

# Completing the Accounting Cycle for a Sole Proprietorship

## What You'll Learn

1. Explain why it is necessary to update accounts through closing entries.
2. Explain the purpose of the Income Summary account.
3. Explain the relationship between the Income Summary account and the capital account.
4. Analyze and journalize the closing entries.
5. Post the closing entries to the general ledger.
6. Prepare a post-closing trial balance.
7. Define the accounting terms introduced in this chapter.

## Why It's Important

► For accounting purposes the life of a business is divided into specific periods of time.

BEFORE  
You

READ

### Predict

1. What does the chapter title tell you?
2. What do you already know about this subject from personal experience?
3. What have you learned about this in the earlier chapters?
4. What gaps exist in your knowledge of this subject?

## Exploring the *Real World* of Business

### LOOKING AT FISCAL YEAR-END ACTIVITIES

#### Radio Flyer

Many adults love to give children the same kinds of toys they enjoyed when they were young. A **Radio Flyer** wagon is that kind of toy. Antonio Pasin, an Italian immigrant living in Chicago, crafted and sold the first wooden red wagons in 1917.

The company has been passed down through the generations, just like the love of the toys it produces. Antonio's grandson, Robert Pasin, is now the chief executive officer of **Radio Flyer**. He has taken the company in new directions by adding tricycles, scooters, and other riding toys.

**Radio Flyer's** revenue comes from selling classic wagons and newer toys. At the end of each accounting period, the company closes its accounts and analyzes the revenues and expenses.

#### What Do You Think?

Why would **Radio Flyer** employees want to compare sales of different toys from one accounting period to another?



## Working in the *Real World*

### APPLYING YOUR ACCOUNTING KNOWLEDGE

Preparing financial statements can be a hectic time for the accounting staff of Radio Flyer. Professional accountants learn to manage stressful times using good organizational skills. Once the financial statements have been prepared, other tasks must be completed to close one accounting cycle and begin another. You will learn about these tasks to complete the accounting cycle in this chapter.

#### Personal Connection

1. In your workplace are there especially hectic times of the day or year?
2. How do you and your co-workers handle these busy times?

#### Online Connection

Go to [glencoeaccounting.glencoe.com](http://glencoeaccounting.glencoe.com) and click on **Student Center**. Click on **Working in the Real World** and select **Chapter 10**.





## SECTION 1

BEFORE  
You

READ

### Main Idea

Closing entries transfer the temporary account balances to the owner's capital account.

### Read to Learn...

- the last two steps of the accounting cycle. (p. 250)
- the purpose of closing entries. (p. 250)
- the purpose of the **Income Summary** account. (p. 253)
- how to journalize the closing entries. (p. 253)

### Key Terms

closing entries

**Income Summary** account

compound entry

As  
You

READ

### Instant Recall

#### Accounting Period

By dividing the life of a business into time periods, decision makers can see patterns and make comparisons.

# Preparing Closing Entries

In Chapter 9 you learned how to prepare three financial statements:

- The income statement reports revenue, expenses, and net income or net loss for the accounting period.
- The statement of changes in owner's equity summarizes the impact of the business transactions on the owner's capital account.
- The balance sheet reports the financial position of the business at the end of the period.

Accountants for a company like Mattel prepare financial statements and then journalize and post the closing entries. They prepare a post-closing trial balance to verify that the accounting records still balance.

## Completing the Accounting Cycle

### What Are the Last Two Steps of the Accounting Cycle?

During the accounting period, the accountant records transactions involving revenue, expenses, and withdrawals in temporary accounts. At the end of the period, the accountant transfers the balances in the temporary accounts to the owner's capital account to bring it up to date and to prepare the accounting records for the next period.

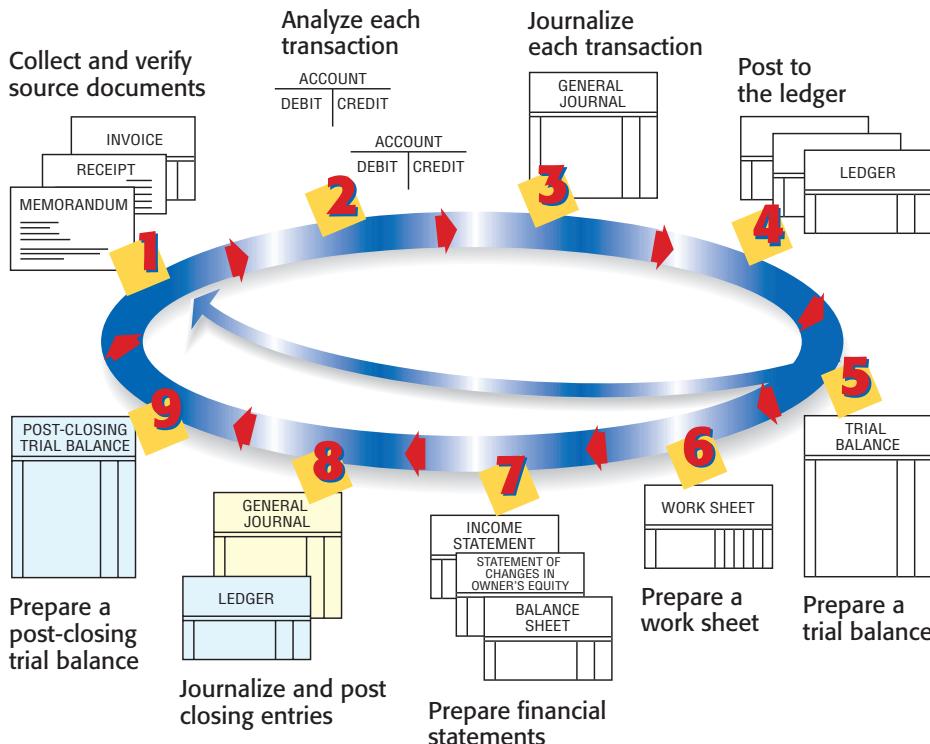
**Closing entries** are journal entries made to close, or reduce to zero, the balances in the temporary accounts and to transfer the net income or net loss for the period to the capital account.

After the closing entries have been journalized and posted, a trial balance is prepared to prove the equality of the general ledger after the closing process. The trial balance prepared after closing is called a *post-closing trial balance*. As you can see in Figure 10–1, the closing process and the post-closing trial balance complete the accounting cycle.

## Starting the Eighth Step in the Accounting Cycle: Journalizing the Closing Entries

### What Is the Purpose of Closing Entries?

Preparing financial records for the start of a new period is a little like keeping stats for a basketball team. For basketball stats, individual and team scores are recorded for every game, but each new game starts with a score of zero. Similarly, in keeping the stats or accounting for a business, entries are posted to the accounts during the accounting period (game), but the



**Figure 10–1** The Accounting Cycle with Steps 8 and 9 Highlighted

temporary accounts (**Rent Expense**, **Maintenance Expense**, **Revenue**, etc.) start each new accounting period (game) with zero balances.

The income statement, you'll remember, reports the net income or net loss for *one accounting period*. The statement is prepared from information recorded and accumulated in the revenue and expense accounts. At the end of the period, the accountant records entries to close, or reduce to zero, the revenue and expense accounts because their balances also apply to only one accounting period. These closing entries also transfer the net income or net loss for the period to the capital account.

The closing process is shown in **Figure 10–2** on page 252.

- Prior to the closing process, you know that net income or net loss is calculated on the work sheet. **A**
- The net income or net loss amount then appears on the income statement. **B**
- On the statement of changes in owner's equity, the ending balance of the capital account includes net income or net loss. **C**
- The ending balance of the capital account then appears on the balance sheet. **D**
- At this point, however, the balance of the capital account in the general ledger does not equal the amount on the balance sheet because the closing entries need to be journalized and posted. **E**

For example, the balance on the work sheet for **Maria Sanchez, Capital** is \$25,400, but on the balance sheet, it is \$26,050. These two amounts differ because the withdrawals and the net income have not been recorded in the capital account in the general ledger. The closing process updates accounts through closing entries and brings the balance of the general ledger capital account up to date.

