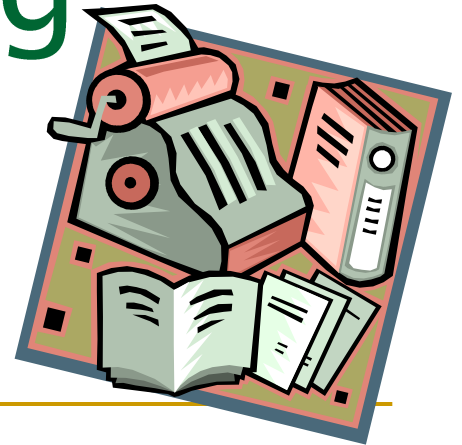

College Accounting



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

Goals of Chapter 8:



- Define accounting terms related to adjusting and closing entries for a service business organized as a proprietorship
- Identify accounting concepts and practices related to adjusting and closing entries for a service business organized as a proprietorship
- Understand the difference between temporary and permanent accounts
- Record adjusting entries for a service business
- Record closing entries for a service business
- Prepare a post-closing trial balance for a service business organized as a proprietorship
- Understand all of the steps of the accounting cycle

ADJUSTING ENTRY FOR SUPPLIES

Adjusting Entries: journal entries recorded to update general ledger at end of fiscal period.

- Information comes from worksheet
- Match letters from worksheet adjustment column

1. Write the heading.
2. Write the date.
3. Write the title of the account debited. Record the debit amount.
4. Write the title of the account credited. Record the credit amount.

ACCOUNT TITLE		ADJUSTMENTS	
		DEBIT	CREDIT
5	Supplies		(a) 715 00
17	Supplies Expense	(a) 715 00	

GENERAL JOURNAL					PAGE 3
DATE	ACCOUNT TITLE	DR. POST. N. F.	DEBIT	CREDIT	
	<i>Adjusting Entries</i>				
1					1
2	Supplies Expense		715 00		2
3	Supplies			715 00	3

Supplies Expense			
Adj. (a)	715.00		
Supplies			
Bal.	1,025.00	Adj. (a)	715.00
(New Bal.)	310.00		

ADJUSTING ENTRY FOR PREPAID INSURANCE

ACCOUNT TITLE		ADJUSTMENTS	
		DEBIT	CREDIT
6	Prepaid Insurance		(b) 100 00
14	Insurance Expense	(b) 100 00	

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
	<i>Adjusting Entries</i>						
Aug. 31	Supplies Expense			715 00			
	Supplies				715 00		
31	Insurance Expense			100 00			
	Prepaid Insurance				100 00		

1. Write the date.
2. Write the title of the account debited. Record the debit amount.
3. Write the title of the account credited. Record the credit amount.

Insurance Expense	
Adj. (b)	100.00

Prepaid Insurance	
Bal.	1,200.00
(New Bal.)	1,100.00

PERMANENT VS. TEMPORARY ACCOUNTS

page 206

- Permanent Accounts (Real Accounts): have continuous balances – used to collect data or accumulate information from one period to the next
 - Ending balance from one period is beginning balance of the next fiscal period
 - Assets, Liabilities and Capital

PERMANENT VS. TEMPORARY ACCOUNTS

page 206

- Temporary Accounts (Nominal Accounts):
balances isolated to a given fiscal period until transferred to owner's capital account
 - ❑ Accumulate information for a fiscal period only
 - ❑ Reflect changes in owner's capital for a single fiscal period
 - ❑ End of a fiscal period, balances of temporary accounts transferred to capital account
 - ❑ Begin each fiscal period with zero balance
 - ❑ Revenue, Expenses, Owner's Drawing, Income Summary

CLOSING TEMPORARY ACCOUNTS

page 206

- Closing Entries: journal entries used to close temporary accounts & prepare them for new fiscal period
 - ❑ Temporary account balances must be reduced to zero balances at the end of the year
 - ❑ Prepares the temporary accounts for the new fiscal period
 - otherwise new fiscal period would include prior year's information
 - ❑ Closing process allows business to transfer income/(loss) to Owner's Capital Account
 - ❑ Applies MATCHING EXPENSES WITH REVENUE CONCEPT - temporary accounts must be closed at the end of a fiscal period – match expenses with revenue for fiscal period

