

9 Recording Adjusting and Closing Entries for a Service Business

AFTER STUDYING CHAPTER 9, YOU WILL BE ABLE TO:

1. Define accounting terms related to adjusting and closing entries for a service business organized as a proprietorship.
2. Identify accounting concepts and practices related to adjusting and closing entries for a service business organized as a proprietorship.
3. Record adjusting entries for a service business organized as a proprietorship.
4. Record closing entries for a service business organized as a proprietorship.
5. Prepare a post-closing trial balance for a service business organized as a proprietorship.

TERMS PREVIEW

adjusting entries

permanent
accounts

temporary
accounts

closing entries

post-closing
trial balance

accounting cycle

ADJUSTING ENTRIES

Encore Music prepares a work sheet at the end of each fiscal period to summarize the general ledger information needed to prepare financial statements. (*CONCEPT: Accounting Period Cycle*) Financial statements are prepared from information on the work sheet. (*CONCEPT: Adequate Disclosure*)

Encore Music's adjustments are analyzed and planned on a work sheet. However, these adjustments must be journalized so they can be posted to the general ledger accounts. Journal entries recorded to update general ledger accounts at the end of a fiscal period are called **adjusting entries**.

Adjusting entries are recorded on the next general journal page following the page on which the last daily transactions for the month are recorded. The adjusting entries are entered in the Debit and Credit columns of a general journal.

Encore Music records two adjusting entries: (1) an adjusting entry to bring the supplies account up to date and (2) an adjusting entry to bring the prepaid insurance account up to date.

ACCOUNTING IN YOUR CAREER

REPLACE YOURSELF WITH A COMPUTER

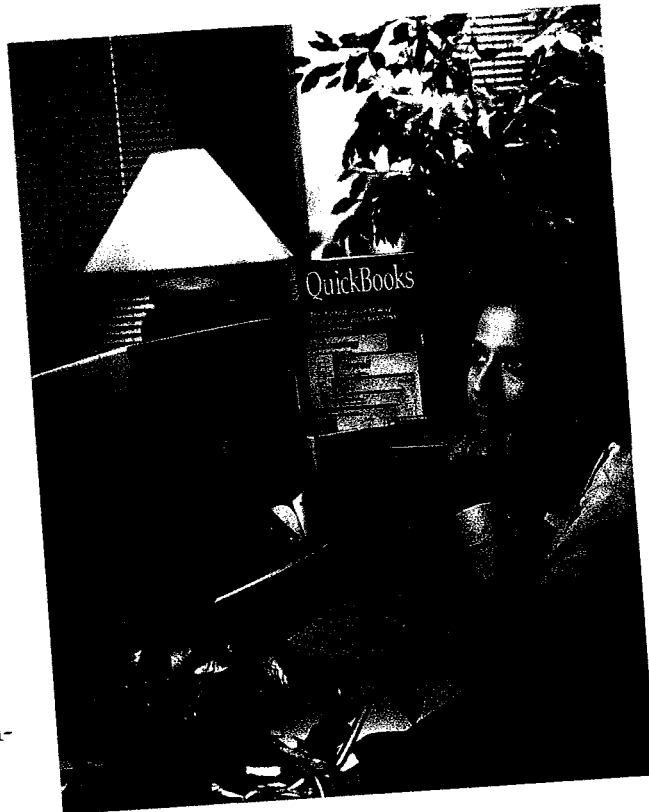
"I want you to replace yourself with a computer, Dani," said Stephen Moy, as Dani Tobler entered his office. Dani had worked at Moy Enterprises for two years as an office/accounting assistant. She thought she had been doing a good job, and she knew she frequently took the initiative to do more than her job required. She was startled by Stephen's statement about replacing her.

"Let me explain what I mean, Dani," Stephen continued. "You've been an outstanding resource for me as the business has grown. But now I need to promote you and give you more responsibilities. Therefore, I'd like to convert the accounting system to a computerized system to run more efficiently and give you more time to take on additional projects and responsibilities. I know you took several computer classes in high school. I want you to research the accounting software available and make a recommendation on which package to buy. Do you think you can make a recommendation by the end of the month?"

Dani immediately went to several computer stores and got prices and specifications for a number of accounting software packages. At the end of the day, she was feeling overwhelmed by the large number of accounting packages from which to choose.

Critical Thinking:

1. Assuming that the computer is equipped to handle any popular brand, what should Dani consider in making her decision?
2. An advantage of computer software for accounting is that the computer can take care of the repetitive tasks quickly and accurately. What are some of the repetitive tasks Dani might want to be sure the selected software will do?



9-1 Recording Adjusting Entries

ADJUSTING ENTRY FOR SUPPLIES

ACCOUNT TITLE		ADJUSTMENTS	
		DEBIT	CREDIT
5	Supplies		(a) 2,564.00
17	Supplies Expense	(a) 2,564.00	

GENERAL JOURNAL						PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
	1 Adjusting Entries					
2 Aug. 31	Supplies Expense			2,564.00		
	Supplies				2,564.00	

The information needed to journalize the adjusting entry for supplies is obtained from lines 5 and 17 of the work sheet, as shown in the illustration. The entry must be recorded in a general journal and posted to the general ledger accounts affected by the entry.

