

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
11						11
12						12
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37						37
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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41						41

General Journal

	DATE	DESCRIPTION	PR	DEBIT	CREDIT	
1						1
2						2
3						3
4						4
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41						41

Ex. 6.1

De La Rosa Company

Fees Income	
	107,500

Rosie De La Rosa, Capital	
	121,500

Depreciation Expense	
5,000	

Rosie De La Rosa, Drawing	
52,000	

Salaries Expense	
34,000	

Income Summary	

Supplies Expense	
6,000	

Telephone Expense	
5,700	

Utilities Expense	
9,300	

De La Rosa Company
Income Statement
For the year ended December 31, 20X1

Revenue			
	Fees Income		\$ 107,500
Expenses			
	Depreciation Expense	5,000	
	Salaries Expense	34,000	
	Supplies Expense	6,000	
	Telephone Expense	5,700	
	Utilities Expense	9,300	
			60,000
	Net Income		\$ 47,500

De La Rosa Company
Statement of Owners Equity
For the year ended December 31, 20X1

Beginning Capital, January 1, 20X1			\$ 121,500
	Net Income	47,500	
	Less: Drawing	52,000	
	Net decrease		(4,500)
Ending Capital, December 31, 20X1			\$ 117,000

P 6.1B

Grabbit Cleaning and Maintenance

Fees Income	
	98,400

Telephone Expense	
630	

Depreciation Expense - Machinery	
3,360	

Utilities Expense	
1,920	

Insurance Expense	
4,440	

Charles Grabbit, Drawing	
7,200	

Rent Expense	
9,000	

Income Summary	

Salaries Expense	
48,000	

Charles Grabbit, Capital	
	34,250

Supplies Expense	
8,580	

Grabbit Cleaning & Maintenance
Income Statement
 For the year ended January 31, 20X1

Revenue			
	Fees Income		\$ 98,400
Expenses			
	Depreciation Expense	\$ 3,360	
	Insurance Expense	4,440	
	Rent Expense	9,000	
	Salaries Expense	48,000	
	Supplies Expense	8,580	
	Telephone Expense	630	
	Utilities Expense	1,920	
			75,930
	Net Income		\$ 22,470

Grabbit Cleaning & Maintenance
Statement of Owners Equity
 For the year ended January 31, 20X1

Beginning Capital, February 1, 20X0			\$ 34,250
	Net Income	\$ 22,470	
	Less: Drawing	7,200	
	Net increase		15,270
Ending Capital, January 31, 20X1			\$ 49,520

The Mitchell Family Farm

Fees Income	
	81,996

Charles Mitchell, Capital	
	86,176

Advertising Expense	
4,950	

Charles Mitchell, Drawing	
5,400	

Depreciation Expense - Equip	
1,350	

Income Summary	

Rent Expense	
3,150	

Salaries Expense	
16,200	

Utilities Expense	
5,400	

Mitchell Family Farm
Income Statement
For the year month December 31, 20X1

Revenue			
	Fees Income		\$ 81,996
Expenses			
	Advertising Expense	\$ 4,950	
	Depreciation Expense	1,350	
	Rent Expense	3,150	
	Salaries Expense	16,200	
	Utilities Expense	5,400	
			31,050
	Net Income		\$ 50,946

Mitchell Family Farm
Statement of Owners Equity
For the year month December 31, 20X1

Beginning Capital, January 1, 20X1			\$ 86,176
	Net Income	\$ 50,946	
	Less: Drawing	5,400	
	Net increase		45,546
Ending Capital, December 31, 20X1			\$ 131,722

