

## Closing off accounts and trial balance

### 4 steps to balancing off accounts:

1. Subtotal the money columns on the debit and credit side of the account.
2. The difference between the two totals is entered on the smaller side and labelled Balance carried down or c/d.
3. Underline the balances- nothing should be added underneath this line.
4. Carry the balance down to the next month on the bigger side (following the rule of double entry) and label it Balance down or b/d.

Worked example:

<i>Dr</i>	<i>Bank Account</i>			<i>Cr</i>		
<i>Date</i> <i>2011</i>	<i>Details</i>	<i>Amount</i> <i>£</i>	<i>Date</i> <i>2011</i>	<i>Details</i>	<i>Amount</i> <i>£</i>	
<i>1 Sep</i>	<i>Capital</i>	<i>5,000</i>	<i>2 Sep</i>	<i>Computer</i>	<i>1,800</i>	
<i>5 Sep</i>	<i>J Jackson: loan</i>	<i>2,500</i>	<i>6 Sep</i>	<i>Purchases</i>	<i>500</i>	
<i>10 Sep</i>	<i>Sales</i>	<i>750</i>	<i>12 Sep</i>	<i>Drawings</i>	<i>100</i>	
			<i>15 Sep</i>	<i>Wages</i>	<i>200</i>	
			<i>30 Sep</i>	<i>Balance c/d</i>	<i>5,650</i>	
		<i>8,250</i>			<i>8,250</i>	
<i>1 Oct</i>	<i>Balance b/d</i>	<i>5,650</i>				

*In the table above, the debit side totals £8,250, while the credit side totals £2,600. The difference between the two sides is £5,650.*

### Extracting a trial balance

A trial balance is a list of the balances of every accounting forming the ledger, distinguishing between those accounts which have debit balances and those which have credit balances.

Debit balances include:

- Cash account
- Purchases account
- Sales returns account (returns inwards)
- Non-current asset accounts, e.g. premises, vehicles, machinery, office equipment, etc
- Expenses and overheads accounts, e.g. wages, telephone, rent paid, carriage outwards, etc
- Drawings account
- Trade receivables' accounts

Credit balances include:

- Sales account- referred to as 'revenue' in the trial balance
- Purchases returns account (returns outwards)
- Income accounts, e.g. rent income, commission income, discount received

- Loan account
- Trade payables' accounts

Errors **not** shown by a trial balance:

- Commission error- transaction entered to the wrong person's account
- Reversal of entries- entries made but on the wrong side of the two accounts
- Original entry error- amount entered incorrectly into both accounts
- Principle error- transaction entered to the wrong type of account
- Omission error- transaction completely omitted from the accounting records
- Compensating error- two errors cancel each other out.

A trial balance is important because it shows the arithmetical accuracy of the bookkeeping. It is also the starting point of the financial statements of a business.

**Quick questions on balancing of accounts and trial balances:**

1. When looking at extracting a trial balance, explain when a bank account would be recorded on the debit side or recorded on the credit side?
2. Which of the following is **not** correct?
  - An asset account will have a debit balance
  - M Smith's account (who we bought from on credit) will have a credit balance
  - A liability account will have a debit balance
3. Balance the following bank account.

Dr			Bank Account			Cr		
Date	Details	Amount	Date	Details	Amount			
1 July	Capital	3,000	2 July	Purchases	650			
3 July	Sales	1,245	8 July	P Anderson	300			
15 July	BL Limited	795	17 July	Office Equipment	100			
			27 July	Wages	800			
			30 July	Drawings	435			