

CHAPTER 02

Trial Balance

In this Chapter...

- Meaning of Trial Balance
- Balance Method of Preparing Trial Balance

Meaning of Trial Balance

Trial balance is a statement which incorporates the balances of ledger accounts. It consists of debit column which records debit balances of ledger accounts and credit column which records credit balances of ledger accounts. If the total of the debit column equals to that of the credit column, then this proves the arithmetical accuracy of the accounts maintained. So, on the basis of the above discussion, it can be concluded that trial balance is a statement prepared with the help of ledger balances, at the end of a specific period, to find out whether debit total agrees with the credit total.

Objectives of Preparing a Trial Balance

The trial balance is prepared to fulfil the following objectives

- To ascertain the arithmetical accuracy of ledger accounts
- To help in identifying errors.
- To help in the preparation of financial statements (trading account, profit and loss account and balance sheet).

Balance Method of Preparing Trial Balance

Balance method is the most commonly used method of preparing trial balance as it facilitates the preparation of final accounts. Under this method, trial balance is prepared by showing the balances of all ledger accounts (including cash and bank accounts) and then totalling up the debit and credit columns of the trial balance to assure their correctness. The account balances are used because the balance summarises the net effect of all transactions relating to an account and helps in preparing the financial statements. Trial balance can be prepared under this method, only when all the ledger accounts have been balanced.

Steps to Prepare a Trial Balance

- Step 1** The balances of each account in the ledger are ascertained.
- Step 2** List each account and place its balance in the debit or credit column (if an account has a zero balance, it may be included in the trial balance with zero in the column for its normal balance).
- Step 3** Compute the total of debit balances column.
- Step 4** Compute the total of credit balances column.
- Step 5** Verify that the sum of the debit balances equal the sum of credit balances. If they do not tally, it indicates that there are some errors. So, one must check the correctness of the balances of all accounts.

Format of Trial Balance

An illustrative trial balance indicating list of various accounts with their respective balances (i.e., debit or credit) is shown as below

Trial Balance as on			
Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Capital			...
Land and Buildings		...	
Plant and Machinery		...	
Equipment		...	
Furniture and Fixtures		...	
Cash in Hand		...	
Cash at Bank		...	
Debtors		...	
Bills Receivable		...	
Stock of Raw Materials		...	
Stock of Finished Goods		...	
Purchases		...	
Carriage Inwards		...	
Carriage Outwards		...	
Sales			...
Sales Return		...	
Purchases Return			...
Interest Paid		...	
Commission/Discount Received			...
Salaries		...	
Long-term Loan			...
Bills Payable			...
Creditors			...
Advances from Customers			...
Drawings		...	
Total	

Limitations of Trial Balance

Limitations of a trial balance are as follows

- Trial balance only confirms that the total of all debit balances matches the total of all credit balances.
- A trial balance gives only condensed information of each account.
- Trial balance total may agree inspite of errors. There are certain errors which are not disclosed by a trial balance.

These are

- | | |
|--|---|
| (a) Errors of complete omission | (b) Errors of principle |
| (c) Compensating errors | (d) Incorrect amount entered in the journal |
| (e) Posting to the wrong account but on the correct side | (f) An entry posted twice in the ledger |

Rules for Preparing the Trial Balance from the Given List of Ledger Balances

Following rules should be taken into care

- The balances of all assets accounts, expenses and losses accounts, drawings, cash and bank balances, purchases, sales return are placed in the debit column of the trial balance.
- The balances of all liabilities accounts, income and profit accounts, capital, sales, purchases return are placed in the credit column of the trial balance.
- Generally, closing stock does not appear in the trial balance. It is usually given outside the trial balance as an additional information or adjustment.

In case, it appears in the trial balance, it means that it has already been adjusted through purchases.

Solved Examples

Example 1. Given below is a ledger extract relating to the business of Viren & Co as on 31st March, 2021. You are required to prepare the trial balance by balance method.

Dr				Cash Account				Cr			
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)				
	To Capital A/c		1,00,000		By Furniture A/c		30,000				
	To Veer		2,50,000		By Salaries A/c		25,000				
	To Sales A/c		5,000		By Arjun		2,10,000				
					By Purchases A/c		10,000				
					By Capital A/c		5,000				
					By Balance c/d		75,000				
			3,55,000				3,55,000				

Dr				Furniture Account				Cr			
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)				
	To Cash A/c		30,000		By Balance c/d		30,000				
			30,000				30,000				

Dr				Salaries Account				Cr			
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)				
	To Cash A/c		25,000		By Balance c/d		25,000				
			25,000				25,000				

Dr				Arjun's Account				Cr			
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)				
	To Cash A/c		2,10,000		By Purchases A/c (Credit purchases)		2,50,000				
	To Purchases Return A/c		5,000								
	To Balance c/d		35,000								
			2,50,000				2,50,000				

Dr				Purchases Account				Cr			
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)				
	To Cash A/c		10,000		By Balance c/d		2,60,000				
	To Arjun (as per purchases book-credit purchases)		2,50,000								
			2,60,000				2,60,000				

Dr				Purchases Return Account				Cr	
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)		
	To Balance c/d		5,000		By Arjun (as per purchases return book)		5,000		
			5,000				5,000		
Dr				Veer's Account				Cr	
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)		
	To Sales A/c (Credit sales)		3,00,000		By Sales Return A/c		1,000		
					By Cash A/c		2,50,000		
					By Balance c/d		49,000		
			3,00,000				3,00,000		
Dr				Sales Account				Cr	
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)		
	To Balance c/d		3,05,000		By Cash A/c		5,000		
					By Veer (as per sales book-credit sales)		3,00,000		
			3,05,000				3,05,000		
Dr				Sales Return Account				Cr	
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)		
	To Veer (as per sales return book)		1,000		By Balance c/d		1,000		
			1,000				1,000		
Dr				Capital Account				Cr	
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)		
	To Cash A/c		5,000		By Cash A/c		1,00,000		
	To Balance c/d		95,000						
			1,00,000				1,00,000		

Students should keep in mind that balancing amount on the credit side signifies debit balance and balancing amount on the debit side signifies credit balance.

