BTEC National Business

Unit 8 – Investigating Accounting Systems

Pass 4 – Describe how a trial balance is extracted from a set of accounting records

1.) Explain why a double entry record keeping system is needed.

A double entry record keeping system is needed because each transaction affects two of the items on the businesses balance sheet. Most businesses carry out transactions since creating a balance sheet at the end of every day seems to be an impossible task. In recording every transaction carried out, the business would know exactly what has been spent and how much has been received. If recorded accurately, it would be easier to obtain information from the accounts.

2.) Explain how accounts are balanced off at the end of an accounting period.

At the end of an accounting period, accounts are balanced off by:

- Adding up the greatest value on the side of the account
- Adding up the other side of the account
- Deduct the smaller total from the larger total, with the difference etvernme two being the balance
- The side with the balance which is an llest in value is entered, which is called the balance c/d, meaning that the balance is carried low .
- Other Cess of the account in rolar desitered. Both totals must be level since the differences between the two sides have added to the smaller side so both sides are equal.
- The balance is brought down to the other side of the account, which is called balance b/d, meaning balance is brought down.
- 3.) Explain how a trial balance is constructed and what the trial balance proves.

A trial balance is arranged in two columns, debit balances or credit balances. Debit balances are entered into the debit column and credit balances are entered into the credit column. The debit balances should be equal to the credit balances, so in ledger accounts, each debit entry has a corresponding credit entry, with a trial balance being carried out as a check.

Once all balances are entered, both columns are totalled. I both totalled agree, it's a good indication that the ledger accounts are right. If it's incorrect, then checking back through the accounts to find possible errors is needed. At the end of each month, a trial balance is usually drawn up. It's useful for checking mathematical accuracy of bookkeeping. In case a mistake is found, it is identified as the current month's error. If a trial balance is not drawn at the end of each month and there is an error, all ledger accounts for the whole year have to be checked, making it much harder to find the error.