

SUBJECT- FINANCIAL ACCOUNTING

PREPARATION OF FINANCIAL STATEMENTS- CLOSING ENTRIES- 2

PD Consulting Service Statement of Capital For the Year Ended May 31, 2021	
Capital P. Dill, June 1, 2021	₹ 1,000
Add: Net income	1,000
Less: P. Dill, withdrawal	500
Capital, P. Dill, May 31, 2021	<u>1,500/-</u>

Figure-3-12 Statement of Capital for PD Consulting Service.

PD Consulting Service Balance Sheet, May 31, 2021	
<u>Assets</u>	
Cash	950
Accounts Receivables	<u>1,100</u>
Total assets	2,050
<u>Liabilities</u>	
Accounts payable	<u>550</u>
Total liabilities	550
<u>Owner's equity</u>	
P. Dill, Capital	1,500
Total liabilities plus owner's equity	2,050

Figure 3-13 Balance Sheet for PD Consulting Service.

Journal			
PD Consulting Service			
Date	Account Title and Explanation	Dr.	Cr.
5-31-21	Consulting revenue	14,500	
	Income summary account		14,500
	Close Consulting revenue to income summary account		
5-31-21	Income summary account	13,500	
	Rent Expense		1,200
	Phone Expense		300
	Salary expense		12,000
	Close expenses to income summary		
5-31-21	Income summary account	1,000	
	P. Dill, Capital		1,000
	Close income summary to capital		
5-31-21	P. Dill, Capital	500	
	P. Dill, withdrawal		500
	Close owner withdrawal to capital		

Figure 3-14. closing entries for PD Consulting Service.

Figure 3-14 shows the entries necessary to close PD Consulting Service's temporary accounts. Figure 3-15 shows the balances in the income summary, capital, and withdrawal accounts after each closing entry is made. As indicated, the first closing entry closes the Consulting revenue account to the ISA. As shown in Figure 3-15, this results in a $\$14,500$ credit balance in the ISA. It also results in a zero balance in the consulting revenue account. The second closing entry closes the expense accounts and transfers their balances to ISA. In our example, this

add a 13,500 debit to the ISA and results in zero balances in each of the expense accounts. The ISA is then closed to the Capital account. This is done by means of a £1,000 debit to the ISA and a £1,000 credit to the P.Dill, Capital account. At this point, the ISA has a zero balance and the P.Dill, Capital account has a £8,000 credit balance. The last entry closes the owner withdrawal account to Capital. This results in a £500 debit to P.Dill, Capital and a final balance of £1,500 in the P.Dill, Capital account. This is the same figure calculated on the capital statement (Fig. 3-12) and listed on the balance-sheet (Fig. 3-13).

Balance after consulting revenue is closed to ISA:

Income Summary Account	P.Dill. Capital
<div style="text-align: right; margin-right: 20px;">14,500</div>	<div style="text-align: right;">1,000</div>

Balance after expense accounts are closed to ISA:

Income Summary Account	P.Dill. Capital
<div style="display: flex; justify-content: space-between;"> 13,500 14,500 </div>	<div style="text-align: right;">1,000</div>

Balance after ISA is closed to Capital account:

Income Summary Account	P.Dill. Capital
<div style="display: flex; justify-content: space-between;"> 13,500 14,500 </div> <div style="display: flex; justify-content: space-between; margin-top: 5px;"> 1,000 </div> <hr style="width: 80%; margin: 5px auto;"/> <div style="text-align: center; margin-top: 5px;">0</div>	<div style="text-align: right;">1,000</div> <div style="text-align: right; margin-top: 5px;">1,000</div>

Balance after withdrawal account is closed to capital:

P. Bill withdrawal		P. Bill, Capital	
500	500	1,000	1,000
0		500	1,500

Figure 3-15 Balance in income summary account and Capital amount after each closing entry.

P.D. Consulting Service
Ledges of Accounts

Cash 350	P. Bill, Capital 1,500	Rent Expense
Accounts Receivable 1,100	P. Bill, withdrawals	Phone Expense
Accounts Payable 550	Consulting Revenue	Salary Expense

Figure 3-16 ledgers of accounts for P.D. Consulting Service after closing. Figure 3-16 shows the ledgers after closing. The balances for the asset and liability accounts remain the capital account reflects the changes from net income and owner withdrawal, and the balances in the revenue and expense are zero.