

Accounting Foundations

Terry Marris May 2013

3 The Trial Balance

We expect the sum of all debits to match the sum of all credits over all accounts in a ledger. If this was not the case then a mistake has been made somewhere.

A trial balance is a list of all accounts in a ledger along with their respective balances on a given date. We see how to construct a trial balance.

3.1 Balancing off Accounts

Balancing off an account involves totalling both the debits and the credits, and then finding the difference between the two totals. Done monthly it becomes a strategy for uncovering errors (but not all errors as we shall see) and forms the basis for determining profits or losses during the financial year.

The Cash Account in the ledger for G Wizz is shown below.

DR	Cash		CR
	£		£
May 1 Capital	100,000	May 2 Premises	60,000
May 12 Sales	1,880	May 3 Shop Fittings	5,000
May 20 Sales	4,200	May 4 Bank	20,000
May 27 Sales	4,800	May 17 Wages	860
May 31 Sales	1,660	May 22 Wages	980
		May 22 Stationery	130

1 Sum the debits and the credits - but do not write them into the account.

DR	Cash		CR
	£		£
May 1 Capital	100,000	May 2 Premises	60,000
May 12 Sales	1,880	May 3 Shop Fittings	5,000
May 20 Sales	4,200	May 4 Bank	20,000
May 27 Sales	4,800	May 17 Wages	860
May 31 Sales	1,660	May 22 Wages	980
		May 22 Stationery	130
	112,540		86,970

Notice the debits has the largest total value, and credits the smallest.

2 Find the difference between the debits and the credits totals: $112,540 - 86,970 = 25,570$. This difference is known as the *balancing figure*.

3 Enter the balancing figure on the side with the lowest total - the credit side in our example. This balances the account. The balancing figure is *carried down*. Carried down is denoted by c/d.

DR		Cash		CR	
		£		£	
May 1	Capital	100,000	May 2	Premises	60,000
May 12	Sales	1,880	May 3	Shop Fittings	5,000
May 20	Sales	4,200	May 4	Bank	20,000
May 27	Sales	4,800	May 17	Wages	860
May 31	Sales	1,660	May 22	Wages	980
			May 22	Stationery	130
			May 31	Balance c/d	25,570

4 Sum the total debits and the total credits. Write the sums in the appropriate columns. These totals should balance each other.

DR		Cash		CR	
		£		£	
May 1	Capital	100,000	May 2	Premises	60,000
May 12	Sales	1,880	May 3	Shop Fittings	5,000
May 20	Sales	4,200	May 4	Bank	20,000
May 27	Sales	4,800	May 17	Wages	860
May 31	Sales	1,660	May 22	Wages	980
			May 22	Stationery	130
			May 31	Balance c/d	25,570
		<u>112,540</u>			<u>112,540</u>

5 Bring the balancing figure down to the side with the highest total in step #3. In our example this side is the debit side. b/d stands for *brought down*.

DR		Cash		CR	
		£		£	
May 1	Capital	100,000	May 2	Premises	60,000
May 12	Sales	1,880	May 3	Shop Fittings	5,000
May 20	Sales	4,200	May 4	Bank	20,000
May 27	Sales	4,800	May 17	Wages	860
May 31	Sales	1,660	May 22	Wages	980
			May 22	Stationery	130
			May 31	Balance c/d	25,570
		<u>112,540</u>			<u>112,540</u>
May 31	Balance b/d	25,570			

We have a debit balance of £25,570.

Notice that double entry has been maintained by adding the balancing figure 25,570 to both sides.

The double underlines means that there is no need to add up May's totals ever again.

Exercise 3.1

1 Shown below is the ledger of accounts for G Wizz. Balance off each account. If an account has just one entry then there is no need to do anything.

