

Chapter 2C

Accounting Process – Trial Balance

CHAPTER OVERVIEW

(1)
Trial Balance
1. Meaning and Purpose
2. Format
3. Debit Balance Total = Credit Balance Total
4. Illustration for Trial Balance
5. Nature of Balance and Entry in Trial Balance

This Chapter discusses the next stage in the Accounting Process – Trial Balance. Trial Balance meets the accounting function of Summarising.

GLOSSARY OF SIGNIFICANT TERMS USED

Account Vs Statement	<p>(a) Account: An Account is a Statement which has two sides i.e. Debit and Credit. Hence, the distinctive feature of an account is that it contains Debit and Credit sides. For entries to be made in an account, Entries in Journal / Subsidiary Books are to be made, e.g. Cash A/c, Building A/c, etc.</p> <p>(b) Statement: It represents the presentation of information in a specific format. Entries can be directly made in a statement without Journal Entries / Subsidiary Books, e.g. Trial Balance.</p>
-----------------------------	--

1.1 Meaning and Purpose of Trial Balance

- Meaning:** Trial Balance is a **statement** which lists down the **debit and credit balances** of all accounts, as **at a particular date** (i.e. end of the period) under two **separate columns**.
- Features:**
 - Trial Balance is a statement and not an Account.
 - The Totals of all Debit Balances and Credit Balances will be equal. **(Explained in the next page)**
 - It has **two columns – Debit Column and Credit Column**.
 - It is the third stage in the Accounting Process
 - Trial Balance can be prepared **on any day of the accounting period**. It shows the balances on that date.
- Objectives / Advantages:** The 3rd phase in the accounting process, i.e. preparation of Trial Balance –
 - It summarises the Ledger balances in four columns.
 - The Ledger itself may be referred to only when further details are required in respect of that Account.
 - Serves as a **check on Arithmetical Accuracy of books**, since **Debit and Credit Totals must agree**.
 - Provides the basis of preparation of Final Accounts, i.e. Financial Statements – P&L A/c & B/Sheet.
- Source for Trial Balance:** Ledger Accounts
- Limitations:** Mere tallying / agreement of Trial Balance is not a conclusive proof of arithmetical accuracy. The Trial Balance may still tally with the following errors –
 - Complete omission of a transaction, either in journalizing or in ledger posting therefrom,
 - Recording of a transaction at a wrong amount,
 - Debiting or Crediting correctly in the Ledger, but in the wrong account head,
 - Compensating Errors, i.e. errors whose effects nullify each other.

1.2 Format of Trial Balance

1. **Methods of preparation of Trial Balance:** Trial Balance may be prepared as under –

Method	What is written in Trial Balance?	Remarks
(a) Total Method	The Total of Debit and Credit Side of each Ledger Account is recorded in the Trial Balance, in the respective columns.	Merit: Time taken to balance each Ledger A/c is saved. Demerit: Not useful for preparation of Final Accounts.
(b) Balances Method	Here, only the balance in each Ledger A/c is recorded in Trial Balance. Some accounts may have Dr. Balance while others have Cr. Balance.	Most popularly used method , since it helps in preparation of Final Accounts / Financial Stmts.
(c) Total & Balances Method	This is a combination of above 2 methods. Both Totals and Balances are indicated in separate columns in Trial Balance.	Not regularly used.

2. **Format of Trial Balance:**

Particulars (i.e. Name of the Account)	Ledger Folio	Dr. Amt (₹)	Cr. Amt (₹)
(1)	(2)	(3)	(4)

Notes:

- In Column 1, Name of the Ledger A/c is given, e.g. Capital, Machinery, Sales, Purchases, Bank, etc.
- In Column 2, the Page Number of the Ledger is given for tracking and tracing purposes.
- In Column 3 & 4, – (a) the Dr. and Cr. Totals of the Ledger A/c are given (in Total Method), and (b) the balances of each Ledger A/c are given (in Balances Method). Under Total and Balances Method, additional columns are added, to indicate Totals and Balances separately.

