Trial Balance

Trial Balance- Meaning and Objectives

Objectives

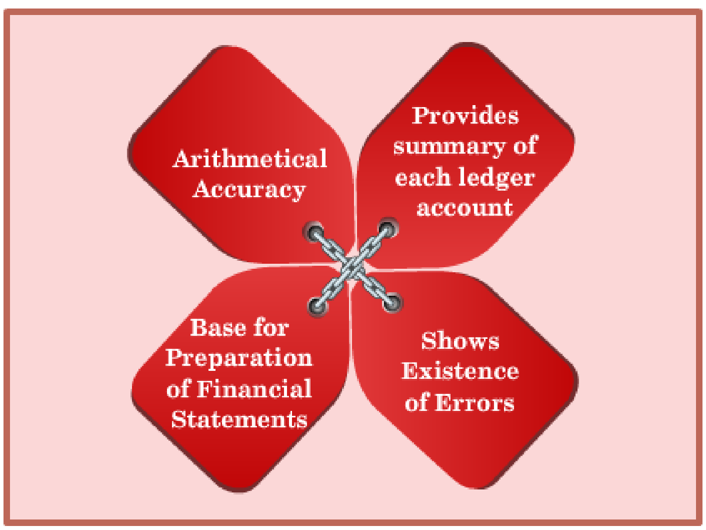
After going through this lesson, you shall be able to understand the following concepts.

- Introduction
  - Meaning of Trial Balance
  - Preparation of Trial Balance-Objectives, Features and Limitations
  - Specimen of Trial Balance

Introduction
As you have already learned that business transactions are first recorded in the Books of Original Entry (*i.e*. Journal or Subsidiary Books) and thereafter they are posted in to the ledgers. After posting the transactions in ledger accounts a business is required to prepare a Trial Balance in order to know the actual financial position of the business. This preparation of Trial Balance constitutes the next step of Accounting Cycle. After ledger posting and balancing of ledgers get complete we need to prepare a statement showing summary of all Ledger Account balances which is known as *Trial Balance*.

Meaning of Trial Balance
Simply stating, a Trial Balance is a statement showing summary of debit and credit balances of all Ledgers. Although it can be prepared on any date but usually it is prepared at the end of the accounting year. In the statement of Trial Balance we prepare four separate Columns, Column 1 represents List of Accounts, Column 2 represents Ledger Folio Number (L.F. No), Column 3 represents Amount of Ledgers having debit balance and Column 4 represents amount of Ledgers having Credit Balance. After this we write all ledger account name and their corresponding closing balances in their respective columns. Finally after all this we sum-up Column 3 and 4 and their final total should tally with each other.

Preparation of Trial Balance-Objectives
The trial balance is prepared to fulfil the following objectives.
(1) It helps in ascertaining *arithmetical accuracy* of each ledger account.
(2) A trial balance provides summary of each ledger account.
(3) If trial balance doesn't tally it *shows existence of errors* that can be committed at the time of recording or at the time of posting of transactions.
(4) It acts as a *base for preparation* of financial statements.



Features of a Trial Balance:
1) It is a tabular presentation of all the accounts of ledger and the cash book.
2) It is a statement not an account prepared on a particular date as and when required by the management or at the end of the financial year. Hence, it is not prepared for a period but rather on a particular date.
3) It records the closing balances of the ledger accounts.
4) It is merely a functional paper and does not follow the rules of Double Entry system of Book Keeping.
5) The purpose of preparing a Trial Balance is to check for the arithmetic accuracy of the books of accounts. Hence, if a

Trial Balance does not match it is an indication of an anomaly in the preparation.
6) The balance of the closing stock is not shown in the Trial Balance because it is a leftover portion of Purchases that has been already recorded in the Trial Balance. Hence, it is shown by way of a footnote.
7) Trial Balance however fails to detect certain errors like compensating errors and errors of principle and hence cannot be completely relied upon for the accuracy of books.
8) It is a summary of all the accounts and thus helps in the preparation of the final accounts i.e. Trading Account, Profit and Loss Account and Balance Sheet.

Limitations of a Trial Balance:
The result of the Trial Balance should be taken with a pinch of salt and shouldn't be assumed to be an indication of absolute accuracy of the books of accounts. This is because as discussed in features, there are certain errors which go undetected during the preparation of a Trial Balance.
Hence, the limitations of the Trial Balance are as follows:

1) Transaction not recorded at all: If a transaction goes completely unnoticed and no journal entry has been passed for it. Then a Trial balance cannot detect such an omission.
2) Compensating errors: When a number of mistakes have been committed in ways that they compensate each other then in such a case this statement will balance despite the errors. For example: Goods purchased for Rs. 4000 written as Rs. 2000 and Goods sold for Rs. 2000 written as Rs. 4000. Then such errors will not be detected by the Trial Balance.
3) Errors Of Principle: If an accountant has wrongly classified an account while posting in the ledger then in such a case Trial balance will agree despite the mistake. For example: Purchase of computer for office use wrongly debited to the purchases account. Then this statement will balance by showing a Debit in Purchases for the computer bought.
4) While recording a transaction if the **same amount is wrongly debited and credited** then it is not brought out by the Trial Balance. For example: Rent paid Rs. 3000 wrongly recorded in the Journal as Rs. 2000.
5) **Failure to post a transaction** in a ledger, then also the Trial balance will show arithmetic accuracy. For example: Purchase of stationery for Rs. 200 not posted in the ledger.
6) **Double posting of an entry** will go unnoticed by a Trial Balance.