Ans.

Trial Balance			
as on 31st March, 2021			
Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Cash A/c		75,000	—
Furniture A/c		30,000	—
Salaries A/c		25,000	—
Arjun's A/c		—	35,000
Purchases A/c		2,60,000	—
Purchases Return A/c		—	5,000
Veer's A/c		49,000	—
Sales A/c		—	3,05,000
Sales Return A/c		1,000	—
Capital A/c		—	95,000
Total		4,40,000	4,40,000

Example 2. From the following list of balances extracted from the books of Shri Sahiram. Prepare a trial balance as on 31st March, 2021.

Name of Accounts	Amt (₹)	Name of Accounts	Amt (₹)
Stock on 1st April, 2020	48,000	Discount Received	20,000
Purchases	2,57,500	Long-term Borrowings	1,70,000
Sales	3,61,800	Provision for Doubtful Debts	5,000
Carriage Inwards	300	Provision for Depreciation on Machinery	5,000
Carriage Outwards	120	Bad Debts	600
Return Inwards	23,500	Stationery	420
Return Outwards	2,000	Insurance	340
Debtors	32,000	Wages and Salaries	18,500
Creditors	17,400	Investment	30,000
Leasehold Premises	1,60,000	Interest on Investment	2,700
Equipment	2,00,000	Cash and Bank Balance	1,240
Repairs to Equipment	2,000	Premises	60,000
Depreciation	8,000	Furniture and Fixtures	14,000
Bills Receivable	840	Miscellaneous Expenses	520
Bills Payable	480	Miscellaneous Income	140
Bank Overdraft	1,50,000	Loan from Axis Bank	25,000
Interest on Overdraft	640	Interest on above Loan	3,000
Purchases Return	50,000	Capital	96,000
Discount Allowed	4,000	Proprietor's Withdrawals (Drawings)	6,000
Salaries	10,000	Computers	9,000
		Goodwill	15,000
		Stock on 31st March, 2021 (not adjusted)	31,000

Ans.

Trial Balance
as on 31st March, 2021

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Stock on 1st April, 2020		48,000	—
Purchases		2,57,500	—
Sales		—	3,61,800
Carriage Inwards		300	—
Carriage Outwards		120	—
Return Inwards		23,500	—
Return Outwards		—	2,000
Debtors		32,000	—
Creditors		—	17,400
Leasehold Premises		1,60,000	—
Equipment		2,00,000	—
Repairs to Equipment		2,000	—
Depreciation		8,000	—
Bills Receivable		840	—
Bills Payable		—	480
Bank Overdraft		—	1,50,000
Interest on Overdraft		640	—
Purchases Return		—	50,000
Discount Allowed		4,000	—
Salaries		10,000	—

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Discount Received		—	20,000
Long-term Borrowings		—	1,70,000
Provisions for Doubtful Debts		—	5,000
Provision for Depreciation on Machinery		—	5,000
Bad Debts		600	—
Stationery		420	—
Insurance		340	—
Wages and Salaries		18,500	—
Investment		30,000	—
Interest on Investment		—	2,700
Cash and Bank Balance		1,240	—
Premises		60,000	—
Furniture and Fixtures		14,000	—
Miscellaneous Expenses		520	—
Miscellaneous Income		—	140
Loan from Axis Bank		—	25,000
Interest on above Loan		3,000	—
Capital		—	96,000
Proprietor's Withdrawals (Drawings)		6,000	—
Computers		9,000	—
Goodwill		15,000	—
Total		9,05,520	9,05,520

Closing stock will not be shown in trial balance because it has not yet been adjusted.

Chapter Practice

PART 1

Objective Questions

• Multiple Choice Questions

1. Trial balance is
(a) an account (b) a statement (c) ledger (d) Both (a) and (b)

Ans. (b) a statement

2. Which of the following statements is/are true about trial balance?
(a) Trial balance is prepared with the help of all accounts and cash book
(b) Trial balance is prepared only at the end of financial or calendar year
(c) Both (a) and (b)
(d) None of the above

Ans. (a) Trial balance is prepared with the help of all accounts and cash book

3. Identify the incorrect objective of preparing trial balance.

- (a) To prepare financial statements
(b) To locate errors
(c) To communicate accounting information to the users
(d) To ascertain arithmetical accuracy of ledger accounts

Ans. (c) Extract of trial balance is not a part of financial statements but only helps to prepare them. Financial statements include profit and loss account, trading account and balance sheet which are available to users to ascertain financial position of business.

