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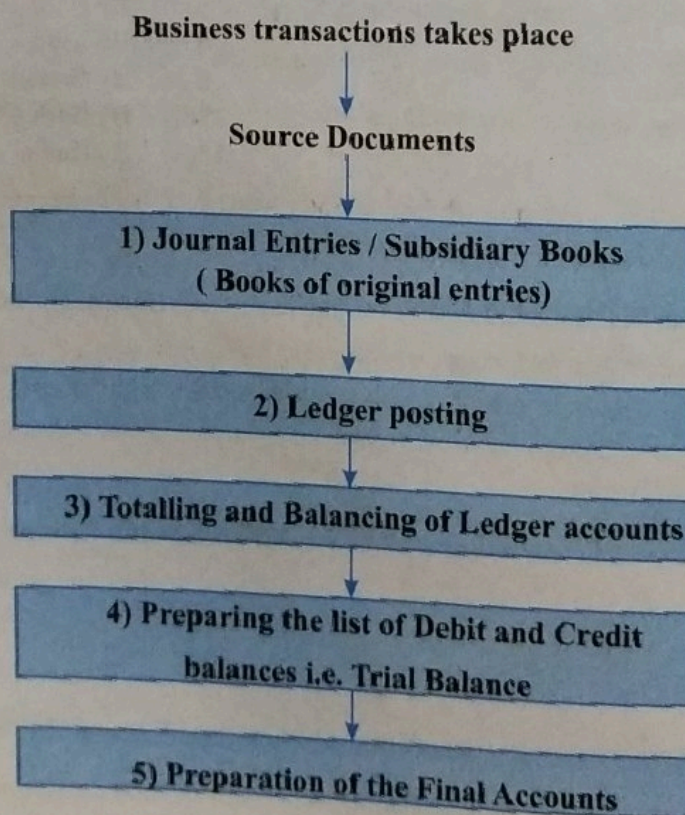
Learning Objectives : After studying this unit the student will be able to -

- know the meaning and purpose of Trial Balance.
- know the specimen of Trial Balance.
- know how to prepare a Trial Balance.

Introduction :

As and when any business transaction takes place, it is recorded in original books in a Journal or Subsidiary book. Then these transactions are posted to ledger in respective accounts. At the end of the accounting year accounts are to be closed and balanced. Accounts may show either debit or credit balance. A list is to be prepared of all debit and credit balances which is known as "Trial Balance". Trial balance facilitates preparation of final accounts.

Steps in Accounting process are as follows :-



8.1 Meaning and Purpose

Trial Balance is a list of debit and credit balances of all ledger accounts. It is prepared at the end of an accounting year in a statement form. Therefore it is also called as a "Statement of Balance".

Definition :

The concept of trial balance is defined by various Accounting Professionals as below.

- 1) "It is a list or abstract of the balances or of total debits and total credits of accounts in a ledger, with the purpose being to determine the equality of posted debits and credits and to establish a basic summary for final statements"- **By Eric Kohler.**
- 2) "It is a schedule or list of those debit and credit balances which are extracted from various accounts in the ledger and balances of Cash in hand, Cash at bank as shown by Cash Book are also included in it." - **By Carter R. N.**
- 3) "It is the final list of balances, totalled and combined." - **By Rolland.**

In short Trial Balance is a Statement showing the list of debit and credit balances of all Ledger Accounts of a trader on any particular date. Generally it is prepared at the end of an accounting year. It may be prepared monthly, quarterly or half yearly also. It is a base for the preparation of Final Accounts. As per Income Tax Act, every accounting year closes on 31st March every year.

Purposes of Trial Balance :

Trial Balance is prepared for the followings purposes.

- 1) To know the final balance of any ledger account.
- 2) To check arithmetical accuracy of each and every account.
- 3) To assure that all the business transactions are recorded and posted correctly in the books of accounts.
- 4) To analyse whether the principles of double entry system of book-keeping have been correctly followed, while recording all business transactions.
- 5) To provide the base for preparation of final accounts.

