

Unit 3: TRIAL BALANCE

"Confident walking is more successful than confused running. Follow no one but learn from everyone."

MEANING AND PURPOSE OF TRIAL BALANCE

- Meaning:** Trial Balance is a statement which lists down the debit and credit balances of all accounts, as at a particular date under two separate columns.
- Features:**
 - Trial Balance is a statement and not an Account.
 - The Totals of all Debit Balances and Credit Balances will be equal.
 - It has two columns - Debit Column and Credit Column.
 - It is the third stage in the Accounting Process
 - Trial Balance can be prepared on any day of accounting period. It shows balances on that date.
- Objectives / Advantages:** Third phase in accounting process, i.e. preparation of Trial Balance
 - Ledger itself may be referred to only when further details are required in respect of that Account.
 - Serves as a check on Arithmetical Accuracy of books since Debit and Credit Totals must agree.
 - Provides basis of preparation of Final Accounts, i.e. Financial Statements - P&L A/c & Balance Sheet.
- Source for Trial Balance:** Ledger Accounts
- Limitations:** Mere tallying / agreement of Trial Balance is not a conclusive proof of arithmetical accuracy. The Trial Balance may still tally with the following errors -
 - Complete omission of a transaction either in journalizing or in ledger posting therefrom,
 - Entry is posted twice in the ledger.
 - Recording of a transaction at a wrong amount,
 - Debiting or Crediting correctly in the Ledger, but in the wrong account head,
 - Compensating Errors, i.e. errors whose effects nullify each other.

| | | |
|--|-----|-----|
| | Dr. | Cr. |
| | ₹ | ₹ |
| | ₹ | ₹ |
| | ₹ | ₹ |
| | ₹ | ₹ |
| | ₹ | ₹ |
| | ₹ | ₹ |
| | ₹ | ₹ |
| | ₹ | ₹ |
| | ₹ | ₹ |

Correction
↓
Rectification
of Errors

[1000 → 10000]
[10000 → 1000]

FORMAT OF TRIAL BALANCE

1. **Methods of preparation of Trial Balance:** Trial Balance may be prepared as under -

| Method | What is written in Trial Balance? | Remarks |
|----------------------------|--|---|
| (a) <u>Total Method</u> | The <u>Total of Debit & Credit Side</u> of each <u>Ledger Account</u> is recorded in the Trial Balance, in the respective columns. | <u>Merit:</u> Time taken to <u>balance each Ledger A/c</u> is saved. <u>Demerit:</u> Not useful for preparation of <u>Final Accounts</u> . |
| (b) <u>Balances Method</u> | Here, <u>only the balance</u> in each <u>Ledger A/c</u> is recorded in <u>Trial Balance</u> . Some accounts may have <u>Dr. Balance</u> while others have <u>Cr. Balance</u> . | <u>Most popularly used method</u> since it <u>helps in preparation</u> of <u>Final Accounts / Financial Statements</u> |

| | | |
|---|--|-----------------------------------|
| <p>(c) <u>Total & Balances Method</u></p> | <p>This is a <u>combination of above 2 methods</u>. Both <u>Totals and Balances</u> are indicated in <u>separate columns</u> in Trial Balance.</p> | <p>Not <u>regularly</u> used.</p> |
|---|--|-----------------------------------|

2. Format of Trial Balance:

| <u>Particulars (i.e. Name of Account)</u> | <u>Ledger Folio</u> | <u>Dr, Amt (₹)</u> | <u>Cr. Amt (₹)</u> |
|---|---------------------|--------------------|--------------------|
| (1) | (2) | (3) | (4) |

Notes:

- In Column 1, Name of the Ledger A/c is given, e.g. Capital, Machinery, Sales, Purchases, Bank, etc.
- In Column 2, the Page Number of the Ledger is given for tracking and tracing purposes.
- In Column 3 & 4, - (a) the Dr. and Cr. Totals of the Ledger A/c are given (in Total Method), and (b) the balances of each Ledger A/c are given (in Balances Method). Under Total and Balances Method, additional columns are added, to indicate Totals and Balances separately.

