

AccountAble™

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All book-keeping in NGOs is done using double-entry. This means that for each debit transaction, there is an equal and opposite credit transaction. Somewhat like the Newton's Third Law of Motion¹.

Let us play a small game with numbers. We put a number on the left side. Then we put an equal number on the right side. We do this several times. The result looks like this:

Now we add up both the sides and write the totals at the bottom. Are the totals equal? If yes then, why?

The reason is that you were doing something very similar to double entry accounting. And what you have made just now is similar to a trial balance.

Left side	Right side
17	405
405	28
92	17
53	359
359	92
28	53

What is a Trial Balance

Trial Balances help the accountants find mistakes in books. If the book-keeping has been done properly, both sides of the trial balance will tally. Why?

Why does it tally?

In double-entry book-keeping, each entry on debit side has an² equal entry on the credit side.

Account of Mr. K. R. Singh (Imprest)

L.F. 32

Debit			Credit		
Date	Particulars	Amount	Date	Particulars	Amount
5.4.99	To Cash	7,000	7.4.99	By Boarding Expenses	2,500
	(Adv. for Madras		9.4.99	By Conveyance	300
	Travel)		17.4.99	By personal	250
				Allowance	
			18.4.99	By Train Fares for	3,600
				Travel	
	Total	7,000		Total	6,650

Compare total of debit with credit. Which one is bigger. This account has a debit balance of Rs.350

So if we add up all the entries on the debit side, they will match the total of all the entries on the credit side.

In practice, there is a slight modification. We don't add up all the entries. We only

add up the account balances. Eh?

The account balances are the difference between debit and credit side of an account. So whether you add up all the entries or only the balances, the result will be the same.

If this sounds very complicated, don't bother. Not everyone is meant to be a mathematician.

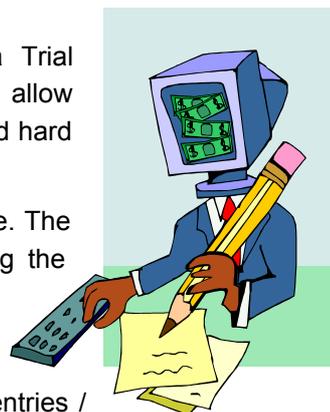
¹ 'Every action has an equal and opposite reaction.' We suspect Newton had some idea of double-entry book-keeping.

² Sometimes the entry may be split – the resulting entries add up to the same amount as single entry

Computers and Trial Balances

If your accounts are computerised, you don't really need a Trial Balance. This is because the accounting package does not allow posting or totalling errors³. Obviously, this saves a lot of time and hard work.

However, many accounting packages still give you a trial balance. The reason is that accountants find Trial Balances useful in making the Balance Sheet and Income & Expenditure.



Periodic Trial Balance

Most NGOs prepare a periodic trial balance. This includes the entries /

balances for current period only. Opening balances are not brought forward or considered.

However, they face a problem with cash and bank balances. The closing cash in hand includes the opening balance also. What is to be done?

With ingenuity typical of NGOs, they put the opening balance of cash and bank on the credit side of the trial balance. This acts as a counterweight and the Trial Balance tallies.

Periodic Trial Balance is used mainly for making the Receipts & Payments Account⁴.

Lok Jagran Manch
Periodic Trial balance for 1.4.99 to 31.12.99

Account	L.F.	Debit	Credit
Grant Received	9		200,000
General Donations	10		24,000
Furniture	11	2,000	
Misc. Income			1,020
Postage		2,000	
Telephone		4,500	
Salary and wages	56	15,000	
Stationary	58	1,500	
Travel and Conveyance	72	6,800	
Audit Fee	3	2,000	
Training Expenses	48	18,350	
Educational Material	15	17,810	
Nutrition Expenses	33	8,615	
Op. Bal. Cash (1.4.99)			800
Op. Bal. Bank (1.4.99)			1,200
Cl. Bal. Cash (31.12.99)	109	8,445	
Cl. Bal. Bank (31.12.99)	148	140,000	
Total		2,27,020	2,27,020

This shows only furniture purchased during 1.4.99 to 31.12.99

These opening balances are used as counter weights

Cumulative Trial Balance

If you want to make a proper Balance Sheet and Income & Expenditure Account, you need a cumulative Trial Balance.

