Accounting 212

Unit six: Closing Entries for Temporary Accounts



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Rules of debit and credit:

Assets, Expenses	s, Drawings	Liabilities, Owner's Capital, Revenu	
Debit Balance	Credit	Debit L	Credit Balance

Chapter Tow: Closing Entries for Temporary Accounts

Type of accounts:

Temporary accounts (Nominal)	Permanent account (Real)
All revenue: such as S. revenue - Sales - Purchase discount.	All assets account
All expenses: such as Rent – Purchase - Sales discount	All liabilities accounts
Drawings account	Capital account

Temporary Accounts: which they accumulated the transactions of only one accounting period.

Closing: at the end of the accounting period, the changes in owner's equity accumulated in this temporary account are transferred into the capital account

Steps of preparing Closing entries:

1.	Closing Revenues accounts by post balance	to Income summary account.
2.	Closing Expenses accounts by post Balance	to Income summary account.
3.	Closing Income summary account by post Income summary account by the post Income summary account by the Income summary account by th	Balance to Capital account.
	or (<u>Loss</u>)	
4.	Closing <u>Drawing</u> account by post Balance	to Capital account

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Prepare by T. Abdul Jalil Alaiwi

Example:

S. Revenue

Date	Explanation	Debit	Credit	Balance
Dec.31				8,000

Drawing

Date	Explanation	Debit	Credit	Balance
Dec.31				1,000

Salaries expense

Date	Explanation	Debit	Credit	Balance
Dec.31				2,000

Rent expenses

Date	Explanation	Debit	Credit	Balance
Dec.31				700

Capital account

Date	Explanation	Debit	Credit	Balance
Dec.31				5,000

Income summary account

Date	Explanation	Debit	Credit	Balance
Dec.31				5,000

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Date	Explanation	L.F	Debit	Credit
Date	Explanation	D.1	BD	BD
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Exercise 1:

The Following Trial Balance of Nasser Trading Company for the period ended at Dec. 31st 2010.

Trial Balance As at 31st October 2006

Account Title	Debit	Credit
Cash	47,425	
Equipment	47,790	
Land	19,250	
Accounts Payable		22,590
Capital		85,875
Drawings	735	
Service Revenue		25,820
Wages Expense	11,085	
Advertising Expense	8,000	
Total	134,285	134,285

Required:

- 1. Prepare the closing entries.
- 2. Post to the ledger.
- 3. Prepare the Post-Closing Trial Balance:

Solution:

1.

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2. General Ledger:

Service Revenue Account

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31					25,820

Drawings Account

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31					735

Capital Account

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31					85,875

Income Summary Account

Explanation	PR	Debit	Credit	Balance

3.	

Account Title	Debit	Credit

Exercise 2:

The Following Trial Balance of Khalid Trading Company for the period ended at Dec. 31st 2006:

Khalid Trading Company Trial Balance As at 31st Dec. 2006

Account Title	Debit	Credit
Cash	13,705	
Accounts Receivable	2,080	***************************************
Equipment	4,170	***************************************
Supplies	500	***************************************
Sales		5,800
Capital		21,700
Drawings	750	***************************************
Salaries Expense	4,250	
Purchase	2,000	
Utilities Expense	45	
Total	27,500	27,500

Required:

- 1. Prepare the Closing Entries.
- 2. Post to the ledger.
- 3. Prepare the Post-Closing Trial Balance:

Solution:

	General Journal		Page	No.
Date	Details	L.F	Debit	Credit
Date	Details	L.F	BD	BD

J	.	l	I	I

2. General Ledger:

Sales Account

Date	Explanation	JF	Debit	Credit	Balance
Dec. 31					5,800

Purchase Account

Date	Explanation	JF	Debit	Credit	Balance
Dec. 31					2,000

Capital Account

Date	Explanation	JF	Debit	Credit	Balance
Dec. 31					21,700

Income Summary Account

Balance	Credit	Debit	JF	Explanation	Date		

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Account Title	Debit	Credit

Exercise 3: Complete the following Closing Entries for MTCL Company, for the Period ended 31st Dec. 2009:

General Journal

D /		F 1	Debit	Credit
Dat	e	Explanation	BD	BD
Dec.	31	Fees earned	8,000	
				8,000
	31		1,350	
		Wages Expense		
		Supplies Expense		750
	31			
		Capital Account		
	31		950	
		Drawings Account		950

Exercise 4:

From the Following Trial Balance of Eman Advertising Agency you are required to:

- 1. Prepare the closing entries for the period ended 31st December 2011.
- 2. Prepare the Post-Closing Trial Balance

Eman Advertising Agency Trial Balance As at 31st December 2006

Account Title	Debit	Credit
Cash	21,000	
Notes Receivable	1,700	
Furniture	2,600	
Building	70,500	
Accounts payable		15,800
Capital		70,000
Drawings	350	
Commission income		10,000
Consulting Revenue		• • • • • • •
Salaries Expense	• • • • • •	
Wages Expense	6,700	
Insurance Expense	700	
Total	114,300	114,300

Date	Details	L.F	Debit	Credit

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Account Title	Debit	Credit

Exercise 5:

The Adjusted trial Balance of Mustafa Company at the end of its fiscal year is:

Mustafa Company Trial Balance

As at 31st December 2006

Account Title	Debit	Credit
Cash	10,900	
Accounts Receivable	3,520	
Building	10,000	
Prepaid Insurance	400	
Accounts payable		6,520
Unearned Rent		1,500
Capital		7,300
Drawings	14,00	
Sales		25,100
Rental Revenue		4,500
Purchases	11,000	
Salaries Expense	5,800	
Insurance Expense	1,900	
Total	44,920	44,920

Required:

- 1. Prepare the closing entries.
- 2. Post to the income summary account and capital account.
- 3. Prepare the Post-Closing Trial Balance:

Solution:

Doto	Details	L.F	Debit	Credit
Date	Details	L.F	BD	BD

3. General Ledger:

Capital Account

Date	Explanation	PR	Debit	Credit	Balance
Dec. 31 st					7,300

Income Summary Account

	<u> </u>				
Date	Explanation	PR	Debit	Credit	Balance

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Account Title	Debit	Credit

Exercise 6:

The following selected account of Mustafa Company at the end of its fiscal year Dec. 31st 2010:

Cash 16,100 Acc. Receivable 5,400 Machinery 15,700 Acc. payable 12,200 Supplies 1,470 Accrued wages 3,600

Sales account

Date	Explanation	PR	Debit	Credit	Balance
Dec.31					13,500

Purchase account

Date	Explanation	PR	Debit	Credit	Balance
Dec.31					1,300

Repairing and Maintainers expenses

Balance
Darance
1,570

Wages expenses

Date	Explanation	PR	Debit	Credit	Balance
Dec.31					12,260
				•••••••••••••••••••••••••••••••••••••••	

Drawing account

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Date	Explanation	PR	Debit	Credit	Balance
Dec.31					1,500

Capital Account

Date	Explanation	PR	Debit	Credit	Balance
Dec.31					26,000

Income Summary Account

Date	Explanation	PR	Debit	Credit	Balance

Required:

- 1. Prepare the closing entries.
- 2. Post to the Ledger Accounts.
- 3. Prepare a Post –closing Trial Balance at 31st December 2010.

Date	Details	L.F	Debit	Credit

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Account Title	Debit	Credit