

Unit 5

TRIAL BALANCE



Contents

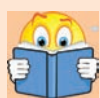
- 5.1 Introduction
- 5.2 Need for preparing trial balance
- 5.3 Definition of trial balance
- 5.4 Features of trial balance
- 5.5 Objectives of preparing trial balance
- 5.6 Limitations of trial balance
- 5.7 Methods of preparing trial balance
- 5.8 Suspense account



Points to recall

The following points are to be recalled before learning trial balance:

- Rules of double entry
- Balancing ledger accounts
- Dual aspect concept



Learning Objectives

To enable the students to

- Understand the meaning and features of trial balance
- Understand the objectives of preparing trial balance
- Prepare the trial balance

Key terms to know

- Trial balance
- Debit balance
- Credit balance
- Arithmetical accuracy

5.1 Introduction



Student activity

Think: Do you think that the ledger account postings are error free? If not, how do you make sure that the entries are correct?

Trial balance is a statement containing the debit and credit balances of all ledger accounts on a particular date. It is arranged in the form of debit and credit columns placed side by side and prepared with the object of checking the arithmetical accuracy of entries made in the books of accounts and to facilitate preparation of financial statements.

The fundamental principle of the double-entry system of book-keeping is that every debit has a corresponding and equal credit and vice-versa. Therefore, the total of the debit balances must be equal to the total of the credit balances. When such an agreement between the total of all debit balances and the total of all credit balances takes place, it offers an immediate and apparent proof of arithmetical accuracy of the book-keeping work on a particular day. At the same time, it should not be taken as the conclusive proof of arithmetical accuracy as certain errors such as error of principle, compensating errors and complete omission of a transaction are not disclosed by the trial balance.

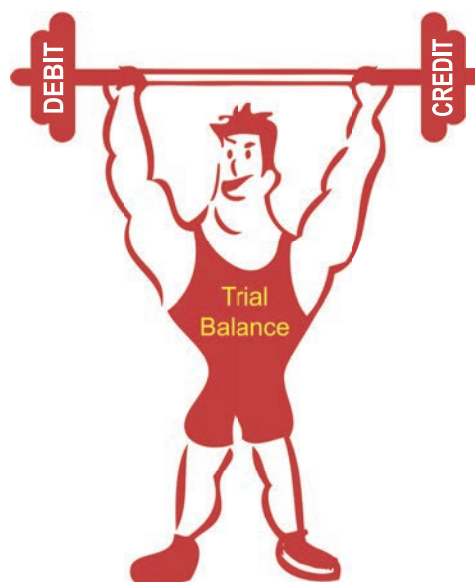
Though the trial balance can be prepared on any day (at the end of the month, quarter, etc.), it is normally prepared at the end of the accounting period.

The preparation of trial balance is the third step in the accounting process. The first step is recording the business transactions in subsidiary books or journal. The second step is preparing ledger accounts on the basis of subsidiary books or journal.



5.2 Need for preparing trial balance

Trial balance helps to check the arithmetical accuracy of entries made in the accounting records. Trial balance serves as a lubricant for the smooth movement and completion of the accounting cycle, because, it is with the help of the trial balance that discrepancies in the book keeping work are detected. If these discrepancies are not detected and set right, the cycle cannot be completed properly. The trial balance helps in discovering errors which may have been committed in the accounting records. However, in computerised accounting system, once the transactions are recorded in the journals, all the other records are made simultaneously, i.e., ledger postings, trial balance and final accounts. Hence, arithmetic errors and errors in posting the entries from journal to ledger and further will not occur in computerised accounting.





5.3 Definition of trial balance

“A trial balance is a statement, prepared with the debit and credit balances of the ledger accounts to test the arithmetical accuracy of the books”.

– J.R. Batliboi

5.4 Features of trial balance

Following are the features of trial balance:

- (a) Trial balance contains the balances of all ledger accounts.
- (b) It is prepared on a specific date. That is why, the word, “as on...” is used at the top.
- (c) When double entry system is followed, the totals of the debit and the credit columns of the trial balance must be equal. Thus, trial balance helps to check the arithmetical accuracy of entries made in the books of accounts.
- (d) If there is a difference between the totals of debit column and credit column of the trial balance, it is an indication of errors being committed somewhere.
- (e) If both the debit column and the credit column of the trial balance have the same total, it does not mean that there is no mistake in accounting, since some errors are not disclosed by the trial balance.