Specimen of Trial Balance

The format of a trial balance is given below.

Trial Balance **as on ......**			
List of Accounts	**L.F.**	**Debit Balances** **Amount** **(Rs)**	**Credit Balances** **Amount** **(Rs)**
1	2	3	4
Total			

Explanation
(1) List of Accounts (Column 1): This column shows name of Ledger Accounts.
(2) Ledge Folio (Column 2): This column shows Folio Number (or Page Number) of Ledger on which its Debit/Credit Closing balance is appearing.
(3) Debit Balance Amount (Column 3): This column indicates the amount of debit balance of the respective Ledger Account.
(4) Credit Balance Amount (Column 4): This column indicates the amount of credit balance of the respective Ledger Account.
After writing all above mentioned items in their respective Columns we just total Column 3(Debit balances) and Column 4(Credit Balances). The total of both Column must be tallied. By tallying both the columns we can ensure the arithmetical accuracy of transactions entered.

Note: One should always remember that by tallying trial balance we cannot conclude that there are no errors in the books of accounts.

***Example*-1:** Journalise the following transactions, post and balance them in ledger account and prepare Trial Balance in the books of YSR Ltd.

2013	**Particulars**	**Rs**
March 1	Rahul started business with cash	2,00,000
March 2	Goods Bought for Cash	61,000
March 3	Opened Bank Account with cash	1,00,000
March 4	Goods sold for Cash	80,000
March 7	Goods Bought on credit from Ramesh	30,000
March 10	Sold goods to Suresh on credit	25,000
March 15	Plant and Machinery purchased by cheque	33,200
March 19	Paid to Ramesh in cash	10,000
March 21	Received loan from Anish and deposited the same in bank	16,000
March 23	Goods returned to Ramesh	1,000
March 26	Withdrew from bank for personal use	10,000
March 27	Paid to Ramesh by cheque	8,000
March 29	Received Cash from Suresh	10,000

March 30	Purchased stationery by cash	400
March 30	Paid wages and salaries	20,000

Solution:

Books of YSR Ltd					
Journal					
Date	**Particulars**		**L.F.**	**Debit Amount (Rs)**	**Credit Amount (Rs)**
2013					
Mar. 01	Cash A/c	Dr.		2,00,000	
	To Capital A/c				2,00,000
	(Business started with cash of Rs 2,00,000)				
Mar. 02	Purchases A/c	Dr.		61,000	
	To Cash A/c				61,000
	(Goods Purchased for cash)				
Mar. 03	Bank A/c	Dr.		1,00,000	
	To Cash A/c				1,00,000
	(Bank account opened by depositing cash in bank)				
Mar. 04	Cash A/c	Dr.		80,000	

	To Sales A/c				80,000
	(Goods sold on cash basis)				
Mar. 07	Purchases A/c	Dr.		30,000	
	To Ramesh				30,000
	(Goods purchased on credit basis)				
Mar. 10	Suresh	Dr.		25,000	
	To Sales A/c				25,000
	(Goods Sold to Suresh)				
Mar. 15	Plant & Machinery A/c	Dr.		33,200	
	To Bank A/c				33,200
	(Plant & Machinery purchased by cheque)				
Mar. 19	Ramesh	Dr.		10,000	
	To Cash A/c				10,000
	(Amount paid to Ramesh in cash)				
Mar. 21	Bank A/c	Dr.		16,000	
	To Anish’s loan A/c				16,000
	(Loan received from Anish in cash)				

Mar. 23	Ramesh	Dr.		1,000	
	To Return Outwards A/c				1,000
	(Goods returned to Ramesh)				
Mar. 26	Drawings A/c	Dr.		10,000	
	To Bank A/c				10,000
	(Amount withdrawn from bank for personal use)				
Mar. 27	Ramesh	Dr.		8,000	
	To Bank A/c				8,000
	(Being amount paid by bank To Ramesh)				
Mar.29	Cash A/c	Dr.		10,000	
	To Suresh				10,000
	(Cash received from Suresh)				
Mar. 30	Stationery A/c	Dr.		400	
	To Cash A/c				400
	(Cash Paid for stationery)				

Mar. 30	Wages & Salaries A/c	Dr.		20,000	
	To Cash A/c				20,000
	(Wages and Salaries paid in cash)				