4. Format of a trial balance is

- (a) Name of Accounts, LF, Debit Balance, Credit Balance
(b) Name of Accounts, JF, Debit Balance, Credit Balance
(c) Name of Accounts, Voucher no., Debit Balance, Credit Balances
(d) Name of Accounts, Voucher no., LF, JF, Debit and Credit Balances

Ans. (a) Name of Accounts, LF, Debit Balance, Credit Balance

5. Identify the incorrect characteristic of trial balance.

- (a) It shows balances of all ledger accounts and cash book
(b) It shows final position of all accounts
(c) It is a part of double entry system of book-keeping
(d) It can be prepared anytime

Ans. (c) Trial balance is not a part of double entry system of book-keeping. It is a result of double entry system of book-keeping.

6. Trial balance is prepared

- (a) monthly (b) quarterly (c) half yearly (d) on any date

Ans. (d) Trial balance is normally prepared at the end of an accounting year. However, it is at discretion of an organisation. Thus, it can be prepared monthly, quarterly, half yearly, annually or at any time.

7. Balance method of trial balance shows

- (a) total of debit and credit of all ledger accounts separately
- (b) final balance of all ledger accounts
- (c) total of debit and credit balance separately and then in separate column, final balance of all ledger accounts
- (d) None of the above

Ans. (b) Balance method is the most widely used method which shows balances of all ledger accounts and then totalling up of credit and debit balances is done to ascertain accuracy.

8. Identify the error that do not affect trial balance.

- (a) Error of commission (b) Error of principle (c) Error of partial omission (d) All of these

Ans. (b) Error of principle arise due to incorrect application of principles of accounting. It is a two sided error, therefore it does not affect the trial balance.

9. If closing stock is shown in trial balance, it means

- (a) it is adjusted against opening stock (b) it is adjusted against purchases
- (c) Both (a) and (b) (d) None of these

Ans. (b) Usually, closing stock is shown outside trial balance as an additional information. However, if it appears in trial balance, it means that it has already been adjusted through purchases by debiting closing sock and crediting purchases account.

10. Balance of purchase is shown

- (a) in debit column of trial balance (b) in credit column of trial balance
- (c) as an adjustment at end (d) None of these

Ans. (a) Purchase is an expense, therefore it's balance will be shown in debit column of trial balance.

11. Balance of bad debts is shown

- (a) in debit column of trial balance (b) in credit column of trial balance
- (c) as an adjustment at end (d) by adjusting it with debtors

Ans. (a) Bad debts is a loss and accounts of all expenses and losses have debit balances. Therefore, it will be shown in debit column of trial balance.

12. Sundry creditors worth ₹ 50,000 will be shown

- (a) in debit column of trial balance (b) in credit column of trial balance
- (c) as an adjustment at end (d) None of these

Ans. (b) All liabilities are shown in credit column of trial balance. Therefore, sundry creditors worth ₹ 50,000 will be shown in credit column of trial balance.

13. Interest received worth ₹ 1,000 and sales worth ₹ 5,00,000 are shown

- (a) in debit column and credit column respectively of trial balance
- (b) in credit column and debit column respectively of trial balance
- (c) in credit column of trial balance
- (d) in debit column of trial balance

Ans. (c) Interest received and sales are income, therefore, they are shown in credit column of trial balance.

14. A trader has prepared the trial balance and total doesn't tie. Which approach the trader should follow?

- (a) Firstly, he should recheck all the ledger (b) He should recheck the total of trial balance
- (c) He should open the suspense account (d) All of these

Ans. (d) All of these

15. What will be the effect on trial balance if ₹ 2,000 received as rent and correctly entered in the cash book but not posted to rent account?

- (a) Debit side of trial balance will exceed by ₹ 2,000
- (b) Debit side of trial balance will decrease by ₹ 2,000
- (c) Credit side of trial balance will decrease by ₹ 2,000
- (d) Credit side of trial balance will exceed by ₹ 2,000

Ans. (a) In this situation, one account has been posted correctly, i.e., cash account but one account has been left to be posted i.e., rent account.

• Assertion-Reasoning MCQs

Direction (Q. Nos. 1 to 5) There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below.

- (a) Assertion (A) is correct, but Reason (R) is wrong
- (b) Both Assertion (A) and Reason (R) are correct
- (c) Assertion (A) is wrong, but Reason (R) is correct
- (d) Both Assertion (A) and Reason (R) are wrong

1. Assertion (A) Rent received is shown in credit column of trial balance.

Reason (R) All incomes and profits are shown in credit column of trial balance.

Ans. (b) Both Assertion (A) and Reason (R) are correct

2. Assertion (A) Owner's wife loan to the business is shown in debit column of trial balance.

Reason (R) All assets are shown in credit column of trial balance.

Ans. (d) All liabilities are shown in credit column of trial balance. Therefore, owner's wife loan to the business will be shown in credit column of trial balance whereas all assets are shown in debit column of trial balance.

3. Assertion (A) Trial balance is not a conclusive proof of accuracy of accounts.

Reason (R) Error of commission do not affect trial balance.

Ans. (a) Trial balance is not a conclusive proof of the accuracy of the books of accounts since some errors are not disclosed by the trial balance. Most of the errors of commission like error of casting, error of carrying forward, etc affect trial balance.

4. Assertion (A) Furniture and fixtures is shown in debit column of trial balance.

Reason (R) All assets are shown in debit column of trial balance.

