

### The Final Capital Account

The effect of drawings and net profit/loss on the final capital account

It has been established that the amount of the owners net worth at the end a financial year can be deduced using the following equation:

$$\text{New Capital} = \text{Old Capital} + \text{Net Profit} - \text{Drawings}$$

Or

$$\text{New Capital} = \text{Old Capital} - \text{Net Loss} - \text{Drawings}$$

At the end of the financial year the new capital figure is also calculated within the double-entry system in the following way:

#### B Shift

#### Trading and Profit and Loss Account for the year ended 31<sup>st</sup> December 20X5

Dr			Cr	
	\$			\$
Purchases	2,900	Sales		3,850
Less closing stock	300			
Cost of goods sold	2,600			
Gross profit bal.c/d	1,250			
	<b>3,850</b>			<b>3,850</b>
Rent	240	Gross profit bal.b/d		1,250
Lighting expenses	150			
General expenses	60			
Net profit bal. c/d	800			
	<b>1,250</b>			<b>1,250</b>
Capital	800	Net Profit bal.b/d		800

Dr		Capital Account		Cr	
20X5		\$		20X5	\$
Dec. 31	Drawings	700		Jan. 1	Cash
Dec. 31	Balance c/d	2,100		Dec 31	Net Profit from Profit & Loss
					800
		<b>2,800</b>			<b>2,800</b>
				20X6	
				Jan. 1	Bal. b/d
					2,100

Dr		Drawings Account		Cr	
20X5		\$		20X5	\$
June 24	Bank	700		Dec. 31	Bal. c/d
		<b>700</b>			700
	Bal. b/d	700		Dec. 31	Capital
					700