

Trial Balance

Under double entry system, for every debit entry there is a corresponding credit entry of the same amount. Consequently, the total amount of all the debit entries should be equal to the total of all credit entries. In order to verify, whether the two totals are equal, a statement is prepared periodically showing the debit items in one column and the credit items in another. This statement is called the "Trial Balance".

There are two methods of preparing a trial balance- (1) Trial Balance prepared with the gross totals of the debit and credit sides of each ledger account, and (2) Trial Balance prepared with the balance of each account. When both gross amounts and balances of the accounts are shown in the trial balance it becomes a third method and it is called a mixed Trial Balance. In actual practice, the first and the third methods are used very rarely while the second method is used generally.

Different classes of errors that may exist in spite of the agreement of the Trial Balance are discussed below:

- (a) **Errors of Omission:** Such an error arises when any transaction is either wholly or partially unrecorded in the books. In the former case, the trial balance will not be affected, and thus the error will be more difficult to detect. Where only one aspect of a transaction is recorded, the omission will throw the Trial Balance out of agreement.
- (b) **Errors of Commission:** Errors of commission arise when transactions are incorrectly recorded, either wholly or partially. In the former case the trial Balance will not be the trial balance out of agreement to that extent.
- (c) **Clerical Errors:** A clerical error is a form of error of commission. It may consist of an incorrect posting, or a mistake in casting, or the transposition of figures, or posting to the wrong account. Unless the error affects the debit and credit equally, the incorrect posting and mistakes in casting will cause the trial balance to be out of the agreement. Posting to the wrong account but on correct side, however, will not affect the agreement of the Trial Balance.
- (d) **Errors of Principle:** An error of principle arises by reason of a transaction being recorded in a fundamentally incorrect manner. Certain errors of principle may not affect the ultimate profit, but it may cause a revenue item being posted to wrong revenue account. Major errors of principle directly affect profit. They may be caused by treating a revenue item as an asset or liability, or vice versa. These errors will not throw the trial balance out of agreement.
- (e) **Compensating Errors:** A compensating error is one, which is counter balanced by another error or errors of the same amount either in the same account or other accounts. Such error will not cause the Trial Balance to disagree.

Above discussion made it clear that a Trial Balance may agree in spite of the presence of some errors mentioned above. Hence an agreed Trial Balance cannot be regarded as a conclusive evidence of the correctness of the books of accounts, rather it may be regarded as a prima facie proof that the posting are arithmetically correct.

Rules Regarding Trial Balance

The following rules are followed in solving a Trial Balance-

1. All assets are recorded in the Debit side
2. All the expenses are recorded in the Debit side
3. All revenues are recorded in the Credit side
4. Capital, liabilities and Reserves are recorded in the Credit side

Examples:

From the following balances of accounts prepare a Trial Balance as at 31st December 1991:

Particulars	Tk	Particulars	Tk
Opening Stock	41,000	Bad Debts	600
Purchases	1,10,000	Sales	1,80,000
Drawings	18,000	Sundry Debtors	14,000
Sales Return	6,000	Fixed Assets	35,000
Wages	5,400	Creditors	62,500
Salaries	9,000	Cash	8,200
Travelling	950	General Expenses	1,200
Rent, Rates and Taxes	2,400	Advertisements	900
Purchase Returns	1,500	Capital	8,750
Interest Paid	1,200	Investments	3,500
Discount Allowed	800	Bank Cheque draft	5,000
Insurance Charges	600	Commission Received	1,000

On 31st December 1991 Closing Stock was valued at Tk 16,000.

Solution:

Trial Balance

as at 31 December, 1991

Accounts	L.F.	Debit (Tk)	Credit (Tk)
Opening Stock		41,000	
Purchases		1,10,000	
Drawings		18,000	
Sales Returns		6,000	
Wages		5,400	
Salaries		9,000	
Traveling		950	
Rent, Rates and Taxes		2,400	
Purchase Returns			1,500
Interest Paid		1,200	
Discount Allowed		800	
Insurance Charges		600	
Bad Debts		600	
Sales			1,80,000

Sundry Debtors	14,000	
Fixed Assets	35,000	62,500
Creditors		
Cash	8,200	
General Expenses	1,200	
Advertisements	900	8,750
Capital		
Investments	3,500	5,000
Bank Overdraft		1,000
Commission Received		
Total	2,58,750	2,58,750

Note: Closing Stocks are not included in the Trial Balance

Problems 1:

From the following balances of accounts prepare a Trial Balance as at 31st July 2000:

Accounts	Tk
✓ Capital → Cx	8,900
✓ Drawings	1,000
✓ Stock (1.7.1999)	3,700
✓ Purchases	23,125
✓ Sales → Cx	39,400
Motor Vehicles	1,450
Cash in hand	135
Sundry Creditors → Cx	4,976
Sundry Debtors	13,970
Bank Overdraft → Cx	900
Wages and Salaries	6,200
Lighting and Heating	315
Equipment	3,500
Carriage Outward	231
Return Inwards	205
Provision for Bad Debts → Cx	425
Returns Outward → Cx	316
Discount Allowed	280
Discount Received → Cx	315
Rent, Rates and Insurance	1,121

❖ Answer: Total of the Debit and Credit are Tk 55,232.

Notes:

1. Stock (1.7.1999) is the Opening Stock

2. 'Provision for Bad Debts' is a liability

3. Discount Allowed is an expense

4. Discount Received is a revenue

Problem no.: 2

The accounts in the ledger of *Nandan Park Inc.* are listed in alphabetical order as follows. All accounts have normal balances. The balance of the cash account has been intentionally omitted.

Accounts Payable	Tk 18,750
Accounts Receivable	Tk 20,500
Capital Stock	Tk 50,000
Cash	?
Dividends	Tk 20,000
Fees earned	Tk 3,15,000
Insurance Expense	Tk 5,000
Land	Tk 1,25,000
Miscellaneous Expense	Tk 9,900
Notes Payable	Tk 35,000
Prepaid Insurance	Tk 3150
Rent Expense	Tk 58,000
Retained Earnings	<u>Tk 60,290</u>
Supplies	Tk 4,100
Supplies Expense	Tk 5,900
Unearned Rent	Tk 6,000
Utilities Expense	Tk 41,500
Wages Expense	Tk 1,75,000

Prepare a Trial balance, listing the accounts in their proper order and inserting the missing figure for cash.