



NAME OF THE COURSE: FINANCIAL ACCOUNTING

TOPIC- TRIAL BALANCE

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Trial Balance

Trial balance is a list in which all the balances of the accounts of Ledger are showed to test the arithmetical accuracy of the posting in ledger. It is prepared after the end of a particular period – year, half year or quarter. Trial balance prepares a base for the preparation of final accounts. After the completion of trial balance, the financial accounts – P&L. Account and Balance Sheet are prepared to disclose the overall results of the business after a period. The proforma of a trial balance is given hereunder:

Proforma of Trial Balance

Particulars	Dr.	Cr.

Methods of preparation of Trial balance

A trial balance is prepared the following three methods:

Balance method

In this method, the balance of every ledger account either debit or credit, is recorded in the trial balance against the respective accounts. The balance method is widely used, as it helps in the preparation of financial statements.

ii) Total method

Under this method, the total amounts on the debit side of the ledger accounts and the total amounts on the credit side of the ledger accounts are ascertained and recorded in the trial balance. This method is not commonly used as it cannot help in the preparation of financial statements.

iii) Total and Balance method

This method is a combination of both total method and balance method. Under this method, four columns are provided, namely, a) totals of debit side of the ledger accounts, b) totals of the credit side of the ledger accounts c) debit balances of ledger accounts and d) credit balances of the ledger accounts. This method is not in practice.

Objectives of preparing trial balance

Trial balance is prepared with the following objectives:

i) Test of arithmetical accuracy

Trial balance is the means by which the arithmetical accuracy of the book-keeping work is checked. When the totals of debit column and credit column in the trial balance are equal, it is assumed that posting from subsidiary books, balancing of ledger accounts, etc. Are arithmetically correct. However, there may be some errors which are not disclosed by trial balance.

Financial statements, namely, trading and profit and loss account and balance sheet are prepared on the basis of summary of ledger balances obtained from the trial balance.

iii) Location of errors

When the trial balance does not tally, it is an indication that certain errors have occurred. The errors may have occurred at one or more of the stages of accounting process, namely, journalising or recording in subsidiary books, totalling subsidiary books, posting in ledger accounts, balancing the ledger accounts, carrying ledger account balances to the trial balance, totalling the trial balance columns, etc. Hence, the errors should be located and rectified before preparing the financial statements.

iv) Summarised information of ledger accounts

The summary of ledger accounts is shown in the trial balance. Ledger accounts have to be seen only when details are required in respect of an account.

Specimen of a trial balance

Trial balance of Mr. X as on ...



S.No.	Particulars	L.F.	Debit `	Credit `
1	Cash in hand		XXX	
2	Cash at bank		XXX	
3	Bills receivable		XXX	
4	Sundry debtors		XXX	
5	Opening stock		XXX	
6	Plant and Machinery		XXX	
7	Land and Building (Premises)		XXX	
8	Furniture and Fixtures		XXX	
9	Vehicles		XXX	
10	Goodwill		XXX	
11	Investment		XXX	
12	Drawings		XXX	
13	Purchases		XXX	
14	Sales returns		XXX	
15	Carriage inwards		XXX	
16	Carriage outwards		XXX	
17	Rent paid		XXX	
18	Commission paid		XXX	
19	Interest paid		XXX	
20	Bad debts		XXX	

21	Insurance premium		XXX	
22	General expenses		XXX	
23	Sundry expenses		XXX	
24	Electricity charges		XXX	
25	Selling expenses		XXX	
26	Travelling expenses		XXX	
27	Wages		XXX	
28	Sales			XXX
29	Purchases returns			XXX
30	Capital			XXX
31	Bank loan			XXX
32	Sundry creditors			XXX
33	Bills payable			XXX
34	Bank overdraft			XXX
35	Rent received			XXX
36	Interest received			XXX
37	Provision for bad debts			XXX
	Total		XXX	XXX

**Only debit
balances**

Assets
(cash, debtors,
building, furniture, etc.)
Drawings
Purchases
Sales returns
Expenses
Losses

**Only credit
balances**

Liabilities
(creditors, bank
overdraft, provisions,
reserves, etc.)
Incomes
Sales
Purchases returns
Gains

PROBLEM NO.1

Following balances were extracted from the books of Shri S. Pal on 31st march,2017. you are required to prepare a trail balance.The amount required to balance should be entered as capital.