REAL ACCOUNTS

DR		Cash		CR	
		£			£
May 1	Capital	100,000	May 2	Premises	60,000
May 12	Sales	1,880	May 3	Shop Fittings	5,000
May 20	Sales	4,200	May 4	Bank	20,000
May 27	Sales	4,800	May 17	Wages	860
May 31	Sales	1,660	May 22	Wages	980
			May 22	Stationery	130

DR		Capital		CR	
		£			£
			May 1	Cash	100,000

DR		Bank		CR	
		£			£
May 4	Cash	20,000	May 5	Purchases	6,000
May 28	J Me	2,600	May 7	Rates	420
			May 9	Office Furniture	2,000
			May 16	Insurance	180
			May 21	Office Furniture	1,600
			May 22	Electricity	280
			May 31	H Otell	4,200

DR		Premises		CR	
		£			£
May 2	Cash	60,000			

DR		Shop Fittings		CR	
		£			£
May 3	Cash	5,000			

DR		Office Furniture		CR	
		£			£
May 9	Bank	2,000			
May 21	Bank	1,600			

DR		H Otell		CR
		£		£
May 28	Bank	4,200	May 14 Purchases	8,400

DR		I Deal		CR
		£		£
			May 19 Purchases	1,600

DR		J Me		CR
		£		£
May 21	Sales	8,200	May 28 Bank	2,600

DR		K Nine		CR
		£		£
May 27	Sales	3,300		

NOMINAL ACCOUNTS

DR		Purchases		CR
		£		£
May 5	Bank	6,000		
May 14	H Otell	8,400		
May 19	I Deal	1,600		

DR		Sales		CR
		£		£
			May 12 Cash	1,880
			May 20 Cash	4,200
			May 21 J Me	8,200
			May 27 Cash	4,800
			May 27 K Nine	3,300
			May 31 Cash	1,660

DR		Rates		CR
		£		£
May 7	Bank	420		

DR		Insurance		CR
		£		£
May 16	Bank	180		

DR		Wages		CR
		£		£
May 17	Cash	860		
May 22	Cash	980		

DR		Electricity		CR
		£		£
May 22	Bank	280		

DR		Stationery		CR
		£		£
May 22	Cash	130		

The answer to Exercise 3.1 question 1 is shown in Section 3.2 below.

3.2 Trial Balance

A trial balance is based on a ledger of balanced off accounts. The balanced off accounts for G Wizz are shown below.

REAL ACCOUNTS

DR		Cash		CR	
		£		£	
May 1	Capital	100,000	May 2	Premises	60,000
May 12	Sales	1,880	May 3	Shop Fittings	5,000
May 20	Sales	4,200	May 4	Bank	20,000
May 27	Sales	4,800	May 17	Wages	860
May 31	Sales	1,660	May 22	Wages	980
			May 22	Stationery	130
			May 31	Balance c/d	25,570
		<u>112,540</u>			<u>112,540</u>
May 31	Balance b/d	25,570			

DR		Capital		CR	
		£		£	
			May 1	Cash	100,000

DR		Bank		CR	
		£			£
May 4	Cash	20,000	May 5	Purchases	6,000
May 28	J Me	2,600	May 7	Rates	420
			May 9	Office Furniture	2,000
			May 16	Insurance	180
			May 21	Office Furniture	1,600
			May 22	Electricity	280
			May 31	H Otell	4,200
			May 31	Balance c/d	7,920
		<u>22,600</u>			<u>22,600</u>
May 31	Balance b/d	7,920			

DR		Premises		CR	
		£			£
May 2	Cash	60,000			

DR		Shop Fittings		CR	
		£			£
May 3	Cash	5,000			

DR		Office Furniture		CR	
		£			£
May 9	Bank	2,000	May 31	Balance c/d	3,600
May 21	Bank	1,600			
		<u>3,600</u>			<u>3,600</u>
May 31	Balance b/d	3,600			

DR		H Otell		CR	
		£			£
May 28	Bank	4,200	May 14	Purchases	8,400
May 31	Balance c/d	4,200			
		<u>8,400</u>			<u>8,400</u>
			May 31	Balance b/d	4,200