FEATURES OF TRIAL BALANCE :- DR. TOTAL = CR. TOTAL

1. The total of Debit Balances is equal to the total of Credit Balances at a particular point of time. The balances are tallied in this statement to assess whether the Fundamental Accounting Equation is satisfied or not.
2. Both the totals match due to the following reasons:
 - (a) Trial Balance is prepared based on Ledger Accounts. Entries are made in each ledger accounts based on Journal.
 - (b) Each Journal Entry contains two aspects of equal amount - Debit and Credit.
 - (c) Hence, where there is a debit to a particular account for a specified amount, there will also be a credit for the same amount in another Account.
 - (d) This leads to the equality of debit balance and credit balance.

Important Notes in preparing Trial Balance

- Accounts with Nil balance will not be shown in the Trial Balance.
- All Accounts with balances, i.e. whether Real, Personal or Nominal, will be shown in Trial Balance.
- Accounts relating to - (a) Assets (b) Expenses (c) Losses (d) Drawings have Dr. Balance.
- Accounts relating to - (a) Capital (b) Liabilities (c) Incomes (d) Gains have Cr. Balance.
- If the Trial Balance does not agree, it may be tallied by transferring the difference of Debit or Credit to an Account known as Suspense Account. This is a temporary account opened to proceed further and to prepare the Financial Statements in a timely manner. [Such a Trial Balance may be called as Adjusted Trial Balance.]

To Tally the Trial Balance.

| | | | |
|---------------------|---------------|---------------|--|
| | <u>Dr</u> | <u>Cr</u> | |
| | 38,000 | 37,000 | |
| | _____ | 10,000 | |
| Suspense A/c (B.F.) | _____ | _____ | |
| | <u>38,000</u> | <u>38,000</u> | |

Detailed discussion ↓ (Rectification of Errors)

Real A/c, Nominal A/c, Personal A/c

ASSIGNMENT QUESTIONS

Question 1 (ICAI Study Material)

Pg no. _____

Given below is a ledger extract relating to the business of X and Co. as on March, 31, 2022. You are required to prepare the Trial Balance by the Total Amount Method.

| Dr. | | Cash Account | | Cr. | |
|----------------|--------|-------------------|--------|-----|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Capital A/c | 10,000 | By Furniture A/c | 3,000 | | |
| To Ram's A/c | 25,000 | By Salaries A/c | 2,500 | | |
| To Cash Sales | 500 | By Shyam's A/c | 21,000 | | |
| | | By Cash Purchases | 1,000 | | |
| | | By Capital A/c | 500 | | |
| | | By Balance c/d | 7,500 | | |
| | 35,500 | | 35,500 | | |

| Dr. | | Furniture Account | | Cr. | |
|-------------|-------|-------------------|-------|-----|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Cash A/c | 3,000 | By Balance c/d | 3,000 | | |
| | 3,000 | | 3,000 | | |

| Dr. | | Salaries Account | | Cr. | |
|-------------|-------|------------------|-------|-----|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Cash A/c | 2,500 | By Balance c/d | 2,500 | | |
| | 2,500 | | 2,500 | | |

| Dr. | | Shyam's Account | | Cr. | |
|-------------------------|--------|---------------------------------------|--------|-----|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Cash A/c | 21,000 | By Purchases A/c (Credit Purchase) | 25,000 | | |
| To Purchase Returns A/c | 500 | | | | |
| To Balance c/d | 3,500 | | - | | |
| | 25,000 | | 25,000 | | |

| Dr. | | Purchases Account | | Cr. | |
|---|--------|-------------------|--------|-----|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Cash A/c (Cash Purchases) | 1,000 | By Balance c/d | 26,000 | | |
| To Sundries as per Purchases Book (Credit Purchases) | 25,000 | | | | |
| | 26,000 | | 26,000 | | |

| Dr. | | Purchases Returns Account | | Cr. | |
|----------------|-----|---|-----|-----|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Balance c/d | 500 | By Sundries as per Purchases Return Book | 500 | | |
| | 500 | | 500 | | |