Ans. (b) Both Assertion (A) and Reason (R) are correct

5. Assertion (A) Trial balance total may agree inspite of errors.

Reason (R) Various errors like errors of principle, errors of partial omission are not disclosed by trial balance.

Ans. (a) Two sided errors are not disclosed by trial balance. Therefore, it agrees even if these errors are made. Error of partial omission is one sided error that can be easily disclosed by trial balance.

• Case Based MCQs

1. Direction Read the following case study and answer the question no. (i) to (iv) on the basis of the same.

Mr Gupta is a sole proprietor who lives near Darya ganj and deals in sanitary ware. He started his business on 1st April, 2021 with capital of ₹ 1,40,000. His daughter, Reena who is in class 11th of ABC school prepares his trial balance as on 31st March, 2022. Mr. Gupta is a penny pincher who does not want to appoint a CA to prepare his financial statements. Following is extract of trial balance prepared by Reena.

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Cash in Hand		10,000	—
Machinery		—	50,000
Mr Gupta's Wife Loan		30,000	—
Drawings		—	15,000
Purchases		25,000	—
Return Inwards		—	500
Return Outwards		600	—
Sundry Expenses		100	—
Rent		1,200	—
Debtors		1,140	—
Creditors		—	10,000
Total		68,040	75,500

- (i) Reena has shown machinery in credit balance of trial balance. According to you, where it should be shown?
- (a) In credit balance (b) In debit balance
(c) As an adjustment (d) Should be adjusted against cash

Ans. (b) All accounts of assets are shown in debit column of trial balance. As machinery is an asset, it will be shown in debit column of trial balance.

- (ii) Identify the item(s) that has/have been shown incorrectly by Reena.

- (I) Mr Gupta's wife loan (II) Cash-in-hand
(III) Drawings (IV) Purchases

Alternatives

- (a) Only (I) (b) Only (II)
(c) Both (I) and (III) (d) Both (IV) and (II)

Ans. (c) Mr Gupta's wife loan is a liability. Therefore, it will be shown in credit column of trial balance. Drawings have a debit balance and are shown in debit column of trial balance.

- (iii) Reena has omitted to show balance of discount allowed and discount received. Can you identify where both will be shown?

- (a) In debit and credit column respectively
(b) In credit and debit column respectively
(c) Both will be shown in debit column
(d) Both will be shown in credit column

Ans. (a) Accounts of expenses have debit balance and are shown in the debit column of trial balance. Therefore, discount allowed will be shown in debit column of trial balance. Accounts of gains have credit balance and are shown in credit column of trial balance. Therefore, discount received will be shown in credit column of trial balance.

- (iv) According to rules for preparing trial balance, liabilities and drawings are shown in

- (a) debit column of trial balance
(b) credit column of trial balance
(c) debit and credit column respectively
(d) credit and debit column respectively

Ans. (d) Drawings have a debit balance and are shown in debit column of trial balance. All liabilities have credit balance and are shown in credit column of trial balance.

2. Direction Read the following case study and answer the question no. (i) to (iv) on the basis of the same.

Manuj Jindal, dropout UPSC aspirant has now started his own Edtech Company "MJ Enterprises", where he sell UPSC, RBI and SEBI exam courses books. To maintain his books of accounts, he hired his friend Sahil, who has just passed IPCC group II.

After preparing following trial balance, Sahil discovered that some transactions were not recorded.

Trial Balance

as on

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Furniture		2,00,000	—
Capital		—	2,00,000
Drawings		1,00,000	—
Debtors		1,80,000	—
Creditors		—	1,95,000
Purchases		2,00,000	—
Sales		—	5,00,000
Bank		60,000	—
Cash in Hand		85,000	—
Rent		70,000	—
Total		8,95,000	8,95,000

Following transactions were not recorded

- (i) Books worth ₹ 5,000 purchased on credit.
- (ii) Manuj withdraws ₹ 10,000 for personal use.
- (iii) Purchased from M/s Kamran Furniture costing ₹ 20,000.

- (i) Which journal entry reflects the correct accounting treatment of transaction “Manuj withdraws ₹ 10,000 for personal use”?

- (a) Drawings A/c Dr 10,000
To Cash A/c 10,000
- (b) Manuj A/c Dr 10,000
To Cash A/c 10,000
- (c) Capital A/c Dr 10,000
To Cash A/c 10,000
- (d) MJ Enterprises A/c Dr 10,000
To Cash A/c 10,000

Ans. (a) Drawings A/c Dr 10,000
To Cash A/c 10,000

- (ii) Which of the following will be the amount of purchases shown in trial balance?

- (a) ₹ 2,15,000
- (b) ₹ 2,25,000
- (c) ₹ 1,95,000
- (d) ₹ 2,05,000

Ans. (d) Purchases = 2,00,000 + 5,000 = ₹ 2,05,000

- (iii) What will be the amount of cash to be shown in trial balance?

- (a) ₹ 75,000
- (b) ₹ 85,000
- (c) ₹ 55,000
- (d) ₹ 45,000

Ans. (a) Cash = 85,000 – 10,000 = ₹ 75,000

- (iv) What will be the total of trial balance after taking into consideration unrecorded transactions?

- (a) ₹ 9,80,000
- (b) ₹ 9,20,000
- (c) ₹ 10,50,000
- (d) ₹ 12,00,000

Ans. (b) ₹ 9,20,000

Trial Balance

as on...

