

COURTESY DREAMWORKS PICTURES



CNN



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# Closing Entries

- For a service business there are **four**:
  - Close Revenue (Sales) to Income Summary
  - Close Expenses to Income Summary
  - Close Income Summary to Capital
  - Close Drawings to Capital

Sales	*Expenses	Inc. Summary	Capital
30,000	10,000		100,000

\*Various Expenses

Sales	30,000
Income Summary	30,000

Income Summary	10,000
Expense 1	2,500
Expense 2	2,500
Expense 3	2,500
Expense 4	2,500

Income Summary	20,000
S.Guy, Capital	20,000

S. Guy, Capital	0
S. Guy, Drawings	0

# THE MERCHANDISING BUSINESS

- There are still four closing entries... but they are a bit different.

# Note: Closing Journal Entries for a Merchandising Business

Merchandise Inventory	_____	XXX	*Ending Inventory
Sales		XXX	
Income Summary		XXX	

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Income Summary		XXX	
Merchandise Inventory	←	XXX	*Beginning Inventory
Purchases	←	XXX	
Freight In	←	XXX	
Expenses	←	XXX	

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Income Summary		XXX	
S. Guy, Capital		XXX	

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S. Guy, Capital		XXX	
S. Guy, Drawings		XXX	



# A SHORT CASE

Sales	100,000
Expenses	25,000
Beginning Inventory	10,000
Purchases	45,000
Freight In	5,000
Ending Inventory	20,000

Cost of Goods Available for Sale?

Cost of Goods Sold?

Gross Profit?

Net Income?

\*See the next page for the calculation of net income\*

# 'Basic' Income Statement

Sales 100,000

COGS (40,000)

Gross Profit 60,000

Expenses 25,000

Net Income 35,000

Sales	100,000
Expenses	25,000
Beginning Inventory	10,000
Purchases	45,000
Freight In	5,000
Ending Inventory	20,000

Cost of Goods Available for Sale?

60,000

Cost of Goods Sold?


40,000

Gross Profit?

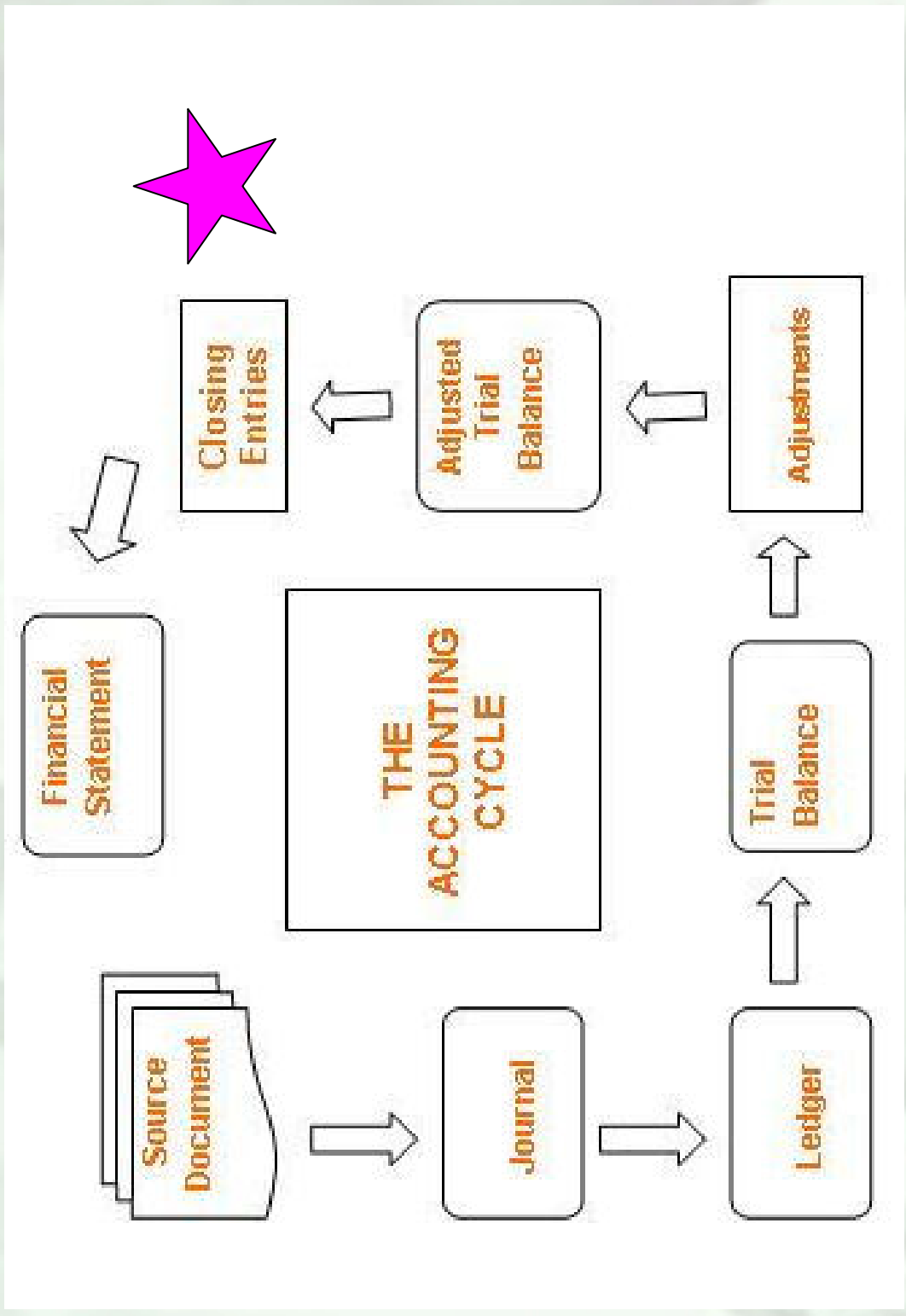
60,000

Net Income?

35,000

The background of the slide features a green book cover with the title 'ESQ' printed in large, white, serif letters. A white ribbon bookmark is visible, partially covering the text. The entire scene is set against a blurred green background.

**What are the closing entries?**



Merchandise Inventory	20,000	*Ending Inventory
Sales	100,000	
Income Summary	120,000	

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Income Summary	85,000
Merchandise Inventory	10,000
Purchases	45,000
Freight In	5,000
Expenses	25,000

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Income Summary	35,000
S. Guy, Capital	35,000

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S. Guy, Capital	0
S. Guy, Drawings	0

**YOU NEED TO REMEMBER HOW THIS IS DONE... IT IS ALWAYS THE SAME PROCESS.....SO YOU NEED TO MEMORIZE IT..!**

# TWO SHORT CASES

- Calculate the required information.
- Create a 'basic' income statement.
- Do the necessary closing journal entries.

Sales	200,000	429,000
Expenses	50,000	99,000
Drawings	0	45,000
Beginning Inventory	10,000	25,000
Purchases	60,000	125,000
Freight In	10,000	15,000
Ending Inventory	30,000	44,000

Cost of Goods Available for Sale?

Cost of Goods Sold?

Gross Profit?

Net Income?