| Dr. | | Ram's Account | | Cr. | |
|-----------------------------|--------|----------------------|--------|-----|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Sales A/c (Credit Sales) | 30,000 | By Sales Returns A/c | 100 | | |
| | | By Cash A/c | 25,000 | | |
| | | By Balance c/d | 4,900 | | |
| | 30,000 | | 30,000 | | |

| Dr. | | Sales Account | | Cr. | |
|----------------|--------|--|--------|-----|--|
| Particulars | ₹ | Particulars | ₹ | | |
| To Balance c/d | 30,500 | By Cash A/c (Cash Sales) | 500 | | |
| | | By Sundries as per Sales Book (Credit Sales) | 30,000 | | |
| | 30,500 | | 30,500 | | |

| Dr. | | Sales Returns Account | | Cr. | |
|---------------------------------------|-----|-----------------------|---|-----|-----|
| Particulars | ₹ | Particulars | ₹ | | |
| To Sundries as per Sales Returns Book | 100 | By Balance c/d | | | 100 |
| | 100 | | | | 100 |

| Dr. | | Capital Account | | Cr. | |
|----------------|--------|-----------------|--------|-----|--------|
| Particulars | ₹ | Particulars | ₹ | | |
| To Cash A/c | 500 | By Cash A/c | 10,000 | | |
| To Balance c/d | 9,500 | | | | |
| | 10,000 | | | | 10,000 |

Total Method Solution

Trial Balance of X and Co. as at 31.03.2022

| S. No. | Name of Account | Total Debit ₹ | Total Credit ₹ |
|--------|-----------------------|---------------|----------------|
| 1. | Cash A/c | 35,500 | 28,000 |
| 2. | Furniture A/c | 3,000 | |
| 3. | Salaries A/c | 2,500 | |
| 4. | Shyam's A/c | 21,500 | 25,000 |
| 5. | Purchases A/c | 26,000 | |
| 6. | Purchases Returns A/c | | 500 |
| 7. | Ram's A/c | 30,000 | 25,100 |
| 8. | Sales A/c | | 30,500 |
| 9. | Sales Returns A/c | 100 | |
| 10. | Capital A/c | 500 | 10,000 |
| | | 1,19,100 | 1,19,100 |

Question 2 (ICAI Study Material)

Pg no. _____

Taking the same information as given in Question 1, prepare Trial Balance by Balance Method.

Balance Solution

Trial Balance of X and Co. as at 31.03.2022

| S. No. | Name of Account | Debit Balance ₹ | Credit Balance ₹ |
|--------|-----------------------|-----------------|------------------|
| 1. | Cash A/c | 7,500 | |
| 2. | Furniture A/c | 3,000 | |
| 3. | Salaries A/c | 2,500 | |
| 4. | Shyam's A/c | | 3,500 |
| 5. | Purchases A/c | 26,000 | |
| 6. | Purchases Returns A/c | | 500 |
| 7. | Ram's A/c | 4,900 | |
| 8. | Sales A/c | | 30,500 |
| 9. | Sales Returns A/c | 100 | |
| 10. | Capital A/c | | 9,500 |
| | | 44,000 | 44,000 |

Question 3 (CA Foundation Nov 2019) (5 Marks) / (ICAI Study Material) (Similar) Pg no. _____

An inexperienced bookkeeper has drawn up Trial Balance for the year ended 31st March 2023.

| | Dr. Balance | Cr. Balance |
|---------------------------------|-------------|-------------|
| Provision For Doubtful Debts | 250 | |
| Bank Overdraft (-ve) | 1,654 | |
| Capital | | 4,591 |
| Trade payables | | 1,637 |
| Trade receivables | 2,983 | |
| Discount Received | 252 | |
| Discount Allowed | | 733 |
| Drawings | 1,200 | |
| Office Furniture | 2,155 | |
| General Expenses | | 829 |
| Purchases | 10,923 | |
| Returns Inward | | 330 |
| Rent & Rates (Exp) | 314 | |
| Salaries | 2,520 | |
| Sales | | 16,882 |
| Inventory (Opening Stock) | 2,418 | |
| Provision for Dep. on Furniture | 364 | |
| | 25,033 | 25,002 |

Provisions
↳ Cr. Bal.

