

SENIOR THREE CLASS  
 ENTREPRENEURSHIP SKILLS  
 FINANCIAL MANAGEMENT  
 SUB TOPIC: **THE TRIAL BALANCE**  
 TEACHER: JAGGWE RONALD

Trial Balance for year ended XXX		
Particulars	Balance	
	Debit	Credit
Bank	28,000	
Cash	12,000	
Debtors	43,000	
Provision for doubtful debts		2,000
Fixed assets	1,30,000	
Accumulated depreciation		14,000
Mutual fund investments	35,000	
Prepaid expenses	8,000	
Share capital		1,20,000
Reserves and surplus		50,000
Bank loan		32,000
Interest payable		8,000
Creditors		10,000
Sales		90,000
Purchases	50,000	
Depreciation expense	4,000	
Rent expense	3,000	
Other expenses	13,000	
	<b>3,26,000</b>	<b>3,26,000</b>

### Trial balance

**After studying and practising the activities in this subtopic, you will be able to:**

1. Know a Trial Balance.
2. Understand the uses of a Trial Balance
3. Prepare a Trial Balance.
4. Identify and correct errors in a trial balance.

## **INTRODUCTION**

After preparing ledger accounts, you need to make a summary of those accounts that remained with balances. This helps you not only to prepare final accounts but also to correct errors that may exist in the accounting system. Did you know that human beings are bound to make errors even in book keeping? Did you know that some of the errors we make in book keeping may go without being noticed? Did you know that although it is important in business to avoid mistakes, it is equally important to be able to discover the errors when committed? Imagine you have a number of transactions to record in books of accounts. It is possible that some figures may be wrongly copied, some may be forgotten and some may be interchanged. This subtopic will help you to know a trial balance, understand the uses of a trial balance, prepare a trial balance and identify and correct errors in a trial balance.

## **DEFINITION OF A TRIAL BALANCE**

A trial Balance is a list of debit and credit balances extracted from the Ledger as at a particular date. Once ledger accounts are drawn accurately, the balances of each account are used to make a trial Balance. As long as double entry is followed, the trial balance will be drawn accurately and it will have to balance;

### **Purpose of the Trial Balance**

- a. To prove the arithmetical accuracy of accounts in the ledger
- b. It acts as a summary of the ledger which is helpful in preparation of final accounts.

**N.B:** To record items in the trial balance, the debit balance from the ledger will be listed in the debit column (Dr side) while the credit balance will be tested in the credit column (Cr side)

### **Format of the Trial balance:**

The trial balance has three columns; one for details/particulars, then the other for recording debit balances while the last column is for recording credit balances; The format of the trial balance is recorded as follows;

## XXXX TRADERS

### TRIAL BALANCE

AS AT .....,20.....(Date)

Account name/Details/Particulars	DEBIT UGX	CREDIT UGX
<b>TOTAL</b>	<u>XXX</u>	<u>XXX</u>

**N.B:** To record items in the trial balance, the debit balances from the ledger will be listed in the debit column (Dr side) while the credit balances will be listed in the credit column (Cr side). Such accounts are recorded in the order in which they appear in the Ledger.

#### **Purpose of the balance**

- To prove the arithmetical accuracy of accounts in the ledger
- It acts as a summary of the ledger which is helpful in preparation of final accounts.

**N.B:** To record items in the trial balance, the debit balances from the ledger will be listed on the debit column (Dr side) while the credit balances will be recorded on the credit column (Cr side)

#### **Preparation of a trial balance:**

The steps followed when preparing a trial balance include;

- Check to ensure that all entries are correct and posted to their respective accounts in the ledger.
- Determine the balance of each account in the ledger i.e. by balancing them.
- List or record the ledger account titles that have balances as well as their balances.
- Get the sum of the debit and credit balance and prove the arithmetical accuracy (they have to agree or be equal lest there are errors.)

**N.B 1:** Cash balance and Bank balance brought down in the cash book should also be recorded the trial balance on their respective sides.

**N.B 2:** Any ledger account whose debit side is equal to the credit side (both sides are equal), is said to have been balanced off and therefore should not be recorded in the trial balance since it has no balance brought down.