5.5 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.

(ii) Basis for preparing final accounts

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.

5.6 Limitations of trial balance

The following are the limitations of trial balance:

- (a) It is possible to prepare trial balance of an organisation, only if the double entry system is followed.
- (b) Even if some transactions are omitted, the trial balance will tally.

- (c) Trial balance may tally even though errors are committed in the books of account.
- (d) If trial balance is not prepared in a systematic way, the final accounts prepared on the basis of trial balance may not depict the actual state of affairs of the concern.
- (e) Agreement of trial balance is not a conclusive proof of arithmetical accuracy of entries made in the accounting records. This is because there are certain errors which are not disclosed by trial balance such as complete omission of a transaction, compensating errors and error of principle.

5.7 Methods of preparing trial balance

A trial balance can be prepared in the following methods:

(i) Balance method

In this method, the balance of every ledger account either debit or credit, as the case may be, 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.

5.7.1 Balance method

Following are the steps to be followed to prepare trial balance under this method:

Step 1: Calculate the balances of all ledger accounts including the cash book.

Step 2: Record the names of the accounts in the particulars column and the amounts of debit balances in the debit column and credit balances in the credit column.

Step 3: Enter the page number of ledger from which the balance is taken in the Ledger Folio column.

Step 4: Total the debit and credit columns. It must be equal. If not equal, locate the errors and make the trial balance agree.

Trial balance is prepared in the following format under the balance method:

Trial balance as on ...

S. No.	Name of account / Particulars	L.F.	Debit balance ₹	Credit balance ₹

Specimen of a trial balance

Trial balance of _____ 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

Tutorial note

1. If the value of closing stock is known on the day when trial balance is prepared, then opening stock and closing stock are adjusted with purchases. Hence, opening stock will not appear in the trial balance. Closing stock and adjusted purchases will appear in the trial balance. If the value of closing stock is not known then opening stock and purchases will appear in the trial balance. Thus, either opening stock and purchases or closing stock and adjusted purchases will appear in the trial balance.
2. Under balance method, if an account does not have a balance, it is excluded.



Student activity

Think: Analyse the above format. Can you identify accounts that have only debit balances/ credit balances always?

Tutorial note

There are certain accounts which have only debit balances. Similarly, certain accounts have only credit balances. The following chart gives examples of such accounts:

For example, the following transactions took place in the business of Rathna Kumar, who deals in textiles.

2017

January

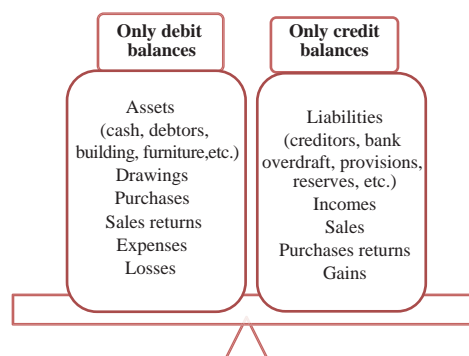
		₹
1	Commenced business with capital	5,00,000
5	Bought furniture for cash	6,000
10	Purchased goods for cash	10,000
15	Bought goods on credit from Jeyanthi	25,000
18	Returned goods to Jeyanthi	2,500
20	Sold goods for cash	32,000
25	Sold goods to Elizabeth on credit	72,000
30	Paid salaries to Krishnan by cash	7,000
31	Received commission from Kumar by cash	2,800
31	Received cash from Elizabeth	22,000

The journal entries, ledger postings and trial balance for the transactions will appear as below in the books of Rathna Kumar.

