Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Accounting - Ch. 9 - Recording Adjusting & Closing Entries for a Service Business

Concept of **Accounting Period Cycle** - Worksheets are prepared at the end of each fiscal period to summarize the general ledger information needed to prepare financial statements.

Concept of **Adequate Disclosure** – Financial are prepared for information on the worksheet.

**Adjusting Entries**

-Journal entries recorded to update general ledger accounts at the end of a fiscal period.

-Information comes off from a worksheet.

-Adjustments are recorded next journal page, following the page where the last transactions for the month are recorded.

Encore Music Makes 2 Adjusting Entries
1. To bring **supplies** up-to-date.
2. To bring **prepaid insurance** up-to-date.

**9-1 - Recording Adjusting Entries**

A. Journalize the adjusting entry for **supplies** using information

on the worksheet.

B. The entry must be **recorded** in a **general journal** and posted to the general ledger accounts affected by the entry.

C. Steps to Journalizing the Adjusting Entry – pg. 194

1. Write the **heading, Adjusting Entries in the middle** of

the Account Title column in the general journal.

a. There is **no source document**, **entries are identified with a heading**.

 b. The heading is **written only once** for all adjusting

entries.

 2. On the next line, **record the date** in the date column.

 3. Write the **title of the account debited** & the **amount** of

the transaction in the Debit Column.

 4. Write the **title of the account credited** & the **amount** of

the transaction in the Credit Column.

Sample Transactions:

 Adjusting Entries DR CR

 Aug. 31 Supplies Expense 2564

 Supplies 2564

 31 Insurance Expense 100

 Prepaid Insurance 100

**9-2 Recording Closing Entries**

A. Need for Permanent and Temporary Accounts

 1. **Permanent** (**Real**) Accounts

 a. Def. - Accounts used to **accumulate information**

from one fiscal period to the next.

 b. **Permanent (Real)** Account Types:

1) **Asset**

2) **Liability**

3) **Owner's Equity**

 c. ***Ending* account balances** of permanent accounts for

one fiscal period are the ***beginning*** account balances

for the **next** fiscal period.

 2. **Temporary** (**Nominal**) Accounts

 a. Def. - Accounts **used to accumulate information**

**until it is transferred** to the owner's capital account.

 b. **Temporary** (**Temporary**) Account Types:

 1) **Revenue**

2) **Expenses**

3) Owner's **Drawing**

4) **Income Summary**

 c. Temporary accounts show **changes** in the owner's

capital for a **single fiscal period**.

 d. At the end of the fiscal period, the **balances of**

**temporary accounts are summarized and**

**transferred** to the owner's capital account.

 e. The **temporary** accounts **begin a new fiscal period**

with a **zero** balance.

B. Need for **Closing Temporary Accounts**

 1. **Closing Entries** - Journal entries used to prepare

temporary accounts for a new fiscal period.

 2. Temporary account balances must be **reduced to zero** at

the **end of each fiscal period**.

 3. Closing accounts **prepares** the temporary accounts for

recording information about the **next fiscal period**.

 4. If you **didn't close out temporary** accounts, the net

income for the next fiscal period would be difficult to

calculate because amounts from several fiscal periods

would remain in the accounts. (**Matching Expenses with Revenue Concept**)

 5. Steps to **close a temporary account**:

 a. An amount equal to its balance is recorded in the

account on the side opposite to its balance.

 b. 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.

C. Need for the **Income Summary Account**

 1. If an **account is debited** to close the account, some other

**account must be credited** for the same amount.

 2. Income Summary Account

 a. temporary account

 b. Used to **summarize the closing entries** for **revenue**

& **expense** accounts.

 c. **No Normal Balance Side**

 3. Balance of Income Summary account **depends on if the**

**business earns a net income or incurs a net loss**.

a. If total **revenue is greater** than total expenses (net

income) income summary account **has a credit**

**balance.**

 b. If total **expenses are greater** than total revenue, (net

loss) income summary account **has a debit balance**.

 4. **Income Summary is also closed at the end** of a fiscal

period when the net income or net loss is recorded.