The effect of posting the adjusting entry for supplies to the general ledger accounts is shown in the T accounts.

Supplies Expense has an up-to-date balance of \$2,564.00, which is the value of the supplies used during the fiscal period. (CONCEPT: Matching

Expenses with Revenue) Supplies has a new balance of \$2,187.00, which is the cost of the supplies on hand at the end of the fiscal period.

Supplies Expense			
Adj. (a)	2,564.00		

Supplies			
Bal.	4,751.00	Adj. (a)	2,564.00
(New Bal.)	2,187.00		

S Adjusting entry for supplies

STEPS

1. Write the heading, *Adjusting Entries*, in the middle of the Account Title column of the general journal. Because no source document is prepared for adjusting entries, the entries are identified with a heading in the general journal. This heading explains all of the adjusting entries that follow. Therefore, the heading is written only once for all adjusting entries.
2. Write the date, 20—, Aug. 31, in the Date column.
3. Write the title of the account debited, *Supplies Expense*, in the Account Title column. Record the debit amount, \$2,564.00, in the Debit column on the same line as the account title.
4. Write the title of the account credited, *Supplies*, on the next line in the Account Title column, indented about 1 centimeter. Record the credit amount, \$2,564.00, in the Credit column on the same line as the account title.

ADJUSTING ENTRY FOR PREPAID INSURANCE

		3		4	
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	
1		Adjusting Entries					1
2	Aug. 31	Supplies Expense		2	2564.00		2
		Supplies				2564.00	3
4	31	Insurance Expense		2	100.00		
5		Prepaid Insurance				100.00	

1. Date

2. Debit

3. Credit

The information needed to journalize the adjusting entry for prepaid insurance is obtained from lines 6 and 14 of the work sheet. The entry must be recorded in a journal and posted to the general ledger accounts affected by the entry.

The effect of posting the adjusting entry for prepaid insurance to the general ledger accounts is shown in the T accounts.

Insurance Expense			
Adj. (b)	100.00		

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

IS IT DISCRIMINATION OR POOR JUDGMENT?



CyberMarket provides market research for companies that sell products and services on the Internet.

Instructions

Use the three-step checklist to help determine whether or not the following situation demonstrates ethical behavior.

Your group at CyberMarket has an opening for a research analyst. You are on the search committee to pick candidates to be interviewed.

Committee members give the following reasons for wanting to eliminate various candidates.

- "She graduated from college before I was born. She can't possibly know anything about our business."
- "The ad said two to five years of experience, but we really need someone with more than two years of experience."
- "This guy went to the same college I did. Let's give him a shot."

**PROFESSIONAL
BUSINESS
ETHICS**

TERM REVIEW

adjusting entries

AUDIT YOUR UNDERSTANDING

1. Why are adjustments journalized?
2. Where is the information obtained to journalize adjusting entries?
3. What accounts are increased from zero balances after adjusting entries for supplies and prepaid insurance are journalized and posted?

WORK TOGETHER

Journalizing and posting adjusting entries

A partial work sheet of Darlene's Delivery Service for the month ended July 31 of the current year is given in the *Working Papers*. Also given are a general journal and general ledger accounts. The general ledger accounts do not show all details for the fiscal period. The Balance shown in each account is the account's balance before adjusting entries are posted. Your instructor will guide you through the following example.

4. Use page 4 of a general journal. Journalize and post the adjusting entries. Save your work to complete Work Together on page 203.

ON YOUR OWN

Journalizing and posting adjusting entries

A partial work sheet of Keith's Copies for the month ended February 28 of the current year is given in the *Working Papers*. Also given are a general journal and general ledger accounts. The general ledger accounts do not show all details for the fiscal period. The Balance shown in each account is the account's balance before adjusting entries are posted. Work this problem independently.

5. Use page 8 of a general journal. Journalize and post the adjusting entries. Save your work to complete On Your Own on page 203.

9-2 Recording Closing Entries

NEED FOR PERMANENT AND TEMPORARY ACCOUNTS

Accounts used to accumulate information from one fiscal period to the next are called **permanent accounts**. Permanent accounts are also referred to as real accounts. Permanent accounts include the asset and liability accounts and the owner's capital account. The ending account balances of permanent accounts for one fiscal period are the beginning account balances for the next fiscal period.

Accounts used to accumulate information until it is transferred to the owner's capital account are called **temporary accounts**.

Temporary accounts are also referred to as nominal accounts. Temporary accounts include the revenue, expense, and owner's drawing accounts plus the income summary account. Temporary accounts show changes in the owner's capital for a single fiscal period. Therefore, at the end of a fiscal period, the balances of temporary accounts are summarized and transferred to the owner's capital account. The temporary accounts begin a new fiscal period with zero balances.

NEED FOR CLOSING TEMPORARY ACCOUNTS

Journal entries used to prepare temporary accounts for a new fiscal period are called **closing entries**. The temporary account balances must be reduced to zero at the end of each fiscal period. This procedure prepares the temporary accounts for recording information about the next fiscal period. Otherwise, the amounts for the next fiscal period would be added to amounts for previous fiscal periods. (CONCEPT: *Matching Expenses with Revenue*) The net income for the next fiscal period would be difficult to calculate because amounts from several fiscal periods remain in the accounts. Therefore, the temporary accounts must start each new fiscal period with zero balances.

