting.
- 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.



TERMINAL QUESTIONS

1. State the meaning of Trial Balance.
2. Explain in brief the objective of preparing Trial Balance.
3. Why do the totals of two sides of Trial Balance are equal ? Explain.
4. 'Agreement of Trial Balance is not the conclusive proof of the accuracy of accounts'. Comment.
5. What is Suspense A/c ? What is its role in preparing Trial Balance ?
6. Explain the steps that are taken to prepare a Trial Balance.

Trial Balance

- List the various reasons because of which the totals of two columns of Trial Balance do not tally.
- Prepare Trial Balance of M/s Multiplying enterprise as on 31st December, 2006.

Accounts	Balances (Rs.)	Accounts (Rs.)	Balances
Cash in hand	2500	Debtors	18200
Cash at Bank	14500	Creditors	16600
Capital	70000	Opening stock	8700
Drawing	9000	Wages	6700
Purchases	60000	Rent	5000
Sales	82000	Salary	8400
Machine	35000	Bills Payable	11400
Furniture	12000		

- Prepare Trial Balance as on 31st March, 2006 from the following balances of Sabana :

Accounts	Dr. Balances (Rs.)	Cr. Balances (Rs.)
Cash in hand	3100	
Bank overdraft		18250
Opening stock	24600	
Purchases	59800	
Sales		72350
Sabana's Capital		50000
Drawings	12000	
Carriage Inward	1600	
Rent	2400	
Commission		2100
Interest	780	
Furniture	5220	
Creditors		13600
Debtors	27800	
Building	20000	1000
Suspense	157300	157300

MODULE - 2

Trial Balance and Computers



Notes



Notes

**ANSWERS TO INTEXT QUESTIONS****Intext Questions 10.1**

- | | |
|--------------------------|------------------------|
| (i) debit, credit | (ii) ledger posting |
| (iii) arithmetical | (iv) accounting errors |
| (v) financial statements | |

Intext Questions 10.2

- | | | | |
|-----------|------------|---------------|----------|
| (i) Three | (ii) Three | (iii) balance | (iv) sum |
|-----------|------------|---------------|----------|

Intext Questions 10.3

- | | |
|------------------|------------------------------|
| (i) Suspence A/c | (ii) Credit side |
| (iii) No | (iv) Suspence A/c disappears |

Answers to Terminal Questions

8. Total of two columns are Rs 180000 each
9. Total of Dr column Rs 157300
Total of Cr column Rs 156300
Suspence A/c Cr Rs 1000

**Activity**

Talk to your friends who are working as accounts clerk in various firms, and seek answers of the following questions :

1. Do they prepare trial balance?
2. How many times they prepare it in a year and at what intervals?
3. Which method they use total method or balance method?
4. What do they do if Trial Balance does not tally?
5. How many of them prepare the financial statements without preparing Trial balance?

On the basis of the answers prepare a report.