

**Financial Accounting**  
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**Lecture – 48**  
**4.3 Practice Problem 2**

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**Problem 2** Trial Balance as on . . . . .

Account	Dr. Amount	Cr. Amount	
Capital	<del>8950</del>	8950	Liability Cr balance
Short term investment	1050	<del>4650</del>	Investment Dr balance
Stock	3725 ✓		Asset Dr balance
Purchases	23100 ✓		Expense Dr balance
Sales		39425 ✓	Income Cr balance
Wages	6205 ✓		Expenses Dr balance
Heating	310 ✓		Expenses Dr balance
Equipment	3600 ✓		Asset Dr balance
Carriage outward	230 ✓	230 ✓	Expense by
Carriage inward	105 ✓		Expense Dr
Return outward		290 ✓	(Outward-Purchase) Cr balance
Purchase Ret. (Goods)		290 ✓	
Provision for bad debts	<del>350</del>	350	current Liab Cr
Discount Allowed	815	815	Expense Dr
Rent	1115 ✓		Exp Dr
Motor Vehicles	1475 ✓		Asset Dr
Cash	110 ✓		Asset Dr
Creditors	<del>4925</del>	4925	Liability Cr
Debtors	18920	<del>13800</del>	Asset Dr
Bank Overdraft	825	975	Liability Cr

Let us do another practice problem. In this practice problem, we have been given a trial balance. So, this is a trial balance as on a given date. You have a list of accounts and you have amounts written in debit and credit. We have to verify whether this trial balance statement has been prepared accurately or not. If there is any inaccuracy, we need to correct it, and then prove that we have corrected the trial balance.

Let us look at these items one by one. Capital, well, capital is liability. All liabilities have a credit balance in their ledger accounts. However, this trial balance shows the amount of capital, the balance in the capital account, on the debit side which is not possible. So, we are going to move this to the credit side. Then you have a short term investment. This is an investment. All investments are assets and assets have a debit balance; we need to move this to the debit side. So, this is how we need to correct this trial balance.

Next step is stock. Stock is an asset, unsold stock, this should have a debit balance. Well, this is already on the debit column. So, we need not worry about it; this is fine. Purchases are expenses and all expenses have a debit balance. The balance has been written in the debit

column. So, this is correct. Sales are income. Incomes have credit balance; it is written on the credit side. So, we do not need to change anything.

Wages are expenses, and all expenses have a debit balance. So, this is also correctly written. Heating is basically heating bills or whatever coal that you get for heating in a manufacturing setup, so this is also an expense. All expenses have a debit balance and this should be fine. Equipment is an asset. Assets have debit balance, and they should be correct. Carriage outward and carriage inward; outward meaning this is carriage on sale this is carriage on purchase. Now, outward refers to the direction of the goods. When you say goods going outward, goods go out of the business i.e., when you sell them. So, when you sell them, you are paying carriage on that, that is what it is referring to. On the other hand, you have carriage inward; inward meaning that goods are coming into the business. That happens when you purchase. Both the items are expenses because both are being paid by the company or the business. All expenses have debit balance; this has been incorrectly written on the credit side. So, we just move this, and this balance seems to be in the right column. Now, there is return outward. What is return outward? Return means returns of goods. Why would you return the goods? Well, the company would return the goods to its vendor if the goods are not to the specification or the goods are damaged, or there is some problem due to which goods may need to be returned. The outward this word here refers to the direction of the goods, goods are going out. Now, when the goods are going out of the company then the company is returning the goods to the vendor. So, this is purchase return, return of purchases. Purchase return is going to have the opposite balance of the purchase account. Purchase account always has a debit balance, and the purchase return always have a credit balance. So, purchase return is not necessarily an item of income expense, asset, or liability, but this is a counter purchase account, opposite of purchase accounts: whatever is purchased is being returned. So, this should have a credit balance. This is an exceptional item. Just understand this; this should be shown on credit, it is being shown on the credit side, so that is fine.

Then you have a provision for bad debts. Now, all provisions are shown under current liabilities in the balance sheet, and liabilities always have a credit size. So, you are going to show it here, 350. The provisions are typically the money set aside out of the profits of the business to meet future liabilities. So, provisions represent a possible liability, and all liabilities have a credit balance. Then you have a discount allowed which is an expense of the business. All expenses have a debit balance. So, you are going to move this to the debit side.

Then you have rent. Rent is an expense, and hence debit, it is shown correctly. Motor vehicles, this is an asset, debit shown correctly. You have cash account; cash is an asset, debit balance, it is also shown correctly. Creditors are liabilities. All liabilities have credit balance. This is not written correctly here. And then you have debtors; debtors are assets. All assets have debit balance, this needs to be moved to the other side. Bank overdraft is a liability. All liabilities have credit balance. So, this needs to be moved to the opposite side. That is how you prepare trial balance and correct the trial balance.

So, I will see you in the next video with some more discussion regarding the trial balance statement.