CLOSING TEMPORARY ACCOUNTS

page 206

- Closing Process: an amount equal to the temporary account's balance is recorded in the account on the side opposite its balance

Example:

If Revenue has a credit balance of \$3,565, then a debit of \$3,565 is recorded to close the account

- Whenever a temporary account is closed the closing entry must have equal debits and credits

CLOSING TEMPORARY ACCOUNTS

page 206

QUICK QUIZ:

Types of Accounts

- Cash
- Capital
- Sales
- Rent Expense
- Prepaid Insurance
- Accounts Receivable
- Accounts Payable
- Drawing
- Equipment
- Utilities Expense

Identify whether Permanent or Temporary

- Permanent
- Permanent
- Temporary
- Temporary
- Permanent
- Permanent
- Permanent
- Temporary
- Permanent
- Temporary

NEED FOR THE INCOME SUMMARY ACCOUNT

page 207

Income Summary: a temporary account used to summarize the closing entries for the revenue and expense accounts

- ❑ Unique – NO normal side balance
- ❑ Balance determined by amounts posted to the account at the end of fiscal period

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

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

FOUR CLOSING ENTRIES

Must be journalized in the order outlined below:

1. Income Statement Accounts with credit balances
2. Income Statement Accounts with debit balances
3. Entry to record net income or net loss and close Income Summary
4. Entry to close the Owner's Drawing Account

CLOSING ENTRY FOR AN INCOME STATEMENT ACCOUNT WITH A CREDIT BALANCE

ACCOUNT TITLE		5	6
		INCOME STATEMENT	
		DEBIT	CREDIT
12	Sales		356500

Worksheet

(Debit to close)

GENERAL JOURNAL						PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
	<i>Closing Entries</i>					
31	Sales			356500		
	Income Summary				356500	

1. Write the heading.
2. Write the date.
3. Write the title of the account debited. Record the debit amount.
4. Write the title of the account credited. Record the credit amount.

Sales			
Closing	3,565.00	Bal.	3,565.00
		(New Bal. zero)	
Income Summary			
		Closing (revenue)	3,565.00

CLOSING ENTRY FOR INCOME STATEMENT ACCOUNTS WITH DEBIT BALANCES

page 209

Worksheet

ACCOUNT TITLE		5	6
		INCOME STATEMENT	
		DEBIT	CREDIT
13	<i>Advertising Expense</i>	213 00	
14	<i>Insurance Expense</i>	100 00	
15	<i>Miscellaneous Expense</i>	28 00	
16	<i>Rent Expense</i>	300 00	
17	<i>Supplies Expense</i>	715 00	
18	<i>Utilities Expense</i>	110 00	

1. Date
2. *Income Summary*
3. Credit
4. Debit amount

(Credit to close)

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
31	<i>Income Summary</i>			1466 00		9	
	<i>Advertising Expense</i>				213 00	10	
	<i>Insurance Expense</i>				100 00	11	
	<i>Miscellaneous Expense</i>				28 00	12	
	<i>Rent Expense</i>				300 00	13	
	<i>Supplies Expense</i>				715 00	14	
	<i>Utilities Expense</i>				110 00	15	

Compound Entry: a journal entry that has more than 2 debits or credits

See page 209 for T-Account

CLOSING ENTRY TO RECORD NET INCOME OR LOSS AND CLOSE THE INCOME SUMMARY ACCOUNT

Worksheet

	5	6
ACCOUNT TITLE	INCOME STATEMENT	
	DEBIT	CREDIT
19	146600	356500
20 <i>Net Income</i>	209900	
21	356500	356500
22		

1. Date
2. Debit
3. Credit

(Capital: credit to record net income)