**CULTURAL Diversity**  
**Setting Deadlines**

In international business be aware of cultural differences about time. Business is conducted at a faster pace in the United States than in some other cultures. Tight deadlines can cause problems overseas if workers resent being pressured to do things at a pace other than the one they are used to.

| Roadrunner Delivery Service<br>Work Sheet<br>For the Month Ended October 31, 20-- |                   |               |           |                  |          |               |           |       |          |    |
|---|-------------------|---------------|-----------|------------------|----------|---------------|-----------|-------|----------|----|
| ACCT.<br>NO.  | ACCOUNT NAME      | TRIAL BALANCE |           | INCOME STATEMENT |          | BALANCE SHEET |           | DEBIT | CREDIT   |    |
|   |                   | DEBIT         | CREDIT    | DEBIT            | CREDIT   | DEBIT         | CREDIT    |       |          |    |
| 16 515  | Utilities Expense | 125 00        |           | 125 00           |          |               |           |       |          | 16 |
| 17  |                   | 39 775 00     | 39 775 00 | 1 500 00         | 2 650 00 | 38 275 00     | 37 125 00 |       |          | 17 |
| 18  | Net Income        |               |           | 1 150 00         |          |               |           |       | 1 150 00 | 18 |
| 19  |                   |               |           | 2 650 00         | 2 650 00 | 38 275 00     | 38 275 00 |       |          | 19 |
| 20  |                   |               |           |                  |          |               |           |       |          | 20 |

### Roadrunner Delivery Service

Income Statement  
For the Month Ended October 31, 20--

|                     |  |  |  |  |  |  |  |        |          |          |
|---------------------|--|--|--|--|--|--|--|--------|----------|----------|
| Revenue:            |  |  |  |  |  |  |  |        |          |          |
| Delivery Revenue    |  |  |  |  |  |  |  |        | 2 650 00 |          |
| Expenses:           |  |  |  |  |  |  |  |        |          |          |
| Advertising Expense |  |  |  |  |  |  |  | 75 00  |          |          |
| Maintenance Expense |  |  |  |  |  |  |  | 60 00  | 00       |          |
| Rent Expense        |  |  |  |  |  |  |  | 70 00  | 00       |          |
| Utilities Expense   |  |  |  |  |  |  |  | 125 00 |          |          |
| Total Expenses      |  |  |  |  |  |  |  |        | 1 500 00 |          |
| Net Income          |  |  |  |  |  |  |  |        |          | 1 150 00 |

### Roadrunner Delivery Service

Statement of Changes in Owner's Equity  
For the Month Ended October 31, 20--

|                                    |  |  |  |  |  |  |  |           |           |  |
|------------------------------------|--|--|--|--|--|--|--|-----------|-----------|--|
| Beginning Capital, October 1, 20-- |  |  |  |  |  |  |  |           |           |  |
| Add: Investments by Owner          |  |  |  |  |  |  |  | 25 400 00 |           |  |
| Net Income                         |  |  |  |  |  |  |  | 1 150 00  |           |  |
| Total Increase in Capital          |  |  |  |  |  |  |  |           | 26 550 00 |  |
| Subtotal                           |  |  |  |  |  |  |  |           | 26 550 00 |  |
| Less: Withdrawals by Owner         |  |  |  |  |  |  |  |           | 500 00    |  |
| Ending Capital, October 31, 20--   |  |  |  |  |  |  |  |           | 26 050 00 |  |

### Roadrunner Delivery Service

Balance Sheet  
October 31, 20--

|                                      |  |  |  |  |  |  |  |           |           |  |
|--------------------------------------|--|--|--|--|--|--|--|-----------|-----------|--|
| Assets                               |  |  |  |  |  |  |  |           |           |  |
| Cash in Bank                         |  |  |  |  |  |  |  | 21 125 00 |           |  |
| Accounts Receivable—City News        |  |  |  |  |  |  |  | 1 450 00  |           |  |
| Accounts Receivable—Green Company    |  |  |  |  |  |  |  |           |           |  |
| Computer Equipment                   |  |  |  |  |  |  |  | 3 000 00  |           |  |
| Office Equipment                     |  |  |  |  |  |  |  | 2 000 00  |           |  |
| Delivery Equipment                   |  |  |  |  |  |  |  | 12 000 00 |           |  |
| Total Assets                         |  |  |  |  |  |  |  |           | 37 775 00 |  |
| Liabilities                          |  |  |  |  |  |  |  |           |           |  |
| Accounts Payable—Beacon Advertising  |  |  |  |  |  |  |  | 75 00     |           |  |
| Accounts Payable—North Shore Auto    |  |  |  |  |  |  |  | 11 650 00 |           |  |
| Total Liabilities                    |  |  |  |  |  |  |  |           | 11 725 00 |  |
| Owner's Equity                       |  |  |  |  |  |  |  |           |           |  |
| Maria Sanchez, Capital               |  |  |  |  |  |  |  |           | 26 050 00 |  |
| Total Liabilities and Owner's Equity |  |  |  |  |  |  |  |           | 37 775 00 |  |

### Roadrunner Delivery Service

Work Sheet  
For the Month Ended October 31, 20--

| ACCT.<br>NO. | ACCOUNT NAME               | TRIAL BALANCE |           | INCOME STATEMENT |        | BALANCE SHEET |        | DEBIT  | CREDIT    |    |
|--------------|----------------------------|---------------|-----------|------------------|--------|---------------|--------|--------|-----------|----|
|              |                            | DEBIT         | CREDIT    | DEBIT            | CREDIT | DEBIT         | CREDIT |        |           |    |
| 9 301        | Maria Sanchez, Capital     |               | 25 400 00 |                  |        |               |        |        | 25 400 00 | 9  |
| 10 302       | Maria Sanchez, Withdrawals | 500 00        |           |                  |        |               |        | 500 00 |           | 10 |

Figure 10–2 The Closing Process

# The Income Summary Account

## What Is the Purpose of the Income Summary Account?

Before the closing entries are journalized and posted, no single account in the general ledger shows all of the revenue and expenses for the period. This information is scattered among the individual revenue and expense accounts. There is, however, one general ledger account that, until this point, has not been used. That is the **Income Summary** account.

The **Income Summary account** is used to accumulate and summarize the revenue and expenses for the period. This account serves as a simple income statement in the ledger. Expenses, which have debit balances, are transferred as debits to **Income Summary**. Revenues, which have credit balances, are transferred as credits to **Income Summary**. The balance of the account equals the net income or net loss for the fiscal period.

Refer to the chart of accounts for Roadrunner Delivery Service on page 79. Notice that **Income Summary** is in the Owner's Equity section of the general ledger. It is located there because of its relationship to the owner's capital account. Remember that the revenue and expenses transferred to the **Income Summary** account actually represent increases and decreases to owner's equity. The balance of **Income Summary** (the net income or net loss for the period) is transferred to the capital account at the end of the closing process.

Like the withdrawals account, **Income Summary** is a temporary account. However, it is quite different from the other temporary accounts.

- **Income Summary** is used only at the end of the accounting period to summarize the balances from the revenue and expense accounts.
- **Income Summary** does not have a normal balance, which means that it does not have an increase or a decrease side. As shown in the following T account, the debit and credit sides of the account are simply used to summarize the period's revenue and expenses.
- The balance of the **Income Summary** account before and after the closing process is zero.
- The **Income Summary** account does not appear on any financial statement.

| Income Summary        |                       |
|-----------------------|-----------------------|
| Debit                 | Credit                |
| Expenses              | Revenue               |
| If Revenue > Expenses | Balance is net income |

If Revenue < Expenses → Balance is net loss

As You

**READ**

## Key Point

### Income Summary

The **Income Summary** account does not have a normal balance.

# Preparing Closing Entries

## How Do You Journalize Closing Entries?

Four journal entries are prepared to close the temporary accounts for Roadrunner:

1. Transfer the balances of all revenue accounts to the credit side of the **Income Summary** account.

## In Your Own Words

## Income Summary

Describe how and why the **Income Summary** account is used.

- Transfer all expense account balances to the debit side of the **Income Summary** account.
- Transfer the balance of the **Income Summary** account to the capital account (net income to the credit side; net loss to the debit side).
- Transfer the balance of the withdrawals account to the debit side of the capital account.

## Closing Revenue to Income Summary

The first step in the closing procedure is to transfer the balance of the revenue account to **Income Summary**. The balance for the revenue account is found in the Income Statement section of the work sheet. (Refer to the work sheet in **Figure 9-3** on page 222 when reading about closing entries.)

## Closing Entry

*First Closing Entry—Close Revenue to Income Summary*

ANALYSIS *Identify**Classify*

+/-

- Roadrunner has only one revenue account, **Delivery Revenue**. The accounts affected are **Delivery Revenue** and **Income Summary**.
- Delivery Revenue** is a revenue account. **Income Summary** is a temporary owner's equity account.
- The **Delivery Revenue** account balance is decreased by \$2,650 to zero. That amount, \$2,650, is transferred to the **Income Summary** account.

## DEBIT-CREDIT RULE

- Decreases in revenue accounts are recorded as debits. Debit **Delivery Revenue** for \$2,650.
- To transfer the revenue to the **Income Summary** account, credit **Income Summary** for \$2,650.

## T ACCOUNTS

| 6. | Delivery Revenue   |                    | Income Summary |               |
|----|--------------------|--------------------|----------------|---------------|
|    | Debit              | Credit             | Debit          | Credit        |
|    | –<br>Closing 2,650 | +<br>Balance 2,650 |                | Closing 2,650 |

## JOURNAL ENTRY

| 7.        | GENERAL JOURNAL         |             |            |          |          | PAGE <u>3</u> |
|-----------|-------------------------|-------------|------------|----------|----------|---------------|
|           | DATE                    | DESCRIPTION | POST. REF. | DEBIT    | CREDIT   |               |
| 1 20--    | <i>Closing Entries</i>  |             |            |          |          | 1             |
| 2 Oct. 31 | <i>Delivery Revenue</i> |             |            | 2 650 00 |          | 2             |
| 3         | <i>Income Summary</i>   |             |            |          | 2 650 00 | 3             |
| 4         |                         |             |            |          |          | 4             |

To record closing entries in the general journal, follow these steps:

1. Enter *Closing Entries* in the center of the Description column.
2. Enter the date (the last day of the accounting period).
3. Enter the name(s) of the account(s) to be debited and the debit amount(s).
4. Enter the name of the account, **Income Summary**, to be credited and the amount to be credited.

**As You READ**

**In Your Experience**

**Closing** In your personal life, what types of “closing” activities do you perform at the end of a time period?

## Closing Expenses to Income Summary

The second closing entry transfers the balances of the expense accounts to **Income Summary**. The balances of the expense accounts are found in the Income Statement section of the work sheet.