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Furniture (2,00,000+20,000)		2,20,000	—
Capital		—	2,00,000
Drawings (1,00,000 + 10,000)		1,10,000	—
Debtors		1,80,000	—
Creditors (1,95,000 + 20,000 + 5,000)		—	2,20,000
Purchases (2,00,000 + 5,000)		2,05,000	—
Sales		—	5,00,000
Bank		60,000	—
Cash (85,000 – 10,000)		75,000	—
Rent		70,000	—
Total		9,20,000	9,20,000

PART 2

Subjective Questions

• Short Answer (SA) Type Questions

1. State whether the balance of the following accounts should be placed in the debit or the credit columns of the trial balance.

- (i) Plant and machinery (ii) Discount allowed (iii) Bank overdraft
(iv) Sales (v) Interest paid (vi) Bad debts

- Ans.** (i) **Debit** Plant and machinery is an asset which has a debit balance. Therefore, it will be shown in debit column of trial balance.
(ii) **Debit** Discount allowed is an expense which has a debit balance. Therefore, it will be shown in debit column of trial balance.
(iii) **Credit** Bank overdraft is a liability which has a credit balance. Therefore, it will be shown in credit column of trial balance.
(iv) **Credit** Sales account always has a credit balance which is shown in the credit column of trial balance.
(v) **Debit** Interest paid always has a debit balance which is shown in the debit column of trial balance.
(vi) **Debit** Bad debts is a loss which has a debit balance. Therefore, it will be shown in debit column of trial balance.

2. State the limitations of trial balance.

- Ans.** (i) Trial balance only confirm that the total of all debit balances matches the total of all credit balances.
(ii) A trial balance gives only condensed information of each account.
(iii) Trial balance total may agree inspite of errors. There are certain errors which are not disclosed by a trial balance.

3. Ramesh's CA extracted the following trial balance as on 31st March, 2020

Trial Balance as on 31st March, 2020			
Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Furniture		—	30,000
Machinery		—	40,000
Debtors		2,00,000	—
Goodwill		—	10,000
Creditors		1,00,000	—
Discount Received		—	2,000
Capital		—	1,00,000
Bank Loan		—	1,18,000
Total		3,00,000	3,00,000

State the errors committed in the above trial balance along with reasons.

- Ans.** (i) Furniture and machinery are assets, therefore their balances should appear in debit columns.
(ii) Goodwill is also an asset. Thus, it's balance should be shown in debit column.
(iii) Creditors are liability for the firm. Thus, they should be shown under credit column.

4. State whether the balances of the following accounts should be placed in debit or credit column of trial balance and also state the reasons

- Bank overdraft Commission received
Motor cycle Rates, taxes and insurance
Salaries Repairing charges

- Ans.** Bank overdraft and commission received will be shown under credit column of trial balance as they are liability and income respectively.

Motor cycle, rates, taxes and insurance, salaries and repairing charges will be shown under debit column of trial balance as motor cycle is an asset and rest of them are expenses.

5. What will be the effect of the following on trial balance?

- (i) Rent received ₹ 2,000 entered in cash book but not posted to rent account.
- (ii) Purchase return of ₹ 20,000 has been wrongly posted to the debit side of sales return account but correctly entered in the customers account.
- (iii) Discount received ₹ 1,000 entered in cash book but not posted to discount received account.

Ans. (i) Debit side of trial balance will exceed by ₹ 2,000.
(ii) Debit side of trial balance will increase by ₹ 20,000.
(iii) Debit column of trial balance will increase by ₹ 1,000.

6. Write a note on balance method for preparing trial balance.

Ans. Balance method is the most commonly used method for preparing trial balance. Under this method, the balance of all the accounts (including cash and bank accounts) are incorporated in the trial balance. The debit and credit columns of the trial balance are totalled and they must be equal.

This method can be used to prepare trial balance only when all the ledger accounts have been balanced. The account balances are used because the balance summarises the net effect of all transactions relating to an account and helps in the preparation of financial statements.

7. State any four functions of a trial balance.

Or Describe the purpose for the preparation of a trial balance.

(NCERT)

Or What are the objectives or functions or importance of a trial balance?

Ans The objectives, functions or purpose of a trial balance are

- (i) **Ascertain the Arithmetical Accuracy of the Ledger Accounts** The trial balance ensures the arithmetical accuracy of the ledger accounts.
When the debit and credit balances in the trial balance are equal, it is assumed that the posting to the ledger accounts is arithmetically correct i.e., all debits and corresponding credits have been properly recorded in the ledger.
- (ii) **Helps in Locating Errors** A trial balance helps in the detection or location of errors. However, all the errors are not disclosed, but only arithmetical errors are disclosed.
- (iii) **Summary of the Ledger Accounts** Trial balance offers a summary of the ledger. It enables us to know the assets, liabilities, expenses, incomes, etc.
- (iv) **Helps in the Preparation of Final Accounts** Trial balance is considered as the connecting link between accounting records and the preparation of financial statements. As trial balance is a list of summary of all ledger accounts, it provides a basis for preparation of final accounts (trading and profit and loss account and balance sheet).

8. Prepare the trial balance with following information.

Capital	₹ 3,00,000	Cash at Bank	₹ 70,000
Cash	₹ 1,80,000	Debtors	₹ 4,00,000
Creditors	₹ 2,00,000	Bank Loan	₹ 1,00,000
Sales	₹ 2,00,000	Purchases	₹ 1,50,000

Ans.

