

# Case Study: Trial Balance Worksheet

by Sophia



## WHAT'S COVERED

This lesson will cover the preparation of a trial balance worksheet in the context of a case study, using a hypothetical business.

Our discussion breaks down as follows:

## 1. Case Study: Legacy Realty

The subject company for our case study is called Legacy Realty. Legacy Realty is a sole proprietorship, which is a type of company that is owned by one single individual, and where that individual and the business are legally treated as the same.

The purpose of Legacy Realty as a business is to own, lease, and manage its own rental properties. It purchases houses and condominiums and leases them out to tenants. They also perform their own management of their units, making repairs, performing maintenance, and collecting rent. Legacy Realty is located in Washington, D.C., and they have a small staff of five people.

Legacy Realty	
Type of company	Sole proprietorship
Business purpose	Own, lease, and manage rental properties
Business location(s)	Washington, D.C. Staff of 5 people

Legacy Realty needs a trial balance worksheet to serve as a check for accuracy for the accounting department. It can help Legacy Realty to identify errors or inconsistencies that happened during the journalizing and posting process. Using the trial balance worksheet, they can make sure that their debits and credits are equal and in balance. They can also use it to identify any balances that seem incorrect. The trial balance worksheet is used for internal analysis only; it is not provided to external users.

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## 2. Case Study: Trial Balance Worksheet


Let's jump right in and start preparing a trial balance worksheet.

## 2a. Trial Balance

Here is the trial balance worksheet, starting with the trial balance. The trial balance provides a listing of all the general ledger accounts, as well as the balances within those accounts, whether it's a debit balance or a credit balance:

- Asset accounts, listed from most liquid to least liquid.
- Liability accounts, listed from short-term to long-term.
- Equity accounts
- Revenue accounts
- Expense accounts

Accounts	Trial Balance	
	Dr.	Cr.
Cash	63,000	
Accounts Receivable	10,000	
Supplies	5,000	
Prepaid Insurance	12,000	
Buildings	500,000	
Land	50,000	
Accumulated Depreciation - Buildings		
Accounts Payable		5,000
Unearned Revenue		
Notes Payable		300,000
Retained earnings, 1/1/18		200,000
Owner Drawings	10,000	
Revenue		600,000
Salaries Expense	325,000	
Repairs Expense	50,000	
Advertising Expense	10,000	
Rent Expense	50,000	
Interest Expense	20,000	
Totals	1,105,000	1,105,000



Note that assets and expenses naturally have a debit balance, while liabilities, equity, and revenue naturally have a credit balance. As you can see, this company has cash on hand, as well as some receivables. They have purchased some buildings. They have accounts payable, so they owe some money. They also have notes payable, so they owe some money to a bank. Lastly, it appears that they have earned \$600,000 in revenue, and have paid several types of expenses.

## 2b. Adjustments

Now that we have the trial balance, we can make the adjustments:

- Reduce the supplies and record supplies expense.
- Adjust the prepaid insurance and recognize insurance expense
- Record depreciation on the fixed assets.
- Correct revenue recognition to account for incorrectly recognizing some revenue.

(e) Accrue for some salaries owed to employees--a \$25,000 credit to accounts payable and a \$25,000 debit to salaries expense.

Accounts	Trial Balance		Adjustments		Adjustment Explanation
	Dr.	Cr.	Dr.	Cr.	
Cash	63,000				
Accounts Receivable	10,000				
Supplies	5,000			2,500	(a) Adjust Supplies used
Prepaid Insurance	12,000			6,000	(b) Adjust Insurance incurred
Buildings	500,000				
Land	50,000				
Accumulated Depreciation - Buildings				15,000	(c) Record Depreciation Expense
Accounts Payable		5,000		25,000	(e) Accrue Salaries Expense
Unearned Revenue				10,000	(d) Correct incorrect revenue recognition
Notes Payable		300,000			
Retained earnings, 1/1/18		200,000			
Owner Drawings	10,000				
Revenue		600,000	10,000		(d) Correct incorrect revenue recognition
Salaries Expense	325,000		25,000		(e) Accrue Salaries Expense
Repairs Expense	50,000				
Advertising Expense	10,000				
Rent Expense	50,000				
Interest Expense	20,000				
Depreciation Expense - Buildings			15,000		(c) Record Depreciation Expense
Insurance Expense			6,000		(b) Adjust Insurance incurred
Supplies Expense			2,500		(a) Adjust Supplies used
Totals	1,105,000	1,105,000	58,500	58,500	

## 2c. Adjusted Trial Balance

So, we started with the trial balance and made adjustments to match revenues and expenses with the correct period, as well as to correct any errors or omissions. Now we can prepare the adjusted trial balance, which is simply the trial balance adjusted for all the adjustments that were made. Once we have the adjusted trial balance, we can use this information to prepare the financial statements.

Accounts	Trial Balance		Adjustments		Adjusted Trial Balance	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	63,000				63,000	
Accounts Receivable	10,000				10,000	
Supplies	5,000			2,500	2,500	
Prepaid Insurance	12,000			6,000	6,000	
Buildings	500,000				500,000	
Land	50,000				50,000	
Accumulated Depreciation - Buildings				15,000		15,000
Accounts Payable		5,000		25,000		30,000
Unearned Revenue				10,000		10,000
Notes Payable		300,000				300,000
Retained earnings, 1/1/18		200,000				200,000
Owner Drawings	10,000				10,000	
Revenue		600,000	10,000			590,000
Salaries Expense	325,000		25,000		350,000	
Repairs Expense	50,000				50,000	
Advertising Expense	10,000				10,000	
Rent Expense	50,000				50,000	
Interest Expense	20,000				20,000	
Depreciation Expense - Buildings			15,000		15,000	
Insurance Expense			6,000		6,000	
Supplies Expense			2,500		2,500	
Totals	1,105,000	1,105,000	58,500	58,500	1,145,000	1,145,000



## SUMMARY

Today we introduced our **case study** company called **Legacy Realty**, that is in the business of owning and leasing their own rental properties. We walked through an **example of preparing a trial balance worksheet**, starting with the trial balance, then making all of the adjustments to the trial balance, and finally, preparing the adjusted trial balance which can be used to create the financial statements.

Source: Adapted from Sophia instructor Evan McLaughlin.