

TRIAL-BALANCE

At the end of accounting period, after all journal entries have been posted to the ledger of accounts, a trial Balance is prepared. This is a list of all accounts, in the order in which they appear in the ledger, and their debit or credit balances. The trial balance is prepared to check for errors and to place data in a convenient form for making financial statements. A trial balance for PD Consulting service is shown in Figure 3-5.

To check for errors, the debit and credit columns of the trial balance are totaled. If the sums are not equal, an error has been made. On the otherhand, if they are equal, this is not conclusive proof that no errors have been made. For example, if the accountant had mistakenly recorded a ₹1000 increase in cash as a credit and the corresponding ₹1000 increase in capital as a debit, the debit and credit columns would be equal, but the balances in the cash and capital accounts would be incorrect.

Financial statements can be prepared from the trial balance. Figure 3-6 through 3-8 show financial statements for PD Consulting Service for its first month of operation. The revenue and expenses (Fig. 3-6). The capital statement is then prepared using the amount of net income shown on the income statement and the

amounts for capital and owner withdrawal from the trial balance (Fig. 3-7). Finally, the balance sheet is prepared using asset and liability amounts from the trial balance and the ending capital amount calculated on the capital statement (Fig. 3-8).

PD Consulting Service Trial Balance June 30, 2020		
Account Name	Debit	Credit
Cash	1,100	-
Accounts receivable	200	-
Accounts payable	-	25
P. Dill, capital	-	1,000
P. Dill, withdrawal	100	-
Consulting revenue	-	500
Rent Expense	100	-
Phone Expense	25	-
Totals	<u>2,525</u>	<u>2,525</u>

Fig. 3-5

PD Consulting Service Income Statement For the month Ended June 30, 2020		
Consulting revenue		\$ 500
Expenses		
Rent	100	
Phone	25	
Total Expenses	<u>125</u>	(125)
NET INCOME		<u>\$ 375</u>

Fig. 3-6

PD Consulting Service  
Statement of Capital  
For the month Ended June 30, 2020

Capital P. Dill, June 1, 2020	₹ 1,000
Add: Net Income	375
Less: P. Dill, withdrawal	100
Capital P. Dill, June 30, 2020	₹ 1,275

Fig. 37

PD Consulting Service  
Balance-sheet  
June, 30, 2020

ASSETS		
Cash	₹ 1,100	
Accounts receivable	200	
Total assets	₹ 1,300	
Liabilities		
Accounts payable	₹ 25	
Total liabilities	₹ 25	
owner's equity		
P. Dill, Capital		₹ 1,275
Total liabilities Plus owner's equity		₹ 1,300

Fig. 38