DR		I Deal		CR	
		£			£
			May 19	Purchases	1,600

DR		J Me		CR	
		£			£
May 21	Sales	8,200	May 28	Bank	2,600
			May 31	Balance c/d	5,600
		<u>8,200</u>			<u>8,200</u>
May 31	Balance b/d	5,600			

DR		K Nine	CR
		£	£
May 27	Sales	3,300	

NOMINAL ACCOUNTS

DR		Purchases	CR		
		£	£		
May 5	Bank	6,000	May 31	Balance c/d	16,000
May 14	H Otell	8,400			
May 19	I Deal	1,600			
		<u>16,000</u>			<u>16,000</u>
May 31	Balance b/d	16,000			

DR		Sales	CR		
		£	£		
May 31	Balance c/d	24,040	May 12	Cash	1,880
			May 20	Cash	4,200
			May 21	J Me	8,200
			May 27	Cash	4,800
			May 27	K Nine	3,300
			May 31	Cash	1,660
		<u>24,040</u>			<u>24,040</u>
			May 31	Balance b/d	24,040

DR		Rates	CR
		£	£
May 7	Bank	420	

DR		Insurance	CR
		£	£
May 16	Bank	180	

DR		Wages	CR		
		£	£		
May 17	Cash	860	May 31	Balance c/d	1,840
May 22	Cash	980			
		<u>1,840</u>			<u>1,840</u>
May 31	Balance b/d	1,840			

DR		Electricity	CR
		£	£
May 22	Bank	280	

DR	Stationery	CR
	£	£
May 22 Cash	130	

Then the trial balance is just a list of accounts in the ledger along with their credit and debit balances.

Trial Balance as at 31 May		
	DR	CR
	£	£
Cash	25,570	
Capital		100,000
Bank	7,920	
Premises	60,000	
Shop Fittings	5,000	
Office Furniture	3,600	
H Otell		4,200
I Deal		1,600
J Me	5,600	
K Nine	3,300	
Purchases	16,000	
Sales		24,040
Rates	420	
Insurance	180	
Wages	1,840	
Electricity	280	
Stationery	130	
	<u>129,840</u>	<u>129,840</u>

It is perhaps more usual to list all creditors under one heading - Creditors, and all debtors under one heading - Debtors.

Trial Balance as at 31 May		
	DR	CR
	£	£
Cash	25,570	
Capital		100,000
Bank	7,920	
Premises	60,000	
Shop Fittings	5,000	
Office Furniture	3,600	
Creditors		5,800
Debtors	8,900	
Purchases	16,000	
Sales		24,040
Rates	420	
Insurance	180	
Wages	1,840	
Electricity	280	
Stationery	130	
	<u>129,840</u>	<u>129,840</u>

Exercise 3.2

1 Prepare a trial balance for the accounts of L Der shown below.

REAL ACCOUNTS

DR		Cash		CR	
		£			£
Jun 1	Capital	160,000	Jun 2	Premises	80,000
Jun 6	Sales	4,800	Jun 4	Bank Curr A/c	60,000
			Jun 4	Bank Dep A/c	10,000
			Jun 12	Petrol	36
			Jun 27	Wages	560
			Jun 30	General Expenses	1,600

DR		Capital		CR	
		£			£
			Jun 1	Cash	160,000

DR		Bank Curr A/c		CR	
		£			£
Jun 4	Cash	60,000	Jun 7	Rates	1,240
			Jun 10	Vehicle	7,000
			Jun 12	Vehicle Insurance	300
			Jun 12	Vehicle Tax	170
			Jun 18	Tools	800
			Jun 24	Telephone	160

DR		Bank Deposit A/c		CR	
		£			£
Jun 4	Cash	10,000			

DR		Premises		CR	
		£			£
Jun 2	Cash	80,000			

DR		Vehicle		CR	
		£			£
Jun 10	Bank Curr A/c	800			

DR		Tools		CR	
		£			£
Jun 18	Bank Curr A/c	800			

DR		M Pty		CR
		£		£
			Jun 3 Purchases (of stock)	14,000
			Jun 22 Purchases (of stock)	6,000

