



CHAPTER 8

CLOSING ENTRIES AND THE

POST-CLOSING TRIAL

BALANCE





RECORDING CLOSING ENTRIES

- Journalize and post closing entries for a service business organized as a proprietorship.



NEED FOR PERMANENT AND TEMPORARY ACCOUNTS

✕ Permanent accounts

- Accounts used to accumulate information from one fiscal period to the next
- AKA real accounts
- The ending balance of these accounts roll from fiscal period to fiscal period → becomes “beginning balance” for new fiscal period
- Assets, Liabilities, Capital Account



NEED FOR PERMANENT AND TEMPORARY ACCOUNTS

- ✗ Temporary accounts
 - Accounts used to accumulate information until it is transferred to the owner's capital account
 - AKA nominal accounts
 - Revenue
 - Expenses
 - Drawing
 - Income Summary
 - Show change in owner's capital account over a fiscal period



NEED FOR CLOSING TEMPORARY ACCOUNTS

- ✗ At end of fiscal period, temporary account balances are zeroed out and transferred to owner's capital account.
- ✗ Closing entries
 - Journal entries used to prepare temporary accounts for a new fiscal period
 - To close a temporary account, an amount equal to its balance is recorded in the account on the side opposite to its balance.



NEED FOR THE INCOME SUMMARY ACCOUNT

- ✗ Closing entries are like all other entries, must have equal debits and credits.
- ✗ Income Summary
 - Temp account used to close Revenue and Expense accounts into the capital account
 - Summarizes the closing entries
 - Has no “normal” balance – can be debit or credit balance (depends on if Net Income or Net Loss)
 - $\text{Revenue} > \text{Expenses} = \text{Credit Balance}$ (increases Owner's Equity)
 - $\text{Revenue} < \text{Expenses} = \text{Debit Balance}$ (decreases Owner's Equity)

NEED FOR THE INCOME SUMMARY ACCOUNT

- ✗ Revenue > Expenses = Credit Balance (Net Income increases Capital account)

Income Summary	
Debit	Credit
Total expenses	Revenue (greater than expenses) (Credit balance is the net income.)

- ✗ Revenue < Expenses = Debit Balance (Net Loss reduces Capital account)

Income Summary	
Debit	Credit
Total expenses (greater than revenue) (Debit balance is the net loss.)	Revenue

FOUR CLOSING ENTRIES

1. **Close debit balance Income Statement Accounts**
2. **Close credit balance Income Statement Accounts**
3. **Close Income Summary into Capital Account**
4. **Close Drawing into Capital Account**

CLOSING ENTRY FOR AN INCOME STATEMENT ACCOUNT WITH A CREDIT BALANCE

SALES				INCOME SUMMARY	
CLOSING	5,820.00	BAL.	5,820.00	CLOSING (REVENUE)	5,820.00
		(NEW BAL.	0.00)		

ACCOUNT TITLE		5	6
		INCOME STATEMENT	
		DEBIT	CREDIT
12	Sales		5 8 2 0 0 0

(DEBIT TO CLOSE)

HEADING

1

DATE

2

GENERAL JOURNAL

PAGE 3

DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
	Closing Entries				
31	Sales			5 8 2 0 0 0	
	Income Summary				5 8 2 0 0 0

3

DEBIT

4

CREDIT

SALES

CLOS

0.00

**Balance of
Income Summary after
this entry is
Net Income/Net Loss**

[illegible]

4

CREDIT

CLOSING ENTRY TO RECORD NET INCOME/LOSS TO INCOME SUMMARY ACCOUNT

ACCOUNT TITLE	
20	
21	<i>Net Income</i>

5					6				
INCOME STATEMENT									
DEBIT					CREDIT				
2	6	5	8	00	5	8	2	0	00
3	1	6	2	00					
5	8	2	0	00	5	8	2	0	00

(Capital: credit to record net income)

Date 2 Debit (Income Summary: debit to close)

GENERAL JOURNAL							PAGE 3	
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT			
31	Income Summary			3 1 6 2 00				
	Michael Delgado, Capital				3 1 6 2 00			

3 Credit

CLOSING ENTRY TO RECORD NET INCOME/LOSS TO INCOME SUMMARY ACCOUNT

**Income Summary:
Credit bal? Income
Debit bal? Loss**

	DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
17	31	Income Summary			3 1 6 2 00	
18		Michael Delgado, Capital				3 1 6 2 00
19						

3

Credit

CLOSING ENTRY FOR THE OWNER'S DRAWING ACCOUNT

ACCOUNT TITLE		BALANCE SHEET	
		DEBIT	CREDIT
9	Michael Delgado, Capital		2 0 0 0 00
10	Michale Delgado, Drawing	1 1 5 0 00	

Date

(Credit to close
- REDUCES owner's equity)

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
19	31 Michael Delgado, Capital			1 1 5 0 00		19	
20	Michael Delgado, Drawing				1 1 5 0 00	20	
21						21	

Credit



CHECK YOURSELF!

