

Chapter 8 – Recording Adjusting and Closing Entries for a Service Business

EVERYTHING IS STILL COMING FROM THE WORKSHEET IN CHAPTER 6

Section 8-1 – Recording Adjusting Entries

CONCEPT: Accounting Period Cycle-

CONCEPT: Adequate Disclosure:

The adjustments from the worksheet need to be journalized so that the account balances are changed (posted) to reflect the differences from the beginning of the fiscal period to the end of the fiscal period. Writing the adjustment for Supplies/Supplies Expense on the worksheet doesn't actually do anything to the business' books: it just shows what needs to be done.

CONCEPT: Matching Expenses with Revenue-

| ACCOUNT TITLE | | ADJUSTMENTS | |
|---------------|--------------------------|-------------|------------|
| | | DEBIT | CREDIT |
| 5 | <i>Supplies</i> | | (a) 715 00 |
| 6 | <i>Prepaid Insurance</i> | | (b) 100 00 |
| 14 | <i>Insurance Expense</i> | (b) 100 00 | |
| 17 | <i>Supplies Expense</i> | (a) 715 00 | |

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|-----------------|---------------|----------|------------|-------|--------|--|------|
| DATE | ACCOUNT TITLE | DOC. NO. | POST. REF. | DEBIT | CREDIT | | |
| 1 | | | | | | | 1 |
| 2 | | | | | | | 2 |
| 3 | | | | | | | 3 |
| 4 | | | | | | | 4 |
| 5 | | | | | | | 5 |

Section 8-2 – Recording Closing Entries

Permanent Accounts (real accounts)-

Permanent accounts include the _____ and _____ accounts and the owner's _____ account. The ending balances of a fiscal period are the beginning balances of the new fiscal period.

Temporary Accounts (nominal accounts)-

Temporary accounts include the _____, _____, and owner's _____ account plus the _____ account. These balances need to be zeroed out so that the new fiscal period starts fresh.

Closing Entries-

Remember the CONCEPT: Matching Expenses with Revenue. That's what we are doing here. These balances are only important to us during the current fiscal period. After the fiscal period has ended we want to start with new balances for the new fiscal period.

To close a temporary account, an amount equal to its balance is recorded on the _____ side to close (zero) it out. So if the worksheet shows a DR balance, we need to journalize it as a _____ balance. If it shows it as a CR balance, we need to journalize it as a _____ balance.

ALL CLOSING ENTRIES ARE CLOSED INTO INCOME SUMMARY – you have to have a debit and a credit for each transaction. Income Summary can be whatever you need it to be.

Income Summary is a unique account because it does not have a _____.

There are four closing entries to make (done in this order):

- 1.
- 2.
- 3.
- 4.

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| | DATE | ACCOUNT TITLE | DOC. NO. | POST. REF. | DEBIT | CREDIT | |
|----|------|---------------|-------------|---------------|-------|--------|----|
| 1 | | | | | | | 1 |
| 2 | | | | | | | 2 |
| 3 | | | | | | | 3 |
| 4 | | | | | | | 4 |
| 5 | | | | | | | 5 |
| 6 | | | | | | | 6 |
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| 12 | | | | | | | 12 |
| 13 | | | | | | | 13 |
| 14 | | | | | | | 14 |
| 15 | | | | | | | 15 |

REMEMBER – Amounts for closing entries are taken from the Income Statement and Balance Sheet columns of the worksheet.

Section 8-3 – Preparing a Post-Closing Trial Balance

After all the adjusting and closing entries have been journalized and posted, the account balances are then used to create a Post-Closing Trial Balance report.

Post-Closing Trial Balance-

Only the _____ accounts (_____ , _____ , and the owner's _____) have balances and appear on the report.

All _____ accounts (_____ , _____ , _____ , and the owner's _____) have a _____ balance so they DO NOT appear on the report.

All balances are taken from the completed _____ to compile this report.

