

**BCM-102**  
**FINANCIAL ACCOUNTING**  
**UNIT-10 TRIAL BALANCE**  
**(B. COM. FIRST YEAR)**

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# Trial Balance

- A trial balance is a list of all the General ledger accounts (both revenue and capital) contained in the ledger of a business. This list will contain the name of the nominal ledger account and the value of that nominal ledger account. The value of the nominal ledger will hold either a debit balance value or a credit balance value. The debit balance values will be listed in the debit column of the trial balance and the credit value balance will be listed in the credit column. The profit and loss statement and balance sheet and other financial reports can then be produced using the ledger accounts listed on the trial balance.
- A trial balance is a list of all the nominal ledger (general ledger) accounts contained in the ledger of a business. This list will contain the name of the nominal ledger account and the value of that nominal ledger account.
- Trial balance is a statement which is prepared to check the arithmetical accuracy of the accounts.

# Features of Trial Balance

- Trial balance can be prepared anytime during the accounting period.
- It is prepared to check the arithmetical accuracy of posting of entries from journal to ledger, in other words it is an instrument for carrying out the job of checking and testing.
- It is based on the double entry system of book keeping for checking the accuracy of posting. However it does not reveal all errors.

# **Objectives of Preparing a Trial Balance**

- **(i) To check arithmetical accuracy**
- **(ii) To help in preparing Financial Statements**
- **(iii) Helps in locating errors**
- **(iv) Helps in comparison**
- **(v) Helps in making adjustments**

# Trial Balance and Errors

- If the sum of the two columns of Trial Balance is equal i.e. the Trial Balance is in agreement, it means that the accounting entries have been arithmetically correct and correctly posted in the ledger. If the totals do not tally it means there are some errors in recording and/or in posting in the ledger of the business.
- The reasons due to which the totals of the two columns of Trial balance may not agree and can be listed as follows:
  - **(i)** The totals of the Special Purpose Books like Sales Book, Purchases Book, etc are not totaled 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 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 Errors

- **Errors affecting trial balance**

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- Incorrect additions
- Incorrect recordings
- Incorrect debit and credit
- Incorrect ledger balance
- Incorrect debit and credit in ledger
- Incorrect posting
- Incorrect missing of transaction

- **Errors not affecting trial balance**

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- Transaction is not journalised
- A correct journal entry is not posted
- A journal entry is posted twice
- Incorrect accounts are used in journalising posting
- Offsetting errors are made in recording the amount of a transaction

# Similarity of a Trial Balance and Balance Sheet

- 1. Both show the financial position as of a particular date.
- 2. Both show the balances of Ledger accounts and not the transactions.
- 3. Both can be used to do comparative analysis.
- 4. 'To' and 'By' words are not used in both.
- 5. Both are statements, not accounts.
- 6. Both are prepared on a specific date.
- 7. Balance of cash book is written in both.

# Trial Balance Limitations

- An **error of original entry** is when both sides of a transaction include the wrong amount.
- An **error of omission** is when a transaction is completely omitted from the accounting records.
- An **error of reversal** is when entries are made to the correct amount, but with debits instead of credits, and vice versa.
- An **error of commission** is when the entries are made at the correct amount, and the appropriate side (debit or credit), but one or more entries are made to the wrong account of the correct type.
- An **error of principle** is when the entries are made to the correct amount, and the appropriate side (debit or credit), as with an error of commission, but the wrong type of account is used.
- **Compensating errors** are multiple unrelated errors that would individually lead to an imbalance, but together cancel each other out.
- A **Transposition Error** is an error caused by switching the position of two adjacent digits. Since the resulting error is always divisible by 9, accountants use this fact to locate the mesenteries number.

# Example of Trial Balance

Your Business Name

**Trial Balance**  
**June 31, 20XX**

Items	Debit (Rs.)	Credit (Rs.)
Cash	800.00	
Accounts Receivable	400.00	
Supplies	600.00	
Prepaid Rent	1,200.00	
Equipment	10,000.00	
Accounts Payable		3,000.00
Owner, Capital		9,000.00
Owner, Drawing	1,000.00	
Sales		3,000.00
Salary Expense	700.00	
Misc. Expense	300.00	
<b>Total</b>	<b>15,000.00</b>	<b>15,000.00</b>

# Difference Between Trial Balance and Balance Sheet

<b>Trial Balance</b>	<b>Balance Sheet</b>
<ul style="list-style-type: none"><li>○ It is a list of balance extracted from the ledger accounts.</li><li>○ It contains the balance of all accounts - real, nominal and personal.</li><li>○ It is prepared before the preparation of trading and profit and loss account.</li><li>○ It does not contain the value of the closing stock of goods.</li><li>○ Expenses due but not paid and incomes due but not received do not appear in the trial balance</li></ul>	<ul style="list-style-type: none"><li>○ It is a statement of assets and liabilities.</li><li>○ It contains the balance of only those accounts which represents assets and liabilities.</li><li>○ It is prepared after the preparation of trading and profit and loss account.</li><li>○ It contains the value of closing stock, which appears on the assets side.</li><li>○ Expenses due but not paid appear on the liability side and income due but not received appear on the asset side of the balance sheet</li></ul>

# Methods of Preparation of Trial Balance

- **Total Trial Balance Method:**

- According to total trial balance method two sides of each ledger account i.e., debit and credit side are added up and debit and credit totals so obtained are placed in the debit and credit columns of the trial balance respectively. Thus we may draw the following trial balance by taking out the debit side total and credit side total of each account in the ledger.

- **Balance Trial Balance Method:**

- The task of preparing a trial balance under balance - trial balance method is much simplified. There is well known axiom that if equals are subtracted from equals the remainders are equal. On this assumption, in place of writing against each account the debit as well as the credit total the balance alone is written. The difference between the two sides of an account is called the balance. If the debit side of an account is greater than the credit side, the balance falls on the debit side and is known as "debit balance." If the credit side of an account is greater than the debit, the the balance is on the credit side and is called "credit balance."

# Advantages of Trial Balance

- It ensures that the transactions recorded in the books of accounts have identical debit and credit amount.
- Balance of each ledger account has been computed correctly.
- Balance of each and every ledger account has been transferred accurately and on the correct side of the sheet on which trial balance has been prepared.
- The debit and the credit columns of trial balance have been added up correctly.

# Summary

- The accuracy of the accounts must be checked before financial reports are prepared. The procedure for checking the equality of the debits and credits in the accounts is called taking a trial balance. The first step in taking a trial balance is to find the balances of the accounts. The next step is to list the accounts and their balances. Then the debts and credits are totaled. The total of the debits should be equal to the total of the credits. If the total debits and the total credits are not equal, the trial balance and the accounts must be checked to find and then correct the error.

# References

- SILM developed by Uttarakhand Open University for BCM-102 (Financial Accounting), Year 2017, ISBN: 978-93-85740-44-2