1.3 Features of Trial Balance – Dr. Total = Cr. Total

- The total of Debit Balances is equal to the total of Credit Balances at a particular point of time. The balances are tallied in this statement to assess whether the Fundamental Accounting Equation is satisfied or not.
- Both the totals match due to the following reasons:
 - Trial Balance is prepared based on Ledger Accounts. Entries are made in each ledger accounts based on Journal.
 - Each Journal Entry contains **two aspects of equal amount** – Debit and Credit.
 - Hence, where there is a debit to a particular account for a specified amount, there will also be a credit for the same amount in another Account.
 - This leads to the equality of debit balance and credit balance.
- For Example:** Refer below for detailed example on preparation of Trial Balance

Important Notes in preparing Trial Balance

- Accounts with Nil balance will **not** be shown in the Trial Balance.
- All Accounts with balances, i.e. whether Real, Personal or Nominal, will be shown in the Trial Balance.
- Accounts relating to – (a) Assets, (b) Expenses, (c) Losses, (d) Drawings, (e) Cash, have Dr. Balance.
- Accounts relating to – (a) Capital, (b) Loans & Liabilities, (c) Incomes, (d) Gains, have Cr. Balance.
- If the Trial Balance does not agree, it may be tallied by transferring the difference of Debit or Credit to an Account known as **Suspense Account**. This is a temporary account opened to proceed further and to prepare the Financial Statements in a timely manner. [Such a TB may be called as **Adjusted TB**.]

1.4 Illustration: Journalising, Ledger Posting and Trial Balance

Journalise the following transactions in the books of Krishna Co, Proprietary Firm. Also give the Ledger Accounts and extract a Trial Balance at the end of the period. (You may ignore the dates of transactions)

Transaction	₹	Transaction	₹
Commenced business with Cash	95,000	Paid Electricity Charges and Rent	12,000
Introduced Furniture into business	55,000	Paid Salary to Manager	18,000
Purchased goods for Cash	45,000	Amount withdrawn by Krishna, Proprietor	32,000

Transaction	₹	Transaction	₹
Purchased goods on credit from Ram Ltd	60,000	Received from Balram Ltd in full settlement	69,000
Sold goods for Cash	25,000	Received from Raghu Ltd	45,000
Sold goods on credit to Balram Ltd	70,000	Part payment to Ram Ltd	50,000
Sold goods on credit to Raghu Ltd	60,000	Charged Depreciation on Furniture	5,500

Solution:**JOURNAL OF KRISHNA Co.**

Date	Particulars	LF	Debit ₹	Credit ₹
(1)	(2)	(3)	(4)	(5)
1	Cash A/c Furniture A/c To Krishna's Capital A/c (Being Cash and Furniture introduced by way of Capital)	Dr. Dr.	95,000 55,000	1,50,000
2	Purchases A/c To Cash A/c To Ram Ltd A/c (Sundry Creditors) (Being goods purchased on Cash ₹ 45,000 + Credit ₹ 60,000)	Dr.	1,05,000	45,000 60,000
3	Cash A/c Balram Ltd A/c (Sundry Debtors) Raghu Ltd A/c (Sundry Debtors) To Sales A/c (Being Cash Sales ₹ 25,000 + Credit Sales to sundry parties made)	Dr. Dr. Dr.	25,000 70,000 60,000	1,55,000
4	Electricity Charges and Rent A/c Shop Manager's Salary A/c To Cash A/c (Being expenses paid in cash)	Dr. Dr.	12,000 18,000	30,000
5	Drawings A/c To Cash A/c (Being Cash withdrawn by Proprietor)	Dr.	32,000	32,000
6	Cash A/c Discount Allowed A/c (70,000 – 69,000) To Balram Ltd A/c (Sundry Debtors) (Being full settlement received from Balram ₹ 69,000 towards ₹ 70,000 due from him, balance adjusted as Discount Allowed)	Dr. Dr.	69,000 1,000	70,000
7	Cash A/c To Raghu Ltd A/c (Sundry Debtors) (Being part payment received from Raghu Ltd)	Dr.	45,000	45,000
8	Ram Ltd A/c (Sundry Creditors) To Cash A/c (Being amount paid to Ram Ltd)	Dr.	50,000	50,000
9	Depreciation A/c To Furniture A/c (Being Depreciation charged on Furniture)	Dr.	5,500	5,500

LEDGER OF KRISHNA Co.