Debiton
To selu
Selu Ret. / Ret. Inward
To Debiton

Draw 'Corrected' Trial Balance, debiting or crediting any residual errors to Suspense Account.

Question 4 (ICAI Study Material) Pg no. _____

The following trial balance as on 31st March, 2022 was drawn from the books of fintech traders:

| | L.F. | Dr. Balance (₹) | Cr. Balance (₹) |
|------------------------------------|------|-----------------|-----------------|
| Building ✓ | | 60,000 | - |
| Machinery ✓ | | 17,000 | - |
| Return Outward / Purchase Return X | Cr. | 2,600 X | - |
| Bad Debts ✓ | | 2,800 | - |
| Cash ✓ | | 400 | - |
| Discount Received X | Cr. | 3,000 X | - |
| Bank Overdraft X | Cr. | 10,000 X | - |
| Creditors X | Cr. | 50,000 X | - |
| Purchases ✓ | | 1,00,000 | - |
| Capital ✓ | | - | 73,600 |
| Fixtures X | Dr. | - | 5,600 X |
| Sales ✓ | | - | 1,04,000 |
| Debtors X | Dr. | - | 60,000 X |
| Interest Received (Income) ✓ | | - | 2,600 |
| Input CGST A/c X | Dr. | - | 3,000 X |
| Input SGST A/c X | Dr. | - | 3,000 X |
| Input IGST A/c X | Dr. | - | 4,800 X |
| Output CGST A/c X | Cr. | 5,400 X | - |
| Output SGST A/c X | Cr. | 5,400 X | - |
| Total | | 2,56,600 | 2,56,600 |

Dr-
Cr-

Even though the debit and credit sides agree, the trial Balance contains certain errors. Check the accuracy of trial balance.

Solution**Corrected Trial Balance of Fintech traders as on 31st March, 2022**

| | L.F. | Dr. Balance (₹) | Cr. Balance (₹) |
|-------------------|------|-----------------|-----------------|
| Building | | 60,000 | - |
| Machinery | | 17,000 | - |
| Return Outward | | - | 2,600 |
| Bad Debts | | 2,800 | - |
| Cash | | 400 | - |
| Discount Received | | - | 3,000 |
| Bank Overdraft | | - | 10,000 |
| Creditors | | - | 50,000 |
| Purchases | | 1,00,000 | - |
| Capital | | - | 73,600 |
| Fixtures | | 5,600 | - |
| Sales | | - | 1,04,000 |
| Debtors | | 60,000 | - |
| Interest Received | | - | 2,600 |
| Input CGST A/c | | 3,000 | - |
| Input SGST A/c | | 3,000 | - |
| Input IGST A/c | | 4,800 | - |
| Output CGST A/c | | - | 5,400 |
| Output SGST A/c | | - | 5,400 |
| | | 2,56,600 | 2,56,600 |

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

- 1) A trial balance will not balance if _____
 - a) Correct journal entry is posted twice.
 - b) The purchase on credit basis is debited to purchases and credited to cash.
 - c) ₹ 500 cash payment to creditor is debited to Trade payables for ₹ 50 and credited to cash as ₹ 500.
- 2) ₹ 1, 500 received from sub-tenant for rent and entered correctly in the cash book is posted to the debit of the rent account. In the trial balance _____
 - a) The debit total will be greater by ₹ 3,000 than the credit total.
 - b) The debit total will be greater by ₹ 1,500 than the credit total.
 - c) Subject to other entries being correct the total will agree.
- 3) After the preparation of ledgers, the next step is the preparation of _____
 - a) Trading accounts
 - b) Trial balance
 - c) Profit and loss account
- 4) After preparing the trial balance the accountant finds that the total of debit side is short by ₹ 1,500. This difference will be _____
 - a) Credited to suspense account
 - b) Debited to suspense account
 - c) Adjusted to any of the debit balance account

