

FINANCE AT A GLANCE

The trial balance

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 debit balance. Liability and equity 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.

1.01 Cash

	Debit	Credit
Beginning bal	0	
Jan. 3, 2010	900,000	
		250,000 Jan. 7, 2010
		50,000 Jan. 12, 2010
		7,500 Jan. 25, 2010
Ending bal	592,500	

1.02 Accounts receivables

	Debit	Credit
Beginning bal	0	
Jan. 18, 2010	50,000	
Ending bal	50,000	

1.03 Inventories

	Debit	Credit
Beginning bal	0	
Jan. 12, 2010	100,000	
		35,000 Jan. 18, 2010
Ending bal	65,000	

1.05 Fixed assets

	Debit	Credit
Beginning bal	0	
Jan. 3, 2010	250,000	
Ending bal	250,000	

2.01 Accounts payables

	Debit	Credit
		0 Beginning bal
		50,000 Jan. 12, 2010
	50,000	Ending bal

2.02 Accrued liabilities

	Debit	Credit
		0 Beginning bal
		2,000 Jan. 31, 2010
	2,000	Ending bal

2.04 Long-term debt

	Debit	Credit
		0 Beginning bal
		400,000 Jan. 3, 2010
	400,000	Ending bal

3.01 Capital stock

	Debit	Credit
		0 Beginning bal
		500,000 Jan. 3, 2010
	500,000	Ending bal

4.01 Sales

<i>Debit</i>	<i>Credit</i>
	0 Beginning bal
500,000	Jan. 18, 2010
500,000	Ending bal

5.01 Cost of goods sold

	<i>Debit</i>	<i>Credit</i>
Beginning bal	0	
Jan. 18, 2010	35,000	
Ending bal	35,000	

5.05 Salaries

	<i>Debit</i>	<i>Credit</i>
Beginning bal	0	
Jan. 25, 2010	5,000	
Ending bal	5,000	

5.06 Rent

	<i>Debit</i>	<i>Credit</i>
Beginning bal	0	
Jan. 31, 2010	2,000	
Ending bal	2,000	

5.07 Sales and marketing expenses

	<i>Debit</i>	<i>Credit</i>
Beginning bal	0	
Jan. 25, 2010	2,500	
Ending bal	2,500	

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	
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	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.