1. **Kirabo Enterprises started a business on 1<sup>st</sup> March 2021 with capital of shs.2,000,000 in cash. The following transactions took place during the month**

			Shs.
March, 2021	1	Bought goods for sale by cash	1,800,000
	2	Sold goods to Kato on credit	700,000
	2	Cash sales	1,675,000
	3	Paid wages	120,000
	7	Bought goods on credit from Aklam	2,000,000
	12	Paid for insurance by cash	17,000
	12	Paid telephone expenses by cash	8,000
	17	Paid cash for rent	150,000
	18	Sold goods by cash	3,100,000
	19	Received cash from Kato	450,000
	23	Paid for the electricity bills	320,000
	25	Bought goods on cash	480,000
	30	Made cash sales	180,000
	31	Paid Aklam cash	2,000,000

**REQUIRED:**

- Prepare the relevant ledger accounts and balance them
- Extract a trial balance as at 31<sup>st</sup> March 2021

**Preparing and balancing Kirabo enterprises Ledger Accounts:**

- Prepare the relevant ledger accounts and balance them

Dr.		Capital a/c		Cr.
	Shs.			Shs.
31/03/18	bal c/d	<u>2,000,000</u>	1/03/18	cash
			01/04/18	bal b/d
				<u>2,000,000</u>

Dr.			Cash a/c		Cr.
		Shs.			Shs.
1/03/18	capital	2,000,000	1/03/18	purchases	1,800,000
2/03/18	Sales	1,675,000	3/03/18	Wages	120,000
18/03/18	Sales	3,100,000	12/03/18	Insurance	17,000
19/03/18	Kato	450,000	12/03/18	Telephone	8,000
17/03/18	Rent	150,000	23/03/18	Electricity	320,000
			25/03/18	purchases	
480,000			31/03/18	Balance c/d	<u>4,330,000</u>
		<u>7,225,000</u>			<u>7,225,000</u>
01/04/18	balance b/d	4,330,000			

Dr.			Purchases a/c		Cr.
		Shs.			Shs.
1/03/18	Cash	1,800,000	31/03/18	Balance c/d	4,280,000
7/03/18	Aklam	2,000,000			
25/03/18	Cash	<u>480,000</u>			<u>4,280,000</u>
<u>4,280,000</u>					
01/04/18	balance b/d	4,280,000			

Dr.			Sales a/c		Cr.
		Shs.			Shs.
31/03/18	balance c/d	5,475,000	2/03/18	Kato	700,000
			2/03/18	Cash	1,675,000
			18/03/18	Cash	<u>3,100,000</u>
		<u>5,475,000</u>			<u>5,475,000</u>
1/04/18	balance b/d	5,475,000			

Dr.			Kato's a/c		Cr.
		Shs.			Shs.
2/03/18	Sales	700,000	19/03/18	Kato	450,000
			31/03/18	balance c/d	<u>250,000</u>
		<u>700,000</u>			<u>700,000</u>
01/04/18	balance b/d	250,000			

Dr.				Wages a/c	Cr.	
				Shs.		Shs.
3/03/18	Cash			<u>120,000</u>	31/03/18	balance c/d
<u>120,000</u>						
01/04/18	balance	b/d		120,000		

Dr.				Aklam a/c	Cr.	
				Shs.		Shs.
31/03/18	balance c/d			<u>2,000,000</u>	7/03/18	Purchases
					01/04/18	balance b/d
						2,000,000

Dr.				Insurance a/c	Cr.	
				Shs.		Shs.
12/03/18	Cash			<u>17,000</u>	31/03/18	balance c/d
01/04/18	balance	b/d		17,000		<u>17,000</u>

Dr.				Telephone a/c	Cr.	
				Shs.		Shs.
12/03/18	Cash			<u>8,000</u>	31/03/18	balance c/d
01/04/18	balance	b/d		8,000		<u>8,000</u>

Dr.				Rent a/c	Cr.	
				Shs.		Shs.
17/03/18	Cash			<u>150,000</u>	31/03/18	balance c/d
01/04/18	balance	b/d		150,000		<u>150,000</u>

