



THE ACCOUNTING CYCLE COMPLETED

Chapter 5

Learning Objectives

1. Journalizing and posting adjusting entries.
2. Journalizing and posting closing entries.
3. Preparing a post-closing trial balance.

Accounting Cycle Steps Learned

- Step 1 - Business transactions occurred and generated source documents.
- Step 2 - Business transactions were analyzed and recorded into a journal.
- Step 3 - Information was posted or transferred from journal to ledger.
- Step 4 - A trial balance was prepared.
- Step 5 - A worksheet was completed.
- Step 6 - Financial statements were prepared.

Accounting Cycle Steps To Complete the Accounting Cycle

- Step 7 - Journalizing and posting adjusting entries.
- Step 8 - Journalizing and posting closing entries.
- Step 9 - Preparing a post-closing trial balance.



Learning Objective 1

Journalizing and posting adjusting entries

Recording Journal Entries from the Worksheet

- Information in the worksheet is up-to-date.
- Financial reports give an idea of where the business stands.
- Adjustments have not been recorded into the journal or posted to the ledger.
- The books are not up-to-date or ready for next accounting cycle.

Adjusting Journal Entries

- Use the adjustment columns of the worksheet to prepare adjusting entries.
- The adjustments will bring ledger up-to-date.
- Once posted to the ledger, the accounts will equal the financial statements presented.
- Updating must be completed before the next accounting period starts.
- Adjustments to Accumulated Depreciation will keep getting larger as the asset is used.

Adjusting Journal Entries

Account Titles	Trial Balance		Adjustments	
	Dr.	Cr.	Dr.	Cr.
Cash	615500			
Accounts Receivable	500000			
Office Supplies	60000			(A) 50000
Prepaid Rent	120000			(B) 40000
Word Processing Equipment	600000			
Accounts Payable		335000		
Brenda Clark, Capital		1000000		
Brenda Clark, Withdrawals	62500			
Word Processing Fees		800000		
Office Salaries Expense	130000		(D) 35000	
Advertising Expense	25000			
Telephone Expense	22000			
	2135000	2135000		
Office Supplies Expense			(A) 50000	
Rent Expense			(B) 40000	
Depreciation Exp., W. P. Equip.			(C) 8000	
Accum. Deprec., W. P. Equip.				(C) 8000
Salaries Payable				(D) 35000
			133000	133000

Adjusting Journal Entries

CLARK'S WORD PROCESSING SERVICES GENERAL JOURNAL						
						Page 2
Date	Account Titles and Description		PR	Dr.	Cr.	
Adjusting Entries						
May 31	Office Supplies Expense	514	50000			
	Office Supplies	114			50000	
31	Rent Expense	515	40000			
	Prepaid Rent	115			40000	
31	Depreciation Expense, W. P. Equip.	516	8000			
	Accumulated Depreciation, W. P. Equip.	122			8000	
31	Office Salaries Expense	511	35000			
	Salaries Payable	212			35000	

Learning Objective 2

Journalizing and posting closing entries

Journalizing and Posting Closing Entries

- Next period's transactions are made easier by a closing procedure.
- Closing is intended to close off the revenue, expense, and withdrawal accounts.
- Accounts have two classifications: temporary (nominal) accounts and permanent (real) accounts.

Journalizing and Posting Closing Entries

- Recall the expanded accounting equation:

