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Prepare a Trial Balance and The Function

Yohana Sarah M. Simanjuntak[1], Anggi Ardiansyah[2], Iskandar Muda[3]
[1,2,3] *Universitas Sumatera Utara, Medan, Indonesia*

Abstract

In carrying out its business activities, companies must record transactions that occur within the company so that at the end of the period they can produce a financial report that is used by management for decision making. To be able to produce a financial report each period, the company must run an accounting cycle. A trial balance is made to determine the balance between the debits and credits of a company. Because if there is a deviation from the expected value, the trial balance will help detect the implementation of financial accounting. The definition of a trial balance is also called a trial balance because it is a collection of the balances of each estimate in the general ledger. However, to prepare a balance sheet, you must first determine each estimated balance in your company's general ledger. The general ledger is a book that contains all the accounts (a collection of accounts) in the financial statements. This book also records any changes that occur in each account and at the end of the period.

Keywords: Trial Balance, The Function, accounting cycle, The general ledger

1. INTRODUCTION

A trial balance is a list of all the general ledger accounts (both revenue and capital) contained in the ledger of a business. This list will contain the name of each nominal ledger account and the value of that nominal ledger balance. Each nominal ledger account will hold either a debit balance or a credit balance. The debit balance values will be listed in the debit column of the trial balance ant the credit value balance will be listed in the credit column (Hasibuan et al., 2020). The trading profit and loss statement and balance sheet and other financial reports can then be produced using the ledger accounts listed on the same balance. The first published description of the process is found in Luca Pacioli's 1494 work *Summa de arithmetica*, in the section titled Particularis de Computis et Scripturis. Although he did not use the term, he essentially prescribed a technique similar to a post-closing trial balance. The purpose of a trial balance is to prove that the value of all the debit value balances equals the total of all the credit value balances (Rifqi et al., 2020). If the total of the debit column does not equals the total value of the credit column then this would show that there is an error in the nominal ledger accounts. This error must be found before a profit and loss statement and balance sheet can be produced. Hence trial balance is important in case of adjustments. Whenever any adjustment is performed run trial balance and confirm if all the debit amount is equal to credit amount. The trial balance is usually prepared by a bookkeeper or accountant who has used daybooks to record financial transactions and the post them to the nominal ledgers and personal ledger accounts. The trial balance is a part of the double-entry bookkeeping system and uses the classic 'T' account format for presenting values.

2. LITERATURE REVIEW

A trial balance only checks the sum of debits against the sum of credits. That is why not guarantee that there are no errors. The following are the main classes of errors that are not detected by the trial balance.

- An error of original entry is when both sides of a transaction include the wrong amount (Foundation, 2004). For example, if a purchase invoice for $21 is entered as $12, this will result in an incorrect debit entry (to purchases), and an incorrect credit entry (to the relevant creditor account), both for $9 less, so the total of both columns will be $9 less, and will thus balance.
- An error of omission is when a transaction is completely omitted from the accounting records (Hanif, 2001). As the debits and credits for the transaction would balance, omitting it would still leave the totals balanced. A variation of this error is omitting one of the ledger account totals from the trial balance (but in this case the trial balance will not balance)
- An error of reversal is when entries are made to the correct amount, but with debits instead of credits, and vice versa

(Izhar & Hontur, 2001). For example, if a cash sale for $100 is debited to the Sales account, and credited to the Cash account. Such an error will not affect the totals.

- An error of commission is when the entries are made at the correct amount, and the appropriate side (debit or credit), but one or more entries are made to wrong account of the correct type (Kumar & Sharma, 2001). For example, if fuel costs are incorrectly debited to the postage account (both expanse accounts). This will not affect the totals. This can also occur due to confusion in revenue and capital expenditure.
- An error of principle is when the entries are made to the correct amount, and the appropriate side (debit or credit), as with an error of commission, but wrong trpe of account is used. For example, if fuel costs (an expense account), are debited to stock (an asset account). This will not affect the totals.
- Compensating errors are multiple unrelated errors that would individually lead to an imbalance, but together cancel each other out.

3. METHODS

There are three methods in which a Trial Balance can be prepared. Which are as follows:

- Total Method or Gross Trial Balance
- Balance Method or Net Trial Balance
- Compound Method

These could be explained as under:

- Total Method or Gross Trial Balance

Under this method, two sides of thee accounts are totalled. The total of the debit side is called the "debit total" and the total of the credit side is called the "credit total". All the debit totals are entered on the debit side of the Trial Balance while the credit total is entered on the credit side of the Trial Balance (Khair et al., 2020, Tiosanna et al., 2020). If any particular account has a total on one side, it will be entered either in the debit column or the credit column as the case may be.

Advantage	• It promotes the arithmetical accuracy of the accounts • Extraction of ledger balances is not required at the time of preparation of Trial Balance.
Disadvantage	• Preparation of final accounts is not possible.

