

Chapter 3

The Trial Balance

The Five-Stage Accounting System

In this chapter we will look at the trial balance. The trial balance is the summation of what has gone on before, in that it is a list of all the balances of accounts in the General Ledger on a particular date, formatted in such a manner that it provides an arithmetical check on the accuracy of the bookkeeping.

It is therefore the final stage of the five-stage accounting system.

Financial Transaction
Financial Document
Books of Prime Entry
Ledger Accounts
Trial Balance

Introduction

The trial balance is a report that can be extracted from the double-entry bookkeeping.

It is a list of the balances of General Ledger accounts at a given point in time.

It serves the following purposes:

- To give a snapshot of the General Ledger, showing the balance of any accounts that have a balance other than zero.
- To help identify any issues (*errors*) in the double-entry bookkeeping.

The trial balance follows this basic format:

Company Name:	
Date:	
Debit £	Credit £
All accounts with debit balances <i>(individually listed)</i> Expenses Assets Drawings Purchases	All accounts with credit balances <i>(individually listed)</i> Liabilities Income Capital
Total: <i>(should be same as credit side)</i>	Total: <i>(should be same as debit side)</i>

The Bank Account and VAT Account will also be listed in the trial balance, but these accounts can be on either side of the trial balance, as these accounts can have a credit or debit balance as appropriate.

A trial balance is commonly generated at the end of a week, month or financial year, or whenever needed to check the bookkeeping.

Trial balances are always a snapshot of the bookkeeping at a particular point in time, which is why they always have a date.

Which side the accounts are listed on follows the rules from chapter 2.

Not all trial balances will have the accounts listed in the example shown and depending on the nature of the business it may have more or fewer of the accounts listed. However, this example is typical of a trial balance for a VAT-registered business.

Sales Ledger Control Account & Sales Account

A common error in trial balances is misunderstanding the relationship between the Sales Ledger Control Account and the Sales Account:

Sales Ledger Control Account = asset account (*as it records how much is owed to you at a given point in time*).

Sales Account = income account (*as it records the total value of your sales, which includes money received and not received, during the financial year*).

Purchases Ledger Control Account & Purchases Account

Similarly, a common error in trial balances is misunderstanding the relationship between the Purchases Ledger Control Account and the Purchases Account:

Purchases Ledger Control Account = liability account (*as it records how much is owed by you at a given point in time*).

Purchases Account = expense account (*as it records the total value of your sales, which includes money received and not received, during the financial year*).

Understanding each account, what type of account they are and how they behave, is a key skill in understanding how to assign accounts in the trial balance.

The Bank and VAT accounts may be listed on either side of the trial balance depending on whether they are behaving as an asset (*money owned or owed*) or a liability (*money owing or overdrawn*).

Hints & Tips for the Trial Balance

The sum of each column (*debit & credit*) can be calculated by adding up all account balances and dividing by two. This may help if the two sides do not later balance by telling you the difference between the correct total and your total.

Otherwise, if your trial balance does not balance then redo your calculation, if it still does not balance, you have probably made one of the following errors:

- An account or accounts have been placed on the incorrect side. It is common for individual accounts or pairs of accounts (*Sales and Purchases Ledger Control Accounts, Discounts Allowed/Received*) to be placed on the wrong side).
- An account has been placed on the correct side but has been transcribed incorrectly (e.g. £1655 instead of £16553) or numbers have been transposed (e.g. £16553 instead of £16533).
- An account has been omitted (e.g. *Sales Returns* have not been added to the debit side).
- Numbers have been calculated on the wrong row (e.g. you have used the number for *Sales Returns* in the *Sales Account* as they are adjacent to each other).

You can try calculating the trial balance from the bottom up rather than the top down if you are struggling, as you may see errors that you would not normally see when calculating in the conventional fashion.

If you are given a trial balance for which there is no figure for the Capital Account, the correct figure for the Capital Account will be the difference between the debit total and the credit total that enables the trial balance to balance.

Revision Questions

Exercise 17

Assign the following General Ledger Account balances to the correct sides of the trial balance and then calculate the two totals.

Trial Balance			
	Balance	Debit £	Credit £
Fixtures and Fittings	15275		
Motor vehicles	25940		
Bank (overdrawn)	11236		
Petty Cash	127		
Sales Ledger Control Account	9834		
Purchases Ledger Control Account	2784		
Capital	9765		
Drawings	4675		
Sales	56982		
Sales Returns	3498		
Purchases	24312		
Purchases Returns	1098		
Discounts Allowed	786		
Discounts Received	911		
Rent Received	2466		
Wages	7833		
Travel Expenses	1344		
Office Expenses	5100		
VAT (owing to HMRC)	13482		
	Total		

Exercise 18

Assign the following General Ledger Account balances to the correct sides of the trial balance and then calculate the two totals.

In this case you will need to calculate the balance of the Capital Account based on the other information you have been given.