Cash Account							
Dr.							Cr.
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2013				2013			
Mar.01	Capital A/c		2,00,000	Mar.02	Purchases A/c		61,000
Mar.04	Sales A/c		80,000	Mar.03	Bank A/c		1,00,000
Mar.29	Suresh		10,000	Mar.19	Ramesh		10,000
				Mar.30	Stationery A/c		400
				Mar.30	Wages & Salaries		20,000
				Mar.31	Balance c/d		98,600
			2,90,000				2,90,000

Capital A/c							
Dr.							Cr.
Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount

			(Rs)				(Rs)
2013				2012			
Mar.31	Balance c/d		2,00,000	Apr. 1	Cash A/c		2,00,000
			2,00,000				2,00,000

Purchases A/c

Dr.							Cr.
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2013				2013			
Mar. 2	Cash A/c		61,000				
Mar. 7	Ramesh		30,000				
				Mar. 31	Balance c/d		91,000
			91,000				91,000

Bank A/c

Dr.							Cr.
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2013				2013			

Mar.3	Cash A/c		1,00,000	Mar. 15	Plant and Machinery A/c		33,200
Mar.21	Anish's Loan		16,000	Mar. 26	Drawings A/c		10,000
				Mar. 27	Ramesh		8,000
				Mar.31	Balance c/d		64,800
			1,16,000				1,16,000

Sales A/c							
Dr.							**Cr.**
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**
2013				2013			
				Mar.4	Cash A/c		80,000
Mar.31	Balance c/d		1,05,000	Mar.10	Suresh		25,000
			1,05,000				1,05,000

Ramesh							
Dr.							**Cr.**
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**

2013				2013			
Mar.19	Cash A/c		10,000	Mar.07	Purchases		30,000
Mar.23	Return Outward A/c		1,000				
Mar.27	Bank A/c		8,000				
Mar.30	Balance c/d		11,000				
			30,000				30,000

Suresh							
Dr.							**Cr.**
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**
2013				2013			
Mar.10	Sales		25,000	Mar.29	Cash A/c		10,000
				Mar.30	Balance c/d		15,000
			25,000				25,000

Plant and Machinery A/c							
Dr.						**Cr.**	
Date	**Particulars**	**J.F.**	**Amount**	**Date**	**Particulars**	**J.F.**	**Amount**

			(Rs)				(Rs)
2013				2013			
Mar.15	Bank A/c		33,200	Mar.31	Balance c/d		33,200
			33,200				33,200

Anish's Loan A/c							
Dr.							**Cr.**
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**
2013				2013			
Mar.31	Balance c/d		16,000	Mar.21	Bank A/c		16,000
			16,000				16,000

Returns Outward A/c							
Dr.							**Cr.**
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**
2013				2013			
Mar.31	Balance c/d		1,000	Mar.23	Ramesh		1,000
			1,000				1,000

Drawings A/c

Dr.						Cr.	
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**
2013				2013			
Mar. 26	Bank A/c		10,000	Mar.31	Balance c/d		10,000
			10,000				10,000

Stationery A/c

Dr.						Cr.	
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**
2013				2013			
Mar.30	Cash A/c		400	Mar.31	Balance c/d		400
			400				400

Wages and Salaries

Dr.		Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2013				2013			
Mar 30	Cash A/c		20,000	Mar.31	Balance c/d		20,000
			20,000				20,000

Trial Balance

as at March 31, 2013

S. No.	Name of Accounts	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
1	Cash A/c		98,600	
2	Capital A/c			2,00,000
3	Purchases A/c		91,000	
4	Bank A/c		64,800	
5	Sales A/c			1,05,000
6	Ramesh A/c			11,000
7	Suresh		15,000	
8	Plant and Machinery A/c		33,200	
9	Anish’s Loan A/c			16,000
10	Returns Outward A/c			1,000
11	Drawings A/c		10,000	

12	Stationery A/c		400	
13	Wages and Salaries A/c		20,000	
			3,33,000	3,33,000

Example 2

Following are transactions of M/s Rajesh Traders	
Date	**Particulars**
2012	
April 01	Rajesh started his business with cash Rs 1,00,000
April 10	Rajesh opened an account in a bank with cash Rs 30,000
May 10	Purchased goods from Mohan Singh on credit Rs 40,000 and also paid carriage of Rs 2,000
May 20	Sold goods to Rajeev Rs 20,000
May 25	Due to some quality defect goods of Rs 10,000 were returned to Mohan Singh
June 15	Sold goods to Ayesha for Rs 70,000
June 30	Paid rent of Rs 10,000
Aug.31	Purchased Furniture for cash of Rs 8,000
Sept.10	Paid through a cheque of Rs 5,000 for advertisement
Oct.05	Withdrawn Rs 6,000 from Bank for personal use
Nov.30	Recovered Rs 65,000 from Ayesha in full settlement of his account
Dec.12	Goods costing Rs 1,000 donated to NGO
Dec.31	Salaries paid to employees Rs 15,000

2013	
Jan.15	Interest received from Bank Rs 2,000
Feb.10	Rajeev has become insolvent Rs 80 paisa in the rupees on a debt of Rs 20,000 was recovered as a compensation
March 31	Stock of good at end of the year is Rs 32,000

Journalise the above transactions, post them in ledgers, balance them and prepare the Trial Balance as on March 31, 2013.

