

404 AEC Agriculture Accounting

Lecture#4

TRIAL BALANCE

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In the double entry system every entry has its corresponding credit and debit. It follows that at any given point of time, the posting from Journal, day books and cash book to the ledger is completed, the debit balances standing in all the ledgers including the cash book will equal the credit balances. At the end of the financial period (or at some other date) these balances are extracted and a schedule is prepared in journal form is called a Trial Balance. Thus the total of debit balances appearing in the Trial Balance must agree with the total of credit balances of appearing in the Trial Balance.

The next stage after posting accounts to the ledger is the preparation of a Trial Balance. The debit and credit balances of accounts are entered in this statement. The total of the debit and the total of the credit side must agree. An agreement indicates reasonable accuracy of the accounting work.

The trial balance helps in ascertaining arithmetical accuracy of the ledger accounts, location of errors and in the preparation of financial statements.

Objects of preparing Trial Balance:

1. It forms the very basis on which final accounts are prepared.
2. It helps in knowing the balance on any particular account in the ledger.
3. It is used as a test of arithmetical accuracy.

However, a Trial Balance is not a conclusive proof of absolute accuracy of the accounts. It does not indicate the absence of an error. Thus, a non-tallied Trial Balance indicates the presence of book-keeping errors.

Errors disclosed by the Trial Balance:

A Trial Balance will not agree on account of the following errors:

- (i) Wrong posting of entries i.e. A debit entry of Rs. 1,000 for purchase of furniture wrongly posted as Rs. 100 in the account.
- (ii) Omission of posting of debit or credit e.g. A debit entry of Rs. 1,000 for purchase of furniture is not posted at all.
- (iii) Duplication of posting e.g. when debit entry of Rs. 1000 for purchase of furniture has been posted twice in the account.

- (iv) Wrong side of posting e.g. when debit entry is posted on the credit side or credit entry is posted on the debit side, e.g. when a debit entry of Rs. 1000 is posted on the credit side, i.e. when debit entry of Rs. 1000 is posted on the credit side and *vice versa*.
- (v) Errors in casting the totals of debit or credit side of the Trial Balance.
- (vi) Wrong transfer of balances in the Trial Balance.
- (vii) Omission of entering the balance of account in the Trial Balance.
- (viii) Balance of cash book omitted to be recorded in the Trial Balance.
- (ix) Wrong balancing of account.
- (x) Errors in the total or posting or entries of subsidiary book.
- (xi) Wrong carry forward of balance in the various books, i.e. day books, cash book, etc.

Errors not disclosed by Trial Balance:

The following errors do not affect the agreement of the Trial Balance :

- (i) Errors or omission; omission to record any transaction
- (ii) Posting of wrong amount both debit and credit side of the account
- (iii) Error made in posting of debit or credit entry is compensated by an identical error of equal amount. These errors are known as compensating errors.
- (iv) Errors made in posting a transaction on the correct side of wrong account.
- (v) Recording a transaction twice erroneously. These are known as errors of duplication.
- (vi) Errors of principle – when the accounting principle is disregarded e.g. a capital item as revenue item and *vice versa*, i.e. purchase of furniture posted to Purchases Account.

Methods of locating errors in Trial Balance:

The following are some of the ways of detecting errors in the Trial Balance –

- (i) When digits are wrongly interchanged — it causes the error to occur in multiples of 9. Therefore the difference is a multiple of 9, there are good chances of error occurring in transposition of digits, i.e. when 97 is recorded as 79.
- (ii) When the difference is an even number divide by 2 and check whether such an amount is wrongly entered on the wrong side of debit or credit.
- (iii) If the difference is a multiple of 10 or 100 or 1000, then there are chances of the error occurring in the totalling.
- (iv) Ensure that all the balances of ledger accounts have been considered in the Trial Balance.
- (v) Ensure that there is no omission of recording the balances from the subsidiary books or cash book.
- (vi) Check all the postings and totals.

If the difference still persists, it should be transferred temporarily to Suspense Account and on locating the errors at a future date, the Suspense Account can be closed.

The format of a trial balance is as follows:

Trial Balance		
Ledger Accounts	Debit Rs.	Credit Rs.

Where the debit and the credit totals of the trial balance do not agree it is an indication that one or more errors have been made. (These errors are discussed in detail in). The trial balance is the stepping stone for the preparation of financial statements.

Illustration Journalise the following transactions and post them to Ledger and balance the accounts. Also prepare a Trial Balance as on 30th April 2003.

2003.

April 1 Ravi started business with Rs. 15,000 of which Rs. 4,000 were borrowed at 15% p.a. from Shri Sashi.

