LESSON

8-1 Recording Closing Entries

Learning Objectives

LO1 Journalize and post closing entries for a service business organized as a proprietorship.

Need for Permanent and Temporary Accounts

LO1

- Accounts used to accumulate information from one fiscal period to the next are called **permanent accounts**.
  - Permanent accounts are also referred to as *real accounts*.

- Accounts used to accumulate information until it is transferred to the owner's capital account are called **temporary accounts**.
  - Temporary accounts are also referred to as *nominal accounts*.

Need for Closing Temporary Accounts

LO1

- Journal entries used to prepare temporary accounts for a new fiscal period are called **closing entries**.

- The temporary account balances must be reduced to zero at the end of each fiscal period.

Need for the Income Summary Account

● When revenue is greater than total expenses, resulting in a net income, the Income Summary account has a credit balance, as shown in the T account.

Income Summary

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

● When total expenses are greater than revenue, resulting in a net loss, the Income Summary account has a debit balance, as shown in the T account.

Income Summary

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

Closing Entry for an Income Statement Account with a Credit Balance

LO1

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

Income Summary	
	Closing (revenue) 5,820.00

(Debit to close)

3 Debit

Heading **1**

Date **2**

4 Credit

Closing Entry for Income Statement Accounts with Debit Balances

	ACCOUNT TITLE	5 INCOME STATEMENT DEBIT	6 CREDIT
13	Advertising Expense	3 9 7 00	
14	Cash Short and Over	1 00	
15	Communications Expense	8 0 00	
16	Equipment Rental Expense	1 4 5 5 00	
17	Insurance Expense	1 5 0 00	
18	Miscellaneous Expense	4 5 00	
	Supplies Expense	5 3 0 00	

(Credit to close)

Debit Amount

Income Summary

Date

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	DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	1 GENERAL DEBIT	2 CREDIT
9	31	Income Summary			2 6 5 8 00	
10		Advertising Expense				3 9 7 00
11		Cash Short and Over				1 00
12		Communications Expense				8 0 00
13		Equipment Rental Expense				1 4 5 5 00
14		Insurance Expense				1 5 0 00
15		Miscellaneous Expense				4 5 00
16		Supplies Expense				5 3 0 00

Credit

Closing Entry to Record Net Income or Loss and Close the Income Summary Account

(Capital: credit to record net income)

(Income Summary: debit to close)

Debit

Date

2

1

3 Credit

Closing Entry for the Owner's Drawing Account

	ACCOUNT TITLE		7 BALANCE SHEET DEBIT	8 CREDIT	
9	Michael Delgado, Capital			2 0 0 0 00	9
10	Michale Delgado, Drawing		1 1 5 0 00		

(Credit to close)

Date **1**

2 Debit

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	DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	1 GENERAL DEBIT	2 CREDIT
19	31	Michael Delgado, Capital			1 1 5 0 00	
20		Michael Delgado, Drawing				1 1 5 0 00
21						

3 Credit

Lesson 8-1 Audit Your Understanding

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

ANSWER
Beginning balances

Lesson 8-1 Audit Your Understanding

2. What do the balances of temporary accounts show?

ANSWER

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

Lesson 8-1 Audit Your Understanding

3. List the four closing entries.

ANSWER

1. An entry to close income statement accounts with credit balances.

2. An entry to close income statement accounts with debit balances.

3. An entry to record net income or net loss and close the Income Summary account.

4. An entry to close the owner's drawing account.

Learning Objectives

LO2   Prepare a post-closing trial balance.

General Ledger Accounts after Closing Entries Are Posted

General Ledger Accounts after Closing Entries Are Posted

LO2

Sales — ACCOUNT NO. 410

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Jan. 31		2		5 8 2 0 00		5 8 2 0 00
31		3	5 8 2 0 00		—	—

Advertising Expense — ACCOUNT NO. 510

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Jan. 17		1	3 8 3 00		3 8 3 00	
31		2	1 4 00		3 9 7 00	
31		3		3 9 7 00	—	

Cash Short and Over — ACCOUNT NO. 520

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Jan. 31		2	1 00		1 00	
31		3		1 00	—	

Communications Expense — ACCOUNT NO. 530

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Jan. 12		1	8 0 00		8 0 00	
31		3		8 0 00	—	

Equipment Rental Expense — ACCOUNT NO. 540

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Jan. 15		1	4 0 0 00		4 0 0 00	
23		1	5 1 0 00		9 1 0 00	
31		2	5 4 5 00		1 4 5 5 00	
31		3		1 4 5 5 00	—	

Insurance Expense — ACCOUNT NO. 550

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Jan. 31		3	1 5 0 00		1 5 0 00	
31		3		1 5 0 00	—	

Miscellaneous Expense — ACCOUNT NO. 560

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Jan. 31		2	2 0 00		2 0 00	
31		2	2 5 00		4 5 00	
31		3		4 5 00	—	

Supplies Expense — ACCOUNT NO. 570

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
Jan. 31		3	5 3 0 00		5 3 0 00	
31		3		5 3 0 00	—	

Post-Closing Trial Balance

LO2

- A trial balance prepared after the closing entries are posted is called a **post-closing trial balance**.