Trial Balance

as on ...

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Capital		—	3,00,000
Cash		1,80,000	—
Creditors		—	2,00,000
Sales		—	2,00,000
Cash at Bank		70,000	—
Debtors		4,00,000	—
Bank Loan		—	1,00,000
Purchases		1,50,000	—
Total		8,00,000	8,00,000

9. The following trial balance has been prepared by an inexperienced accountant. Redraft it in a correct form.

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Cash in Hand		4,000	—
Machinery		25,000	—
Purchases		66,000	—
Sundry Debtors		24,000	—
Carriage Inwards		2,000	—
Carriage Outwards		—	1,000
Wages		18,000	—
Rent and Taxes		5,000	—
Sundry Creditors		—	15,500
Discount Allowed		—	1,000
Return Outwards		2,500	—
Return Inwards		—	10,000
Capital		30,000	—
Drawings		—	6,000
Bank Loan		10,000	—
Interest on Loan		1,500	—
Opening Stock		—	26,000
Sales		—	1,30,000
Discount Received		1,500	—
Total		1,89,500	1,89,500

Ans.

Trial Balance

as on ...

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Cash in Hand		4,000	—
Machinery		25,000	—
Purchases		66,000	—
Sundry Debtors		24,000	—
Carriage Inwards		2,000	—
Carriage Outwards		1,000	—
Wages		18,000	—
Rent and Taxes		5,000	—
Sundry Creditors		—	15,500
Discount Allowed		1,000	—
Return Outwards		—	2,500
Return Inwards		10,000	—
Capital		—	30,000
Drawings		6,000	—
Bank Loan		—	10,000
Interest on Loan		1,500	—
Opening Stock		26,000	—
Sales		—	1,30,000
Discount Received		—	1,500
Total		1,89,500	1,89,500

10. From the ledger balances, prepare trial balance.

Capital	₹ 20,000	Goodwill	₹ 10,000
Rent Outstanding	₹ 1,410	Interest Received	₹ 1,000
Amount Due to Ram	₹ 10,000	Discount Received	₹ 1,520
Drawings	₹ 3,000	Amount due from Priya	₹ 40,000
Sales	₹ 19,070		

Ans.

Trial Balance

as on ...

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Capital		—	20,000
Rent Outstanding		—	1,410
Goodwill		10,000	—
Interest Received		—	1,000
Amount due to Ram		—	10,000
Drawings		3,000	—
Sales		—	19,070
Discount Received		—	1,520
Amount due from Priya		40,000	—
Total		53,000	53,000

11. Prepare a correct trial balance from the following trial balance in which there are certain mistakes.

Trial Balance

as on ...

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Cost of Goods Sold		75,000	—
Closing Stock		—	20,000
Debtors		—	30,000
Creditors		—	15,000
Fixed Assets		25,000	—
Opening Stock		30,000	—
Expenses		—	10,000
Sales		—	1,00,000
Capital		45,000	—
Total		1,75,000	1,75,000

Ans. Errors in trial balance which are identified above are as follows

- Closing stock will appear in debit column of trial balance.
- Since, cost of goods sold is given, opening stock will not be taken as it is already included in cost of goods sold.
- Debtors and expenses will come in debit column of trial balance.
- Capital will appear in credit column of trial balance as it is a liability for business.

Corrected Trial Balance

as on...

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Cost of Goods Sold		75,000	—
Closing Stock		20,000	—
Debtors		30,000	—
Creditors		—	15,000
Fixed Assets		25,000	—
Expenses		10,000	—
Sales		—	1,00,000
Capital		—	45,000
Total		1,60,000	1,60,000

Note Cost of Goods Sold = Opening Stock + Purchase + Direct Expenses – Closing Stock

12. Mention the rules that are taken into consideration while preparing trial balance.

Ans. Following rules should be taken into care

- The balances of all assets accounts, expenses and losses accounts, drawings, cash and bank balances, purchases and sales return are placed in debit column of the trial balance.
- The balances of all liabilities accounts, income and profit accounts, capital, sales, purchases return are shown in credit column of trial balance.

- (iii) Normally, closing stock does not appear in the trial balance. It is usually given outside the trial balance as an adjustment. In case, it appears in the trial balance, it means that it has already been adjusted through purchases.
- (iv) The amount due from all debtors is shown collectively under the head 'Sundry Debtors'.
- (v) The amount due to all creditors is shown collectively under the head 'Sundry Creditors'.

• Long Answer (LA) Type Questions

1. Following balances were extracted from the books of Shri A Jadeja on 31st March, 2021. You are required to prepare a trial balance. The amount required to balance the trial balance should be entered as capital.

Name of Accounts	Amt (₹)	Name of Accounts	Amt (₹)
Purchases	2,12,500	Drawings	9,625
Stock (1st April, 2020)	30,000	Return Inwards	4,375
Sales	1,31,250	Premises	6,60,000
Sundry Debtors	29,750	Sundry Creditors	20,125
Discount Received	4,375	Discount Allowed	3,500
Carriage Outwards	875	Carriage Inwards	1,750
Cash in Hand	4,375	Cash at Bank	21,875
Machinery	1,55,625	General Expenses	2,625
Provision for Depreciation on Machinery	30,250	Bad Debts Written-off	3,065
		Provision for Doubtful Debts	2,975

Ans.

