

Principles Accounting in English 1

**CHAPTER FIVE
(THE TRIAL BALANCE, CORRECTING
ERRORS, CLOSING ENTRY)**

ACCOUNTING DEPARTMENT

2022-2023

**CHAPTER (5)
THE TRIAL BALANCE, CORRECTING ERRORS, CLOSING ENTRY**

PRINCIPLES OF ACCOUNTING

THE TRIAL BALANCE

A **trial balance** is a list of accounts and their balances at a given time. Customarily, companies prepare a trial balance at the end of an accounting period. They list accounts in the order in which they appear in the ledger. Debit balances appear in the left column and credit balances in the right column.

The primary purpose of a trial balance is to prove (check) that the debits equal the credits after posting. The sum of the debit balances in the trial balance should equal the sum of the credit balances. If the debits and credits do not agree, the company can use the trial balance to uncover errors in journalizing and posting. In addition, the trial balance is useful in preparing financial statements.

Example 1:

The following accounts come from the ledger of SnowGo Company at December 31, 2010.

157	Equipment	\$88,000	301	Roberts, Capital	\$20,000
306	Roberts, Drawing	8,000	212	Salaries Payable	2,000
201	Accounts Payable	22,000	200	Notes Payable	19,000
726	Salaries Expense	42,000	722	Insurance Expense	3,000
112	Accounts Receivable	4,000	130	Prepaid Insurance	6,000
400	Service Revenue	95,000	101	Cash	7,000

Prepare a trial balance in good form.

Instructions:

Prepare a trial balance

Example 2:

Note payable 45000, Harper, capital 28500, Harper, drawing 1800, Service revenue 7600, Salary expense 3000, Rent expense 1500, Interest expense 400, Utilities expense 200, Cash 31200, Accounts receivable 4000, Supplies 300, Land 40000, Accounts payable 1300.

Instructions:

Prepare a trial balance

Example 3:

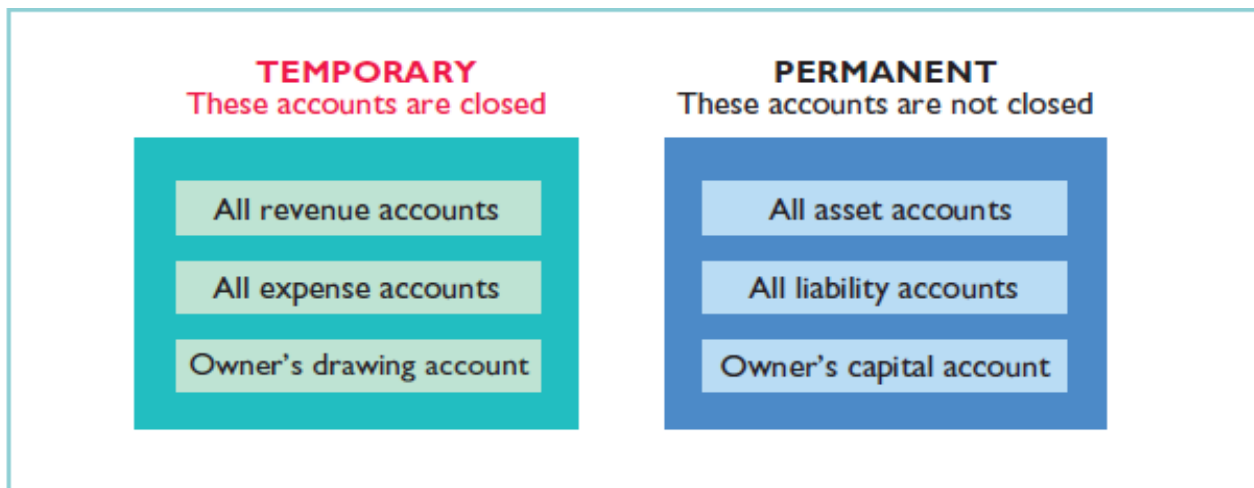
Salary payable 900, Interest payable 100, Unearned service revenue 400, Notes payable 20000, supplies 600, Prepaid rent 2000, Furniture 18000, Building 48000, Accumulated depreciation—furniture 300, Accumulated depreciation—building 200, Cash 4800, Accounts receivable 2600, Accounts payable 18200, Bright capital 35000

Instructions:

Prepare a trial balance

Preparing Closing Entries

PRINCIPLES OF ACCOUNTING



1. Debit each revenue account for its balance, and credit Income Summary for total revenues.
2. Debit Income Summary for total expenses, and credit each expense account for its balance.
3. Debit Income Summary and credit Owner's Capital for the amount of net income.
4. Debit Owner's Capital for the balance in the Owner's Drawing account, and credit Owner's Drawing for the same amount.

