

# AccountAble<sup>TM</sup>

ASIA

Making a Trial Balance

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Now we add up both the sides and write the totals at the bottom. Are the totals equal? If yes then, why?

The reason is that you were doing something very similar to double entry accounting. And what you have made just now is similar to a trial balance.

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### What is a Trial Balance?

Trial Balances help the accountants find mistakes in books. If the book-keeping has been done properly, both sides of the trial balance will tally. Why?

### Why does it tally?

In double-entry book-keeping, each entry on debit side has an<sup>2</sup> equal entry on the credit side. So if we add up all the entries on the debit side, they will match the total of all the entries on the credit side.

All book-keeping in NPOs is done using double-entry. This means that for each debit transaction, there is an equal and opposite credit transaction. Somewhat like the Newton's Third Law of Motion<sup>1</sup>.

Let us play a small game with numbers. We put a number on the left side. Then we put an equal number on the right side. We do this several times. The result looks like this:

Left Side	Right Side
17	405
405	28
92	17
53	369
369	92
28	53

<sup>1</sup>Every action has an equal and opposite reaction.' We suspect Newton had some idea of double-entry book-keeping.

<sup>2</sup>Sometimes the entry may be split - the resulting entries add up to the same amount as single entry.

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Account of Mr. Francisco Santos (Imprest)				L. F. 32	
Debit			Credit		
Date	Particulars	Amount	Date	Particulars	Amount
05-Apr-09	To Cash	7,000	07-Apr-09	By Boarding Expenses	2,500
	(Advance for Dhaka Travel)		09-Apr-09	By Conveyance	300
			17-Apr-09	By Personal Allowance	250
			18-Apr-09	By Train Fares for Travel	3,600
		<b>7,000</b>			<b>6,650</b>

Compare total of debit with credit. Which one is bigger? This account has a debit balance of Rs.350

In practice, there is a slight modification. We don't add up all the entries. We only add up the account balances. Eh?

The account balances are the difference between debit and credit side of an account. So whether you add up all the entries or only the balances, the result will be the same.

If this sounds very complicated, don't bother. Not everyone is meant to be a mathematician.

## Computers and Trial Balances

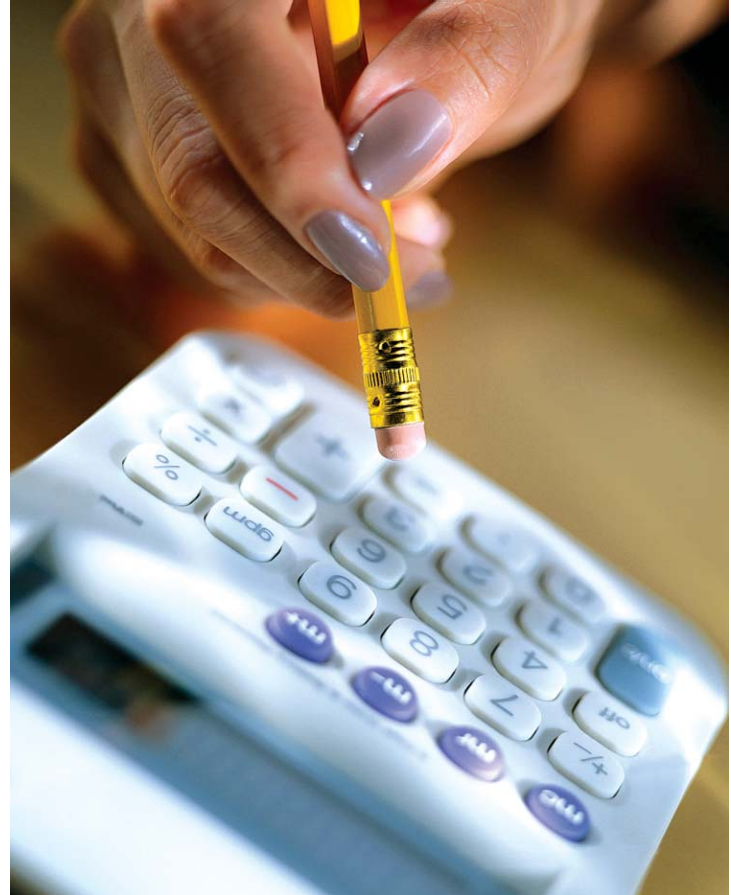
If your accounts are computerised, you don't really need a Trial Balance. This is because the accounting package does not allow posting or totalling errors<sup>3</sup>. Obviously, this saves a lot of time and hard work.

