Making sense of a Trial Balance.

To begin to understand what a Trial Balance is and its significance, one need's to have a basic understanding of where the figures come from and how are they compiled. To do this I am going to give you a crash course on keeping books. Not to worry it will be painless, well relatively.

So what is the dreaded "double entry system."

Well quite simply it is a method developed to record the movement of value (in money terms) between accounts. The recording page for the account (i.e. Ledger Sheet) is divided in half, the left hand side is called the debit side and the right had right hand side is called the credit side (but don't let this worry you too much at this stage). In recording a transaction there must be a debit entry and a corresponding credit entry for every transaction, with me so far!

Say for instance we pay $100 rent to our landlord from our bank account. We would record the transaction by debiting the Rent account showing value received to this account and making a corresponding credit entry to the bank account to show the payment leaving this account. Likewise we may need to buy $10 worth of stationery products, again we would record that $10 value is being removed from the bank account and record in the "Stationery Account" that $10 value of products has been received. We record the transactions by debiting the account receiving the value (i.e. the rent or stationery account) and crediting the account from which value was paid (i.e. the bank account). We would have similar transactions perhaps every week or fortnight, and each will be handled exactly the same way.

The above transactions would be represented in the books of account as follows. Please note that each account Rent or Stationery etc will have its own page.

Debit Side	Bank Account	Credit Side
	Rent (paid)	$100
	Stationery (bought)	$10

Debit Side	Rent Account	Credit Side
Bank (rent paid)	$100	

Debit Side	Stationery Account	Credit Side
Bank (Stationery)	$10	

As we have hundreds of various transactions a month we cannot expect to remember them all, so we record them daily in the company's books so at the end of a trading period, month, six months or annually we can analyse how the business is doing, that is are we making a profit or loss. Recording also assists us recall who owes us money (most important) and who we owe.

At the end of the trading period usually every month we compile a list of all the debit and credit balances of every account in the main book, the ledger. Debit balances will be recorded on the right hand side of our columns and credit balances on the left hand side of the columns.

As we initially made a debit entry for every credit entry it stands to reason that if at the end on the month we compile a list of all accounts the total of the debit balances will be equal to the credit balances, so arithmetically at least, the totals should be the same.

A very simple representation of the "Trial Balance" of the above accounts will be as follows:

Name of Account	Debits	Credits
Bank		110
Rent	100	
Stationery	10	
Totals	$110	$110

This list is called the Trial Balance and gives a summarised picture of all the accounts in the ledger, at a particular date. From this list accountants are able to compile more refined reports such as a Profit and Loss Account (same as an Income Statement) or Balance Sheet.

We will encounter these and other reports later in the series

Example of a simple Trail Balance:

Trial Balance of ABC Company as at 30/11/2013

	Debit	**Credit**
Cash at bank	6895	
Owners Capital Account		9215
Owners Drawings Account	800	
Furniture and Equipment	1300	
Stock/Inventory	2000	
Advertising	348	
General Expenses	1650	
Purchases	4085	
Rent	2000	
Sales/Turnover		16563
Stationery	850	
Trade Debtors	9770	
Trade Creditors		7500
Transport	1080	
Wages	2500	
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