

Trial Balance

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- Trial Balance is a list of closing balances of ledger accounts on a certain date and is the first step towards the preparation of financial statements.
- It is usually prepared at the end of an accounting period to assist in the drafting of financial statements.
- ledger balances are segregated into debit balances and credit ~~balances~~ balances. Assets and expense accounts appear on the debit side of the trial balance whereas liabilities, Capital and income ~~acc~~ accounts appear on the credit side.
- If all accounting entries are recorded correctly and all the ledger balances are accurately extracted, the total of all debit balances appearing in the trial balance must equal to the sum of all credit balances.

Purpose of Trial Balance

- Trial Balance acts as the first step in the Preparation of financial statements. It is a working paper that accounts use as a basis of while preparing financial statements.
- Trial balance ensure that for every debit entry recorded a corresponding credit entry has been recorded in the books in accordance with the double entry concept of accounting. If the totals of the trial balance do not agree, the difference may be investigated and resolved before financial statements are prepared.

- Trial balance ensures that the account balances are accurately extracted from the accounting ledgers.
- Trial balance assists in the identification and rectification of errors.

Preparation of Trial Balance

Before preparing a trial balance there are two steps to follow. First, the transaction of the accounts are registered in the journal and then in the general ledger. And the second step is preparing a trial Balance.

Steps to prepare a trial balance

- To prepare a trial balance it is required to close all the ledger account, Cash book and bank book first.
- ledger account should be balanced, that means the entries of both debit and credit should be equal. ~~Three~~
- Three column ~~work sheet~~ is prepared which include account name, debit (Dr.) and Credit (Cr) details.
- The column should be filled with all the appropriate details.
- Both the debit and credit column are evaluated. Ideally an error-free trial balance means both the columns amount ~~match~~ matches.
- Once both the amount match, the trial balance sheet is closed, if any errors are found, then it has to be rectified.