

LESSON-9

TRIAL BALANCE

SUMMARY

To check the accuracy of posting in the ledger a statement is prepared. This statement is called Trial Balance. Every debit of a transaction has corresponding credit for the same amount. Hence, the total of debit balances of different accounts in the ledger must be equal to the total of the credit balances in the remaining accounts, provided transactions have been correctly posted in the ledger. A statement is prepared containing these balances with two columns i.e. debit column containing debit balances and credit column containing credit balances and the debit column total is compared with credit column total. If the columnar totals are same it implies that ledger accounts are arithmetically accurate.

MEANING AND OBJECTIVES OF PREPARING TRIAL BALANCE

MEANING

To check the accuracy of posting in the ledger a statement is prepared with two columns i.e. debit column and credit column which contains debit balances of accounts and credit balances of accounts respectively. Total of the two columns are if equal, it means the ledger posting is

arithmetically correct. This statement is called Trial Balance.

Trial Balance may be defined as a statement which contains balances of all ledger accounts on a particular date.

Objectives of Preparing a Trial Balance

Following are the objectives of preparing Trial Balance-

- To Check Arithmetical Accuracy
- To Help in Preparing Financial Statements
- Helps in Locating Errors
- Helps in Comparison

PREPARATION OF TRIAL BALANCE

Trial Balance is not an account. It is only a list or schedule of balances of ledger accounts including cash and bank balances. It is prepared on a particular date. The accounts having a debit balance are entered in the debit amount column and credit balance accounts are entered in the credit amount column. The totals of the two sides of the accounts may also be used to prepare trial balance. The sum of each column should be equal.

Steps to prepare Trial Balance

- (i) At first ascertain the balance account wise of all the ledger accounts.
- (ii) Write the name of the ledger account in the ledger account column.
- (iii) Write against the name of the ledger account, the balance amount/total

amount, debit balance/total in the debit column; and credit balance/total in the credit column.

- (iv) Add the debit balance/total amount column and credit balance/total amount column.

Methods of preparing Trial Balance

(i) Balance Method : In Balance method, the balance of each account (which may be debit balance or credit balance) is extracted and written against each account; we write debit balance in the debit column and credit balance in the credit column.

(ii) Total Method : In this method the total of both sides of every account in the ledger is written against the name of the respective account without balancing them in the form of debit and credit balances respectively.

(iii) Balance Total Method : Trial Balance is prepared by combining the first and second methods.

If the totals do not tally it means there are some errors in recording and/or in posting in the ledger of the business transactions.

The reasons due to which the totals of the two columns of Trial balance may not agree can be listed as follows :

- (i) The totals of the Special Purpose Books like Sales Book, Purchases Book, etc are not done correctly or there is some mistake in the posting of these totals in their respective accounts in the ledger.
- (ii) The items from different Special Purpose Books and Journal may be posted to the wrong side of the account or a wrong amount is posted or posted to the wrong account.
- (iii) The balancing of an account is not done correctly.
- (iv) There may be mistake in carrying balance from the ledger account to the Trial Balance.

Trial Balance and Suspense A/c

Now suppose the Trial Balance does not agree i.e. there is a difference of some amount in the totals of the two columns of the Trial Balance. What will you do with this difference? A different account i.e Suspense Account is opened with the difference in amount put in this account. This will result in agreement of Trial Balance. The suspense account with the amount of difference will be put on the shorter side of the Trial Balance.

TRIAL BALANCE AND ERRORS