

Foreword

This resource material provides teachers with examples of graded assignments for reference and is by no means exhaustive. Teachers are advised to adapt the materials according to the diverse learning needs of students if deemed necessary.

Graded Assignment: Trial Balance
Elementary Level – Question Paper

The following accounts were extracted from the books of Peter Company as at 30 April 2020:

Trade receivables						
2020			\$		\$	
Apr 1	Balance b/d	25,000		Apr 25	Cash at bank	29,100
8	Sales	30,000		25	Discounts allowed	900

Cash at bank						
2020			\$		\$	
Apr 2	Capital	20,000		Apr 1	Balance b/d	10,000
2	Loan from Susan Ltd	40,000		15	Loan from Susan Ltd	130,000
25	Trade receivables	29,100		30	Sundry expenses	45,000

Loan from Susan Ltd						
2020			\$		\$	
Apr 15	Cash at bank	130,000		Apr 1	Balance b/d	90,000
				2	Cash at bank	40,000

REQUIRED

- (a) Balance off the above accounts as at 30 April 2020. You are also required to show the opening balances of the next month. (2 marks)
- (b) From the above accounts, give one example for each of the following types of account balances:
- (i) zero balance
 - (ii) debit balance
 - (iii) credit balance
- (3 marks)

Apart from the above accounts, the following balances were obtained from the books of Peter Company as at 30 April 2020:

	\$
Motor van	50,000
Inventory	60,000
Capital	190,000
Purchases	200,000
Sales	138,000
Sundry expenses	45,000
Trade payables	180,000
Drawings	40,000
Rent	30,000
Carriage outwards	70,620
Returns outwards	2,660
Returns inwards	6,540
Discounts received	14,500
Discounts allowed	900
Rental deposit	93,000

REQUIRED

- (c) State two functions of a trial balance (2 marks)
- (d) Prepare a trial balance as at 30 April 2020. (9 marks)
- (e) Explain one limitation of a trial balance with an example. (2 marks)

(Total: 18 marks)

Graded Assignment: Trial Balance
Elementary Level – Student Worksheet

(a) Balance off the following accounts as at 30 April 2020. You are also required to show the opening balances of the next month.

Hints: Steps to balance off an account

1. Calculate the total on debit side and the total on credit side of the T-account.
2. Deduct the smaller total from the larger total to find the difference.
3. Record the difference (i.e. closing balance) on the side with smaller total as balance carried down (Balance c/d).
4. Enter the total on debit side and the total on credit side (*they must be the same) of the T-account.
5. Start the next month's record by entering the difference in Step 2 as balance brought down (Balance b/d) on the side opposite to the balance carried down (Balance c/d).

Example:

The diagram illustrates the process of balancing a T-account for 'Trade payables' as of 30 April 2020. It shows two T-accounts side-by-side, with callouts explaining the steps from Step 1 to Step 5.

Debit Side T-account:

2020	
Apr 30	Returns outwards
Apr 30	Balance c/d
	2,660

Credit Side T-account:

2020	
Apr 1	Purchases
Apr 3	Purchases
	100,000
	82,660
	182,660
May 1	Balance b/d
	180,000

Callouts:

- Step 1:** Debit side total: \$2,660 (points to the total of the debit side).
- Step 1:** Credit side total: \$182,660 (points to the total of the credit side).
- Step 2:** Difference = \$182,660 - \$2,660 = \$180,000 (points to the difference calculation).
- Step 3:** Enter the difference on the side with smaller total (points to the 'Balance c/d' entry on the debit side).
- Step 4:** Enter the total (points to the total of the credit side).
- Step 5:** Enter the difference on the opposite side as Balance b/d of another month (points to the 'Balance b/d' entry on the credit side).

Fill in the following boxes and circle the correct answers for items with (#).

Trade receivables			
2020		\$	
Apr 1	Balance b/d	25,000	
8	Sales	30,000	
		<u>55,000</u>	
May 1	# Balance c/d / Balance b/d	25,000	

2020		\$	
Apr 25	Cash at bank	29,100	
25	Discounts allowed	900	
30	# Balance c/d / Balance b/d	25,000	<input type="text"/>

Cash at bank			
2020		\$	
Apr 2	Capital	20,000	
2	Loan from Susan Ltd	40,000	
25	Trade receivables	29,100	
30	# Balance c/d / Balance b/d	<input type="text"/>	<input type="text"/>
			<u>185,000</u>
May 1	# Balance c/d / Balance b/d		<input type="text"/>

Calculate the difference between the two sides

= - - -

=

Loan from Susan Ltd					
2020		\$	2020	\$	
Apr 15	Cash at bank	130,000	Apr 1	Balance b/d	90,000
		<input type="text"/>	2	Cash at bank	40,000
					<input type="text"/>

When total of debit side equals total of credit side, no balance will be carried down to the next month.

(b)
 (i) Zero balance: _____

(ii) Debit balance: _____

When debit side total > credit side total, **balance c/d** would appear on the **credit side**, the account has a **debit balance**.

(iii) Credit balance: _____

When credit side total > debit side total, **balance c/d** would appear on the **debit side**, the account has a **credit balance**.

