



# **Chapter 6.**

# **Trial balance**

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# 01

**The trial balance**

# Preparing financial statements




| ACCOUNTING LEDGER  |              |               |
|--|--------------|---------------|
| PARTICULARS  | DEBIT AMOUNT | CREDIT AMOUNT |
| Cash Account<br>To Capital Account<br>(Being Cash brought in as Capital) | 50,000       | 50,000        |
| Bank account<br>To Cash Account<br>(Being Cash deposited into the bank)  | 20,000       | 20,000        |

TRIAL

**Initial** trial balance

Adjustments



| ACCOUNTING LEDGER  |              |               |
|--|--------------|---------------|
| PARTICULARS  | DEBIT AMOUNT | CREDIT AMOUNT |
| Cash Account<br>To Capital Account<br>(Being Cash brought in as Capital) | 50,000       | 50,000        |
| Bank account<br>To Cash Account<br>(Being Cash deposited into the bank)  | 20,000       | 20,000        |



**Final** trial balance

# Trial balance

**Trial balance:** A list of nominal ledger account balances shown in debit and credit columns at a point in time, usually the end of the accounting year. The trial balance is not part of the double entry system, it is extracted from the double entry system. It is the starting point to preparing the financial statements.

*Source: ICAEW Accounting workbook, pp. 141*

# Year-end balances

- At the end of a reporting period (usually the year-end), a balance is extracted for each nominal ledger account.
- All debits and credits on the account, including opening balances, are totaled.
- If total debits exceed total credits there is a **debit balance** on the account.
- If total credits exceed total debits the account has a **credit balance**.

|                    | Debit         | Credit        |
|--------------------|---------------|---------------|
|                    | £             | £             |
| Cash at bank       | 6,500         |               |
| Capital            |               | 7,000         |
| Bank loan          |               | 1,000         |
| Purchases          | 5,000         |               |
| Trade payables     |               | 0             |
| Rent               | 3,500         |               |
| Shop fittings      | 2,000         |               |
| Sales              |               | 12,500        |
| Trade receivables  | 0             |               |
| Bank loan interest | 100           |               |
| Other expenses     | 1,900         |               |
| Drawings           | <u>1,500</u>  | -             |
|                    | <u>20,500</u> | <u>20,500</u> |

*Source: ICAEW Accounting workbook, pp. 141-142*

# Group work

## Activity 1

1 point/ correct answer





# Types of errors (5 types)

## 1. Transposition errors

When two digits in an amount are accidentally recorded the wrong way round.

e.g: A sale is credited in the sales account and trade receivables as £6,843, but the amount should have been £6,483. The debits and credits will still be equal, but stated at the wrong amount.

# Types of errors (5 types)

## 2. Errors of omission

Failing to record a transaction at all.

e.g:

A business receives an invoice from a supplier for £250, and the transaction is omitted from the accounting records. As a result, both total debits and credits will be wrong by £250

# Types of errors (5 types)

## 3. Errors of principle

Making a double entry in the belief that the transaction is being entered in the correct accounts, but subsequently finding out that the accounting entry breaks the 'rules' of an accounting principle or concept. A typical example of such an error is to treat revenue expenditure incorrectly as capital expenditure.

# Types of errors (5 types)

## 3. Errors of principle

- Machine repairs costing £150 (which should be treated as revenue expenditure) are debited to the cost of a non-current asset (capital expenditure). Although total debits still equal total credits, the repairs account is understated by £150 and the cost of the non-current asset is overstated by £150.
- A business owner takes £280 cash out of the till for his personal use. The bookkeeper incorrectly debits sales by £280, when they should have debited drawings. This is an error of principle, so that drawings and sales are both understated by £280.

# Types of errors (5 types)

## 4. Errors of commission

A mistake is made in recording transactions in the ledger accounts by recording a debit entry or a credit entry in the wrong account.

e.g:

Errors which are, coincidentally, equal and opposite to one another.


# Types of errors (5 types)

## 5. Compensating errors

Errors which are, coincidentally, equal and opposite to one another.

e.g:

- Administrative expenses of £2,800 are entered as £2,200 in the administrative expenses ledger account. At the same time, distribution costs have been entered as £4,700 but should have been £4,100. Administrative expenses are understated by £600 and distribution costs are overstated by £600, but the two amounts cancel each other out.



**Even when the trial balance  
balances, there are cases that  
errors exist.**

Check carefully!

# Group work

5 pts/correct answer





# Vocabulary summary

- Trial balance: Bảng cân đối thử
- Initial trial balance: Bảng cân đối thử ban đầu
- Final trial balance: Bảng cân đối thử cuối cùng
- Transposition error: sai sót chuyển
- Errors of omission: nhầm lẫn bỏ sót
- Errors of principle: lỗi vi phạm nguyên tắc
- Errors of commission: lỗi ghi nhầm tài khoản
- Compensating errors: lỗi tự triệt tiêu

A woman with brown hair in a ponytail, wearing a white t-shirt, is shown in profile drinking from a clear plastic water bottle. The background is a bright, sunny beach scene with the ocean and sky. The image is decorated with teal-colored graphic elements: a cluster of dots in the top left, wavy lines in the top right, and a horizontal brushstroke behind the text.

**Keep hydrated and have a nice day!**