

The Trial Balance

OBJECTIVES

Upon completion of this chapter, you should be able to:

1. Prepare a trial balance.
2. Locate errors in the trial balance and ledger accounts.
3. Correct errors in the trial balance and ledger accounts.

Accounting Terminology

- Accounting errors
- Trial balance

INTRODUCTION

One of the major reasons for recording transactions in accounts is to provide the information needed for financial reports. However, before the information can be used to prepare these reports, it is necessary to check the accuracy of the entries that were recorded.

Remember that every entry consists of a debit and a credit. Therefore, the total of all the debits recorded in the accounts should equal the total of all the credits. This equality is verified by *taking a trial balance*. ■

Preparing a Trial Balance

Checking equality of total debits and total credits in ledger accounts.

■ PREPARING THE TRIAL BALANCE

The first step in preparing a trial balance is to find the balance of each account. This is done by pencil-footing the accounts, as described in Chapter 3.

| | | | |
|--------------------------------|-----------|--------------------------------------|-----------|
| Cash | | Rebecca Van Lieu, Capital | |
| | 10,000 | (a) 800 | 12,000 |
| (c) 2,000 | | (b) 500 | (c) 2,000 |
| (d) 1,000 | | (h) 300 | 14,000 |
| (f) 1,000 | | (j) 100 | |
| (i) 400 | | (k) 500 | |
| 12,200 | 14,400 | 2,200 | |
| Accounts Receivable | | Rebecca Van Lieu, Withdrawals | |
| (g) 800 | (i) 400 | (k) 500 | |
| 400 | | | |
| Furniture and Equipment | | Employment Fees | |
| | 7,000 | | (f) 1,000 |
| (a) 800 | | (g) 800 | |
| (e) 2,500 | | | 1,800 |
| | 10,300 | | |
| Loans Payable | | Salaries Expense | |
| | (d) 1,000 | (h) 300 | |

| Accounts Payable | | Repairs Expense | |
|------------------|-----------|-----------------|---------|
| (b) | 500 | 5,000 | (j) 100 |
| | (e) 7,000 | 2,500 | |
| | | 7,500 | |

The accounts of Van Lieu Creative Solutions are shown on page 33 as they would appear after the balances have been determined.

The next step in preparing the trial balance is to list the accounts and their balances in pencil. Then the debits and credits are totaled. This work is often done on a ruled form, as shown below.

Trial Balance

| VAN LIEU CREATIVE SOLUTIONS | | | | |
|-----------------------------|-------------------------------|-------|--------|-----------|
| TRIAL BALANCE | | | | |
| JULY 31, 20XX | | | | |
| Acct. No. | Account Name | Debit | | Credit |
| | Cash | 12 | 200 00 | |
| | Accounts Receivable | | 400 00 | |
| | Furniture and Equipment | 10 | 300 00 | |
| | Loans Payable | | | 1 000 00 |
| | Accounts Payable | | | 7 000 00 |
| | Rebecca Van Lieu, Capital | | | 14 000 00 |
| | Rebecca Van Lieu, Withdrawals | | 500 00 | |
| | Employment Fees | | | 1 800 00 |
| | Salaries Expense | | 300 00 | |
| | Repairs Expense | | 100 00 | |
| | Totals | 23 | 800 00 | 23 800 00 |

Steps in Preparing a Trial Balance:

- Find balances of accounts.
- List accounts and balances.
- Add balances to see if total debits and total credits are equal.

Note that the heading consists of three lines that answer these questions: Who? What? and When? The accounts are listed on the trial balance form in the order they appear in the ledger: assets, liabilities, capital, drawing, revenue, and expenses. The debit balances are recorded in the Debit money column, and the credit balances are recorded in the Credit money column. Note that the asset, withdrawals, and expense accounts are expected to have debit balances and that the liability, capital, and revenue accounts are expected to have credit balances. After all accounts and balances are listed, a single line is drawn across each money column with a ruler, and the balances are added. If the total of the two money columns agree, the trial balance is in balance. Then two lines are drawn under the totals. These lines indicate that the total debit balances equal the total credit balances, and the trial balance has been completed.

