

Balancing and Closing Off Accounts

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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.

| | | INCREASE |
|---|-----------------|----------|
| A | ASSETS | DEBIT |
| L | LIABILITIES | CREDIT |
| I | INCOME/REVENUES | CREDIT |
| C | CAPITAL | CREDIT |
| E | EXPENSES | DEBIT |

J. Farfan

Trial balance as.at.30 June, 2015

| | Dr\$ | Cr\$ |
|-------------------------------|--------|--------|
| Sales (Revenue) | | x,xxx |
| Bank (Asset) | xx,xxx | |
| Accounts Payables (Liability) | | x,xxx |
| Capital (Capital) | | xx,xxx |
| Insurance (Expense) | x,xxx | |
| | _____ | _____ |
| | xx,xxx | xx,xxx |
| | _____ | _____ |

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 | | |
| | <u>16,000</u> | | <u>16,000</u> |

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.'

Balancing and Closing Off Accounts

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 | | |
| | <u>10,000</u> | | <u>10,000</u> |
| | | 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.