

Trial Balance

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1. Introduction

We have studied in chapter 1 that accounting is a science and an art. Since accounting is a science, it has its own rules, principles and traditions. All these aspects are considered during the preparation of accounts. As we have studied earlier, the accounting system is used by the businessmen as well as other stake holders. Thus, the prepared accounts have to be certified. A certificate in the company form is expected, stating that the accounts disclose true and fair economic condition. In non-corporate form, true and fair view is implicitly expected.

2. True and Fair View

The following points determine that the business accounts are true and fair :

- (1) Accounts are correct as per the mathematical view point.
- (2) Accounts are prepared on the basis of rules.

Accounts preparation method in double entry system where there are minimum two effects for transaction - debit and credit. Thus debit total of all the transactions is equal to the total of credit side or the total of credit side is equal to the total of debit side. If the total of debit and credit side are not identical, then mathematically accounts are not correct.

Accounting is a science, thus to record the transactions three types of accounts are used - Personal accounts, Nominal accounts and Real accounts. If the transactions are recorded on the basis of their rules, accounts would disclose the true position.

How to know that the accounts are mathematically correct or not ? We will study this issue in this chapter.

The statement that discloses that the accounts are mathematically correct is known as trial balance. The writing of accounts starts with transactions. As per the chronological order, the first transaction is identified and recorded in the journal or subsidiary books. Posting is done in Ledger book. Balances of all accounts are ascertained from the ledger book. These balances are debit and credit. A statement where these balances are disclosed is known as trial balance. A total of debit-balances and total of credit balances shown in trial balance has to be identical. This status shows that prime face and mathematically accounts are correct.

3. What is Trial Balance ?

“Trial balance is a statement which shows that debit balances and credit balances disclosed in it are mathematically correct. Here, if the total of debit balances and the total of credit balances is identical, then it can be said that the trial balance is mathematically correct.”

Trial balance is prepared for the respective day. For e.g. Trial balance of Shri Ramanlal as on 31-3-2015. Such title is given at the time of the preparation of the trial balance. Balances disclosed in trial balance are a summary in nature of the respective accounting period.

(1) Characteristics of trial balance :

- (i) **It is a statement** : Trial balance is in the form of a statement. It is not treated as an account.
- (ii) **Specific period** : Trial balance has a specified time period. Generally trial balance is prepared at the end of an accounting period. For the period of 1 year means for 12 months. Trial balance for the period of less than 12 months can also be prepared.
- (iii) **Mathematical accuracy of accounts** : All the debit balances and credit balances of ledger are disclosed in it. The accuracy of both balances is determined by this trial balance.
- (iv) **Double entry system** : Wherever double entry system is used, a trial balance will be prepared.
- (v) **Pre-stage of final accounts** : Before preparation of final accounts, a trial balance is prepared. Before preparing final accounts, all possible mistakes are traced, so that the accounts would disclose true and fair view.

(2) Objectives of trial balance :

- (i) **Arithmetical accuracy** : A mathematical accuracy of accounts of ledger is done by a trial balance. It is checked that total of the debit balances and credit balances is identical.
- (ii) **Locate error and their rectification** : If the total of debit and credit balances of a trial balance is not same, errors are to be located.
- (iii) **Easy preparation of final accounts** : Trial balance is a pre stage of the preparation of the final accounts. Possibly, maximum errors are ascertained at this stage. So that there can be minimum mistake in final accounts or non-existence of mistakes. Thus, final accounts are prepared easily and quickly.

(iv) **Balances of accounts** : Balance of each account which is included in the accounts book is disclosed in a trial balance. Thus, the balance of any account is available from a trial balance.

Trial balance is a very significant component of accounting system. When a trial balance discloses identical total on both the sides, then, other than mathematical errors are required to be traced.