Particulars	Amount(Rs.)	Particulars	Amount(Rs.)
Purchases	1,70,000	Drawings	7,700
Stock(1 st April,2016)	24,000	Returns inward	3,500
sales	1,05,000	Premises	5,28,000
Sundry Debtors	23,800	Sundry creditors	16,100
Discount received	3,500	Discount allowed	2,800
Carriage outwards	700	Carriage inwards	1,400
Cash in hand	3,500	Cash at bank	17,500
machinery	1,24,500	General expenses	2,100
Provision for depreciation on machinery	24,200	Bad debts written off	2,450
Provision for doubtful debts	2,380		

Trial Balance as on 31.3.2017

S.No	Particulars	Debit	Credit
1	Purchases	1,70,000	
2	Stock(1 st april,2016)	24,000	
3	sales		1,05,000
4	Sundry Debtors	23,800	
5	Discount received		3,500
6	Carriage outwards	700	
7	Cash in hand	3,500	
8	machinery	1,24,500	
9	Provision for depreciation on machinery		24,200
10	Provision for doubtful debts		2,380
11	Drawings	7,700	
12	Returns inward	3,500	
13	Premises	5,28,000	

S.No	particulars	Debit	Credit
14	Discount allowed	2,800	
15	Carriage inwards	1,400	
16	Cash at bank	17,500	
17	General expenses	2,100	
18	Sundry creditors		16,100
19	Bad debts written off	2,450	
20	Discount allowed	2,800	
	Capital (Balancing figure)		7,60,770
	TOTAL	9,11,950	9,11,950

PROBLEM NO. 2

From the following balances extracted from the books of Raju a trader on automobiles, prepare trial balance as on 31st March, 2017: Cash in hand 5,500; Direct expenses 5,000 ; Discount received 300; Carriage outwards 3,500; Creditors 15,000; Capital 45,000; Buildings 50,000 Purchases 49,700; Opening stock 6,000 ; Sales 59,400

In the books of Raju				
Trial balance as on 31st March, 2017				
S. No	Name of account	L.F.	Debit balance `	Credit balance `
1	Cash in hand		5,500	
2	Discount received			300
3	Creditors			15,000
4	Buildings		50,000	
5	Opening stock		6,000	
6	Direct expenses		5,000	
7	Carriage outwards		3,500	
8	Capital			45,000
9	Purchases		49,700	
10	Sales			59,400
	Total		1,19,700	1,19,700

PROBLEM NO. 3

From the following balances extracted from the books of Ashok, a merchant of Chennai, prepare trial balance as on 31st December, 2017.

Particulars	`	Particulars	`
Buildings	20,000	Conveyance charges	3,500
Bills payable	3,000	Salary	5,600
Debtors	20,000	Capital	40,000
Cash at bank	16,800	Furniture	10,000
Insurance paid	1,600	Motor vehicles	5,000
Rent received	5,000	Patents	2,000
Donation given	2,500	Goodwill	3,000
Loan borrowed	42,000		

In the books of Ashok

Trial balance as on 31st December, 2017

S. No.	Name of account	L.F.	Debit balance `	Credit balance `
1	Buildings		20,000	
2	Bills payable			3,000
3	Debtors		20,000	
4	Cash at bank		16,800	
5	Insurance paid		1,600	
6	Rent received			5,000
7	Donation given		2,500	
8	Loan borrowed			42,000
9	Conveyance charges		3,500	
10	Salary		5,600	
11	Capital			40,000
12	Furniture		10,000	
13	Motor vehicles		5,000	
14	Patents		2,000	
15	Goodwill		3,000	
	Total		90,000	90,000

Suspense Account: When Trial Balance does not agree, then first of all we try to locate the errors. Sometimes, in spite of the best efforts, all the errors are not located and the Trial Balance does not tally. Then in order to avoid delay in the preparation of final accounts, a new account is opened which is known “Suspense Account” Difference in Trial Balance is posted to this Account.

1. If there is <u>Excess Debit</u> in the Trial Balance	Difference is posted to the <u>Credit side</u> of Suspense A/c
2. If there is <u>Excess Credit</u> in the Trial Balance	Difference is posted to the <u>Debit side</u> of Suspense Account.