Trial Balance			
	Balance	Debit £	Credit £
Fixtures and Fittings	7845		
Inventory	12300		
Bank (cash at bank)	9842		
Petty Cash	75		
Sales Ledger Control Account	21390		
Purchases Ledger Control Account	6529		
Capital			
Drawings	2361		
Sales	45900		
Sales Returns	1462		
Purchases	18750		
Purchases Returns	1000		
Discounts Allowed	254		
Discounts Received	167		
Rent Paid	2100		
Wages	9016		
Electricity	4355		
Office Expenses	1200		
VAT (owing from HMRC)	1788		
	Total		

Exercise 19

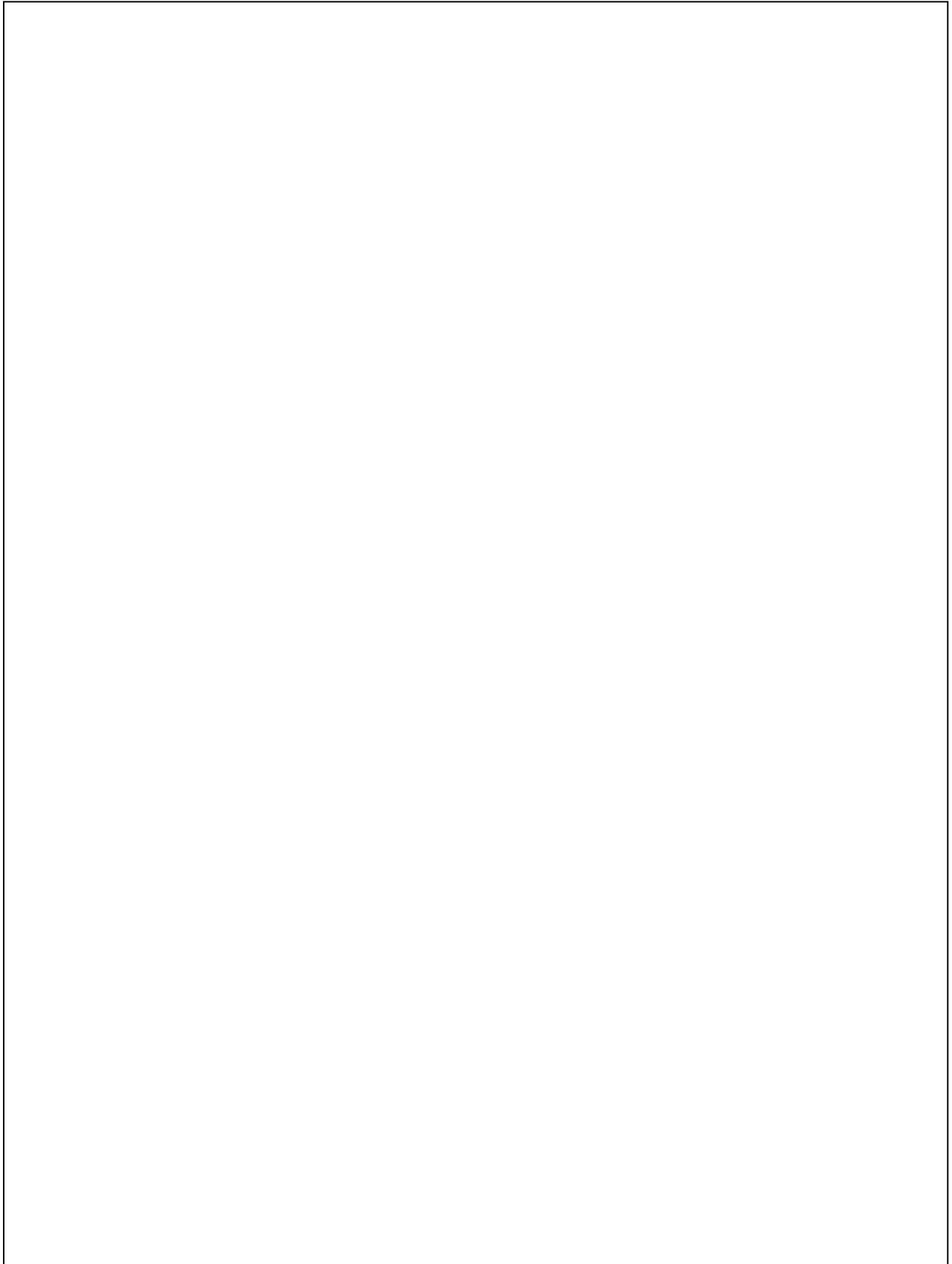
Assign the following General Ledger Account balances to the correct sides of the trial balance and then calculate the two totals.

The Purchases Account has not yet been totalled and balanced.

Purchases Account			
Details	Debit £	Details	Credit £
Bank	1463		
Bank	274		

Trial Balance				
	Balance	Debit £	Credit £	
Inventory	4300			
Motor vehicles	5870			
Bank (overdrawn)	1542			
Petty Cash	54			
Sales Ledger Control Account	11893			
Purchases Ledger Control Account	4552			
Capital	11335			
Drawings	2188			
Sales	62445			
Sales Returns	544			
Purchases				
Purchases Returns	23			
Discounts Allowed	98			
Discounts Received	104			
Rent Paid	3200			
Wages	4700			
Travel Expenses	985			
Office Expenses	572			
VAT (owing to HMRC)	5133			
	Total			

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