In the books of Rathna Kumar

Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2017 Jan 1	Cash A/c To Rathna Kumar's capital A/c (Business commenced with capital)	Dr.	5,00,000	5,00,000



5	Furniture A/c To Cash A/c (Furniture purchased for cash)	Dr.		6,000	6,000
10	Purchases A/c To Cash A/c (Goods purchased for cash)	Dr.		10,000	10,000
15	Purchases A/c To Jeyanthi A/c (Credit purchases from Jeyanthi)	Dr.		25,000	25,000
18	Jeyanthi A/c To Purchases returns a/c (Goods returned to Jeyanthi)	Dr.		2,500	2,500
20	Cash A/c To Sales A/c (Goods are sold for cash)	Dr.		32,000	32,000
25	Elizabeth A/c To Sales A/c (Goods sold on credit)	Dr.		72,000	72,000
30	Salaries A/c To Cash A/c (Salary paid by cash)	Dr.		7,000	7,000
31	Cash A/c To Commission A/c (Commission received by cash)	Dr.		2,800	2,800
31	Cash A/c To Elizabeth A/c (Cash received from Elizabeth)	Dr.		22,000	22,000

Ledger

Dr.				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017				2017			
Jan 1	To Rathnakumar's capital A/c		5,00,000	Jan 5	By Furniture A/c		6,000
20	To Sales A/c		32,000	10	By Purchases A/c		10,000
31	To Commission A/c		2,800	30	By Salaries A/c		7,000
31	To Elizabeth A/c		22,000	31	By Balance c/d		5,33,800
			5,56,800				5,56,800
Feb 1	To Balance b/d		5,33,800				

Dr.				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017				2017			
Jan 31	To Balance c/d		5,00,000	Jan 1	By Cash A/c		5,00,000
			5,00,000				5,00,000
				Feb 1	By Balance b/d		5,00,000

Dr. Furniture Account Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017 Jan 5	To Cash A/c		6,000	2017 Jan 31	By Balance c/d		6,000
			6,000				6,000
Feb 1	To Balance b/d		6,000				

Dr. Purchases Account Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017 Jan 10	To Cash A/c		10,000	2017 Jan 31	By Balance c/d		35,000
15	To Jayanthi A/c		25,000				35,000
			35,000				
Feb 1	To Balance b/d		35,000				

Dr. Jeyanthi Account Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017 Jan 18	To Purchases returns A/c		2,500	2017 Jan 15	By Purchases A/c		25,000
31	To Balance c/d		22,500				25,000
			25,500				
				Feb 1	By Balance b/d		22,500

Dr. Purchases returns Account Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017 Jan 31	To Balance c/d		2,500	2017 Jan 18	By Jeyanthi A/c		2,500
			2,500				2,500
				Feb 1	By Balance b/d		2,500

Dr. Sales Account Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017				2017 Jan 20	By Cash A/c		32,000
Jan 31	To Balance c/d		1,04,000	25	By Elizabeth A/c		72,000
			1,04,000				1,04,000
				Feb 1	By Balance b/d		1,04,000

Dr. Elizabeth Account Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017 Jan 25	To Sales A/c		72,000	2017 Jan 31	By Cash A/c		22,000
				31	By Balance c/d		50,000
			72,000				72,000
Feb 1	To Balance b/d		50,000				

Dr. Salaries Account Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017 Jan 30	To Cash A/c		7,000	2017 Jan 31	By Balance c/d		7,000
			7,000				7,000
Feb 1	To Balance b/d		7,000				

Dr. Commission Account Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2017 Jan 31	To Balance c/d		2,800	2017 Jan 31	By Cash A/c		2,800
			2,800				2,800
				Feb 1	By Balance b/d		2,800

Trial balance under balance method

Trial balance as on 31st January, 2017

S. No	Particulars	L.F.	Debit balance ₹	Credit balance ₹
1	Cash A/c		5,33,800	-
2	Rathnakumar's capital A/c		-	5,00,000
3	Furniture A/c		6,000	-
4	Purchases A/c		35,000	-
5	Jeyanthi A/c		-	22,500
6	Purchases returns A/c		-	2,500
7	Sales A/c		-	1,04,000
8	Elizabeth A/c		50,000	-
9	Salaries A/c		7,000	-
10	Commission A/c		-	2,800
	Total		6,31,800	6,31,800

5.7.2 Total method

Steps to be followed to prepare trial balance under total method are given below:

Step 1: Calculate the totals of debit side and credit side of all the ledger accounts including cash book individually.

Step 2: Enter the name of the account in the particulars column and enter the debit total in the debit column and credit total in the credit column for each account separately.

Step 3: Enter the page number of ledger from which the balance is taken in the Ledger Folio column.

