

COMPLETE BOOK-KEEPING IN FOUR LESSONS

the amount at the debit of purchase account, being the amount of purchases made during the period, is entered on the debit side of the profit and loss account. From the sum of these two amounts is deducted the amount of stock-in-trade on hand at end of the period. The items appearing next at the debit of profit and loss account are the running expenses, such as wages, travelling expenses, rent paid out and such other expense as may have been incurred during the period, in connection with the business. The profit and loss account is credited with the total sales and such other earnings as may have accrued in connection with the business, and the net balance of the profit and loss account so prepared is the net profit or loss according to the side upon which it appears.

If the credits are greater, the balance is a credit balance, and is therefore a profit. If the debits are greater the balance is accordingly a loss. A journal entry is now made, crediting all accounts appearing on the debit side of the profit and loss account and debiting the latter account. Similarly a journal entry is made debiting the sales account and such other accounts as appear on credit side of profit and loss account and crediting the latter account. When these entries are posted, the earning and expense accounts will be closed, leaving upon the ledger only such accounts as represent assets or liabilities. This brings us up to