(c) State two functions of a trial balance.

Complete the following sentences with the words provided in the box.

1. financial statements	2. double entry	3. arithmetical accuracy	4. debit	5. credit
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The functions are:

- to test the _____ of _____ system by checking whether the total of the _____ balances and the total of the _____ balances are the same.
- to serve as a basis on which _____ are prepared.

(d)

Hint 1: Before preparing the trial balance, we need to determine the **types of account balances**.

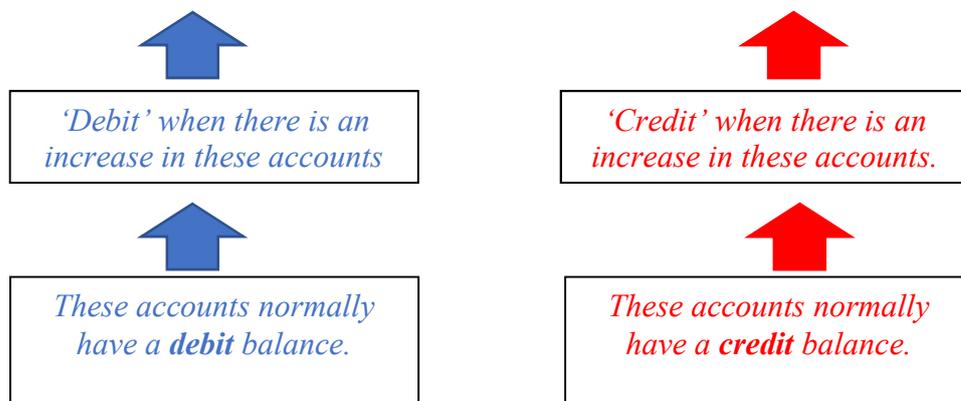
Hint 2: In addition to getting balances from balancing off, we may determine the types of account balances based on the **accounting equation**.

Accounting Equation

$$\text{Assets} = \text{Capital} + \text{Liabilities}$$

$$\text{Assets} = \text{Capital} + (\text{Revenues} - \text{Expenses}) - \text{Drawings} + \text{Liabilities}$$

$$\text{Assets} + \text{Expenses} + \text{Drawings} = \text{Capital} + \text{Liabilities} + \text{Revenues}$$



Hint 3: Steps to prepare a trial balance

1. Accounts with a Debit balance will be entered in Dr column.
2. Accounts with a Credit balance will be entered in Cr column.
3. Calculate the total of the debit column and the total of the credit column and check if they are equal.

Peter Company
Trial Balance as at 30 April 2020

	Dr	Cr
	\$	\$
Trade receivables <i>(hint: assets)</i>	(e.g.) 25,000	
Sales <i>(hint: revenues)</i>		
Cash at bank (bank overdraft) <i>(hint: liabilities)*</i>		
Sundry expenses <i>(hint: expenses)</i>		
Motor van <i>(hint: assets)</i>		
Inventory <i>(hint: assets)</i>		
Capital		
Purchases <i>(hint: expenses)</i>		
Trade payables <i>(hint: liabilities)</i>		
Drawings		
Rent <i>(hint: expenses)</i>		
Carriage outwards <i>(hint: expenses)</i>		
Returns outwards **		
Returns inwards **		
Discounts received <i>(hint: revenues)</i>		
Discounts allowed <i>(hint: expenses)</i>		
Rental deposit <i>(hint: assets)</i>		
	621,060	

Notes:

* Cash at bank is normally an asset account with a debit balance. However, when cash withdrawn from the cash at bank account is more than the account balance (i.e. bank overdraft), it becomes a liability account with a credit balance.

** Double entry rules for recording returns inwards and returns outwards:

To record	<u>returns inwards account</u>	<u>returns outwards account</u>
an increase	Debit side	Credit side
a decrease	Credit side	Debit side

(e) **Fill in the blanks to complete the following sentence about the limitation of a trial balance**

There may still be _____ or _____ in accounting entries even though the total of the debit balances equals the total of the credit balances.

Circle one of the following errors which could not be detected by a trial balance.

Scenario 1: Cash sales was only recorded in the sales account.

Scenario 2: Paid sundry expenses by cheque but no entries were made.

Graded Assignment: Trial Balance
Elementary Level – Suggested Solution and Explanatory Notes

(a)

Trade receivables			
2020		\$	
Apr 1	Balance b/d	25,000	
8	Sales	30,000	
		55,000	
May 1	# Balance c/d / Balance b/d	25,000	

Cash at bank			
2020		\$	
Apr 25	Cash at bank	29,100	
25	Discounts allowed	900	
30	# Balance c/d / Balance b/d	25,000	
		55,000	

Cash at bank			
2020		\$	
Apr 2	Capital	20,000	
2	Loan from Susan Ltd	40,000	
25	Trade receivables	29,100	
30	# Balance c/d / Balance b/d	95,900	
		185,000	

Cash at bank			
2020		\$	
Apr 1	Balance b/d	10,000	
15	Loan from Susan Ltd	130,000	
30	Sundry expenses	45,000	
		185,000	
May 1	# Balance c/d / Balance b/d	95,900	

difference between the two sides

= \$185,000 - \$20,000 - \$40,000 - \$29,100

= \$95,900

Loan from Susan Ltd					
2020		\$	2020	\$	
Apr 15	Cash at bank	130,000	Apr 1	Balance b/d	90,000
			2	Cash at bank	40,000
		<u>130,000</u>			<u>130,000</u>

(b) (i) Zero balance: **Loan from Susan Ltd**

(ii) Debit balance: **Trade receivables**



When debit side total > credit side total, **balance c/d** would appear on the **credit side**, the account has a **debit balance**.

