

4.4. TRIAL BALANCE

Trial balance is a statement, prepared with the debit and credit balances of ledger accounts to test the arithmetical accuracy of the books. If the totals of the debit and credit amount columns of the trial balance are equal, it is presumed that the posting to the ledger in terms of debit and credit amounts is accurate.

4.4.1. Features of Trial Balance

The features of trial balance are as follows:

- 1) The trial balance is prepared on a specific date. This is why, one use the word 'as on.....' with its heading.
- 2) Trial balance contains the list of all ledger accounts including cash account.
- 3) Trial balance may be prepared with the balances or totals or balances and totals of ledger accounts.
- 4) The total of the debit and credit column of the amount must be equal.
- 5) In case the debit and credit side of the trial balance are equal, one assume that the principles of 'Double Entry System' and the assumptions of accounting equation have been observed.
- 6) The difference between the debit and credit side of the trial balance points out that certain mistakes have been committed somewhere.
- 7) If both the debit and credit sides have the same total, it does not mean that there is no mistake in accounting.

4.4.2. Objectives and Functions of Trial Balance

The objectives and functions of trial balance are as follows:

- 1) **Test of Arithmetical Accuracy:** Trial balance tests the accuracy of arithmetical calculation. If correct posting has been made from subsidiary books to ledger accounts and correct figures have been recorded and copied, the debit and credit total of the trial balance must tally.

- 2) **Summarized Information of Ledger Accounts:** Trial balance contains a list of all ledger accounts. It presents the names of ledger accounts and the amount of their debit and credit balance. The summarized position of ledger accounts can be obtained at a glance from the trial balance.
- 3) **Basis for Preparing Final Accounts:** The ultimate end of maintaining books of accounts is to ascertain the result of the business in term of profit and the value of different assets and liabilities. For this purpose, one prepares a profit and loss account and balance sheet on the basis of information supplied by the trial balance.
- 4) **Useful for Making Adjustments:** While making final accounts certain adjustments regarding closing stock, outstanding and prepaid expenses, accrued and unearned income are to be made. While identifying items for adjustments, one will have to study the information furnished by the trial balance.

4.4.3. Proforma of Trial Balance

Trial Balance
As on

| S. No. | Ledger Accounts | L.F. | Dr. (₹) (Total or Balance) | Cr. (₹) (Total or Balance) |
|--------|-----------------|------|-------------------------------|-------------------------------|
| | | | | |

The under mentioned points may be noted:

- 1) A trial balance is prepared as on a particular date which should be mentioned at the top.
- 2) In the second column the name of the account is written.
- 3) In the fourth column the total of the debit side of the account concerned or the debit balance, if any, is entered.
- 4) In the next column the total of the credit side or the credit balance is written.
- 5) The two columns are totalled at the end.
- 6) The first and third columns need no explanation.

4.4.4. Methods of Preparing Trial Balance

There are three methods of preparing trial balance. The total of both the debit and credit column of the trial balance must be equal in all the methods. The following methods can be used for preparing trial balance:

- 1) **Balance Method:** Trial balance, as its name itself points out, is prepared with the balance of ledger accounts. Every ledger account has got the debit and credit side. At the end of a certain period ledger accounts are balanced. Excess of the total of the debit side of an account over its credit side is known as debit balance and written in the debit column of the trial balance. In the

same way, excess of credit side of an account over its debit side shows **credit balance** and will be written at the credit side of the trial balance. The total of both the debit and credit side must be equal.

Trial Balance (Balance Method)
(As on Dec. 31, 2011)

| Ledger Accounts | L.F. | Dr. (₹) | Cr. (₹) |
|-------------------|------|--------------|--------------|
| Cash account | | 4,325 | — |
| Capital account | | — | 5,000 |
| Purchases account | | 2,200 | — |
| Sales account | | — | 550 |
| Prasad | | — | 1,200 |
| Prem | | 300 | — |
| Wages account | | 50 | — |
| Om | | — | 150 |
| Interest account | | 15 | — |
| Rent account | | 10 | — |
| | | 6,900 | 6,900 |

- 2) **Total Method:** According to this method, the total of the debit and credit side of every account is separately written in the debit and credit column of the trial balance. The total of both the debit and credit must be equal. If it is not equal, there are definitely certain errors which should be located and rectified.

Trial Balance (Total Method)
(as on Dec 31, 2011)

| Ledger Accounts | L. F | Dr. (₹) | Cr. (₹) |
|-------------------|------|--------------|--------------|
| Cash account | | 5,100 | 775 |
| Capital account | | — | 5,000 |
| Purchases account | | 2,200 | — |
| Sales account | | — | 550 |
| Prasad | | — | 1,200 |
| Prem | | 500 | 200 |
| Wages account | | 50 | — |
| Om | | 50 | 200 |
| Charanjeet | | 300 | 300 |
| Interest account | | 15 | — |
| Rent account | | 10 | — |
| | | 8,225 | 8,225 |

- 3) **Total and Balance Method:** This method presents both the balance and total method in the same trial balance. The amount column is divided between total and balance methods. Each method has further two columns of debit and

credit. The total of the debit and credit under each method must be equal. There will be different totals according to the different methods but the total of debit and credit of each method will be equal.

Trial Balance (Total and Balance Method)
(as on Dec 31, 2011)

| Ledger Accounts | L.F. | Total | | Balances | |
|-------------------|------|--------------|--------------|--------------|--------------|
| | | Dr. (₹) | Cr. (₹) | Dr. (₹) | Cr. (₹) |
| Cash account | | 5,100 | 775 | 4,325 | — |
| Capital account | | — | 5,000 | — | 5,000 |
| Purchases account | | 2,200 | — | 2,200 | — |
| Sales account | | — | 550 | — | 550 |
| Prasad | | — | 1,200 | — | 1,200 |
| Prem | | 500 | 200 | 300 | — |
| Wages account | | 50 | — | 50 | — |
| Om | | 50 | 200 | — | 150 |
| Charanjeet | | 300 | 300 | — | — |
| Interest account | | 15 | — | 15 | — |
| Rent account | | 10 | — | 10 | — |
| | | 8,225 | 8,225 | 6,900 | 6,900 |