(3) Methods of preparation of a trial balance :

- (i) **Total method** : Under this method total of the debit side and the credit side of an account has to be done. Total of the debit side and the credit side are disclosed. For e.g. Goods of ₹ 20,000 are sold to Ramesh on credit. Received cash ₹ 18,000 from Ramesh. ₹ 20,000 will be debited in Ramesh's A/c and ₹ 18,000 paid by him will be credited to his account. These amounts will be displayed in trial balance. ₹ 20,000 as the total of debit side and ₹ 18,000 as the total of credit side. Generally, this method is not so much popular.

The format of this type of trial balance is as follows :

Trial Balance of Shri Ramanlal as at 31-3-2015

Name of Accounts	L.F.	Total of debit side of a/c (₹)	Total of credit side of a/c (₹)
✓		✓	
✓		✓	
✓		✓	
✓			✓
✓			✓
✓			✓
		✓	✓

Illustration 1 : Total accounts of debit side and credit side from the books of Shri Dharam as on 31-3-2015 are provided. Prepare a trial balance from it.

Name of Accounts	L.F.	Total of debit side of a/c (₹)	Total of credit side of a/c (₹)
Capital Account		—	90,000
Drawings Account		20,000	—
Param's Account		3000	9500
Karam's Account		4000	6000
Asmita's Account		8000	2000
Khusbhu's Account		10,000	3000
Sheth & Brother's Account		9000	2000
Cash Account		57,000	49,500
Bank Account		30,000	8000
Furniture Account		20,000	—
Purchase Account		25,000	—
Sales Account		—	28,000
Salary Account		5000	—
Wages Account		6000	—
Stationery Account		1000	—
Discount Account		2000	—
Purchase Return Account		—	2000

Trial Balance of Shri Dharam as on 31-3-2015

Name of Accounts	L.F.	Total of debit side of a/c (₹)	Total of credit side of a/c (₹)
Capital account		—	90,000
Drawings account		20,000	—
Param's account		3000	9500
Karam's account		4000	6000
Asmita's account		8000	2000
Khusbu's account		10,000	3000
Sheth & Brother's account		9000	2000
Cash account		57,000	49,500
Bank account		30,000	8000
Furniture account		20,000	—
Purchase account		25,000	—
Sales account		—	28,000
Salary account		5000	—
Wages account		6000	—
Stationery account		1000	—
Discount account		2000	—
Purchase return account		—	2000
		2,00,000	2,00,000

(ii) **Balance method** : In this method, the difference of the total of debit side and the total of credit side of the account is disclosed in trial balance. When the total of debit side in the account is more the 'difference would appear at credit side, but it is treated as a debit balance. When total of the credit side is more, difference would appear at the debit side, but it is treated as a credit balance. This method is popular in practice. On the basis of this method, final accounts are prepared.

For e.g. In the above mentioned illustration, in account of Ramesh ₹ 20,000 is shown at the debit side and ₹ 18,000 at the credit side. Under this method, the difference amount of ₹ 2000 will be disclosed as debit balance.

Dr		Ramesh's Account		Cr	
Particulars	Amount (₹)	Particulars	Amount (₹)		
To Sales A/c	20,000	By cash A/c	18,000		
		By balance c/f	2000		
	20,000		20,000		

So, now instead of showing ₹ 20,000 on debit side and ₹ 18,000 on credit side in a trial balance, net amount of ₹ 2000 will be shown on the debit side.

Trial balance can be prepared either in the form of a statement or in the form of an account. (In the form of debit balances and credit balances). Illustration 2 shows a trial balance in the form of a statement, where the first column shows the name of account, second has ledger folio number, the third has the amount of debit balance and the fourth has the amount of credit balance.

Illustration 3 is prepared in the form of an account. Where the first column shows the name of account which has the debit balance, second for the amount of the account which has the debit balance, third has the name of the account which has the credit balance and fourth for the amount of the account which has the credit balance.

Illustration 2 : The following balances are extracted from the books of Inder. From these prepare a trial balance as on 31-3-2015.