### Closing Entry

*Second Closing Entry—Close Expenses to Income Summary*

#### ANALYSIS *Identify*

#### *Classify*

*+/-*

1. The accounts affected by the second closing entry are **Advertising Expense**, **Maintenance Expense**, **Rent Expense**, **Utilities Expense**, and **Income Summary**.
2. **Advertising Expense**, **Maintenance Expense**, **Rent Expense**, and **Utilities Expense** are expense accounts. **Income Summary** is a temporary owner's equity account.
3. The balances of the four expense accounts are decreased to zero; the total decrease is \$1,500. The total amount, \$1,500, is transferred to the **Income Summary** account.

#### DEBIT-CREDIT RULE

4. To transfer the expenses to the **Income Summary** account, debit **Income Summary** for \$1,500.
5. Decreases in expense accounts are recorded as credits. Credit **Advertising Expense**, \$75; **Maintenance Expense**, \$600; **Rent Expense**, \$700; **Utilities Expense**, \$125.

#### T ACCOUNTS

| 6.                  | Income Summary |               | Advertising Expense |               |
|---------------------|----------------|---------------|---------------------|---------------|
|                     | Debit          | Credit        | Debit               | Credit        |
|                     | Closing 1,500  |               | + Balance 75        | - Closing 75  |
| Maintenance Expense |                | Rent Expense  |                     |               |
|                     | Debit          | Credit        | Debit               | Credit        |
|                     | + Balance 600  | - Closing 600 | + Balance 700       | - Closing 700 |
| Utilities Expense   |                |               |                     |               |
|                     | Debit          | Credit        |                     |               |
|                     | + Balance 125  | - Closing 125 |                     |               |

## JOURNAL ENTRY



7.

| GENERAL JOURNAL |                            |            |          |        | PAGE <u>3</u> |
|-----------------|----------------------------|------------|----------|--------|---------------|
| DATE            | DESCRIPTION                | POST. REF. | DEBIT    | CREDIT |               |
| 5 Oct. 31       | <i>Income Summary</i>      |            | 1 500 00 |        | 5             |
| 6               | <i>Advertising Expense</i> |            |          | 7500   | 6             |
| 7               | <i>Maintenance Expense</i> |            |          | 60000  | 7             |
| 8               | <i>Rent Expense</i>        |            |          | 70000  | 8             |
| 9               | <i>Utilities Expense</i>   |            |          | 12500  | 9             |
| 10              |                            |            |          |        | 10            |

It is not necessary to use a separate closing entry for each expense account. As you can see, Roadrunner's entry has one debit and four credits. A journal entry with two or more debits or two or more credits is called a **compound entry**. A compound entry saves both space and posting time. For example, each of Roadrunner's expense accounts could be closed to **Income Summary** separately. That, however, requires four entries and postings to the **Income Summary** account instead of one entry and posting.

## Closing Income Summary to Capital

The third closing entry transfers the balance of the **Income Summary** account to the capital account. As shown in the T account, after closing Roadrunner's revenue and expense accounts, **Income Summary** has a credit balance of \$1,150. A credit balance indicates net income for the period. It is the same amount that appears on the work sheet.

| Income Summary               |       |                             |       |
|------------------------------|-------|-----------------------------|-------|
| 2 Closing entry for expenses | 1,500 | 1 Closing entry for revenue | 2,650 |
|                              |       | Balance                     | 1,150 |

## Closing Entry

*Third Closing Entry—Close Income Summary to Capital*

**ANALYSIS** *Identify  
Classify*

*+/−*

1. The accounts **Income Summary** and **Maria Sanchez, Capital** are affected.
2. **Income Summary** is a temporary owner's equity account. **Maria Sanchez, Capital** is an owner's capital account.
3. The **Income Summary** account balance is reduced to zero by transferring \$1,150, the net income amount, to the capital account. **Maria Sanchez, Capital** is increased by \$1,150.

**DEBIT-CREDIT RULE**

4. To reduce the **Income Summary** balance to zero, debit **Income Summary** for \$1,150.
5. Net income is recorded as a credit to the owner's capital account. Credit **Maria Sanchez, Capital** for \$1,150.

**T ACCOUNTS**

| 6. Income Summary |               | Maria Sanchez, Capital |                                 |
|-------------------|---------------|------------------------|---------------------------------|
| Debit             | Credit        | Debit                  | Credit                          |
| Closing 1,150     | Balance 1,150 |                        | Balance 25,400<br>Closing 1,150 |

**JOURNAL ENTRY**

| GENERAL JOURNAL |                        |            |          |          | PAGE <u>3</u> |
|-----------------|------------------------|------------|----------|----------|---------------|
| DATE            | DESCRIPTION            | POST. REF. | DEBIT    | CREDIT   |               |
| 11 Oct. 31      | Income Summary         |            | 1 150 00 |          | 11            |
| 12              | Maria Sanchez, Capital |            |          | 1 150 00 | 12            |
| 13              |                        |            |          |          | 13            |

After the third closing entry has been posted, the **Income Summary** account appears in T-account form as follows.

| Income Summary                               |       |                             |       |
|--|-------|-----------------------------|-------|
| 2 Closing entry for expenses                 | 1,500 | 1 Closing entry for revenue | 2,650 |
| 3 Closing balance to owner's capital account | 1,150 |                             |       |

If a business has a net loss, **Income Summary** has a debit balance. In that case, the third closing entry debits the capital account and credits **Income Summary** for the amount of the net loss. **Figure 10–3** shows this general journal entry.

| GENERAL JOURNAL |         |                        |            |         | PAGE <u>3</u> |
|-----------------|---------|------------------------|------------|---------|---------------|
|                 | DATE    | DESCRIPTION            | POST. REF. | DEBIT   | CREDIT        |
| 1               | 20--    | Closing Entries        |            |         | 1             |
| 2               | Oct. 31 | Maria Sanchez, Capital |            | 7 00 00 | 2             |
| 3               |         | Income Summary         |            |         | 3             |
| 4               |         |                        |            |         | 4             |

**Figure 10–3** Closing Income Summary for the Amount of Net Loss

## Closing Withdrawals to Capital

The fourth and last closing entry transfers the balance of the withdrawals account to the capital account. As you recall, withdrawals decrease owner's equity. The balance of the withdrawals account is transferred to the capital account to reflect the decrease in owner's equity. The balance of the withdrawals account is found in the Balance Sheet section of the work sheet.

## Closing Entry

Fourth Closing Entry—Close Withdrawals to Capital

### ANALYSIS *Identify*

#### Classify

+/-

1. The accounts affected by the fourth closing entry are **Maria Sanchez, Withdrawals** and **Maria Sanchez, Capital**.
2. **Maria Sanchez, Withdrawals** is a temporary owner's equity account. **Maria Sanchez, Capital** is an owner's capital account.
3. **Maria Sanchez, Withdrawals** is decreased by \$500. **Maria Sanchez, Capital** is decreased by \$500.

### DEBIT-CREDIT RULE

4. Decreases in owner's capital accounts are recorded as debits. Debit **Maria Sanchez, Capital** for \$500.
5. Decreases in owner's withdrawal accounts are recorded as credits. Credit **Maria Sanchez, Withdrawals** for \$500.

### T ACCOUNTS

| 6. Maria Sanchez, Capital |                     | Maria Sanchez, Withdrawals |                  |
|---------------------------|---------------------|----------------------------|------------------|
| Debit                     | Credit              | Debit                      | Credit           |
| –<br>Closing 500          | +<br>Balance 26,550 | +<br>Balance 500           | –<br>Closing 500 |

### JOURNAL ENTRY

| GENERAL JOURNAL |         |                            |            |        | PAGE <u>3</u> |
|-----------------|---------|----------------------------|------------|--------|---------------|
|                 | DATE    | DESCRIPTION                | POST. REF. | DEBIT  | CREDIT        |
| 14              | Oct. 31 | Maria Sanchez, Capital     |            | 500 00 |               |
| 15              |         | Maria Sanchez, Withdrawals |            |        | 500 00        |

Figure 10–4 summarizes the closing entries for Roadrunner.

| GENERAL JOURNAL |         |                            |            |             | PAGE <u>3</u> |
|-----------------|---------|----------------------------|------------|-------------|---------------|
|                 | DATE    | DESCRIPTION                | POST. REF. | DEBIT       | CREDIT        |
| 1               | 20–     | Closing Entries            |            |             |               |
| 2               | Oct. 31 | Delivery Revenue           |            | 2 6 5 0 0 0 |               |
| 3               |         | Income Summary             |            |             | 2 6 5 0 0 0   |
| 4               |         |                            |            |             |               |
| 5               | 31      | Income Summary             |            | 1 5 0 0 0 0 |               |
| 6               |         | Advertising Expense        |            |             | 75 00         |
| 7               |         | Maintenance Expense        |            |             | 600 00        |
| 8               |         | Rent Expense               |            |             | 700 00        |
| 9               |         | Utilities Expense          |            |             | 125 00        |
| 10              |         |                            |            |             |               |
| 11              | 31      | Income Summary             |            | 1 1 5 0 0 0 |               |
| 12              |         | Maria Sanchez, Capital     |            |             | 1 1 5 0 0 0   |
| 13              |         |                            |            |             |               |
| 14              | 31      | Maria Sanchez, Capital     |            | 5 0 0 0 0   |               |
| 15              |         | Maria Sanchez, Withdrawals |            |             | 5 0 0 0 0     |

Figure 10–4 Journalizing the Closing Entries

**Reinforce the Main Idea**

Use a table like this one to describe the closing entries that are made at the end of each accounting period.

| General Journal Entry Description | Account Debited | Account Credited |
|-----------------------------------|-----------------|------------------|
|                                   |                 |                  |
|                                   |                 |                  |
|                                   |                 |                  |
|                                   |                 |                  |

**Do the Math**

Using these general ledger account balances, calculate the net income or net loss for the period. Then calculate the increase or decrease in owner's capital.

|                          |          |
|--------------------------|----------|
| Anna Zarian, Capital     | \$25,000 |
| Anna Zarian, Withdrawals | 5,000    |
| Accounting Fees Revenue  | 9,000    |
| Advertising Expense      | 1,000    |
| Miscellaneous Expense    | 2,000    |
| Rent Expense             | 1,500    |
| Utilities Expense        | 500      |

**Problem 10-1 Preparing Closing Entries**

**Instructions** Prepare closing entries for the following in your working papers.

1. A closing entry must be made for the account **Ticket Revenue**, which has a balance of \$6,000.
2. A business has three expense accounts: **Gas and Oil Expense** (balance, \$700), **Miscellaneous Expense** (balance, \$600), and **Utilities Expense** (balance, \$1,800). The end of the fiscal year is June 30.

