

TRIAL BALANCE

❖ Meaning & Definition of Trial Balance:

Trial balance is a statement which shows the balances in the accounts maintained in the Ledger and Cash Book balances, i.e. Cash and Bank Balances.

According to J.R. Batliboi – “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.”

According to Carter – “A Trial Balance is the list of debit and credit balances, taken out from the Ledger. It also includes the balances of cash and bank taken from the Cash Book.”

Trial Balance is prepared after having posted the Journal entries into the Ledger and balancing the Accounts.

To conclude, a Trial Balance is a summary of all the ledger balances existing as on a particular date.

A Trial Balance contains mainly five columns:

- a) Serial Number
- b) Heads of Account
- c) Ledger Folio (L.F.)
- d) Debit Balance
- e) Credit Balance

❖ Characteristics or Features of Trial Balance:

1. It is a list of balances of Ledger Accounts and Cash Book.
2. It is not a part of the Double Entry System of Book Keeping. It is a result of Double Entry System of Book Keeping. It is only a working paper.
3. It can be prepared on any date if the accounts are balanced.
4. It verifies the arithmetical correctness of posting from Journal to the Ledger.
5. It is not a conclusive proof of the accuracy of the books of account since some compensating errors are not shown (disclosed) by Trial Balance.
6. It is helpful in preparation of Trading Account, Profit and Loss Account and the Balance Sheet.

❖ Objectives or Function of Trial Balance:

1. **To Ascertain the Arithmetical Correctness of Ledger Accounts:** - The Trial Balance enables one to establish whether posting and other accounting processes have been carried out without committing arithmetical errors.
2. **To Help in Locating Errors:** - The Trial Balance helps in locating (detecting) errors in casting, posting and balancing. If the errors are detected, they can be rectified.

3. **To Provide a Basis for Preparation of Final Accounts:** - Trial Balance provides the basis for preparing Trading Account, Profit & Loss Account and the Balance Sheet.
4. **To Find out the Balance of Particular Amount:** - Trial Balance provides a complete picture of each account in the Ledger. As such, the balance of any particular ledger account can be found out easily from the Trial Balance without going through the ledger.

❖ **Preparation of Trial Balance:**

There are Three methods of constructing a trial Balance: -

1. **Total Method:** - Under this method, total amount of debit side of each ledger account is shown on the debit side of the Trial Balance. Similarly, total amount of credit side of each ledger account is shown on the credit side of the Trial Balance. After this, amount of debit and credit side items of the Trial Balance are totaled. The total of debit column of Trial Balance showed agree with the total of credit column in the Trial Balance. However, this method is not widely used in practice.

Requirement: - A Trial Balance under this method can be prepared immediately after the completion of posting to the ledger.

2. **Balance method:** - Under this method Trial Balance is prepared by showing the balances of different accounts in the ledger. All the accounts showing debit balance in the ledger are put on the debit side of Trial Balance. Similarly, the accounts showing credit balance are put on its credit side. If, however, an account shows no balance (i.e., when debit and credit side totals of account are equal), the account is not shown in the Trial Balance. After this, the debit and credit columns of the Trial Balance are totaled. If the total of both debit and credit amounts are equal, it is said that the Trial Balance has agreed. This is most widely used method in practice for preparing a Trial Balance.

Requirement: - This method can be followed only when all the ledger accounts have been balanced.

Format of Total Balance

S. No.	Head (Name) of Accounts	Dr.	Cr.
		Amount	Amount
	<i>Assets, Expenses & Losses</i>	₹	₹
	<i>Capital, Liabilities, Income & Profit</i>	xxxxx	xxxxx
		xxxxx	xxxxx

➤ **Accounting Treatment of Closing Stock in Trial Balance:-**

1. Generally, Closing stock does not appear in the Trial Balance because a separate account for this is not opened in the General Ledger.
2. Closing stock is shown in the adjustment below the Trial Balance.

3. If the adjustment entry regarding 'Closing Stock' has already been passed then 'Closing Stock' will be shown in the debit column of the Trial Balance.

➤ **Accounting Treatment of Opening Stock in Trial Balance: -**

1. Opening Stock is shown in the debit side of the Trial balance.
2. If the Cost of goods sold is given in Trial Balance and 'Opening Stock' as well as 'Closing Stock' are also given, then in that case:
 - a) **Cost of Goods Sold** will be shown in the debit column of Trial Balance
 - b) **Closing Stock** will be shown in the debit column of Trial Balance.
 - c) **Opening Stock** will not be shown in Trial Balance.

3. Total-cum-Balances Method: - This method is a combination of balances method and totals method. So under this method *four columns* are provided for amount. Two columns for showing the debit and credit balances of various accounts and two columns for showing the debit and credit totals of various accounts.

This method is also not used in practice, the reason being it is time consuming and hardly serves any special purpose.

❖ **List of Debit and Credit Balance**

Debit Balances		Credit Balances	
Assets	Expenses and Losses	Capital & Liabilities	Income and Gains
<ul style="list-style-type: none"> • Cash • Cash at Bank • Land & Building • Plant & Machinery • Furniture • Investments • Goodwill • Opening Stock • Debtors • Bills Receivable • Trade Receivable • Computer • Motor Vehicle • Prepaid Expense • Earned Income • Etc..... 	<ul style="list-style-type: none"> • Wages • Salaries • Freight • Carriage Inwards • Carriage Outward • Depreciation • Rent, Rates & Taxes • Insurance • Audit Fees • Printing & Stationary • Power & lighting • Trade Expenses • Discount Allowed • Bad Debts • Office Expenses • Advertisements • Selling and Distribution Expenses. Etc..... 	<ul style="list-style-type: none"> • Capital • Creditors • Bills Payable • Trade Payables • Bank Loan • Provident Fund • Outstanding Expenses • Income received in Advance • Advance from Customers • Reserve and surplus • Profit and Loss (Credit Balance) 	<ul style="list-style-type: none"> • Rent Received • Interest Received • Dividend Received • Discount Received • Commission Received • Interest on drawings • Bad debts Recovered • Apprenticeship Premium

Rule :

All Assets, Expenses and Losses Account will show debit balance

All Liabilities, Capital and Incomes/gains will show credit balance.

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