Step 4: Find the sum of the debit total and credit total columns. It must be equal. If not equal, locate the errors and make the trial balance agree.

For the above example, trial balance will be prepared under total method as follows:

Trial balance as on 31st January, 2017 (total method)

S. No	Particulars	L.F.	Debit total ₹	Credit total ₹
1	Cash A/c		5,56,800	23,000
2	Rathnakumar's capital A/c		-	5,00,000
3	Furniture A/c		6,000	-
4	Purchases A/c		35,000	-
5	Jeyanthi A/c		2,500	25,000
6	Purchases returns A/c		-	2,500
7	Sales A/c		-	1,04,000
8	Elizabeth A/c		72,000	22,000
9	Salaries A/c		7,000	-
10	Commission A/c		-	2,800
	Total		6,79,300	6,79,300

5.7.3 Total and Balance method

Steps to be followed to prepare trial balance under total and balance method are given below:

Step 1: Calculate the totals of debit and credit columns of all ledger accounts and calculate the balances in each ledger account.

Step 2: Enter the name of the account in the particulars column and enter the debit total in the debit total column and credit total in the credit total column for each account separately. Also enter the debit balances in the debit balance column and credit balances in the credit balance column for each account.

Step 3: Enter the page number of ledger from which the balance is taken in the Ledger Folio column

Step 4: Total all the amount columns. Total of debit total column and total of credit total column must be equal. Also total of debit balance column and total of credit balance column must be equal. If not equal, locate the errors and make the trial balance agree.

For the above example, trial balance will be prepared under total and balance method as follows:

S.No.	Particulars	L.F.	Debit total ₹	Credit total ₹	Debit balance ₹	Credit balance ₹
1	Cash A/c		5,56,800	23,000	5,33,800	-
2	Rathnakumar's capital A/c		-	5,00,000	-	5,00,000
3	Furniture A/c		6,000	-	6,000	-
4	Purchases A/c		35,000	-	35,000	-
5	Jeyanthi A/c		2,500	25,000	-	22,500
6	Purchases returns A/c		-	2,500	-	2,500
7	Sales A/c		-	1,04,000	-	1,04,000
8	Elizabeth A/c		72,000	22,000	50,000	-
9	Salaries A/c		7,000	2,800	7,000	-
10	Commission A/c		-	-	-	2,800
	Total		6,79,300	6,79,300	6,31,800	6,31,800

Note: Students will be tested on balance method only

5.8 Suspense account



Student activity

Think: Do you think the trial balance tallies all the time? What should be done when it does not tally?

After transferring all the ledger account balances, if the trial balance does not tally, steps must be taken to locate and rectify errors. If the errors cannot be rectified, then trial balance is tallied by transferring the difference between the total of debit balances and the total of credit balances to a temporary account, called suspense account for timely preparation of the financial statements. If the trial balance shows lesser debit total, suspense account will be debited. Similarly, if the trial balance shows lesser credit total, suspense account will be credited. Later, when errors are located and rectified, the trial balance will get tallied.

Illustration 1

State whether the balance of each of the following accounts should be placed in the debit or the credit column of the trial balance:

- | | | | |
|-------------------|---------------------|------------------------|-------------------|
| 1) Sundry debtors | 2) Sundry creditors | 3) Cash in hand | 4) Bank overdraft |
| 5) Salary | 6) Discount allowed | 7) Plant and machinery | 8) Furniture |

Solution

S.No.	Name of account	Debit balance	Credit balance
1	Sundry debtors	Debit	
2	Sundry creditors		Credit
3	Cash in hand	Debit	
4	Bank overdraft		Credit
5	Salary	Debit	
6	Discount allowed	Debit	
7	Plant and machinery	Debit	
8	Furniture	Debit	

Illustration 2

From the following balances extracted from the books of Raju a trader on automobiles, prepare trial balance as on 31st March, 2017:



Particulars	₹	Particulars	₹
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

Solution

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

Illustration 3

From the following balances extracted from the books of Pearl, a trader, prepare trial balance as on 31st March, 2017.