Solution:

Books of M/s Rajesh Traders					
Journal					
Date	**Particulars**		**L.F.**	**Debit Amount (Rs)**	**Credit Amount (Rs)**
2012					
April 01	Cash A/c	Dr.		1,00,000	
	To Capital A/c				1,00,000
	(Business started with cash of Rs 1,00,000)				
April 10	Bank A/c	Dr.		30,000	
	To Cash A/c				30,000
	(Opened a Bank Account)				
May 10	Purchases A/c	Dr.		40,000	
	To Mohan Singh				40,000

	(Goods Purchased on credit)				
May 10	Carriage A/c	Dr.		2,000	
	To Cash A/c				2,000
	(Carriage paid on purchase of goods)				
May 20	Rajeev	Dr.		20,000	
	To Sales A/c				20,000
	(Goods sold to Rajeev)				
May 25	Mohan Singh	Dr.		10,000	
	To Purchases Return A/c				10,000
	(Goods returned to Mohan Singh)				
June 15	Ayesha	Dr.		70,000	
	To Sales A/c				70,000
	(Goods Sold to Ayesha)				
June 30	Rent A/c	Dr.		10,000	
	To Cash A/c				10,000
	(Rent Paid)				

Aug.31	Furniture A/c	Dr.		8,000	
	To Cash A/c				8,000
	(Furniture purchased)				
Sept.10	Advertisement A/c	Dr.		5,000	
	To Bank A/c				5,000
	(Advertisement expenses paid through cheque)				
Oct.05	Drawings A/c	Dr.		6,000	
	To Bank A/c				6,000
	(Withdrawn from bank for personal use)				
Nov.30	Cash A/c	Dr.		65,000	
	Discount Allowed A/c	Dr.		5,000	
	To Ayesha				70,000
	(Recovered from Ayesha in full settlement of his account)				
Dec.12	Donation A/c	Dr.		1,000	
	To Purchases A/c				1,000
	(Goods of Rs 1,000 donated to NGO)				
Dec.31	Salaries A/c	Dr.		15,000	

	To Cash A/c				15,000
	(Salaries Paid to employees)				
2013					
Jan.15	Bank A/c	Dr.		2,000	
	To Interest A/c				2,000
	(Interest received)				
Feb.10	Cash A/c	Dr.		16,000	
	Bad debts A/c	Dr.		4,000	
	To Rajeev				20,000
	(Cash compensation of 80 paise in the rupees received from Rajeev)				
Mar.31	Closing Stock A/c	Dr.		32,000	
	To Trading A/c				32,000
	(Closing stock transferred in account)				

Cash Account							
Dr.							**Cr.**
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**

2012				2012			
April.01	Capital A/c		1,00,000	April 10	Bank A/c		30,000
Nov.30	Ayesha		65,000	May 10	Carriage A/c		2,000
2013				June 30	Rent A/c		10,000
Feb.10	Rajeev		16,000	Aug.31	Furniture A/c		8,000
				Dec.31	Salaries A/c		15,000
				2013			
				Mar.31	Balance c/d		1,16,000
			1,81,000				1,81,000

Bank A/c							
Dr.							**Cr.**
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**
2012				2012			
April 10	Cash A/c		30,000	Sept.10	Advertisement A/c		5,000
				Oct.05	Drawings A/c		6,000
2013				2013			
Jan.15	Interest A/c		2,000	Mar.31	Balance c/d		21,000
			32,000				32,000

Mohan Singh							
Dr.							Cr.
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2012				2012			
May 25	Purchase Return		10,000	May 10	Purchases A/c		40,000
2013							
Mar 31	Balance c/d		30,000				
			40,000				40,000

Purchases A/c								
Dr.							Cr.	
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)	
2012				2012				
May 10	Mohan Singh		40,000	Dec.12	Donation A/c		1,000	
				2013				
				Mar.31	Balance c/d		39,000	
			40,000				40,000	

Bad Debts A/c							
Dr.							Cr.
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**
2013				2013			
Feb.10	Rajeev		4,000	Mar.31	Balance c/d		4,000
			4,000				4,000

Capital A/c							
Dr.							Cr.
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**
2013				2012			
Mar.31	Balance c/d		1,00,000	April 1	Cash A/c		1,00,000
			1,00,000				1,00,000

Sales A/c							
Dr.							Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2013				2012			
				May 20	Rajeev		20,000
Mar.31	Balance c/d		90,000	June 15	Ayesha		70,000
			90,000				90,000

Purchases Return A/c							
Dr.							**Cr.**
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**
2013				2012			
Mar.31	Balance c/d		10,000	May.25	Mohan Singh		10,000
			10,000				10,000

