

Accounting



CHAPTER 20

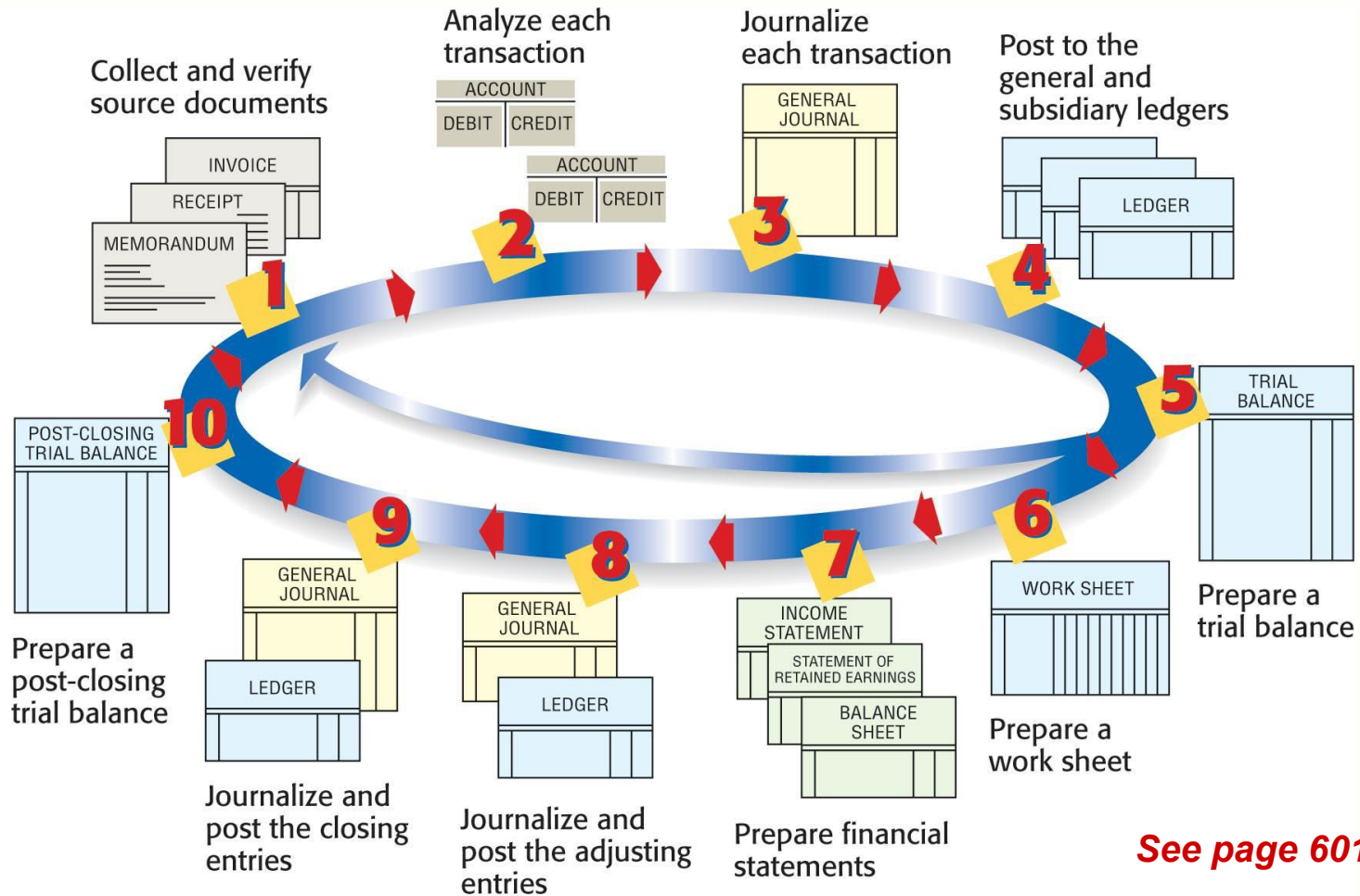
COMPLETING THE ACCOUNTING CYCLE FOR A MERCHANDISING CORPORATION

SECTION 20.1 JOURNALIZING CLOSING ENTRIES

SECTION 20.2 POSTING CLOSING ENTRIES

Completing the Accounting Cycle for a Merchandising Business

Section 20.2 Posting Closing Entries



See page 601

Permanent vs Temporary Accounts

- Permanent accounts
 - Accumulate information from one fiscal period to the next.
 - Assets, Liabilities, and Stockholders' Equity
- Temporary accounts
 - Accumulate information until transferred to the Retained Earnings
 - Are closed at the end of each fiscal period
 - Revenue, cost, expenses, and dividends