If the total debit balances do not equal the total credit balances, the trial balance is not in balance. This means that there is an error in the trial balance or in the accounts.

■ FINDING ERRORS IN THE TRIAL BALANCE AND THE ACCOUNTS

Time may be saved in finding errors by working back systematically from the trial balance to the accounts. It is usually possible to locate errors by completing one or more of the following steps.

1. Total the trial balance money columns again to make sure that the addition is correct.
2. Check to see whether any account balance has been omitted from the trial balance.

3. Compare the figures on the trial balance with the account balances to verify that the correct amounts have been listed on the trial balance and that they were placed in the proper money column.
4. Total the debits and credits in the accounts again, and compute the balances again.
5. Check the entries in the accounts to make sure that matching debit and credit were recorded for each transaction.

WWW Inquiry

Find the URL address for the Ruddick Corporation. Describe its two wholly owned subsidiaries.

■ ERRORS NOT REVEALED BY THE TRIAL BALANCE

Even if the trial balance is in balance, there is still a possibility that the accounts are not correct. Some errors that do not affect the equality of the trial balance totals are:

- Omitting a transaction completely.
- Debiting or crediting the wrong account.
- Entering the amount of the transaction incorrectly.
- Entering the same transaction twice.

■ CORRECTING ERRORS IN THE TRIAL BALANCE AND THE ACCOUNTS

Errors in the trial balance and in the account balances are easily corrected because these figures are written in pencil. If an error is located, erase it and write the correct amount in pencil. Errors in entries that have been written in ink are part of the permanent financial records. Therefore, they may never be erased or covered over with correction fluid or tape. Erasing or covering up errors will make the records suspect because it appears that someone may be falsifying the records. The type of correction required depends upon the type of error that was made. For example, assume that equipment was purchased for \$850 on credit and the following entry was made.

A transposition error occurs when two digits are swapped (e.g. \$598 for \$958). The difference will be divisible by 9.

| Equipment | Accounts Payable |
|-----------|------------------|
| 805 | 850 |

The error in Equipment is corrected by drawing a single line through the incorrect amount and then writing the correct amount above it, and initialing the correction.

| Equipment |
|----------------|
| 850 |
| 805 |

If the wrong amount is debited or credited, then an entry should be recorded to correct the error. For example, the cost of gasoline and oil for a delivery truck was incorrectly debited to the asset account of Delivery Equipment, as shown below.

WWW Inquiry

Find the URL address for Barnes and Noble. What were net sales for the fourth quarter ending December 31 last year? (Hint: go to Quarterly financial reports)

| Delivery Equipment | Cash |
|--------------------|--------|
| (a) 26 | (a) 26 |

Because Delivery Expense rather than Delivery Equipment should have been debited, the following entry is required to correct the error. Note that this entry debits Delivery Expense and credits Delivery Equipment.

| Delivery Equipment | | Delivery Expense | |
|--------------------|----|------------------|----|
| (a) | 26 | (b) | 26 |

CHAPTER 5 SUMMARY

- The accuracy of the accounts must be checked before financial reports are prepared.
- The procedure for checking the equality of the debits and credits in the accounts is called taking a trial balance.
- The first step in taking a trial balance is to find the balances of the accounts. The next step is to list the accounts and their balances. Then the debits and credits are totaled. The total of the debits should be equal to the total of the credits.
- The accounts are listed on the trial balance form in the order they appear in the ledger.
- If the trial balance is in balance, it is probable that the accounts in the ledger are correct. If the total debits and the total credits are not equal, the trial balance and the accounts must be checked to find and then correct the error.

CHAPTER APPLICATIONS

EXERCISES

Complete the following assignments on the forms provided in your workbook.

EXERCISE 5-1

Preparing a trial balance.

This is a continuation of Exercise 4-3.

