



# Accounting

# Today's Learning Goals

- record adjusting and closing entries for a service business (e.g., prepaid expenses, amortization, accruals);

The background of the slide is a repeating pattern of various numbers and symbols in different colors (yellow, orange, blue, green) and sizes, scattered across a light background. A large, light gray rounded rectangle is centered on the slide, containing the text.

# Closing Entries

- At the beginning of a fiscal period we take our assets & liabilities and do an **opening entry**.

Cash	12,000	
Truck	8,000	
Accounts Payable		10,000
S. Guy, Capital		10,000
Opening Entry		

- During the fiscal period, we have various transactions, which we put in our general journal.

Maintenance Expense	450	
Cash		450

- At the end of the fiscal period, we make adjustments to those accounts that have changed.
  - Supplies
  - Prepaid Items

Insurance Expense	50	
Prepaid Insurance		50
Adjusting Entry: \$10/month x 5 months used		

- We ALSO have to get ready for the next fiscal period!!
- How do we do this?? (**Closing Entries!**)

# Real v. Nominal Accounts

- Some accounts need to be set back to \$0.
- Will our cash need to be set to \$0?
  - no

Our expense accounts DO have to be reset though!



# Real vs. Nominal

- Real Accounts:
  - Balance sheet accounts (except ‘drawings’)
- Nominal Accounts:
  - Revenue and Expense accounts (and drawings)

- Nominal Accounts need to be **reset**.
- We do this with ‘closing entries’.
- Each nominal account is closed out to a temporary account called ‘**Income Summary**’

# Income Summary

- For each nominal account:

ex. Income Summary	38,500
Wages Expense	34,500
Miscellaneous Expense	4,000

# Closing Entry for Revenue....

Fees Earned	120,000	
Income Summary		120,000

Closing Entry 1: Revenue(s)

1

# Closing Entry for Expenses

Income Summary	34,500	
Wages Expense		34,500

Closing Entry 2: Expenses

2

# What does this do?

Income Summary (CR)

= Revenue (CR)

– Expenses (DR)

Income Summary	120,000
34,500	85,500

# What does this do?

Income Summary (CR)

= Revenue (CR)

– Expenses (DR)

Income Summary	
34,500	120,000
<hr/>	
	85,500

This is 'Net Income'  
and we will add it to  
the Capital account.

What do we do with this number?

- We add it to our Capital...  
(It shows how much income we made that year minus the expenses)

So, it shows us how much **more** our business is worth at the end of the year.



# Drawings

- We also close out our 'drawings' to our capital account. (Because this has decreased how much our business is worth.)

S. Guy, Capital	40,000	
S. Guy, Drawings		40,000

# Closing Entries

(This will be good to remember!!)

# Closing Entry 1

- Close your Revenue account(s)

Fees Earned	120,000	
Income Summary		120,000
Closing Entry 1		

# Closing Entry 2

- Close your expense accounts

Income Summary	40,000	
Misc. Expense		10,000
General Expense		10,000
Supplies Expense		10,000
Wages Expense		10,000
Closing Entry 2		