To close a temporary account, an amount equal to its balance is recorded in the account on the side opposite to its balance. For example, if an account has a credit balance of \$4,411.00, a debit of \$4,411.00 is recorded to close the account.



NEED FOR THE INCOME SUMMARY ACCOUNT

Whenever a temporary account is closed, the closing entry must have equal debits and credits. If an account is debited for \$3,000.00 to close the account, some other account must be credited for the same amount. A temporary account titled **Income Summary** is used to summarize the closing entries for the revenue and expense accounts.

The income summary account is unique because it does not have a normal balance side. The balance of this account is determined by the amounts posted to the account at the end of a fiscal period. When revenue is greater than total expenses, resulting in a net income, the income summary account has a credit balance, as shown in the T account.

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

When total expenses are greater than revenue, resulting in a net loss, the income sum-

mary account has a debit balance, as shown in the T account.

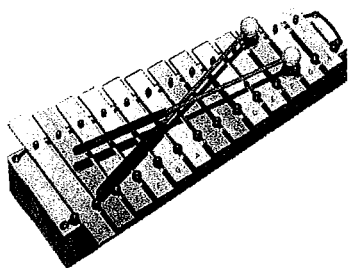
Income Summary	
Debit	Credit
Total expenses (greater than revenue) (Debit balance is the net loss.)	Revenue

Thus, whether the balance of the income summary account is a credit or a debit depends upon whether the business earns a net income or incurs a net loss. Because **Income Summary** is a temporary account, the account is also closed at the end of a fiscal period when the net income or net loss is recorded.

Encore Music records four closing entries:
(1) an entry to close income statement accounts

with credit balances; (2) an entry to close income statement accounts with debit balances; (3) an entry to record net income or net loss and close **Income Summary**; and (4) an entry to close the owner's drawing account.

Information needed to record the four closing entries is found in the **Income Statement** and **Balance Sheet** columns of the work sheet.



**F
Y
I**

Most small businesses use the calendar year as their fiscal year because it matches the way in which the owners have to file their personal income tax returns.

REMEMBER

Encore Music makes four closing entries: (1) Close income statement accounts with credit balances. (2) Close income statement accounts with debit balances. (3) Record net income or loss in the owner's capital account and close **Income Summary**. (4) Close the owner's drawing account.

CLOSING ENTRY FOR AN INCOME STATEMENT ACCOUNT WITH A CREDIT BALANCE

ACCOUNT TITLE		INCOME STATEMENT	
		DEBIT	CREDIT
12	Sales		4,411.00 (Debit to close)

GENERAL JOURNAL PAGE 3					
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
	1 Closing Entries				
2 31	Sales			3 4,411.00	
	Income Summary				4 4,411.00

3. Debit

4. Credit

Encore Music has one income statement account with a credit balance, Sales. This credit balance must be reduced to zero to prepare the account for the next fiscal period. To reduce the balance to zero, Sales is debited for the amount of the balance. Because debits must equal credits for each journal entry, some other account must be credited. The account used for the credit part of this closing entry is Income Summary.

The effect of this closing entry on the general ledger accounts is shown in the T accounts.

Sales			
Closing	4,411.00	Bal.	4,411.00
		(New Bal. zero)	

Income Summary	
Closing (revenue)	4,411.00

The balance of Sales is now zero, and the account is ready for the next fiscal period. The credit balance of Sales is transferred to Income Summary.

S T E P S Closing entry for an income statement account with a credit balance

1. Write the heading, *Closing Entries*, in the middle of the Account Title column of the general journal. For Encore Music, this heading is placed in the general journal on the first blank line after the last adjusting entry.
2. Write the date, 31, on the next line in the Date column.
3. Write the title of the account debited, *Sales*, in the Account Title column. Record the debit amount, \$4,411.00, in the Debit column on the same line as the account title.
4. Write the title of the account credited, *Income Summary*, on the next line in the Account Title column, indented about 1 centimeter. Record the credit amount, \$4,411.00, in the Credit column on the same line as the account title.

FYI

The reasons for recording closing entries can be compared to a trip odometer. Closing entries are recorded to prepare the temporary accounts for the next fiscal period by reducing their balances to zero. Likewise, a trip odometer must be reset to zero to begin recording the miles for the next trip.

CLOSING ENTRY FOR INCOME STATEMENT ACCOUNTS WITH DEBIT BALANCES

ACCOUNT TITLE		INCOME STATEMENT	
		DEBIT	CREDIT
13	Advertising Expense	273.00	
14	Insurance Expense	100.00	
15	Miscellaneous Expense	10.00	
16	Rent Expense	250.00	
17	Supplies Expense	2,564.00	
18	Utilities Expense	115.00	

(Credit to close)

GENERAL JOURNAL		PAGE 3	
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.
1. Date	2. Income Summary		
31	Income Summary		3,312.00
	Advertising Expense		273.00
	Insurance Expense		100.00
	Miscellaneous Expense		10.00
	Rent Expense		250.00
	Supplies Expense		2,564.00
	Utilities Expense		115.00

3. Credit

4. Debit Amount

Encore Music has six income statement accounts with debit balances. The six expense accounts have normal debit balances at the end of a fiscal period. The balances of the expense accounts must be reduced to zero to prepare the accounts for the next fiscal period. Each expense account is credited for an amount equal to its balance. Income Summary is debited for the total of all the expense account balances. The amount debited to Income Summary is not entered in the amount column until all expenses have been journalized and the total amount calculated.