Carriage A/c							
Dr.							**Cr.**
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**

2012				2013			
May 10	Cash A/c		2,000	Mar.31	Balance c/d		2,000
			2,000				2,000

Rent A/c							
Dr.							**Cr.**
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**
2012				2013			
June 30	Cash A/c		10,000	Mar.31	Balance c/d		10,000
			10,000				10,000

Furniture A/c							
Dr.							**Cr.**
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**
2012				2013			
Aug.31	Cash A/c		8,000	Mar.31	Balance c/d		8,000
			8,000				8,000

Advertisement A/c							
Dr.							Cr.
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2012				2013			
Sept.10	Bank A/c		5,000	Mar.31	Balance c/d		5,000
			5,000				5,000

Drawings A/c							
Dr.							Cr.
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2012				2013			
Oct.05	Bank A/c		6,000	Mar.31	Balance c/d		6,000
			6,000				6,000

Discount Allowed A/c		
Dr.		Cr.

Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2012				2013			
Nov.30	Ayesha		5,000	Mar.31	Balance c/d		5,000
			5,000				5,000

Donation A/c							
Dr.							Cr.
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2012				2013			
Dec.12	Purchases A/c		1,000	Mar.31	Balance c/d		1,000
			1,000				1,000

Salaries A/c							
Dr.							Cr.
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2012				2013			
Dec.31	Cash A/c		15,000	Mar.31	Balance c/d		15,000

			15,000				15,000

Interest A/c								
Dr.						Cr.		
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)	
2013				2013				
Mar.31	Balance c/d		2,000	Jan.15	Bank A/c		2,000	
			2,000				2,000	

Rajeev							
Dr.							Cr.
Date	Particulars	J.F.	Amount (Rs)	Date	Particulars	J.F.	Amount (Rs)
2012				2013			
May 20	Sales A/c		20,000	Feb 10	Cash A/c		16,000
				Feb 10	Bad debts A/c		4,000
			20,000				20,000

Ayesha

Dr.							Cr.	
Date	**Particulars**	**J.F.**	**Amount (Rs)**	**Date**	**Particulars**	**J.F.**	**Amount (Rs)**	
2012				2012				
June 15	Sales A/c		70,000	Nov 30	Cash A/c		65,000	
				Nov 30	Discount A/c		5,000	
			70,000				70,000	

Trial Balance

as at March 31, 2013

S.No.	Name of Accounts	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
1	Cash A/c		1,16,000	
2	Capital A/c			1,00,000
3	Bank A/c		21,000	
4	Purchases A/c		39,000	
5	Sales A/c			90,000
6	Purchases Return A/c			10,000

7	Mohan Singh			30,000
8	Carriage A/c		2,000	
9	Rent A/c		10,000	
10	Furniture A/c		8,000	
11	Advertisement A/c		5,000	
12	Drawings A/c		6,000	
13	Discount Allowed A/c		5,000	
14	Donation A/c		1,000	
15	Salaries A/c		15,000	
16	Interest A/c			2,000
17	Bad Debts A/c		4,000	
			2,32,000	2,32,000

Strengthen this topicTAKE A TOPIC TEST

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Trial Balance- Methods and Steps for Preparation

Important: The syllabus as prescribed by CBSE for the current academic session includes preparation of <u>Trial Balance with Balance Method only</u>. The other two methods (Totals Method and Totals cum Balances Method) have been discussed just for the knowledge purpose of the students'.

Objectives
After going through this lesson, you shall be able to understand the following concepts.

- Methods of Preparing a Trial Balance
  - Steps to Prepare a Trial Balance

Introduction
In the previous lesson we learnt the meaning of Trial Balance, objectives of preparing it and format of Trial Balance. In this lesson we will only extend the previous lesson by explaining methods of preparing Trial Balance, steps involved for preparing a trial balance and finally some examples in the later part of this lesson.

Methods of Preparing a Trial Balance
There are two methods to prepare a Trial Balance:

(i) Balance Method
(ii) Totals Method
(iii) Totals-cum-Balances Method

(i) *Balance or Net Trial Balance Method*: It is the method we discussed in previous lesson as well. Under this method, Debit balances of ledger Accounts will be shown in the separate Column of debit balances amount. On the other hand, Ledgers with credit balance will be shown separately in the Column of Credit Balances amount. At last both these columns are sum up, their totals must be tallied with each other.

(ii) *Totals or Gross Trial Balance Method*: Under this method, each ledger account debit side as well as credit side total is entered in the Column of debit balances amount and Column of Credit Balances amount respectively.

(iii) *Totals-cum-Balances Method*: It is a combination of both the above methods and four columns are maintained to record the debit and credit balances and totals of these accounts as well. Totals of both the sides as well as balances of all the ledger accounts are entered in the Trial Balance. Lastly, all the columns are totaled which should match with each other.

Balances i.e. debit or credit of all the ledger accounts is entered in the Trial Balance. It is more of a theoretical concept and does not serve any special purpose.

