

Trial Balance in Accounting using Balance Method

**Definition:** A trial balance is a bookkeeping worksheet in which the balances of all ledgers are compiled into debit and credit account column totals that are equal. A trial balance is prepared periodically, usually at the end of an accounting period, as a part of the closing process.

Purpose:

1. **Verification of Ledger Accuracy:** To ensure that the entries in a company's bookkeeping system are mathematically correct.
2. **Financial Statement Preparation:** Acts as a starting point for preparing financial statements.
3. **Error Detection:** Helps in identifying and rectifying errors in the ledger accounts.

Preparation of Trial Balance:

1. **List All Accounts:** Include all ledger accounts with their balances.
2. **Enter Balances:** Record the debit balances in the debit column and credit balances in the credit column.
3. **Total the Columns:** Sum the debit and credit columns.
4. **Ensure Equality:** Check that the total of the debit column equals the total of the credit column.

Methods for Preparation of a Trial Balance

There are three primary methods for preparing a trial balance in accounting:

- (i) Totals Method
- (ii) Balances Method
- (iii) Totals-cum-balances Method

Totals method:

Under this method, total of each side in the ledger (debit and credit) is ascertained separately and shown in the trial balance in the respective columns. The total of debit column of trial balance should agree with the total of credit column in the trial balance because the accounts are based on double entry system. However, this method is not widely used in practice, as it does not help in assuming accuracy of balances of various accounts and preparation of the financial statements.

Balances Method:



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This is the most widely used method in practice. Under this method trial balance is prepared by showing the balances of all ledger 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. It may be noted that in trial balance, normally in place of balances in individual accounts of the debtors, a figure of sundry debtors is shown, and in place of individual accounts of creditors, a figure of sundry creditors is shown.

**Totals-cum-balances Method**

This method is a combination of totals method and balances method. Under this method four columns for amount are prepared. Two columns for writing the debit and credit totals of various accounts and two columns for writing the debit and credit balances of these accounts. **However, this method is also not used in practice because it is time consuming and hardly serves any additional or special purpose.**

**Steps to Solve Using the Balance Method**

- 1. Extract Ledger Balances:**
  - Calculate the closing balance for each ledger account.
- 2. Classify the Balances:**
  - Identify whether each balance is a debit or credit.
- 3. Prepare the Trial Balance Format:**
  - Create a table with columns for Date, Particulars, Journal Folio (JF), Amount (Debit), and Amount (Credit).
- 4. Enter the Details:**
  - List each account in the "Particulars" column with the corresponding debit or credit balance.
- 5. Total the Debit and Credit Columns:**
  - Sum up the amounts in both the debit and credit columns.
- 6. Verify the Totals:**
  - Ensure that the total debits equal the total credits.
- 7. Rectify Errors:**
  - If totals do not match, recheck ledger entries and correct any errors.

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Example:

| Account Name        | LF  | Debit (Rs.)    | Credit (Rs.)   |
|---------------------|-----|----------------|----------------|
| Cash                | 101 | 200,000        |                |
| Accounts Receivable | 102 | 150,000        |                |
| Inventory           | 103 | 100,000        |                |
| Accounts Payable    | 201 |                | 100,000        |
| Sales Revenue       | 301 |                | 250,000        |
| Purchases           | 302 | 80,000         |                |
| Salaries Expense    | 303 | 50,000         |                |
| Rent Expense        | 304 | 20,000         |                |
| Capital             | 401 |                | 150,000        |
| <b>Total</b>        |     | <b>600,000</b> | <b>500,000</b> |

**Solved Question**

Below are the extracts from the books of XYZ Ltd. as on March 31, 2024.

Cash Book Extracts

| Date        | Particulars                | Debit (Rs.) | Credit (Rs.) |
|-------------|----------------------------|-------------|--------------|
| 01 Dec 2023 | Opening Balance            | 10,000      |              |
| 05 Dec 2023 | Cash Sales                 | 8,000       |              |
| 12 Dec 2023 | Payments to Suppliers      |             | 4,000        |
| 20 Dec 2023 | Rent Payment               |             | 1,500        |
| 25 Dec 2023 | Cash Receipt from Customer | 2,000       |              |
| 28 Dec 2023 | Bank Deposit               |             | 2,000        |

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**Ledger Extracts**

**1. Sales Account**

| Date        | Particulars | Debit (Rs.) | Credit (Rs.) |
|-------------|-------------|-------------|--------------|
| 05 Dec 2023 | Cash        |             | 8,000        |

**2. Purchases Account**

| Date        | Particulars | Debit (Rs.) | Credit (Rs.) |
|-------------|-------------|-------------|--------------|
| 12 Dec 2023 | Cash        | 4,000       |              |

**3. Bank Account**

| Date        | Particulars | Debit (Rs.) | Credit (Rs.) |
|-------------|-------------|-------------|--------------|
| 28 Dec 2023 | Cash        | 2,000       |              |

**4. Rent Account**

| Date        | Particulars | Debit (Rs.) | Credit (Rs.) |
|-------------|-------------|-------------|--------------|
| 20 Dec 2023 | Cash        | 1,500       |              |

**5. Capital Account**

| Date        | Particulars     | Debit (Rs.) | Credit (Rs.) |
|-------------|-----------------|-------------|--------------|
| 01 Dec 2023 | Opening Balance |             | 10,000       |