Particulars	₹	Particulars	₹
Capital	44,000	Interest on investment	2,000
Bills receivable	5,000	Customs duty	3,000
Wages	800	Computer	20,000
Drawings	4,000	Sales	72,000
Purchases	75,000	Opening stock	10,200

Solution

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

S. No.	Name of account	L.F.	Debit balance ₹	Credit balance ₹
1	Capital			44,000
2	Bills receivable		5,000	
3	Wages		800	
4	Drawings		4,000	
5	Purchases		75,000	
6	Interest on investment			2,000
7	Customs duty		3,000	
8	Computer		20,000	
9	Sales			72,000
10	Opening stock		10,200	
	Total		1,18,000	1,18,000



Illustration 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

Solution

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.

Illustration 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



Duality concept is applied in trial balance. This concept requires two aspects to be entered for every transaction. This means that there are at least two accounts involved for every transaction.

Points to remember

- Trial balance is prepared on a particular date. The date must be mentioned in the title of trial balance.
- A trial balance is prepared with the help of balances of ledger accounts.
- Trial balance is prepared to check the arithmetical accuracy of entries made in the books of accounts.
- Under balance method, the debit balances of the accounts are to be written in debit column, and the credit balances of the accounts are to be written in the credit column of trial balance. Under balance method, if an account does not have a balance, it is excluded.
- If the trial balance does not tally, the difference between debit and credit columns should be taken to a temporary account called 'suspense account' if financial statements are to be prepared immediately.

Self-examination questions

I Multiple choice questions

Choose the correct answer

1. Trial balance is a
(a) Statement (b) Account (c) Ledger (d) Journal





2. After the preparation of ledger, the next step is the preparation of
(a) Trading account (b) Trial balance (c) Journal (d) Profit and loss account
3. The trial balance contains the balances of
(a) Only personal accounts (b) Only real accounts
(c) Only nominal accounts (d) All accounts
4. Which of the following is/are the objective(s) of preparing trial balance?
(a) Serving as the summary of all the ledger accounts
(b) Helping in the preparation of final accounts
(c) Examining arithmetical accuracy of accounts
(d) a, b and c
5. A list which contains balances of accounts to know whether the debit and credit balances are matched is
(a) Journal (b) Day book (c) Trial balance (d) Balance sheet
6. Which of the following method(s) can be used for preparing trial balance?
(a) Balance method (b) Total method
(c) Total and Balance method (d) a, b and c
7. While preparing the trial balance, the accountant finds that the total of the credit column is short by ₹ 200. This difference will be
(a) Debited to suspense account
(b) Credited to suspense account
(c) Adjusted to any of the debit balance
(d) Adjusted to any of the credit balance
8. The account which has a debit balance and is shown in the debit column of the trial balance is
(a) Sundry creditors account (b) Bills payable account
(c) Drawings account (d) Capital account
9. The difference of totals of both debit and credit side of trial balance is transferred to:
(a) Trading account (b) Difference account
(c) Suspense account (d) Miscellaneous account
10. Trial balance is prepared:
(a) At the end of the year (b) On a particular date
(c) For a year (d) None of the above

Answer

1 (a)	2 (b)	3 (d)	4 (d)	5 (c)	6 (d)	7 (b)	8 (c)	9 (c)	10 (b)
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II Very short answer questions

1. What is trial balance?
2. Give the format of trial balance.
3. What are the methods of preparation of trial balance?



4. State whether the balance of the following accounts should be placed in the debit or the credit column of the trial balance:

(i) Carriage outwards	(ii) Carriage inwards	(iii) Sales
(iv) Purchases	(v) Bad debts	(vi) Interest paid
(vii) Interest received	(viii) Discount received	(ix) Capital
(x) Drawings	(xi) Sales returns	(xii) Purchase returns

III Short answer questions

1. What are the objectives of preparing trial balance?
2. What are the limitations of trial balance?
3. 'A trial balance is only a prima facie evidence of the arithmetical accuracy of records'. Do you agree with this statement? Give reasons.

