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Manual Accounting - Module 21

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:

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

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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.**

Proforma of Trial Balance

Trial Balance				
as at.....				
S.No	Ledger Accounts	L.F.	Dr. Amount	Cr. Amount
			(Total or Balance)	(Total or Balance)
			₹	₹

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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Adjusted Trial Balance (Through Suspense Account): Now suppose the Trial Balance does not agree i.e. there is a difference of some amount in the totals of the two columns of the Trial Balance. What will you do with this difference? A different account i.e. Suspense Account is opened with the difference in amount put in this account.

This will result in agreement of Trial Balance. The suspense account with the amount of difference will be put on the shorter side of the Trial Balance. For example total of the debit column exceeds the total of the credit column by Rs.500. This amount of Rs 500 will be written on the credit column against Suspense Account to make the Trial Balance agree.

The suspense A/c is however a temporary arrangement to make the Trial Balance agree. This account will show balance till the error or errors are rectified, this account will disappear as soon as all the errors are rectified.

Rules of Preparing Trial Balance:

While preparing the trial balance from the given list of ledger balances, following rules should be taken into care:

1. The balances of all (i) assets accounts (ii) expenses accounts (iii) losses (iv) drawings (v) cash and bank balances are placed in the debit column of the trial balance.
2. The balances of all (i) liabilities accounts (ii) income accounts (iii) profits (iv) capital are placed in the credit column of the trial balance.

Solved Question without Suspense

Ques: Give the Journal entries for the following transactions:

1. April 1 – Business started with cash ₹10,000
2. April 3 – Deposited in SBI ₹6,000
3. April 5 – Bought goods from Mahavir ₹1,500
4. April 9 – Sold goods to Gupta ₹650
5. April 12 – Paid cash to Mahavir ₹99, Discount received ₹10
6. April 15 – Cash received from Gupta ₹625, Discount allowed ₹25
7. April 20 – Furniture purchased ₹300
8. April 22 – Drew cash from bank for personal use ₹600
9. April 30 – Paid rent by cheque ₹200
10. April 30 – Salary due to clerk ₹300

Prepare a trial balance using balance method.



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Solution:

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
April 1	Cash A/c Dr.		10,000	
	To Capital A/c			10,000
	<i>(Being capital introduced by proprietor)</i>			
April 3	Bank (SBI) A/c Dr.		6,000	
	To Cash A/c			6,000
	<i>(Being cash deposited into bank)</i>			
April 5	Purchases A/c Dr.		1,500	
	To Mahavir A/c			1,500
	<i>(Being goods purchased on credit from Mahavir)</i>			
April 9	Gupta A/c Dr.		650	
	To Sales A/c			650
	<i>(Being goods sold on credit to Gupta)</i>			
April 12	Mahavir A/c Dr.		1,000	
	To Cash A/c			990
	To Discount Received A/c			10
	<i>(Being payment made to Mahavir and discount received)</i>			
April 15	Cash A/c Dr.		625	
	Discount Allowed A/c Dr.		25	
	To Gupta A/c			650
	<i>(Being cash received from Gupta and discount allowed to him)</i>			
April 20	Furniture A/c Dr.		300	
	To Cash A/c			300
	<i>(Being purchase of furniture on cash)</i>			
April 22	Drawings A/c Dr.		600	
	To Bank A/c			600
	<i>(Being cash withdrawn from bank for personal use)</i>			
April 30	Rent A/c Dr.		200	
	To Bank A/c			200

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Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	<i>(Being rent paid by cheque)</i>			
April 30	Salary A/c Dr.		300	
	To Outstanding Salary A/c			300
	<i>(Being salary of a clerk remains outstanding)</i>			



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Ledger Accounts

Capital Account

Dr.				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
Apr 30	To Balance c/d		10,000	Apr 1	By Cash A/c		10,000
				May 1	By Balance b/d		10,000

Cash Account

Dr.				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
Apr 1	To Capital A/c		10,000	Apr 3	By Bank A/c		6,000
Apr 15	To Gupta A/c		625	Apr 12	By Mahavir A/c		990
				Apr 20	By Furniture A/c		300
				Apr 30	By Balance c/d		3,335
			10,625				10,625
May 1	To Balance b/d		3,335				



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Bank Account

Dr.				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
Apr 3	To Cash A/c		6,000	Apr 22	By Drawings A/c		600
				Apr 30	By Rent A/c		200
				Apr 30	By Balance c/d		5,200
			6,000				6,000
May 1	To Balance b/d		5,200				

Purchases Account

Dr.				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
Apr 5	To Mahavir A/c		1,500				

Mahavir Account

Dr.				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
Apr 12	To Cash A/c		990	Apr 5	By Purchases A/c		1,500
Apr 12	To Discount Received A/c		10				
Apr 12	To Balance c/d		500				
			1,500				1,500
				May 1	By Balance b/d		500

Sales Account

Dr.				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
				Apr 9	By Gupta A/c		650



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Manual Accounting - Module 21

Gupta Account

Dr.				Cr.			
Gupta Account							
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
Apr 15	To Sale A/c		650	Apr 9	By Cash A/c		625
				Apr 15	By Discount Allowed A/c		25
			650				650

Furniture Account

Dr.				Cr.			
Furniture Account							
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)
Apr 20	To Cash A/c		300	Apr 30	By Balance c/d		300
May 1	To Balance b/d		300				