Steps to Prepare a Trial Balance

(a) First of all prepare a statement of Trial Balance. This statement contains four Columns which are as follows:

(1) List of Accounts (Column 1)
(2) Ledge Folio (Column 2)
(3) Debit Balance Amount (Column 3)
(4) Credit Balance Amount (Column 4)

(b) Now we write one by one each of the Ledger Account Name (in Column 1) along with their balances (in Column 3 or 4).

(c) If balance of a Ledger Account is Debit then it will be shown in Column 3 whereas if balance of Ledger Account is Credit then it will be shown in Column 4. During this process ignore those Ledger Accounts which do not have any closing balance.

(d) After writing all ledgers account balances in their respective columns, make a total of Column 3(*i.e*. Debit balances) and Column 4(*i.e*. Credit Balances). Both the columns will be tallied. By tallying them we can ensure arithmetical accuracy of transactions recorded but this nowhere concludes that this tallied trial balance doesn't contain any error.

(e) In case both columns (*i.e*. 3 and 4) don't tally then check whether all Ledger Balances have been included. Also ensure that whether balances have been shown at appropriate Columns only. If there exist a mismatch between debit and credit balances even after rechecking then, transfer the short amount or difference amount to the ***Suspense Account***.

(f) Accounts which are having debit balances are Assets, Expenses and Losses and Drawings.

(g) Accounts which are having credit balances Liabilities, Capital, Incomes and Gains

(h) Usually, closing stock will appear outside the Trial Balance and will be posted on the credit side of Trading A/c and on the asset side of the Balance Sheet. If closing stock appears in the Trial Balance it signifies that it is already adjusted through purchases and will be shown only in the Balance Sheet.

Example 1 From the following Ledger Balances of Sahil Chopra, prepare Trial Balance as on March 31, 2013.

Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Sales	12,000	Computer	15,600

Purchases	11,800	Purchases Return	1,110
Sales Return	1,050	Bank Overdraft	2,680
Creditors	2,330	Capital	9,010
Wages	850	Carriage Outward	920
Bank Loan	3,650	Bad Debt	440
Opening Stock	980	Discount Received	860

Solution

Trial Balance

as on March 31, 2013

List of Accounts	**L.F.**	**Debit Balances Amount (Rs)**	**Credit Balances Amount (Rs)**
Sales			12,000
Purchases		11,800	
Sales Return		1,050	
Creditors			2,330
Wages		850	
Bank Loan			3,650
Opening Stock		980	
Computer		15,600	
Purchases Return			1,110
Bank Overdraft			2,680

Capital			9,010
Carriage Outward		920	
Bad Debt		440	
Discount Received			860
Total		**31,640**	**31,640**

Example 2 Correct the given Trial Balance.

Trial Balance *as on December 31, 2013*			
List of Accounts	**L.F.**	**Debit Balances Amount (Rs)**	**Credit Balances Amount (Rs)**
Opening Stock		6,500	
Sales		26,600	
Purchases			18,950
Debtors			4,120
Discount Allowed		1,250	
Bills Payables		4,750	
Cash		1,200	
Return Inward			960
Carriage Inward		610	
Return Outward		850	

Carriage Outward			700
Capital			8,150
Furniture		6,400	
Rent Received			1,240
Insurance paid			1,060
Rates and Taxes			290
Discount Received			450
Total		**48,160**	**35,920**

Solution

Trial Balance *as on December 31, 2013*			
List of Accounts	**L.F.**	**Debit Balances** **Amount** **(Rs)**	**Credit Balances** **Amount** **(Rs)**
Opening Stock		6,500	
Sales			26,600
Purchases		18,950	
Debtors		4,120	
Discount Allowed		1,250	
Bills Payables			4,750
Cash		1,200	
Return Inward		960	

Carriage Inward		610	
Return Outward			850
Carriage Outward		700	
Capital			8,150
Furniture		6,400	
Rent Received			1,240
Insurance paid		1,060	
Rates and Taxes		290	
Discount Received			450
Total		**42,040**	**42,040**

Example 3 From the following ledger balances of Sanjay Sharma, prepare Trial Balance.
Salary Outstanding Rs 2,500, Prepaid Insurance Rs 750, Discount Allowed Rs 1,060, Drawings Rs 2,100, Capital Rs 14,610, Bank Loan Rs 5,200, Bad Debts Rs 750, Bank Overdraft Rs 4,200, Loan from Rajat Rs 2,500, Loan to Priyanka Rs 4,500, Bills Receivables Rs 7,200, Debtors Rs 6,000, Rent Received Rs 2,160, Reserve for discount on creditors Rs 850, Cash in Hand Rs 5,100, Investments Rs 4,700, Accrued Commission Rs 580, Provisions for the Bad Debts Rs 720.