Dr.		Cr.	
(A) Krishna's Capital A/c		(A) Krishna's Capital A/c	
Particulars	₹	Particulars	₹
To balance c/d	1,50,000	By Cash A/c (1)	95,000
		By Furniture A/c (1)	55,000
Total	1,50,000	Total	1,50,000

Dr.		Cr.	
(B) Drawings A/c		(B) Drawings A/c	
Particulars	₹	Particulars	₹
To Cash A/c (5)	32,000	By balance c/d	32,000
Total	32,000	Total	32,000

Dr. (C) Furniture A/c Cr.			
Particulars	₹	Particulars	₹
To Capital A/c (1)	55,000	By Depreciation A/c (9)	5,500
		By balance c/d	49,500
Total	55,000	Total	55,000

Dr. (D) Cash A/c Cr.			
Particulars	₹	Particulars	₹
To Krishna's Capital A/c (1)	95,000	By Purchases A/c (2)	45,000
To Sales A/c (3)	25,000	By Electricity Charges & Rent A/c (4)	12,000
To Balram Ltd A/c (Sundry Debtors) (6)	69,000	By Shop Manager's Salary A/c (4)	18,000
To Raghu Ltd A/c (Sundry Debtors) (7)	45,000	By Drawings (5)	32,000
		By Ram Ltd A/c (Sundry Creditors) (8)	50,000
		By balance c/d	77,000
Total	2,34,000	Total	2,34,000

Dr. (E) Sales A/c Cr.			
Particulars	₹	Particulars	₹
		By Cash A/c (3)	25,000
		By Balram Ltd A/c (Sundry Debtors) (3)	70,000
To balance c/d	1,55,000	By Raghu Ltd A/c (Sundry Debtors) (3)	60,000
Total	1,55,000	Total	1,55,000

Dr. (F) Purchases A/c Cr.			
Particulars	₹	Particulars	₹
To Cash A/c (2)	45,000		
To Ram Ltd A/c (2)	60,000	By balance c/d	1,05,000
Total	1,05,000	Total	1,05,000

Dr. (G) Depreciation A/c Cr.			
Particulars	₹	Particulars	₹
To Furniture A/c (9)	5,500	By balance c/d	5,500
Total	5,500	Total	5,500

Dr. (H) Electricity Charges and Rent A/c Cr.			
Particulars	₹	Particulars	₹
To Cash A/c (4)	12,000	By balance c/d	12,000
Total	12,000	Total	12,000

Dr. (I) Shop Manager's Salary A/c Cr.			
Particulars	₹	Particulars	₹
To Cash A/c (4)	18,000	By balance c/d	18,000
Total	18,000	Total	18,000

Dr. (J) Discount Allowed A/c Cr.			
Particulars	₹	Particulars	₹
To Balram Ltd A/c (Sundry Debtors) (6)	1,000	By balance c/d	1,000
Total	1,000	Total	1,000

Dr. (K) Balram Ltd A/c (Sundry Debtors) Cr.			
Particulars	₹	Particulars	₹
To Sales A/c (3)	70,000	By Cash A/c (6)	69,000
		By Discount Allowed A/c (6)	1,000
Total	70,000	Total	70,000

(L) Raghu Ltd A/c (Sundry Debtors)

Particulars	₹	Particulars	₹
To Sales A/c (3)	60,000	By Cash A/c (7)	45,000
		By balance c/d	15,000
Total	60,000	Total	60,000

(M) Ram Ltd A/c (Sundry Creditors)

Particulars	₹	Particulars	₹
To Cash A/c (8)	50,000	By Purchases A/c (2)	60,000
To balance c/d	10,000		
Total	60,000	Total	60,000