**Problem 10-2 Analyzing a Source Document**

**Instructions** Using the source document:

1. Journalize the transaction in a general journal in your working papers.
2. Post the entry to the appropriate T accounts.
3. Assume it is the end of the accounting period. Record the closing entry for this account in the general journal.
4. Post the closing entry to the appropriate T accounts.

| DEPARTMENT OF WATER & POWER |                |                                       |  |                 |
|-----------------------------|----------------|---------------------------------------|--|-----------------|
|                             |                | 455 Main Street<br>Sarasota, FL 34230 | ACCOUNT NO.:   | 00384843848-339 |
|                             |                | TO                                    | Gulfview Tropical Fish and Supplies<br>4524 West Palm Bay Avenue<br>Sarasota, FL 34222 | INVOICE NO.:    |
| FROM                        | TO             | USAGE                                 | RATE   | AMOUNT DUE      |
| March 15, 20--              | April 14, 20-- | 1,000 kWh                             | \$ .129 per kWh  | \$129.00        |



## SECTION 2

BEFORE  
YOU

READ

### Main Idea

After the closing entries are posted, a post-closing trial balance is prepared to verify that debits equal credits.

### Read to Learn...

- ▶ how to post the closing entries to the general ledger. (p. 260)
- ▶ how to prepare a post-closing trial balance. (p. 262)

### Key Terms

post-closing trial balance

# Posting Closing Entries and Preparing a Post-Closing Trial Balance

In Section 1 you learned how to journalize the closing entries. In this section you will complete the accounting cycle.

## Completing the Eighth Step in the Accounting Cycle: Posting the Closing Entries to the General Ledger

### What Is Special About Posting the Closing Entries?

The next step in the closing process is to post the closing entries to the general ledger accounts. The posting procedure is the same as for any other general journal entry, with one exception. The words *Closing Entries* are written in the Description column of the general ledger account. The posting of the closing entries for Roadrunner is shown in Figure 10–5. Note that *Closing Entries* can be abbreviated as *Clos. Ent.*

| GENERAL JOURNAL |         |                                   |            |             |             | PAGE <u>3</u> |
|-----------------|---------|-----------------------------------|------------|-------------|-------------|---------------|
|                 | DATE    | DESCRIPTION                       | POST. REF. | DEBIT       | CREDIT      |               |
| 1               | 20--    | <i>Closing Entries</i>            |            |             |             | 1             |
| 2               | Oct. 31 | <i>Delivery Revenue</i>           | 401        | 2 6 5 0 0 0 |             | 2             |
| 3               |         | <i>Income Summary</i>             | 303        |             | 2 6 5 0 0 0 | 3             |
| 4               |         |                                   |            |             |             | 4             |
| 5               | 31      | <i>Income Summary</i>             | 303        | 1 5 0 0 0 0 |             | 5             |
| 6               |         | <i>Advertising Expense</i>        | 501        |             | 7 5 0 0     | 6             |
| 7               |         | <i>Maintenance Expense</i>        | 505        |             | 6 0 0 0 0   | 7             |
| 8               |         | <i>Rent Expense</i>               | 510        |             | 7 0 0 0 0   | 8             |
| 9               |         | <i>Utilities Expense</i>          | 515        |             | 1 2 5 0 0   | 9             |
| 10              |         |                                   |            |             |             | 10            |
| 11              | 31      | <i>Income Summary</i>             | 303        | 1 1 5 0 0 0 |             | 11            |
| 12              |         | <i>Maria Sanchez, Capital</i>     | 301        |             | 1 1 5 0 0 0 | 12            |
| 13              |         |                                   |            |             |             | 13            |
| 14              | 31      | <i>Maria Sanchez, Capital</i>     | 301        | 5 0 0 0 0   |             | 14            |
| 15              |         | <i>Maria Sanchez, Withdrawals</i> | 302        |             | 5 0 0 0 0   | 15            |
| 16              |         |                                   |            |             |             | 16            |

Figure 10–5 Closing Entries Posted to the General Ledger

ACCOUNT *Maria Sanchez, Capital*ACCOUNT NO. *301*

| DATE   | DESCRIPTION       | POST.<br>REF. | DEBIT   |        | CREDIT    |        | BALANCE |           |
|--------|-------------------|---------------|---------|--------|-----------|--------|---------|-----------|
|        |                   |               | DEBIT   | CREDIT | DEBIT     | CREDIT | DEBIT   | CREDIT    |
| 20--   |                   |               |         |        |           |        |         |           |
| Oct. 1 |                   | G1            |         |        | 25 000 00 |        |         | 25 000 00 |
| 2      |                   | G1            |         |        | 4 000 00  |        |         | 25 400 00 |
| 31     | <i>Clos. Ent.</i> | G3            |         |        | 1 150 00  |        |         | 26 550 00 |
| 31     | <i>Clos. Ent.</i> | G3            | 5 00 00 |        |           |        |         | 26 050 00 |

ACCOUNT *Maria Sanchez, Withdrawals*ACCOUNT NO. *302*

| DATE    | DESCRIPTION       | POST.<br>REF. | DEBIT   |        | CREDIT  |         | BALANCE |        |
|---------|-------------------|---------------|---------|--------|---------|---------|---------|--------|
|         |                   |               | DEBIT   | CREDIT | DEBIT   | CREDIT  | DEBIT   | CREDIT |
| 20--    |                   |               |         |        |         |         |         |        |
| Oct. 31 |                   | G1            | 5 00 00 |        |         | 5 00 00 |         |        |
| 31      | <i>Clos. Ent.</i> | G3            |         |        | 5 00 00 |         |         | —      |

ACCOUNT *Income Summary*ACCOUNT NO. *303*

| DATE    | DESCRIPTION       | POST.<br>REF. | DEBIT    |        | CREDIT   |        | BALANCE |          |
|---------|-------------------|---------------|----------|--------|----------|--------|---------|----------|
|         |                   |               | DEBIT    | CREDIT | DEBIT    | CREDIT | DEBIT   | CREDIT   |
| 20--    |                   |               |          |        |          |        |         |          |
| Oct. 31 | <i>Clos. Ent.</i> | G3            |          |        | 2 650 00 |        |         | 2 650 00 |
| 31      | <i>Clos. Ent.</i> | G3            | 1 500 00 |        |          |        |         | 1 150 00 |
| 31      | <i>Clos. Ent.</i> | G3            | 1 150 00 |        |          |        |         | —        |

ACCOUNT *Delivery Revenue*ACCOUNT NO. *401*

| DATE    | DESCRIPTION       | POST.<br>REF. | DEBIT    |        | CREDIT   |        | BALANCE |          |
|---------|-------------------|---------------|----------|--------|----------|--------|---------|----------|
|         |                   |               | DEBIT    | CREDIT | DEBIT    | CREDIT | DEBIT   | CREDIT   |
| 20--    |                   |               |          |        |          |        |         |          |
| Oct. 15 |                   | G1            |          |        | 1 200 00 |        |         | 1 200 00 |
| 20      |                   | G1            |          |        | 1 450 00 |        |         | 2 650 00 |
| 31      | <i>Clos. Ent.</i> | G3            | 2 650 00 |        |          |        |         | —        |

ACCOUNT *Advertising Expense*ACCOUNT NO. *501*

| DATE    | DESCRIPTION       | POST.<br>REF. | DEBIT |        | CREDIT |        | BALANCE |        |
|---------|-------------------|---------------|-------|--------|--------|--------|---------|--------|
|         |                   |               | DEBIT | CREDIT | DEBIT  | CREDIT | DEBIT   | CREDIT |
| 20--    |                   |               |       |        |        |        |         |        |
| Oct. 18 |                   | G1            |       | 75 00  |        |        |         | 75 00  |
| 31      | <i>Clos. Ent.</i> | G3            |       |        | 75 00  |        |         | —      |

ACCOUNT *Maintenance Expense*ACCOUNT NO. *505*

| DATE    | DESCRIPTION       | POST.<br>REF. | DEBIT   |        | CREDIT  |        | BALANCE |        |
|---------|-------------------|---------------|---------|--------|---------|--------|---------|--------|
|         |                   |               | DEBIT   | CREDIT | DEBIT   | CREDIT | DEBIT   | CREDIT |
| 20--    |                   |               |         |        |         |        |         |        |
| Oct. 29 |                   | G1            | 6 00 00 |        |         |        | 6 00 00 |        |
| 31      | <i>Clos. Ent.</i> | G3            |         |        | 6 00 00 |        |         | —      |