5)

| S.No. | Account heads | Debit (₹) | Credit (₹) |
|-------|------------------------|---------------|---------------|
| 1. | Sales | | 15,000 |
| 2. | Purchases | 10,000 | |
| 3. | Miscellaneous expenses | 2,500 | |
| 4. | Salaries | | 2,500 |
| | Total | 12,500 | 17,500 |

The difference in trial balance is due to _____

- a) Wrong placing of sales account
- b) Wrong placing of salaries account
- c) Wrong placing of miscellaneous expenses account

ANSWERS MCQs

1. (c) 2. (a) 3. (b) 4. (b) 5. (b)

TRUE / FALSE

State with reasons whether the following statement is true or false:

- 1) Preparing trial balance is the third phase of accounting process.
- 2) Trial balance forms a base for the preparation of Financial statements.
- 3) Agreement of trial balance is a conclusive proof of accuracy.
- 4) A trial balance will tally in case of compensating errors.
- 5) A trial balance can find the missing entry from the journal.
- 6) Suspense account opened in a trial balance is a permanent account.
- 7) The balance of purchase return account has a credit balance.

- 8) Trial Balance is prepared after preparing the Profit and Loss A/c.
- 9) The Trial Balance checks the honesty of the book-keeper.
- 10) The Trial Balance ensures the arithmetical accuracy of the books.
- 11) Trial Balance is an absolute proof of the accuracy of the books of accounts.
- 12) Rectification of errors are necessary to tally the trial balance.
- 13) A tallied trial balance means that the books of accounts have been prepared as per accepted accounting principles.
- 14) The rationale behind the opening of a suspense account is to tally the trial balance

Solution

- 1) True: Trial balance is the third phase of accounting process which forms the base for the preparation of the final accounts.
- 2) True: Based on trial balance only, we can prepare financial statement.
- 3) False: Agreement of trial balance gives only arithmetical accuracy, there can still be errors in preparing the trial balance
- 4) True: Since compensating errors cancel out of due to their compensating nature of amounts, hence trial balance still agree in such case.
- 5) False: A trial balance cannot find the missing entry from the journal
- 6) False: Suspense account opened in a trial balance is a temporary account
- 7) True: The balance of purchase return account has a credit balance. As purchases are debited, any returns shall be credited.
- 8) False: Trial Balance is prepared before Profit & Loss A/c because all ledger balances are put on trial to ascertain the maintenance of debit and credit equality.
- 9) False: The trial balance helps to establish the arithmetical accuracy of ledger books.
- 10) True: The trial balance helps to establish the arithmetical accuracy of ledger balances.
- 11) False: Equal balance of trial balance is not a proof of complete accuracy e.g. trial balance cannot detect error of principle, compensating error etc.
- 12) False: There is no need to rectify the error in order to tally the trial balance. Trial Balance can be tallied by debiting or crediting the difference amount to the suspense account.
- 13) False: Trial balance only checks the arithmetical accuracy of the books. Errors of principle and errors of commission will not affect the agreement of the trial balance.
- 14) False: The rationale behind the opening of a suspense account is to avoid delay in the preparation of financial statements

OBJECTIVES OF PREPARING TRIAL BALANCE

- 1) Checking of the arithmetical accuracy of the accounting entries: Trial Balance enables one to establish whether the posting and other accounting processes have been carried out without committing arithmetical errors. In other words, the trial balance helps to establish the arithmetical accuracy of the books.
- 2) Basis for preparation of financial statements: Trial Balance forms the basis for preparing financial statements such as the Income Statement and the Balance Sheet. The Trial Balance represents all transactions relating to different accounts in a summarized form for a particular period. In case, the Trial Balance is not prepared, it will be almost impossible to prepare the financial statements to know the profit or loss made by the business during a particular period or its financial position on a particular date.
- 3) Summarized ledger: Trial Balance contains the ledger balances on a particular position of a particular account can be judged simply by looking at the Trial Balance. The ledger may be seen only when details regarding the accounts are required.