What do the ending balances of permanent accounts for one fiscal period represent at the beginning of the next fiscal period?

Beginning balances

What do the balances of temporary accounts show?

Changes in the owner's capital account for a single fiscal period.

List the four closing entries?

1. Close income statement accounts with credit balances.
2. Close income statement accounts with debit balances.
3. Record net income or net loss and close the Income Summary account.
4. Close the owner's drawing account.



PREPARING A POST-CLOSING TRIAL BALANCE

- Prepare a post-closing trial balance.

GENERAL LEDGER ACCOUNTS AFTER CLOSING ENTRIES ARE POSTED

ACCOUNT *Cash*

ACCOUNT NO. 110

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 2		G1	2 0 0 0 00		2 0 0 0 00	
2		G1		1 6 5 00	1 8 3 5 00	
3		G1		9 0 0 00	9 3 5 00	
9		G1		1 0 0 00	8 3 5 00	
10		G1	1 1 0 0 00		1 9 3 5 00	
12		G1		8 0 00	1 8 5 5 00	
15		G1		4 0 0 00	1 4 5 5 00	
16		G1	2 0 0 00		1 6 5 5 00	
16		G1		3 5 0 00	1 3 0 5 00	
17		G1		3 8 3 00	9 2 2 00	
18		G1	5 3 5 00		1 4 5 7 00	
19		G1		1 0 0 00	1 3 5 7 00	
22		G1		5 1 0 00	8 4 7 00	
24		G2	1 3 2 0 00		2 1 6 7 00	
28		G2		1 3 0 00	2 0 3 7 00	
29		G2	1 2 8 0 00		3 3 1 7 00	
31		G2		3 5 00	3 2 8 2 00	
31		G2		8 0 0 00	2 4 8 2 00	
31		G2	6 8 5 00		3 1 6 7 00	
31		G2		5 4 5 00	2 6 2 2 00	
31		G2		2 5 00	2 5 9 7 00	

ACCOUNT *Petty Cash*

ACCOUNT NO. 120

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 19		G1	1 0 0 00		1 0 0 00	

ACCOUNT *Accounts Receivable—Main Street Services*

ACCOUNT NO. 130

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 12		G1	5 0 0 00		5 0 0 00	
16		G1		2 0 0 00	3 0 0 00	

ACCOUNT *Accounts Receivable—Valley Landscaping*

ACCOUNT NO. 140

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 16		G1	4 0 0 00		4 0 0 00	

ACCOUNT *Supplies*

ACCOUNT NO. 150

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 2		G1	1 6 5 00		1 6 5 00	
5		G1	2 2 0 00		3 8 5 00	
19		G1	1 0 5 00		4 9 0 00	
28		G2	1 3 0 00		6 2 0 00	
31		G3		5 3 0 00	9 0 00	

ACCOUNT *Prepaid Insurance*

ACCOUNT NO. 160

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 1		G1	9 0 0 00		9 0 0 00	
31		G3		1 5 0 00	7 5 0 00	

ACCOUNT *Accounts Payable—Canyon Office Supplies*

ACCOUNT NO. 210

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 5		G1		2 2 0 00		2 2 0 00
9		G1	1 0 0 00			1 2 0 00

ACCOUNT *Accounts Payable—Mountain Graphic Arts*

ACCOUNT NO. 220

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 19		G1		1 0 5 00		1 0 5 00

ACCOUNT *Michael Delgado, Capital*

ACCOUNT NO. 310

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 2		G1		2 0 0 0 00		2 0 0 0 00
31		G3		3 1 6 2 00		5 1 6 2 00
31		G3	1 1 5 0 00			4 0 1 2 00

ACCOUNT *Michael Delgado, Drawing*

ACCOUNT NO. 320

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 16		G1	3 5 0 00		3 5 0 00	
31		G2	8 0 0 00		1 1 5 0 00	
31		G3		1 1 5 0 00		

GENERAL LEDGER ACCOUNTS AFTER CLOSING ENTRIES ARE POSTED

ACCOUNT <i>Income Summary</i>										ACCOUNT NO. 330										ACCOUNT <i>Communications Expense</i>										ACCOUNT NO. 530									
ACCOUNT <i>Advertising Expense</i>										ACCOUNT NO. 510																													
DATE		ITEM	POST. REF.	DEBIT				CREDIT				BALANCE																											
												DEBIT				CREDIT																							
20- <i>Jan.</i>	17		G1	3	8	3	00					3	8	3	00																								
	31		G2	1	4	00																																	
	31		G3					3	9	7	00																												

Dashes signify zero
account balance –
no questions

POST-CLOSING TRIAL BALANCE

✕ Post-closing trial balance

- A trial balance prepared after the closing entries are posted
- Verifies debits = credits after closing temporary accounts
- ONLY accounts with balances are listed (NO temporary accounts)

