

CLOSING AND WORKSHEET

- ❖ As previously stated, revenue increase owner's equity and expenses and withdrawals (Drawings) by owner decrease owner's equity, all accounts relating to expense, revenues and drawing are called temporary accounts
- ❖ Assets (real accounts) and liabilities and Owner equity (Personal accounts) are permanent accounts
- ❖ At the end of financial period, temporary accounts (revenue and expenses) are closing by opening a new temporary account called Income Summary Account
- ❖ When revenue and expenses accounts have been closed than we need to close last nominal account i.e. Income Summary with Owner Equity account. Drawings are also closed with Owner Equity account
- ❖ The balances of Permanent accounts continue to exist beyond the current accounting period. The process of transferring the balances of the temporary accounts into owner's equity permanent account is called closing the accounts
- ❖ The journal entries made for the purpose of closing the temporary accounts are called closing entries
- ❖ It is common practice to close the accounts only once a year at the end of accounting period

22.1 Closing Entries for Revenue Accounts

- Revenue accounts have credit balances. Closing the revenue accounts are, therefore, mean transferring its credit balance to the Income Summary account
- This transfer is accomplished by a journal entry debiting the revenue accounts in an amount equal to its credit balance, with an offsetting credit to the Income Summary account
- The debit portion of this entry returns the balances of the revenue accounts to zero; the credit portion transfers to the former balances of the revenue accounts into the Income Summary account

General Journal

Date	Account Title and Explanations	Ref	Amount (Rs)	
			Debit	Credit
	Revenue Accounts		*****	
	Income Summary			*****
	(Revenues closed with Income Summary account)			

22.2 Closing for Expense Accounts

- ♣ Expense Accounts have debit balances. Closing an expense account means transferring its debit balance to the Income Summary account.
- ♣ The Journal entry to close an expense account, therefore, consists of a credit to the expense account in an amount equal to its debit balance, with an offsetting debit to the Income Summary

General Journal

Date	Account Title and Explanations	Ref	Amount (Rs)	
			Debit	Credit
	Income Summary		*****	
	Expenses Accounts			*****
	(Expenses closed with Income Summary account)			

22.3 Closing Income Summary Account

- ❖ After closing revenue and expenses with Income Summary Account, next step is to close Income Summary account, because it is also nominal account and must close at the end of each account period
- ❖ If Income Summary account has credit balance means it is profit and if Income Summary account reflects debit balance suggested lose by business operation
- ❖ Income Summary account will closed against permanent account of Owner Equity

For Profit

General Journal

Date	Account Title and Explanations	Ref	Amount (Rs)	
			Debit	Credit
	Income Summary		*****	
	Owner's Equity			*****
	(Income Summary Profit closed with Owner's Equity)			

For Loss

General Journal

Date	Account Title and Explanations	Ref	Amount (Rs)	
			Debit	Credit
	Owner's Equity		*****	
	Income Summary			*****
	(Income Summary Loss closed with Owner's Equity)			

22.4 Closing the Owner's Drawing Account

- ✓ Withdrawals of cash or other assets by owner are not considered as an expense of the business and, therefore, are not a factor in determining the income for the period ended
- ✓ Since drawing account is not closed by the Income Summary account but directly to Owner equity account
- ✓ For closing drawing, the closing entry as

General Journal

Date	Account Title and Explanations	Ref	Amount (Rs)	
			Debit	Credit
	Owner Equity		*****	
	Drawing			*****
	(Drawing closed with Owner Equity account)			

22.5 Summary of the Closing Entries

Let us now summarize the process of closing the accounts

1. Close the various Revenue accounts by transferring their balances into the Income Summary account
2. Close the various Expense accounts by transferring its balances in to the Income Summary account
3. Close the Income Summary account by transferring its balance into the Owner equity account
4. Close the owner's drawing account into the Owner equity account. (The balance of the Owner equity account in the ledger will now be the same as the amount of owner's equity appearing in the Balance Sheet)