GENERAL JOURNAL						PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
16 1 31	<i>Income Summary</i>			209900		16
17	<i>Kim Park, Capital</i>				209900	17
18						

(Income Summary: debit to close)

CLOSING ENTRY FOR THE OWNER'S DRAWING ACCOUNT

Worksheet

ACCOUNT TITLE	
9	<i>Kim Park, Capital</i>
10	<i>Kim Park, Drawing</i>

BALANCE SHEET	
DEBIT	CREDIT
	500000
62500	

1. Date
2. Debit
3. Credit

(Credit to close)

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
31	<i>Kim Park, Capital</i>			62500		18	
	<i>Kim Park, Drawing</i>				62500	19	

1

2

3

GENERAL LEDGER ACCOUNTS AFTER ADJUSTING AND CLOSING ENTRIES ARE POSTED

ACCOUNT <i>Cash</i>				ACCOUNT NO. 110			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 31		2	8315.00		8315.00		
31		2		3351.00	4964.00		

ACCOUNT <i>Prepaid Insurance</i>				ACCOUNT NO. 160			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 4		1	1200.00		1200.00		
31		3		100.00	1100.00		

ACCOUNT <i>Advertising Expense</i>				ACCOUNT NO. 510			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 14		1	78.00		78.00		
18		1	125.00		203.00		
31		2	100.00		213.00		
31		3		213.00			

ACCOUNT <i>Petty Cash</i>				ACCOUNT NO. 120			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 19		1	100.00		100.00		

ACCOUNT <i>Accounts Payable—Supply Depot</i>				ACCOUNT NO. 210			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 7		1		500.00		500.00	
11		1	300.00			200.00	

ACCOUNT <i>Insurance Expense</i>				ACCOUNT NO. 520			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 31		3	100.00		100.00		
31		3		100.00			

ACCOUNT <i>Accounts Receivable—Oakdale School</i>				ACCOUNT NO. 130			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 12		1	350.00		350.00		
18		1		200.00		150.00	

ACCOUNT <i>Accounts Payable—Thomas Supply Co.</i>				ACCOUNT NO. 220			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 20		1		500.00		500.00	

ACCOUNT <i>Miscellaneous Expense</i>				ACCOUNT NO. 530			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 31		2	200.00		200.00		
31		2	800.00		2800.00		
31		3		2800.00			

ACCOUNT <i>Accounts Receivable—Campus Internet Cafe</i>				ACCOUNT NO. 140			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 13		1	100.00		100.00		

ACCOUNT <i>Kim Park, Capital</i>				ACCOUNT NO. 310			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 1		1		5000.00		5000.00	
31		3		2099.00		7099.00	
31		3	625.00		6474.00		

ACCOUNT <i>Rent Expense</i>				ACCOUNT NO. 540			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 12		1	3000.00		3000.00		
31		3		3000.00			

ACCOUNT <i>Supplies</i>				ACCOUNT NO. 150			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 3		1	275.00		275.00		
7		1	500.00		775.00		
20		1	500.00		825.00		
28		2	200.00		1025.00		
31		3		715.00	310.00		

ACCOUNT <i>Kim Park, Drawing</i>				ACCOUNT NO. 320			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 18		1	125.00		125.00		
31		2	500.00		625.00		
31		3		625.00			

ACCOUNT <i>Supplies Expense</i>				ACCOUNT NO. 550			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 31		3	715.00		715.00		
31		3		715.00			

ACCOUNT <i>Income Summary</i>				ACCOUNT NO. 330			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 31		3		3565.00		3565.00	
31		3	1466.00			2099.00	
31		3	2099.00				

ACCOUNT <i>Utilities Expense</i>				ACCOUNT NO. 560			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 12		1	400.00		400.00		
27		2	700.00		1100.00		
31		3		1100.00			

ACCOUNT <i>Sales</i>				ACCOUNT NO. 410			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Aug. 31		2		3565.00		3565.00	
31		3	3565.00				

