

CHAPTER OUTLINE

- ❖ The trial balance
- ❖ Methods of extraction of trial balance
- ❖ Errors that affect the trial balance
- ❖ Errors that do not affect the trial balance
- ❖ Correction of errors
- ❖ Suspense account.

Learning Objectives

At the end of this chapter, the student should be able to:

- Explain the meaning and use of trial balance in accounting.
- Extract ledger balances in order to prepare the trial balance.
- Identify items that should be on the debit or credit side of the trial balance.
- Explain when and how to use of suspense account.
- Demonstrate the use of journal entries in correction of errors.

7.1 THE TRIAL BALANCE

The trial balance is simply defined as the list of balances extracted from the ledger accounts including the cash book at a given date according to whether they are debit or credit balance.

7.2 METHOD OF EXTRACTION OF TRIAL BALANCE

The trial balance can be extracted using either total method or balances method. In the total method, the total of both sides are extracted while only

the balances are used in the balances method. Having said this, we will concentrate more on its procedure.

Procedure:

1. Balance off the ledger accounts and bring down the balances.
2. Enter the debit balances in the ledger to the debit column of the trial balance.
3. Enter the credit balances in the ledger to the credit column of the trial balance.
4. For the cash book, transfer all the entries in the debit column of the cash book to the credit column of the trial balance and all the items in the credit column of the cash book to the debit column of the trial balance if the entries were not posted to ledger accounts, otherwise enter the debit balances in the cash book to the debit column of the trial balance and vice versa.
5. Add the two sides (Dr and Cr), the total of the two sides must agree. (i.e. must be equal).

Note that the principal aim of the trial balance is to test the arithmetical accuracy of the ledger entries. Once the double entry principle is properly observed and due care taken in recording the values, the two sides of the trial balance will always agree.

The format or listing of the trial balance is expected to appear as follows:

Particulars	Dr	Cr
All fixed (Non-current) Assets	X	
All current Assets	X	
Capital		X
All long term liabilities		X
All current liabilities		X
All income and gains		X
Return outwards		X
All reserves		X
All paid expenses	X	
All accrued expenses		X
All investments	X	