Trial Balance of Krishna Co. at the end of the period

Particulars	Total Method (Totals written)		Balances Method (balances written)	
Head of Account	Debit ₹	Credit ₹	Debit ₹	Credit ₹
Krishna's Capital A/c (A)		1,50,000		1,50,000
Drawings A/c (B)	32,000		32,000	
Furniture A/c (C)	55,000	5,500	49,500	
Cash A/c (D)	2,34,000	1,57,000	77,000	
Sales A/c (E)		1,55,000		1,55,000
Purchases A/c (F)	1,05,000		1,05,000	
Depreciation A/c (G)	5,500		5,500	
Electricity Charges and Rent A/c (H)	12,000		12,000	
Shop Manager's Salary A/c (I)	18,000		18,000	
Discount Allowed A/c (J)	1,000		1,000	
Balram Ltd A/c (Sundry Debtors) (K)	70,000	70,000	—	—
Raghu Ltd A/c (Sundry Debtors) (L)	60,000	45,000	15,000	
Ram Ltd A/c (Sundry Creditors) (M)	50,000	60,000		10,000
Total	6,42,500	6,42,500	3,15,000	3,15,000

Note: Since each entry has two aspects of equal amounts, the Trial Balance must tally.

Illustration 2: Preparation of Rectified Trial Balance**N 19**

An inexperienced book keeper has drawn up a Trial balance for the year ended 31st March, 2019.

Particulars	Debit (₹)	Credit (₹)
Provision for Doubtful Debts	250	—
Cash Credit Account	1,654	—
Capital	—	4,591
Trade payables	—	1,637
Due from customers	2,983	—
Discount Received	252	—
Discount Allowed	—	733
Drawings	1,200	—
Office Furniture	2,155	—
Carriage Inward	—	829
Purchases	10,923	—
Returns Inward	—	330
Rent & Rates	314	—
Salaries	2,520	—
Sales	—	16,882
Inventory	2,418	—
Provision for Depreciation on Furniture	364	—
Total	25,033	25,002

Draw up a corrected Trial Balance by debiting or crediting any residual errors to a Suspense account.

Solution

Particulars	Debit (₹)	Credit (₹)	Reason
Provision for Doubtful Debts	—	250	Liability
Cash Credit Account	—	1,654	Liability
Capital	—	4,591	Capital

Particulars	Debit (₹)	Credit (₹)	Reason
Trade payables	–	1,637	Liability
Due from customers	2,983	–	Asset
Discount Received	–	252	Income
Discount Allowed	733	–	Expense
Drawings	1,200	–	Drawings
Office Furniture	2,155	–	Asset
Carriage Inward	829	–	Expense
Purchases	10,923	–	Expense
Returns Inward	330	–	Sales Return (Opposite nature to Sales)
Rent & Rates	314	–	Expense
Salaries	2,520	–	Expense
Sales	–	16,882	Income
Inventory	2,418	–	Opening Stock(Expense)
Provision for Depreciation on Furniture	–	364	Liability
Suspense	(b/f) 1,225	–	Balancing Figure
Total	25,630	25,630	

1.5 Nature of Balance and presentation in Trial Balance

Indicate which column of the Trial Balance, the following items are shown:

Item	Column of Trial Balance
1. An account with Nil balance	Not Shown in the Trial Balance
2. Assets account	Debit
3. Bank overdraft	Credit
4. Deposit from Mr.XYZ shown	Credit
5. Advance given to Mr. ABC	Debit
6. Furniture	Debit
7. Salary	Debit
8. Creditors	Credit
9. Sundry Debtors	Debit
10. Carriage Inwards	Debit
11. Sales	Credit
12. Purchases	Debit
13. Discount Received	Credit
14. Interest paid	Debit
15. Provision for Bad Debts or Bad Debts Provision	Credit

Question Types in this Chapter

1.Direct Theory Questions: Features of Trial Balance, Nature of Balance in Ledger Accounts

2. Problem Questions: A wrong Trial Balance may be given. **From that**, the correct Trial Balance total to be found out.

State with reasons, whether the following Statements are True or False:

Statements	T/F	Reasoning
1. Trial Balance ensures the arithmetical accuracy of books.	False	Agreement of Trial Balance is not an absolute proof of the accuracy, because there may be some errors like errors of principle, compensating errors etc. which do not effect the agreement of Trial Balance.
2. Trial Balance checks the honesty of the book-keepers.		
3. Tally of Trial Balance only proves arithmetical accuracy.		

