

"Closing Process"

Kinds of Accounts

There are two kinds of Accounts
as per closing process

Real or Permanent
Accounts

Nominal or Temporary
Accounts

Assets

Liability

Capital

Revenue

Expense

Drawing

HOW TO CLOSE NOMINAL ACCOUNTS?

Closing Process-Explained

Step no 1: Close 'Revenue Accounts':

Close all 'Revenue Accounts' by debiting them and transfer their balances into 'Income Summary Account' by crediting it.

Closing Process-Explained

Step no 2: Close 'Expense Accounts':

Close all 'Expense Accounts' by crediting them and transfer their balances into 'Income Summary Account' by debiting it.

Closing Process-Explained

Step no 3: **Close 'Income Summary Account':**

a) If Revenue > Expense i.e. Income Summary Account has credit balance (Net Income), close it by debiting it and transfer its balance into 'Capital Account' by crediting it.

Closing Process-Explained

Step no 3: **Close 'Income Summary Account':**

b) **If Expense > Revenue i.e. Income Summary Account has debit balance (Net Loss), close it by crediting it and transfer its balance into 'Capital Account' by debiting it.**

Closing Process-Explained

Step no 4: **Close 'Drawing Account':**

Close 'Drawing Account' by crediting it and transfer its balance into 'Capital Account' by debiting it.