Solution

Trial Balance as on........			
List of Accounts	**L.F.**	**Debit Balances Amount (Rs)**	**Credit Balances Amount (Rs)**
Salary Outstanding			2,500
Prepaid Insurance		750	
Discount Allowed		1,060	

Drawings		2,100	
Capital			14,610
Bank Loan			5,200
Bad Debts		750	
Bank Overdraft			4,200
Loan from Rajat			2,500
Loan to Priyanka		4,500	
Bills Receivables		7,200	
Debtors		6,000	
Rent Received			2,160
Reserve for discount on creditors			850
Cash in Hand		5,100	
Investments		4,700	
Accrued Commission		580	
Provisions for the Bad Debts			720
Total		**32,740**	**32,740**

Example 4 From the following Ledger Balances of Sandeep Singh, prepare Trial Balance as on March 31, 2013.

Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Octroi	750	Machinery	25,000
Bills Payable	2,600	Cash	2,200

Bills Receivable	4,100	Return Outward	1,820
Carriage Inward	1,550	Livestock	12,160
Purchases	4,500	Commission Received	1,020
Income Tax	890	Advertisement	1,260
Capital	59,800	Bank	5,600
Rent and Rates	650	Drawings	990
Income earned but not received	760	Cash at Bank	4,970
Accrued Interest	510	Wages Outstanding	650

Solution

Trial Balance

as on March 31, 2013

List of Accounts	**L.F.**	**Debit Balances Amount (Rs)**	**Credit Balances Amount (Rs)**
Octroi		750	
Bills Payable			2,600
Bills Receivable		4,100	
Carriage Inward		1,550	
Purchases		4,500	
Income Tax		890	
Capital			59,800
Rent and Rates		650	

Income earned but not received		760	
Accrued Interest		510	
Machinery		25,000	
Cash		2,200	
Return Outward			1,820
Livestock		12,160	
Commission Received			1,020
Advertisement		1,260	
Bank		5,600	
Drawings		990	
Cash at Bank		4,970	
Wages Outstanding			650
Total		**65,890**	**65,890**

Example 5 Prepare Trial Balance of Sachin as on December 31, 2013, also calculate balance of Capital Account.

Particulars	**Amount (Rs)**	**Particulars**	**Amount (Rs)**
Bank	4,600	Building	20,500
Purchases Return	1,040	Drawings	2,750
Cash	5,190	Interest on Drawings	770
Debtors	8,750	Sales Return	1,220

Interest on Capital	560	Equipment	8,070
Capital	?	Advance to Suppliers	3,120
Purchases	4,150	Sales	6,450
Excise Duty	1,090	Labour Charges	880
Sundry Expenses	850	Bad Debts Recovered	720
Interest paid	1,460	Rebate Received	1,220

Solution

Trial Balance *as on December 31, 2013*			
List of Accounts	**L.F.**	**Debit Balances Amount (Rs)**	**Credit Balances Amount (Rs)**
Bank		4,600	
Purchases Return			1,040
Cash		5,190	
Debtors		8,750	
Interest on Capital		560	
Capital (*Balancing Figure*)			52,990
Purchases		4,150	
Excise Duty		1,090	
Sundry Expenses		850	
Interest paid		1,460	

Building		20,500	
Drawings		2,750	
Interest on Drawings			770
Sales Return		1,220	
Equipment		8,070	
Advance to Suppliers		3,120	
Sales			6,450
Labour Charges		880	
Bad Debts Recovered			720
Rebate Received			1,220
Total		**63,190**	**63,190**

Example 3: From the following transactions, pass necessary Journal Entry in the books M/s Ram & Sons, post them into their ledger and then prepare a Trial Balance:

Date	Particulars	Rs.
2018 April 1	Ram started business with cash	1,00,000
April 2	Purchased goods for Rs. 30,000 plus CGST and SGST @ 6% each	
April 4	Purchased goods worth Rs. 40,000 from Maneesh plus 12% IGST	
April 10	Sold goods for Rs. 10,000 plus CGST and SGST @ 6% each	
April 14	Rent paid for office	25,000
April 20	Withdrew for personal use	1,000
April 21	Sold goods to Mohan for Rs. 20,000 plus @ 12% IGST	

April 28	Cash Paid to Maneesh after allowing 2% discount	43,904
April 29	Cash received from Mohan	22,400
April 30	Paid salaries	1,500

Answer:

	Journal of M/s Ram & Sons				
Date	**Particulars**		**L.F.**	**Dr. (Rs.)**	**Cr.(Rs.)**
2018 Apr. 1	Cash A/c To Capital A/c (Being cash brought in as capital)	Dr.		1,00,000	1,00,000
Apr. 2	Purchases A/c Input CGST A/c Input SGST A/c To Cash A/c (Being goods purchased for cash)	Dr. Dr. Dr.		30,000 1,800 1,800	33,600
Apr. 4	Purchases A/c Input IGST A/c To Maneesh A/c (Being goods purchased for credit)	Dr. Dr.		40,000 4,800	44,800
Apr. 10	Cash A/c To Sales A/c To Output CGST A/c To Output SGST A/c (Being goods sold)	Dr.		11,200	10,000 600 600
Apr. 14	Rent A/c To Cash A/c (Being rent paid)	Dr.		25,000	25,000
Apr. 20	Drawings A/c To Cash A/c	Dr.		1,000	1,000

