

Segment: Accounting Process

Topic: Trial Balance

## Trial Balance

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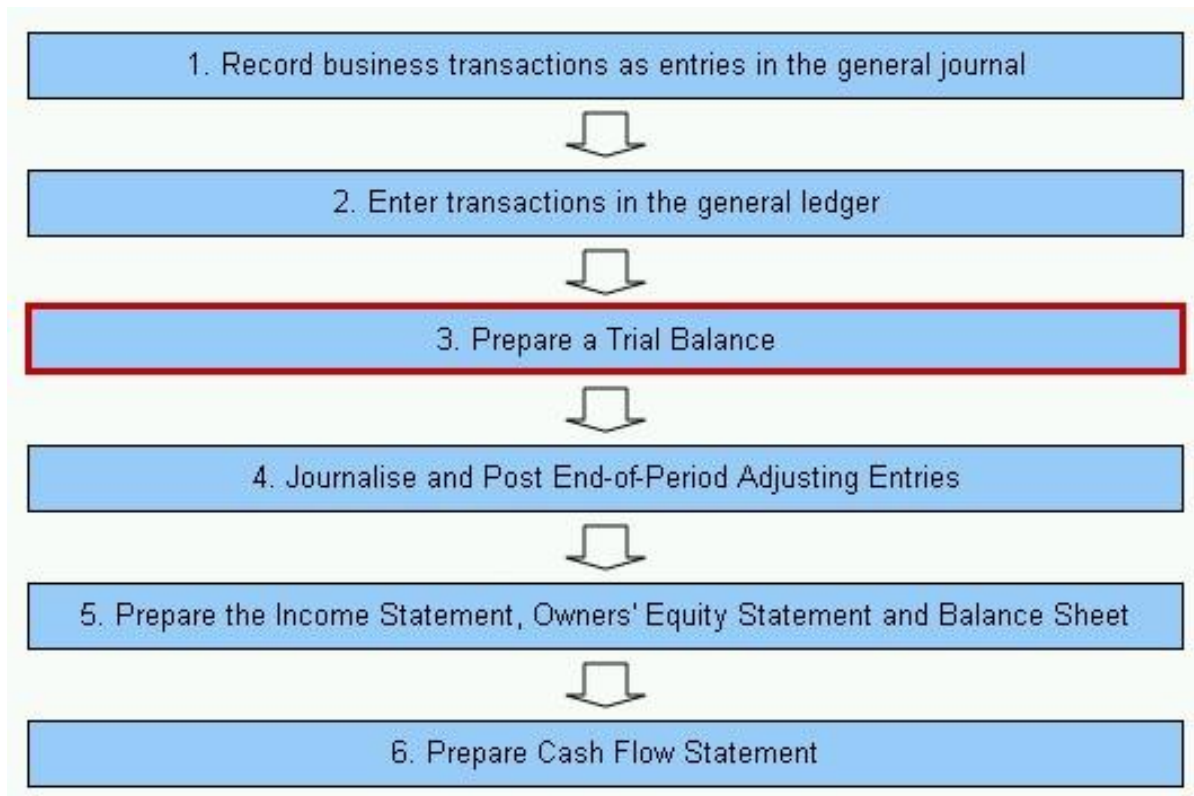
## Introduction



**Fig.1: Trial Balance**

You have learnt that the accounting process involves the recording of entries in the double-entry accounting system in accordance with the general journal and the posting of journal entries to the relevant accounts in the general ledger. The third step in the accounting process is to prepare a trial balance at the end of a reporting period.

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### Learning Objectives

At the end of this topic, you will be able to:

- state the purpose of the trial balance
- prepare a trial balance.

## Trial Balance

### 1. Step 3: Prepare a Trial Balance

The trial balance is a record of all the accounts and their net balances at the end of a reporting period.

A trial balance can be illustrated as follows:

Account Number	Account Title	Debit	Credit
<b>Total</b>			

**Fig.2: Trial Balance**

The total row at the end of the trial balance should always show that the total net debit balance is equal to the total net credit balance. This equality provides some assurance that the process of posting from the journal to the ledger is accurate. However, it does not provide full assurance that the transactions are posted correctly. For example, equivalent incorrect posting of debits and credits will still produce equivalent totals for all debits and credits.

Furthermore, the equivalency of debits and credits does not mean that the debits or the credits are posted to the correct accounts. Similarly, posting a particular journal entry twice or not posting the entry altogether will not affect the equivalency of debits and credits in the trial balance. However, with the use of computerised accounting systems, most of these errors are not likely to take place.

In addition to its role in uncovering posting errors, the trial balance is useful in the preparation of the financial statements as discussed later in this segment. The accounts in the trial balance are generally listed in the following order:

- assets
- liabilities

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- owners' equity
- revenues
- expenses

The trial balance is prepared by

1. calculating the ending balances of all ledger accounts
2. transferring ending balances to the trial balance
3. comparing the totals for the debit and credit to ensure equivalency

The process of preparing the trial balance can be illustrated using the transactions of XYZ Computers. The table below summarises these transactions.