The effect of this closing entry on the general ledger accounts is shown in the T accounts. The balance of each expense account is returned to zero, and the accounts are ready for the next fiscal period. The balance of Income Summary is the net income for the fiscal period, \$1,099.00.

Income Summary			
Closing (expenses)	3,312.00	Closing (revenue)	4,411.00
		(New Bal.)	1,099.00

Advertising Expense			
Bal.	273.00	Closing	273.00
(New Bal. zero)			

Insurance Expense			
Bal.	100.00	Closing	100.00
(New Bal. zero)			

Miscellaneous Expense			
Bal.	10.00	Closing	10.00
(New Bal. zero)			

Rent Expense			
Bal.	250.00	Closing	250.00
(New Bal. zero)			

Supplies Expense			
Bal.	2,564.00	Closing	2,564.00
(New Bal. zero)			

Utilities Expense			
Bal.	115.00	Closing	115.00
(New Bal. zero)			

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

ACCOUNT TITLE		INCOME STATEMENT	
		DEBIT	CREDIT
19		331200	441100
20	<i>Net Income</i>	109900	
21		441100	441100
22			

(Capital: credit to record net income)

GENERAL JOURNAL						PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
1. 31	<i>Income Summary</i>			109900		
	<i>Barbara Treviño, Capital</i>				109900	

2. Debit 3. Credit

(Income Summary: debit to close)

Encore Music's net income appears on line 20 of the work sheet. The amount of net income increases the owner's capital and, therefore, must be credited to the owner's capital account. The balance of the temporary account, Income Summary, must be reduced to zero to prepare the account for the next fiscal period.

The effect of this closing entry on the general ledger accounts is shown in the T accounts.

The debit to the income summary account, \$1,099.00, reduces the account balance to zero and prepares the account for the next fiscal period. The credit, \$1,099.00, increases the balance of the owner's capital account, Barbara Treviño, Capital.

Income Summary			
Closing (expenses)	3,312.00	Closing (revenue)	4,411.00
Closing	1,099.00	(New Bal. zero)	

Barbara Treviño, Capital	
Bal.	10,000.00
Closing (net inc.)	1,099.00
(New Bal.)	11,099.00

If a business incurs a net loss, the closing entry is a debit to the owner's capital account and a credit to the income summary account.

S Closing entry to record net income or loss and close the income summary account

- T**
1. Write the date, 31, on the next line in the Date column.
 2. Write the title of the account debited, *Income Summary*, in the Account Title column. Record the debit amount, \$1,099.00, in the Debit column on the same line as the account title.
 3. Write the title of the account credited, *Barbara Treviño, Capital*, on the next line in the Account Title column, indented about 1 centimeter. Record the credit amount, \$1,099.00, in the Credit column on the same line as the account title.
- E**
- P**
- S**

REMEMBER

Amounts for closing entries are taken from the Income Statement and Balance Sheet columns of the work sheet.

CLOSING ENTRY FOR THE OWNER'S DRAWING ACCOUNT

ACCOUNT TITLE		BALANCE SHEET	
		DEBIT	CREDIT
9	Barbara Treviño, Capital		10,000.00
10	Barbara Treviño, Drawing	600.00	

(Credit to close)

Withdrawals are assets that the owner takes out of a business and which decrease the amount of the owner's equity. The drawing account is a temporary account that accumulates information separately for each fiscal period. Therefore, the drawing account balance is reduced to zero at the end of one fiscal period to prepare the account for the next fiscal period.

The drawing account is neither a revenue nor an expense account. Therefore, the drawing account is not closed through Income Summary. The drawing account balance is closed directly to the owner's capital account.

The effect of the entry to close the drawing account is shown in the T accounts.

The drawing account has a zero balance and is ready for the next fiscal period. The capital

account's new balance, \$10,499.00, is verified by comparing the balance to the amount of capital shown on the balance sheet prepared at the end of the fiscal period. The capital account balance shown on Encore Music's balance sheet in Chapter 8 is \$10,499.00. The two amounts are the same, and the capital account balance is verified.

Barbara Treviño, Capital			
Closing (drawing)	600.00	Bal.	10,000.00
		Net Income	1,099.00
		<i>(New Bal.</i>	<i>10,499.00)</i>

Barbara Treviño, Drawing			
Bal.	600.00	Closing	600.00
<i>(New Bal. zero)</i>			

S Closing entry for the owner's drawing account

- 1.** Write the date, *31*, in the Date column.
- 2.** Write the title of the account debited, *Barbara Treviño, Capital*, in the Account Title column. Record the debit amount, *\$600.00*, in the Debit column on the same line as the account title.
- 3.** Write the title of the account credited, *Barbara Treviño, Drawing*, in the Account Title column, indented about 1 centimeter. Record the credit amount, *\$600.00*, in the Credit column on the same line as the account title.