Name of Account	Amount (₹)	Name of Account	Amount (₹)
Capital account	2,10,400	10 % government securities	25,000
Drawings account	10,000	Opening stock	75,000
Debtors	43,750	Purchase account	73,250
Creditors	35,600	Sales account	1,06,000
Cash	88,050	Purchase return account	9250
Furniture	25,000	Sales return account	6250
Bank balance	39,900	Goods withdrawn for personal use	5000
Commission received	1500	Bank loan	25,000
Bank commission	350	Discount allowed	5000
Electricity expenses	6200	Discount received	1500
Wages	1500	Carriage	1000
Salary	5000	Loss due to fire	3000
Goods destroyed by fire	15,000	Telephone expenses	1000

Explanation for Debit Balance and Credit Balance

Balances	Personal Accounts	Real Accounts	Nominal Accounts
Debit Balances :	Drawings account Debtors	Cash account Furniture Bank balance 10 % government securities Opening stock Purchase account Sales return account	Bank commission Electricity expenses Wages Salary Discount allowed Carriage Loss due to fire Telephone expenses

Balances	Personal Accounts	Real Accounts	Nominal Accounts
Credit Balances :	Capital account Creditors Bank loan	Goods destroyed by fire Sales account Purchase returns account Goods withdrawn for personal use	Commission received Discount received

Trial Balance of Inder as on 31-3-2015

Name of Accounts	L.F.	Debit side of a/c (₹)	Credit side of a/c (₹)
Capital account		—	2,10,400
Drawings account		10,000	—
Debtors		43,750	—
Creditors		—	35,600
Cash		88,050	—
Furniture		25,000	—
Bank		39,900	—
Commission received		—	1500
Bank commision		350	—
Electricity expenses		6200	—
Wages		1500	—
Salary		5000	—
Goods destroyed by fire		—	15,000
10 % government securities		25,000	—
Opening stock		75,000	—
Purchase account		73,250	—
Sales account		—	1,06,000
Purchase returns account		—	9250
Sales returns account		6250	—
Goods withdrawn for personal use		—	5000
Bank loan		—	25,000
Discount allowed		5000	—
Discount received		—	1500
Carriage		1000	—
Loss due to fire		3000	—
Telephone expenses		1000	—
Total		4,09,250	4,09,250

Note : Above mentioned trial balance is prepared in the form of a statement.

The above mentioned illustration can be prepared in the form of account as follows :

Trial Balance of Inder as on 31-3-2015

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Drawings account	10,000	Capital	2,10,400
Debtors	43,750	Creditors	35,600
Cash	88,050	Commission received	1500
Furniture	25,000	Goods destroyed by fire	15,000
Bank	39,900	Sales account	1,06,000
Bank commission	350	Purchase returns account	9250
Electricity expenses	6200	Goods withdrawn for personal use	5000
Wages	1500	Bank loan	25,000
Salary	5000	Discount received	1500
10 % government securities	25,000		
Opening stock	75,000		
Purchase account	73,250		
Sales returns account	6250		
Discount allowed	5000		
Carriage	1000		
Loss due to fire	3000		
Telephone expenses	1000		
	4,09,250		4,09,250

Illustration 3 : The following balances are extended from the book of Shri Amit on 31-3-2016. From these balances prepare a trial balance of Shri Amit.

Name of A/c	Amount (₹)	Name of A/c	Amount (₹)
Owner's capital	48,000	Drawings	2000
Bank balance	14,000	Cash balance	4800
Travelling expenses	480	Salary	800
Debtors	14,040	Interest received	200
Rent	600	Sales returns account	2200
Purchase returns account	1400	Sales	36,800
Purchase	28,000	Provident fund contribution	320
Provident fund	1000	Loan borrowed	9200
Machines	7200	Stock of goods	34,000
Creditors	8640	Advertisement expenses	480
Stationery expenses	400	Furniture	9800
Discount received	280	Discount allowed	400
Bills payable	3000	Bills receivable	6000
Commission received	4000	Bad debts	1000
Loan from friend	6000	Expenses outstanding	8000

Determine the debit balances and credit balances from the above balances. Also determine to which types of account is applicable for these debit and credit balances.

