

## 4.4: Use the Ledger Balances to Prepare an Adjusted Trial Balance

Once all of the adjusting entries have been posted to the general ledger, we are ready to start working on preparing the adjusted trial balance. Preparing an adjusted trial balance is the sixth step in the accounting cycle. An **adjusted trial balance** is a list of all accounts in the general ledger, including adjusting entries, which have nonzero balances. This trial balance is an important step in the accounting process because it helps identify any computational errors throughout the first five steps in the cycle.

As with the unadjusted trial balance, transferring information from T-accounts to the adjusted trial balance requires consideration of the final balance in each account. If the final balance in the ledger account (T-account) is a debit balance, you will record the total in the left column of the trial balance. If the final balance in the ledger account (T-account) is a credit balance, you will record the total in the right column.

Once all ledger accounts and their balances are recorded, the debit and credit columns on the adjusted trial balance are totaled to see if the figures in each column match. The final total in the debit column must be the same dollar amount that is determined in the final credit column.

Let's now take a look at the adjusted T-accounts and adjusted trial balance for Printing Plus to see how the information is transferred from these T-accounts to the adjusted trial balance. We only focus on those general ledger accounts that had balance adjustments.

PRINTING PLUS Adjusted Trial Balance January 31, 2019			Interest Receivable	
Account	Debit	Credit	Jan. 31	140
Cash	\$24,800		<b>Bal. 140</b>	
Accounts Receivable	1,200		Supplies	
Interest Receivable	140		Jan. 30	500
Supplies	400		100	Jan. 31
Equipment	3,500		<b>Bal. 400</b>	
Accumulated Depreciation: Equipment		\$ 75	Accumulated Depreciation: Equipment	
Accounts Payable		500		75
Salaries Payable		1,500	<b>Bal. 75</b>	
Unearned Revenue		3,400	Salaries Payable	
Common Stock		20,000		1,500
Dividends	100		<b>Bal. 1,500</b>	
Interest Revenue		140	Unearned Revenue	
Service Revenue		10,100	Jan. 31	600
Supplies Expense	100		4,000	Jan. 9
Depreciation Expense: Equipment	75		<b>Bal. 3,400</b>	
Salaries Expense	5,100		Service Revenue	
Utility Expense	300			5,500
<b>Total</b>	<b>\$35,715</b>	<b>\$35,715</b>	2,800	Jan. 17
			1,200	Jan. 27
			600	Jan. 31
			<b>Bal. 10,100</b>	
			Interest Revenue	
				140
			<b>Bal. 140</b>	
			Supplies Expense	
			Jan. 31	100
			<b>Bal. 100</b>	
			Salaries Expense	
			Jan. 20	3,600
			Jan. 31	1,500
			<b>Bal. 5,100</b>	
			Depreciation Expense: Equipment	
			Jan. 31	75
			<b>Bal. 75</b>	

For example, Interest Receivable is an adjusted account that has a final balance of \$140 on the debit side. This balance is transferred to the Interest Receivable account in the debit column on the adjusted trial balance. Supplies (\$400), Supplies Expense (\$100), Salaries Expense (\$5,100), and Depreciation Expense—Equipment (\$75) also have debit final balances in their adjusted T-

accounts, so this information will be transferred to the debit column on the adjusted trial balance. Accumulated Depreciation—Equipment (\$75), Salaries Payable (\$1,500), Unearned Revenue (\$3,400), Service Revenue (\$10,100), and Interest Revenue (\$140) all have credit final balances in their T-accounts. These credit balances would transfer to the credit column on the adjusted trial balance.

Once all balances are transferred to the adjusted trial balance, we sum each of the debit and credit columns. The debit and credit columns both total \$35,715, which means they are equal and in balance.

<b>PRINTING PLUS</b> <b>Adjusted Trial Balance</b> <b>January 31, 2019</b>		
<b>Account</b>	<b>Debit</b>	<b>Credit</b>
Cash	\$24,800	
Accounts Receivable	1,200	
Interest Receivable	140	
Supplies	400	
Equipment	3,500	
Accumulated Depreciation: Equipment		\$ 75
Accounts Payable		500
Salaries Payable		1,500
Unearned Revenue		3,400
Common Stock		20,000
Dividends	100	
Interest Revenue		140
Service Revenue		<u>10,100</u>
Supplies Expense	100	
Depreciation Expense: Equipment	75	
Salaries Expense	5,100	
Utility Expense	300	
Total	<u>\$35,715</u>	<u>\$35,715</u>

After the adjusted trial balance is complete, we next prepare the company's financial statements.

## THINK IT THROUGH

### Cash or Accrual Basis Accounting?

You are a new accountant at a salon. The salon had previously used cash basis accounting to prepare its financial records but now considers switching to an accrual basis method. You have been tasked with determining if this transition is appropriate.

When you go through the records you notice that this transition will greatly impact how the salon reports revenues and expenses. The salon will now report some revenues and expenses before it receives or pays cash.

How will change positively impact its business reporting? How will it negatively impact its business reporting? If you were the accountant, would you recommend the salon transition from cash basis to accrual basis?

## CONCEPTS IN PRACTICE

### Why Is the Adjusted Trial Balance So Important?

As you have learned, the adjusted trial balance is an important step in the accounting process. But outside of the accounting department, why is the adjusted trial balance important to the rest of the organization? An employee or customer may not immediately see the impact of the adjusted trial balance on his or her involvement with the company.

The adjusted trial balance is the key point to ensure all debits and credits are in the general ledger accounts balance before information is transferred to financial statements. Financial statements drive decision-making for a business. Budgeting for employee salaries, revenue expectations, sales prices, expense reductions, and long-term growth strategies are all impacted by what is provided on the financial statements.

So if the company skips over creating an adjusted trial balance to make sure all accounts are balanced or adjusted, it runs the risk of creating incorrect financial statements and making important decisions based on inaccurate financial information.

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