



TRIAL BALANCE

Meaning :

A trial balance is a statement prepared with the debit and credit balances of the ledger accounts to test the arithmetical accuracy of the books. It is prepared after having posted journal entries into the ledger and balancing the accounts. The balance of an account is the difference between the total of the debit entries and the total of the credit entries in an account. If the total of debit entries is greater, it is called a debit balance. Likewise if the total of credit entries is greater, it is called a credit balance.

Methods :

A trial balance may be prepared according to either of the following two methods:

Total method:

If the total of debit sides of all accounts in the ledger is placed in one column of the list and similarly total of credit sides of all the accounts in the ledger is placed in another column of the list then list of total will be known to have been prepared with the total methods.

Balances method:

According to this system a trial balance is prepared on the basis of balances of accounts.

The various Steps involved in the preparation of Trial Balance under this method are given below:

1. Find out the balance of each account in the ledger.
2. Write up the name of account in the first column.
3. Record the account number in second column.
4. Record the debit balance of each account in debit column and credit balance in credit column.
5. Add up the debit and credit column and record the totals.

Advantages :

1. To ascertain the Arithmetical Accuracy of ledgers accounts.
2. To help prepare the final Account.
3. Summary of each account.
4. To help in locating errors.

Characteristics

- It is a list of balance s of ledger account and cash book.
- It is not a part of the Double Entry System of Book Keeping. It is a result of a Double Entry System of Book Keeping. It is only a working paper.
- It can be prepared on any date.
- It verifies the arithmetical accuracy of posting of entries from the journal to the ledgers.
- It is not a conclusive proof of the accuracy of the books of accounts since some errors are not disclosed by the Trial balance , for example errors of principal.



Limitations:

Trial balance is not a conclusive proof of accuracy. There are many errors which are not disclosed by the trial balance are as under:-

1.ERRORS OF OMISSION:

A transaction is totally omitted from the books so that there is no debit and credit entry of the transaction

Example payment of \$3,000 were not recorded.

2.ERRORS OF COMMISSION

If a wrong amount is entered either in the journal or in the subsidiary book, the trial balance will still tally.

Example Rs 420 has been entered in the journal as Rs 240.

3.ERRORS OF PRINCIPLE

When some fundamental principles of Accountancy is violated while recording a transaction. I.e. An entry is made in the wrong class of account.

Example- rental of \$1,000 was debited to Premises Account.

4.COMPLETE REVERSAL OF ENTRIES

An account that should be debited is credited and vice versa :

Example- a cheque of \$2500 received from Mr A was debited to the account of Mr A and credited to the Bank Account.

5.COMPENSATING ERRORS

If the effect of one error is neutralised by the effect of some other errors .

Example-Posting of debit side of Anil's a/c, Rs 50 instead of Rs 500 and posting of debit side of Sunil's a/c Rs 500 instead of Rs 50.