Discount Allowed Account

Dr.				Cr.			
Discount Allowed Account							
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)
Apr 15	To Gupta's A/c		25				

Discount Received Account

Dr.				Cr.			
Discount Received Account							
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)
				Apr 12	By Mahavir's A/c		10

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Drawings Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Apr 22	To Bank A/c	600	Apr 30	By Balance c/d	600
May 1	To Balance b/d	600			

Rent Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Apr 30	To Bank A/c	200			

Salary Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Apr 30	To O/S Salary A/c	300			

Outstanding Salary Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
			Apr 30	By Salary A/c	300

Trial Balance

S.No	Name of Account	L.F.	Debit Balance (₹)	Credit Balance (₹)
1	Cash Account		3,335	
2	Bank Account		5,200	
3	Capital Account			10,000
4	Purchases Account		1,500	
5	Sales Account			650
6	Mahavir's Account			500

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S.No	Name of Account	L.F.	Debit Balance (₹)	Credit Balance (₹)
7	Furniture Account		300	
8	Drawings Account		600	
9	Rent Account		200	
10	Salary Account		300	
11	Outstanding Salary A/c			300
12	Discount Allowed A/c		25	
13	Discount Received A/c			10
	Total		11,460	11,460

Steps to Prepare the Trial Balance Using the Balance Method:

1. The Debit Side (Uses and Assets)

The debit column (₹11,460) represents:

- **Assets:** Resources owned by the business, such as Cash (₹3,335), Bank (₹5,200), and Furniture (₹300).
- **Expenses:** Costs incurred to run the business, such as Purchases (₹1,500), Rent (₹200), Salary (₹300), and Discount Allowed (₹25).
- **Drawings:** The amount withdrawn by the owner for personal use (₹600), which effectively reduces the owner's stake.

2. The Credit Side (Sources and Liabilities)

The credit column (₹11,460) represents:

- **Capital:** The owner's initial investment in the business (₹10,000).
- **Liabilities:** Amounts the business owes to outsiders, such as the creditor Mahavir (₹500) and Outstanding Salary (₹300).
- **Income/Gains:** Money earned by the business, such as Sales (₹650) and Discount Received (₹10).

3. Why it "Balanced"

The total of the Debit side and Credit side both equal ₹11,460. This confirms that for every entry made in the Journal and Ledger:

1. The Dual Aspect concept was followed (Debit = Credit).
2. The ledger posting and balancing were done without arithmetical errors.

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Assignment on Balance Method

Ques 1: From the following ledger balances, prepare a trial balance of Anuradha Traders as on 31st March, 2020: **[Hint: Total of Debit and Credit side = Rs 292500]**

Account Head	Rupees
Capital	1,00,000
Sales	1,66,000
Purchases	1,50,000
Sales return	1,000
Discount allowed	2,000
Expenses	10,000
Trade receivables	75,000
Trade payables	25,000
Investments	15,000
Cash at bank and in hand	37,000
Interest received on investments	1,500
Insurance paid	2,500



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Ques 2: One of your clients, Mr. Singhania has asked you to finalize his accounts for the year ended 31st March, 2023. Till date, he himself has recorded the transactions in books of accounts. As a basis for audit, Mr. Singhania furnished you with the following statement. **[Hint: Total of Debit and Credit side = Rs 5454]**

Particulars	Dr. Balance	Cr. Balance
Singhania's Capital		1,556
Singhania's Drawings	564	
Leasehold premises	750	
Sales		2,750
Due from customers		530
Purchases	1,259	
Purchases return	264	
Loan from bank		256
Trade payables	528	
Trade expenses	700	
Cash at bank	226	
Bills payable	100	
Salaries and wages	600	
Inventories (1.4.2022)		264
Rent and rates	463	
Sales return		98
	5,454	5,454

The closing inventory on 31st March, 2023 was valued at ₹ 574. Mr. Singhania claims that he has recorded every transaction correctly as the trial balance is tallied. Check the accuracy of the above trial balance.

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Ques 3: Prepare Trial Balance of M/s Multiplying enterprise as on 31st December, 2014. [Hint: Total of Debit and Credit side = Rs 1,80,000]

<i>Accounts</i>	<i>Balances (₹)</i>	<i>Accounts</i>	<i>Balances (₹)</i>
Cash in hand	2,500	Debtors	18,200
Cash at Bank	14,500	Creditors	16,600
Capital	70,000	Opening stock	8,700
Drawing	9,000	Wages	6,700
Purchases	60,000	Rent	5,000
Sales	82,000	Salary	8,400
Machine	35,000	Bills Payable	11,400
Furniture	12,000		

Ques 4: Prepare Trial Balance as on 31st March, 2014 from the following balances of Sabana: [Hint: Total of Debit side = Rs 1,57,300 , Credit side = Rs 1,56,300 and Suspense Account Credit = Rs 1000]

<i>Accounts</i>	<i>Dr. Balances (₹)</i>	<i>Cr. Balances (₹)</i>
Cash in hand	3,100	
Bank overdraft		18,250
Opening stock	24,600	
Purchases	59,800	
Sales		72,350
Sabana's Capital		50,000
Drawings	12,000	
Carriage Inward	1,600	
Rent	2,400	
Commission		2,100

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