However, most accounting packages still give you a trial balance. The reason is that accountants find Trial Balances useful in making the Balance Sheet and Income & Expenditure.

## Periodic Trial Balance

Some NPOs prepare a periodic trial balance. This includes the entries/ balances for current period only. Opening balances are not brought forward or considered.

However, they face a problem with cash and bank balances. The closing cash in hand includes the opening balance also.



Asian Agricultural Research Institute Periodic Trial Balance for 1.4.2009 to 31-12-2009			
Account	L.F.	Debit	Credit
Grant received	9		300,000
General Donations	11		54,000
Furniture	21	5,000	
Misc. Income	28		15,500
Postage	33	2,000	
Telephone	37	4,500	
Salary and Wages	42	55,000	
Stationary	48	11,500	
Travel & Conveyance	53	16,800	
Audit Fees	66	5,000	
Training Expenses	68	25,000	
Educational Material	72	17,000	
Research Expenses	75	28,000	
Op. Balance Cash (1.4.09)			1,200
Op. Balance Bank (1.4.09)			3,800
Cl. Balance Cash (31.12.09)	109	8,500	
Cl. Balance Bank (31.12.09)	125	196,200	
<b>Total</b>		<b>374,500</b>	<b>374,500</b>

This shows furniture purchased during 1.4.09 to 31.12.09

What is to be done?

With ingenuity typical of NPOs, they put the opening balance of cash and bank on the credit side of the trial balance. This acts as a

counter-weight and the Trial Balance tallies.

Periodic Trial Balance is used mainly for making the Receipts & Payments Account<sup>4</sup>.

These opening balances are used as counter weights

## Cumulative Trial Balance

If you want to make a proper Balance Sheet and Income & Expenditure Account, you need a cumulative Trial Balance. This one includes the balance car-

<sup>3</sup> Some packages (Quicken, Microsoft Money) allow entries to remain unposted. These also have a feature by which you can find all unposted entries easily.

<sup>4</sup> Strictly speaking, you cannot make a Receipts & Payments Account from a Trial Balance, but that is another story.

Asian Agricultural Research Institute Cumulative Trial Balance As on 31-12-2009			
Account	L.F.	Debit	Credit
Grant received	9		300,000
<i>General Fund</i>	10		<i>175,000</i>
General Donations	11		54,000
<i>Secured Loan</i>	15		<i>50,000</i>
<i>Building</i>	18	<i>1,50,000</i>	
<i>Furniture</i>	21	<i>25,000</i>	
<i>Vehicle</i>	24	<i>50,000</i>	
Misc. Income	28		15,500
Postage	33	2,000	
Telephone	37	4,500	
Salary and Wages	42	55,000	
Stationary	48	11,500	
Travel & Conveyance	53	16,800	
Audit Fees	66	5,000	
Training Expenses	68	25,000	
Educational Material	72	17,000	
Research Expenses	75	28,000	
Cash in Hand	109	8,500	
Cash at Bank	125	196,200	
<b>Total</b>		<b>594,500</b>	<b>594,500</b>

These will not appear in Periodic Trial Balance

This shows furniture purchased since NPO started

(name of NPO<sup>5</sup>) as on 31-Dec-09<sup>6</sup> on top of the sheet.

5. Make four columns and mark the headings:

Trial Balance of Asian Agricultural Research Institutes on 31-Dec-2009			
Account Head	L.F.	Debit (Rs)	Credit (Rs)

6. Find a pencil and eraser.

7. Open the ledger. Turn to page<sup>7</sup> 1. Is there a balance here on 31-Dec-09 (cut-off date)? If yes, note it down on the Trial Balance Sheet with the pencil. Try to make sure that figures are right aligned. This makes it easier to add up.

