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CSE-07
RUET

GENERAL LEDGER AND TRIAL BALANCE

Ledger is a book where individual accounts are maintained separately. It is the most important book of accounts, because it includes all the summaries of transactions. Therefore, it is called the 'principal book' of all the books of accounts. It forms a permanent record of the financial transactions of a firm.

The specimen form of a General Ledger is giver below:

Dr. **Accounts Name** **Cr.**

Date	Particulars	Journal Folio	Amount (Tk)	Date	Particulars	Journal Folio	Amount (Tk)

Exercise

Mr. Paul is a licensed architect. During the first month of operation of his business, the following events and transactions occurred.

April	1	Invested Tk.150,000 cash.
	1	Hired a secretary-receptionist at a salary of Tk.3,000 per week payable monthly.
	2	Paid office rent for the month, Tk.8,000.
	3	Purchased architectural supplies on account from Bulu Company, Tk.15,000.
	10	Completed blueprints on a carport and billed client Tk.9,000 for services.
	11	Received Tk.5,000 cash advance from Md. Rahim for the design of a new home.
	20	Received Tk.15,000 cash for services completed and delivered to Mr. Bhatia.
	30	Paid secretary-receptionist for the month, Tk.12,000.
	30	Paid Tk.6,000 to Bulu Company on account.

Instructions

(a) Journalize the transactions.

(b) Post to the ledger accounts.

(c) Prepare a trial balance on April 30, 1999.

Normal Balances of Accounts

- Accounts have normal balances on the side where the increases in such accounts are recorded.
- Asset accounts have normal balances on debit side.
- Expense accounts have normal balances on debit side.
- Liability accounts have normal balances on credit side.
- Equity accounts have normal balances on credit side.
- Revenue accounts have normal balances on credit side.
- On the financial statements, accounts are reported on the sides where they have normal balances.
- Liability accounts have normal balances on credit side.
- Equity accounts have normal balances on credit side.

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.

Errors cannot be detected by Trial Balance

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

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(a) *Errors of Omission:* Such an error arises when any transaction is either wholly or partially unrecorded in the 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.

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(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 the trial balance out of agreement to that extent.

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(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.

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(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.

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e Compensating Errors: A compensating error is one, which is counter balanced by another error or errors of the same amount and/or 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