TEACHING PRINCIPLES OF ACCOUNTING: HELPING STUDENTS IDENTIFY TEN DIFFERENCES WHEN COMPARING A TRIAL BALANCE, AN ADJUSTED TRIAL BALANCE AND A BALANCE SHEET

William B. Pollard, Appalachian State University, Boone, NC 28608, pollardwb@appstate.edu

INTRODUCTION

Beginning principles of accounting students can sometimes find the features of the trial balance, the adjusted trial balance and the balance sheet hard to differentiate. The consequences can be devastating if the first exam offers an alphabetical listing of accounts and asks for a balance sheet, but a trial balance or an adjusted trial balance is presented instead. However, with a focus on the differences between the very similar trial balance and adjusted trial balance, yet very different balance sheet, the likelihood of confusion can be minimized. In this paper, ten differences between the trial balance, the adjusted trial balance and the balance sheet are presented (in no priority ordering). By focusing on these differences, the confusion for students will hopefully fade to the point that, by exam time, the asked-for item will be readily distinguishable and accurately prepared.

TEN DIFFERENCES BETWEEN THE TRIAL BALANCE, THE ADJUSTED TRIAL BALANCE AND THE BALANCE SHEET

Since there are numerous differences between the trial balance, the adjusted trial balance and the balance sheet, the listing in this section is not to be considered all-inclusive. However, the ten items listed below (in no priority ordering) can too frequently show up incorrectly on exams and are thus ten differences to watch for (or perhaps ten miscues to avoid) on exams.

1. Even though the trial balance, the adjusted trial balance and the balance sheet are all dated on the last day of the time period under investigation, only the adjusted trial balance and balance sheet have “up-to-date” (adjusted) figures. The account balances on the trial balance have not had end-of-period adjustments.
2. Only the trial balance and adjusted trial balance have the words “debit” and “credit” on them.
3. Only the balance sheet has the labeling “assets,” “liabilities,” and “stockholders’ equity.”
4. A contra account is not shown in its “offset” position on the trial balance and adjusted trial balance, but is shown in an “offset” position on the balance sheet. (This causes the total amount for the “debit” column on the adjusted trial balance to be a different number from the amount listed for “total assets” on the balance sheet.)
5. The trial balance and adjusted trial balance have revenues and expenses listed on them, but revenues and expenses are not listed on the balance sheet (but are listed separately on the income statement).
6. Dividends (or Drawings) are listed on the trial balance and adjusted trial balance, but are not shown on the balance sheet but are shown separately on the statement of retained earnings (or the statement of owner’s equity).
7. Under the periodic inventory system, beginning inventory is listed on the trial balance and adjusted trial balance, but ending inventory is listed on the balance sheet. (This assumes that updating the inventory is accomplished as part of the closing process.)
8. Under the perpetual inventory system, the inventory amount listed on the trial balance and adjusted trial balance likely equals the ending inventory listed on the balance sheet – but only in textbooks. In “real world” situations, ending inventory still has to be counted under the perpetual

system and compared to the amount listed in the ledger. If the amount counted is different from (usually less) than the amount "in the books," the difference is either added (if positive) or written off to theft, breakage or other inventory "shrinkage" events (if negative).

9. Beginning Retained Earnings (or Capital) is listed on the trial balance and adjusted trial balance, but ending Retained Earnings (or Capital) is listed on the balance sheet.
10. Lastly, (and this time a similarity instead of a difference) – it is often tempting for principles students to debit or credit "cash" in the adjusting entries. However, since adjusting entries do not involve cash (unless a replenishment of the petty cash fund is considered an adjustment) the balance in the ever-important cash account should be the same on the trial balance, the adjusted trial balance and the balance sheet.

AN ILLUSTRATION OF THE DIFFERENCES FOR STUDENTS

University Clothing Company, Inc. has the following chart of accounts (in alphabetical ordering rather than ledger sheet sequencing) and wants to take the necessary steps to close its books for the year ending December 31, 2009. Each account is unadjusted and has its "normal" balance:

Account Title	Amount
Accounts Payable	$ 14,000
Accounts Receivable	20,000
Accumulated Depreciation	11,000
Advertising Expense	18,000
Cash	80,000
Common Stock	100,000
Dividends Paid	20,000
Inventory	30,000
Miscellaneous Expenses	5,000
Notes Payable	40,000
Office Equipment	50,000
Prepaid Insurance	8,000
Purchases	78,000
Rent Expense	12,000
Retained Earnings	15,000
Salaries Expense	49,000
Sales	190,000

Based on these numbers, the trial balance for University Clothing Company, Inc. on December 31, 2009, is as follows:

University Clothing Company, Inc.
Trial Balance
December 31, 2009

Account Title	Debit	Credit
Cash	$ 80,000	
Accounts Receivable	20,000	
Inventory **	30,000	
Prepaid Insurance	8,000	
Office Equipment	50,000	
Accumulated Depreciation		$ 11,000
Accounts Payable		14,000
Notes Payable		40,000
Common Stock		100,000
Retained Earnings**		15,000
Dividends Paid	20,000	
Sales		190,000
Purchases	78,000	
Salaries Expense	49,000	
Rent Expense	12,000	
Advertising Expense	18,000	
Miscellaneous Expenses	5,000	
Totals	$370,000	$370,000

**Remember that on the trial balance and the adjusted trial balance, the Inventory amount is Beginning Inventory and the Retained Earnings amount is Beginning Retained Earnings.