DR		N Nuff		CR
		£		£
Jun 20	Sales (of stock)	4,800		

DR		O Pinion		CR
		£		£
Jun 28	Sales (of stock)	15,000		

NOMINAL ACCOUNTS

DR		Purchases (of Stock)		CR
		£		£
Jun 3	M Pty	14,000		
Jun 22	M Pty	6,000		

DR		Sales (of Stock)		CR
		£		£
			Jun 6 Cash	4,800
			Jun 20 N Nuff	4,800
			Jun 28 O Pine	15,000

DR		Rates		CR
		£		£
Jun 7	Bank Curr A/c	1,240		

DR		Vehicle Expenses		CR
		£		£
Jun 12	Bank Curr A/c	300		
Jun 12	Bank Curr A/c	170		
Jun 12	Cash	36		

DR		Wages		CR
		£		£
Jun 16	Cash	820		
Jun 28	Cash	560		

DR		Telephone		CR
		£		£
Jun 24	Bank curr A/c	160		

DR		General Expenses		CR
		£		£
Jun 30	Cash	1,600		

2 Prepare a trial balance for the accounts of P Knutt shown below.

REAL ACCOUNTS

DR		Cash		CR	
		£		£	
Jul 1	Capital	4,000	Jul 2	Equipment	140
Jul 16	Sales	400	Jul 4	Equipment	80
			Jul 6	Insurance	120
			Jul 7	Bank	3,000
			Jul 18	Wages	80

DR		Capital		CR	
		£		£	
			Jul 1	Cash	4,000

DR		Bank		CR	
		£		£	
Jul 7	Cash	3,000	Jul 20	Purchases	320
			Jul 27	Vehicle	1,600
			Jul 29	Q Beck	180

DR		Equipment		CR
		£		£
Jul 2	Cash	140		
Jul 4	Cash	80		

DR		Vehicle		CR
		£		£
Jul 27	Bank	1,600		

DR		Q Beck		CR	
		£		£	
Jul 29	Bank	180	Jul 10	Materials	180

DR		R Right		CR
		£		£
Jul 26	Sales	1,080		

NOMINAL ACCOUNTS

DR		Purchases (of Materials)		CR
		£		£
Jul 10	Q Beck	180		
Jul 20	Bank	320		

DR		Sales (of Materials)		CR	
		£		£	
			Jul 16	Cash	400
			Jul 26	R Right	1,080

DR		Insurance		CR
		£		£
Jul 6	Cash	120		

DR		Wages		CR
		£		£
Jul 18	Cash	80		

3.3 Errors

Dealing with errors deserves a chapter in its own right. But for now we touch on the errors that might not be revealed with a trial balance. A trial balance confirms that the sum of all debits equals the sum of all credits - nothing more.

Error of Original Entry An error of original entry occurs when the same wrong amount is posted as a credit-debit pair. For example, if equipment purchased for £500 cash is posted as £50 credit in the Cash account and £50 debit in the Equipment account, double entry has been observed but with the wrong amounts posted.

Error of Omission An error of omission occurs if a transaction is not entered at all in the accounts.

Error of Commission An error of commission occurs if double entry has been correctly observed but the wrong account has been debited or credited. For example if goods to the value of £500 were sold to Marris on credit but Harris's account was debited, then the amount has been posted to the wrong account.

Error of Principle An error of principle is similar to an error of commission, except that the wrong type of account is debited or credited. For example, if a cash till is purchased then it would be an error to debit the Purchases account (a nominal account). Instead, the Shop Equipment account (a real account) should have been debited.

Error of Reversal An error of reversal occurs if the accounts were posted the wrong way round. For example, a cash sale of £100 debited to the Sales account and credited to the Cash account is incorrect: It is the Sales account that should have been credited and the Cash account debited.

We have seen how to construct a trial balance. **Next** we see how to construct a trading and profit and loss account.

Bibliography

HARRISON W *Stage One Financial Accounting* Northwick Publishers 1986 pp 50..60