

9. The Trial Balance

After all transactions have been posted from the journal to the ledger, it is a good practice to prepare a trial balance. A trial balance is simply a listing of the ledger accounts along with their respective debit or credit balances. The trial balance is not a formal financial statement, but rather a self-check to determine that debits equal credits. Following is the trial balance prepared from the general ledger of Xao Corporation.

XAO CORPORATION Trial Balance January 31, 20X3		
	Debits	Credits
Cash	\$26,300	
Accounts receivable	3,200	
Land	15,000	
Accounts payable		\$ 500
Notes payable		10,000
Capital stock		25,000
Service revenues		12,000
Advertising expense	2,000	
Utilities expense	1,000	
	<u>\$47,500</u>	<u>\$47,500</u>

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9.1 Debits Equal Credits

Since each transaction was journalized in a way that insured that debits equaled credits, one would expect that this equality would be maintained throughout the ledger and trial balance. If the trial balance fails to balance, an error has occurred and must be located. It is much better to be careful as you go, rather than having to go back and locate an error after the fact. You should also be aware that a “balanced” trial balance is no guarantee of correctness. For example, failing to record a transaction, recording the same transaction twice, or posting an amount to the wrong account would produce a balanced (but incorrect) trial balance.

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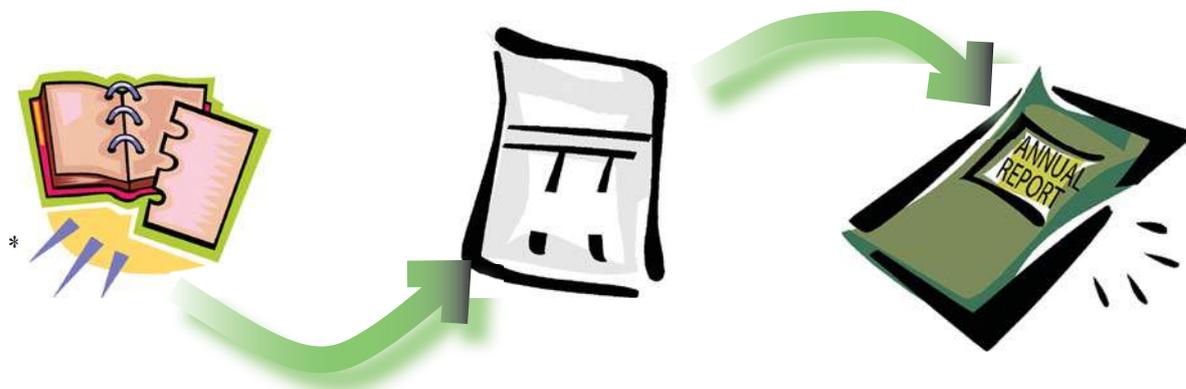
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9.2 Financial Statements From the Trial Balance

In the next chapter you will learn about additional adjustments that may be needed to prepare a truly correct and up-to-date set of financial statements. But, for now, you can probably see that a tentative set of financial statements could be prepared based on the trial balance. The basic process is to transfer amounts from the general ledger to the trial balance, then into the financial statements:



In reviewing the following financial statements for Xao, notice that blue italics were used to draw attention to the items taken directly from the trial balance above. The other line items and amounts simply relate to totals and derived amounts within the statements. These statements would appear as follows:

XAO CORPORATION Income Statement For the Year Ending January 31, 20X3		
Revenues		
<i>Services to customers</i>		\$12,000
Expenses		
<i>Advertising</i>	\$2,000	
<i>Utilities</i>	<u>1,000</u>	<u>3,000</u>
Net income		<u>\$9,000</u>

XAO CORPORATION Statement of Retained Earnings For the Year Ending January 31, 20X3	
Retained earnings - January 1, 20X3	\$ -
Plus: Net income	<u>9,000</u>
	\$9,000
Less: Dividends	<u>-</u>
Retained earnings - January 31, 20X3	<u>\$9,000</u>

XAO CORPORATION Balance Sheet January 31, 20X3	
Assets	
<i>Cash</i>	\$26,300
<i>Accounts receivable</i>	3,200
<i>Land</i>	<u>15,000</u>
Total assets	<u>\$44,500</u>
Liabilities	
<i>Accounts payable</i>	\$ 500
<i>Notes payable</i>	<u>10,000</u>
Total liabilities	\$10,500
Stockholders' equity	
<i>Capital stock</i>	\$25,000
Retained earnings	<u>9,000</u>
Total stockholders' equity	<u>34,000</u>
Total liabilities and equity	<u>\$44,500</u>