- Net Trial Balance or Balance Method

Under this method, all the ledger accounts are balanced. The balancing figure may be either a "debit balance" or "credit balance".

Advantage	• It helps in the easy preparation of final accounts. • Time and labour can be saved in constructing a Trial Balance following this method
Disadvantage	• Errors may remain undisclosed irrespective of the agreement of Trial Balance.

- Compound Method

Under this method, totals of both the sides of the accounts are written in the separate columns. Along with this, the balances are also written in the separate columns. Debit balances are written in the debit column and credit balances are written in the credit column of the Trial Balance.

Advantage	• It offers the advantage of both methods.
Disadvantage	• Lengthy process and more time consumed in the preparation of Trial Balance.

4. RESULTS AND DISCUSSION

4.1. Result

Once all the monthly transactions have been analysed, journalized, and posted on a continuous day-to-day basis over the accounting period (a month in our example), we are ready to start working on preparing a trial balance (unadjusted). Preparing an unadjusted rial balance is the fourth step in the accounting cycle. A trial balance is a list of all accounts in the general ledger that have nonzero balances. A trial balance is an important step in the accounting process, because it helps identify any computational errors throughout the first three steps in the cycle. Note that for this step, we are considering our trial balance to be unadjusted. The unadjusted trial balance in this section includes accounts before they have been adjusted (Hasibuan et al., 2020). When constructing a trial balance, we must consider a few formatting rules, akin to those requirements for financial statements:

- The header must contain the name of the company, the label of a trial balance (unadjusted), and the date.
- Accounts are listed in the accounting equation order with assets listed first followed by liabilities and finally equity.
- Amounts at the top of each debit and credit column should have a dollar sign.
- When amounts are added, the final figure in each column should be underscored.
- The totals at the end of the trial balance need to have dollar sign and be double-underscored

Transferring information from T-accounts to the trial balance requires consideration of the final balance in each account. If the final balance in the ledger occount (T-account) is a debit balance, you will record the total in the left column of the trial balance. If the final balance in the ledger account (T-account) is a credit balance, you will record the total in the right column.

Once all ledger accounts and their balance are recorded, the debit and credit columns on the trial balance are totalled to see if the figures in each column match each other (Oktavian, et al., 2020). The final total in the debit column must be the same dollar amount that is determined in the final credit column. For example, if determine that the final debit balance is $30.000 then the final credit balance in the trial balance must also be $30.000. If two balances are not equal, there is a mistake in at least one of the columns.

Trial Balance As of January 31, 2022		
	Debit	Credit
8501-CA-AS-LC | Bank Account	29,569,633.31	0.00
8502-CA-AS-LC | Petty Cash	0.00	0.00
8612-SR-AS-LC-Short Term Receivables | Member	3,479,000.00	0.00
8613-SR-AS-LC-Short Term Receivables | Youth	3,755,000.00	0.00
8604-LA-AS-LC | Long Term Assets (Other)	4,482,857.64	0.00
8807-IN-LE-LC-Short Term Liabilities | AIESEC	0.00	0.00
8808-IN-LE-LC-Short Term Liabilities | Members	0.00	0.00
8811-IN-LE-LC-Short Term Liabilities | Other	0.00	3,151,059.57
8801-EQ-LE-LC | Equity	0.00	100,461,546.74
Retained Earnings	53,180,634.04	0.00
7003-EX-RV-LC-DIrect Revenue | (contra account)	0.00	0.00
7109-EA-RV-LC	155,000.00	0.00
7309-MG-RV-LC	0.00	870,462.00
7501-NE-RV-LC	0.00	11,628.14
8001-FN-CO-LC | Bank Fees	50,825.63	0.00
8207-IN-CO-LC-Entity Afflitiation Fee Costs | Fixed	9,688,479.00	0.00
2133-CO-LC-Depreciation	133,266.83	0.00
TOTAL	104,494,696.45	104,494,696.45

The main objective of trial balance and the reasons for its preparation.

1. It ensures that the posting from the ledgers is done correctly. If there are any artihmetic errors on the accounting then this will get reflected in the trial balance. And we can determine this when the total of the debit column and the credit column do not match.
2. Similary, it will also detect clerical errors, like a fault in posting, mixing up of fugures, etc.
3. Trial balance will also help inthe preparation of the final accounts. The balances for the financial statetments are taken from the trial balance.
4. And the trial balance will also serve as a useful summary of all accounting records. It is a summary of all the ledger accounts of a firm. We will only refer to the individual ledger accounts if any details are needed. Otherwise, we rely on the trial balance.