Assets = Liabilities + Capital - Withdrawals + Revenues - Expenses

- Assets, Liabilities, and Capital

- ▣ Are known as real or permanent accounts

- ▣ Are carried over from one accounting period to another

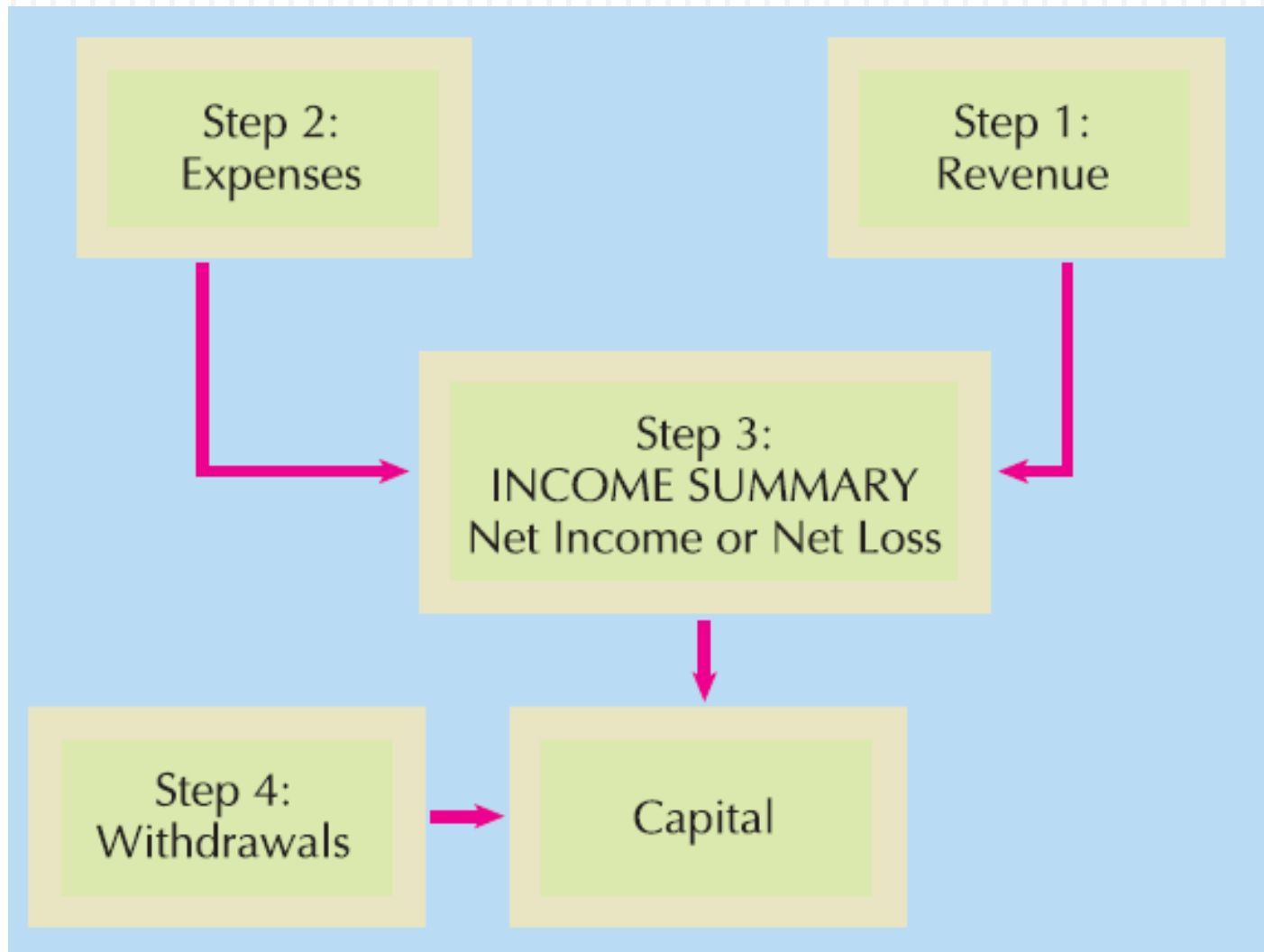
Journalizing and Posting Closing Entries

- Withdrawals, Revenues, and Expenses
 - ▣ Are called nominal or temporary accounts
 - ▣ Their balances are not carried over from one accounting period to another.
 - ▣ These accounts are reset to zero for the new accounting period.
- This process allows for the accumulation of new data in the new accounting period.

How to Journalize Closing Entries

- Four steps are needed in journalizing closing entries:
 - ▣ **Step 1** Clear to zero the revenue balance and transfer it to Income Summary.
 - ▣ **Step 2** Clear to zero the individual expense balances and transfer them to Income Summary.
 - ▣ **Step 3** Clear to zero the balance in Income Summary and transfer it to Capital.
 - ▣ **Step 4** Clear to zero the balance in Withdrawals and transfer it to Capital.