TERMS REVIEW

permanent accounts
temporary accounts
closing entries

AUDIT YOUR UNDERSTANDING

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

WORK TOGETHER

Journalizing and posting closing entries

Use the general journal and general ledger accounts from Work Together on page 196. A partial work sheet for the month ended July 31 of the current year is given in the *Working Papers*. Your instructor will guide you through the following example.

4. Continue on the same general journal page. Journalize and post the closing entries. Save your work to complete Work Together on page 209.

ON YOUR OWN

Journalizing and posting closing entries

Use the general journal and general ledger accounts from On Your Own on page 196. A partial work sheet for the month ended February 28 of the current year is given in the *Working Papers*. Work this problem independently.

5. Continue on the same general journal page. Journalize and post the closing entries. Save your work to complete On Your Own on page 209.

9-3 Preparing a Post-Closing Trial Balance

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			
31		G2	29000		827500				
31		G2		300	827200				
ACCOUNT <i>Petty Cash</i>					ACCOUNT NO. 120				
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT	CREDIT			
20-Aug. 17		G1	20000		20000				
ACCOUNT <i>Accounts Receivable—Kids Time</i>					ACCOUNT NO. 130				
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT	CREDIT			
20-Aug. 12		G1	20000		20000				
12		G1		10000	10000				
ACCOUNT <i>Accounts Receivable—Learn N Play</i>					ACCOUNT NO. 140				
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT	CREDIT			
20-Aug. 13		G1	2000		2000				
ACCOUNT <i>Supplies</i>					ACCOUNT NO. 150				
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT	CREDIT			
20-Aug. 3		G1	157700		157700				
7		G1	272000		429700				
20		G1	2000		431700				
28		G2	43400		475100				
31		G3		256400	218700				

Encore Music's general ledger, after the adjusting and closing entries are posted, is shown here and on the next several pages. When an account has a zero balance, lines are drawn in

both the Balance Debit and Balance Credit columns. The lines assure a reader that a balance has not been omitted.

ACCOUNT *Prepaid Insurance*

ACCOUNT NO. 160

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 4		G1	120000		120000	
31		G3		10000	110000	

ACCOUNT *Accounts Payable—Ling Music Supplies*

ACCOUNT NO. 210

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 7		G1		272000		272000
11		G1	136000		136000	

ACCOUNT *Accounts Payable—Sullivan Office Supplies*

ACCOUNT NO. 220

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 20		G1		2000		2000

ACCOUNT *Barbara Treviño, Capital*

ACCOUNT NO. 310

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 1		G1		1000000		1000000
31		G3		109900		1109900
31		G3	60000			1049900

ACCOUNT *Barbara Treviño, Drawing*

ACCOUNT NO. 320

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 12		G1	10000		10000	
31		G2	50000		60000	
31		G3		60000		

ACCOUNT *Income Summary*

ACCOUNT NO. 330

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 31		G3		441100		441100
31		G3	331200			109900
31		G3	109900			

ACCOUNT *Sales*

ACCOUNT NO. 410

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
31		G2		29000		441100
31		G3	441100			

A General Ledger after Adjusting and Closing Entries Are Posted (*continued*)

ACCOUNT Advertising Expense

ACCOUNT NO. 510

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 14		G1	68 00		68 00	
18		G1	200 00		268 00	
31		G2	5 00		273 00	
31		G3		273 00		

ACCOUNT Insurance Expense

ACCOUNT NO. 520

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 31		G3	100 00		100 00	
31		G3		100 00		

ACCOUNT Miscellaneous Expense

ACCOUNT NO. 530

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 31		G2	7 00		7 00	
31		G2	3 00		10 00	
31		G3		10 00		

ACCOUNT Rent Expense

ACCOUNT NO. 540

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 12		G1	250 00		250 00	
31		G3		250 00		

ACCOUNT Supplies Expense

ACCOUNT NO. 550

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 31		G3	2564 00		2564 00	
31		G3		2564 00		

ACCOUNT Utilities Expense

ACCOUNT NO. 560

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20-Aug. 12		G1	45 00		45 00	
27		G2	70 00		115 00	
31		G3		115 00		

A General Ledger after Adjusting and Closing Entries Are Posted (concluded)

POST-CLOSING TRIAL BALANCE

2. Account Titles

Encore Music Post-Closing Trial Balance August 31, 20--			1. Heading	
ACCOUNT TITLE	DEBIT	CREDIT	3. Account Balances	
Cash	8272.00		3	
Petty Cash	200.00			
Accounts Receivable—Kids Time	1000.00			
Accounts Receivable—Learn N Play	200.00			
Supplies	2187.00			
Prepaid Insurance	1100.00		4	
Accounts Payable—Ling Music Supplies		1360.00		
Accounts Payable—Sullivan Office Supplies		200.00		
Barbara Treviño, Capital		10499.00		
Totals	11879.00	11879.00	5	7. Record Totals
			6	8. Double Rule

After the closing entries are posted, Encore Music verifies that debits equal credits in the general ledger accounts by preparing a trial balance. A trial balance prepared after the closing entries are posted is called a **post-closing trial balance**.