(iii) Credit balance: **Cash at bank (bank overdraft)**



When credit side total > debit side total, **balance c/d** would appear on the **debit side**, the account has a **credit balance**.

(c) The functions are:

1. to test the **arithmetical accuracy** of **double entry** system by checking whether the total of the **debit** balances and the total of the **credit** balances are the same.
2. to serve as a basis on which **financial statements** are prepared.

(d)

Peter Company

Trial Balance as at 30 April 2020

	Dr \$	Cr \$
Trade receivables (<i>hint: assets</i>)	(e.g.) 25,000	
Sales (<i>hint: revenues</i>)		138,000
Cash at bank (bank overdraft) (<i>hint: liabilities</i>)		95,900
Sundry expenses (<i>hint: expenses</i>)	45,000	
Motor van (<i>hint: assets</i>)	50,000	
Inventory (<i>hint: assets</i>)	60,000	
Capital		190,000
Purchases (<i>hint: expenses</i>)	200,000	
Trade payables (<i>hint: liabilities</i>)		180,000
Drawings	40,000	
Rent (<i>hint: expenses</i>)	30,000	
Carriage outwards (<i>hint: expenses</i>)	70,620	
Returns outwards		2,660
Returns inwards	6,540	
Discounts received (<i>hint: revenues</i>)		14,500
Discounts allowed (<i>hint: expenses</i>)	900	
Rental deposit (<i>hint: assets</i>)	93,000	
	621,060	621,060

(e) There may still be errors or omissions in accounting entries even though the total of the debit balances equals the total of the credit balances.

Scenario 2 is an example of error which could not be detected by a trial balance.

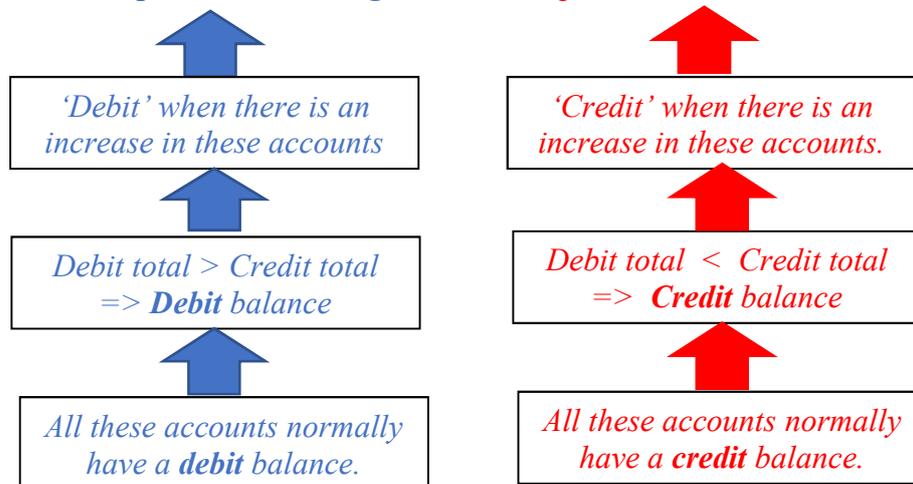
Scenario 2: Paid sundry expenses by cheque but no entries were made.

Explanatory notes:

As both debit entry and credit entry for the transaction were omitted, total debit balances and total credit balances in the trial balance would still agree. Hence, a trial balance is not able to detect all errors or omissions in the accounting record.

Points to note:**Determination of types of account balances based on the accounting equation**

$$\text{Assets} + \text{Expenses} + \text{Drawings} = \text{Capital} + \text{Liabilities} + \text{Revenues}$$



Note: If Debit total = Credit total, the account has a zero balance

Steps to balance off an account

1. Calculate the total on debit side and the total on credit side of the T-account.
2. Deduct the smaller total from the larger total to find the difference.
3. Record the difference (i.e. closing balance) on the side with smaller total as balance carried down (Balance c/d).
4. Enter the total on debit side and the total on credit side (*they must be the same) of the T-account.
5. Start the next month's record by entering the difference in Step 2 as balance brought down (Balance b/d) on the side opposite to the balance carried down (Balance c/d).

Steps to prepare a trial balance:

1. Accounts with a Debit balance will be entered in Dr column.
2. Accounts with a Credit balance will be entered in Cr column.
3. Calculate the total of the two columns and check if they are equal.

Common mistakes:

1. Unable to identify bank overdraft as liabilities.
2. Mix up the balancing figure and the total figure in a T-account.
3. Mix up errors affecting and errors not affecting trial balance agreement.