Transaction 1	On 1 January 2019, the owners of XYZ Computers invested US\$100,000 cash in the business.
Transaction 2	On 5 January 2019, XYZ Computers purchased office supplies for US\$5,000 and paid for them in cash.
Transaction 3	On 7 January 2019, XYZ Computers provided computer services to AAA Construction Company and were paid US\$10,000 in cash.
Transaction 4	On 15 January 2019, XYZ Computers paid US\$7,000 for wages in cash.
Transaction 5	On 20 January 2019, XYZ Computers rendered computer services to AAA Construction Company for US\$10,000. AAA Construction paid US\$3,000 in cash and agreed to pay the balance on 15 February 2019.
Transaction 6	On 30 January 2019, XYZ Computers borrowed US\$30,000 from the National Bank and agreed to pay the loan back with a 6% interest on 31 March 2019.

### 1. Calculating Ending Balances

First, ending balances of the ledger accounts must be calculated. Remember that the beginning balance will be zero because XYZ Computers was only established on 1 January 2019.

Illustrated below is the calculation of the ending balances of each affected ledger account.

Cash			
Debit		Credit	
Date	Amount	Date	Amount
Beginning	\$ -		
1/1	\$100,000.00	5/1	\$5,000.00
7/1	\$10,000.00	15/1	\$7,000.00
20/1	\$3,000.00		
30/1	\$30,000.00		
Ending Balance	\$131,000.00		

Accounts Receivables			
Debit		Credit	
Date	Amount	Date	Amount
Beginning	\$ -		
12/1	\$7,000.00		
Ending Balance	\$7,000.00		

Office Supplies			
Debit		Credit	
Date	Amount	Date	Amount
Beginning	\$ -		
5/1	\$5,000.00		
Ending Balance	\$5,000.00		

Loans Payable			
Debit		Credit	
Date	Amount	Date	Amount
		Beginning	\$ -
		30/1	\$30,000.00
		Ending Balance	\$30,000.00

Contributed Capital			
Debit		Credit	
Date	Amount	Date	Amount
		Beginning 1/1	\$ - \$100,000.00
		Ending Balance	\$100,000.00

Service Revenues			
Debit		Credit	
Date	Amount	Date	Amount
		Beginning 7/1 20/1	\$ - \$10,000.00 \$10,000.00
		Ending Balance	\$20,000.00

Salaries and Wages Expenses			
Debit		Credit	
Date	Amount	Date	Amount
Beginning 15/1	\$ - \$7,000.00		
Ending Balance	\$7,000.00		



## 2. Preparing the Trial Balance

After the ending balances have been calculated, they are transferred to the trial balance as shown below.

Account Number	Account Title	Debit	Credit
	Cash	\$131,000.00	
	Accounts Receivable	\$7,000.00	
	Office Supplies	\$5,000.00	
	Loans Payable		\$30,000.00
	Contributed Capital		\$100,000.00
	Service Revenues		\$20,000.00
	Salaries and Wages Expenses	\$7,000.00	
	<b>Total</b>	<b>\$150,000.00</b>	<b>\$150,000.00</b>

Fig.3: XYZ Computer's Trial Balance as of 31 January 2019

## 2. Comparing the Debit and Credit Totals

From this trial balance, there are a few points worth noting.

- The sum of the debit balances is equal to the sum of the credit balances.
- Assets were listed first (Cash, Accounts Receivable, Office Supplies), liabilities second (Loans Payable), owners' equity third (Contributed Capital), revenues fourth (Service Revenues), and expenses last (Salaries and Wages Expense).
- All asset and expense accounts have a net debit balance while all other types of accounts have a net credit balance.

### Typical Balances

In accordance with the double-entry system, increases in assets, expenses or losses are reported as debits while decreases in these accounts are reported as credits. Therefore, an asset account, an expense account or a loss account typically has a net debit balance (or zero) at any given point of time.

On the other hand, increases in liabilities, revenues, gains, contributed capital or retained earnings are reported as credits while decreases in these accounts are reported as debits.

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Therefore, a liability, revenue, gain, contributed capital or retained earnings account typically has a net credit balance (or zero) at any given point of time.

This typical balance for accounts is summarised in the table below.

Account	Typical Balance
Assets	Debit
Liabilities	Credit
Contributed Capital	Credit
Retained Earnings	Credit
Revenues	Credit
Expenses	Debit
Gains	Credit
Losses	Debit

**Fig.4: Typical Balances**

## 3. Summary

Here is a quick recap of what we have learnt so far:

- The third step in the accounting process is to prepare the trial balance at the end of a reporting period.
- The trial balance provides a summary of all account balances at the time of the preparation of a trial balance (typically at period-end).
- The trial balance provides some assurance that the posting process to the general ledger is done correctly.
- The trial balance is useful for the preparation of the financial statements.
- An asset account, an expense account and a loss account usually have a net debit balance.
- Liability, revenue, gain, contributed capital and retained earnings accounts usually have a net credit balance