

### 5.3.4. Closure of Profit and Loss Account

The balance of profit and loss account will be either a debit balance or a credit balance. In either case, it will be transferred to the capital account of the proprietor or partners.

The debit balance of the profit and loss account, known as net loss, will be transferred to the debit side of the capital account. The entry will be:

Capital A/c	Dr.
To Profit and Loss A/c	

The credit balance of profit and loss account known as net profit will be transferred to the credit side of the capital account. The entry is as follows:

Profit and Loss A/c	Dr.
To Capital A/c	

**Example 2:** Prepare Profit and Loss Account, from the following balances of Mr. K for the year ending 31.12.2010.

Office rent	₹30,000	Salaries	₹80,000
Printing expenses	₹ 2,000	Stationeries	₹ 3,000
Tax, Insurance	₹ 4,000	Discount allowed	₹ 6,000
Advertisement	₹36,000	Travelling expenses	₹26,000
Gross profit	₹2,50,000	Discount received	₹ 4,000

**Solution:**

**Profit and Loss Account of Mr. K**  
for the year ending 31st December 2011

Dr.			Cr.
Particulars	₹	Particulars	₹
To Salaries	80,000	By Gross profit (transferred from the Trading A/c)	2,50,000
To Office rent	30,000	By Discount received	4,000
To Stationeries	3,000		
To Printing expenses	2,000		
To Tax, insurance	4,000		
To Discount allowed	6,000		
To Traveling expenses	26,000		
To Advertisement	36,000		
To Net profit (transferred to capital A/c)	67,000		
	2,51,000		2,54,000



**Example 3:** From the following information, prepare the profit and loss account showing operating profit separately in the account itself of a trader for the year ending on 31st March, 2011:

Particulars	₹	Particulars	₹
Gross Profit	6,00,000	Commission	5,000
Salaries and Wages	20,000	Commission Received	17,000
Wages and Salaries	1,000	Interest on long-term loan	3,000
Carriage Inwards	2,000	Interest Received	5,000
Carriage Outwards	5,000	Rent Paid	5,000
Freight Inward	3,000	Rent Received	5,000
Freight Outward	5,000	General Expenses	1,000
Discount Allowed	1,000	Brokerage Allowed	3,000
Discount Received	2,000	Loss on Sale of Fixed Assets	7,000
Dividend Received	3,000		
Profit on Sale of Fixed Assets	6,000		

**Solution:**

**Profit and Loss Account**  
For the year ending 31st March, 2011

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Salaries and Wages	20,000	By Gross Profit	6,00,000
To Carriage Outwards	5,000	By Discount Received	2,000
To Freight Outwards	5,000	By Commission Received	17,000
To Discount Allowed	1,000		
To Commission Allowed	5,000		
To Rent Paid	5,000		
To General Expenses	1,000		
To Brokerage Allowed	3,000		
To Operating Profit c/d	5,74,000		
	<b>6,19,000</b>		<b>6,19,000</b>
To Interest on long-term Loan	3,000	By Operating Profit b/d	5,74,000
To Loss on Sale of Fixed Asset	7,000	By Interest Received	5,000
To Net Profit transferred to Capital Account	5,83,000	By Rent Received	5,000
		By Dividend Received	3,000
		By Profit on Sale of Fixed Assets	6,000
	<b>5,93,000</b>		<b>5,93,000</b>

**Example 4:** From the following information, prepare the profit and loss account

**Example 4:** From the following information, prepare the profit and loss account for the year ending on March 31, 2011:

Particulars	₹	Particulars	₹
Gross Profit	62,000	Salaries and Wages	20,000
Discount received	1,000	Discount allowed	2,000
Interest on loan paid	2,500	Interest received	3,000
Commission received	2,000	Commission to Salesmen	1,500
Rent, Rates and Taxes paid	4,000	Rent received	1,000
Fire Insurance Premium	3,600	Carriage Outward	1,000
Freight outward	500	Repairs and Maintenance	600
Printing and Stationery	600	Travelling Expenses	1,600
Entertainment Expenses	1,200	Water and Electricity	1,200
Postage and Telegram	500	Advertising and Publicity	4,000
Sales Promotion Expenses	400	Telephone Expenses	1,000
Bad Debts	1,000	Packing Expenses	500
Audit Fees	2,000	Bank Charges	400



Depreciation on Furniture:		Legal Charges	1,000
- Sales office	1,000	Miscellaneous Expenses	1,000
- Administrative office	2,000	Loss on sale of Fixed Assets	500
Miscellaneous Incomes	2,000	Loss by theft	5,000
Profit on sale of Fixed Assets	8,500	Dividend received on Shares	300
Loss by Fire	1,000	Income from Investments	200
Loss by Embezzlement	1,000		

**Solution:**

**Profit and Loss Account**  
for the year ending 31st March, 2011

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Salaries and Wages	20,000	By Gross Profit b/d	62,000
To Rent, Rates and Taxes	4,000	By Discount earned	1,000
To Fire Insurance premium	3,600	By Interest earned	3,000
To Repairs and Maintenance	600	By Commission earned	2,000
To Printing and Stationery	600	By Rent earned	1,000
To Water and Electricity	1,200	By Profit on Sale of Fixed Assets	8,500
To Postage and Telegrams	500	By Income from investments	200
To Telephone Expenses	1,000	By Miscellaneous Incomes	2,000
To Depreciation on Furniture	3,000	By Dividend on Shares	300
To Audit Fees	2,000		
To Bank Charges	400		
To Legal Charges	1,000		
To Miscellaneous Expenses	1,000		
To Discount Allowed	2,000		
To Carriage Outward	1,000		
To Freight Outward	500		
To Commission to Salesmen	1,500		
To Traveling Expenses	1,600		
To Entertainment Expenses	1,200		
To Sales Promotion Expenses	400		
To Advertising and Publicity	4,000		
To Bad Debts	1,000		
To Packing Expenses	500		
To Interest on Loan	2,500		
To Loss on sale of Fixed Assets	500		
To Loss by Fire	1,000		
To Loss by Theft	5,000		
To Loss by Embezzlement	1,000		
To Net Profit transferred to Capital Account	17,400		
	80,000		80,000