

Closing and Balancing of Accounts

Closing and Balancing of Accounts is an essential part of the accounting cycle. It involves preparing accounts for a new accounting period by ensuring they are accurately reported and ready for future transactions. Here's a detailed explanation:

1. Purpose of Closing and Balancing Accounts:

- **Accurate Reporting:** To ensure the financial statements reflect accurate and up-to-date information for a specific period.
- **Prepare for New Period:** To reset account balances to reflect new transactions for the upcoming period.
- **Financial Accuracy:** To prevent errors and discrepancies in financial reporting.

2. Types of Accounts and Their Balancing Methods:

i. Personal Accounts:

Personal Accounts are accounts of individuals, firms, and other entities with whom a business has transactions.

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
01/01/2024	To Opening Balance		50,000	15/01/2024	By Withdrawals	102	10,000
05/01/2024	To Additional Capital	101	20,000				
31/12/2024	To Net Profit	103	15,000				
Total Credit			85,000	Total Debit			10,000
Balance C/D			75,000				

Balancing Personal Accounts:

- **Debit Balance:** If the total of the debit side exceeds the credit side, it indicates a debit balance. This amount represents the amount owed by the customer or receivable.
- **Credit Balance:** If the total of the credit side exceeds the debit side, it indicates a credit balance. This amount represents the amount owed to the creditor or payable.

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- **Balance c/d (carried down):** Write the closing balance on the opposite side of the account to balance it.
- **Balance b/d (brought down):** In the new period, bring down the balance on the appropriate side.

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ii. Real Accounts:

Real Accounts represent assets and properties of the business.

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Example: Cash Account

Cash Account Format

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
01/01/2024	To Balance b/d		10,000	05/01/2024	By Purchase	101	2,000
10/01/2024	To Bank Deposit	102	3,000	10/01/2024	By Rent Payment	103	1,500
20/01/2024	To Cash Sales	104	4,500	15/01/2024	By Office Supplies	105	1,200
				25/01/2024	By Miscellaneous	106	800
					Total Credit		5,500
	Total Debit		17,000				
	Balance c/d		11,500				

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Balancing Real Accounts:

- **Debit Balance:** Represents assets owned by the business. If the total debit side is greater, it shows a debit balance.
- **Credit Balance:** Less common, but if credit side exceeds, it represents the reduction of asset value or disposal.

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iii. Nominal Accounts:

Nominal Accounts represent expenses, losses, incomes, and gains.

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Example: Purchase Account

Purchase Account Format

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
01/01/2024	To Balance b/d		50,000	05/01/2024	By Creditors	201	30,000
10/01/2024	To Purchases	202	20,000	15/01/2024	By Purchases	203	15,000
20/01/2024	To Purchases	204	10,000	25/01/2024	By Purchases	205	10,000
				30/01/2024	By Purchases	206	5,000
					Total Credit		60,000
	Total Debit		80,000				
	Balance c/d		20,000				

Balancing Nominal Accounts:

- **Debit Side:** Represents expenses and losses. If debit exceeds credit, it shows a debit balance.
- **Credit Side:** Represents incomes and gains. If credit exceeds debit, it shows a credit balance.

3. Steps to Close and Balance Accounts:

1. **Total Each Side:** Add up the debit and credit sides of the account.
2. **Determine the Balance:** Subtract the smaller total from the larger total to determine the balance.
3. **Record the Balance:**
 - **For Personal Accounts:** Record the balance as either "balance c/d" or "balance b/d" depending on whether the balance is a debit or credit.
 - **For Real Accounts:** Apply the balance similarly as debit or credit.
 - **For Nominal Accounts:** Show the balance in the Profit and Loss Account or other relevant statement.
4. **Transfer Balances:** Bring forward balances to the next accounting period.

Complete Practical Question on Closing and Balancing of Various Accounts

Question: XYZ Ltd. had the following transactions for the financial year ending December 31, 2024. Prepare and balance the following accounts:

1. Cash Account
2. Purchase Account

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3. Sales Account
4. Bank Account
5. Drawing Account

Transactions:

1. Opening Balances:

- o Cash: Rs. 10,000
- o Bank: Rs. 15,000
- o Purchases: Rs. 12,000
- o Sales: Rs. 25,000
- o Drawings: Rs. 5,000