Dr.				Electricity a/c	Cr.	
				Shs.		Shs.
23/03/18	Cash			<u>320,000</u>	31/03/18	bal c/d
<u>320,000</u>						
01/04/18	balance	b/d		320,000		

b) Extracting a trial balance as at 31<sup>st</sup> March 2021

Kirabo Enterprises'  
Trial balance

As at 31<sup>st</sup> March 2021

Details	DR. (Shs.)	CR. (Shs.)
Capital		2,000,000
Cash	4,330,000	
Purchases	4,280,000	
Sales		5,475,000
Kato	250,000	
Wages	120,000	
Aklam		2,000,000
Insurance	17,000	
Telephone	8,000	
Rent	150,000	
Electricity	320,000	
<b>Total</b>	<b>9,475,000</b>	<b>9,475,000</b>

### Recording information directly into the Ledgers:

Once given lay information, it is also possible to extract a trial balance. This is especially true once you know how the five classes of accounts are treated while after observing Double entry rule. The table below can help you best understand the treatment of such account classes.

The double entry system operates on the different categories of accounts as follows.

ACCOUNT CLASS	NORMAL BALANCE	INCREASE IN VALUE	DECREASE IN VALUE
REVENUE	CREDIT	CREDIT	DEBIT
EXPENSES	DEBIT	DEBIT	CREDIT
CAPITAL	CREDIT	CREDIT	DEBIT
ASSETS	DEBIT	DEBIT	CREDIT
LIABILITIES	CREDIT	CREDIT	DEBIT

The table above is summarised as follows;

**Revenue:** All revenue accounts normally have a credit Balance because income earned goes to the business owner (an outsider) e.g. Sales, discount received, Rent received, commission received etc

**Expenses:** All expenses normally have a debit balances because they facilitate the proper

functioning of assets. e.g. Salaries and wages, transport, Rent, carriage outwards, carriage inwards, advertisement, insurance, commission, rates, water and electricity bills etc

**Capital:** The capital account is always credited because its an account of the owner and a reduction in capital e.g drawings is debited.

**Assets:** All assets, fixed and current are always debited because they are possessions of the business. For example, Land, buildings, plant and Machinery, motor van, fixtures and fittings, furniture, stock, debtors, cash at bank and cash at hand among others.

**Liabilities:** All claims of outsiders in the business are recorded normally on the credit side. E.g. Loans, debentures, creditors, bank overdraft among others.

### **Practicing Trial Balance extraction from lay information;**

1. The balances below were extracted from the books of prime traders as at 31/12/2020.

Particulars	Shs'000'
Cash	800
Furniture	3,000
Debtors	2,000
Machinery	1,200
Creditors	1,300
Drawings	600
Salaries and wages	3,500
Sales	9,000
Stock (1 <sup>st</sup> January 2018)	1,000
Purchases	7,500
Insurance	200
Rent	400
Bank over draft	10,000
Discount received	3,300
Capital (as at 1 <sup>st</sup> January 2020)	7,000
Return inwards	100
Carriage out wards	200
Fixture and fitting	15,000

Additional information



- Closing stock (31<sup>st</sup> December 2020) shs 2,300,000

Required;

- (a) Prepare a trial balance for prime traders as at 31<sup>st</sup> December /2018

**SOLUTION: Preparing a trial balance from the above information:**

**PRIME TRADERS'**  
**TRIAL BALANCE**  
**AS AT 31/DECEMBER/2020**

DETAILS / PARTICULARS	DEBIT(SHS)	CREDIT(SHS)
Sales		9,000,000
Purchase	7,500,000	
Return inwards	100,000	
Cash	800,000	
Debtors	2,000,000	
Creditors		1,300,000
Furniture	3,000,000	
Drawings	600,000	
Salaries and wages	3,500,000	
Insurance	200,000	
Stock	1,000,000	
Rent	400,000	
Bank over draft		10,000,000
Discount received		3,300,000
Capital	200,000	7,000,000
Carriage outwards	15,000,000	
Fixtures and fittings	1,200,000	
Machinery		
Bank loan		4,900,000
<b>TOTAL</b>	<b>35,500,000</b>	<b>35,500,000</b>

Additional information: Closing Stock was shs. 2,300,000

**NOTE: Be mindful of the three zeros "000" suspended up in the information and include them while preparing the Trial Balance and the subsequent calculations.**

*Note: It does not mean that when a trial balance balances there was total accuracy this is because they are certain errors that a trial balance cannot detect as will be seen later.*

## Errors in the Trial Balance:

When drafting a trial balance, we normally follow the double entry bookkeeping system and this means that both sides of the trial balance have to agree i.e. they have to be equal.