Figure 10–5 Closing Entries Posted to the General Ledger (continued)

| ACCOUNT <i>Rent Expense</i> |                   |            |          |       | ACCOUNT NO. <i>510</i> |        |          |       |        |
|-----------------------------|-------------------|------------|----------|-------|------------------------|--------|----------|-------|--------|
| DATE                        | DESCRIPTION       | POST. REF. | DEBIT    |       | CREDIT                 |        | BALANCE  |       | CREDIT |
|                             |                   |            | DEBIT    | DEBIT | CREDIT                 | CREDIT | DEBIT    | DEBIT |        |
| 20--                        |                   |            |          |       |                        |        |          |       |        |
| Oct. 16                     | <i>G1</i>         |            | 7 0 0 00 |       |                        |        | 7 0 0 00 |       |        |
| 31                          | <i>Clos. Ent.</i> | <i>G3</i>  |          |       | 7 0 0 00               |        |          |       |        |

| ACCOUNT <i>Utilities Expense</i> |                   |            |          |       | ACCOUNT NO. <i>515</i> |        |          |       |        |
|----------------------------------|-------------------|------------|----------|-------|------------------------|--------|----------|-------|--------|
| DATE                             | DESCRIPTION       | POST. REF. | DEBIT    |       | CREDIT                 |        | BALANCE  |       | CREDIT |
|                                  |                   |            | DEBIT    | DEBIT | CREDIT                 | CREDIT | DEBIT    | DEBIT |        |
| 20--                             |                   |            |          |       |                        |        |          |       |        |
| Oct. 28                          | <i>G1</i>         |            | 1 2 5 00 |       |                        |        | 1 2 5 00 |       |        |
| 31                               | <i>Clos. Ent.</i> | <i>G3</i>  |          |       | 1 2 5 00               |        |          |       |        |

Figure 10–5 Closing Entries Posted to the General Ledger (continued)

## As You READ

### Compare and Contrast

#### Post-Closing Trial Balance

**Balance** How is the post-closing trial balance similar to the trial balance? How is it different?

## The Ninth Step in the Accounting Cycle: Preparing a Post-Closing Trial Balance

*If We Already Have a Trial Balance, Why Do We Need a Post-Closing Trial Balance?*

The last step in the accounting cycle is to prepare a post-closing trial balance. The **post-closing trial balance** is prepared to make sure total debits equal total credits after the closing entries are posted. The post-closing trial balance for Roadrunner is shown in Figure 10–6.

Notice that only accounts with balances are listed on the post-closing trial balance. After the closing process, only permanent accounts have balances. Temporary accounts have zero balances, so there is no need to list those accounts on the post-closing trial balance.

| Roadrunner Delivery Service                |             |             |             |  |
|--|-------------|-------------|-------------|--|
| Post-Closing Trial Balance                 |             |             |             |  |
| October 31, 20--                           |             |             |             |  |
| <i>Cash in Bank</i>                        | 21          | 1 2 5 00    |             |  |
| <i>Accounts Receivable—City News</i>       | 1 4 5 0 00  |             |             |  |
| <i>Computer Equipment</i>                  | 3 0 0 0 00  |             |             |  |
| <i>Office Equipment</i>                    | 2 0 0 0 00  |             |             |  |
| <i>Delivery Equipment</i>                  | 12 0 0 0 00 |             |             |  |
| <i>Accounts Payable—Beacon Advertising</i> |             |             | 7 5 00      |  |
| <i>Accounts Payable—North Shore Auto</i>   |             |             | 11 6 5 0 00 |  |
| <i>Maria Sanchez, Capital</i>              |             |             | 26 0 5 0 00 |  |
| <i>Total</i>                               | 37 7 7 5 00 | 37 7 7 5 00 |             |  |

Figure 10–6 Post-Closing Trial Balance

**Reinforce the Main Idea**

Create a table like this one to list the general ledger account classifications. In the column titled "Appears on Post-Closing Trial Balance," place an X next to each account that carries a balance into the next accounting period.

| Account Type        | Appears on Post-Closing Trial Balance |
|---------------------|---------------------------------------|
| Asset               |                                       |
| Liability           |                                       |
| Owner's Capital     |                                       |
| Owner's Withdrawals |                                       |
| Revenue             |                                       |
| Expenses            |                                       |

**Do the Math**

You work for a company with a large accounting department, and every accounting clerk has specific duties. Your co-worker responsible for preparing the post-closing trial balance is ill today. Your supervisor asked you to prepare the post-closing trial balance. Using your computer or lined paper, draft the post-closing trial balance using the following account balances: Cash, \$27,800; Accounts Receivable, \$33,000; Equipment, \$81,000; Accounts Payable, \$24,500; and Owner's Capital, \$117,300.

**Problem 10–3 Determining Accounts Affected by Closing Entries**

The following list contains some of the accounts used by Living Well Health Spa.

**General Ledger**

|                              |                       |                          |
|------------------------------|-----------------------|--------------------------|
| Accts. Pay.—The Fitness Shop | Exercise Equipment    | Rent Expense             |
| Accts. Rec.—Linda Brown      | Income Summary        | Repair Tools             |
| Advertising Expense          | Laundry Equipment     | Ted Chapman, Capital     |
| Cash in Bank                 | Maintenance Expense   | Ted Chapman, Withdrawals |
| Exercise Class Revenue       | Membership Fees       | Utilities Expense        |
|                              | Miscellaneous Expense |                          |
|                              | Office Furniture      |                          |

**Instructions** Using the form in your working papers:

- In the first column, indicate the financial statement where each account appears: balance sheet or income statement.
- In the next column, indicate whether or not the account is affected by a closing entry.
- In the last column, indicate whether or not the account appears on the post-closing trial balance.

The first account is shown as an example.

| Account Name                 | Financial Statement | Is the account affected by a closing entry? | Does the account appear on the post-closing trial balance? |
|------------------------------|---------------------|---|--|
| Accts. Pay.—The Fitness Shop | Balance Sheet       | No  | Yes  |

## Key Concepts

1. The eighth step in the accounting cycle is to journalize and post the closing entries:
  - *Closing* is the process of transferring the balances in the temporary accounts to the owner's capital account.
  - The asset, liability, and owner's capital accounts are *never* closed.
2. The **Income Summary** account has two purposes:
  - to accumulate the revenue and expenses for an accounting period, and
  - to summarize the revenue and expenses for an accounting period.
3. **Income Summary** is a temporary owner's equity account used to record net income or net loss:
  - A credit balance (net income) in **Income Summary** increases capital.
  - A debit balance (net loss) decreases capital.
  - The **Income Summary** account does not have a normal balance. That is, it does not have an increase side or a decrease side.
  - The **Income Summary** account balance is zero before and after the closing process.
  - The **Income Summary** account does not appear on any financial statements.
4. Prepare four closing entries:
  - a. Close the revenue account(s) to **Income Summary**.

|   |      |    |                 |  |  |  |  |  |  |  |   |
|---|------|----|-----------------|--|--|--|--|--|--|--|---|
| 1 | 20-- |    |                 |  |  |  |  |  |  |  | 1 |
| 2 | Dec. | 31 | Revenue Account |  |  |  |  |  |  |  | 2 |
| 3 |      |    | Income Summary  |  |  |  |  |  |  |  | 3 |

- b. Close the expense accounts to **Income Summary**.

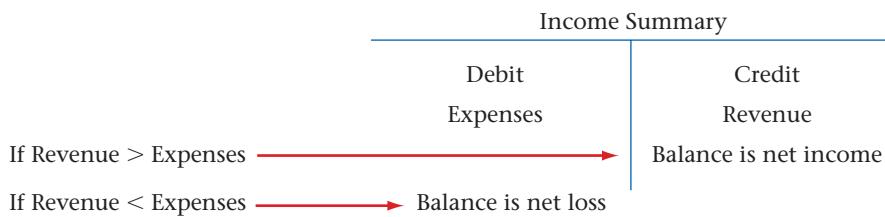
|   |    |                 |  |  |  |  |  |  |  |  |   |
|---|----|-----------------|--|--|--|--|--|--|--|--|---|
| 4 | 31 | Income Summary  |  |  |  |  |  |  |  |  | 4 |
| 5 |    | Expense Account |  |  |  |  |  |  |  |  | 5 |
| 6 |    | Expense Account |  |  |  |  |  |  |  |  | 6 |
| 7 |    | Expense Account |  |  |  |  |  |  |  |  | 7 |

- c. Close **Income Summary** to the owner's capital account.

|   |    |                         |  |  |  |  |  |  |  |  |   |
|---|----|-------------------------|--|--|--|--|--|--|--|--|---|
| 8 | 31 | Income Summary          |  |  |  |  |  |  |  |  | 8 |
| 9 |    | Owner's Capital Account |  |  |  |  |  |  |  |  | 9 |

- d. Close the owner's withdrawals account to the owner's capital account.

|    |    |                         |  |  |  |  |  |  |  |  |    |
|----|----|-------------------------|--|--|--|--|--|--|--|--|----|
| 12 | 31 | Owner's Capital Account |  |  |  |  |  |  |  |  | 12 |
| 13 |    | Withdrawals Account     |  |  |  |  |  |  |  |  | 13 |