**Solution:**

**Steps to Prepare the Trial Balance Using the Balance Method:**

**1. Extract Balances from Cash Book:**

- **Cash Book:** The ending balance will be the net of debit and credit entries.
- **Total Debit:** 10,000 (Opening) + 8,000 (Cash Sales) + 2,000 (Cash Receipt) = 20,000
- **Total Credit:** 4,000 (Payments to Suppliers) + 1,500 (Rent Payment) + 2,000 (Bank Deposit) = 7,500
- **Ending Cash Balance:** 20,000 - 7,500 = 12,500 (Debit)

**2. Extract Balances from Ledger Accounts:**



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- Sales Account: Credit Balance of 8,000
- Purchases Account: Debit Balance of 4,000
- Bank Account: Debit Balance of 2,000
- Rent Account: Debit Balance of 1,500
- Capital Account: Credit Balance of 10,000

3. Prepare the Trial Balance:

Prepare the Trial Balance:

| Name of Account  | LF | Debit (Rs.)   | Credit (Rs.)  |
|------------------|----|---------------|---------------|
| Cash             |    | 12,500        |               |
| Sales            |    |               | 8,000         |
| Purchases        |    | 4,000         |               |
| Bank             |    | 2,000         |               |
| Rent             |    | 1,500         |               |
| Capital          |    |               | 10,000        |
| Suspense Account |    |               | 2,000         |
| <b>Total</b>     |    | <b>20,000</b> | <b>20,000</b> |

**Assignment on Balance Method**

**Question 1**

Below are the extracts from the books of ABC Ltd. as on March 31, 2023. Prepare the Trial Balance using the Balance Method.

Cash Book Extracts

| Date        | Particulars                | Debit (Rs.) | Credit (Rs.) |
|-------------|----------------------------|-------------|--------------|
| 01 Mar 2023 | Opening Balance            | 15,000      |              |
| 08 Mar 2023 | Cash Sales                 | 12,000      |              |
| 15 Mar 2023 | Payments to Suppliers      |             | 6,000        |
| 20 Mar 2023 | Rent Payment               |             | 2,000        |
| 25 Mar 2023 | Cash Receipt from Customer | 5,000       |              |
| 30 Mar 2023 | Bank Deposit               |             | 5,000        |

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**Ledger Extracts**

1. Sales Account

| Date        | Particulars | Debit (Rs.) | Credit (Rs.) |
|-------------|-------------|-------------|--------------|
| 08 Mar 2023 | Cash        |             | 12,000       |

2. Purchases Account

| Date        | Particulars | Debit (Rs.) | Credit (Rs.) |
|-------------|-------------|-------------|--------------|
| 15 Mar 2023 | Cash        | 6,000       |              |

3. Bank Account

| Date        | Particulars | Debit (Rs.) | Credit (Rs.) |
|-------------|-------------|-------------|--------------|
| 30 Mar 2023 | Cash        | 5,000       |              |

4. Rent Account

| Date        | Particulars | Debit (Rs.) | Credit (Rs.) |
|-------------|-------------|-------------|--------------|
| 20 Mar 2023 | Cash        | 2,000       |              |

5. Capital Account

| Date        | Particulars     | Debit (Rs.) | Credit (Rs.) |
|-------------|-----------------|-------------|--------------|
| 01 Mar 2023 | Opening Balance |             | 15,000       |

Ques 2: Below are the extracts from the books of DEF Enterprises as on June 30, 2023. Prepare the Trial Balance using the Balance Method.

**Cash Book Extracts**

| Date        | Particulars                | Debit (Rs.) | Credit (Rs.) |
|-------------|----------------------------|-------------|--------------|
| 01 Jun 2023 | Opening Balance            | 20,000      |              |
| 10 Jun 2023 | Cash Sales                 | 15,000      |              |
| 18 Jun 2023 | Payments to Suppliers      |             | 7,000        |
| 22 Jun 2023 | Rent Payment               |             | 3,000        |
| 27 Jun 2023 | Cash Receipt from Customer | 6,000       |              |
| 29 Jun 2023 | Bank Deposit               |             | 4,000        |

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**Ledger Extracts**

**1. Sales Account**

| Date        | Particulars | Debit (Rs.) | Credit (Rs.) |
|-------------|-------------|-------------|--------------|
| 10 Jun 2023 | Cash        |             | 15,000       |

**2. Purchases Account**

| Date        | Particulars | Debit (Rs.) | Credit (Rs.) |
|-------------|-------------|-------------|--------------|
| 18 Jun 2023 | Cash        | 7,000       |              |

**3. Bank Account**

| Date        | Particulars | Debit (Rs.) | Credit (Rs.) |
|-------------|-------------|-------------|--------------|
| 29 Jun 2023 | Cash        | 4,000       |              |

**4. Rent Account**

| Date        | Particulars | Debit (Rs.) | Credit (Rs.) |
|-------------|-------------|-------------|--------------|
| 22 Jun 2023 | Cash        | 3,000       |              |

**5. Capital Account**

| Date        | Particulars     | Debit (Rs.) | Credit (Rs.) |
|-------------|-----------------|-------------|--------------|
| 01 Jun 2023 | Opening Balance |             | 20,000       |