IV Exercises

1. Prepare a trial balance with the following information:

Name of the account	₹	Name of the account	₹
Purchases	1,00,000	Sales	1,50,000
Bank Loan	75,000	Creditors	50,000
Debtors	1,50,000	Cash	90,000
Stock	35,000	Capital	1,00,000

(Answer: Trial balance total ₹ 3,75,000)

2. Prepare the trial balance from the following information:

Name of the account	₹	Name of the account	₹
Bank loan	2,00,000	Purchases	1,80,000
Bills payable	1,00,000	Sales	3,00,000
Stock	70,000	Debtors	4,00,000
Capital	2,50,000	Bank	2,00,000

(Answer: Trial balance total ₹ 8,50,000)

3. Prepare the trial balance from the following balances of Chandramohan as on 31st March, 2017.

	₹		₹
Capital	1,24,500	Bank overdraft	5,800
Drawings	2,000	Motor car	20,000
Loan borrowed	7,000	General expenses	2,500
Sales	53,400	Building	1,10,000
Purchases	40,000	Stock	16,200

(Answer: Trial balance total ₹ 1,90,700)

4. Prepare the trial balance from the following balances of Babu as on 31st March, 2016.

	₹		₹
Cash in hand	7,000	Bills receivable	7,000
Sundry debtors	5,400	Sundry creditors	11,800
Salaries	6,800	Capital	25,000
Bad debts	200	Purchases	45,000
Opening stock	15,400	Sales	50,000

(Answer: Trial balance total ₹ 86,800)



5. Prepare the trial balance from the following balances of Rajesh as on 31st March, 2017.

	₹		₹
Bills receivable	13,000	Drawings	7,000
Bank charges	750	Sundry debtors	17,100
Conveyance charges	350	Bills payable	12,000
Discount received	1,300	Capital	25,900
Cash in hand	1,000		

(Answer: Trial balance total ₹ 39,200)

6. The following balances are extracted from the books of Ravichandran on 31st December, 2016. Prepare the trial balance.

	₹		₹
Capital	1,50,000	Sales	75,000
Debtors	22,800	Return inwards	1,000
Rent received	500	Discount allowed	800
Bank overdraft	3,100	Discount received	1,000
Creditors	5,500	Wages	2,900
Premises	1,46,000	Salaries	3,500
Opening stock	10,000	Commission paid	1,100
Purchases	45,000	General expenses	2,000

(Answer: Trial balance total ₹ 2,35,100)

7. From the following balances, prepare trial balance of Baskar as on 31st March, 2017. Transfer the difference, if any, to suspense account.

	₹		₹
Opening stock	40,000	Debtors	25,000
Capital	90,000	Carriage inwards	16,500
Sales	1,77,200	Bills receivable	20,000
Salaries	12,000	Commission received	5,550
Bills payable	9,450	Cash at bank	17,000
Telephone charges	2,350	Furniture	19,000
Creditors	16,000	Plant & Machinery	55,800
Purchases	85,000	Repairs	550

(Answer: Suspense account: ₹ 5,000 (Dr.) Trial balance Total: ₹ 2,98,200)

8. Correct the following trial balance:

Particulars	Debit Balance ₹	Credit Balance ₹
Opening Stock	1,00,000	
Salaries	36,000	
Creditors	1,32,000	
Bank	35,000	
Carriage inwards	18,000	
Rent received	9,000	
Discount allowed	6,000	

Purchases	3,48,000	
Bills payable	60,000	
Debtors		45,000
Carriage outwards		15,000
Capital		1,63,000
Returns inward		9,000
Discount received		12,000
Trade expenses		18,000
Sales		3,68,000
Building		1,14,000
Total	7,44,000	7,44,000

(Answer: Trial balance total ₹ 7,44,000)



Student activity

Imagine that you start a small shop with an investment of ₹ 10,000. Record imaginary business transactions for 10 days [include cash and credit transactions]. Prepare journal, ledger and trial balance with them.



CASE STUDY

Mary runs a textile store. She has prepared the following trial balance from her ledger balances. Her trial balance does not tally. She needs your help to check whether what she has done is correct.

S. No.	Name of account	L.F.	Debit balance ₹	Credit balance ₹
1	Capital		50,000	
2	Discount received			3,000
3	Rent paid			15,000
4	Salaries paid		1,000	
5	Purchases of textiles			20,000
6	Sale of textiles			30,000
7	Salesmen commission paid			9,000
8	Transport charges paid		6,000	
9	Cash balance		32,000	
	Total		89,000	77,000

To explore further

Is it possible to find out the profit earned by the business by preparing trial balance? What can be done to know the profit?

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