POST-CLOSING TRIAL BALANCE

Post Closing Trial Balance: prepared after closing entries posted:

- Only permanent accounts
- Proves debits = credits

<i>TechKnow Consulting</i>		
<i>Post-Closing Trial Balance</i>		
<i>August 31, 20--</i>		
ACCOUNT TITLE	DEBIT	CREDIT
Cash	496400	
Petty Cash	10000	
Accounts Receivable—Oakdale School	15000	
Accounts Receivable—Campus Internet Cafe	10000	
Supplies	31000	
Prepaid Insurance	110000	
Accounts Payable—Supply Depot		20000
Accounts Payable—Thomas Supply Co.		5000
Kim Park, Capital		647400
Totals	672400	672400

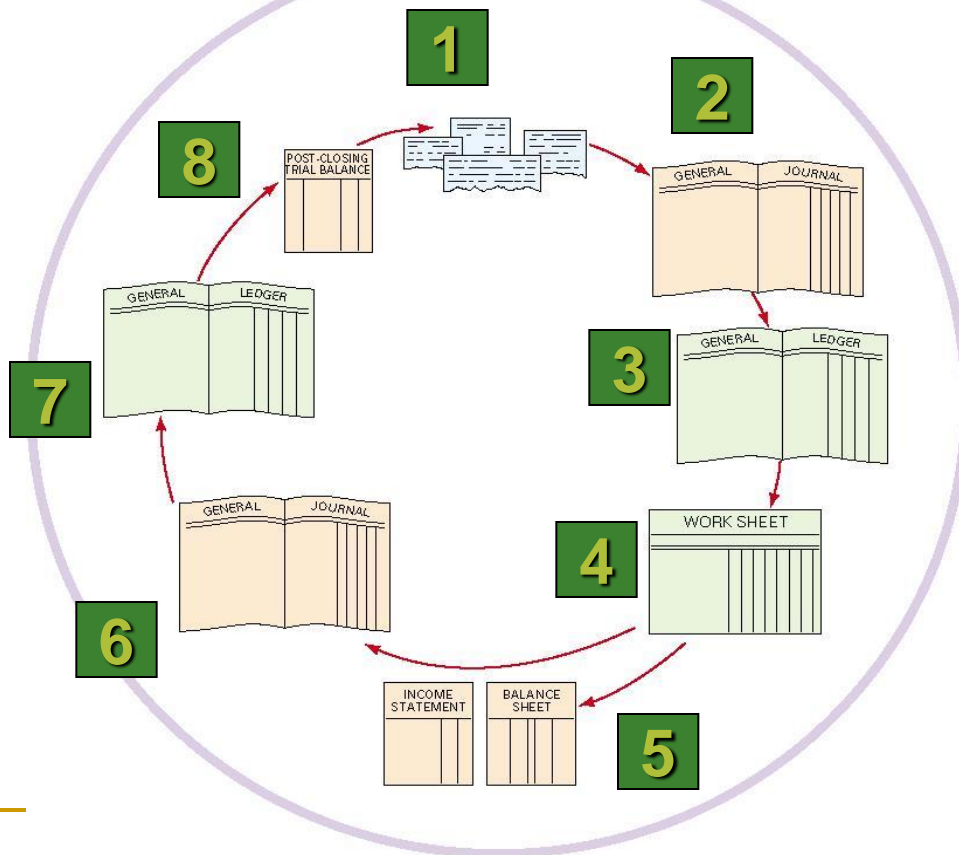
1. Heading
2. Account titles
3. Account balances
4. Single rule
5. Compare totals
6. *Totals*
7. Record totals
8. Double rule

ACCOUNTING CYCLE FOR A SERVICE BUSINESS

Accounting Concepts: 

page 217

Accounting Period Cycle: financial statements must be prepared at end of each fiscal period – includes the series of activities for recording financial information.



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

TERMS REVIEW

page 219

- adjusting entries
- permanent accounts
- temporary accounts
- closing entries
- post-closing trial balance
- accounting cycle