Graded Assignment: Trial Balance
Standard Level – Question Paper

The following accounts were extracted from the books of Peter Company as at 30 April 2020:

Trade receivables					
2020			\$		\$
Apr 1	Balance b/d	25,000		Apr 25	Cash at bank 29,100
8	Sales	30,000		25	Discounts allowed 900

Cash at bank					
2020			\$		\$
Apr 2	Capital	20,000		Apr 1	Balance b/d 10,000
2	Loan from Susan Ltd	40,000		15	Loan from Susan Ltd 130,000
25	Trade receivables	29,100		30	Sundry expenses 45,000

Loan from Susan Ltd					
2020			\$		\$
Apr 15	Cash at bank	130,000		Apr 1	Balance b/d 90,000
				2	Cash at bank 40,000

REQUIRED

- (a) Balance off the above accounts as at 30 April 2020. You are also required to prepare the opening balances of the next month. (2 marks)
- (b) From the above accounts, give one example for each of the following types of account balances:
- (i) zero balance
 - (ii) debit balance
 - (iii) credit balance

(3 marks)

Apart from the above accounts, the following balances were obtained from the books of Peter Company as at 30 April 2020:

	\$
Motor van	50,000
Inventory	60,000
Capital	190,000
Purchases	200,000
Sales	138,000
Sundry expenses	45,000
Trade payables	180,000
Drawings	40,000
Rent	30,000
Carriage outwards	70,620
Returns outwards	2,660
Returns inwards	6,540
Discounts received	14,500
Discounts allowed	900
Rental deposit	93,000

REQUIRED

- (c) State two functions of a trial balance (2 marks)
- (d) Prepare a trial balance as at 30 April 2020. (9 marks)
- (e) Explain one limitation of a trial balance with an example. (2 marks)

(Total: 18 marks)

Balance off the following accounts and complete the steps in the boxes provided.

Debit side total: _____

Credit side total: _____

Trade receivables

2020			\$	2020			\$
Apr 1	Balance b/d		25,000	Apr 25	Cash at bank		29,100
8	Sales		30,000	25	Discounts allowed		900
			_____				_____
			=====				=====

Which side is greater: Debit / Credit
 Difference: _____

Debit side total: _____

Credit side total: _____

Cash at bank

2020			\$	2020			\$
Apr 2	Capital		20,000	Apr 1	Balance b/d		10,000
2	Loan from Susan Ltd		40,000	15	Loan from Susan Ltd		130,000
25	Trade receivables		29,100	30	Sundry expenses		45,000
			_____				_____
			=====				=====

Which side is greater: Debit / Credit
 Difference: _____

Debit side total: _____

Credit side total: _____

		Loan from Susan Ltd			
2020		\$		2020	\$
Apr 15	Cash at bank	130,000		Apr 1	Balance b/d
				2	Cash at bank
					90,000
					40,000

Difference: _____

(b) Hint: Identify the types of account balances by comparing debit side total and credit side total.

- When debit side total > credit side total, the account has a _____ balance.
- When credit side total > debit side total, the account has a _____ balance.
- When debit side total = credit side total, the account has a _____ balance.

From the above accounts, give one example for each of the following types of account balances:

- (i) Zero balance: _____
- (ii) Debit balance: _____
- (iii) Credit balance: _____

(c) The functions are:

1. _____

2. _____

(d) Hint 1: Before preparing the trial balance, we need to determine the **types of account balances**.

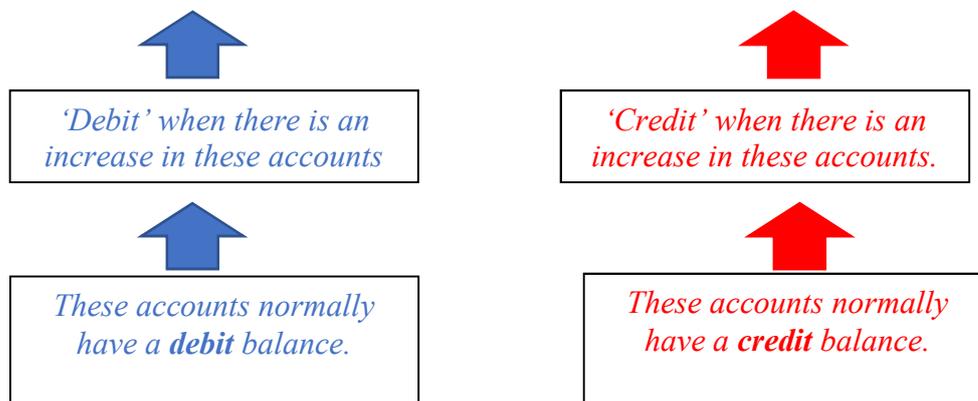
Hint 2: In addition to getting balances from balancing off, we may determine the types of account balances based on the **accounting equation**.