- 2 Purchased goods worth Rs. 4,000 from Anant at 2% trade discount.
- 3 Cash sales to Madan Rs. 1,200.
- 6 Credit sales to Salvi Rs. 2,000 less trade discount 2%.
- 9 Pard cash Rs. 1,950 to Anant and received discount of Rs. 10
- 12 Received Rs. 1,950 from Salvi in full settlement of his dues.
- 14 Returned goods of the price of Rs. 100 to Anant.
- 16 Paid into bank Rs. 5,000.
- 18 Issued a cheque for Rs. 1,000 to Anant on account.
- 19 Purchased goods of Rs. 2,000 from Anant.
- 22 Sold foods costing Rs. 1,000 at 25% profit to Ratan.
- 22 Received commission Rs. 800 from S & Co.
- 24 Received a cheque for Rs. 395 from Ratan & he was allowed discount Rs. 5.
- 25 Ratan returned goods of Rs. 50.
- 30 Paid Interest on loan Rs. 50 to Sashi.
- 30 Paid Salaries Rs. 2,000 out of which Rs. 1,200 paid by cheque.
- 30 Paid into Bank Rs. 500.
- 30 Paid Office Rent by cheque Rs. 300.

JOURNAL

Date (2003)	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
Apr 1	Cash A/c To Capital A/c To Sashi's Loan A/c	Dr.	15,000	11,000 4,000

	(Cash brought into business and loan taken from Sashi @ 15% to start the business)			
Apr 1	Purchases A/c To Anant's A/c (Credit purchases from Anant)	Dr.	3,920	3,920
Apr 3	Cash A/c To Sales A/c (Cash sales)	Dr.	1,200	1,200
Apr 6	Salvi's A/c To Sales A/c (Credit Sales to Salvi)	Dr.	1,960	1,960
Apr 9	Anant's A/c To Cash A/c To Discount A/c (Paid cash to & received discount from Anant.)	Dr.	1,960	1,950 10
Apr 12	Cash A/c Discount A/c To Salvi's A/c (Received cash from & allowed discount to Salvi)	Dr. Dr.	1,950 10	1,960
Apr 14	Anant's A/c To Returns Outwards A/c (Returned goods to Anant)	Dr.	98	98
Apr 16	Bank A/c To Cash A/c (Paid cash into Bank)	Dr.	5,000	5,000
Apr 18	Anant A/c To Bank A/c (Issued a cheque to Anant)	Dr.	1,000	1,000
Apr 19	Purchase A/c To Anant A/c (Credit purchases from Anant)	Dr.	2,000	2,000
Apr 22	Ratan's A/c To Sales A/c (Credit sales to Ratan)	Dr.	1,250	1,250
Apr 22	Cash A/c To Commission A/c (Received commission)	Dr.	800	800
Apr 24	Cash A/c Discount A/c To Ratan's A/c (Received a cheque from & allowed discount to Ratan)	Dr. Dr.	395 50	400

Apr 25	Returns Inwards A/c To Ratam's A/c (Received goods returned by Ratan)	Dr.	50	50
Apr 30	Interest A/c To Cash A/c (Paid interest for April 1993, to Sashi on loan taken from him)		50	50
Apr 30	Salaries A/c To Cash A/c To Bank A/c (Paid salary Rs. 800 in cash and Rs. 1,200 by cheque)	Dr.	2,000	800 1,200
Apr 30	Bank A/c To Cash A/c (Paid cash into bank)	Dr.	500	500
Apr 30	Rent A/c To Bank A/c (Issued a cheque for office rent for April, 1993)	Dr.	300	300

LEDGER

Dr.			Cash Account			Cr.
Date	Particulars	Amount	Date	Particulars	Amount	
2003		Rs.	2003		Rs.	
Apr1	To Capital A/c	11,000	Apr 9	By Anant's A/c	1,950	
Apr1	To Sashi's Loan A/c	4,000	Apr16	By Bank A/c	5,000	
Apr3	To Sales A/c	1,200	Apr30	By Interest A/c	50	
Apr12	To Salvi's A/c	1,950	Apr30	By Salaries A/c	800	
Apr22	To Commission A/c	800	Apr30	By Bank A/c	500	
Apr24	To Ratan's A/c	395	Apr30	By Balance c/d	11,045	
		19,345			19,345	
May1	To Balance b/d	11,045				

Dr.			Bank A/c			Cr.
Date	Particulars	Amount	Date	Particulars	Amount	
2003		Rs.	2003		Rs.	
Apr 16	To Cash A/c	5,000	Apr 18	By Anant's A/c	1,000	
Apr 30	To Cash A/c	500	Apr 30	By Salaries A/c	1,200	
			Apr 30	By Rent A/c	300	
			Apr 30	By Balance c/d	3,000	
		5,500			5,500	
May 1	To Balance b/d	3,000				