Trial Balance of Asian Agricultural Research Institutes on 31-Dec-2009			
Account Head	L.F.	Debit (Rs)	Credit (Rs)
Salaries	1	14,200	

8. Go to the next page. If there is a balance here for 31-Dec-09, note it down, otherwise skip it.

9. For some accounts, the ledger balance may have been carried forward to another page. Keep this in mind. You should only take the closing balances on 31-Dec-09.

10. Continue through the ledger like this till you come to the

<sup>5</sup> If you maintain separate project-wise cashbooks, write the name of the project also.

<sup>6</sup> The cut-off date

<sup>7</sup> Accountants call these 'folios'

ried forward from last year also. So no counter-weight is needed.

If you compare this graphic with the earlier one, you will find that there are more figures (highlighted in blue). These are balances that get missed out in a Periodic Trial Balance.

Cumulative Trial Balance is the real Trial Balance of accounting world. In this circular, we will be discussing the *cumulative* Trial Balance only.

### How to make a Trial Balance

1. Decide on a cut-off date. Normally, this is end of a month, end of a quarter or end of the year. Let's say this is 31st December 2009.
2. Work out all closing balances of ledger accounts as on 31-Dec-09 (the cut-off date). Mark each balance as Dr. or Cr.
3. Work out the cash book (and bank book, if you use one) closing balances on 31-Dec-09 (the cut-off date).
4. Take a fresh sheet of paper. A ruled sheet is better. Write 'Trial Balance of Asian Agricultural Research Institute

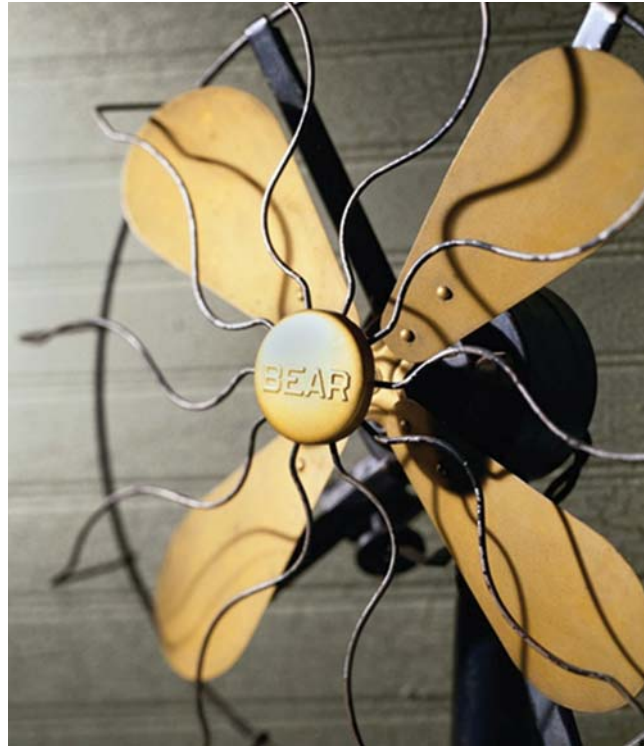
end of the ledger.

11. Pick up the cashbook. Turn to the last page for 31-Dec-09. Note down the closing balance of cash in hand (and bank balances) from here (or the bank book).
12. Normally, the cash in hand should be a debit balance<sup>8</sup>. That means the Receipts side should be more than the Payments side.
13. You now have all the balances of 31-Dec-09 on your sheet.
14. Carefully bolt and lock the door to your room. Turn off the fan.
15. Total up both the sides on your sheet (debit and credit).

### Does it tally?

If you are very lucky (or very careful), both the sides will tally at first go. You can then file the Trial Balance and ink up all the ledger and cash balances. Lock the office before you go home.

If the totals do not tally, ask for a cup of tea and settle down for an evening of hard work. We will discuss this in more detail in the next issue of AccountAble.



<sup>8</sup> You might be fortunate enough to have a credit balance in your cashbook. This is known as deficit financing. Attend the next parliamentary budget session at Delhi to understand how this works.

**About AccountAid:** AccountAid is a private consulting firm based in New Delhi. It works on accounting and regulatory issues concerning NPOs. For this purpose, it conducts research, workshops, and publishes reference material relevant for NPOs and grant-makers. It also provides advice to donor agencies on grant management systems.

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