Only general ledger accounts with balances are included on a post-closing trial balance. The permanent accounts (assets, liabilities, and owner's capital) have balances and do appear on a post-closing trial balance. Because the

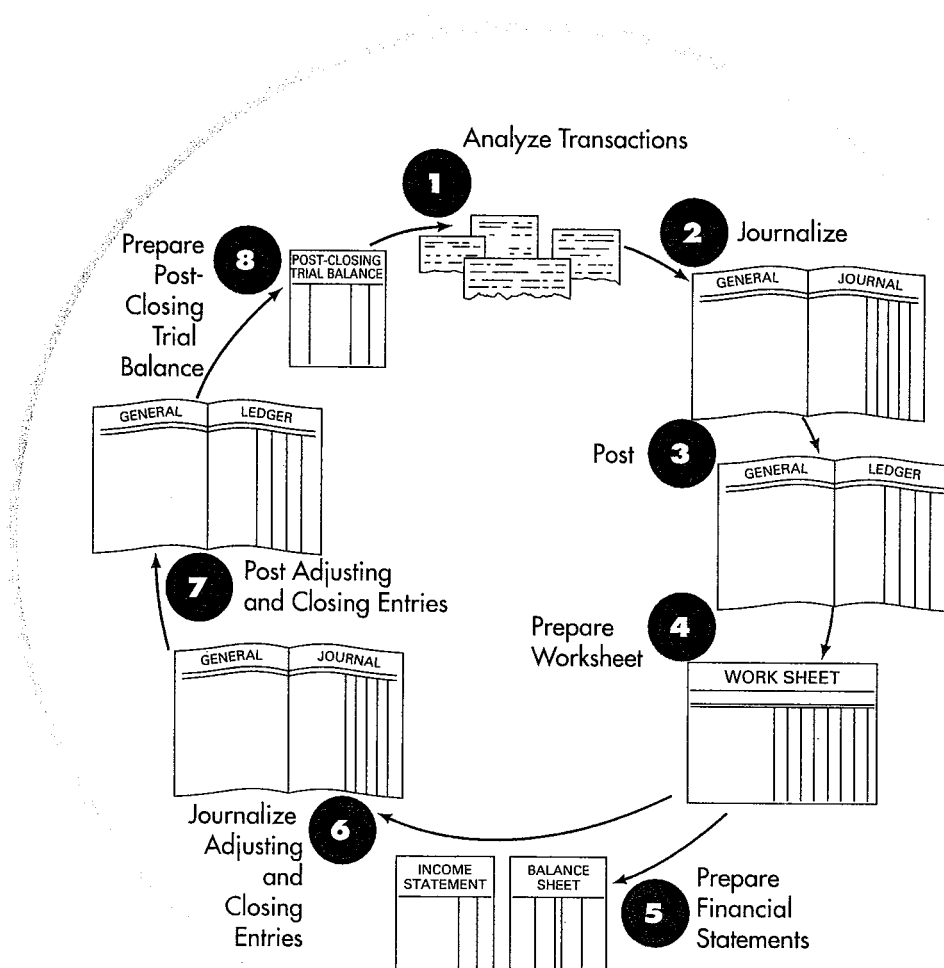
temporary accounts (income summary, revenue, expense, and drawing) are closed and have zero balances, they do not appear on a post-closing trial balance.

The total of all debits must equal the total of all credits in a general ledger. The totals of both columns on Encore Music's post-closing trial balance are the same, \$11,879.00. Encore Music's post-closing trial balance shows that the general ledger account balances are in balance and ready for the new fiscal period.

S Preparing a post-closing trial balance

1. Write the heading on three lines.
2. Write the titles of all general ledger accounts with balances in the Account Title column.
3. On the same line with each account title, write each account's balance in either the Debit or Credit column.
4. Rule a single line across both amount columns below the last amount, and add each amount column.
5. Compare the two column totals. The two column totals must be the same. If the two column totals are not the same, the errors must be found and corrected before any more work is completed.
6. Write the word *Totals* on the line below the last account title.
7. Write the column totals, \$11,879.00, below the single line.
8. Rule double lines across both amount columns to show that the totals have been verified as correct.

ACCOUNTING CYCLE FOR A SERVICE BUSINESS



Chapters 1 through 9 describe Encore Music's accounting activities for a one-month fiscal period. The series of accounting activities included in recording financial information for a

fiscal period is called an **accounting cycle**.
(CONCEPT: Accounting Period Cycle)

For the next fiscal period, the cycle begins again at Step 1.

S Steps in an accounting cycle

**T
E
P
S**

1. Source documents are checked for accuracy, and transactions are analyzed into debit and credit parts.
2. Transactions, from information on source documents, are recorded in a general journal.
3. Journal entries are posted to the general ledger.
4. A work sheet, including a trial balance, is prepared from the general ledger.
5. Financial statements are prepared from the work sheet.
6. Adjusting and closing entries are journalized from the work sheet.
7. Adjusting and closing entries are posted to the general ledger.
8. A post-closing trial balance of the general ledger is prepared.

FYI

The word *post* means *after*. The *Post-Closing Trial Balance* is prepared *after* closing entries.

TERMS REVIEW

post-closing trial balance
accounting cycle

AUDIT YOUR UNDERSTANDING

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

WORK TOGETHER

Preparing a post-closing trial balance

Use the general ledger accounts from Work Together on page 203. Your instructor will guide you through the following example. A form to complete a post-closing trial balance is given in the *Working Papers*.

