


**Financial Accounting**  
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**Lecture – 47**  
**4.3 Practice Problem 1**

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**Problem 1**

Account	Rs.	Account	Rs.
1 Share Capital - L - Cr	1,50,000	Sales - I - Cr	1,05,400
2 Purchases - E - Dr	40,000	Sundry Creditor - L - Cr	5,000
3 Cash in Hand - A - Dr	7,000	Rent - E - Dr	2,000
4 Cash at Bank - A - Dr	8,500	Furniture - A - Dr	16,000
5 Electricity exp. - E - Dr	4,800	Bank Loan - L - Cr	10,000
Stationery - E - Dr	500	Investment - A - Dr	6,000
Office Equipment - A - Dr	2,400	Commission paid - E - Dr	1,050
Sundry Debtors - A - Dr	8,000	Stock - A - Dr	3,200
Machinery - A - Dr	1,60,000	Commission Received - I - Cr	1,200
Salaries - E - Dr	11,400	Postage & Telegram - E - Dr	750





I hope you are ready for some practice problems to reinforce the learning that we have had in terms of preparation of trial balance. So, let us look at one of the practice problems. On the slide, you have a list of accounts. And this is not an account; this is not a statement; this is nothing. It looks like a nice table in the form of an account that we prepare, but all it does is it gives you different account balances and the numbering continues here, just imagine that.

You have share capital. And the balance in the share capital is 1,50,000. This means that you prepared a ledger account for the share capital. You finally figured out the balancing figure in the account to be 1,50,000. So, the closing balance in the share capital account is 1,50,000. Likewise, the closing balance in the purchase account is 40,000; in office equipment is 2400, and so on. That is what the content on this slide means. What we have to do is to use these balances.

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**Problem 1**

Account	Dr. Amount	Cr. Amount
Share Capital		150,000
Purchase	40,000	
Cash in hand	7,000	
Cash at bank	8,500	
Electricity	4,800	
Stationery	500	
Office equipment	2,400	
Debtors	8,000	
Machinery	160,000	
Salaries	11,400	
Sales		1,05,400
Creditors		5,000
Rent	2,000	
Furniture	16,000	10,000
Bank loan		6,000
Investment	10,000	
Commission	3,200	
Stock		1,200
Commission received		750
Postage		
<b>Total</b>	<b>271,600</b>	<b>271,600</b>

I have a format of trial balance here. We have to populate the names of the accounts here, and we have to just prepare the trial balance, as simple as that. The process for doing that is as follows. We have to identify what a given account is in terms of asset liability, income, and expense. And then we say if it is a debit balance or a credit balance. So, we will do that next. Let me take the blue colour here.

Share capital: share capital is a liability, and all liabilities have a credit balance. Purchase is an expense: all expenses have a debit balance. Identifying an item to be either income, expense, asset, or liability should be on your tips now. Identifying what balance does the asset account, liability account, income or expense account have that should also be on your tips by now.

Cash in hand is an asset, hence debit balance. Cash at bank is also an asset, therefore, it should also be a debit balance. Electricity expenses, all expenses have a debit balance. Stationery is also an expense, hence a debit balance. Office equipment is an asset, a debit balance. Sundry debtors are assets, debit balance. Machinery is also an asset, hence the debit balance. Salaries are expenses, again debit balance. The next item is sales, sales is income, hence credit balance. Sundry creditors are liabilities, so credit balance. Rent is an expense, a debit balance. Furniture is an asset, debit balance. Bank loan or liability, a credit balance. Investment is an asset, debit balance, sorry about that. Commission paid is an expense, so debit balance. Stock is an asset, hence debit balance. Now, commission received is an income, therefore, credit. Postage and telegram are expenses, hence credit balance, sorry debit balance, there you go.

If you know about which item is an asset, liability, income, expense, and what balance will this account have, you are set. There is not much to do in preparing the trial balance statement. So, all we have to do now is to bring these balances to the trial balance. So, I am going to write them one by one. You have share capital which is a credit balance, so 1,50,000. Then we have purchases and cash in hand. So, purchase, cash in hand, cash at bank, I saw that as well. So, purchase was 40000, 7000, and I think 8500, so 8500. Then you have electricity expenses and stationery. So, electricity expenses and stationery, the balances are 4800 and 500, so 4800 and 500. Then you have office equipment, debtors and machinery. So, I will write office equipment, debtors and machinery. The balances are 2400, 8000 and 160, 2400, 8000, 160000. And then you have salaries 11400. You have sales and creditors, these are credit balances, so 105400 and 5000. Then you have rent, furniture and bank loan. The amounts are 2000, 16000, 10000, so 2000, 16000, and 10000. Bank loan is a credit balance. Then you have investment, commission, and stock: 6000, 1050, and 3200, all debit balances. And then you have commission received and postage. So, commission, received 1200, income; and postage is 750, a debit. There you go. We have now posted all the account balances into either the debit side or the credit side. I will just run through it to make sure that I have posted these items correctly. So, share, share capital is credit, purchase, cash in hand, electricity, stationery, office equipment, debtors, machinery, salaries, sales, credit, creditors, bank loan, investments, commission, stock, seems about right. All we have to do now is figure out the total amount on both sides. If the total is equal, then we have done the posting correctly. So, I will just do the sum of this. And this comes out to be 271,600. And when you sum up the debit side it gives you the same total, so that is the proof of the double entry system. Debits have equal credits. All debit balances are equal to all credit balances. This is how you prepare a statement of trial balance. What we are really doing is, we are doing a trial of the balances. We are bringing in all balances, and we are just trying out if everything is correct.

And in this process, we also summarize the third step in the accounting cycle. After recording, classifying, we are summarizing. We are summarizing the balances of all accounts. At the end of a given financial period, you can look at this statement and say that in the share capital account we have a total 1,50,000 due to be paid back to the shareholders or this is the investment contributed by the shareholders. Total purchases during the year are 40000. Total electricity bills paid is 4800. Money to be recovered from debtors is 8000. Total salaries paid is 11400. The commission received during this financial period is 1200 and so on.

At one place, you have balances of all the accounts. So, it is a summary presented at a single place. You do not need to go to every account to look at the balance: you can have this statement in front of you at the end of our financial period and come to know of the balances, of all the balances in various types of accounts.

So, let me stop here. I will see you in the next practice problem.