Trial Balance

A complete last-minute revision map: what a trial balance proves (and doesn't), control accounts vs subsidiary ledgers, and which errors it can and cannot catch — exactly as tested in PRC-1.

Normal Balance Rules | Control Accounts | Errors TB Can / Cannot Catch | Suspense Trigger

1 CORE CONCEPT

> *A trial balance is a list of all ledger account balances at a point in time, used to check that total debits equal total credits — confirming the arithmetic accuracy of the double-entry system.*

Ledger Accounts → Trial Balance → Financial Statements

A trial balance is **not** a financial statement itself — it is a working tool that feeds into preparing one.

2 KEY DEFINITIONS

Control Account
A summary account (e.g. receivables control) that IS part of the main double-entry ledger system.

Subsidiary Ledger
Individual customer/supplier accounts — a memorandum record supporting the control account, NOT part of double-entry.

Suspense Account
A temporary account opened for the difference when a trial balance fails to agree.

3 IMPORTANT ACCOUNTING RULES — NORMAL BALANCES

✓ Normal DEBIT Balances

- **Assets** — e.g. receivables, inventory, non-current assets, cash/bank
- **Expenses** — e.g. purchases, rent, salaries, utilities
- **Drawings** — Reduces owner's capital

✗ Normal CREDIT Balances

- **Liabilities** — e.g. payables, loans, accruals
- **Income** — e.g. sales, rental income, interest received
- **Capital** — Owner's investment in the business

4 FORMULAS — CONTROL ACCOUNTS

RECEIVABLES CONTROL ACCOUNT

```
Opening Balance
+ Credit Sales
− Cash Received
− Discount Allowed
− Sales Returns
= Closing Balance
```

PAYABLES CONTROL ACCOUNT

```
Opening Balance + Purchases − Discount Received − Payments Made =
Closing Balance
```

5 ACCOUNTING TREATMENT — SUSPENSE ON DISAGREEMENT

IF DEBITS EXCEED CREDITS

Suspense account opened with a **CREDIT** balance for the difference

IF CREDITS EXCEED DEBITS

Suspense account opened with a **DEBIT** balance for the difference

The suspense balance is **temporary** — it is cleared once the underlying error(s) are identified and corrected.

6 STEP-BY-STEP ROADMAP — PREPARING A TRIAL BALANCE

1. **Balance off every ledger account**
   Find the closing balance of each account.
2. **List each balance in its normal column**
   Debit balances in the debit column, credit balances in the credit column.
3. **Total both columns**
   Compare the two totals.
4. **If they disagree, open a suspense account**
   For the exact difference, pending investigation.

8 LEDGER TREATMENT — CONTROL ACCOUNT WORKED EXAMPLE

RECEIVABLES CONTROL ACCOUNT

DEBIT (Dr)		CREDIT (Cr)	
Balance b/d	180,000	Cash Received	390,000
Credit Sales	420,000	Discount Allowed	9,000
		Sales Returns	14,000
		Balance c/d	187,000

CALCULATION CHECK

```
180,000 + 420,000 − 390,000 − 9,000 − 14,000
= Rs. 187,000
```

This closing balance must **agree with the total** of all individual customer balances in the subsidiary (receivables) ledger.

9 FINANCIAL STATEMENT EFFECT

- **Trial balance itself** — Not a financial statement — an internal working paper only
- **Debit balances (assets, expenses)** — Feed into the SOFP (assets) or income statement (expenses)
- **Credit balances (liabilities, income, capital)** — Feed into the SOFP (liabilities/capital) or income statement (income)

10 COMMON EXAM CASES — DECISION TREE

IF debits ≠ credits	→ Genuine error exists; open suspense
IF debits = credits	→ Some error types may STILL exist undetected
IF asked about a subsidiary ledger	→ It is memorandum only — not part of the TB
IF control a/c ≠ subsidiary total	→ Reconciliation needed between the two

11 COMMON MISTAKES / EXAM TRAPS

Trap: Assuming an agreeing TB means no errors
Errors of omission, commission, principle, compensating errors, original entry, and complete reversal ALL keep the trial balance balanced despite being genuine errors.

Trap: Treating the subsidiary ledger as part of double-entry
Individual customer/supplier accounts are memorandum only — the control account is what actually appears in the trial balance.

Trap: Putting a balance in the wrong column
Confusing which account types are normally debit vs credit is one of the most common sources of an incorrect trial balance.

Trap: Forgetting discount allowed/received in control accounts
Both reduce the respective control account balance — easily missed in a control account reconstruction question.

PURPOSE
Checks that total debits equal total credits — an arithmetic check, not proof of accuracy.

NORMAL BALANCES
Assets & expenses = debit. Liabilities, income & capital = credit.

CONTROL VS SUBSIDIARY
Control account = double-entry. Subsidiary ledger = memorandum only, must reconcile with it.

SUSPENSE TRIGGER
Opened only when debits and credits genuinely disagree — for the exact difference.