**Module IV**

**Trial Balance**

Before preparing final accounts of the concern for the accounting year, the accountant must ensure that the balances in various ledger accounts are arithmetically accurate. Therefore, trial balance is a prima facie proof of the arithmetical accuracy of the balances in the ledger accounts.

**Meaning and Definition**:

Trial balance is a statement with the balances or totals of both debits and credits of all accounts in the ledger to test the arithmetical accuracy of these accounts. It is a list of debit and credit totals or a list of debit and credit balances, of all ledger accounts prepared on a particular date.

“A trial balance is a list of all the balances standing in the ledger accounts and cash book of a concern at any given date” (Spicer and Pegler)

**Features of Trial Balance**

1. A trial balance is just a statement and not an account.
2. It is prepared as on a particular date and not for a particular period.
3. A trial balance may be prepared any number of times during a year.
4. It is prepared in a separate sheet of paper or book outside the books of account.
5. Its preparation is not obligatory.
6. It is a list of balances of all ledger accounts.
7. It helps to check the accuracy of books of accounts.
8. The total of debit and credit amount columns of the trial balance must tally.
9. Difference in the debit and credit columns points out that some mistakes have been committed.
10. Tallying of trial balance is not conclusive proof of accuracy of accounts.

**Objectives of trial balance**

1. To check arithmetical accuracy of ledger accounts.
2. To help in ascertaining errors.
3. To provide basis for preparing financial statements.
4. To obtain the summary of the ledger accounts.
5. Helps in making adjustments while preparing trial balance.
6. It indicates the nature of balances of various accounts.

**Suspense Account**

The preparation of final accounts should not be postponed until the errors are found and corrected. In such a case, the difference in trial balance is temporarily transferred to an account called suspense account. It can be adjusted after locating errors. In other words, it is a temporary account opened for adjusting the misbalancing or difference in the debit and credit columns of trial balance.

**Methods of preparing trial balance**

There are two methods of preparing trial balance. In both the cases, the totals of debit and credit columns will be equal.

1. Balance Method – under this method, the trial balance is prepared with the help of the debit and credit balances of various ledger accounts. The debit balances of various ledger accounts are entered in the debit column and credit balances of various ledger accounts are entered in the credit column of the trial balance.
2. Total Method – under this method, the trial balance is prepared with the help of debit totals and credit totals of all the accounts in the ledger. The debit totals of all the accounts are entered in the debit column of the trial balance, and credit totals of all the accounts are entered in the credit column of the trial balance.

Hint: **all assets and expenses have debit balance**

**All incomes and liabilities have credit balance**

**Format of Trial Balance**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Debit(`)** | **Credit(`)** |
|  | Amounts of assets and expenses are entered here | Amounts of incomes and liabilities are entered here |
|  |  |