There are many types of errors a trial balance does not draw attention too. Some such errors are:

1. A transaction that is completely missing, was not even journalized

2. when the wrong amount was written in both the accounts
3. if a posting was done in the wrong account t but in the right amount
4. An entry that was never posted in the ledger altogether
5. Double posting of entry by mistake

Features of a Trial Balance:

1. It is a list of the various ledger account balances whether debit or credit.
2. It is prepared in the form of a statement
3. A firm prepares a trial balance in order to check the arithmetical accuracy of the ledger accounts.
4. The arithmetical accuracy established by a trial balance is not proof that there are no mistakes in the books of accounts.
5. A trial balance is usually prepared at the end of the accounting year. However, a firm may prepare it weekly, monthly, quarterly or half-yearly also.
6. It does not form a part of the final accounts.
7. It provides a summary of the ledger accounts. Thus, it serves as a link between the books of accounts and Trading & Profit and Loss A/c and Balance sheet.

Objectives of Trial Balance

1. Bird Eye View
   The trial balance gives the summary of all the ledgers. Since the net amounts gets displayed, you can save time by not viewing the concerned ledger again.
2. Pointing out Error
   The trial balance aids in pointing out errors. It is also used to chech the arthmetical accuracy of books of accounts.

Important Principle used in the Preparation of Trial Balance

1. All the nominal, personal, and real accounts are to be considered in preparing the Trial balance
2. If a ledger shows a NIL balance, it is not considered in the preparation of the trial balance.
3. The purchase or consumption ledger always carries a debit balance and appears on the debit side of the trial balance.
4. The revenue account always carries a credit balance and appears on the debit side of the trial balance.
5. Sales return and purchase return an appear as separate line items in the trial balance or be shown as reduces from the main purchase and sales ledger, respectively.
6. Opening stock figure comes from the profit and loss account since it is not available as a closing balance of stick in the previous year's trial balance.
7. All the expenses generally carry a debit balance accordingly, they will appear with a debit balance in the trial balance.
8. All the incomes and gains generally carry a credit balance. Accordingly, they will appear with a credit balance in the trial balance.
9. The asset and liability must tally at the end.

Utilities a Trial Balance can Offer and its Interpretation

The benefits of Trial Balance could be found in the following:

1. It assists in the preparation of financial statements i.e. - Profit and Loss Account and Balance sheet.
2. A self-balanced trial balancr ensures the arithmetical accuracy of the entries made. If the balances do not tally, then the errors can be found out, rectified and then financial statements can be prepared
3. It acts as a quick reference. So that we can easily find out the balance in any edger account without actually referring to the ledger.
4. Id the classification od ledger accounts is systematically done in the trial balance, one can do quick time analysis. Therefore the listing of ledger accounts is usually done in the sequence of Asset accounts, Liability accounts, Capital accounts, Owner's equity accounts, Income or gain accounts and Expenses or losses accounts in that order.

4.2. DISCUSSION

The trial balance is a list of all accounts with their respective debit or credit balances. It is prepared to verify the equality of debits and credits in the ledger at the end of each accounting period or at any time the postings are updated (Tampubolon et al., 2020). List the account titles in numerical order, obtain the account balance of each account from the ledger and enter the debit balances in the debit column and the credit balances in the credit column. Add the debit and credit columns and compare the totals. The trial balance is a control device that helps minimize accounting errors. When the totals are equal, the trial balance is in balance. This equality provides an interim proof of the accuracy of the records but it does not signify the absence of the errors.

A trial balance should not be confused with a balance sheet. A trial balance is report that is completed for internal use only and that does not leave the accounting department of a company. This accounting tool separates the debits and credits that are listed on a company's ledger for a certain period of time and is used to show that each columns is equal to the other. The trial balance's primary purpose is detect any errors that have have been made when credits or debits were inputted into a company's accounting system.

All the selected companies confirm the importance of accounting record keeping in accountability and profitability of the industries. It ensures the survival of such industries. The study also confirm the barriers to accounting record keeping i small scale to include poor finance or capital base to employee the service of qualified accountant, ignorance, poor technical knowledge and corruption. It relate accounting record keeping to profitability and development of small scale industries.

5. CONCLUSION

The preparation of trial balance is common practice before preparing the final accounts of the company. It is in line with the maker and checker concept of Internal control. Preparation of final accounts takes time, so the management can understand the company's financial status via the trial balance until it is prepared. They can take business decisions based on the trial balance generated as of date. The final result of accounting is access to financial information and position. To attain this we have to prepare profit gained in trading and loss account and balance sheet for the period (Akensiro & Abayomi, 2016). Trial balance is basically the summary of account balances with items of income, Ex represented by expense, Assets, Liabilities and capital either a credit or debit. Preparing a Trial balance helps in deducting the mathematical errors in a double entry system and provides the total debit equals the total credit (Gurskaya & Kuter, 2020). tallied Trial balance does not mean that, it is free from error of omission or error of commission or principal errors The major conclusion from tallying a trial balance is that, account balance are free from arithmetic errors, free from transpose errors.

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