

7-1922

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Recommended Citation

Hodges, B. W. (1922) "Trial-balance Information," *Journal of Accountancy*. Vol. 34: Iss. 1, Article 5.
Available at: <https://egrove.olemiss.edu/jofa/vol34/iss1/5>

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Trial-balance Information

By B. W. HODGES

When monthly profit-and-loss statements are impracticable owing to difficulty of securing trustworthy inventory and gross profit on sales cannot be gauged by past experience, the trial balance frequently contains all the information there is available.

One chief concern of the average executive just now is the financing of his business, and to know the changes in the position of his assets and liabilities is of prime importance. By comparing trial balances and summarizing the changes in accounts, the net result of the month's transactions can be viewed in the perspective and changes in position readily noted.

The executive can usually grasp this information much easier if it is placed in a receipts and disbursements form. The following exhibits will illustrate this point.

EXHIBIT A

COMPARATIVE TRIAL BALANCE

	Feb.	Jan.	(+) Increase (-) Decrease
DEBITS			
Cash	\$5,000	\$6,500	—\$1,500
Notes and accounts receivable.	35,000	30,000	+ 5,000
Fixed assets	55,000	54,000	+ 1,000
Purchases and inventory	60,000	50,000	+10,000
Selling expense	2,500	2,000	+ 500
Administrative expense	1,500	1,100	+ 400
Insurance	800	700	+ 100
Interest	900	850	+ 50
	<u>160,700</u>	<u>145,150</u>	<u>+15,550</u>
CREDITS			
Notes and accounts payable ..	25,000	16,650	+ 8,350
Sales	55,000	47,500	+ 7,500
Capital stock	50,000	50,000	
Surplus	30,700	31,000	— 300
	<u>160,700</u>	<u>145,150</u>	<u>+15,550</u>

SUMMARY OF CHANGES IN ACCOUNTS

NET INCREASE IN VALUES RECEIVED

Increased notes and accounts payable	\$8,350	
Reduced bank balances	1,500	\$9,850

Trial-balance Information

DISPOSITION

Increased notes and accounts receivable	5,000	
Increased fixed assets	1,000	
Purchases increase	\$10,000	
Less sales increase	7,500	
	2,500	
Net merchandise increase	2,500	
Selling expense for month	500	
Administrative expense for month	400	
Insurance paid for month	100	
Interest for month	50	
Paid income tax (surplus reduced)	300	9,850

EXHIBIT B

COMPARATIVE TRIAL BALANCE

	Mar.	Feb.	(+) Increase	(-) Decrease
DEBITS				
Cash	\$5,250	\$5,000	+	\$250
Notes and accounts receivable	29,000	35,000	-	6,000
Fixed assets	55,000	55,000		
Purchases and inventory	65,000	60,000	+	5,000
Selling expense	2,950	2,500	+	450
Administrative expense	1,875	1,500	+	375
Insurance	825	800	+	25
Interest	950	900	+	50
	160,850	160,700	+	150
CREDITS				
Notes and accounts payable	19,150	25,000	-	5,850
Sales	61,000	55,000	+	6,000
Capital stock	50,000	50,000		
Surplus	30,700	30,700		
	160,850	160,700	+	150

SUMMARY OF CHANGES IN ACCOUNTS

NET INCREASE OF VALUES RECEIVED

Sales increase	\$6,000	
Less purchases increase	5,000	
	1,000	
Net receipts from merchandise	\$1,000	
Notes and accounts received reduced	6,000	\$7,000

DISPOSITION

Reduced notes and accounts payable	5,850	
Increased bank balances	250	
Selling expense for month	450	
Administrative expense for month	375	
Insurance paid	25	
Interest paid	50	7,000

It will be noted from exhibit A that the business is expanding; that the money received from increased current obligations is being tied up in fixed assets and expenses (a dangerous practice),

whereas the following month exhibit B shows liquidation and a healthier aspect. While the above figures give no indication of profits or losses, except such as might be judged from the volume of business, they do show the shifting of values, which is interesting and important information.

If the number of accounts carried is large, they can be classified and shown on supporting schedules, only the totals of each class appearing on the comparative trial balance and summary.

In making up the summary it should be remembered that the positive debit balances plus negative credit balances equal positive credit balances plus negative debit balances.