# Closing Entry 3

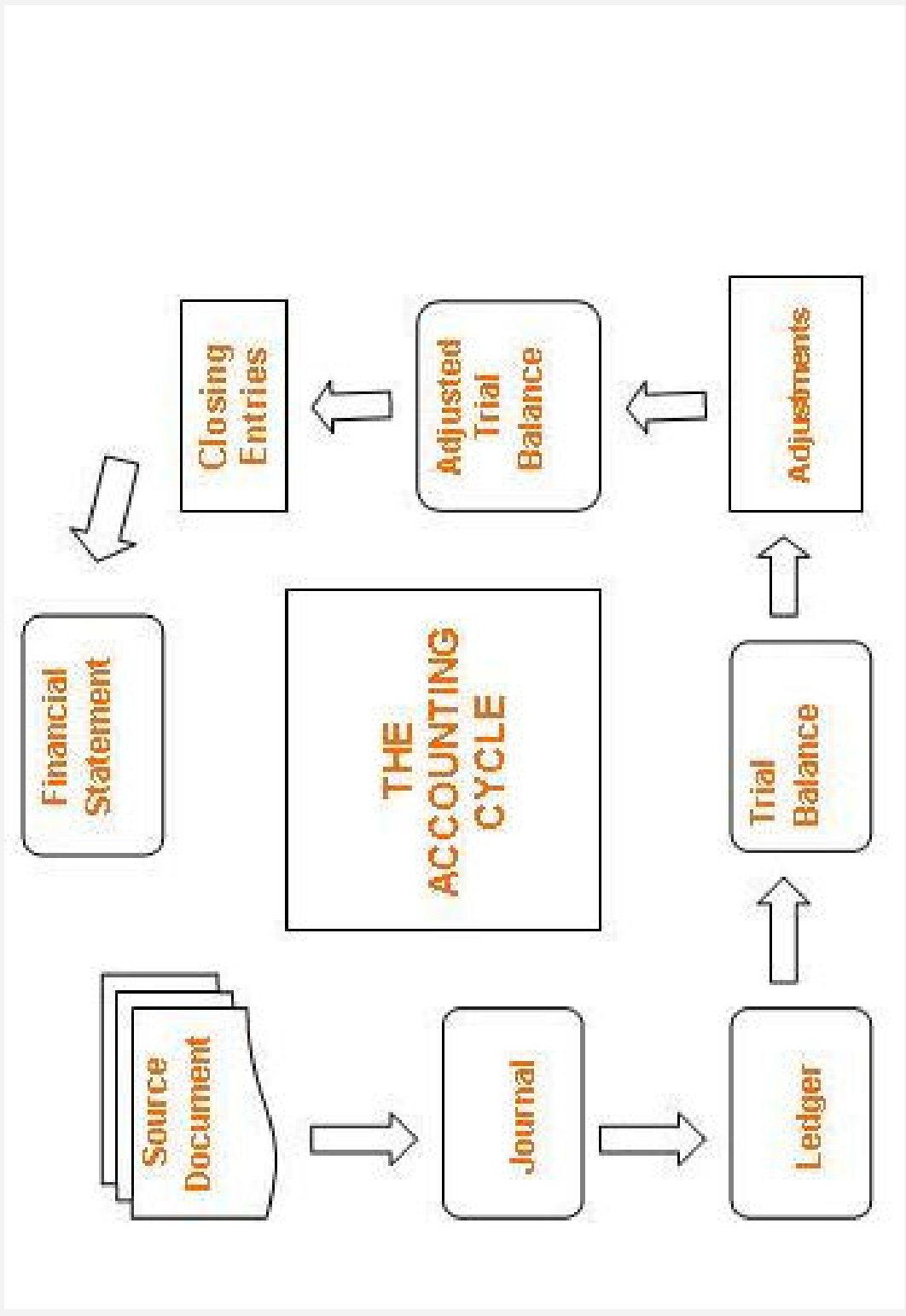
- Close the balance of 'Income Summary'

