**TRIAL BALANCE**

A Trial Balance is simply a listing, divided into Debit and Credit columns of the balances on all the accounts in a double entry system. The objective of a trial balance is to determine or prove the arithmetical accuracy of the double entries.

**Objectives of Trial Balance**

Under the double entry system, the total debits in the ledger must be equal to the total credits. The Trial Balance, as earlier mentioned, is the recognized method of ascertaining whether this is so or not. The trial balance being a summary of the ledger is also used for preparing statement of profit or loss and statement of financial position (Final Accounts)

**Types of Trial Balance**

In practical terms there are two types of Trial Balance.

1. Initial Trial Balance:- This is simply the list of Debit and Credit balances extracted from the General Ledger and it the most common type of Trial Balance.
2. Extended Trial Balance:- As the name implies, this is simply an extension of the Initial Trial Balance into Final Trial Balance and statement of Profit or Loss and Statement of Financial Position. Extended Trial Balance is normally used by the practicing accountants when carrying out Audit/Accounting assignments as it facilitates the preparation of Audited Statement of Profit or Loss Accounts and Statement of Financial Position.

**Trial Balance as a Means of Detecting Errors**

Differences can be encountered on extraction of a Trial Balance (i.e. Debit Side of a Trial Balance may not agree with Credit Side). The reason why totals of a Trial Balance may not agree in the first instance may be due to any of the following errors:-

**(a) ERRORS THAT ARE REVEALED BY TRIAL BALANCE**

(i) Errors in Extraction of Trial Balance:

 Debit balance in the General Ledger having been entered in the

Credit column of the Trial Balance and vice versa.

 Balance omitted in extracting list of Debits and Credits

1. Errors in computation of the balances of the accounts
2. Errors of transposition of figures e.g.N18 orN81or N7.81 forN1.87.
3. Non-correspondence of debit and credit entries by omission of one side, both entries on one side or difference in amount between entries.

**(b) ERRORSTHAT ARENOT REVEALED BYTRIAL BALANCE**

These are errors that will not be revealed by the trial balance. That is errors that still exist despite the fact that both credit and debit sides of the trial balance agree with each other.

1. **Errors of Omission**:- If there is omission of the same amount on both the debit and credit sides of the trial balance.
2. **Compensating Errors**:- If errors on one side of the Trial Balance have the same effect as errors on the other side. This will not prevent the agreement of the Trial Balance.
3. **Errors of Commission**:- When the correct amount is entered but in the wrong account; e.g.N1,000 was posted to the credit side of Kofi‟s Account instead of the credit side of Kojo‟s Account.
4. **Errors of Principle**:- When an item is entered in the wrong class of account e.g. if an expense is debited to an Asset Account.
5. **Errors of Original Entry:**- When the errors are made in a book of prime entry and posted wrongly to the ledger.
6. **Errors of Complete Reversal of Entries:**- When the entries meant to be credited are debited and those meant to be debited are credited for the same transaction. This will not affect the trial balance.

**Construction of Trial Balance from List of Balances**

List of balances used for the construction of a trial balance is obtained from the closing balances in the general ledger, private ledger and nominal ledger. However, when students are asked to prepare a trial balance from a given list of balances, this means that items have to be sorted into Debits and Credits and the total of both Debit and Credit must agree. The procedure requires students to identify which items would fall into Debit or Credit side of the Trial balance.

The following rules will be found useful.

1. Assets, Losses and Expenses are debit balances.
2. Liabilities, Equity, Gains and Profit are credit balances.

**ILLUSTRATION 1**

The following is the list of balances extracted from the ledger of CHINEDU & COMPANY, a sole Practitioner that is an Audit Firm as at 31 December, 2020.

N

Audit Fee Income 1,000,000

Consultancy Fee Income 2,000,000

Cash in Bank 1,650,000

Sundry Income 300,000

Capital 750,000

Administrative Expenses 600,000

Salaries & Allowances 800,000

Subscriptions 10,000

Retained profit Brought Forward 1,150,000

Professional License Renewal Fees 5,000

Rent 150,000

Stationery 250,000

Sundry Receivables 850,000

Transport & Travelling 75,000

Furniture & Fittings (Cost) 300,000

Motor Vehicle (Cost) 550,000

Newspapers & Journals 80,000

Rates 50,000

Provision for Depreciation– (M/V) 110,000

Provision for Depreciation (Furniture & Fittings) 60,000

Provision for Depreciation- (M/V) 110,000

Provision for Depreciation– (Furniture and Fittings) 60,000

**You are required to prepare a Trial Balance of the firm as at 31st December, 2020**

**ILLUSTRATION 2**

Below are the details of Jay ventures for the year 2021

N

Capital 810,000

Loan 66,000

Cash 263,088

Motor vehicle 480,000

Carriage inwards 16,456

Debtor – Aburi & Co 65,000

Creditors 81,500

Sundry expenses 16,278

Motor van expenses 10,852

Salaries and wages 77,958

Electricity bill 6,000

Purchases 249,000

Sales 284,280

Account payable 10,852

Debtor –Opobo 68,000

**Required:** Draw up the trial balance of Jay ventures detailing the classification of the transactions.

**Illustration 3**

The following Trial Balance has been prepared wrongly. You are asked to prepare the Trial Balance correctly.

Name of Accounts Debit Balance (N) Credit Balance (N)

Cash in hand 7,000

Purchases returns 8,000

Wages 8,000

Establishment expenses 12,000

Sales returns 7,000

Capital 22,000

Carriage outwards 2,000

Discount received 1,200

Commission earned 800

Machinery 20,000

Inventory 10,000

Receivables 8,000

Payables 12,000

Sales 44,000

Purchases 128,000

Bank overdraft 114,000

Manufacturing expenses 14,000

Loan from Ashok 14,000

Carriage inward 1,000

Interest on investments 1,000

**217,000 217,000**