

Introduction to Trial Balance

Introduction to Trial Balance

Fundamental tool in accounting for verifying the accuracy of ledger postings.

1. What Is a Trial Balance?

Definition	Purpose
A trial balance is a worksheet that lists all debit and credit balances of a company's general ledger accounts at a specific point in time.	• Checks that total debits equal total credits (the <i>trial balance equation</i>). • Provides the basis for preparing financial statements. • Helps detect posting errors early.

2. Key Concepts

Concept	Explanation
Double-entry bookkeeping	Every transaction affects at least two accounts: one debit and one credit of equal amount.
Debit (Dr.)	Increases assets & expenses; decreases liabilities, equity & revenue.
Credit (Cr.)	Increases liabilities, equity & revenue; decreases assets & expenses.
Balance sheet accounts	Assets, Liabilities, Equity – carried forward to the next accounting period.
Income statement accounts	Revenues & Expenses – closed to retained earnings at period end.

3. When Is a Trial Balance Prepared?

Timing	Reason
Period end (monthly, quarterly, annually)	To verify that the ledger is arithmetically correct before preparing financial statements.
Interim periods (e.g., after a major posting batch)	To catch errors early and maintain confidence in the books.

Introduction to Trial Balance

4. Structure of a Trial Balance

Account Title	Account No.	Debit	Credit
Cash	101	45,000	
Accounts Receivable	102	12,500	
Supplies	103	3,200	
Equipment	150	27,000	
Accumulated Depreciation – Equip.	151		5,000
Accounts Payable	200		8,700
Notes Payable	210		15,000
Common Stock	300		30,000
Service Revenue	400		22,500
Salaries Expense	500	9,300	
Rent Expense	510	2,400	
Totals		99,400	99,400

Columns:

1. **Account Title** – name of the ledger account.
2. **Account No.** – chart of accounts code (optional).
3. **Debit** – balance if the account is a debit balance.
4. **Credit** – balance if the account is a credit balance.

The total of the Debit column must equal the total of the Credit column.

5. Types of Errors Not Detected by a Trial Balance

Error Type	Why It Remains Hidden
Equal debit & credit errors (e.g., posting \$500 to the wrong debit account)	Totals still balance.
Omission of a transaction (both debit and credit omitted)	No effect on totals.
Commission errors (correct amount posted to wrong account)	Totals unchanged.

Introduction to Trial Balance

Error Type

Why It Remains Hidden

Compensating errors (one error overstates, another understates by the same amount)

Net effect cancels out.

Transposition errors that still sum