Post-Closing Trial Balance

Heading ①

Delgado Web Services
Post-Closing Trial Balance
January 31, 20--

Account Titles ②

Account Balances ③

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 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

Single Rule ④

Totals ⑥

Compare Totals ⑤
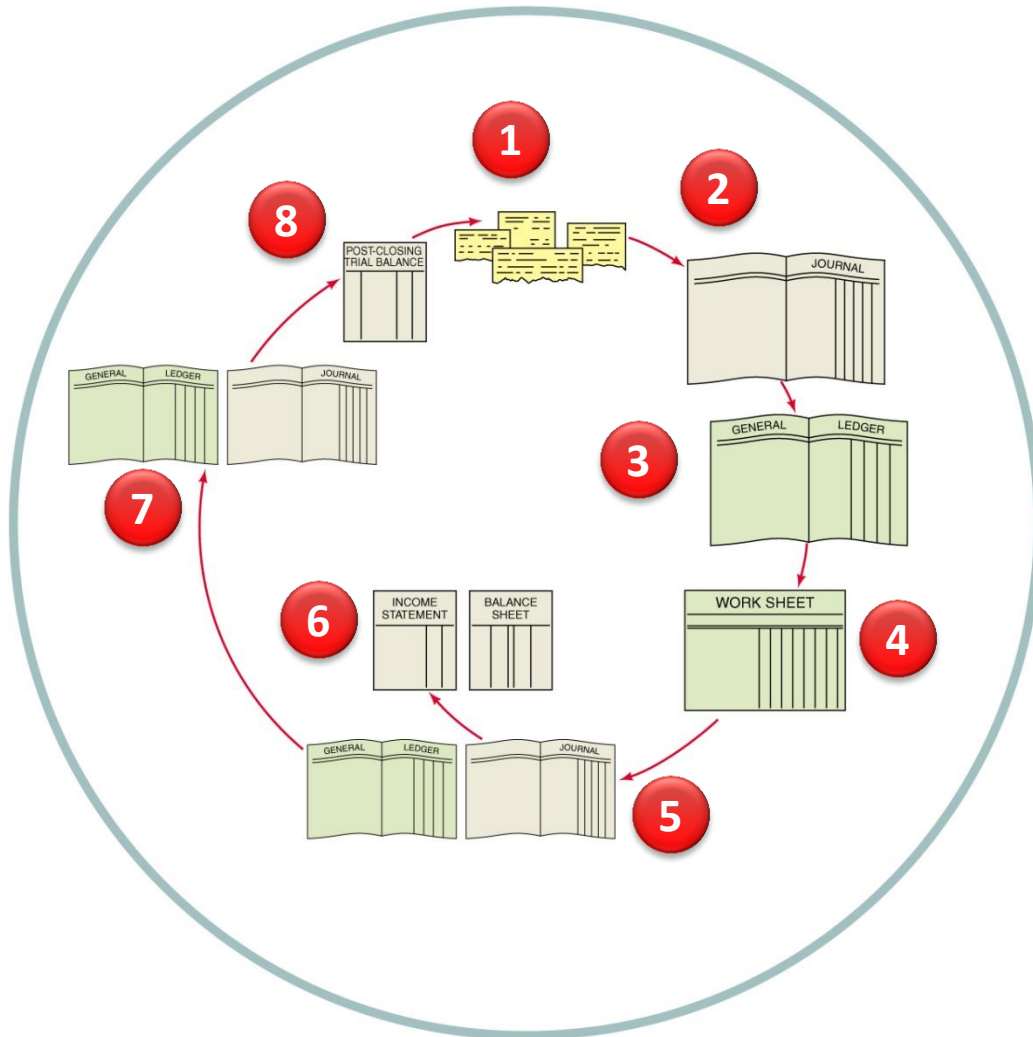
Double Rule ⑧

Record Totals ⑦

Accounting Cycle for a Service Business

LO2

- The series of accounting activities included in recording financial information for a fiscal period is called an **accounting cycle**.

Accounting Cycle for a 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

Lesson 8-2 Audit Your Understanding

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

ANSWER

To assure a reader that a balance has not been omitted

Lesson 8-2 Audit Your Understanding

2. Which accounts go on the post-closing trial balance?

ANSWER

Only those with balances (permanent accounts)

Lesson 8-2 Audit Your Understanding

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

ANSWER

Because they are closed and have zero balances

Lesson 8-2 Audit Your Understanding

4. What are the steps in the accounting cycle?

ANSWER

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.