

Name: _____

Lesson 8-1: Recording Closing Entries

Objectives: LO1: _____

A. Need for Permanent and Temporary Accounts

- Permanent accounts:

- AKA? _____
- The _____ account balance of permanent accounts for one fiscal period are the _____ account balances for the next fiscal period.

- Temporary accounts:

- AKA? _____
- Which four accounts/account types are temporary?
 1. _____
 2. _____
 3. _____
 4. _____

***Remember, these are all “subdivisions” of Owner’s Equity (except Income Summary)**

- Temporary accounts show _____ for a single fiscal period.
- At the end of the fiscal period, temporary accounts are _____ and _____ to the _____.
- Temporary accounts began a new fiscal period with what balance? _____

B. Need for Closing Temporary Accounts

- Closing entries:

- Remember, temporary account balances must be at _____ to start a new fiscal period.
 - Because of this, we must CLOSE the accounts (transfer the balances to Owner’s Equity)
- To close a temporary account, an amount _____ is recorded in the account on the _____.
 - Example. If an account has a DEBIT of \$3500, what would we do to ZERO it out?

- Just like GRADES are recorded, and started as a clean slate every semester, so are TEMPORARY ACOCUNTS.

C. Need for Income Summary Account

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

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

- Whenever a temporary account is closed, the closing entry must have equal _____.
- A _____ account named Income Summary is used to _____ the closing entries for revenue and expense accounts.
- Why is the Income Summary account unique? _____
- If Revenue is greater than Expenses, the Income Summary account will have a _____ balance.
- If Expenses are greater than Revenue, the Income Summary account will have a _____ balance.
- What are the four closing entries?
 - _____
 - _____
 - _____
 - _____
- We get the information for our closing entries from the Work Sheet (BS and IS columns)

D. Closing Entry for an Income Statement Account with a Credit Balance

ACCOUNT TITLE		INCOME STATEMENT	
		DEBIT	CREDIT
Sales			5,820.00

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DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.
	Closing Entries		
31	Sales		5,820.00
	Income Summary		5,820.00

Sales	
Closing 5,820.00	Bal. 5,820.00 (New Bal. 0.00)

Income Summary	
	Closing (revenue) 5,820.00

- Which account on the Income Statement has a Credit balance? _____
- What account do we use to CLOSE our temporary accounts? _____

1. _____
2. _____
3. _____
4. _____

E. Closing Entry for Income Statement Accounts with a Debit Balance

The diagram illustrates the transfer of data from an Income Statement to a General Journal. The Income Statement lists expenses with debit amounts. These are transferred to the General Journal as a single entry: Debit Income Summary 2,658.00 and Credit Advertising Expense, Cash Short and Over, Communications Expense, Equipment Rental Expense, Insurance Expense, Miscellaneous Expense, and Supplies Expense for their respective amounts. A blue arrow labeled "Credit" points to the credit side of the General Journal entry.

ACCOUNT TITLE		INCOME STATEMENT	
		DEBIT	CREDIT
13	Advertising Expense	3 97 00	
14	Cash Short and Over	1 00	
15	Communications Expense	8 00	
16	Equipment Rental Expense	1 45 50	
17	Insurance Expense	1 50 00	
18	Miscellaneous Expense	4 50	
19	Supplies Expense	53 00	

(Credit to close)

DATE		INCOME SUMMARY		DEBIT AMOUNT	
31					

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DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
31	Income Summary			2 658 00	
	Advertising Expense				3 97 00
	Cash Short and Over				1 00
	Communications Expense				8 00
	Equipment Rental Expense				1 45 50
	Insurance Expense				1 50 00
	Miscellaneous Expense				4 50
	Supplies Expense				53 00

Credit

Income Summary			
Closing (expenses)	2,658.00	Closing (revenue)	5,820.00
		(New Bal.	3,162.00)

Equipment Rental Expense			
Bal.	1,455.00	Closing	1,455.00
(New Bal.	0.00)		

Advertising Expense			
Bal.	397.00	Closing	397.00
(New Bal.	0.00)		

Cash Short and Over			
Bal.	1.00	Closing	1.00
(New Bal.	0.00)		

Communications Expense			
Bal.	80.00	Closing	80.00
(New Bal.	0.00)		

Insurance Expense			
Bal.	150.00	Closing	150.00
(New Bal.	0.00)		

Miscellaneous Expense			
Bal.	45.00	Closing	45.00
(New Bal.	0.00)		

Supplies Expense			
Bal.	530.00	Closing	530.00
(New Bal.	0.00)		

- We use the same steps as above to close the Debit Balance (expense) accounts, EXCEPT we **DEBIT/CREDIT (circle one)** Income Summary instead.
- After we close the Credit (Sales) accounts and debit (Expense) Accounts, we are left with our NET LOSS/INCOME in the INCOME SUMMARY account...this is the difference between the _____ and _____ accounts.