- After the closing entries have been journalized, follow this procedure:
  - Post them to the general ledger.
  - For each posted entry, enter the words *Closing Entry* in the Description column of the general ledger account.
- The ninth step in the accounting cycle is to prepare a post-closing trial balance. Only the permanent accounts are listed on the post-closing trial balance.

| Roadrunner Delivery Service |                                       |       |       |       |       |       |    |    |
|-----------------------------|---------------------------------------|-------|-------|-------|-------|-------|----|----|
| Post-Closing Trial Balance  |                                       |       |       |       |       |       |    |    |
| December 31, 20--           |                                       |       |       |       |       |       |    |    |
|                             | <i>Cash in Bank</i>                   | 21    | 1     | 2     | 5     | 00    |    |    |
|                             | <i>Accts. Rec.—City News</i>          | 1     | 4     | 5     | 0     | 00    |    |    |
|                             | <i>Computer Equipment</i>             | 3     | 0     | 0     | 0     | 00    |    |    |
|                             | <i>Office Equipment</i>               |       | 2     | 0     | 0     | 00    |    |    |
|                             | <i>Delivery Equipment</i>             | 12    | 0     | 0     | 0     | 00    |    |    |
|                             | <i>Accts. Pay.—Beacon Advertising</i> |       |       |       | 7     | 5     | 00 |    |
|                             | <i>Accts. Pay.—North Shore Auto</i>   |       |       |       | 11    | 6     | 5  | 00 |
|                             | <i>Maria Sanchez, Capital</i>         |       |       |       | 26    | 0     | 5  | 00 |
|                             | <i>Totals</i>                         | 37    | 7     | 7     | 5     | 00    |    |    |
|                             |                                       | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |    |    |
|                             |                                       | 37    | 7     | 7     | 5     | 00    |    |    |

## Key Terms

**closing entries** (p. 250)  
**compound entry** (p. 256)  
**Income Summary account** (p. 253)  
**post-closing trial balance** (p. 262)

AFTER  
YOU

READ

## Check Your Understanding

1. **Closing Entries**
  - a. Which accounts are considered temporary accounts?
  - b. Why are temporary accounts closed at the end of the fiscal year?
2. **Income Summary Account**
  - a. What is the purpose of the **Income Summary** account?
  - b. How does the **Income Summary** account differ from the other temporary accounts?
3. **Income Summary and Capital Accounts**
  - a. Explain the relationship between the **Income Summary** account and the capital account.
  - b. Why doesn't the **Income Summary** account have a normal balance?
4. **Analyzing and Journalizing Closing Entries**
  - a. What is the source of information for the closing entries?
  - b. List the steps for journalizing the closing entries.
5. **Posting the Closing Entries**
  - a. Classify the **Income Summary** account (asset, liability, owner's equity, revenue, or expense).
  - b. How is the posting procedure for closing entries different from the posting procedure for other general journal entries?
6. **Post-Closing Trial Balance**
  - a. What is the purpose of the post-closing trial balance?
  - b. Why does the post-closing trial balance have balances of only permanent accounts?

## Apply Key Terms

On a separate sheet of paper, write a brief definition for each of the following terms.

closing entries  
compound entry  
**Income Summary** account  
post-closing trial balance



## Closing the Accounting Period

### Making the Transition from a Manual to a Computerized System

| Task            | Manual Methods   | Computerized Methods   |
|-----------------|--|--|
| Closing Entries | <ul style="list-style-type: none"> <li>Using a general journal form, prepare closing entries for revenue, expense, income summary, and withdrawals accounts. Post the closing entries in the general ledger accounts.</li> </ul> | <ul style="list-style-type: none"> <li>It is not necessary to journalize closing entries. Closing entries are performed by the computerized system.</li> </ul> |



## Peachtree® Q & A

| Peachtree Question  | Answer  |
|---|---|
| What is the difference between changing the accounting period and closing the fiscal year in Peachtree? | <ul style="list-style-type: none"> <li>In Peachtree the <i>accounting period</i> refers to the period used to record transactions. At the end of an accounting period (usually at month-end), you should change to the next accounting period. For example, at March 31, you would select the next accounting period, April 1, 20-- through April 30, 20--.</li> <li>The fiscal year should be closed only when you are sure that all entries have been recorded and all reports have been printed for the year.</li> </ul> |
| How do I close the fiscal year?   | <ol style="list-style-type: none"> <li>Post and print all journal entries before closing the fiscal year. Closing the fiscal year cannot be reversed.</li> <li>From the <b>Tasks</b> menu, select <b>System</b>.</li> <li>Select <b>Year-End Wizard</b>.</li> <li>You will be prompted to complete Year-End closing procedures.</li> </ol>  |



## QuickBooks Q & A

| QuickBooks Question  | Answer   |
|--|--|
| What is the difference between changing the accounting period and closing the fiscal year in QuickBooks? | <ul style="list-style-type: none"> <li>In QuickBooks the <i>accounting period</i> refers to the month used to record transactions. Changing the accounting period is as simple as entering the first day of the next month. The software does not require that you manually adjust accounting periods.</li> <li>The fiscal year should be closed only when you are sure that all entries have been recorded and all reports have been printed for the year.</li> </ul> |
| How do I close the fiscal year?  | <ol style="list-style-type: none"> <li>Record all journal entries before closing the fiscal year.</li> <li>From the <b>Edit</b> menu, select <b>Preferences</b>.</li> <li>Choose the <b>Accounting</b> preference and click the <b>Company Preferences</b> tab.</li> <li>In the <b>Date</b> field, enter the closing date and click the <b>Set Password</b> button.</li> <li>Enter and confirm the password, and click <b>OK</b>.</li> </ol>                           |

For detailed instructions, see your Glencoe Accounting Chapter Study Guides and Working Papers.

Complete problems using:

Manual Glencoe  
Working Papers OR Spreadsheet  
Templates

Peachtree®

## SMART GUIDE

## Step-by-Step Instructions:

## Problem 10-4

1. Select the problem set for Wilderness Rentals (Prob. 10-4).
2. Rename the company and set the system date.
3. Select **System** from the **Tasks** menu and then choose **Year-End Wizard**.
4. Complete the **Analyze** activity.
5. End the session.

**TIP:** Print the General Ledger or General Ledger Trial Balance report to find an account balance.

## Problem 10-4 Preparing Closing Entries

A portion of the work sheet for Wilderness Rentals for the period ended December 31 follows.

**Instructions** Using the information from the work sheet, prepare the journal entries to close the temporary accounts.

1. Record the closing entry for the revenue account.
2. Record the closing entry for the expense accounts.
3. Record the closing entry for the **Income Summary** account.
4. Record the closing entry for the withdrawals account.

| ACCT. NO. | ACCOUNT NAME                       | INCOME STATEMENT |           | BALANCE SHEET |           | 1  |
|-----------|------------------------------------|------------------|-----------|---------------|-----------|----|
|           |                                    | DEBIT            | CREDIT    | DEBIT         | CREDIT    |    |
| 1 101     | Cash in Bank                       |                  |           | 7 000 000     |           | 1  |
| 2 105     | Accts. Rec.—Helen Katz             |                  |           | 2 000 000     |           | 2  |
| 3 110     | Accts. Rec.—Polk and Co.           |                  |           | 1 000 000     |           | 3  |
| 4 115     | Office Supplies                    |                  |           | 900 000       |           | 4  |
| 5 120     | Office Equipment                   |                  |           | 12 000 000    |           | 5  |
| 6 125     | Camping Equipment                  |                  |           | 6 000 000     |           | 6  |
| 7 201     | Accts. Pay.—Adventure Equip. Inc.  |                  |           |               | 900 000   | 7  |
| 8 203     | Accts. Pay.—Digital Tech Computers |                  |           |               | 400 000   | 8  |
| 9 205     | Accts. Pay.—Greg Mollaro           |                  |           |               | 500 000   | 9  |
| 10 301    | Ronald Hicks, Capital              |                  |           |               | 19 775 00 | 10 |
| 11 305    | Ronald Hicks, Withdrawals          |                  |           | 2 350 00      |           | 11 |
| 12 310    | Income Summary                     |                  |           |               |           | 12 |
| 13 401    | Equipment Rental Revenue           |                  |           | 14 965 00     |           | 13 |
| 14 501    | Advertising Expense                | 1 500 00         |           |               |           | 14 |
| 15 505    | Maintenance Expense                | 1 560 00         |           |               |           | 15 |
| 16 515    | Rent Expense                       | 1 000 000        |           |               |           | 16 |
| 17 525    | Utilities Expense                  | 1 230 00         |           |               |           | 17 |
| 18        |                                    | 5 290 00         | 14 965 00 | 31 250 00     | 21 575 00 | 18 |
| 19        | Net Income                         | 9 675 00         |           |               | 9 675 00  | 19 |
| 20        |                                    | 14 965 00        | 14 965 00 | 31 250 00     | 31 250 00 | 20 |
| 21        |                                    |                  |           |               |           | 21 |

## Analyze

Predict the balance of the capital account after the closing entries are posted.

## Problem 10-5 Preparing a Post-Closing Trial Balance

**Instructions** Use the accounts shown on the next two pages to prepare a Dec. 31 post-closing trial balance for Hot Suds Car Wash.