S.	Trial Balance		Difference	Posted to the Suspense A/c ?
no.	Dr. Total	(Cr Total)	(Rs.)	(Debit / Credit Side)
	(Rs)	(Rs)	(Rs)	
1.	2,25,000	2,16,500	8,500	Credit Side of Suspense A/c.
			(Excess Debit)	
2.	2,16,500	2,25,000	8,500	Debit Side of Suspense A/c.
			(Excess Credit)	

PROBLEM NO. 4

The following balances are extracted from the books of Prabhu, as on 31st March, 2017. Prepare trial balance and transfer the difference if any to suspense account.

Particulars	`	Particulars	`
Discount allowed	250	Loan borrowed	7,000
Cash in hand	4,200	Lighting	12,000
Capital	50,000	Commission paid	3,000
Salaries	12,000	Purchases	29,050
Furniture	7,500	Sales	35,000

In the books of Prabhu
Trial balance as on 31st March, 2017

S. No.	Name of account	L.F.	Debit balance `	Credit balance `
1	Discount allowed		250	
2	Cash in hand		4,200	
3	Capital			50,000
4	Salaries		12,000	
5	Furniture		7,500	
6	Loan borrowed			7,000
7	Lighting		12,000	
8	Commission paid		3,000	
9	Purchases		29,050	
10	Sales			35,000
11	Suspense account*		24,000	
	Total		92,000	92,000

* **Note:** Since the credit balance is more than the debit balance, the difference is transferred to suspense account.

PROBLEM NO. 5



The following trial balance has certain errors. Redraft it.

Trial balance as on 31st March, 2017

Name of account	Debit balance `	Credit balance `
Building	60,000	
Machinery	17,000	
Returns outward	2,600	
Bad debts	2,000	
Cash	400	
Discount received	3,000	
Bank overdraft	10,000	
Creditors	50,000	
Purchases	1,00,000	
Capital		72,800
Fixtures		5,600
Sales		1,04,000
Debtors		60,000
Interest received		2,600
Total	2,45,000	2,45,000

Solution

Redrafted Trial balance as on 31st March, 2017

Name of account	Debit balance `	Credit balance `
Building	60,000	
Machinery	17,000	
Returns outward		2,600
Bad debts	2,000	
Cash	400	
Discount received		3,000
Bank overdraft		10,000
Creditors		50,000
Purchases	1,00,000	
Capital		72,800
Fixtures	5,600	
Sales		1,04,000
Debtors	60,000	
Interest received		2,600
Total	2,45,000	2,45,000

Problem No: 6

A bookkeeper extracted the following Trial Balance as on 31st March, 2017:

Heads of Accounts	Dr. Balance	Cr. Balance
Furniture	20,000	...
Capital	...	2,00,000
Debtors	2,00,000	...
Stock(1 st April, 2016)	1,04,000	...
Creditors	...	80,000
Trade Expenses	50,000	...
Sales	...	8,58,000
Wages	30,000	...
Stock(31 st March 2017)	98,000	...
Machinery	...	50,000
Purchases	6,25,000	...
Wife's loan to the business	50,000	...
Discount Allowed	...	4,000
Drawings made by the proprietor	...	45,000
Motor Van	60,000	...

You are required to:

- (I) State the errors giving reasons. (II) Redraft the Trial Balance correctly.

Solutions:

- (a) Stock on 31st March, 2017, will not appear in the Trial Balance because it represents a part of the goods purchased but not yet sold. As the total purchases have been included in the Trial Balance, there is no need of including in the Trial Balance; there is no need of including the Closing Stock again.
- (b) Machinery is an asset and thus will appear in the debit column.
- (c) Wife's loan to the business is a liability. It will appear in the debit column.
- (d) Discount allowed, being an expense, will appear in the debit column.
- (e) Drawings made by the proprietor is a decrease of capital (*i.e.*, decrease of proprietor's claim from the business). It will appear in the debit column.

II. Trial Balance:

Heads of Accounts	L. F	Dr. Balance	Cr. Balance
Furniture		20,000	...
Capital		...	2,00,000
Debtors		2,00,000	...
Stock(1 st April, 2016)		1,04,000	...
Creditors		...	80,000
Trade Expenses		50,000	...
Sales		...	8,58,000
Wages		30,000	...
Machinery		50,000	...
Purchases		6,25,000	...
Wife's loan to the business		...	50,000
Discount Allowed		4,000	...
Drawings made by the proprietor		45,000	...
Motor Van		60,000	...
		<u>11,88,000</u>	<u>11,88,000</u>