4. Prepare a post-closing trial balance for Darlene's Delivery Service on July 31 of the current year.

ON YOUR OWN

Preparing a post-closing trial balance

Use the general ledger accounts from On Your Own on page 203. Work this problem independently. A form to complete a post-closing trial balance is given in the *Working Papers*.

5. Prepare a post-closing trial balance for Keith's Copies on February 28 of the current year.

CHAPTER

9

SUMMARY

After completing this chapter, you can

1. Define accounting terms related to adjusting and closing entries for a service business organized as a proprietorship.
2. Identify accounting concepts and practices related to adjusting and closing entries for a service business organized as a proprietorship.
3. Record adjusting entries for a service business organized as a proprietorship.
4. Record closing entries for a service business organized as a proprietorship.
5. Prepare a post-closing trial balance for a service business organized as a proprietorship.

EXPLORE ACCOUNTING

PUBLIC ACCOUNTING FIRMS

A business that helps other businesses with accounting issues is known as a public accounting firm.

The independent reviewing and issuing of an opinion on the reliability of accounting records is known as *auditing*.

When performing an audit for a client, the accounting firm looks closely at the client's financial statements and the way the client records transactions. The auditor's job is to determine if the financial statements fairly present the financial position of the client. The auditor issues an opinion, which is a statement as to whether the financial statements follow standard

accounting rules (GAAP). This "opinion" is used by bankers deciding to lend money to the company. It is also used by investors when making investment decisions.

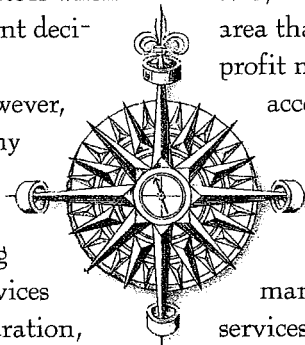
Auditing, however, is just one of many services provided by public accounting firms. Other services include tax preparation, tax advice, payroll services, bookkeeping services, financial statement preparation, and consulting services. These other services often make up a higher percentage of business for the accounting firm than performing audits.

Many accounting firms

report that they are getting more requests for consulting services than for other services they can provide. In many cases, consulting is also the area that produces the largest profit margin for the public accounting firm.

Therefore, some firms are actively advertising their ability to provide management consulting services for clients.

Activity: Contact a public accounting firm in your area. Research what services the firm provides and which service area (if any) is growing. Present your findings to your class.



9-1

APPLICATION PROBLEM Journalizing and posting adjusting entries

A general journal and general ledger accounts are given in the *Working Papers*. A partial work sheet for the month ended April 30 of the current year is shown below.

ACCOUNT TITLE	ADJUSTMENTS	
	DEBIT	CREDIT
5 <i>Supplies</i>		(a) 18000
6 <i>Prepaid Insurance</i>		(b) 16000
14 <i>Insurance Expense</i>	(b) 16000	
15 <i>Miscellaneous Expense</i>		
16 <i>Supplies Expense</i>	(a) 18000	

Use page 12 of a general journal. Journalize and post the adjusting entries. Save your work to complete Application Problem 9-2.

9-2

APPLICATION PROBLEM Journalizing and posting closing entries

Use the general journal and general ledger accounts from Application Problem 9-1. A partial work sheet for the month ended April 30 of the current year is shown below.

ACCOUNT TITLE	INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT
1 <i>Cash</i>			950000	
2 <i>Petty Cash</i>			10000	
3 <i>Accounts Receivable—Betsy Russell</i>			165000	
4 <i>Accounts Receivable—Charles Healy</i>			140300	
5 <i>Supplies</i>			22000	
6 <i>Prepaid Insurance</i>			64000	
7 <i>Accounts Payable—Lindgren Supply</i>				54800
8 <i>Accounts Payable—Taxes By Thomas</i>				11100
9 <i>Ken Cherniak, Capital</i>				1181000
10 <i>Ken Cherniak, Drawing</i>			85500	
11 <i>Income Summary</i>				
12 <i>Sales</i>		440000		
13 <i>Advertising Expense</i>	80000			
14 <i>Insurance Expense</i>	16000			
15 <i>Miscellaneous Expense</i>	35100			
16 <i>Supplies Expense</i>	18000			
17 <i>Utilities Expense</i>	101000			
18 <i>Net Income</i>	250100	440000	1436800	1246900
	189900			189900
	440000	440000	1436800	1436800

Continue on the same general journal page. Journalize and post the closing entries. Save your work to complete Application Problem 9-3.

9-3

APPLICATION PROBLEM Preparing a post-closing trial balance

Use the general ledger accounts from Application Problem 9-2. A form to complete a post-closing trial balance is given in the *Working Papers*. Prepare a post-closing trial balance for Ken's Carpet Cleaning on April 30 of the current year.

9-4

MASTERY PROBLEM Journalizing and posting adjusting and closing entries; preparing a post-closing trial balance



Jane's Sewing Machine Repair's partial work sheet for the month ended October 31 of the current year is given below. The general ledger accounts are given in the *Working Papers*. The general ledger accounts do not show all details for the fiscal period. The Balance shown in each account is the account's balance before adjusting and closing entries are posted.