The following information is needed to make the end-of-year adjustments for University Clothing:

Depreciation on Office Equipment for 2009 is $3,000.
Salaries of $1,000 are owed, but unpaid on December 31, 2009.
Interest of $2,000 is owed (but not due) on the Notes Payable on December 31, 2009.
Insurance cost for one year of $8,000 was prepaid on April 1, 2009.
Ending Inventory on December 31, 2009 is $40,000.

Adjusting entries would be made as follows (assuming that updating of inventory is not part of the adjusting process, but part of the closing process):

1. The journal entry necessary to record the adjustment for depreciation of office equipment is:

Depreciation Expense	3,000	
Accumulated Depreciation		3,000

2. The journal entry necessary to record the adjustment for salaries is:

Salaries Expense	1,000	
Salaries Payable		1,000

3. The journal entry necessary to record the adjustment for interest is:

Interest Expense	2,000	
Interest Payable		2,000

4. The journal entry necessary to record the adjustment for prepaid insurance is:

Insurance Expense	6,000	
Prepaid Insurance		6,000

Based on these adjustments, the following is the adjusted trial balance for University Clothing Company on December 31, 2009:

University Clothing Company, Inc.
Adjusted Trial Balance
December 31, 2009

Account Title	Debit	Credit
Cash	$ 80,000	
Accounts Receivable	20,000	
Inventory **	30,000	
Prepaid Insurance	2,000	
Office Equipment	50,000	
Accumulated Depreciation		$ 14,000
Accounts Payable		14,000
Notes Payable		40,000
Salaries Payable		1,000
Interest Payable		2,000
Common Stock		100,000
Retained Earnings**		15,000
Dividends Paid	20,000	
Sales		190,000
Purchases	78,000	
Salaries Expense	50,000	
Rent Expense	12,000	
Advertising Expense	18,000	
Miscellaneous Expenses	5,000	
Depreciation Expense	3,000	
Interest Expense	2,000	
Insurance Expense	6,000	
Totals	$376,000	$376,000

For University Clothing Company, Inc. to prepare its balance sheet for December 31, 2009, the following steps must be taken:

Calculate the total for cost of goods sold on December 31, 2009:

	Beginning Inventory	$ 30,000
+	Purchases	+ 78,000
	Goods Available	$ 108,000
-	Ending Inventory	- 40,000
	Cost of Goods Sold	$ 68,000

Prepare an income statement and statement of retained earnings for 2009:

University Clothing Company, Inc.
Income Statement
For the Year Ending December 31, 2009

Sales		$190,000
- Cost of Goods Sold		68,000
Gross Profit		$122,000
- Selling and Administrative Expenses:		
Salaries Expense	$ 50,000	
Rent Expense	12,000	
Advertising Expense	18,000	
Depreciation Expense	3,000	
Interest Expense	2,000	
Insurance Expense	6,000	
Miscellaneous Expenses	5,000	96,000
Net Income		$ 26,000

University Clothing Company, Inc.
Statement of Retained Earnings
For the Year Ending December 31, 2009

Beginning Retained Earnings	$ 15,000
+ Net Income	+ 26,000
Subtotal	$ 41,000
- Dividends Paid	– 20,000
Ending Retained Earnings	$ 21,000

Finally, prepare a balance sheet for December 31, 2009:

University Clothing Company, Inc.
Balance Sheet
December 31, 2009

Assets		
Cash		$ 80,000
Accounts Receivable		20,000
Inventory		40,000
Prepaid Insurance		2,000
Office Equipment	$50,000	
Less Accumulated Depreciation	14,000	36,000
Total Assets		$178,000
Liabilities		
Accounts Payable	$14,000	
Notes Payable	40,000	
Salaries Payable	1,000	
Interest Payable	2,000	
Total Liabilities		$ 57,000
Stockholders' Equity		
Contributed Capital		
Common Stock	$100,000	
Retained Earnings	21,000	
Total Stockholders' Equity		121,000
Total Liabilities and Stockholders' Equity		$178,000

SUMMARY AND CONCLUSIONS

When first learning the accounting cycle sequence of events, it is not unusual for principles of accounting students to confuse some of the features of the trial balance, the adjusted trial balance and the balance sheet. Often asked to prepare a balance sheet on the first exam, it can be costly if a trial balance or an adjusted trial balance is prepared instead. Specifically identifying several of the differences, as was done in this paper, can alert students to the potential dangers of confusion and help them focus on determining exactly what goes on which presentation.