Example 1:

The following balances are taken from C. R. Byrd company

Service Revenue	10600
Advertising Supplies Expense	1500
Depreciation Expense	40
Insurance Expense	50
Salaries Expense	5,200
Rent Expense	900
Interest Expense	50
C. R. Byrd, Drawing	500

Instruction

Prepare closing entry

Example 2:

PRINCIPLES OF ACCOUNTING

Blue Design Studio Adjusted Trial Balance July 31, 2014

Cash	22,480	
Accounts Receivable	5,000	
Office Supplies	3,660	
Prepaid Rent	1,600	
Office Equipment	16,320	
Accumulated Depreciation—Office Equipment		300
Accounts Payable		6,280
Unearned Design Revenue		600
Wages Payable		720
J. Blue, Capital		40,000
J. Blue, Withdrawals	2,800	
Design Revenue		13,600
Wages Expense	5,520	
Utilities Expense	680	
Rent Expense	1,600	
Office Supplies Expense	1,540	
Depreciation Expense—Office Equipment	300	
	<u>61,500</u>	<u>61,500</u>

Instruction
Prepare closing entry

Correcting Entries

Unfortunately, errors may occur in the recording process. Companies should correct errors, as soon as they discover them, by journalizing and posting correcting entries. If the accounting records are free of errors, no correcting entries are needed.

Errors correcting:

After finding errors they must be rectified or corrected by recording accounting entries and there are two methods for rectify or correct the errors:

1. lengthily method (Long method)

In this method we must record two entries:

- A. Reversing wrong entry.
- B. Correct entry.

Example: (1)

Purchased stationery worth 540 \$ by cash, but the accountant record the entry with 450 \$.

- Wrong entry:

Dr. Stationary	450	
Cr. Cash		450

PRINCIPLES OF ACCOUNTING

- Reversing wrong entry:

Dr. Cash	450	
Cr. Stationary		450

- Correct entry:

Dr. Stationary	540	
Cr. Cash		540

Example: (2)

Purchased furniture from (Sleem Co.) worth 300 \$ on credit and the accountant record the following entry:

Dr. Purchases	300	
Cr. Salim Co.		300

Example: (3)

Purchased tools from (Soran Co.) worth 650 \$ by credit, and the accountant record the following entry:

Dr. Tools	560	
Cr. Serwan Co.		560

2. Briefly method (Short method):

In this method the correcting done by one entry only as the follow:

- A. If the error was in the amount of the entry the correcting entry recorded by the deference between the correct and wrong amount.**

Example 1:

Purchased stationary worth 540 \$ by cash, but the accountant records the entry with 450 \$.

- Wrong entry:

Dr. Stationary	450	
Cr. Cash		450

- Correcting entry:

$$540 - 450 = 90 \$$$

Dr. Stationary	90	
Cr. Cash		90

- B. If the mistake are in the names of accounts, the correct entry record by correct name in the correct side and the wrong account record in opposite side of the entry.**

Example 2:

Purchased furniture from (Sleem Co.) worth 300 \$ on credit and the accountant record the following entry:

Dr. Purchases	300	
Cr. (Salim Co.)		300

- C. If the mistake are in amount and the name of account.**

PRINCIPLES OF ACCOUNTING

Example 3:

Purchased tools from (Soran Co.) worth 650 \$ by credit, and the accountant record the following entry:

Dr. Tools	560		
		Cr. (Serwan Co.)	560

Example 4:

Correct the following entries assumed that the explanation under the entry is correct: (Using lengthily method and briefly method)

- | | | | |
|-----------------|------------|----------------------|------------|
| Dr. Cash | 150 | | |
| | | Cr. Furniture | 150 |

(Being purchased furniture worth 150 \$ by cash)
- | | | | |
|----------------------|------------|-----------------|------------|
| Dr. Purchases | 200 | | |
| | | Cr. Cash | 200 |

(Being purchased furniture worth 2000 \$ by check)

Example 5:

On May 10, Mercato Co. journalized and posted a \$50 cash collection on account from a customer as a debit to Cash \$50 and a credit to Service Revenue \$50. The company discovered the error on May 20, when the customer paid the remaining balance in full.

Incorrect Entry (May 10)

Cash	50	
Service Revenue		50

Example 6:

On May 18, Mercato purchased on account office equipment costing \$450. The transaction was journalized and posted as a debit to Delivery Equipment \$45 and a credit to Accounts Payable \$45. The error was discovered on June 3, when Mercato received the monthly statement for May from the creditor.

Incorrect Entry (May 18)

Delivery Equipment	45	
Accounts Payable		45