

ACCT 100 - Chapter 6 Outline

I. Closing Entries – what we have done so far:

- A. The next and last step in the accounting cycle is the Closing Process. The purpose of the closing process is to “zero” out the nominal, or temporary, accounts so they start the new year with a zero balance.

We also need to update the owner’s capital account so that the ending capital balance in the General Ledger matches what we have calculated on the Statement of Owner’s Equity.

- B. What accounts need to be closed?

1. Nominal/Temporary Accounts

a.

b.

c.

d.

2. Permanent Accounts

a.

b.

c.

3. Income Summary – a pass-through, or dummy, account that is used only during the closing process. It should have a zero balance at the start of the closing process and a zero balance at the end of the closing process. It will never appear on a financial statement.

II. The Closing Process

- A. The order of the closing process is important. You should perform the steps in the following order:

- 1.
- 2.
- 3.
- 4.

- B. The closing process is a game of opposites. For accounts with a normal *credit* balance, we will *debit* to zero out; for accounts with a normal *debit* balance we will *credit* to zero out.

1. Close Revenue

Fees Income	Income Summary
47,000	

	DATE	DESCRIPTION	POST REF	DEBIT	CREDIT	
1	20X1					1
2	Dec 31					2
3						3
4						4

2. Close Expenses

Salaries Expense	
8,000	

Income Summary	
	47,000

Utilities Expense	
650	

Supplies Expense	
500	

Rent Expense	
4,000	

Depreciation Expense	
183	

	DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1	20X1						1
2	Dec	31					2
3							3
4							4
5							5
6							6
7							7
8							8

3. Close Income Summary

This entry will change depending on whether the company had a Net Income or a Net Loss.

a. Net Income

DR Income Summary
CR Capital

(hint: Net Income increases capital; capital increases with a credit)

b. Net Loss

DR Capital
CR Income Summary

(hint: Net Loss decreases capital; capital decreases with a debit)

T. Eli, Capital	Income Summary
100,000	13,333 47,000

DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1	20X1					1
2	Dec 31					2
3						3
4						4

4. Close Drawing

T. Eli, Capital	T. Eli, Drawing
100,000 33,667	5,000

DATE		DESCRIPTION	POST REF	DEBIT	CREDIT	
1	20X1					1
2	Dec 31					2
3						3
4						4

General Journal

	DATE	DESCRIPTION	PR	DEBIT	CREDIT	
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
9						9
10						10
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36						36
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38						38
39						39
40						40
41						41

General Journal

	DATE	DESCRIPTION	PR	DEBIT	CREDIT	
1						1
2						2
3						3
4						4
5						5
6						6
7						7
8						8
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General Journal

	DATE	DESCRIPTION	PR	DEBIT	CREDIT	
1						1
2						2
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40						40
41						41

Ex. 6.1

Hunter Company

Fees Income	
	53,750

Jessica Hunter, Capital	
	60,750

Depreciation Expense	
2,750	

Jessica Hunter, Drawing	
26,000	

Salaries Expense	
17,000	

Income Summary	

Supplies Expense	
3,000	

Telephone Expense	
2,600	

Utilities Expense	
4,650	

Tobias Cleaning and Maintenance

Fees Income	
	49,200

Telephone Expense	
315	

Depreciation Expense - Machinery	
1,680	

Utilities Expense	
960	

Insurance Expense	
2,220	

Triana Tobias, Drawing	
3,600	

Rent Expense	
4,500	

Income Summary	

Salaries Expense	
24,000	

Triana Tobias, Capital	
	34,250

Supplies Expense	
4,290	

The Pollock Family Farm

Fees Income	
	40,998

Bruce Pollock, Capital	
	43,088

Advertising Expense	
2,475	

Bruce Pollock, Drawing	
2,700	

Depreciation Expense - Equip	
675	

Income Summary	

Rent Expense	
1,575	

Salaries Expense	
8,100	

Utilities Expense	
2,700	