Journalizing Closing Entries

- Journalize right below Adjusting Entries
- Heading “Closing Entries” is written to explain why there are no source document numbers.
- Information is obtained from the worksheet

The Income Summary Account

- Used to summarize the closing entries for revenue, cost and expenses.
- **Does not have** a normal balance

The Income Summary Account

- Used to summarize the closing entries for revenue, cost and expenses.
- **Does not have** a normal balance

Income Summary

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

Steps for Closing the Ledger

Section 20.1

Journalizing
Closing Entries

Steps for Closing the Ledger for a Corporation

1

Close accounts with balances in the Income Statement Credit column to Income Summary.

2

Close accounts with balances in the Income Statement Debit column to Income Summary.

3

Close Income Summary to Retained Earnings by recording the Income or Loss from the worksheet.

Steps for Closing the Ledger

Section 20.1

Journalizing
Closing Entries

- 1 Close accounts with balances in the Income Statement Credit column to Income Summary.

ACCOUNT TITLE	TRIAL BALANCE		INCOME STATEMENT	
	DEBIT	CREDIT	DEBIT	CREDIT
29 Sales		495 120 00		495 120 00
30 Sales Discount	25 848		25 848	
31 Sales Returns and Allowances	31 272 8		31 272 8	
32 Purchases	209 960 00		209 960 00	
33 Purchases Discount		16 481 5		16 481 5
34 Purch. Returns and Allowances		34 849 5		34 849 5

GENERAL JOURNAL							PAGE 16
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
	<i>Closing Entries</i>						
20- Dec. 31	Sales			495 120 00		1	
	Purchases Discount			16 481 5		2	
	Purchases Ret. and Allow.			34 849 5		3	
	Income Summary				500 253 10	4	

Steps for Closing the Ledger

Section 20.1

Journalizing
Closing Entries

2

Close accounts with balances in the Income Statement Debit column to Income Summary.

ACCOUNT TITLE	1 TRIAL BALANCE		5 INCOME STATEMENT		6	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
28 <i>Income Summary</i>					1584000	
29 <i>Sales</i>		49512000				49512000
30 <i>Sales Discount</i>	25848		25848			
31 <i>Sales Returns and Allowances</i>	312728		312728			
32 <i>Purchases</i>	20996000		20996000			
33 <i>Purchases Discount</i>		164815				164815
34 <i>Purch. Returns and Allowances</i>		348495				348495
35 <i>Advertising Expense</i>	360000		360000			
36 <i>Cash Short and Over</i>	1925		1925			
37 <i>Credit Card Fee Expense</i>	338500		338500			
48 <i>Utilities Expense</i>	382000		382000			
<i>Federal Income Tax Expense</i>	1800000		2388924			

GENERAL JOURNAL							PAGE 16
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
6	31 <i>Income Summary</i>			40409915		6	
7	<i>Sales Discount</i>				25848	7	
8	<i>Sales Returns and Allow.</i>				312728	8	
9	<i>Purchases</i>				20996000	9	
10	31 <i>Advertising Expense</i>			360000		10	
11	<i>Cash Short and Over</i>			1925		11	
12	<i>Credit Card Fee Expense</i>			338500		12	
13	<i>Depr. Exp.—Office Equipment</i>			654000		13	
14	<i>Depr. Exp.—Store Equipment</i>			525000		14	
23	<i>Utilities Expense</i>				382000	23	
24	<i>Federal Income Tax Expense</i>				2388924	24	

Steps for Closing the Ledger

3

Close Income Summary to Retained Earnings by recording the Income or Loss from the Worksheet.

GENERAL JOURNAL							PAGE 16
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
24	²⁰⁻⁻ 31 <i>Income Summary</i>			80 313 95		24	
25	<i>Retained Earnings</i>				80 313 95	25	

Closing Entry to Transfer a Net Loss

Section 20.1

Journalizing
Closing Entries

****If there is a net loss, credit Income Summary for the amount and debit Retained Earnings for the amount.**

GENERAL JOURNAL						PAGE <u>23</u>
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
1	<i>Closing Entries</i>				1	
22	Dec. 31 Retained Earnings		5 0 0 0 00		22	
23	Income Summary			5 0 0 0 00	23	
24					24	

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Closing the General Ledger

Section 20.2 Posting Closing Entries

When closing the general ledger, write Closing Entry for each posting in the Description column of the general ledger account.

