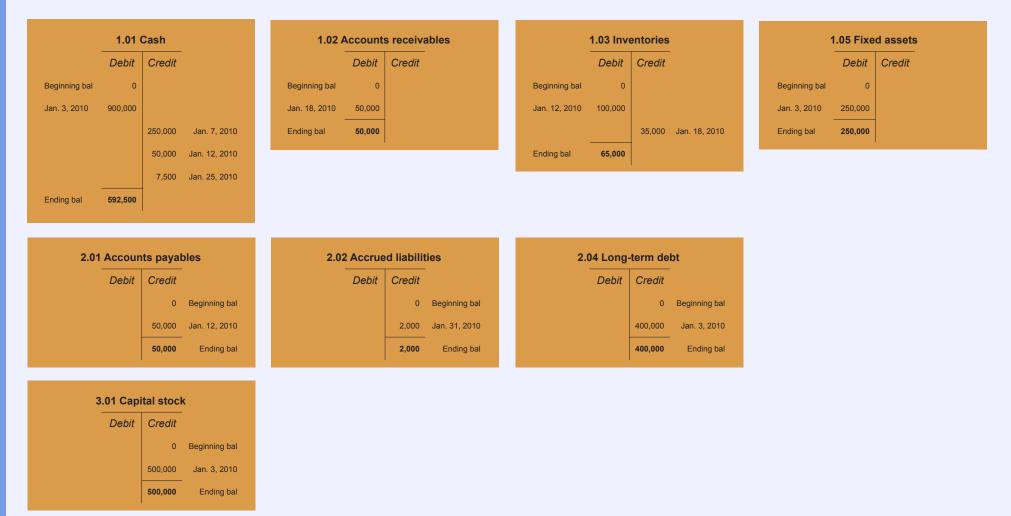
# **FINANCE AT A GLANCE**

## The trial balance

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## Lesson 52

The next step in the accounting cycle is the generation of the trial balance. The trial balance is a list of all ledger accounts and their balances and is used to prove the equality of debits and credits. Assets are listed first followed by liabilities and then equity, then by revenue and expense accounts. Debit balances are listed in the left column and credit balances in the right column. The trial balance is a control feature in the accounting cycle in the sense that it proves that the accounts balance. However, it does ensure that all transactions were entered or entered into the proper accounts. To generate the trial balance as of January 31, 2010, we need to get the ending balances as of this date of each of the accounts we used in lesson 51. Recall what we said in Lessons 49 and 50: Asset accounts normally end with a credit balance. As for revenue accounts, they normally have a credit balance prior to closing, and expense accounts normally have a debit balance prior to closing.





Using the ending balances above, we generate the trial balance as follows:

### **Trial Balance**

### As of January 31, 2010

	Debit	Credit
Cash	592,500	
Accounts receivables	50,000	
Inventories	65,000	
Fixed assets	250,000	
Accounts payables		50,000
Accrued liabilities		2,000
Long-term debt		400,000
Capital stock		500,000
Sales		50,000
Cost of goods sold	35,000	
Salaries	5,000	
Rent	2,000	
Sales and marketing expenses	2,500	
	1,002,000	1,002,000

The trial balance we have just prepared shows total debits equals total credits.

If the trial balance results into an imbalance, then the error/s that cause such imbalance must be located first first and corrected. Possible sources of errors are:

Some figures from the journal may have been missed while posting to the ledgers.

Copying journal figures incorrectly while posting to the ledgers.

Posting figures under the wrong debt / credit columns of the ledgers.

Miscalculating ledger totals.

Entering figures under the wrong column of the trial balance.

Once the trial balance shows that total debits equals total credits, we can proceed to the next stage of the accounting cycle.