Trial Balance
as on 31st March, 2021

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Purchases		2,12,500	—
Stock		30,000	—
Sales		—	1,31,250
Sundry Debtors		29,750	—
Discount Received		—	4,375
Carriage Outwards		875	—
Cash in Hand		4,375	—
Machinery		1,55,625	—
Provision for Depreciation on Machinery		—	30,250
Drawings		9,625	—
Return Inwards		4,375	—
Premises		6,60,000	—
Sundry Creditors		—	20,125
Discount Allowed		3,500	—
Carriage Inwards		1,750	—
Cash at Bank		21,875	—
General Expenses		2,625	—
Bad Debts written-off		3,065	—
Provision for Doubtful Debts		—	2,975
Capital (Balancing figure)		—	9,50,965
Total		11,39,940	11,39,940

2. Following is the trial balance of Anuj Jindal as on 31st March, 2020.

Trial Balance
as on 31st March, 2020

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Capital		—	6,40,000
Fixed Assets		3,60,000	—
Drawings		1,20,000	—
Debtors		4,80,000	—

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Creditors		—	3,60,000
Purchases		14,20,000	—
Sales		—	21,00,000
Bank Balance		90,000	—
Cash in Hand		60,000	—
Salaries		3,30,000	—
Rent		2,40,000	—
Total		31,00,000	31,00,000

Having prepared trial balance, it was discovered that following transactions remained unrecorded.

- (i) Goods were sold on credit amounting to ₹ 80,000 (ii) Paid to creditors ₹ 44,000 by cheque
 (iii) Goods worth ₹ 14,000 were returned to the supplier (iv) Paid salary ₹ 30,000 by cheque

You are required to pass journal entries for the above mentioned transactions. Also, redraft the trial balance.

Ans.

In the books of Anuj Jindal
JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Debtors A/c Dr To Sales A/c (Being the goods sold on credit)		80,000	80,000
	Creditors A/c Dr To Bank A/c (Being the creditors paid by cheque)		44,000	44,000
	Creditors A/c Dr To Purchases Return A/c (Being the goods returned to suppliers)		14,000	14,000
	Salaries A/c Dr To Bank A/c (Being the salaries paid by cheque)		30,000	30,000

Trial Balance
as on 31st March, 2020

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Capital		—	6,40,000
Fixed Assets		3,60,000	—
Drawings		1,20,000	—
Debtors (WN1)		5,60,000	—
Creditors (WN2)		—	3,02,000
Purchases		14,20,000	—
Sales (WN3)		—	21,80,000
Bank Balance (WN4)		16,000	—
Cash in Hand		60,000	—
Salaries (WN5)		3,60,000	—
Rent		2,40,000	—
Purchase Returns		—	14,000
Total		31,36,000	31,36,000

Working Notes

1. Debtors = 4,80,000 + 80,000 = ₹ 5,60,000
 3. Sales = 21,00,000 + 80,000 = ₹ 21,80,000
 5. Salaries = 3,30,000 + 30,000 = ₹ 3,60,000

2. Creditors = 3,60,000 – 44,000 – 14,000 = ₹ 3,02,000
 4. Bank balance = 90,000 – 44,000 – 30,000 = ₹ 16,000

3. Following is the trial balance of Sudhir Chaudhary as on 31st March, 2021.

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Capital		—	10,00,000
Plant and Machinery		13,40,000	—
Furniture		2,40,000	—
Cash in Hand		60,000	—
Bank Overdraft		—	1,10,000
Purchases		22,40,000	—
Sales		—	34,80,000
Debtors		10,20,000	—
Creditors		—	5,00,000
Rent		1,76,000	—
General Expenses		14,000	—
Total		50,90,000	50,90,000

Following transactions were entered into but were not recorded in the books of accounts

- Goods worth ₹ 30,000 were purchased on credit.
- Received a cheque of ₹ 48,000 from a debtor in full settlement of his account of ₹ 50,000.
- Goods amounting to ₹ 6,000 were returned by a customer.
- Paid rent for the month ₹ 16,000 by cheque.

You are required to pass journal entries for the above mentioned transactions and post them into the ledger. Also, redraft the trial balance.

Ans.

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Purchases A/c Dr To Creditors A/c (Being the goods purchased on credit)		30,000	30,000
	Bank A/c Dr Discount Allowed A/c Dr To Debtors A/c (Being the amount received from debtors and discount allowed)		48,000 2,000	50,000
	Sales Return A/c Dr To Debtors A/c (Being the goods returned by a debtor)		6,000	6,000
	Rent A/c Dr To Bank A/c (Being the rent paid by cheque)		16,000	16,000

Dr Purchases Account Cr

Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)
	To Balance b/d		22,40,000		By Balance c/d		22,70,000
	To Creditors A/c		30,000				
			22,70,000				22,70,000

Dr Creditors Account Cr

Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)
	To Balance c/d		5,30,000		By Balance b/d		5,00,000
					By Purchases A/c		30,000
			5,30,000				5,30,000

Dr				Bank Account				Cr			
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)				
	To Debtors A/c		48,000		By Balance b/d		1,10,000				
	To Balance c/d		78,000		By Rent A/c		16,000				
			1,26,000				1,26,000				

Dr				Discount Allowed Account				Cr			
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)				
	To Debtors A/c		2,000		By Balance c/d		2,000				
			2,000				2,000				