Dr. Salaries A/c			Cr.		
<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.	<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.
Apr 30	To Cash A/c	800	Apr 30	By Balance c/d	2,000
Apr 30	To Bank A/c	1,200			
		2,000			2,000
May 1	To Balance b/d	2,000			

Dr. Rent A/c			Cr.		
<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.	<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.
Apr 30	To Bank A/c	300	Apr 30	By Balance c/d	300
		300			300
May 1	To Balance b/d	300			

Dr. Commission A/c			Cr.		
<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.	<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.
Apr 30	To Balance c/d	800	Apr 22	By Cash A/c	800
		800			800
			May 1	By Balance b/d	800

Dr. Interest A/c			Cr.		
<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.	<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.
Apr 30	To Cash A/c	50	Apr 30	By Balance c/	50
		50			50
May 1	To Balance b/d	50			

Dr. Discount A/c			Cr.		
<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.	<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.
Apr 12	To Salvi's A/c	10	Apr 9	By Anant	10
Apr 24	To Ratan's A/c	5	Apr 30	By Balance c/d	5
		15			15
May 1	To Balance b/d	5			

Dr. Capital A/c			Cr.		
<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.	<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.

Apr 30	To Balance c/d	11,000	Apr 1	By Cash A/c	11,000
		11,000			11,000
			May 1	By Balance b/d	11,000

Dr. Sashi's Loan A/c Cr.					
Date 2003	Particulars	Amount Rs.	Date 2003	Particulars	Amount Rs.
Apr 30	To Balance c/d	4,000	Apr 1	By Cash A/c	4,000
		4,000			4,000
			May 1	By Balance b/d	4,000

Dr. Salvi's A/c Cr.					
Date 2003	Particulars	Amount Rs.	Date 2003	Particulars	Amount Rs.
Apr 6	To Sales A/c	1,960	Apr 12	By Cash A/c	1,950
			Apr 12	By Discount A/c	10
		1,960			1,960

Dr. Anant's A/c Cr.					
Date 2003	Particulars	Amount Rs.	Date 2003	Particulars	Amount Rs.
Apr 9	To Cash A/c	1,950	Apr 2	By Purchases A/c	3,920
Apr 9	To Discount A/c	10	Apr 19	By Purchases A/c	2,000
Apr 14	To Returns Outwards A/c	98			
Apr 18	To Bank A/c	1,000			
Apr 30	To Balance c/d	2,862			5,920
		5,920	May 1	By Balance b/d	2,862

Dr. Ratan's A/c Cr.					
Date 2003	Particulars	Amount Rs.	Date 2003	Particulars	Amount Rs.
Apr 22	To Sales A/c	1,250	Apr 24	By Cash A/c	395
			Apr 24	By Discount A/c	5
			Apr 25	By Returns Inwards A/c	50
			Apr 30	By Balance c/d	800
		1,250			1,250
May 1	To Balance b/d	800			

Dr.	Purchases A/c				Cr.
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<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.	<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.
Apr 2	To Anant	3,920			
Apr 19	To Anant	2,000	Apr 30	By Balance c/d	5,920
		5,920			5,920
May 1	To Balance b/d	5,920			

Dr. Sales A/c Cr.					
<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.	<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.
			Apr 3	By Cash A/c	1,200
			Apr 6	By Salvi A/c	1,960
			Apr 22	By Ratan A/c	1,250
Apr 30	To Balance c/d	4,410			4,410
		4,410	May 1	By Balance b/d	4,410

Dr. Returns Outward A/c Cr.					
<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.	<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.
Apr 30	To Balance c/d	98	Apr 14	By Anant	98
		98			98
			May 1	By Balance b.d	98

Dr. Returns Inwards A/c Cr.					
<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.	<i>Date</i> 2003	<i>Particulars</i>	<i>Amount</i> Rs.
Apr 25	To Ratan's A/c	50	Apr 30	By Balance c/d	50
		50			50
May 1	To Balance b/d	50			

Trial Balance as on 30th April, 2003.		
Accounts	Dr. (Rs.)	Cr. (Rs.)
Cash A/c	11,045	
Bank A/c	3,000	
Salaries A/c	2,000	
Rent A/c	300	
Commission A/c		800

Interest A/c	50	
Discount A/c	5	
Capital A/c		11,000
Sashi's Loan A/c		4,000
Creditor (Anant)		2,862
Debtor (Ratan)	800	
Purchases A/c	5,920	
Sales A/c		4,410
Returns Outwards A/c		98
Returns Inwards A/c	50	
	23,170	23,170