**ACF 11**

**CLOSING ENTRIES**

**Doyle1, P237 Example**

The following **Trial Balance** was provided by the owner of **Business Traders** on

30 June 2017:

|  |  |  |
| --- | --- | --- |
| **General Ledger Account** | **Debit** | **Credit** |
| Sales |  | 89,000 |
| Interest Income |  | 3,000 |
| Cost of Sales | 40,000 |  |
| Wages | 29,000 |  |
| Electricity | 5,000 |  |
| Cash at Bank | 9,000 |  |
| Accounts Receivable | 10,000 |  |
| Inventory | 21,000 |  |
| Motor Vehicle | 39,000 |  |
| Accounts Payable |  | 9,000 |
| Loan from Bank |  | 10,000 |
| Capital |  | 51,000 |
| Drawings | 9,000 |  |
|  | **162,000** | **162,000** |

***Required***

1. Prepare General Journal entries to: ***(4 Steps)***
2. Transfer the all the Income to the Profit & Loss Summary account
3. Transfer the all the Expenses to the Profit & Loss Summary account.
4. Transfer the Profit or Loss from the Profit & Loss Summary account to the Capital account.
5. Transfer Drawings to the Capital account.
6. Transfer the General Journal entries to the relevant General Ledger accounts.

**NOTES:**

* **LEAVE the ASSET and LIABILITY accounts as they are.**
* **The only GL accounts that get affected during Closing Entries are the following:**
* **Income Accounts**
* **Expense Accounts**
* **Profit and Loss Summary**
* **Capital**
* **Drawings**

***The Four Steps of Closing Entries:***

**Step 1: CLOSE OFF / CLEAR INCOME ACCOUNTS**

**Dr Income accounts individually**

**Cr Profit and Loss Summary**

**Step 2: CLOSE OFF / CLEAR EXPENSE ACCOUNTS**

**Dr Profit and Loss Summary Account**

**Cr Expense accounts individually**

**Step 3:** **CLOSE OFF / CLEAR PROFIT AND LOSS SUMMARY**

**If the total of the Income accounts > total of Expense accounts, then**

**Dr Profit and Loss Summary**

**Cr Capital *(with the Profit)***

**If the total of the Income accounts < total of Expense accounts, then**

**Dr Capital *(with the Loss)***

**Cr Profit and Loss Summary**

**Step 4: CLOSE OFF / CLEAR DRAWINGS**

**Dr Capital**

**Cr Drawings**

**BUSINESS TRADERS**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| Date | Accounts | Debit | Credit |
| **Step 1**  2017  June 30 | Sales | 89,000 |  |
|  | Interest Income | 3,000 |  |
|  | Profit and Loss Summary |  | **92,000** |
|  | *Close off Income accounts to Profit and Loss Summary account* |  |  |
|  |  |  |  |
| **Step 2**  30 | Profit and Loss Summary | **74,000** |  |
|  | Cost of Sales |  | 40,000 |
|  | Wages |  | 29,000 |
|  | Electricity |  | 5,000 |
|  | *Close off Income accounts to Profit and Loss Summary account* |  |  |
|  |  |  |  |
| **Step 3**  30 | Profit and Loss Summary | **18,000** |  |
|  | Capital |  | **18,000** |
|  | *Transfer Profit to Capital account* |  |  |
|  |  |  |  |
| **Step 4**  30 | Capital | **9,000** |  |
|  | Drawings |  | **9,000** |
|  | *Transfer Drawings to Capital account* |  |  |
|  |  |  |  |

**BUSINESS TRADERS**

**GENERAL LEDGER (extract)**

**Sales**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2017  Jun 30 | **Profit and Loss Summary** | **89,000** | 2017  Jun 30 | Balance | **89,000** |
|  |  |  | 30 | Balance | **0** |

**Interest Income**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2017  Jun 30 | **Profit and Loss Summary** | **3,000** | 2017  Jun 30 | Balance | **3,000** |
|  |  |  | 30 | Balance | **0** |

**Cost of Sales**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2017  Jun 30 | Balance | **40,000** | 2017  Jun 30 | **Profit and Loss Summary** | **40,000** |
| 30 | Balance | **0** |  |  |  |

**Wages**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2017  Jun 30 | Balance | **29,000** | 2017  Jun 30 | **Profit and Loss Summary** | **29,000** |
| 30 | Balance | **0** |  |  |  |

**Electricity**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2017  Jun 30 | Balance | **5,000** | 2017  Jun 30 | Balance | **5,000** |
| 30 | Balance | **0** |  |  |  |

**Profit and Loss Summary**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2017  June 30 | Cost of Sales | 40,000 | 2017  Jun 30 | **Sales** | **89,000** |
| 30 | Wages | 29,000 | 30 | **Interest Income** | **3,000** |
| 30 | Electricity | 5,000 |  |  |  |
| 30 | **Capital** | **18,000** |  |  |  |
|  |  | **92,000** |  |  | **92,000** |
|  |  |  | 30 | Balance | **0** |
|  |  |  |  |  |  |

**Capital**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2017  Jun 30 | **Drawings** | **9,000** | 2017  Jun 30 | Balance | 51,000 |
| 30 | Balance c/d | 60,000 | 30 | **Profit and Loss Summary** | **18,000** |
|  |  | **69,000** |  |  | **69,000** |
|  |  |  | 30 | Balance b/d | **60,000** |

**Drawings**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Date | Contra Account | Dr | Date | Contra Account | Cr |
| 2017  Jun 30 | Balance | 9,000 | 2017  Jun 30 | Capital | 9,000 |
|  |  | **9,000** |  |  | **9,000** |
| 30 | Balance | **0** |  |  |  |