Dr				Debtors Account				Cr			
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)				
	To Balance b/d		10,20,000		By Bank A/c		48,000				
					By Discount Allowed A/c		2,000				
					By Sales Return A/c		6,000				
					By Balance c/d		9,64,000				
			10,20,000				10,20,000				

Dr				Sales Return Account				Cr			
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)				
	To Debtors A/c		6,000		By Balance c/d		6,000				
			6,000				6,000				

Dr				Rent Account				Cr			
Date	Particulars	JF	Amt (₹)	Date	Particulars	JF	Amt (₹)				
	To Balance b/d		1,76,000		By Balance c/d		1,92,000				
	To Bank A/c		16,000								
			1,92,000				1,92,000				

Trial Balance
as on 31st March, 2021

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Capital		—	10,00,000
Plant and Machinery		13,40,000	—
Furniture		2,40,000	—
Cash in Hand		60,000	—
Bank Overdraft		—	78,000
Purchases		22,70,000	—
Discount Allowed		2,000	—
Sales		—	34,80,000
Debtors		9,64,000	—
Creditors		—	5,30,000
Sales Return		6,000	—
Rent		1,92,000	—
General Expenses		14,000	—
Total		50,88,000	50,88,000

Chapter Test

Multiple Choice Questions

- When closing stock is given outside the trial balance it should be recorded in
 (a) trading account (debit side) and balance sheet (asset side) (b) trading account (credit side) and balance sheet (asset side)
 (c) trading account (credit side) (d) balance sheet (asset side)
- Which of the following errors cannot be disclosed by trial balance?
 (a) Error of omission (b) Error of principle (c) Both (a) and (b) (d) None of these
- Errors of comission do not permit
 (a) correct totalling of balance sheet (b) correct totalling of trial balance
 (c) trial balance to agree (d) None of these
- (i) It shows final position of accounts and helps in preparation of financial statements.
 (ii) It verifies arithmetical accuracy of posting entries from journal to the ledger.
 In the above statements, what does 'It' refers to?
 (a) Cash book (b) Trial balance (c) Trial and error statement (d) None of these
- Which is not a trial balance method?
 (a) Balance method (b) Total method (c) Balance cum total method (d) Grand total method

Short Answer (SA) Type Questions

- Trial Balance is a link between the ledger and final accounts. Explain. Also give any two advantages of trial balance.
- From the following list of balances extracted from the books of Shri Mohan Prasad, prepare a trial balance as at 31st March, 2020.

Name of Accounts	Amt (₹)	Name of Accounts	Amt (₹)
Opening Stock	22,000	Investments	30,000
Purchases	2,57,500	Interest on Investments	2,700
Sales	3,61,800	Cash and Bank Balance	1,240
Carriage Inwards	300	Premises	60,000
Carriage Outwards	120	Fixtures	14,000
Return Inwards	8,500	Miscellaneous Expenses	520
Return Outwards	2,000	Miscellaneous Income	140
Debtors	32,000	Loan from PNB	25,000
Creditors	17,400	Interest on PNB Loan	3,000
Bad Debts	600	Capital	70,000
Stationary	420	Proprietor's Withdrawal	6,000
Insurance	340	Computers	9,000
Wages and Salaries	18,500	Goodwill	15,000
		Closing Stock (not adjusted)	31,000

- From the following information, draw up a trial balance in the books of Shri Manmohan as on 31st March, 2020. Capital ₹ 1,12,000, purchases ₹ 28,800, discount allowed ₹ 960, carriage inwards ₹ 6,960, carriage outwards ₹ 1,840, sales ₹ 48,000, return inwards ₹ 240, return outwards ₹ 560, rent and taxes ₹ 960, plant and machinery ₹ 64,560, stock on 1st April, 2019 ₹ 12,400, sundry debtors ₹ 16,160, sundry creditors ₹ 9,600, investments ₹ 2,880, commission received ₹ 1,440, cash in hand ₹ 80, cash at bank ₹ 8,080, motor cycle ₹ 27,680 and stock on 31st March, 2020 (not adjusted) ₹ 16,400.
- What are the methods for preparation of trial balance? Moreover, write in detail about the method of preparation of trial balance which is mostly used in practice.

Long Answer (LA) Type Question

1. Following is the trial balance of Anoop Kumar on 31st March, 2020.

Trial Balance
as on 31st March, 2020

Name of Accounts	LF	Debit Balance (₹)	Credit Balance (₹)
Cash at Bank		10,000	—
Fixed Assets		12,500	—
Capital		—	38,600
Purchases		22,500	—
Sales		—	10,250
Discount Allowed		250	—
Return Inwards		500	—
Return Outwards		—	700
Wages and Salaries		5,000	—
Debtors		1,340	—
Creditors		—	4,700
Drawings		1,000	—
Discount Received		—	350
Bills Receivable		1,170	—
Bills Payable		—	2,160
Rent		1,500	—
Interest Paid		1,000	—
Total		56,760	56,760

Having prepared trial balance, it was discovered that following transactions remained unrecorded.

- (i) Goods sold on credit amounting to ₹ 80,000 (ii) Paid to creditors ₹ 2,000 by cheque
(iii) Goods worth ₹ 1,000 were returned to a supplier

You are required pass journal entries for the above mentioned transactions and post them into ledger. Also, redraft the trial balance.

Answers

Multiple Choice Questions

1. (b) 2. (c) 3. (c) 4. (b) 5. (d)