Explanation for Debit Balance and Credit Balance

Balances	Personal Accounts	Real Accounts	Nominal Accounts
Debit Balances :	Drawings Bills receivable Bank balance Debtors	Purchase Machines Cash balance Sales returns Stock of goods Furniture	Travelling expenses Rent Stationery expenses Contribution to Provident fund Advertisement expenses Discount allowed Bad debts Salary
Credit Balances :	Owner's capital Provident fund Creditors Bills payables Loan borrowed Loan from friend Expense outstanding	Purchase returns Sales	Discount received Commission received Interest received

Trial balance of Shri Amit as on 31-3-2016

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Bank balance	14,000	Owner's capital	48,000
Travelling expenses	480	Purchase returns	1400
Debtors	14,040	Provident fund	1000
Rent	600	Creditors	8640
Purchase	28,000	Discount received	280
Machines	7200	Bills payables	3000
Stationery expenses	400	Commission received	4000
Drawings	2000	Loan from friend	6000
Cash balance	4800	Interest received	200
Salary	800	Sales	36,800
Sales returns	2200	Loan borrowed	9200
Contribution to Provident fund	320	Expenses outstanding	8000
Stock of goods	34,000		
Advertisement expenses	480		
Furniture	9800		
Discount allowed	400		
Bill receivable	6000		
Bad debts	1000		
	1,26,520		1,26,520

4. Mathematically Correct Trial Balance but Incorrect as per the Rules of Accounts

Many a times it is observed that the total of debit side and credit side are identical but the item, of debit side is disclosed at the credit side and the item of the credit side is disclosed at the debit side. Thus accounts prepared on the basis of such trial balance do not disclose true and fair view of accounts. Thus it becomes essential to modify a trial balance. Illustration in this context is as follows :

Illustration 4 : Trial balance of Himani as on 31-3-2016 is provided as follows. Determine whether the trial balance is correct or not from the view point of rules of accounts. If mistakes are reported, prepare a modified trial balance.

Trial Balance of Himani as on 31-3-2016

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Suppliers (Creditors)	10,000	Capital	25,000
Bills payables	9000	Salary	5000
Interest received	6000	Bank overdraft	10,000
Discount received	750	Customers (Debtors)	20,000
Machines	10,500	Discount allowed	250
Stock of goods	15,000	Sales	30,000
Purchase	35,000	Sales returns	4250
Wages	4500	Rent paid	9000
Purchase returns	3750		
Commission received	7000		
Dividend received	2000		
	1,03,500		1,03,500

Credit balances disclosed at debit side	Amount (₹)	Debit balances disclosed at credit side	Amount (₹)
Suppliers (Creditors)	10,000	Salary	5000
Bills payables	9000	Customers (Debtors)	20,000
Interest received	6000	Discount allowed	250
Discount received	750	Sales returns	4250
Purchase returns	3750	Rent paid	9000
Commission received	7000		
Dividend received	2000		
	38,500		38,500

Note : Total of items wrongly written on both sides is ₹ 38,500. Thus, mathematically, the trial balance is correct, but as per the rules of account, it is not valid. A modified trial balance is given on next page.

A Modified Trial Balance of Himani as at 31-3-2016

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Salary	5000	Suppliers (Creditors)	10,000
Customer (Debtors)	20,000	Bills payables	9000
Discount allowed	250	Interest received	6000
Sales returns	4250	Discount received	750
Rent paid	9000	Purchase returns	3750
Machine	10,500	Commission received	7000
Stock of goods	15,000	Dividend received	2000
Purchase	35,000	Capital	25,000
Wages	4500	Bank overdraft	10,000
		Sales	30,000
	1,03,500		1,03,500

5. Incorrect Trial Balance as per Mathematical and Accounting Rules :

Many a times total of both the sides of a trial balance are not found identical, due to a mistake by an accountant or due to the lack of experience. In these circumstances, errors are to be traced out and it becomes essential to prepare a modified trial balance. An illustration in this context is as follows :

Illustration 5 : Total of both the sides of trial balance as on 31-3-2016 of Shri Atul are not identical. Ascertain errors and prepare a modified trial balance.