Accounting Equation

$$\text{Assets} = \text{Capital} + \text{Liabilities}$$

$$\text{Assets} = \text{Capital} + (\text{Revenues} - \text{Expenses}) - \text{Drawings} + \text{Liabilities}$$

$$\text{Assets} + \text{Expenses} + \text{Drawings} = \text{Capital} + \text{Liabilities} + \text{Revenues}$$



Hint 3: Steps to prepare a trial balance

1. Accounts with a Debit balance will be entered in Dr column.
2. Accounts with a Credit balance will be entered in Cr column.
3. Calculate the total of the debit column and the total of the credit column and check if they are equal.

Peter Company	
Trial balance	
	\$
	\$

=====

(e) Explain one limitation of a trial balance with an example.

Graded Assignment: Trial Balance
Standard Level – Suggested Solution and Explanatory Notes

(a)

Steps to balance off an account: (d) > (a) > (e) > (c) > (b)

Step 1 Calculate the total on debit side and the total on credit side of the T-account.



Step 2 Deduct the smaller total from the larger total to find the difference.



Step 3 Record the difference (i.e. closing balance) on the side with smaller total as balance carried down (Balance c/d).



Step 4 Enter the total on debit side and the total on credit side (*they must be the same) of the T-account.



Step 5 Start the next month's record by entering the difference as balance brought down (Balance b/d) on the side opposite to the balance carried down (Balance c/d).

Debit side total: \$55,000 (Step 1)

Credit side total: \$30,000 (Step 1)

Trade receivables			
2020		\$	
Apr 1	Balance b/d	25,000	2020 Apr 25 Cash at bank 29,100
8	Sales	30,000	25 Discounts allowed 900
		55,000	30 Balance c/d (Step 3) <u>25,000</u>
		<i>(Step 4)</i>	<i>(Step 4)</i> <u>55,000</u>
May 1	Balance b/d (Step 5)	25,000	

Which side is greater: Debit / ~~Credit~~

Difference: \$25,000 (Step 2)

*As **debit side total > credit side total**, trade receivables account has a **debit** balance.*

<i>Debit side total: \$89,100 (Step 1)</i>				Cash at bank	<i>Credit side total: \$185,000 (Step 1)</i>			
2020			\$	2020			\$	
Apr 2	Capital		20,000	Apr 1	Balance b/d		10,000	
2	Loan from Susan Ltd		40,000	15	Loan from Susan Ltd		130,000	
25	Trade receivables		29,100	30	Sundry expenses		45,000	
30	Balance c/d (Step 3)		95,900					
		<i>(Step 4)</i>	<u>185,000</u>				<i>(Step 4)</i>	<u>185,000</u>
				May 1	Balance b/d (Step 5)		95,900	

Which side is greater: ~~Debit~~ / Credit

Difference: \$95,900 (Step 2)

As **credit side total > debit side total**, cash at bank account has a **credit** balance.

It means the amount of cash withdrawn from the bank account **exceeds** the amount balance. **Bank overdraft** occurs and it is a liability.

<i>Debit side total: \$130,000 (Step 1)</i>				Loan from Susan Ltd	<i>Credit side total: \$130,000 (Step 1)</i>			
2020			\$	2020			\$	
Apr 15	Cash at bank		130,000	Apr 1	Balance b/d		90,000	
				2	Cash at bank		40,000	
		<i>(Step 4)</i>	<u>130,000</u>				<i>(Step 4)</i>	<u>130,000</u>

Difference: \$0 (Step 2)

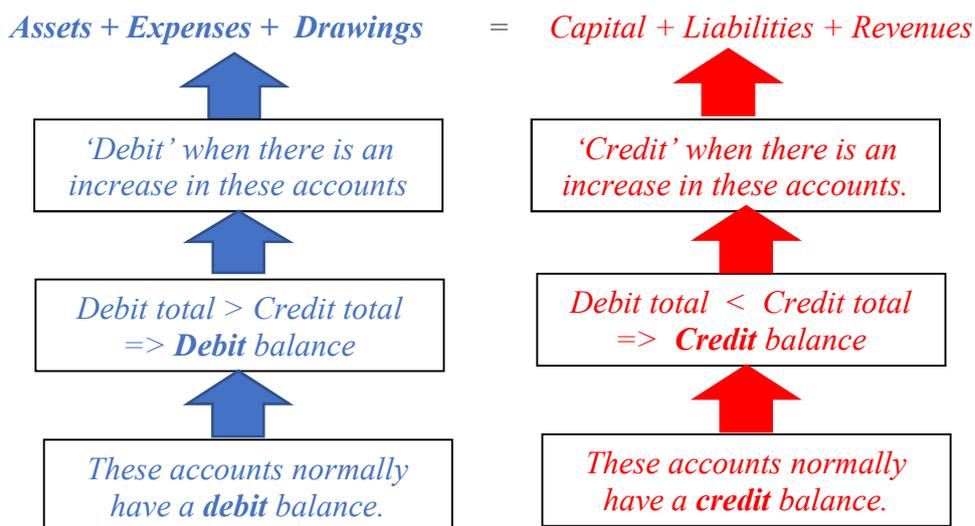
As **debit side total = credit side total**, Loan from Susan has a **zero** balance.