2. Transactions during the year:

- o January 5: Purchased goods for cash Rs. 8,000
- o January 10: Sold goods for cash Rs. 15,000
- o February 15: Received Rs. 7,000 from debtors deposited into the bank
- o March 20: Paid Rs. 4,000 for office rent by cheque
- o April 10: Paid Rs. 2,000 cash for utilities
- o May 5: Sold goods worth Rs. 12,000 to customers on credit
- o June 10: Paid Rs. 6,000 to creditors by cheque
- o July 15: Cash withdrawal from bank Rs. 5,000 for personal use
- o August 25: Received Rs. 10,000 from debtors deposited into the bank
- o September 30: Paid Rs. 3,000 for repairs by cash
- o October 5: Cash deposit into the bank Rs. 2,000
- o November 10: Paid Rs. 1,000 to creditors in cash
- o December 1: Drawings by owner Rs. 4,000

Required:

1. Prepare the **Cash Account**.
2. Prepare the **Bank Account**.
3. Prepare the **Purchase Account**.
4. Prepare the **Sales Account**.
5. Prepare the **Drawing Account**.
6. Show the closing balances for each account.

Solution:



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Solution:

1. Cash Account

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
01/01/2024	To Balance b/d		10,000	05/01/2024	By Purchases	101	8,000
05/01/2024	To Sales	102	15,000	10/04/2024	By Utilities	102	2,000
10/02/2024	To Bank	103	7,000	25/08/2024	By Repairs	103	3,000
20/03/2024	To Rent	104	4,000	01/12/2024	By Drawings	104	4,000
25/08/2024	To Bank	105	10,000		Total Credit		17,000
10/10/2024	To Bank	106	2,000		Total Debit		27,000
					Balance c/d		10,000

2. Bank Account

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
01/01/2024	To Balance b/d		15,000	15/02/2024	By Rent	201	4,000
15/02/2024	To Debtors	202	7,000	10/06/2024	By Creditors	202	6,000
25/08/2024	To Debtors	203	10,000	10/07/2024	By Drawings	203	5,000
10/10/2024	To Cash	204	2,000		Total Credit		15,000
					Total Debit		20,000
					Balance c/d		5,000

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3. Purchase Account

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
01/01/2024	To Balance b/d		12,000	05/01/2024	By Cash	301	8,000
05/01/2024	To Purchases	302	8,000		Total Credit		8,000
10/01/2024	To Purchases	303	12,000		Total Debit		20,000
					Balance c/d		12,000

4. Sales Account

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
01/01/2024	To Balance b/d		25,000	05/01/2024	By Cash	401	15,000
10/01/2024	To Sales	402	15,000	20/05/2024	By Creditors	402	12,000
25/08/2024	To Debtors	403	10,000		Total Credit		27,000
					Total Debit		25,000
					Balance c/d		2,000

5. Drawing Account

Date	Particulars	JF	Amount (Rs.)	Date	Particulars	JF	Amount (Rs.)
01/01/2024	To Balance b/d		5,000	01/12/2024	By Drawings	501	4,000
					Total Credit		4,000
					Total Debit		5,000
					Balance c/d		1,000



Assignment

Question 1:

ABC Ltd. had the following transactions for the financial year ending March 31, 2024. Prepare and balance the following accounts:

1. Cash Account
2. Bank Account
3. Purchase Account
4. Sales Account
5. Rent Account

Transactions:

1. Opening Balances:
 - o Cash: Rs. 8,000
 - o Bank: Rs. 12,000
 - o Purchases: Rs. 15,000
 - o Sales: Rs. 20,000
 - o Rent: Rs. 4,000
2. Transactions during the year:
 - o April 5: Purchased goods for cash Rs. 6,000
 - o May 10: Sold goods for cash Rs. 12,000
 - o June 15: Received Rs. 5,000 from debtors deposited into the bank
 - o July 20: Paid Rs. 2,000 for office rent by cheque
 - o August 10: Paid Rs. 3,000 for repairs by cash
 - o September 15: Received Rs. 8,000 from debtors and deposited into the bank
 - o October 10: Paid Rs. 5,000 to creditors by cheque
 - o November 20: Cash withdrawal from bank Rs. 4,000 for personal use
 - o December 25: Paid Rs. 1,500 for utilities by cash

Question 2:

LMN Enterprises had the following transactions for the financial year ending December 31, 2024. Prepare and balance the following accounts:

1. Cash Account
2. Bank Account
3. Purchase Account
4. Sales Account
5. Drawings Account

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Transactions:

1. Opening Balances:

- Cash: Rs. 5,000
- Bank: Rs. 10,000
- Purchases: Rs. 20,000
- Sales: Rs. 30,000
- Drawings: Rs. 3,000