Trial Balance of Shri Atul as on 31-3-2016

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Opening stock	22,500	Sales	3,75,000
Bad debts reserve	2400	Investments	15,000
Interest on investments	900	Sales returns	25,500
Purchase	2,25,000	Capital	42,000
Salary	25,500	Bills receivable	19,500
Carriage outward	7350	Debtors	75,000
Purchase returns	13,050	Rent received	1050
Motar car	24,000	Interest on loan	1080
Wages	6750	Discount received	2250
Telegram-post	600	Carriage inward	10,500
Drawings	6000		
Cash balance	1500		
Bills payables	9750		
Bank overdraft	12,000		
Sundry expenses	13,050		
Creditors	45,000		
Bad debts	1950		
Taxes-Insurance	6120		
Bank loan	36,000		
Advertisement expenses	7500		
Land-Building	45,000		
	5,11,920		5,66,880

Total of the credit side is ₹ 5,66,880 and of the debit side is ₹ 5,11,920. Total of the credit side is excess by ₹ 54,960. If the difference of wrongly recorded items comes to ₹ $54,960 \div 2 = ₹ 27,480$, differences ascertained of items would be disclosed by a true trial balance.

Credit balances disclosed at debit side	Amount (₹)	Debit balances disclosed at credit side	Amount (₹)
Bad debts reserve	2400	Investments	15,000
Interest on investments	900	Sales returns	25,500
Purchase returns	13,050	Bills receivables	19,500
Bills payables	9750	Debtors	75,000
Bank overdraft	12,000	Interest on loan	1080
Creditors	45,000	Carriage inward	10,500
Bank loan	36,000		
	1,19,100		1,46,580

Here, the total of credit side is ₹ 1,46,580 and total of the debit side is ₹ 1,19,100. The difference of the credit side is excess by ₹ $1,46,580 - ₹ 1,19,100 = ₹ 27,480$. Thus, from the given total of the credit side of the trial balance which is ₹ 5,66,880, ₹ 27,480 would be deducted. Balancing figure ₹ 5,39,400 is the true total on the credit side. Similarly, the total of the debit side of the trial balance which is ₹ 5,11,920, ₹ 27,480 will be added. Total amount would arrive at 5,39,400.

Now, the total of the debit side and credit side will be identical. Thus mathematically and from the view point of rules, trial balance would depict a true picture.

Modified trial balance is as follows :

Trial Balance of Shri Atul as on 31-3-2016

Debit Balance	Amount (₹)	Credit Balance	Amount (₹)
Investment	15,000	Bad debts reserve	2400
Sales returns	25,500	Interest on investments	900
Bills receivable	19,500	Purchase returns	13,050
Debtors	75,000	Bill payable	9750
Interest of loan	1080	Bank overdraft	12,000
Carriage inward	10,500	Creditors	45,000
Opening stock	22,500	Bank loan	36,000
Purchase	2,25,000	Sales	3,75,000
Salary	25,500	Capital	42,000
Carriage outward	7350	Rent received	1050
Motor car	24,000	Discount received	2250
Wages	6750		
Postage	600		
Drawings	6000		
Cash balance	1500		
Sundry expenses	13,050		
Bad debts	1950		
Taxes-Insurance	6120		
Advertisement expenses	7500		
Land-Building	45,000		
	5,39,400		5,39,400

