**APPLICATION EXERCISE 10 – SUGGESTED SOLUTION**

1. **Prepare the General Journal entries required on 30 June 2019 to close the revenue and expense accounts.**

**Narrations are not required.**

**General Journal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Details** | **Debit** | **Credit** |
| 31/05 | Cash Sales | 6 940 |  |
|  | Credit Sales | 1 790 |  |
|  | Discount Revenue | 121 |  |
|  | Sales Returns |  | 405 |
|  | Profit and Loss Summary |  | 8 446 |
| 31/05 | Profit and Loss Summary | 13 696 |  |
|  | Advertising |  | 1 380 |
|  | Cartage Inwards |  | 920 |
|  | Cartage Outwards |  | 330 |
|  | Cost of Sales |  | 4 625 |
|  | Discount Expense |  | 176 |
|  | Import Duties |  | 210 |
|  | Interest Expense |  | 135 |
|  | Inventory Loss |  | 560 |
|  | Inventory Write Down |  | 1 020 |
|  | Rent Expense |  | 1 800 |
|  | Wages |  | 2 540 |

1. **Show how the following accounts would appear in the General Ledger of Steph’s Shoes after all closing and transferring entries have been posted.**
   * **Profit and Loss Summary**
   * **Drawings**
   * **Capital**

**You are required to balance the Capital account.**

**Profit and Loss Summary**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount** | **Date** | **Cross-reference** | **Amount** |
| 30/06 | Expense Accounts | 13 696 | 30/06 | Revenue Accounts | 8 446 |
|  |  |  |  | Capital | 5 250 |
|  |  | 13 696 |  |  | 13 696 |

**Drawings**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount** | **Date** | **Cross-reference** | **Amount** |
| 06/06 | Bank | 1 300 | 30/06 | Capital | 1 940 |
| 27/06 | Inventory | 640 |  |  |  |
|  |  | 1 940 |  |  | 1 940 |

**Capital**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Date** | **Cross-reference** | **Amount** | **Date** | **Cross-reference** | **Amount** |
| 30/06 | Profit and Loss Summary | 5 250 | 01/06 | Balance | 36 246 |
|  | Drawings | 1 940 | 19/06 | Bank | 8 000 |
|  | Balance | 37 074 |  |  |  |
|  |  | 44 264 |  |  | 44 264 |
|  |  |  | 01/07 | Balance | 37 074 |

1. **Prepare the Income Statement for Steph’s Shoes for the month ending 30 June 2019.**

**Steph’s Shoes**

**Income Statement**

**for the month ending 30 June 2019**

|  |  |  |
| --- | --- | --- |
|  | **$** | **$** |
| **Revenues** |  |  |
| Cash Sales | 6 940 |  |
| Credit Sales | 1 790 |  |
| Less: Sales Returns | 405 | 8 325 |
| **Less: Cost of Goods Sold** |  |  |
| Cartage Inwards | 920 |  |
| Cost of Sales | 4 625 |  |
| Import Duties | 210 | 5 755 |
| **Gross Profit** |  | 2 570 |
| Less: Inventory Loss | 560 |  |
| Less: Inventory Write Down | 1 020 | 1 580 |
| **Adjusted Gross Profit** |  | 990 |
| **Plus: Other Revenues** |  |  |
| Discount Revenue |  | 121 |
|  |  | 1 111 |
| **Less: Other Expenses** |  |  |
| Advertising | 1 380 |  |
| Cartage Outwards | 330 |  |
| Discount Expense | 176 |  |
| Interest Expense | 135 |  |
| Rent Expense | 1 800 |  |
| Wages Expense | 2 540 | 6 361 |
| **Net Profit / (Loss)** |  | (5 250) |