ACCOUNT TITLE	ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET		
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1 Cash					6400.00		1
2 Petty Cash					100.00		2
3 Accts. Rec.—Debbie McDonald					657.00		3
4 Accts. Rec.—Howard Kikles					599.00		4
5 Supplies		(a) 120.00			155.00		5
6 Prepaid Insurance		(b) 150.00			300.00		6
7 Accts. Pay.—Bailey's Supply						187.00	7
8 Accts. Pay.—Freida's on Fulton						126.00	8
9 Jane Wisen, Capital						6430.00	9
10 Jane Wisen, Drawing					1500.00		10
11 Income Summary				4238.00			11
12 Sales			382.00				12
13 Advertising Expense	(b) 150.00		150.00				13
14 Insurance Expense	(a) 120.00		120.00				14
15 Supplies Expense			618.00				15
16 Utilities Expense	270.00	270.00	1270.00	4238.00	9711.00	6743.00	16
17			2968.00			2968.00	17
18 Net Income			4238.00	4238.00	9711.00	9711.00	18
19							19
20							20

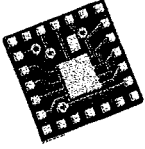
Instructions:

1. Use page 20 of a general journal. Journalize and post the adjusting entries.
2. Continue to use page 20 of the general journal. Journalize and post the closing entries.
3. Prepare a post-closing trial balance.

9-5

CHALLENGE PROBLEM

Journalizing and posting adjusting and closing entries with a net loss; preparing a post-closing trial balance



Mancini Hair Care's partial work sheet for the month ended September 30 of the current year is given below. The general ledger accounts are given in the *Working Papers*. The general ledger accounts do not show all details for the fiscal period. The Balance shown in each account is the account's balance before adjusting and closing entries are posted.

ACCOUNT TITLE	ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
1 Cash					767800	
2 Petty Cash					10000	
3 Accts. Rec.—Jennifer Balsa					16400	
4 Supplies		(a) 150000			69000	
5 Prepaid Insurance		(b) 17500			70000	
6 Accts. Pay.—Alto Supplies						73300
7 Jon Mancini, Capital						950000
8 Jon Mancini, Drawing					50000	
9 Income Summary						
10 Sales				459600		
11 Advertising Expense			55000			
12 Insurance Expense	(b) 17500		17500			
13 Miscellaneous Expense			5800			
14 Supplies Expense	(a) 150000		150000			
15 Utilities Expense			271400			
16	167500	167500	499700	459600	983200	1023300
17 Net Loss				40100	40100	
18			499700	499700	1023300	1023300

Instructions:

1. Use page 18 of a general journal. Journalize and post the adjusting entries.
2. Continue to use page 18 of the general journal. Journalize and post the closing entries.
3. Prepare a post-closing trial balance.
4. Jon Mancini, owner of Mancini Hair Care, is disappointed that his business incurred a net loss for September of the current year. Mr. Mancini would have preferred not to have to reduce his capital by \$401.00. He knows that you are studying accounting, so Mr. Mancini asks you to analyze his work sheet for September. Based on your analysis of the work sheet, what would you suggest may have caused the net loss for Mancini Hair Care? What steps would you suggest so that Mr. Mancini can avoid a net loss in future months?



INTERNET ACTIVITY

Point your browser to

<http://accounting.swpco.com>

Choose **First-Year Course**, choose **Activities**, and complete the activity for Chapter 9.

Applied Communication

Service businesses are the fastest growing part of our business world. Social and economic changes create needs for new and different kinds of service businesses to satisfy customer demands.

For example, the growing popularity of the World Wide Web led to the creation of service businesses that design Web pages. These businesses create text, graphics, animation, and links for business and private clients. Another example of a new type of service business is a personal services business that runs errands or stands in long lines for clients. As lifestyles become busier and busier, some people do not have the time to take care of all their personal errands. Service businesses have appeared to fill this need.

Instructions: Using library, online, or other information resources, write a one-page report on a new or unusual service business that you would be interested in working for or owning.

Cases for Critical Thinking

Case 1 Gretel Bakken forgot to journalize and post the adjusting entry for prepaid insurance at the end of the June fiscal period. What effect will this omission have on the records of Ms. Bakken's business as of June 30? Explain your answer.

Case 2 Miles Reed states that his business is so small that he just records supplies and insurance as expenses when he pays for them. Thus, at the end of a fiscal period, Mr. Reed does not record adjusting and closing entries for his business. Do you agree with his accounting procedures? Explain your answer.

Case 3 As you have learned, accounting procedures can be complicated and time-consuming. However, completing accounting work in a timely fashion is very important to business operations and decision making. Business owners rely upon accounting information in order to make good plans for the future. Knowing whether sales are increasing or decreasing or whether the business is earning net income or incurring a net loss is critical information for the owner and other people interested in the financial results of a business.

Completing a work sheet, preparing financial statements, and journalizing and posting adjusting and closing entries are sometimes referred to as end-of-fiscal-period activities. How important is it for end-of-fiscal-period activities to be completed soon after a fiscal period ends? Why do accounting employees often work long hours and weekends just before and just after a fiscal period ends? Explain your answers.