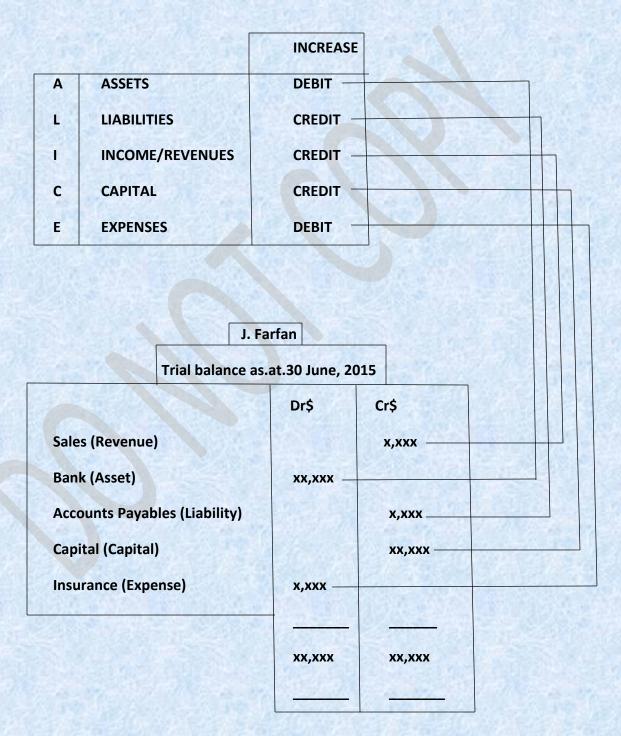
Balancing and and Closing Off Accounts

Balancing and Closing Off Accounts Entering into the Trial Balance

The Trial Balance (TB) is a list of all the business' accounts which had balances at the end of a financial reporting period, typically 12 months. It usually holds all the categories of ALICE with the 'natural balances,' for each.



The Trial Balance is an 'arithmetic check' to ensure that entries 'posted to the ledgers' (step 4) has been done accurately. Once the TB balances then we can move on to the other steps in the Accounting Cycle. If the TB does not balance then work must be done to locate the error(s) in the ledgers.

Balancing and Closing off the Accounts

Simply put, accounts belonging to;

- 1. Income Statement (Income/Revenues & Expenses) must be CLOSED OFF.
- 2. Statement of Financial Position (Assets, Liabilities & Capital) must be **BALANCED OFF**;

The following is an example of **CLOSING OFF**;

Insurance a/c											
2015	\$	2015		\$							
Jan 1 Bank	8,000	Jun 30	Income Statement	16,000							
Mar 1 Bank	8,000										
	16,000			16,000							

NB. The Debit Side is the larger. The Credit Side absorbs the difference in order for the T-Account to balance. The detail for the difference is 'Income Statement' on the 'credit side' of the ledger account which is shown on the opposite side on the TB i.e. 'debit side.'

The following is an example of BALANCING OFF;

Capital a/c										
2015		\$	2015			\$				
			Feb 1	Bank		5,000				
			Mar 1	Cash		1,500				
			Mar 1	Motor	Vehicle	3,500				
Jun 30	Bal c/d	10,000								
		10,000				10,000				
					Dally (A)	10.000				
			Jun 30		Bal b/d	10,000				

NB. The credit side is larger. The debit side absorbs the difference in order for the T-Accounts to balance. The detail for the difference is 'Bal c/d' on the debit side of the ledger account, which is shown on the credit side on the TB.

Now let's enforce what was learnt through the following exercise questions. See Review questions.