CHAPTER 20

COMPLETING THE ACCOUNTING CYCLE FOR A MERCHANDISING CORPORATION

Closing the General Ledger

Section 20.2 Posting Closing Entries

Partial General Ledger at the End of the Fiscal Period

ACCOUNT <i>Retained Earnings</i>					ACCOUNT NO. <u>305</u>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE			
					DEBIT	CREDIT		
20--								
Dec. 1	Balance	✓				19 771 19		
31	Clos. Ent.	G23		32 674 72		52 445 91		

ACCOUNT <i>Income Summary</i>					ACCOUNT NO. <u>310</u>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE			
					DEBIT	CREDIT		
20--								
Dec. 31	Adj. Ent.	G22	3 536 00		3 536 00			
31	Clos. Ent.	G23		323 590 00		320 054 00		
31	Clos. Ent.	G23	287 379 28			32 674 72		
31	Clos. Ent.	G23	32 674 72					

ACCOUNT <i>Sales</i>					ACCOUNT NO. <u>401</u>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE			
					DEBIT	CREDIT		
20--								
Dec. 1	Balance	✓				300 000 00		
31		S12		10 750 00		310 750 00		
31		CR13		9 700 00		320 450 00		
31	Clos. Ent.	G23	320 450 00					

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Closing the General Ledger

Section 20.2 Posting Closing Entries

Partial General Ledger at the End of the Fiscal Period (continued)

ACCOUNT <i>Sales Discounts</i>					ACCOUNT NO. 405			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		DEBIT	CREDIT
20--								
Dec. 1	Balance	✓				7 00 00		
31		CR13	30 00			7 30 00		
31	Clos. Ent.	G23		7 30 00				

ACCOUNT <i>Sales Returns and Allowances</i>					ACCOUNT NO. 410			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		DEBIT	CREDIT
20--								
Dec. 1	Balance	✓				1 850 00		
4		G20	1 50 00			2 000 00		
31	Clos. Ent.	G23		2 000 00				

ACCOUNT <i>Purchases</i>					ACCOUNT NO. 501			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		DEBIT	CREDIT
20--								
Dec. 1	Balance	✓				190 000 00		
19		CP14	1 300 00			191 300 00		
31		P12	15 400 00			206 700 00		
31	Clos. Ent.	G23		206 700 00				

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CHAPTER 20

COMPLETING THE ACCOUNTING CYCLE FOR A MERCHANDISING CORPORATION

Closing the General Ledger

Section 20.2 Posting Closing Entries

Partial General Ledger at the End of the Fiscal Period (continued)

ACCOUNT <i>Transportation In</i>					ACCOUNT NO. 505			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		DEBIT	CREDIT
20--								
Dec. 1	Balance	✓					3 7 6 1 18	
24		CP14	2 7 5 00				4 0 3 6 18	
31	Clos. Ent.	G23		4 0 3 6 18				

ACCOUNT <i>Purchases Discounts</i>					ACCOUNT NO. 510			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		DEBIT	CREDIT
20--								
Dec. 1	Balance	✓						1 2 0 0 00
31		CP14		1 4 0 00				1 3 4 0 00
31	Clos. Ent.	G23	1 3 4 0 00					

ACCOUNT <i>Purchases Returns and Allowances</i>					ACCOUNT NO. 515			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		DEBIT	CREDIT
20--								
Dec. 1	Balance	✓						1 6 0 0 00
16		G21		2 0 0 00				1 8 0 0 00
31	Clos. Ent.	G23	1 8 0 0 00					

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Closing the General Ledger

Section 20.2 Posting Closing Entries

Partial General Ledger at the End of the Fiscal Period (continued)

ACCOUNT <i>Advertising Expense</i>			ACCOUNT NO. <i>601</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Dec. 1	Balance	✓			2 4 5 0 00	
31	Clos. Ent.	G23		2 4 5 0 00		

ACCOUNT <i>Bankcard Fees Expense</i>			ACCOUNT NO. <i>605</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Dec. 1	Balance	✓			4 1 2 4 27	
31		CP14	7 5 00		4 1 9 9 27	
31	Clos. Ent.	G23		4 1 9 9 27		