**4 Closing Entries:**

1. An entry to close income statement accounts with credit

balances. **REVENUES-sales**

2. An entry to close income statement accounts with debit

balances. **EXPENSES (every expense will be closed with**

**ONE TRANSACTION)**

3. An entry to record **Net Income or Net Loss** and **close Income**

**Summary.**

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.**

D. Closing Entry for an Income Statement Account with a

Credit Balance

1. Encore Music has one Income Statement account with a

Credit Balance = Sales.

 2. The Credit Balance must be reduced to zero to prepare the

account for the next fiscal period.

 3. The Transaction:

a. DR - Sales (to reduce the balance to zero)

b. CR - Income Summary

 4. The Steps

 a. Place the **title** in the first blank line after the last

 adjusting entry.

b. Write the **heading** *"****Closing Entry****"* in the middle of

the Account Title Column.

 c. On the next line, write the **date** in the Date Column.

 d. Write the *account* to be debited (**Sales**) and the

a*mount* to be debited on the same line.

 e. On the next line, write the *account* to be credited

(Income Summary) and the *amount* to be credited on

the same line.

E. Closing Entry for Income Statement Accounts with

Debit Balances

1. Encore Music has 6 Income Statement accounts with

Normal Debit Balances (6 Expense Accounts).

 2. The balances must be reduced to zero.

 3. Each expense account is Credited for an amount equal to

its balance.

 4. The amount debited to Income Summary is not entered in

the account column until all expenses have been

journalized and the total amount is calculated.

5. Income Summary is debited for the total of all account

balances.(EXPENSES)

 6. The balance of each expense account is now returned to

zero & all expense accounts are ready for the new fiscal

period.

F. Closing Entry to Record Net Income or Net Loss and Close

the Income Summary Account

1. Income Summary must be reduced to zero to prepare the

account for the next fiscal period.

 2. The debit to Income Summary reduces the account

balance to zero and prepares the account for the next

fiscal period.

 3. The credit increases the balance of the owner's capital

account.

G. Closing Entry for the Owner's Drawing Account

1. Withdrawals are assets that the owner takes out of a

business and they decrease the amount of the owner's

equity.

 2. The drawing account is a temporary account that

accumulates information separately for each fiscal period.

 3. Drawing account balance is reduced to zero at the end of

one fiscal period to prepare the account for the next fiscal

period.

 4. It is neither a revenue or expense, therefore you cannot

close it through income summary.

5. It must be closed directly into the owner's capital account.

 a. Debit to capital decreases the balance.

 b. Credit to drawing decreases balance to zero.

**9-3 Preparing a Post Closing Trial Balance**

Steps to Preparing a **Post Closing Trial Balance**

A. General Ledger Accounts after Adjusting & Closing Entries

are Posted

1. When an account has a zero balance, lines are drawn in both the DR & CR Balance Columns.

 2. The lines assure the reader that a balance has not been

omitted.

B. Post-Closing Trial Balance

 1. Post Closing Trial Balance - A trial balance **after** closing

entries are posted.

 2. It is done to verify that DR = CR in the general ledger

accounts.

 a. Only General Ledger accounts with balances are

included.

1) Permanent accounts with balances are also

included.

 2) Temporary accounts are closed and have zero

balances, therefore, they are not included.

b. When you are able to prove that general ledger account balances balance, it shows that they are ready for a new fiscal period.

C. Steps in an Accounting Cycle

 1. Source documents are checked for accuracy, and

transactions are analyzed into DR & CR 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 worksheet, including a trial balance, is prepared from

the general ledger.

 5. Financial statements are prepared from the worksheet.

 6. Adjusting and closing entries are journalized from a

worksheet.

 7. Adjusting and closing entries are posted to the general

ledger.

 8. A post-closing trial balance of the general ledger is

prepared.

D. General Ledger Accounts after Adjusting & Closing

 Entries are Posted

 1. When an account has a zero balance, lines are drawn in

both the DR & CR Balance Columns.

 2. The lines assure the reader that a balance has not been

omitted.