- (b) (i) Zero balance: **Loan from Susan Ltd**
- (ii) Debit balance: **Trade receivables**
- (iii) Credit balance: **Cash at bank (bank overdraft)**

Explanatory notes: Comparison between debit balance and credit balance

	<u>Account with a Debit balance</u>	<u>Account with a Credit balance</u>
1. Which side's total is greater	Debit	Credit
2. Balance c/d appears on	Credit side	Debit side
3. Balance b/d appears on	Debit side	Credit side
4. Examples	Assets, Drawings, Expenses, Purchases, Returns inwards	Liabilities, Capital, Revenues, Sales, Returns outwards

Accounting Equation



Note: If Debit total = Credit total, the account has zero balance

- (c) The functions are:
1. to test the arithmetical accuracy of double entry system by checking whether the total of the debit balances and the total of the credit balances are the same.
 2. to serve as a basis on which financial statements are prepared.

(d)

Peter Company		
Trial balance as at 30 April 2020		
	Dr	Cr
	\$	\$
Trade receivables	25,000	
Sales		138,000
Cash at bank (bank overdraft*)		95,900
Sundry expenses	45,000	
Motor van	50,000	
Inventory	60,000	
Capital		190,000
Purchases	200,000	
Trade payables		180,000
Drawings	40,000	
Rent	30,000	
Carriage outwards	70,620	
Returns outwards		2,660
Returns inwards	6,540	
Discounts received		14,500
Discounts allowed	900	
Rental deposit	93,000	
	621,060	621,060

Note: Cash at bank is normally an asset account with a debit balance. However, when cash withdrawn from the cash at bank account is more than the account balance (i.e. bank overdraft), it becomes a liability account with a credit balance.*

(e)

Limitation of a trial balance:

There may still be errors or omissions in accounting entries even though the total of the debit balances equals the total of the credit balances.

Examples of errors not affecting trial balance agreement are as follows:

1. Cash sales had been completely omitted from the books. (*Error of omission*)
2. A credit purchase of goods from Andy Company was wrongly entered into Anton Company's account. (*Error of commission*)
3. Both sales account and rent account were overcast by \$1,000. (*Compensating errors*)
4. A credit sale of goods amounting \$500 to Betty Ltd was entered in the books as \$50. (*Error of original entry*)
5. Payment of cash of \$2,000 to Apple Company was wrongly debited to cash in hand account and credited to Apple Company account. (*Complete reversal of entries*)
6. Acquisition of motor van was debited to purchases account instead of motor van account. (*Error of principle*)

Only errors of **single entry** or **unequal debit and credit entries** can be detected by a trial balance.

Points to note:

Common mistakes:

1. Unable to identify bank overdraft as liabilities.
2. Mix up the balancing figure and the total figure in a T-account.
3. Mix up errors affecting and errors not affecting trial balance agreement.

Graded Assignment: Trial Balance
Advanced Level – Question Paper

The following accounts were extracted from the books of Peter Company as at 30 April 2020:

Trade receivables					
2020		\$			\$
Apr 1	Balance b/d	25,000	Apr 25	Cash at bank	29,100
8	Sales	30,000	25	Discounts allowed	900

Cash at bank					
2020		\$			\$
Apr 2	Capital	20,000	Apr 1	Balance b/d	10,000
2	Loan from Susan Ltd	40,000	15	Loan from Susan Ltd	130,000
25	Trade receivables	29,100	30	Sundry expenses	45,000

Loan from Susan Ltd					
2020		\$			\$
Apr 15	Cash at bank	130,000	Apr 1	Balance b/d	90,000
			2	Cash at bank	40,000

REQUIRED

- (a) Balance off the above accounts as at 30 April 2020. You are also required to prepare the opening balances of the next month. (2 marks)
- (b) From the above accounts, give one example for each of the following types of account balances:
- (i) zero balance
 - (ii) debit balance
 - (iii) credit balance

(3 marks)

Apart from the above accounts, the following balances were obtained from the books of Peter Company as at 30 April 2020:

	\$
Motor van	50,000
Inventory	60,000
Capital	190,000
Purchases	200,000
Sales	138,000
Sundry expenses	45,000
Trade payables	180,000
Drawings	40,000
Rent	30,000
Carriage outwards	70,620
Returns outwards	2,660
Returns inwards	6,540
Discounts received	14,500
Discounts allowed	900
Rental deposit	93,000

REQUIRED

- (c) State two functions of a trial balance (2 marks)
- (d) Prepare a trial balance as at 30 April 2020. (9 marks)
- (e) Explain one limitation of a trial balance with an example. (2 marks)

(Total: 18 marks)

Challenging questions

Assuming that the financial year for Peter Company ended on 30 April 2020 with closing inventory value amounting to \$100,000, explain the necessary accounting treatments in the following accounts before the preparation of financial statements:

- (i) Inventory
- (ii) Sales
- (iii) Sundry expenses (4 marks)

Graded Assignment: Trial Balance
Advanced Level – Student Worksheet

- (a) Balance off the following accounts as at 30 April 2020. You are also required to prepare the opening balances of the next month.

