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Manual Accounting - Module 19

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.

ii. Real Accounts:

Real Accounts represent assets and properties of the business.

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				

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.

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

Ques: Give the Journal entries for the following transactions:

1. April 1 – Business started with cash ₹10,000
2. April 3 – Deposited in SBI ₹6,000
3. April 5 – Bought goods from Mahavir ₹1,500
4. April 9 – Sold goods to Gupta ₹650



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5. April 12 – Paid cash to Mahavir ₹99, Discount received ₹10
 6. April 15 – Cash received from Gupta ₹625, Discount allowed ₹25
 7. April 20 – Furniture purchased ₹300
 8. April 22 – Drew cash from bank for personal use ₹600
 9. April 30 – Paid rent by cheque ₹200
 10. April 30 – Salary due to clerk ₹300
- Also prepare the necessary ledger accounts for the above.

Solution:

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
April 1	Cash A/c Dr.		10,000	
	To Capital A/c			10,000
	<i>(Being capital introduced by proprietor)</i>			
April 3	Bank (SBI) A/c Dr.		6,000	
	To Cash A/c			6,000
	<i>(Being cash deposited into bank)</i>			
April 5	Purchases A/c Dr.		1,500	
	To Mahavir A/c			1,500
	<i>(Being goods purchased on credit from Mahavir)</i>			
April 9	Gupta A/c Dr.		650	
	To Sales A/c			650
	<i>(Being goods sold on credit to Gupta)</i>			
April 12	Mahavir A/c Dr.		1,000	
	To Cash A/c			990
	To Discount Received A/c			10
	<i>(Being payment made to Mahavir and discount received)</i>			
April 15	Cash A/c Dr.		625	
	Discount Allowed A/c Dr.		25	
	To Gupta A/c			650
	<i>(Being cash received from Gupta and discount allowed to him)</i>			
April 20	Furniture A/c Dr.		300	
	To Cash A/c			300

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Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	(Being purchase of furniture on cash)			
April 22	Drawings A/c Dr.		600	
	To Bank A/c			600
	(Being cash withdrawn from bank for personal use)			
April 30	Rent A/c Dr.		200	
	To Bank A/c			200
	(Being rent paid by cheque)			
April 30	Salary A/c Dr.		300	
	To Outstanding Salary A/c			300
	(Being salary of a clerk remains outstanding)			

Ledger Accounts

Capital Account

Dr.				Capital Account				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹				
Apr 30	To Balance c/d		10,000	Apr 1	By Cash A/c		10,000				
				May 1	By Balance b/d		10,000				

Cash Account

Dr.				Cash Account				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹				
Apr 1	To Capital A/c		10,000	Apr 3	By Bank A/c		6,000				
Apr 15	To Gupta A/c		625	Apr 12	By Mahavir A/c		990				
				Apr 20	By Furniture A/c		300				
				Apr 30	By Balance c/d		3,335				
			10,625				10,625				
May 1	To Balance b/d		3,335								



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Bank Account

Dr.				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
Apr 3	To Cash A/c		6,000	Apr 22	By Drawings A/c		600
				Apr 30	By Rent A/c		200
				Apr 30	By Balance c/d		5,200
			6,000				6,000
May 1	To Balance b/d		5,200				

Purchases Account

Dr.				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
Apr 5	To Mahavir A/c		1,500				

Mahavir Account

Dr.				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
Apr 12	To Cash A/c		990	Apr 5	By Purchases A/c		1,500
Apr 12	To Discount Received A/c		10				
Apr 12	To Balance c/d		500				
			1,500				1,500
				May 1	By Balance b/d		500

Sales Account

Dr.				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹
				Apr 9	By Gupta A/c		650

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Gupta Account

Dr.				Gupta Account				Cr.			
Date	Particulars	JF	Amount ₹	Date	Particulars	JF	Amount ₹				
Apr 15	To Sale A/c		650	Apr 9	By Cash A/c		625				
				Apr 15	By Discount Allowed A/c		25				
			650				650				

Furniture Account

Dr.				Furniture Account				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)				
Apr 20	To Cash A/c		300	Apr 30	By Balance c/d		300				
May 1	To Balance b/d		300								

Discount Allowed Account

Dr.				Discount Allowed Account				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)				
Apr 15	To Gupta's A/c		25								

Discount Received Account

Dr.				Discount Received Account				Cr.			
Date	Particulars	JF	Amount (₹)	Date	Particulars	JF	Amount (₹)				
				Apr 12	By Mahavir's A/c		10				

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Drawings Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Apr 22	To Bank A/c	600	Apr 30	By Balance c/d	600
May 1	To Balance b/d	600			

Rent Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Apr 30	To Bank A/c	200			

Salary Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
Apr 30	To O/S Salary A/c	300			

Outstanding Salary Account

Dr.			Cr.		
Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
			Apr 30	By Salary A/c	300

Assignment

Question 1:

ABC Ltd. had the following transactions for the financial year ending March 31, 2024. Prepare journal and post them into ledger:

Transactions during the year:

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

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Question 2:

LMN Enterprises had the following transactions for the financial year ending December 31, 2024. Prepare journal and post them into ledger:

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 journal and post them into ledger:

Transactions during the year:

- July 5: Purchased goods for cash Rs. 9,000
- 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 journal and post them into ledger:

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



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Question 5:

ABC Co. had the following transactions for the financial year ending March 31, 2024. Prepare journal and post them into ledger:

Transactions during the year:

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

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