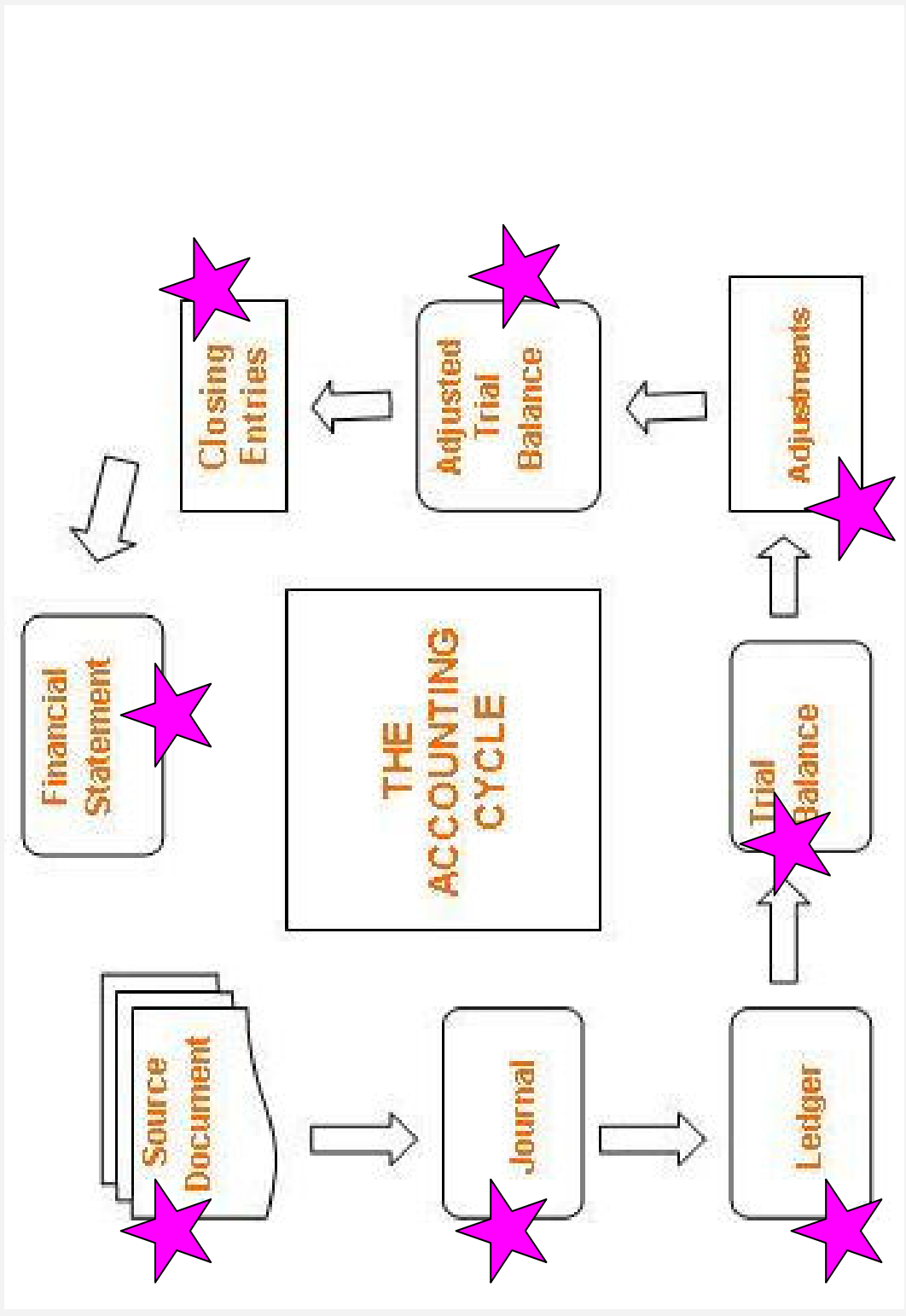
Income Summary	80,000	
S. Guy, Capital		80,000
Closing Entry 3		

# Closing Entry 4

- Close 'drawings.'

S. Guy, Capital	40,000	
S. Guy, Drawings		40,000







- ‘Adjusted Trial Balance’

- Is a trial balance taken off **after** we have posted our adjusting entries.

- ‘Post Closing Trial Balance’

- Is a trial balance taken off after we have posted our closing entries.

# HOMWORK

- Using the Trial Balance on page 359:  
Do the **four** necessary closing entries.

*\* These are the final journal entries of your  
fiscal period. \**

***You are now able to do the entire  
accounting cycle!***

KAREN MILLETTE, REAL ESTATE

TRIAL BALANCE

SEPTEMBER 30, 20-4

Bank	\$ 3 800-	
Accounts Receivable	10 900-	
Supplies	500-	
Prepaid Insurance	1 000-	
Land	50 000-	
Building	70 000-	\$ 6 825-
Accum. Dep. — Building Furniture and Equipment	15 000-	5 400-
Accum. Dep. — Furniture and Equipment Automotive Equipment	17 000-	8 670-
Accum. Dep. — Automotive Equipment		400-
Accounts Payable		100 000-
Bank Loan		35 005-
Karen Millette, Capital	30 000-	
Karen Millette, Drawings		
Commissions Revenue	4 700-	
Advertising Expense	8 100-	
Bank Charges	8 000-	
Car Expense	18 000-	
Commissions Expense	200-	
Miscellaneous Expense	600-	
Postage Expense	900-	
Telephone Expense	2 200-	
Utilities Expense	12 000-	
Wages Expense		
	<u>\$252 900-</u>	<u>\$252 900-</u>

## EXTRA.....

- Using your Blue Moose account, enter the four closing entries as journal transactions.
  - Are your nominal accounts ready for the next fiscal period? How can you tell?