2. Transactions during the year:

- January 1: Purchased goods for cash Rs. 7,000
- February 10: Sold goods for cash Rs. 10,000
- March 15: Deposited Rs. 4,000 into the bank
- April 20: Paid Rs. 2,500 for salaries by cheque
- May 25: Received Rs. 6,000 from debtors and deposited into the bank
- June 10: Paid Rs. 3,000 to creditors by cheque
- July 15: Cash withdrawal from bank Rs. 2,000 for personal use
- August 30: Paid Rs. 1,000 for advertising by cash
- September 5: Drawings by owner Rs. 2,000

Question 3:

PQR Ltd. had the following transactions for the financial year ending June 30, 2024. Prepare and balance the following accounts:

1. Cash Account
2. Bank Account
3. Purchase Account
4. Sales Account
5. Salary Account

Transactions:

1. Opening Balances:

- Cash: Rs. 6,000
- Bank: Rs. 8,000
- Purchases: Rs. 18,000
- Sales: Rs. 22,000
- Salaries: Rs. 5,000

2. Transactions during the year:

- July 5: Purchased goods for cash Rs. 9,000

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- August 10: Sold goods for cash Rs. 15,000
- September 15: Received Rs. 4,000 from debtors and deposited into the bank
- October 20: Paid Rs. 2,000 for office supplies by cash
- November 5: Paid Rs. 3,000 for salaries by cheque
- December 15: Received Rs. 5,000 from debtors and deposited into the bank
- January 10: Paid Rs. 1,500 for repairs by cash
- February 5: Cash withdrawal from bank Rs. 3,000 for personal use

Question 4:

XYZ Ltd. had the following transactions for the financial year ending September 30, 2024. Prepare and balance the following accounts:

1. Cash Account
2. Bank Account
3. Purchase Account
4. Sales Account
5. Rent Account

Transactions:

1. Opening Balances:

- Cash: Rs. 4,000
- Bank: Rs. 6,000
- Purchases: Rs. 10,000
- Sales: Rs. 18,000
- Rent: Rs. 2,000

2. Transactions during the year:

- October 1: Purchased goods for cash Rs. 5,000
- November 15: Sold goods for cash Rs. 8,000
- December 20: Deposited Rs. 3,000 into the bank
- January 10: Paid Rs. 1,000 for rent by cheque
- February 5: Paid Rs. 2,000 for utilities by cash
- March 15: Received Rs. 4,000 from debtors and deposited into the bank
- April 30: Paid Rs. 2,500 to creditors by cheque
- May 10: Cash withdrawal from bank Rs. 2,000 for personal use
- June 25: Paid Rs. 500 for office supplies by cash



Question 5:

ABC Co. had the following transactions for the financial year ending March 31, 2024. Prepare and balance the following accounts:

1. Cash Account
2. Bank Account
3. Purchase Account
4. Sales Account
5. Office Expenses Account

Transactions:

1. Opening Balances:

- o Cash: Rs. 7,000
- o Bank: Rs. 9,000
- o Purchases: Rs. 14,000
- o Sales: Rs. 28,000
- o Office Expenses: Rs. 6,000

2. Transactions during the year:

- o April 5: Purchased goods for cash Rs. 5,000
- o May 10: Sold goods for cash Rs. 12,000
- o June 15: Deposited Rs. 5,000 into the bank
- o July 20: Paid Rs. 2,000 for office expenses by cheque
- o August 25: Received Rs. 7,000 from debtors and deposited into the bank
- o September 10: Paid Rs. 4,000 to creditors by cheque
- o October 15: Cash withdrawal from bank Rs. 1,500 for personal use
- o November 5: Paid Rs. 1,000 for office supplies by cash

Question 6:

XYZ Enterprises had the following transactions for the financial year ending December 31, 2024. Prepare and balance the following accounts:

1. Cash Account
2. Bank Account
3. Purchase Account
4. Sales Account
5. Salaries Account

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Transactions:

1. Opening Balances:

- Cash: Rs. 3,000
- Bank: Rs. 11,000
- Purchases: Rs. 16,000
- Sales: Rs. 24,000
- Salaries: Rs. 7,000

2. Transactions during the year:

- January 1: Purchased goods for cash Rs. 4,000
- February 15: Sold goods for cash Rs. 10,000
- March 10: Received Rs. 6,000 from debtors and deposited into the bank
- April 20: Paid Rs. 3,000 for salaries by cheque
- May 5: Paid Rs. 1,500 for office repairs by cash
- June 25: Received Rs. 5,000 from debtors and deposited into the bank
- July 10: Paid Rs. 2,000 for utilities by cash
- August 5: Cash withdrawal from bank Rs. 2,000 for personal use



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