# Problems

# CHAPTER 10

|  |   |  |                               |
|--|---|--|-------------------------------|
| Cash in Bank                                   |   | Accounts Receivable—<br>Linda Brown          |                               |
| Debit<br>+<br>Balance 8,000                    | Credit<br>—                             | Debit<br>+<br>Balance 875                    | Credit<br>—                   |
| Accounts Receivable—<br>Valley Auto            |   | Office Equipment                             |                               |
| Debit<br>+<br>Balance 5,050                    | Credit<br>—                             | Debit<br>+<br>Balance 6,000                  | Credit<br>—                   |
| Office Furniture                               |   | Car Wash Equipment                           |                               |
| Debit<br>+<br>Balance 9,000                    | Credit<br>—                             | Debit<br>+<br>Balance 65,000                 | Credit<br>—                   |
| Accounts Payable—<br>Allen Vacuum Systems      |   | Accounts Payable—<br>O'Brian's Office Supply |                               |
| Debit<br>—                                     | Credit<br>+                             | Debit<br>—                                   | Credit<br>+                   |
|  | Balance 41,000                          |  | Balance 2,500                 |
| Regina Delgado, Capital                        |   | Regina Delgado, Withdrawals                  |                               |
| Debit<br>—<br>Closing 1,500                    | Credit<br>+<br>35,925<br>Closing 16,000 | Debit<br>+<br>Balance 1,500                  | Credit<br>—<br>Closing 1,500  |
| Income Summary                                 |   | Wash Revenue                                 |                               |
| Debit<br>—<br>Closing 19,000<br>Closing 16,000 | Credit<br>—<br>Closing 35,000           | Debit<br>—<br>Closing 15,000                 | Credit<br>+<br>Balance 15,000 |
| Wax Revenue                                    |   | Interior Detailing Revenue                   |                               |
| Debit<br>—<br>Closing 8,000                    | Credit<br>+<br>Balance 8,000            | Debit<br>—<br>Closing 12,000                 | Credit<br>+<br>Balance 12,000 |
| Advertising Expense                            |   | Equipment Rental Expense                     |                               |
| Debit<br>+<br>Balance 2,500                    | Credit<br>—<br>Closing 2,500            | Debit<br>+<br>Balance 3,000                  | Credit<br>—<br>Closing 3,000  |

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## SMART GUIDE

### Step-by-Step Instructions: Problem 10-5

1. Select the problem set for Hot Suds Car Wash (Prob. 10-5).
2. Rename the company and set the system date.
3. Print a post-closing Trial Balance.
4. Complete the Analyze activity.
5. End the session.

**TIP:** Print the General Ledger Trial Balance after you complete the closing process to generate a post-closing trial balance.

**QuickBooks**

## PROBLEM GUIDE

### Step-by-Step Instructions: Problem 10-5

1. Restore the Problem 10-5.QBB file.
2. Print a Post-Closing Trial Balance.
3. Complete the Analyze activity.
4. Back up your work.

**CONTINUE**

| Maintenance Expense |                    | Rent Expense       |                    |
|---------------------|--------------------|--------------------|--------------------|
| Debit               | Credit             | Debit              | Credit             |
| +<br>Balance 5,000  | -<br>Closing 5,000 | +<br>Balance 5,000 | -<br>Closing 5,000 |
| Utilities Expense   |                    |                    |                    |
| Debit               | Credit             |                    |                    |
| +<br>Balance 3,500  | -<br>Closing 3,500 |                    |                    |

**Analyze**

Predict the balance of the temporary accounts after the closing entries are posted.

**Peachtree®****SMART GUIDE****Step-by-Step Instructions:  
Problem 10-6**

1. Select the problem set for Kits & Pups Grooming (Prob. 10-6).
2. Rename the company and set the system date.
3. Close the current fiscal year.
4. Complete the Analyze activity.
5. End the session.

**Problem 10-6 Journalizing Closing Entries**

The following account names and balances appear on the work sheet for Kits & Pups Grooming for the month ended December 31.

|           |                               | Kits & Pups Grooming                  |        |               |           |
|-----------|-------------------------------|---------------------------------------|--------|---------------|-----------|
|           |                               | Work Sheet                            |        |               |           |
|           |                               | For the Month Ended December 31, 20-- |        |               |           |
|           |                               | INCOME STATEMENT                      |        | BALANCE SHEET |           |
| ACCT. NO. | ACCOUNT NAME                  | DEBIT                                 | CREDIT | DEBIT         | CREDIT    |
| 1         | Cash in Bank                  |                                       |        | 9 300 00      |           |
| 2         | Accts. Rec.—Juan Alvarez      |                                       |        | 3 000 00      |           |
| 3         | Accts. Rec.—Nathan Carlsbad   |                                       |        | 10 000 00     |           |
| 4         | Accts. Rec.—Martha Giles      |                                       |        | 5 000 00      |           |
| 5         | Office Equipment              |                                       |        | 8 000 00      |           |
| 6         | Office Furniture              |                                       |        | 10 000 00     |           |
| 7         | Computer Equipment            |                                       |        | 9 000 00      |           |
| 8         | Grooming Equipment            |                                       |        | 15 000 00     |           |
| 9         | Kennel Equipment              |                                       |        | 21 000 00     |           |
| 10        | Accts. Pay.—Able Store Equip. |                                       |        |               | 5 000 00  |
| 11        | Accts. Pay.—Dogs & Cats Inc.  |                                       |        |               | 1 500 00  |
| 12        | Accts. Pay.—Pet Gourmet       |                                       |        |               | 15 000 00 |
| 13        | Abe Shultz, Capital           |                                       |        |               | 52 700 00 |
| 14        | Abe Shultz, Withdrawals       |                                       |        | 7 000 00      |           |
| 15        | Income Summary                |                                       |        |               |           |
| 16        | Boarding Revenue              |                                       |        | 20 000 00     |           |
| 17        | Grooming Revenue              |                                       |        | 8 000 00      |           |
| 18        | Advertising Expense           | 7 000 00                              |        |               |           |
| 19        | Equipment Repair Expense      | 12 000 00                             |        |               |           |
| 20        | Maintenance Expense           | 5 000 00                              |        |               |           |
| 21        | Rent Expense                  | 17 000 00                             |        |               |           |
| 22        | Utilities Expense             | 8 000 00                              |        |               |           |

**Instructions** Using this information, record the closing entries for Kits & Pups Grooming. Use general journal page 11.

**Analyze**

Calculate the change in the capital account for the period.

## Problem 10-7 Posting Closing Entries and Preparing a Post-Closing Trial Balance

Period ending December 31 closing entries for Outback Guide Service are:

| GENERAL JOURNAL |         |                             |            | PAGE <u>1</u> |           |
|-----------------|---------|-----------------------------|------------|---------------|-----------|
|                 | DATE    | DESCRIPTION                 | POST. REF. | DEBIT         | CREDIT    |
| 1               | 20--    | <i>Closing Entries</i>      |            |               |           |
| 2               | Dec. 31 | Guide Service Revenue       |            | 16,300.00     |           |
| 3               |         | Income Summary              |            |               | 16,300.00 |
| 4               | 31      | Income Summary              |            | 10,000.00     |           |
| 5               |         | Advertising Expense         |            |               | 3,000.00  |
| 6               |         | Maintenance Expense         |            |               | 1,100.00  |
| 7               |         | Rent Expense                |            |               | 4,000.00  |
| 8               |         | Utilities Expense           |            |               | 1,900.00  |
| 9               | 31      | Income Summary              |            | 6,300.00      |           |
| 10              |         | Juanita Ortega, Capital     |            |               | 6,300.00  |
| 11              | 31      | Juanita Ortega, Capital     |            | 4,000.00      |           |
| 12              |         | Juanita Ortega, Withdrawals |            |               | 4,000.00  |
| 13              |         |                             |            |               |           |

**Instructions** Using your working papers, post the closing entries to the appropriate general ledger accounts and prepare a post-closing trial balance.

**Analyze** Calculate the balance of the capital account after closing.

## Problem 10-8 Completing Period-End Activities

The general ledger for Showbiz Video shows the following at December 31:

### General Ledger

|     |   |        |     |                                 |
|-----|---|--------|-----|---------------------------------|
| 101 | Cash in Bank                              | 12,000 | 207 | Accts. Pay.—                    |
| 105 | Accts. Rec.—G. Cohen                      | 3,000  |     | New Media Suppliers 3,000       |
| 110 | Accts. Rec.—J. Coletti                    | 900    | 209 | Accts. Pay.—Palace Films 14,000 |
| 113 | Accts. Rec.—S. Flannery                   | 1,800  | 301 | Greg Failla, Capital 33,775     |
| 115 | Accts. Rec.—Spring Branch School District | 1,500  | 305 | Greg Failla, Withdrawals 4,000  |
| 130 | Office Equipment                          | 5,000  | 401 | Video Rental Revenue 9,600      |
| 135 | Office Furniture                          | 8,000  | 405 | VCR Rental Revenue 3,500        |
| 140 | Computer Equipment                        | 10,000 | 501 | Advertising Expense 1,600       |
| 145 | Video Tapes                               | 20,000 | 505 | Equipment Repair Expense 1,200  |
| 150 | Video Equipment                           | 9,000  |     |                                 |
| 201 | Accts. Pay.—Broad Street Office Supply    | 400    | 510 | Maintenance Expense 400         |
| 205 | Accts. Pay.—Computer Horizons             | 15,500 | 520 | Rent Expense 1,000              |
|     |   |        | 530 | Utilities Expense 375           |

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### SMART GUIDE

**Step-by-Step Instructions:**  
**Problem 10-7**

1. Select the problem set for Outback Guide Service (Prob. 10-7).
2. Rename the company and set the system date.
3. Close the fiscal year.
4. Print a post-closing Trial Balance.
5. Complete the Analyze activity.
6. End the session.