It is generally assumed that recording, posting and balancing of all records is correct if the trial balance is tallied. If it does not tally then some errors are there and a trial balance may tally despite of these errors. Hence though the trial balance is tallied it is not a conclusive proof of the correctness of the books of accounts.

**Can you find arithmetical accuracy in financial transactions without a trial balance ?
Discuss**

8.2 Specimen of a Trial Balance :

A Trial Balance may be prepared in any one of the following two formats.

- 1) Journal format
- 2) T / Ledger format

1) **Journal format :**

It has four columns such as Particulars, L.F., Debit balances amount and Credit balances amount as under.

Trial Balance
as on 31st March

Particulars	L.F.	Debit Balances Amount ₹	Credit Balances Amount ₹
-----		xxx	
-----		xxx	
-----			xxx
-----			xxx
-----		xxx	
-----		xxx	
-----		xxx	
Total		xxx	xxx

Explanation of Columns :

- 1) **Particulars Column :** In this column the name of account is written.
- 2) **Ledger Folio (L.F.) :** In this column the page no. of the ledger on which the balance appeared is written.
- 3) **Debit Balances :** In this column the amount of debit balance of respective account is written.
- 4) **Credit Balances :** In this column the amount of credit balance of respective account is written.

After writing of all the balances of various ledger accounts, the totals of debit balance column and credit balance column are taken. Both the total must be equal. If both the totals are equal, it is said that the trial balance is tallied.

2) **'T'/Ledger format**

In this format trial balance has two sides, left hand side includes debit balances and right hand side includes credit balances. Each side of trial balance has three columns such as Debit balance, L.F. Amount and Credit balance, L.F. Amount as under.

Trial Balance
as on 31st March -----

Debit balances	L.F.	Amount ₹	Credit balances	L.F.	Amount ₹
-----		xxx	-----		xxx
-----		xxx	-----		xxx
-----		xxx	-----		xxx
-----		xxx	-----		
Total		xxx	Total		xxx

Explanation of Column :

- 1) **Debit Balances :** In this column the name of account, which shows debit balance is written.
- 2) **Credit Balances :** In this column the name of accounts which shows credit balance is written.

8.3 Preparation of Trial Balance from given balances of accounts :

There are two types to prepare Trial Balance viz.

- 1) Gross Trial Balance
- 2) Net Trial Balance.

1) Gross Trial Balance :

While preparing a Trial Balance totals of both sides of an account are entered in proper column of trial balance. Such as debit sides total in debit balance column and credit sides total in credit balance column. This type of trial balance is known as a "Gross Trial Balance." It is called as a Gross Trial Balance as it is prepared without balancing the accounts. This type was used in old age, now it is practically outdated.

2) Net Trial Balance :

A net trial balance is that in which the net balances of each accounts are taken instead of taking the totals of both sides of the accounts. Such as those accounts which show debit balance are entered in debit balance column of the trial balance and those which show credit balance are entered in credit column of the trial balance. This type of trial balance is known as a "Net Trial Balance". Generally trial balance is prepared by this method only.

While preparing a trial balance all the debit and credit balances of ledger account are to be considered.

Meaning of balances :

1) Personal Accounts :

It may show either debit balance or credit balance. If personal account shows a debit balance it shows the amount due from person, hence it is a debtors account it appears in debit balance column of trial balance as Sundry Debtors But if personal account shows a credit balance, it shows the amount due to him/her hence it appears in credit balance column of trial balance as Sundry Creditors.

2) Real Accounts :

It always shows debit balance, so it appears in debit balance column of a trial balance.

3) Nominal Accounts :

The accounts of expenses and losses always show debit balance as they appear in debit balance column of trial balance and the accounts of income profit and gains show credit balance, so they appear in credit balance column of trial balance.