Statements	T/F	Reasoning
4. A tallied Trial Balance means that the books have been prepared as per accepted accounting principles.		
5. The Allowance made for prompt payment is called Trade Discount.	False	The Allowance made for prompt payment is called Cash Discount. Trade Discount is a reduction granted by a Supplier from the List Price of goods on business considerations other than prompt payment.
6. The Sales Day Book is a part of the Ledger.	False	Sales Day Book is a book of prime entry and hence it is a part of Journal.
7. Sale of office Furniture should be credited to Sale Account for a Trader is Cosmetics Goods.	False	Sale of Furniture should be credited to Furniture Account because it is a Capital Receipt.
8. Wages paid for erection of Machinery are debited to Profit and Loss Account.	False	Since Wages paid for erection of Machinery is a Capital Expenditure, it should be debited to Machinery A/c.
9. Patent Right is in the nature of Nominal Account.	False	Patent Right is an Intangible Asset (i.e. Real A/c).
10. The debts written off as bad, if recovered subsequently, are credited to Debtors Account.	False	Debts written off as bad, if recovered subsequently, shall be treated as Gain and be credited to P&L A/c.
11. Nominal Accounts are balanced at the end of the Accounting Year.	False	Nominal A/c are not balanced. The Balances at the end are transferred to the Profit and Loss Account.
12. Outstanding Expenditure is a Nominal Account.	False	Outstanding Expenditure represents a Liability due to some person. Therefore, it is a Personal Account.
13. The Return of Goods by a Customer should be debited to Return Outward Account.	False	Such Return is a Sales Return Transaction. Hence, it should be debited to Returns Inward Account.
14. The balance of an account is always known by the side which is shorter.	False	The balance of account is the difference between the total of Debits & Credits. If the debit side (left) total is higher, it shall be a debit balance and if the credit side (right) total is higher, it shall be a credit balance.
15. When we buy Furniture on Cash we debit Cash A/c.	False	Furniture A/c is debited and Cash A/c is credited.
16. Balance in Petty Cash Book represents Expense.	False	Such balance represents Cash lying with Petty Cashier.
17. Balance in the Cash Book shows Net Income.	False	Balance in the Cash Book shows Cash in hand.
18. Discount A/c should be balanced in the Cash Book.	False	Discount Account in Cash Book should not be balanced. Debit Total of Discount Column represents Discount Allowed and that of Credit Side represents Discount Received. These balances are transferred to P&L A/c.
19. Bank Column of the Cash Book will show only a Debit Balance.	False	Bank Column of the Cash Book will show Credit Balance, if the Bank Account has an Overdraft Balance.
20. A Crossed Cheque is always payable across the Bank Counter.	False	Only a Bearer Cheque is payable across the Bank Counter.
21. If a Cheque received is further endorsed, it must be entered on both sides of the Cash Book.	True	This is because the Cash Book is debited when the Cheque is received and it is credited when it is endorsed.
22. Purchase Book records all purchase of Goods.	False	Only Credit Purchases of Goods dealt in / Material & Stores used in the Factory are recorded in Purchases Book.
23. The Purchase Day Book is a part of the Ledger.	False	Purchase Day Book is a book of prime entry and hence it is a part of Journal.
24. The Sales Book is kept to record both Cash and Credit Sales.	False	The Sales Book is a Register specially kept to record Credit Sales of goods dealt in by the Firm. Cash Sales are entered in the Cash Book and not in the Sales Book.
25. The Debit Notes issued are used to prepare Sale Return Book.	False	The Debit Notes issued are used to prepare Purchase Return Book.
26. Closing Entries are recorded in Journal Proper.	True	All the Closing Entries are recorded in Journal Proper.
27. Trade Discount is a reduction granted by a supplier from the list price of goods or services on business considerations for prompt payment. [N 19]	False	The Allowance made for prompt payment is called Cash Discount. Trade Discount is a reduction granted by a Supplier from the List Price of goods on business considerations other than prompt payment.