HOMEWORK QUESTIONS

Question 1 *(ICAI Study Material)*

Pg no. _____

From the following ledger balances, prepare a trial balance of Anuradha Traders as on 31st March, 2023

| Account Head | ₹ |
|----------------------------------|----------|
| Capital | 1,00,000 |
| Sales | 1,66,000 |
| Purchases | 1,50,000 |
| Sales return | 1,000 |
| Discount allowed | 2,000 |
| Expenses | 10,000 |
| Trade receivables | 75,000 |
| Trade payables | 25,000 |
| Investments | 15,000 |
| Cash at bank and in hand | 37,000 |
| Interest received on investments | 1,500 |
| Insurance paid | 2,500 |

Question 2 *(ICAI Study Material)*

Pg no. _____

One of your clients, Mr. Singhania has asked you to finalize his accounts for the year ended 31st March, 2023. Till date, he himself has recorded the transactions in books of accounts. As a basis for audit, Mr. Singhania furnished you with the following statement.

| | Dr. Balance | Cr. Balance |
|------------------------|-------------|-------------|
| Singhania's Capital | | 1,556 |
| Singhania's Drawings | 564 | |
| Leasehold premises | 750 | |
| Sales | | 2,750 |
| Due from customers | | 530 |
| Purchases | 1,259 | |
| Purchases return | 264 | |
| Loan from bank | | 256 |
| Trade payables | 528 | |
| Trade expenses | 700 | |
| Cash at bank | 226 | |
| Bills payable | 100 | |
| Salaries and wages | 600 | |
| Inventories (1.4.2022) | | 264 |
| Rent and rates | 463 | |
| Sales return | | 98 |
| | 5,454 | 5,454 |

The closing inventory on 31st March, 2023 was valued at ₹ 574. Mr. Singhania claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance.

Question 3 ✓ (CA Foundation Dec 2021) (5 Marks) Pg no. _____

From the following information, draw up a Trial Balance in the books of Shri M as on 31st March, 2023:

| Particulars | Amount | Particulars | Amount |
|---------------------------|----------|---------------------|--------|
| Capital | 1,40,000 | Purchases | 36,000 |
| Discount Allowed | 1,200 | Carriage Inward | 8,700 |
| Carriage Outwards | 2,300 | Sales | 60,000 |
| Return Inward | 300 | Return Outwards | 700 |
| Rent and Taxes | 1,200 | Plant and Machinery | 80,700 |
| Stock on 1st April 2022 | 15,500 | Sundry Debtors | 20,200 |
| Sundry Creditors | 12,000 | Investments | 3,600 |
| Commission Received | 1,800 | Cash in Hand | 100 |
| Cash at bank | 10,100 | Motor Cycle | 34,600 |
| Stock on 31st March, 2023 | 20,500 | | |

Question 4 ✓ (CA Foundation June 2022) (4 Marks) Pg no. _____

One of your clients Mr. X asked you to finalize his account for the year ended 31st March, 2022. As a basis for audit, Mr. X furnished you with the following statement:

| | Dr. | Cr. |
|--------------------|--------|--------|
| X's Capital | | 4,668 |
| X's Drawings | 1,692 | |
| Leasehold Premises | 2,250 | |
| Sales | | 8,250 |
| Due from customers | | 1,590 |
| Purchases | 3,777 | |
| Purchase Return | 792 | |
| Loan from Bank | | 768 |
| Trade Expense | 2,100 | |
| Trade Payable | 1,584 | |
| Bills Payable | 300 | |
| Salaries and Wages | 1,800 | |
| Cash at Bank | 678 | |
| Opening Inventory | | 792 |
| Rent and Rates | 1,389 | |
| Sales Return | | 294 |
| | 16,362 | 16,362 |

The closing inventory was ₹ 1,722. Mr. X claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance and give reasons for the errors, if any.