Trade receivables					
2020			\$		\$
Apr 1	Balance b/d	25,000		Apr 25	Cash at bank
8	Sales	30,000		25	Discounts allowed
					29,100
					900

Cash at bank					
2020			\$		\$
Apr 2	Capital	20,000		Apr 1	Balance b/d
2	Loan from Susan Ltd	40,000		15	Loan from Susan Ltd
25	Trade receivables	29,100		30	Sundry expenses
					10,000
					130,000
					45,000

Loan from Susan Ltd					
2020			\$		\$
Apr 15	Cash at bank	130,000		Apr 1	Balance b/d
				2	Cash at bank
					90,000
					40,000

- (b) (i) _____
- (ii) _____
- (iii) _____

(c)

(d)

(e)

Challenging questions

(i)

(ii)

(iii)

Graded Assignment: Trial Balance
Advanced Level – Suggested Solution and Explanatory Notes

(a)

Trade receivables					
2020			\$		\$
Apr 1	Balance b/d		25,000	Apr 25	Cash at bank
	8	Sales	30,000		25
			55,000		30
			25,000		Balance c/d
					25,000
May 1	Balance b/d		25,000		

Note: Cash at bank is normally an asset account with a debit balance. However, when cash withdrawn from the cash at bank account is more than the account balance (i.e. bank overdraft), it becomes a liability account with a credit balance.

Cash at bank					
2020			\$		\$
Apr 2	Capital		20,000	Apr 1	Balance b/d
	2	Loan from Susan Ltd	40,000		15
	25	Trade receivables	29,100		30
	30	Balance c/d	95,900		
			185,000		
				May 1	Balance b/d
					95,900

Loan from Susan Ltd					
2020			\$		\$
Apr 15	Cash at bank		130,000	Apr 1	Balance b/d
			130,000		2
					Cash at bank
					40,000
					130,000

- (b) (i) Zero balance: Loan from Susan Ltd
(ii) Debit balance: Trade receivables
(iii) Credit balance: Cash at bank (Bank overdraft)

(c) The functions are:

1. to test the arithmetical accuracy of double entry system by checking whether the total of the debit balances and the total of the credit balances are the same.
2. to serve as a basis on which financial statements are prepared.

(d)

Peter Company		
Trial balance as at 30 April 2020		
	Dr (\$)	Cr (\$)
Trade receivables	25,000	
Sales		138,000
Cash at bank (bank overdraft)		95,900
Sundry expenses	45,000	
Motor van	50,000	
Inventory	60,000	
Capital		190,000
Purchases	200,000	
Trade payables		180,000
Drawings	40,000	
Rent	30,000	
Carriage outwards	70,620	
Returns outwards		2,660
Returns inwards	6,540	
Discounts received		14,500
Discounts allowed	900	
Rental deposit	93,000	
	621,060	621,060

(e)

Limitation of a trial balance:

There may still be errors or omissions in accounting entries even though the total of the debit balances equals the total of the credit balances.

Examples of errors not affecting trial balance agreement are as follows:

1. Cash sales had been completely omitted from the books. (*Error of omission*)
2. A credit purchase of goods from Andy Company was wrongly entered into Anton Company's account. (*Error of commission*)
3. Both sales account and rent account were overcast by \$1,000. (*Compensating errors*)
4. A credit sale of goods amounting \$500 to Betty Ltd was entered in the books as \$50. (*Error of original entry*)
5. Payment of cash of \$2,000 to Apple Company was wrongly debited to cash in hand account and credited to Apple Company account. (*Complete reversal of entries*)
6. Acquisition of motor van was debited to purchases account instead of motor van account. (*Error of principle*)

Explanatory notes:

Only errors of single entry or unequal debit and credit entries could be detected by a trial balance, for example:

1. Cash sales was only recorded in the sales account.
2. A credit sale of goods amounting \$500 to Betty Ltd was entered in the Betty Ltd account as \$50.
3. Payment of cash of \$2,000 to Apple Company was wrongly debited to both cash in hand account and Apple Company account.

Challenging questions:

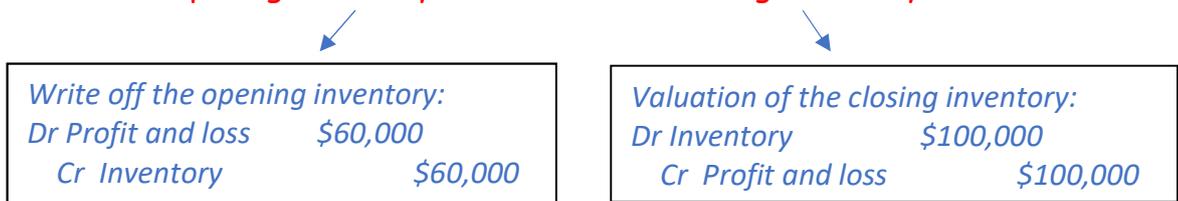
- (i) The opening inventory should be written off at the financial year end. At the same time, the value of closing inventory would be debited to the inventory account and credited to the profit and loss account after physical inventory count.

