

Trial Balance

Definition:

Trial Balance is the third stage in the accounting process. Transactions are first recorded in journal and then in the Ledger. To test whether any mistake has arisen at these two stages, a statement or list is prepared with the help of Debit and Credit balances of the Ledger. The name of this list or statement is called Trial Balance.

R. N. Carter says, “*Trial Balance is a schedule or list of balances both Debit and Credit extracted from the accounts in the Ledger including the cash and bank balances from the cash book.*”

Objectives:

The main objectives of the preparation of a Trial Balance are as follows:

1. To test the arithmetical accuracy of the accounts is one of the main important objectives of a Trial Balance.
2. To verify whether both the debit and credit aspects of the transactions as per double entry system have been recorded properly in the Books of Accounts.
3. To bring together all the balances of accounts in one place in order to facilitate the preparation of final accounts.
4. To test whether all the accounts have been correctly balanced.
5. To discover the mistake, if any, present in the activities of maintaining accounts.

Procedure of preparing a Trial Balance taking ledger balances:

Where only ledger balances are given in the absence of Ledger, the following rules should be followed to ascertain which of the balances will be written on the debit column and on the credit column of a Trial Balance:

Method of Preparing a Trial Balance:

The accounts, the balances of which will be written on the debit side	The accounts, the balances of which will be written on the credit side
1. All the assets: such as, land, building, Leasehold property, Machinery, Equipment, Furniture, Investment, Bills Receivable, Debtors, Cash in the Bank, Opening stock, Cash in hand etc.	1. All liabilities accounts; such as, Loan, Debenture, Loan on Mortgage, Creditors, Bills payable, Bank overdraft, Capital etc.
2. All expenses and losses; such as, wages, salaries, printing, rent, repairs, office expenses, trade expenses, commission paid, Purchases, depreciation, bad debt, discount allowed etc.	2. All types of incomes and profits: such as, Interest received, Discount received, Interest on investment, interest on bank deposit etc.
3. Expenses paid in advance: such as Salaries paid in advance, Insurance prepaid.	3. Outstanding expenses: Salaries due, wages due, rents due etc.
4. Accrued Incomes: Interest accrued on investment, commission accrued etc.	4. All types of Reserves: Reserve for Doubtful debt, General Reserve, etc.
5. Other items: Sales Return, Loan allowed, Drawing.	5. Other items: Purchase Returns, Income Received in Advance.

Method of correcting an incorrect Trial Balance:

In this case the following action should be taken to detect the mistake:

1. To verify the totals of the two columns in Trial Balance.
2. To see whether the balance of Ledger accounts have been correctly entered in the Trial Balance.
3. To see whether posting from Journals to the Ledger Accounts have been correctly done.
4. To see whether totaling and balancing of the Ledger Accounts have been correctly done.
5. To see whether posting of the Debit and Credit Balances have been correctly done in the appropriate side of the Trial Balance.
6. To see whether the Cash columns and Bank columns of the Cash Book have been properly balanced or not and whether the balances have been correctly included in the Trial Balance.
7. If the mistakes or errors cannot be detected, no further time should be spent. So, the amount by which the Trial Balance disagreed should be put in 'Suspense Account' for the time being. Subsequently, when the errors will be detected, the errors will be rectified through the suspense A/c which will be closed after the errors are rectified.

Suspense Account:

It is necessary to find out the error where totals of both the sides of a Trial Balance do not agree. But, in many cases the detection of the errors may take long time and it may not be feasible to keep the work of preparation of Final Accounts pending for such a long time. Under the circumstance the difference between the totals of both the side of Trial Balance is shown in the Suspense Account and both the sides of the Trial Balance are made equal through this account for the time being. If the total of credit side of Trial Balance becomes less than that of debit side, the

Suspense Account will be shown on the credit side and vice versa. Afterwards, when the errors are detected the Suspense Account is closed through correction of those errors. Practically this is purely a temporary Account.

Exercise:

Prepare a Trial Balance as at 31 December, 2016 with the following ledger Balances of Mr. Khaleque.

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Capital	98,000
Opening Stock	25,000
Salaries	35,000
Wages	25,000
Purchases	90,000
Sales	1,40,000
Purchases Return	2,000
Sales Return	1,000
Bad Debt	500
Provision for Bad Debt	1,500
Furniture	10,000
Machinery	22,000
Carriage	4,000
Cash in hand	4,000
Cash at Bank	15,000
Bills Payable	6,000
Commission received	2,000
Discount Allowed	2,000
Insurance Premium	1,000
Sundry Debtors	31,000
Sundry Creditors	20,000
Rent and Taxes	4,000

Solution:

Mr. Khaleque's

Trial Balance

For the year 31st December 2016

Serial No.	Account's Titles	L.P	Debit (tk.)	Credit (tk.)
1.	Capital		.....	98,000
2.	Opening Stock		25,000	.....
3.	Salaries		35,000	.....
4.	Wages		25,000	.....
5.	Purchases		90,000	.....
6.	Sales		.....	1,40,000
7.	Purchases Return		.....	2,000
8.	Sales Return		1,000	.....
9.	Bad Debt		500	.....
10.	Provision for Bad Debt		.....	1500
11.	Furniture		10,000	.....
12.	Machinery		22,000	.....
13.	Carriage		4,000	.....
14.	Cash in hand		4,000	.....
15.	Cash at Bank		15,000	.....
16.	Bills Payable		.....	6,000
17.	Commission received		.....	2,000
18.	Discount Allowed		2,000	.....
19.	Insurance Premium		1,000	.....
20.	Sundry Debtors		31,000	.....
	Sundry Creditors		.....	20,000
	Rent and Taxes		4,000	.....
	Total		<u>2,69,500</u>	<u>2,69,500</u>