POST-CLOSING TRIAL BALANCE

Delgado Web Services									
Post-Closing Trial Balance									
January 31, 20--									
ACCOUNT TITLE					DEBIT			CREDIT	
Cash					2	5	9	7	00
Petty Cash					1	0	0	00	
Accounts Receivable—Main Street Services					3	0	0	00	
Accounts Receivable—Valley Landscaping					4	0	0	00	
Supplies						9	0	00	
Prepaid Insurance					7	5	0	00	
Accounts Payable—Canyon Office Supplies								1	2
Accounts Payable—Mountain Graphic Arts								0	5
Michael Delgado, Capital								4	0
Totals					4	2	3	7	00
								4	2
								3	7
								00	

Account
Titles

Heading

Account
Balances

Single
Rule

Totals

Compare Totals

Double Rule

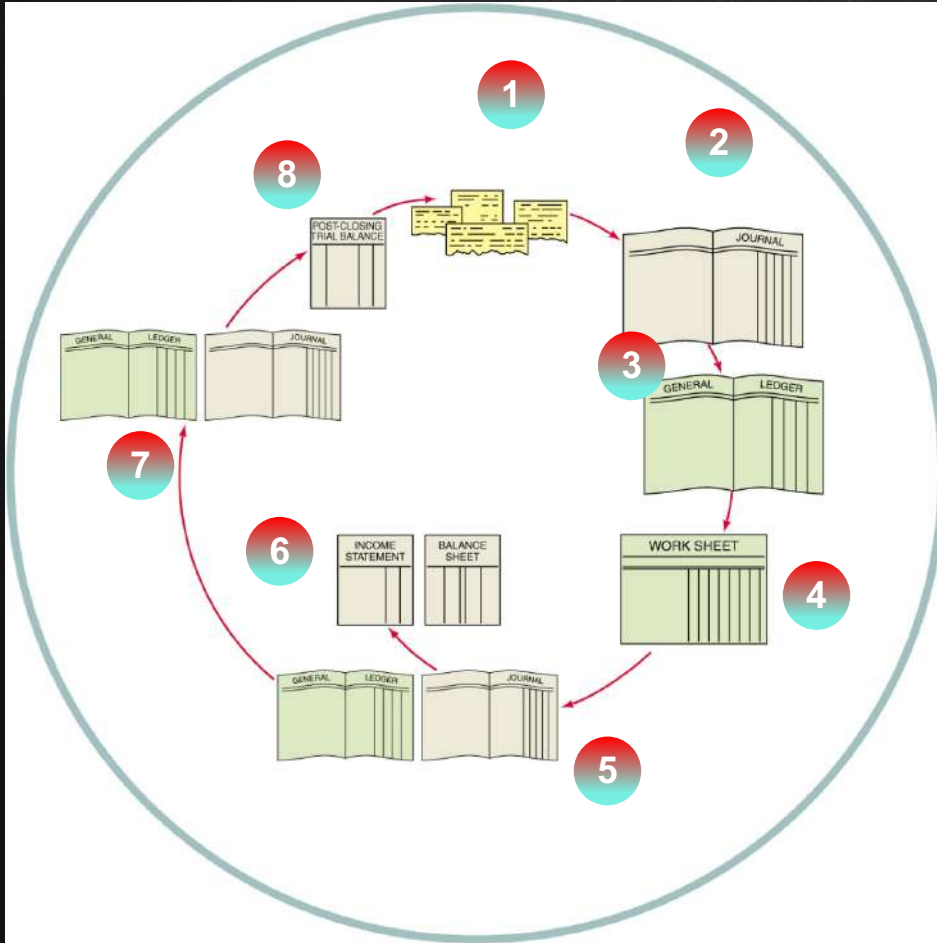
Record Totals

ACCOUNTING CYCLE

✕ Accounting cycle

- The series of accounting activities included in recording financial information for a fiscal period.

ACCOUNTING CYCLE FOR SERVICE BUSINESS



1. Analyze transactions
2. Journalize
3. Post
4. Prepare work sheet
5. Journalize and post adjusting entries
6. Prepare financial statements
7. Journalize and post closing entries
8. Prepare post-closing trial balance

CHECK YOURSELF!

Why are lines drawn in both the Balance Debit and Balance Credit columns when an account has a zero balance?

To assure a reader that a balance has not been omitted

Which accounts go on the post-closing trial balance?

Only those with balances (permanent accounts)

Why are temporary accounts omitted from a post-closing trial balance?

Because they are closed and have zero balances

CHECK YOURSELF!

What are the steps in the accounting cycle?

1. Analyze transactions.
2. Journalize.
3. Post.
4. Prepare work sheet.
5. Journalize and post adjusting entries.
6. Prepare financial statements.
7. Journalize and post closing entries.
8. Prepare post-closing trial balance.