

Trial Balance

by Sophia



WHAT'S COVERED

This tutorial will cover the trial balance, focusing on what it is, how it is used in the accounting process, and its two types.

Our discussion breaks down as follows:

1. Trial Balance

The trial balance is a list of the debit and credit balances of all the general ledger accounts at a given time.

The trial balance is used as a summary or a checkpoint that all of the account totals--all of the debits and credits--equal.

The trial balance is also used to identify any errors or inconsistencies in journalizing and posting. Did you make any errors? Did you miss anything through the journalizing and posting process? Do your debits not equal your credits?

The trial balance is also used to identify any balances that seem incorrect.

→ EXAMPLE Suppose you have an understanding of the natural balances of your different types of accounts, and when looking at your trial balance, you notice that those accounts aren't fitting with your understanding of their natural balance. This might mean you need to dive deeper into that specific account and identify any potential issues.

So, who uses the trial balance? Well, the trial balance is used exclusively by internal users; it is not provided to external users, for external reporting purposes.

There are two types of trial balances:

- Unadjusted trial balance, which is essentially the working document. This is used by the accountant for analysis and adjustments, to ensure that debits equal credits, and to identify any accounts might contain inconsistencies. Therefore, the unadjusted balance helps to identify completeness.
- Adjusted trial balance, which is used to prepare financial statements and contains those corrections for errors or mistakes.

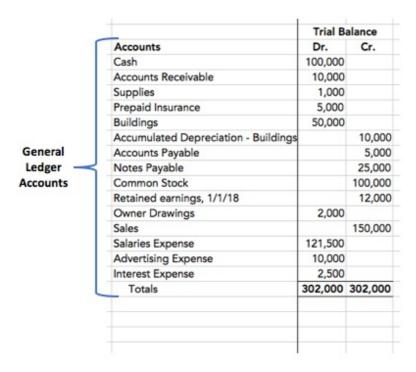


Trial Balance

A list of the debit and credit balances of all of the general ledger accounts at a given time.

2. Unadjusted Trial Balance: Example

Let's look at an unadjusted trial balance worksheet example, below. Any trial balance worksheet starts with a list of all of the general ledger accounts, listed on the left side. Along with listing those general ledger accounts, the balance in each of those accounts is reflected, indicating whether it is a debit balance or a credit balance.



Next, we will examine the different account categories:

- Assets are listed from most liquid, being cash, to least liquid--in this case, buildings. This refers to how quickly they can be converted to cash. The natural balance of these asset accounts is a debit balance.
- Liabilities include accounts payable and notes payable. These liabilities are listed in their correct order, from short-term to long-term. These liabilities have a natural credit balance, so you can see the credits reflected in the liabilities.
- Equity is the next category: common stock, retained earnings, and owner drawings. The natural balance
 of the equity accounts is going to be credit, as is the case with the common stock and retained earnings.
 As you may recall, owner draws refers to when the owner pulls cash out of a business, so this is going to
 be a debit to the equity.
- Revenues, in this case, sales, have a natural credit balance.
- Expenses, which have a natural debit balance.

	Trial Balance			
Accounts	Dr.	Cr.		
Cash	100,000]	∠ ASSETS
Accounts Receivable	10,000		<i>ا</i>	/ //
Supplies	1,000		/	
Prepaid Insurance	5,000			
Buildings	50,000			
Accumulated Depreciation - Buildings		10,000		LIABILITIES
Accounts Payable		5,000	i /	
Notes Payable		25,000		∠ EQUITY
Common Stock		100,000	1 /	
Retained earnings, 1/1/18		12,000		✓ REVENUE
Owner Drawings	2,000			
Sales		150,000		✓ EXPENSES
Salaries Expense	121,500		1 /	
Advertising Expense	10,000			
Interest Expense	2,500			
Totals	302,000	302,000		

The important thing to note is that the debits must always equal the credits. As you can see above, there is a total of \$302,000 in debits and \$302,000 in credits. This is what we use the trial balance for--to make sure that in total, our accounts balance, and nothing seems out of the ordinary.



SUMMARY

Today we learned about the **trial balance** in detail, as an internal summary and analysis tool that can help to identify any inconsistencies or balances that seem incorrect, and verify that total debits and credits are equal. We also walked through a comprehensive **example of an unadjusted trial balance**, a list of the debit and credit balances of all the general ledger accounts at any given time.

Source: Adapted from Sophia instructor Evan McLaughlin.



TERMS TO KNOW

Trial Balance

A list of the debit and credit balances of all of the general ledger accounts at a given time.