However, the two sides may not always balance due to the errors made and sometimes there may be errors but still the trial balance agrees or balances. There are commonly two types of errors committed in the trial balance. They include;

### (a) Errors that affect the agreement of the Trial Balance/Errors Revealed by the Trial Balance

Errors which are **revealed** by the Trial Balance are those errors which cause the Trial Balance totals to be in disagreement.

1. **Errors in Calculation:** If there is any miscalculation of the Trial Balance totals or the net account balances, the Trial Balance will not balance. E.g. there was an error in the calculation of the cash balance, causing the Trial Balance totals not to balance too.
2. **Errors in Omission of One Entry:** Omission of either the debit or credit entry of a transaction will cause the totals of the Trial Balance not to agree, e.g. a cheque UGX 500 received for commission was debited to the Bank Account only.
3. **Posting to the Wrong Side of An Account:** Entry into the wrong side of an account will cause one side of the ledger to be more than the other, e.g. A cheque of UGX 800 paid to creditor, John was credited instead of debited to his account.
4. **Errors in Amount:** If the debit entry of a transaction differs in amount with the credit entry, the Trial Balance will not balance, e.g. Cash UGX 134 received from Omeja was debited to the Cash Account as UGX134 and credited to the account of Omeja as UGX 143.

### (b) Errors that are not Revealed by the trial Balance:

These are the errors that will not affect the agreement of the totals of the trial balance.

i.e. to be equal. In this case the trial Balance will agree even if some accounting errors do exist. It is mainly resulting from loss or misplacement of source documents. Such errors are usually detected by Auditors during stock taking. They include;

(i) **Errors of Omission:** This is where a transaction takes place but it is not recorded anywhere in the books of accounts, for instance if an invoice for a transaction gets misplaced and it's not recorded anywhere in the books. Such an error will not affect the agreement of a trial balance.

E.g. A credit sale of goods worth UGX.15,000 to Mitchell was neither recorded in the sales Account nor in the Debtor's (Mitchell) Account. To correct this error.

Debit Mitchell A/C

Credit Sales A/C

**The Journal entries would appear as below;**

Date	Account Tittles and Narration	Debit	Credit
	Mitchell A/C	15,000	
	Sales A/C		15,000
	Being an entry of a sale not recorded in any book and now recorded.		

(ii) **Errors of Principle:** This is an entry of a transaction in a wrong class or type of accounts though may be on the right side. Such an error will not affect the agreement of a trial balance.

E.g. A purchase of a motor vehicle worth UGX.2,000,000 from Opio was entered in purchases Account instead of Motor vehicle Account. To correct this error;

Debit Motor Vehicle A/ C

## Purchases A/C

The journal entries would appear as below

Date	Account Tittles and Narration	Debit	Credit
	Motor Vehicle A/C	2,000,000	
	Purchases A/C		2,000,000
	Being a correction of an entry made in a wrong A/C		

**(ii) Errors of Commission:** This error is committed when an entry of a transaction is made in a wrong account name but still in the same class of account and on the right side. So this cannot affect the agreement of a trial balance. It usually occurs when the business books have many accounts with apparently similar names eg Kasaija and Kashiya, Okello and Akello etc

E.g. Goods sold to Mugisha Alex worth UGX.10,000 was entered in Mugisa Alex account, but both of them are debtors. To correct this error

Debit Mugisha Alex A/C

Credit Mugisa Alex A/C

The journal entries would appear as below;

Date	Account Tittles and Narration	Debit	Credit
	Mugisha Alex A/C	10,000	
	Mugisa Alex A/C		10,000
	Being a correction of an entry made in a wrong personal account		

**(iv) Errors of original entry:** This is where a wrong entry is done in the journals (or books of original entry) or even right from the source documents and incorrectly entered in the ledgers, such an error cannot affect the agreement of the trial balance.