³ Some packages (Quicken, Microsoft Money) allow entries to remain unposted. These also have a feature by which you can find all unposted entries easily.

⁴ Strictly speaking, you cannot make a Receipts & Payments Account from a Trial Balance, but that is another story.

This one includes the balance carried forward from last year also. So no counter-weight is needed.

If you compare this graphic with the earlier one, you will find that there are more figures (highlighted in blue). These are balances that get missed out in a Periodic Trial Balance.

Cumulative Trial Balance is the real Trial Balance of accounting world. In this circular, we will be discussing the **cumulative** Trial Balance only.

How to make a Trial Balance

1. Decide on a cut-off date. Normally, this is end of a month, end of a quarter or end of the year. Let's say this is 31st December 1999.
2. Work out all closing balances of ledger accounts as on 31-Dec-99(the cut-off date). Mark each balance as Dr. or Cr.
3. Work out the cash book (and bank book, if you use one) closing balances on 31-Dec-99(the cut-off date).
4. Take a fresh sheet of paper. A ruled sheet is better. Write 'Trial Balance of _____ (name of NGO⁵) as on 31-Dec-99⁶' on top of the sheet.
5. Make four columns and mark the headings:

Trial Balance of Lok Jagran Manch as on 31-Dec-99			
Account Head	L.F.	Debit (Rs.)	Credit (Rs.)

6. Find a pencil and eraser.
7. Open the ledger. Turn to page⁷ 1. Is there a balance here on 31-Dec-99 (cut-off date)? If yes, note it down on the Trial Balance Sheet with the pencil. Try to make sure that figures are right aligned. This makes it easier to add up.

Lok Jagran Manch Cumulative Trial balance As on 31.12.99			
Account	L. F.	Debit	Credit
Grant received			200,000
<i>General Fund</i>			<i>175,000</i>
General Donations			24,000
<i>Secured Loan</i>	55		<i>50,000</i>
<i>Building</i>	5	<i>150,000</i>	
<i>Furniture</i>	11	<i>25,000</i>	
<i>Vehicle</i>	84	<i>50,000</i>	
Misc. Income	31		1,020
Postage	38	2,000	
Telephone	42	4,500	
Salary and wages	56	15,000	
Stationary	58	1,500	
Travel & Conveyance	72	6,800	
Audit Fee	3	2,000	
Training Expenses	48	18,350	
Educational Material	15	17,810	
Nutrition Expenses	33	8,615	
Cash in hand	109	8,445	
Cash at Bank	148	140,000	
Total		4,50,020	4,50,020

These will not appear in Periodic Trial balance

This shows furniture purchased since NGO Started

⁵ If you maintain separate project-wise cashbooks, write the name of the project also.

⁶ The cut-off date

⁷ Accountants call these 'folios'.

Trial Balance of Lok Jagran Manch as on 31-Dec-99

Account Head	L.F.	Debit (Rs.)	Credit (Rs.)
Salaries	1	14,200	

8. Go to the next page. If there is a balance here for 31-Dec-99, note it down, otherwise skip it.
9. For some accounts, the ledger balance may have been carried forward to another page. Keep this in mind. You should only take the closing balances on 31-Dec-99.
10. Continue through the ledger like this till you come to the end of the ledger.
11. Pick up the cashbook. Turn to the last page for 31-Dec-99. Note down the closing balance of cash in hand (and bank balances) from here (or the bank book).
12. Normally, the cash in hand should be a debit balance⁸. That means the Receipts side should be more than the Payments side.
13. You now have all the balances of 31-Dec-99 on your sheet.
14. Carefully bolt and lock the door to your room. Turn off the ceiling fan.
15. Total up both the sides on your sheet (debit and credit).

Does it tally?

If you are very lucky (or very careful), both the sides will tally at first go. You can then file the Trial Balance and ink up all the ledger and cash balances. Lock the office before you go home.

If the totals do not tally, ask for a cup of tea and settle down for an evening of hard work. We will discuss this in more detail in the next issue of AccountAble.



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⁸ You might be fortunate enough to have a credit balance in your cashbook. This is known as deficit financing. Attend the next parliamentary budget session at Delhi to understand how this works.