How to Journalize Closing Entries



How to Journalize Closing Entries

Account Titles	Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.
Cash			61 5500	
Accounts Receivable			50 0000	
Office Supplies			10 000	
Prepaid Rent			80 000	
Word Processing Equipment			60 0000	
Accounts Payable				33 5000
B. Clark, Capital		For Step 1		100 0000
B. Clark, Withdrawals	For Step 2	↓	62 500	
Word Processing Fees	↓	80 0000	↑	
Office Salaries Expense	16 5000		For Step 4	
Advertising Expense	25 000			
Telephone Expense	22 000			
Office Supplies Expense	50 000			
Rent Expense	40 000			
Depreciation Exp., W. P. Equip.	8000			
Acc. Depreciation, W. P. Equip.		For Step 3		8000
Salaries Payable				35000
	31 0000	80 0000	18 68000	137 8000
Net Income	49 0000	←		49 0000
	80 0000	80 0000	18 68000	18 68000

Step 1: Clear to zero the revenue balance

- The income statement section on the worksheet in Figure 5.5 shows that Word Processing Fees has a credit balance of \$8,000.

	May	31	Word Processing Fees	411	8	0	0	0	0				
			Income Summary	313						8	0	0	0

Word Processing Fees 411

8,000	8,000
Closing	Revenue

Income Summary 313

8,000
Revenue

Step 2: Clear to zero the individual expense balances

Office Salaries Expense 511

650
650
350

Telephone Expense 513

220

Rent Expense 515

400

Advertising Expense 512

250

Office Supplies Expense 514

500

Depreciation Expense, W. P. Equipment 516

80

31	Income Summary	313	3	1	0	0	0	0		
	Office Salaries Expense	511							1	650
	Advertising Expense	512							2	50
	Telephone Expense	513							2	20
	Office Supplies Expense	514							5	00
	Rent Expense	515							4	00
	Depreciation Expense, W. P. Equip.	516							8	00

Step 2: Clear to zero the individual expense balances

Office Salaries Expense 511

650	Closing	1,650
650		
350		

Telephone Expense 513

220	Closing	220
-----	---------	-----

Rent Expense 515

400	Closing	400
-----	---------	-----

Income Summary 313

	Expenses	Revenue	
Step 2	3,100	8,000	Step 1

Advertising Expense 512

250	Closing	250
-----	---------	-----

Office Supplies Expense 514

500	Closing	500
-----	---------	-----

Depreciation Expense, W. P. Equipment 516

80	Closing	80
----	---------	----

Step 3: Clear Balance in Income Summary (Net Income) and Transfer It to Capital

- Compute the ending balance of the Income Summary account

Income Summary 313	B. Clark, Capital 311
3,100	8,000
	4,900
	10,000

		31	Income Summary	313	4	9	0	0	0				
			B. Clark, Capital	311						4	9	0	0

Step 4: Clear the Withdrawals Balance and Transfer It to Capital

- At the end of these three steps, the Income Summary has a zero balance.

Income Summary 313		B. Clark, Capital 311	
Total of Expenses	3,100	8,000	Revenue
Debit to close account	4,900	4,900	Net Income

- Close withdrawals

B. Clark, Withdrawals 312

625

B. Clark, Capital 311

10,000

4,900

31	B. Clark, Capital	311	62500		
	B. Clark, Withdrawals	312		62500	

A Summary of the Closing Entries

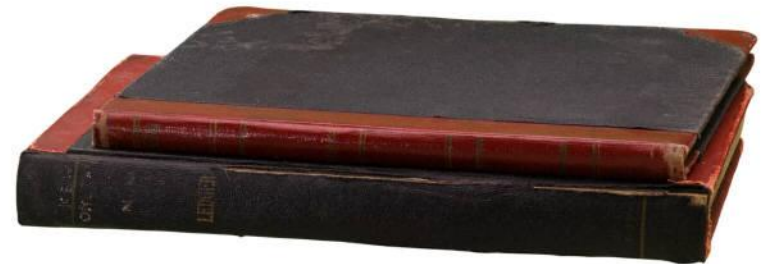
31	Word Processing Fees	411	800000				
	Income Summary	313				800000	
31	Income Summary	313	310000				
	Office Salaries Expense	511				165000	
	Advertising Expense	512				25000	
	Telephone Expense	513				22000	
	Office Supplies Expense	514				50000	
	Rent Expense	515				40000	
	Depreciation Expense, W. P. Equip.	516				8000	
31	Income Summary	313	490000				
	B. Clark, Capital	311				490000	
31	B. Clark, Capital	311	62500				
	B. Clark, Withdrawals	312				62500	