	(Being cash withdrawn for personal use)				
Apr. 21	Mohan A/c To Sales A/c To Output IGST A/c (Being sale of goods to Mohan)	Dr.		22,400	20,000 2,400
Apr. 28	Maneesh A/c To Cash A/c To Discount Received A/c (Being cash paid to Maneesh and discount allowed @2%)	Dr.		44,800	43,904 896
Apr. 29	Cash A/c To Mohan A/c (Being cash received from Mohan)	Dr.		22,400	22,400
Apr. 30	Salaries A/c To Cash A/c (Being salaries paid)	Dr.		1,500	1,500

Dr.		Cash A/c					Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
2018 Apr.1	To Capital A/c		1,00,000	2018 Apr.2	By Purchases A/c		30,000
Apr.10	To Sales A/c		10,000	Apr.2	By Input CGST A/c		1,800
Apr.10	To Output CGST A/c		600	Apr.2	By Input SGST A/c		1,800
Apr.10	To Output SGST A/c		600	Apr.14	By Rent A/c		25,000
Apr.29	To Mohan A/c		22,400	Apr.20	By Drawings A/c		1,000
				Apr.28	By Maneesh A/c		43,904
				Apr.30	By Salaries A/c		1,500

				Apr.30	By Balance c/d		28,596
			1,33,600				**1,33,600**

Dr.		Capital A/c					Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
2018 Apr.30	To balance c/d		1,00,000	2018 Apr.1	By Cash A/c		1,00,000
			1,00,000				**1,00,000**

Dr.		Purchases A/c					Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
2018 Apr.2	To Cash A/c		30,000	2018 Apr.30	By balance c/d		70,000
Apr. 4	To Maneesh A/c		40,000				
			70,000				**70,000**

Dr.		Maneesh A/c					Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
2018 Apr.28	To Cash A/c		43,904	2018 Apr.4	By Purchases A/c		44,800

Apr.28	To Discount Received A/c		896				
			44,800				**44,800**

Dr.		Sales A/c					Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
2018 Apr.30	To balance c/d		30,000	2018 Apr.10	By Cash A/c		10,000
				Apr.21	By Mohan A/c		20,000
			30,000				**30,000**

Dr.		Discount Received A/c					Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
2018 Apr.30	To balance c/d		896	2018 Apr.28	By Maneesh A/c		896
			896				**896**

Dr.		Rent A/c					Cr.

Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
2018 Apr.14	To Cash A/c		25,000	2018 Apr.30	By balance c/d		25,000
			25,000				**25,000**

Dr.		**Drawings A/c**					**Cr.**
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
2018 Apr.20	To Cash A/c		1,000	2018 Apr.30	By balance c/d		1,000
			1,000				**1,000**

Dr.		**Mohan A/c**					**Cr.**
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
2018 Apr.21	To Sales A/c		20,000	2018 Apr.29	By Cash A/c		22,400
Apr.21	To Output IGST A/c		2,400				

			22,400				**22,400**

Dr.		Salaries A/c					Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
2018 Apr.30	To Cash A/c		1,500	2018 Apr.30	By balance c/d		1,500
			1,500				**1,500**

Dr.		Input CGST A/c					Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
2018 Apr.2	To Cash A/c		1,800	2018 Apr.30	By balance c/d		1,800
			1,800				**1,800**

Dr.		Input SGST A/c					Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**

2018 Apr.2	To Cash A/c		1,800	2018 Apr.30	By balance c/d		1,800
			1,800				**1,800**

Dr.		Output CGST A/c					Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
2018 Apr.30	To balance c/d		600	2018 Apr.10	By Cash A/c		600
			600				**600**

Dr.		Output SGST A/c					Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
2018 Apr.30	To balance c/d		600	2018 Apr.10	By Cash A/c		600
			600				**600**

Dr.		Input IGST A/c					Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
2018 Apr.4	To Maneesh A/c		4,800	2018 Apr.30	By balance c/d		4,800
			4,800				**4,800**

Dr.		Output IGST A/c					Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
2018 Apr.30	To balance c/d		2,400	2018 Apr.21	By Mohan A/c		2,400
			2,400				**2,400**

Trial Balance as on 30th April, 2018			
Heads of Accounts	**L.F.**	**Debit Balance (Rs.)**	**Credit Balance (Rs.)**
Capital A/c			1,00,000

Cash A/c		28,596	
Purchases A/c		70,000	
Sales A/c			30,000
Rent A/c		25,000	
Drawings A/c		1,000	
Salaries A/c		1,500	
Discount Received A/c			896
Input CGST A/c		1,800	
Input SGST A/c		1,800	
Output CGST A/c			600
Output SGST A/c			600
Input IGST A/c		4,800	
Output IGST A/c			2,400
		1,34,496	**1,34,496**