Instructions:

1. Use the accounts from Exercise 4-3 to prepare a trial balance for Gerald White Management Consultant, as of June 30 of the current year.

EXERCISE 5-2

Preparing a trial balance. This is a continuation of Exercise 4-4.

Instructions:

1. Use the accounts from Exercise 4-4 to prepare a trial balance for Sandy Espe, Attorney at Law. Date the trial balance May 31 of the current year.

PROBLEMS

Complete all assigned problems on the forms provided in your workbook.

PROBLEM 5-1

Balancing accounts and preparing a trial balance.

The accounts of the Byelich Real Estate Agency, owned by Jim Byelich, are shown in the workbook.

Instructions:

1. Foot the accounts and enter the balances.
2. Prepare a trial balance as of March 31 of the current year.

PROBLEM 5-2

Preparing a trial balance. This is a continuation of Problem 4-1.

Instructions:

1. Use the accounts that were completed in Problem 4-1 to prepare a trial balance for the Barbagallo Accounting Service as of January 31 of the current year.

PROBLEM 5-3

Preparing a trial balance. This is a continuation of Problem 4-2.

Instructions:

1. Use the accounts that were completed in Problem 4-2 to prepare a trial balance for the Hooker Advertising Agency as of April 30 of the current year.

Save your work for use in Problem 6-2.

PROBLEM 5-4

Locating errors in a trial balance and accounts.

The typed version of the trial balance that follows was prepared from accounts that are shown in the workbook.

Instructions:

1. Follow the steps listed in Chapter 5 of the text to locate the errors in both the trial balance and the accounts.
2. Correct the errors and prepare a new trial balance.

**ARCHIBALD BUILDERS
TRIAL BALANCE
JANUARY 31, 20XX**

| | | |
|----------------------------|-----------------|-----------------|
| Cash | \$22,638 | |
| Equipment | 31,920 | |
| Accounts Payable | | |
| Tim Archibald, Capital | | \$62,120 |
| Tim Archibald, Withdrawals | | 800 |
| Carpentry Fees | | 22 |
| Rent Expense | 150 | |
| Salaries Expense | 1,200 | |
| Telephone Expense | 48 | |
| Totals | \$57,856 | \$62,942 |

PROBLEM 5-5

Correcting errors in the accounts; preparing a trial balance. The accounts of Sound Systems, a firm owned by John Leidy, appear in the workbook. Transactions a through c have been recorded in the accounts. The following errors were found in the accounts.

- Leidy's \$10,000 investment in the business was not recorded.
- The payment of \$800 for rent in Transaction a was debited to John Leidy, Withdrawals.
- The \$70 debit in Equipment in Transaction b should be \$700.
- The capital account was debited for a \$400 withdrawal in Transaction c.

Instructions:

1. Correct the errors in the accounts provided in the workbook. Use the identifying letters d through g for the correcting entries.

2. Foot the accounts and compute the balances.
3. Prepare a trial balance as of October 31 of the current year.

CASE STUDY

Write the answer to the case study on the form provided in your workbook.

Kathryn Kennedy's pet grooming business has been operating for one month. Kennedy prepared her financial records according to accepted accounting procedures. At month's end she had the following accounts and balances:

| | |
|------------------------------|----------|
| Cash | \$2,202. |
| Accounts Receivable | \$1,002. |
| Pet Grooming Equipment | \$2,300. |
| Office Equipment | \$2,800. |
| Accounts Payable | \$2,300. |
| Kathryn Kennedy, Capital | \$2,804. |
| Kathryn Kennedy, Withdrawals | \$ 500. |
| Revenues | \$1,800. |
| Expenses | \$ 900. |

Kennedy prepared her trial balance for the month and ended up with debit and credit balances of \$8,304. She was pleased that her trial balance did, in fact, balance—proving that she had kept accurate records for the month.

When she explained her pride to her accountant, he indicated that even though the trial balance was equal, she may have made errors.

Critical Thinking

- *What errors might have been made that would still allow the balance to prove?*