E.g. Sale of goods to Kamau on credit worth UGX.25,000 was wrongly transferred from the sales day book and debited to Kamau account as UGX. 52,000. Consequently it was credited in the sales account as UGX. 52,000. The trial balance to correct this error.

Debit Sales A/C with an overcast amount

Credit Kamau A/C with an over cast amount

**The journal entries would appear as below;**

Date	Account Tittles and Narration	Debit	Credit
	Sales A/C	27,000	
	Kamau A/C		27,000
	Being a correction of an overcast in the books of original entry now corrected.		

**(v) Errors of complete reversal of entries:** This is where the account to be debited is credited and the account to be credited is debited with the same amount. This completely reverses what would have been correctly done. However this cannot affect the agreement of the totals in the trial balance as the error has been made on both sides and with the same amount.

E.g. Payment of rent in cash of UGX.50,000 is entered on the debit side of cash account and credited on the credit side of rent account in the ledger instead of debiting rent account and crediting cash account. To correct this error double the figure recorded on the proper side.

Debit Rent A/C

Credit Cash A/C

**The Journal entries would appear as below**

Date	Account Tittles and Narration	Debit	Credit
	Rent A/C	100,000	
	Cash A/C		50,000
	Being a correction of an error of complete reversal of entries.		

**(vi) Errors of compensation / compensating errors:** This is where a mistake made in one account on the debit side of any account is the same mistake made on the credit side of another account by coincidence and therefore the figures cancel each other hence the trail balance agrees “prima facie”

E.g. An overcast in the account of Yajo Winfred (Debtor) of UGX. 12,000 is calculated by an overcast in the account of Bojo Gladys (creditor) to correct this error

Debit Bojo Gladys's A/C with an overcasted amount

Credit Yajo Winfred's A/C with an overcasted amount

**The Journal entries would appear as below;**

Date	Account Tittles and Narration	Debit	Credit
	Bojo Gladys's A/C	12,000	
	Yajo Winfred's A/C		12,000
	Being a correction of an overcast made on both accounts and now corrected		

**End of sub topic assignment:**

**1. Identify the errors that may be committed in the following accounting transactions and show how they can be corrected.**

- A credit purchase of goods worth UGX 100, 000 from Jonah was not recorded in any book.
- A receipt of cash from sales worth UGX 58,000 was debited in sales account instead of debiting it.
- A sale of an old machine worth UGX.450,000 to Musa Body on credit was credited in the sales Account instead of machine account.
- A Credit purchase of goods from Peter Collins worth UGX 2,700 was poorly recorded in both books as UGX 7,200.
- Mukasa a debtor has his account overcast by UGX 100,000 and Musoke a creditor has his account overcast by UGX 100,000.

**Correcting errors that are detected by the Trial Balance:**

**Study the information below and do the task that follow;**

ONYING FAMILY SHOPPERS

TRIAL BALANCE

AS AT 31<sup>ST</sup> DECEMBER 2021

Details	Debits (UGX)	Credit (UGX)
Sales	128,000	
Purchases	90,000	
Returns inwards		6,000
Returns outwards		5,000
Carriage inwards		10,000
Stock (1 <sup>st</sup> Jan, 2021)	28,000	
Rent	4,000	
Advertising		8,000
Premises		122,000

Machinery		75,000
Debtors	18,000	
Creditors		31,000
Bank loan (2 years)	60,000	
Cash in hand	14,000	
Cash at bank		27,000
Drawings	10,000	
Discount allowed	5,000	
Discount received		6,000
Bank overdraft	20,000	
Capital		190,000
Carriage outwards	8,000	
Wages and salaries		15,000
<b>Total</b>	<b>XXXX</b>	<b>XXXX</b>

Stock at 31<sup>st</sup> December, 2021 UGX 48,000

Required: Re draw the trial balance above putting all entries on their right side.