ACCOUNT <i>Federal Corporate Income Tax Expense</i>			ACCOUNT NO. <i>630</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Dec. 1	Balance	✓			9 8 4 0 00	
31	Adj. Ent.	G22	1 5 5 00		9 9 9 5 00	
31	Clos. Ent.	G23		9 9 9 5 00		

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Closing the General Ledger

Section 20.2 Posting Closing Entries

Partial General Ledger at the End of the Fiscal Period (continued)

ACCOUNT <i>Insurance Expense</i>				ACCOUNT NO. <i>635</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
Dec. 31	Adj. Ent.	G22	1 2 5 00		1 2 5 00		
	31 Clos. Ent.	G23		1 2 5 00			

ACCOUNT <i>Maintenance Expense</i>				ACCOUNT NO. <i>650</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
Dec. 1	Balance	✓			3 5 1 9 25		
	31 Clos. Ent.	G23		3 5 1 9 25			

ACCOUNT <i>Miscellaneous Expense</i>				ACCOUNT NO. <i>655</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
Dec. 1	Balance	✓			3 2 8 28		
	31	CP14	20 00		3 4 8 28		
	31 Clos. Ent.	G23		3 4 8 28			

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Closing the General Ledger

Section 20.2 Posting Closing Entries

Partial General Ledger at the End of the Fiscal Period (continued)

ACCOUNT <i>Payroll Tax Expense</i>				ACCOUNT NO. <i>657</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
Dec. 1	Balance	✓			3 8 2 6 83		
31	Clos. Ent.	G23		3 8 2 6 83			

ACCOUNT <i>Rent Expense</i>				ACCOUNT NO. <i>660</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
Dec. 1	Balance	✓			12 0 0 0 00		
31		CP14	2 0 0 0 00		14 0 0 0 00		
31	Clos. Ent.	G23		14 0 0 0 00			

ACCOUNT <i>Salaries Expense</i>				ACCOUNT NO. <i>665</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
Dec. 1	Balance	✓			25 3 7 4 60		
31		CP14	4 0 0 0 00		29 3 7 4 60		
31	Clos. Ent.	G23		29 3 7 4 60			

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Closing the General Ledger

Section 20.2 Posting Closing Entries

Partial General Ledger at the End of the Fiscal Period (continued)

ACCOUNT <i>Supplies Expense</i>			ACCOUNT NO. <u>670</u>				
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
Dec. 31	Adj. Ent.	G22	3 7 1 0 00		3 7 1 0 00		
	31	Clos. Ent.		3 7 1 0 00			

ACCOUNT <i>Utilities Expense</i>			ACCOUNT NO. <u>680</u>				
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
20--							
Dec. 1	Balance	✓			2 3 6 4 87		
	31	Clos. Ent.		2 3 6 4 87			

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Preparing a Post-Closing Trial Balance