Example # 22.1: The following Adjusted Trial Balance was extracted from the books of Anees & Sons on 31st December, 2015. From this you are required to pass closing entries

Particulars	Debit	Credit
	Rs.	Rs.
Cash	5,000	
Accounts receivable	9,000	
Merchandise inventory on 1.1.2015	6,000	
Plant and machinery	74,000	
Land and building	80,000	
Furniture and fixtures	2,600	
Owner's equity		136,000
Accounts payable		3,800
Purchases	10,000	
Salary payable		2,800
Sales		70,000
Rent expense	4,600	
Drawing	2,000	
Insurance prepaid	3,400	
Advertising expense	4,000	
Salaries expense	12,000	
Total	Rs. 212,600	Rs. 212,600

General Journal

Date	Account Title and Explanations	Ref	Amount (Rs.)	
			Debit	Credit
2015				
	(i)			

(ii)				
(iii)				
(iv)				
Total				

22.6 Post-Closing Trial Balance

After the revenue and expense accounts have been closed, it is desirable to prepare post closing trial balance. This trial balance has same total as appears in Balance Sheet

Example # 22.2: Prepare post closing trial balance for example # 22.1 after closing

Anees Fida Swati
Post Closing Trial Balance
 As on 31st December, 2015

Heads of Accounts	Debit	Credit
	Rs.	Rs.
Total		

22.7 Worksheet

- A worksheet often refers to a loose piece of paper used by accountant for showing informal accounting statements
- A worksheet is not a permanent accounting record
- A valuable tool useful to help summarize and move data from the trial balance to the informal financial statements is a work sheet

Example # 22.3: COMSATS' Consulting Services (CCS) was established in 1999. The company adjusts and closes its accounts at the end of the current accounting period. At December 31st, 2016 the balances in the ledger accounts prior to making adjusting entries. You are required to pass adjusting, closing entries and worksheet.

Comsats' Consulting Services (CCS)

Trial Balance

As on December 31st, 2016

S #	Chart of Accounts	Ref	Dr	Cr
1	Cash		\$ 12,540	
2	Prepaid Office Rent		3,300	
3	Prepaid Dues and Subscriptions		960	
4	Supplies		1,300	
5	Equipment		20,000	
6	Accumulated Depreciation _ Equipment			\$ 1,200
7	Note Payable			5,000
8	Unearned Consulting Fee			35,650
9	Owner Equity			17,040
10	Drawings		27,000	
11	Consulting Fee earned			90,860
12	Salaries Expenses		66,900	
13	Telephone Expenses		2,550	
14	Rent Expenses		11,000	
15	Miscellaneous Expenses		4,200	
Total			Rs. 149,750	Rs. 149,750

Other Data

- (a) In December 1st, 2016, the company signed a new rental agreement and paid three months' rent in advance at a rate of Rs. 1,100 per month. This advance payment was debited to the Prepaid Rent account
- (b) The useful life of the equipment has been estimated at 10 years from date of acquisition. NO depreciation expense has been recorded for the current year
- (c) Dues and Subscriptions expired during the period in total amount of Rs. 710
- (d) Consulting Services valued at Rs. 32,550 were rendered during the account year for clients who had made payment in advance
- (e) Salaries earned by employees but not yet paid amounted to Rs. 2,200 at December
- (f) An estimate of supplies on hand was made at December 31. The estimated cost of the unused supplies was Rs. 450
- (g) Accrued interest on Note Payable amounted to Rs. 100 at year-end (Set up accounts for Interest Expense and for Interest Payable)

General Journal

Date	Account Title and Explanations	Ref	Amount (Rs.)	
			Debit	Credit
2016				
Dec	(a)			
	(b)			
	(c)			
	(d)			
	(e)			
	(f)			
	(g)			
	(i)			
	(ii)			
	(iii)			
	(iv)			
Total				

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