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### SMART GUIDE

**Step-by-Step Instructions:**  
**Problem 10-8**

1. Select the problem set for Showbiz Video (Prob. 10-8).
2. Rename the company and set the system date.
3. Print a General Ledger Trial Balance.
4. Print an Income Statement, Balance Sheet, and Statement of Changes in Owner's Equity.
5. Close the fiscal year.
6. Print a post-closing Trial Balance.
7. Complete the Analyze activity.
8. End the session.

**QuickBooks**

### PROBLEM GUIDE

**Step-by-Step Instructions:**  
**Problem 10-8**

1. Restore the Problem 10-8.QBB file.
2. Print a Trial Balance, a Profit & Loss report, and a Balance Sheet.
3. Close the fiscal year and print a Trial Balance.
4. Complete the Analyze activity.
5. Back up your work.

**CONTINUE**

**Instructions** Using the preceding account names and balances:

1. Prepare the six-column work sheet. The period covered is one month.
2. Prepare the financial statements. Greg Failla invested \$10,000 during the month.
3. Record the closing entries on page 12 of the general journal.
4. Post the closing entries.
5. Prepare a post-closing trial balance.

**Analyze**

Calculate the total amount of all the accounts receivable accounts on December 31.

**SPREADSHEET SMART GUIDE**

**Step-by-Step Instructions: Problem 10-9**

1. Select the spreadsheet template for Problem 10-9.
2. Enter your name and the date.
3. Complete the spreadsheet using the instructions in your working papers.
4. Print the spreadsheet and proof your work.
5. Complete the Analyze activity.
6. Save your work and exit the spreadsheet program.



**Problem 10-9 Completing End-of-Period Activities**

At the end of December, the general ledger for Job Connect showed the following account balances:

**General Ledger**

|   |       |  |        |
|---|-------|--|--------|
| 101 Cash in Bank                          | 6,000 | 207 Accts. Pay.—Wildwood Furniture Sales | 2,000  |
| 105 Accts. Rec.— CompuRite Systems        | 1,000 | 301 Richard Tang, Capital                | 23,600 |
| 110 Accts. Rec.— Marquez Manufact.        | 500   | 302 Richard Tang, Withdrawals            | 3,000  |
| 113 Accts. Rec.—Roaring Rivers Water Park | 600   | 303 Income Summary                       | —      |
| 115 Accts. Rec.—M. Spencer                | 200   | 401 Placement Fees Revenue               | 6,900  |
| 130 Office Equipment                      | 7,000 | 405 Technology Classes                   |        |
| 135 Office Furniture                      | 5,000 | Revenue                                  | 2,400  |
| 140 Computer Equipment                    | 8,500 | 501 Advertising Expense                  | 3,000  |
| 201 Accts. Pay.—Micro Solutions Inc.      | 2,800 | 505 Maintenance Expense                  | 800    |
| 205 Accts. Pay.—Vega Internet Services    | 1,600 | 510 Miscellaneous Expense                | 800    |
|   |       | 520 Rent Expense                         | 2,000  |
|   |       | 530 Utilities Expense                    | 900    |

**Instructions** Using the preceding account names and balances:

1. Prepare the six-column work sheet. The period covered is one month.
2. Prepare the financial statements.
3. Record the closing entries on page 28 of the general journal.
4. Post the closing entries.
5. Prepare a post-closing trial balance.

**Analyze**

Identify the largest expenditure for the period.

Practice your test-taking skills! The questions on this page are reprinted with permission from national organizations:

- Future Business Leaders of America
- Business Professionals of America

Use a separate sheet of paper to record your answers.



## Future Business Leaders of America

### MULTIPLE CHOICE

1. Which of the following accounts needs no closing entries?
  - Capital
  - Supplies Expense
  - Fees Owed
  - All of the above
2. After adjusting and closing entries have been posted, a
  - balance sheet is prepared.
  - trial balance is prepared.
  - post-closing balance sheet is prepared.
  - post-closing trial balance is prepared.
3. The Capital account balance minus the net loss minus the Drawing account balance equals
  - net loss.
  - total liabilities.
  - the capital amount shown on a balance sheet.
  - the capital amount shown on an income statement.



## Business Professionals of America

### MULTIPLE CHOICE

4. Which of the following *will not* appear on a post-closing trial balance?
  - Accounts Payable
  - Sales
  - Owner's Capital
  - Cash
5. At the end of the fiscal period, the income summary account shows a credit balance of \$3,500. This income summary account balance will be closed out to which account?
  - a debit to owner's capital
  - a credit to owner's capital
  - a debit to owner's revenue
  - a credit to owner's withdrawals

### Need More Help?

Go to [glencoeaccounting.glencoe.com](http://glencoeaccounting.glencoe.com) and click on Student Center. Click on Winning Competitive Events and select Chapter 10.

- Practice Questions and Test-Taking Tips
- Concept Capsules and Terminology



**Critical Thinking****CASE STUDY****Matter of ETHICS****COMMUNICATING ACCOUNTING****Completing the Accounting Cycle**

1. What is the last step of the accounting cycle?
2. Why are the temporary accounts closed to the owner's capital account at the end of the accounting period?
3. Make the closing entries for (a) a \$5,000 net income for the year ending December 31 and (b) a \$4,000 net loss for the quarter ending June 30.
4. Compare and contrast the closing entry for an expense account and the closing entry for the withdrawals account.
5. What items do you need to journalize the closing entries? Include office supplies and forms as well as any information that will be needed.
6. What is the value of preparing a post-closing trial balance?

**Service Business: Computer Consulting**

You note after preparing financial statements for Computer Works and completing the closing entries below that the owner's capital account balance is \$34,400 in the general ledger but is \$43,400 on the statement of changes in owner's equity. The capital account balance was \$38,900 at the beginning of the month.

**INSTRUCTIONS** (1) Identify the mistakes in the closing entries and (2) calculate the correct capital account balance.

| Date    | Description             | Debit | Credit |
|---------|-------------------------|-------|--------|
| Aug. 31 | Consulting Fee Revenue  | 9,240 |        |
|         | Income Summary          |       | 9,240  |
| Aug. 31 | Income Summary          | 870   |        |
|         | Advertising Expense     |       | 300    |
|         | Internet Access Expense |       | 20     |
|         | Rent Expense            |       | 550    |
| Aug. 31 | Rex Moran, Capital      | 8,100 |        |
|         | Income Summary          |       | 8,100  |

**Computer Viruses**

Computer viruses "reproduce" themselves in computer programs, slowing the system or destroying data. A friend gives you a computer game with a harmless virus. To add some fun at work, you load the game onto the company's network.

**ETHICAL DECISION MAKING**

1. What are the ethical issues?
2. What are the alternatives?
3. Who are the affected parties?
4. How do the alternatives affect the parties?
5. What would you do?

**Explaining Cause and Effect**

Your boss left you a note questioning the decrease in his owner's capital account. You see that his withdrawals were the cause. List some points to explain the situation. Pick a classmate to listen to your explanation, which should prove that you understand that the withdrawals account is closed to the capital account.



### Working in a Team

Imagine that you work in the accounting department for the multimedia division of MTV. The CD-ROM project manager wants to produce and sell a new CD-ROM with clips from the latest music videos. You and your co-workers have questions.

**INSTRUCTIONS** Form a team of five students and list the questions you may have. Compile your questions and opinions about the product (from a financial perspective) into a one-page report and present it to the class.



### The World Trade Organization

The World Trade Organization (WTO) negotiates most trade agreements between nations. The organization is dedicated to resolving disputes, stimulating economic growth, and lowering trade barriers. It handles issues including tariffs, customs processes, professional services, e-commerce, and import licensing.

**INSTRUCTIONS** List the issues the WTO is reviewing this month. Locate the Web site for the WTO and click on the 'Events calendar' link.



### Your Checking Account

Whether you are a business owner or a consumer, you will probably use a checking account. You are responsible for keeping track of your cash by recording deposits and withdrawals on the check stubs in the checkbook.

**PERSONAL FINANCE ACTIVITY** Assume that you opened a checking account by depositing \$200 at the beginning of the month. During the month you wrote three checks: 101 for \$25, 102 for \$50, and 103 for \$75. When and where should you record each deposit and check? Calculate the checking account balance.

**PERSONAL FINANCE ONLINE** Log on to [glencoeaccounting.glencoe.com](http://glencoeaccounting.glencoe.com) and click on Student Center. Click on Making It Personal and select Chapter 10.



### Calculating Return on Owner's Equity

One measure of business success is the **return on owner's equity (ROE)**:

$$\frac{\text{Net Income}}{\text{Beginning Owner's Equity} - \text{Withdrawals}} = \frac{\$3,600}{\$34,500 - \$2,500} = 11.25\%$$

The resulting percentage shows the amount earned during the period on each dollar invested by the owner.

**INSTRUCTIONS** Use Roadrunner's income statement (page 222) and statement of changes in owner's equity (page 226) to calculate October's ROE. How does this return compare with a bank savings account that pays 2 percent interest per year?



### Closing Entries

The closing entries for professional sports teams are similar to those for other types of businesses. Go to [glencoeaccounting.glencoe.com](http://glencoeaccounting.glencoe.com) and click on Student Center. Click on WebQuest and select Unit 2 to continue your Internet project.