Exercise

1. Select appropriate option for each question :

- (1) After which stage trial balance is prepared ?
 - (a) after journal
 - (b) after adjustment
 - (c) after ledger
 - (d) before ledger
- (2) What is prepared on the basis of a trial balance ?
 - (a) annual accounts
 - (b) adjustments
 - (c) ledger
 - (d) subsidiary books
- (3) What is the duration of accounts disclosed in a trial balance ?
 - (a) 1 year
 - (b) of any time
 - (c) of 6 months
 - (d) of 3 months
- (4) What are the methods to prepare a trial balance ?
 - (a) only in a statement form
 - (b) only in account form
 - (c) any other method
 - (d) (a) and (b) both
- (5) Mathematically, correct trial balance means,
 - (a) excess balance on debit sides
 - (b) excess balance on credit side
 - (c) identical total on both sides
 - (d) zero total on both sides

2. Answer the following question in one line :

- (1) When is a trial balance called 'mathematically correct' ?
- (2) How many sides are there of a trial balance ?
- (3) What do you know about the total of both the sides of a trial balance ?

3. Answer the following question in two or three lines :

- (1) Explain total methods and balance method.
- (2) Explain statement form and account form of trial balance.
- (3) Explain two features of trial balance.
- (4) Explain two objectives of trial balance.
- (5) When is the concept of true and fair realized ?

4. From the given information prepare trial a balance of Pravin Patel as on 31-3-2016 :

Name of A/c	Amount (₹)	Name of A/c	Amount (₹)
Opening stock	7440	Bank loan	1760
Wages	4000	Carriage inward	1200
Sales	48,000	Purchase	30,000
Repairing	800	Carriage outward	600
Tax	600	Debtors	8000
Land-Building	2400	Cash balance	80
Plant-Machinery	3000	Loose tools	720
Electricity expenses	920	Creditors	3200
Capital	16,000	Sundry incomes	240
Office salary	1000	Office furniture	240
Patent	400	Goodwill	6000
Bank balance	1800		

5. From the following balances of accounts prepare a trial balance of Shri Brijmohan as on 31-3-2016.

Name of A/c	Amount (₹)	Name of A/c	Amount (₹)
Opening stock	7800	Plant - Machineries	4500
Freehold assets	15,000	Wages	1000
Sundry debtors	6000	Carriage inward	90
Factory expenses	800	Royalty	100
Purchase of raw material	7500	Carriage outward	100
Factory rent	700	Capital	8000
Discount allowed	400	Discount received	360
Sundry creditors	2000	Insurance	200
Bad debts reserve	150	Commission received	1500
Commission paid	500	Bad debts	150
Office expenses	750	Salary	1000
Travelling expense	100	Legal expense	100
Bank balance	420	Cash balance	400
Loan borrowed	3000	Office rent	400
Net sales	33,000		

6. Trial balance prepared by Vallabh is as follows. If any error lies in it, prepare a modified trial balance and give reasons for it :

Name of A/c	Amount (₹)	Name of A/c	Amount (₹)
Opening stock	6000	Capital	61,000
Sales	86,000	Discount allowed	1500
Sales return	4000	Commission received	1700
Wages-Salary	31,000	Fixed assets	61,000
Bills receivable	8000	Purchase	46,000
Debtors	10,000	Purchase return	3000
Rent	4000	Carriage inward	1600
Cash	1800	Carriage outward	1700
Creditors	7900	Bills payables	13,000
Closing stock	34,800	Interest paid	3000
	1,93,500		1,93,500

7. The trial balance of Shri Pareshkumar as on 31-3-2016 shows a difference in the total of debit and credit balances. Ascertain errors and prepare a modified trial balance :

Name of Account	L.F.	Debit Balance (₹)	Credit Balance (₹)
Capital		66,000	—
Stock of goods		9000	—
Purchase		—	90,000
Sales		96,000	—
Goods return debit		1200	—
Goods return credit		—	6000
Wages - Salary		11,400	—
Advertisement expense		2580	—
Rend paid		—	1800
Bad debts		1200	—
Building		42,600	—
Creditors		9000	—
Debtors		—	8400
General reserve		5400	—
Income tax		—	1800
Bank balance		2820	—
Dividend		—	5000
Commission received		—	10,000
Bills receivable		15,000	—
		2,62,200	1,23,000