Section 20.2 Posting Closing Entries

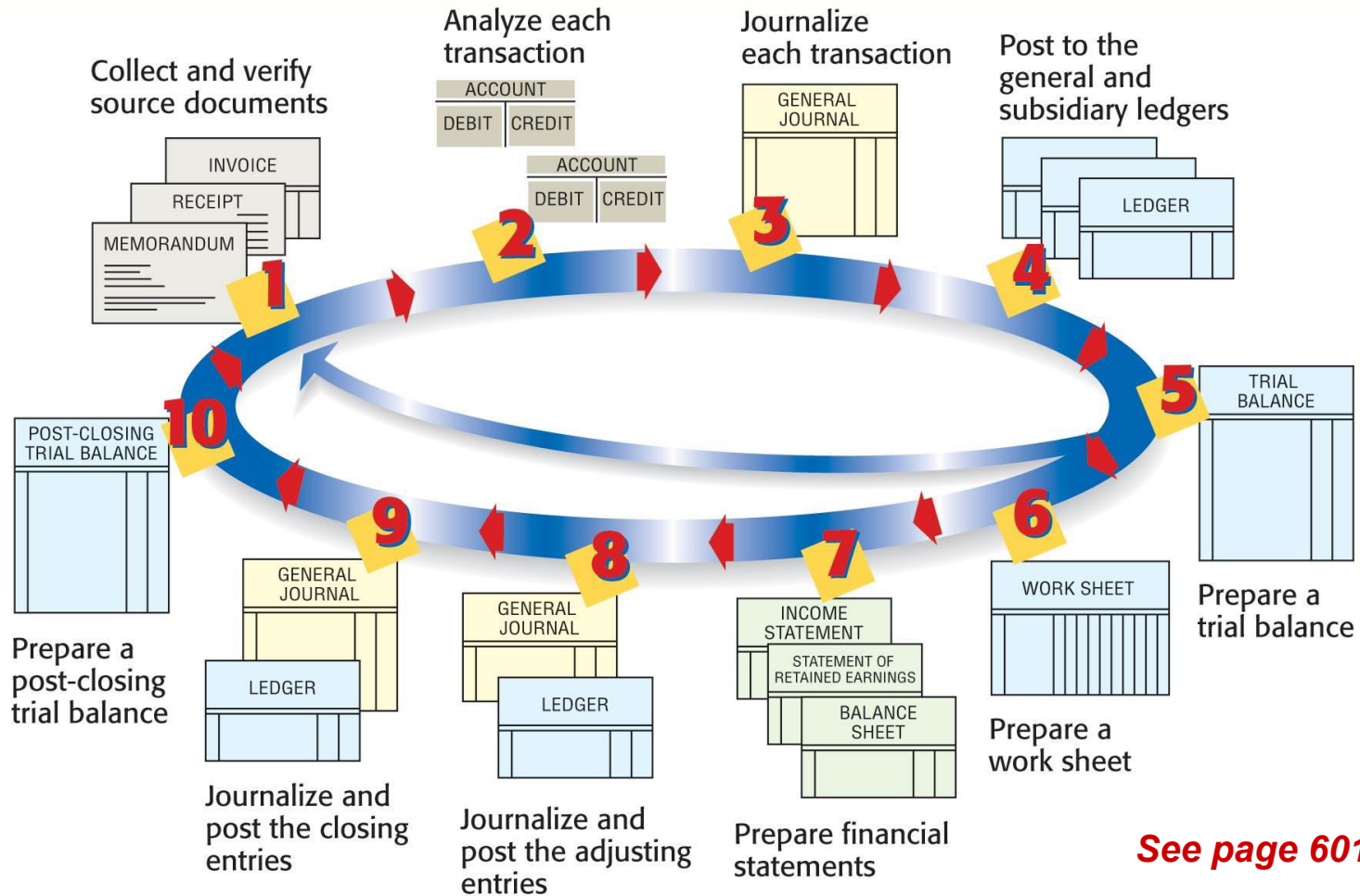
A post-closing trial balance is prepared at the end of the accounting period to prove the general ledger accounts are in balance.

The Starting Line Sports Gear									
Post-Closing Trial Balance									
December 31, 20--									
Cash in Bank	15	1	7	9	00				
Accounts Receivable	10	4	0	4	00				
Merchandise Inventory	81	3	8	5	00				
Supplies	1	8	3	9	00				
Prepaid Insurance	1	3	7	5	00				
Delivery Equipment	19	8	3	1	00				
Office Equipment	9	8	2	5	00				
Store Equipment	5	2	0	0	00				
Accounts Payable						13	8	5	00
Fed. Corp. Income Tax Payable						1	5	5	00
Employees' Fed. Income Tax Payable						6	4	0	00
Employees' State Income Tax Payable						8	0	0	00
Social Security Tax Payable						2	4	8	00
Medicare Tax Payable						5	8	0	00
Fed. Unemployment Tax Payable						1	8	3	6
State Unemployment Tax Payable						1	1	4	73
Sales Tax Payable						2	4	2	80
Capital Stock						75	0	0	00
Retained Earnings						52	4	4	59
Totals	145	0	3	8	00	145	0	3	80

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Completing the Accounting Cycle for a Merchandising Business

Section 20.2 Posting Closing Entries



See page 601

Question 1

To journalize the closing entries, put the following in order:

- Close temporary accounts with debit balances. 2
- Close temporary accounts with credit balances. 1
- Close the **Income Summary** account to Capital. 3

Question 2

How is a post-closing trial balance different from other trial balances?

- **The post-closing trial balance is prepared after closing entries in which temporary account balances have been transferred to the capital account.**
- **The post-closing trial balance has only permanent or balance sheet accounts.**
- **Other trial balances include both temporary and permanent accounts.**

Accounting



End of CHAPTER 20

COMPLETING THE ACCOUNTING CYCLE FOR A MERCHANDISING CORPORATION

SECTION 20.1 JOURNALIZING CLOSING ENTRIES

SECTION 20.2 POSTING CLOSING ENTRIES