Explanatory notes:

- Under periodic inventory system, inventory account is not updated for each transaction of inventory movement (i.e. purchases, sales, returns inwards, returns outwards).
- At the end of each financial period, the closing inventory is determined by a physical inventory count and subtracted from the cost of goods available for sale to compute the cost of goods sold.
- The opening inventory carried forward from last financial period would be written off and become cost of goods sold for the current financial period.

The equation to compute cost of goods sold is:

$$\text{Cost of goods sold} = \text{Opening inventory}^* + \text{Purchases} - \text{Closing inventory}^{**}$$



- (ii) Closing entry should be recorded by debiting the sales account and crediting the profit and loss account.

Example:

		Sales			
2020		\$		2020	\$
Apr 30	Profit and loss	138,000		Apr 1	Balance b/d
				8	Trade receivables
		138,000			108,000 30,000
					138,000

- (iii) Closing entry should be recorded by debiting the profit and loss account and crediting the sundry expenses account.

Example:

		Sundry expenses			
2020		\$	2020		\$
Apr 30	Cash at bank	<u>45,000</u>	Apr 30	Profit and loss	<u>45,000</u>

Points to note:

Common mistakes:

1. Unable to identify bank overdraft as liabilities.
2. Mix up the balancing figure and the total figure in a T-account.
3. Mix up errors affecting and errors not affecting trial balance agreement.

Graded Assignment: Trial Balance
Marking Scheme

(a)

Trade receivables				Mark		
2020		\$		2020	\$	
Apr 1	Balance b/d	25,000	Apr 25	Cash at bank	29,100	
8	Sales	30,000	25	Discounts allowed	900	
			30	Balance c/d	25,000	0.5
		55,000			55,000	
May 1	Balance b/d	25,000				0.5

Cash at bank						
2020		\$		2020	\$	
Apr 2	Capital	20,000	Apr 1	Bal b/d	10,000	
2	Loan from Susan Ltd	40,000	15	Loan from Susan Ltd	130,000	
25	Trade receivables	29,100	30	Sundry expenses	45,000	
30	Balance c/d	95,900				0.5
		185,000			185,000	
			May 1	Balance b/d	95,900	0.5

Loan from Susan Ltd						
2020		\$		2020	\$	
Apr 15	Cash at bank	130,000	Apr 1	Bal b/d	90,000	
			2	Cash at bank	40,000	
		130,000			130,000	

*Inappropriate account format (e.g. missing total, wrong date), overall deduct 1 mark

- (b)
- | | | |
|-------|---|-----|
| (i) | Zero balance: Loan from Susan Ltd | (1) |
| (ii) | Debit balance: Trade receivables | (1) |
| (iii) | Credit balance: Cash at bank (Bank overdraft) | (1) |

(c) The functions are:

1. to test the arithmetical accuracy of double entry system by checking whether the total of the debit balances and the total of the credit balances are the same.
2. to serve as a basis on which financial statements are prepared.

(1 mark each, total 2 marks)

(d)

Mark

Peter Company			
Trial balance as at 30 April 2020			
	Dr	Cr	
	\$	\$	
Trade receivables	25,000		0.5
Sales		138,000	0.5
Cash at bank (bank overdraft)		95,900	0.5
Sundry expenses	45,000		0.5
Motor van	50,000		0.5
Inventory	60,000		0.5
Capital		190,000	0.5
Purchases	200,000		0.5
Trade payables		180,000	0.5
Drawings	40,000		0.5
Rent	30,000		0.5
Carriage outwards	70,620		0.5
Returns outwards		2,660	0.5
Returns inwards	6,540		0.5
Discounts received		14,500	0.5
Discounts allowed	900		0.5
Rental deposit	93,000		0.5
	621,060	621,060	0.5

(9)

*Inappropriate trial balance format (e.g. wrong heading, no indication of debit and credit columns), overall deduct 1 mark

(e)

Limitation of a trial balance:

There may still be errors or omissions in accounting entries even though the total of the debit balances equals the total of the credit balances. (1)

Examples of errors not affecting trial balance agreement are as follows:

1. Cash sales had been completely omitted from the books. (*Error of omission*)
2. A credit purchase of goods from Andy Company was wrongly entered into Anton Company's account. (*Error of commission*)
3. Both sales account and rent account were overcast by \$1,000. (*Compensating errors*)
4. A credit sale of goods amounting \$500 to Betty Ltd was entered in the books as \$50. (*Error of original entry*)
5. Payment of cash of \$2,000 to Apple Company was wrongly debited to cash in hand account and credited to Apple Company account. (*Complete reversal of entries*)
6. Acquisition of motor van was debited to purchases account instead of motor van account. (*Error of principle*)

(1)

Challenging questions

- (i) The opening inventory should be written off at the financial year end. *(1 mark)* At the same time, the value of closing inventory would be debited to the inventory account and credited to the profit and loss account after physical inventory count. *(1 mark)*
- (ii) Closing entry should be recorded by debiting the sales account and crediting the profit and loss account. *(1 mark)*
- (iii) Closing entry should be recorded by debiting the profit and loss account and crediting the sundry expenses account. *(1 mark)*