Learning Objective 3

Prepare a post-closing trial balance

Post-Closing Trial Balance

- Last step in the accounting cycle
- Lists only permanent accounts
- Aids in checking whether ledger is in balance
- The same procedure as for a trial balance



A Post-Closing Trial Balance

**CLARK'S WORD PROCESSING SERVICES
POST-CLOSING TRIAL BALANCE
MAY 31, 200X**

	Dr.	Cr.
Cash	6 1 5 5 00	
Accounts Receivable	5 0 0 0 00	
Office Supplies	1 0 0 0 0	
Prepaid Rent	8 0 0 0 0	
Word Processing Equipment	6 0 0 0 00	
Accumulated Depreciation, Word Processing Equip.		8 0 0 0
Accounts Payable		3 3 5 0 00
Salaries Payable		3 5 0 0 0
Brenda Clark, Capital		1 4 2 7 5 00
Totals	18 0 5 5 00	18 0 5 5 00

1. Collect source documents from business transactions as they occur.
2. Analyze and record business transactions into a journal.
3. Post or transfer information from journal to ledger.
4. Prepare a trial balance.
5. Prepare a worksheet.
6. Prepare financial statements.
7. Journalize and post adjusting entries.
8. Journalize and post closing entries.
9. Prepare a post-closing trial balance.

Cash register tape, sales tickets, bills, checks, payroll cards.

Called journalizing.

Copying the debits and credits of the journal entries into the ledger accounts.

Summarizing each individual ledger account and listing those accounts to test for mathematical accuracy in recording transactions.

A multicolumn form that summarizes accounting information to complete the accounting cycle.

Income statement, statement of owner's equity, and balance sheet.

Use figures in the adjustment columns of worksheet.

Use figures in the income statement and balance sheet sections of worksheet.

Prove the mathematical accuracy of the adjusting and closing process of the accounting cycle.

Summary of the chapter

- Once the financial statements are prepared from the worksheet, our ledger is still not up-to-date. Information about the adjustments on the worksheet have not been journalized or posted to the ledger.
- Once the adjustments are journalized, they must be posted to the ledger. When the postings are complete, the accounts will have the latest up-to-date balances.

Summary of the chapter

- The ending balances in the ledger after posting adjustments will be the same amounts that were found on the adjusted trial balance.
- In the ledger, we need to get the new balance in the Capital account. When financial statements were prepared, the ledger for Capital had only the old balance.

Summary of the chapter

- Also, to get ready for the next accounting period, we must close all temporary accounts to zero so they will be ready to collect new data regarding revenues, expenses, and withdrawals. Without the closing process each year, financial statements would run into the next period and financial analysis would be difficult. Keep in mind that the Income Summary account that will be used in the closing process is a temporary account.

Summary of the chapter

- Why use four steps to closing?
- The four steps to closing when journalized and posted will do the following:
 1. Clear all temporary accounts to zero.
 2. Update the Capital account in the ledger to its new balance.

Summary of the chapter

□ Steps to closing:

1. Close revenue account(s) to Income Summary.
2. Close each INDIVIDUAL expense to Income Summary.
3. Remove the balance in Income Summary (net income or net loss) and transfer it to the Capital account.
4. Close any withdrawals directly to Capital.

Summary of the chapter

- All the closing entries can be journalized directly from the last four columns of the worksheet. Each individual expense along with the total of expenses is found on the worksheet. Once these four closing entries are journalized and posted, all temporary accounts have a zero balance.

Summary of the chapter

- Most companies journalize and post adjusting and closing entries only at the end of their fiscal year. A company that prepares interim statements may complete only the first six steps of the cycle. Worksheets allow the preparation of interim reports without the formal adjusting and closing of the books. In this case, footnotes on the interim report will indicate the extent to which adjusting and closing were completed.

Summary of the chapter

- The post-closing trial balance contains only permanent accounts because all temporary accounts have been closed. All temporary accounts are summarized in the Capital account. Remember that Income Summary is a temporary account.
- Once all the closing entries have been journalized and posted we can then prepare a post-closing trial balance.

Questions



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