F. Closing Entry to Record Net Income/Loss and Close Income Summary Account

ACCOUNT TITLE	
20	
21	Net Income
22	

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)

1 Date

2 Debit (Income Summary: debit to close)

3 Credit

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	

Income Summary			
Closing (expenses)	2,658.00	Closing (revenue)	5,820.00
Closing	3,162.00	(New Bal.)	0.00

Michael Delgado, Capital	
Bal.	2,000.00
Closing (net inc.)	3,162.00
(New Bal.)	5,162.00

- If the company has Net Income, Income Summary is _____ to close it and the capital account is _____ to increase it.
- If the company has a Net Loss, Income Summary is _____ to close it and the capital account is _____ to decrease it. (HINT: OPPOSITE OF ABOVE)

G. Closing Entry for the Owner's Drawing Account

ACCOUNT TITLE	
9	Michael Delgado, Capital
10	Michale Delgado, Drawing

BALANCE SHEET	
DEBIT	CREDIT
1 1 5 0 00	2 0 0 0 00

1 Date

2 Debit (Credit to close)

3 Credit

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

Michael Delgado, Capital			
Closing (drawing)	1,150.00	Bal.	2,000.00
		Net Income	3,162.00
		(New Bal.)	4,012.00

Michael Delgado, Drawing	
Bal.	1,150.00
(New Bal.)	0.00
Closing	1,150.00

- Remember, withdrawals _____ the amount of the owner's equity.
- Since the Drawing account is neither an expense nor revenue, we do not use Income Summary to close it. Instead, we close it _____.

Check yourself!

1. What do the ending balances of permanent accounts for one fiscal period represent at the beginning of the next fiscal period?
2. What do the balances of temporary accounts show?
3. List the four closing entries.

Lesson 7-2: Preparing a Balance Sheet

Objectives: L03: _____

A. General Ledger Accounts After Closing Entries are Posted

- How do we signify that an account has a zero balance in the general ledger?

- WHY do we do this?

ACCOUNT <i>Income Summary</i>					ACCOUNT NO. 330				
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT		CREDIT		
Jan. 31		G3		5 8 2 0 00			5 8 2 0 00		
31		G3	2 6 5 8 00				3 1 6 2 00		
31		G3	3 1 6 2 00						

ACCOUNT <i>Sales</i>					ACCOUNT NO. 410				
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT		CREDIT		
Jan. 10		G1		1 1 0 0 00			1 1 0 0 00		
12		G1		5 0 0 0 00			1 6 0 0 00		
16		G1		4 0 0 0 00			2 0 0 0 00		
18		G1		5 3 5 0 00			2 5 3 5 00		
24		G2		1 3 2 0 00			3 8 5 5 00		
29		G2		1 2 8 0 00			5 1 3 5 00		
31		G2		6 8 5 0 00			5 8 2 0 00		
31		G3	5 8 2 0 00						

ACCOUNT <i>Advertising Expense</i>					ACCOUNT NO. 510				
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT		CREDIT		
Jan. 17		G1	3 8 3 0 00		3 8 3 0 00				
31		G2	1 4 0 0		3 9 7 0 00				
31		G3		3 9 7 0 00					

B. Post-Closing Trial Balance

1 Heading

2 Account Titles

3 Account Balances

4 Single Rule

5 Compare Totals

6 Totals

7 Record Totals

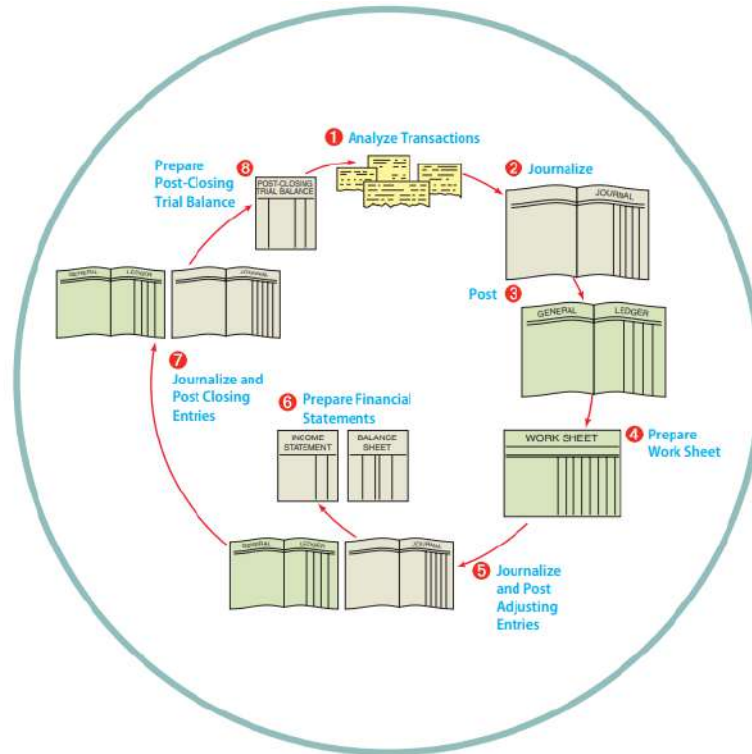
8 Double Rule

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 0 00	
Prepaid Insurance	7 5 0 00	
Accounts Payable—Canyon Office Supplies		1 2 0 00
Accounts Payable—Mountain Graphic Arts		1 0 5 00
Michael Delgado, Capital		4 0 1 2 00
Totals	4 2 3 7 00	4 2 3 7 00

- Post-closing trial balance:
- What do we use the Post-Closing Trial Balance to verify?

- Only general ledger accounts _____ are included on the post-closing trial balance. We do not list temporary accounts, as they have been _____ and have _____ balances.
- Where do you single rule on the post-closing trial balance?
- This is another way we check that **Assets = Liabilities + Owner's Equity**

C. Accounting Cycle for a Service Business



- Accounting cycle:

Check yourself!

1. Why are lines drawn in both the Balance Debit and Balance credit columns when an account has a zero balance?
2. Which accounts go on the post-closing trial balance?
3. Why are temporary accounts omitted from a post-closing trial balance?
4. What are the steps in the accounting cycle?

1. _____

5. _____

2. _____

6. _____

3. _____

7. _____

4. _____

8. _____