

## Chapter 8: Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Chapter Overview

### Chapter Overview

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business:

Chapter Objectives

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business:

Accounting in the Real World

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Key Terms

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business:

Chapter Objectives

Learning Objectives

After studying Chapter 8, in addition to defining key terms, you will be able to:

LO1 Journalize and post closing entries for a service business organized as a proprietorship.

LO2 Prepare a post-closing trial balance.

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business:

Accounting in the Real World

Ben & Jerry's

What is your favorite flavor of ice cream? If your answer is Cherry Garcia, Magic Brownie, or Chunky Monkey, you are already acquainted with Ben & Jerry's ice cream. Ben & Jerry's is known for its unusual ice cream flavors and its even more unusual names for those flavors. This ice cream maker began in an old gas station. It has now become a socially and environmentally responsible company while still earning a profit for its stockholders.

One example of Ben & Jerry's social responsibility involves the brownies used in many of its ice cream flavors such as Magic Brownie. All the brownie chunks in this flavor come from Greyston Bakery, which started as a small bakery in Yonkers, New York. Greyston Bakery has an "open hiring" policy, which focuses on employing the chronically unemployed. Its reason for existing is to "provide

jobs to homeless people, ex-convicts, teenage moms, and other people in difficult circumstances.”

Another example is Ben & Jerry's commitment to pay its employees no less than a livable wage. A livable wage is defined as the starting wage for a single person that will sustain a reasonable quality of life. It is to include expenditures for housing, utilities, out-of-pocket health care, transportation, food, recreation, savings, taxes, and miscellaneous expenses. Each year, the company recalculates the livable wage to make sure it keeps up with the actual cost of living. Since 2008, Ben & Jerry's livable wage has been almost double the national minimum wage.

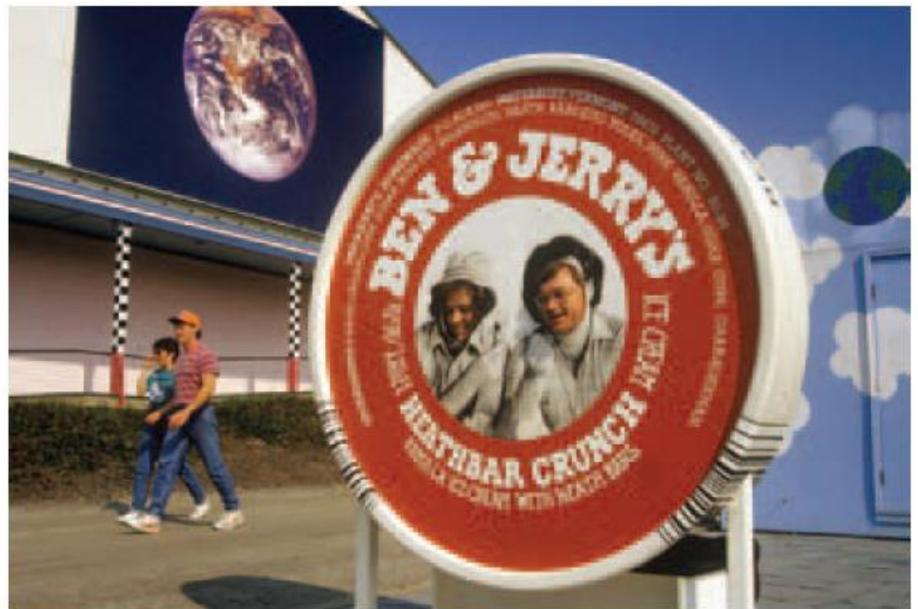
### Critical Thinking



1. List at least two reasons why Ben & Jerry's pays more than the current minimum wage to its employees.
2. Go to [www.benjerry.com](http://www.benjerry.com) and find two additional examples that demonstrate the company's social or environmental responsibility.
3. Name three expense accounts that might be found on an income statement for Ben & Jerry's.

### Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Key Terms

- permanent accounts
- temporary accounts
- closing entries
- post-closing trial balance
- accounting cycle



### Chapter 8: Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Lesson 8-1: Recording Closing Entries

#### Lesson 8-1: Recording Closing Entries

#### Need for Permanent and Temporary Accounts

#### Need for Closing Temporary Accounts

Need for the Income Summary Account

Closing Entry for an Income Statement Account with a Credit Balance LO1

Closing Entry for Income Statement Accounts with Debit Balances

Closing Entry to Record Net Income or Loss and Close the Income Summary Account

Closing Entry for the Owner's Drawing Account

End of Lesson Review

LO1 Journalize and post closing entries for a service business organized as a proprietorship

Need for Permanent and Temporary Accounts

Delgado Web Services prepares a work sheet at the end of each fiscal period. The work sheet is used to journalize adjusting entries (Chapter 6) and to prepare financial statements (Chapter 7). [CONCEPT: Accounting Period Cycle] The work sheet is also used to complete other end-of-period work.

Accounts used to accumulate information from one fiscal period to the next are called **permanent accounts** . Permanent accounts are also referred to as real accounts. Permanent accounts include the asset and liability accounts and the owner's capital account. The ending account balances of permanent accounts for one fiscal period are the beginning account balances for the next fiscal period.

Accounts used to accumulate information until it is transferred to the owner's capital account are called **temporary accounts** . Temporary accounts are also referred to as nominal accounts. Temporary accounts include the revenue, expense, and owner's drawing accounts plus the Income Summary account. Temporary accounts show changes in the owner's capital for a single fiscal period. Therefore, at the end of a fiscal period, the balances of temporary accounts are summarized and transferred to the owner's capital account. The temporary accounts begin a new fiscal period with zero balances.

Need for Closing Temporary Accounts

Journal entries used to prepare temporary accounts for a new fiscal period are called **closing entries** . The temporary account balances must be reduced to zero at the end of each fiscal period. This procedure prepares the temporary accounts for recording information about the next fiscal period.

Otherwise, the amounts for the next fiscal period would be added to amounts for previous fiscal periods. [CONCEPT: Matching Expenses with Revenue] The net income for the next fiscal period would be difficult to calculate because amounts from several fiscal periods remain in the accounts. Therefore, the temporary accounts must start each new fiscal period with zero balances.

To close a temporary account, an amount equal to its balance is recorded in the account on the side opposite to its balance. For example, if an account has a credit balance of \$3,565.00, a debit of \$3,565.00 is recorded to close the account.

### Need for the Income Summary Account

Whenever a temporary account is closed, the closing entry must have equal debits and credits. If an account is debited for \$3,000.00 to close the account, some other account must be credited for the same amount. A temporary account titled Income Summary is used to summarize the closing entries for the revenue and expense accounts.

The Income Summary account is unique because it does not have a normal balance side. The balance of this account is determined by the amounts posted to the account at the end of a fiscal period. When revenue is greater than total expenses, resulting in a net income, the Income Summary account has a credit balance, as shown in the T account.

When total expenses are greater than revenue, resulting in a net loss, the Income Summary account has a debit balance, as shown in the T account.

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

Income Summary	
Debit	Credit
Total expenses (greater than revenue) (Debit balance is the net loss.)	Revenue

Thus, whether the balance of the Income Summary account is a credit or a debit depends upon whether the business earns a net income or incurs a net loss. Because Income Summary is a temporary account, the account is also closed at the end of a fiscal period when the net income or net loss is recorded.

Delgado Web Services records four closing entries:

(1) An entry to close income statement accounts with credit balances.

(2) An entry to close income statement accounts with debit balances,

(3) An entry to record net income or net loss and close Income Summary, and

(4) An entry to close the owner's drawing account.

Information needed to record the four closing entries is found in the Income Statement and Balance Sheet columns of the work sheet.

ACCOUNT TITLE	
12	Sales

INCOME STATEMENT	
DEBIT	CREDIT
	5 8 2 0 00

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
	<i>Closing Entries</i>						
31	Sales			5 8 2 0 00			
	Income Summary				5 8 2 0 00		

### Closing Entry for an Income Statement Account with a Credit Balance LO1

Delgado Web Services has one income statement account with a credit balance, Sales. This credit balance must be reduced to zero to prepare the account for the next fiscal period. To reduce the balance to zero, Sales is debited for the amount of the balance. Because debits must equal credits for each journal entry, some other account must be credited. The account used for the credit part of this

closing entry is Income Summary.



The effect of this closing entry on the general ledger accounts is shown in the T accounts on the next page.

The balance of Sales is now zero, and the account is ready for the next fiscal period. The credit balance of Sales is transferred to Income Summary.

Sales			
Closing	5,820.00	Bal.	5,820.00
		(New Bal.)	0.00
Income Summary			
		Closing (revenue)	5,820.00



Most

small businesses use the calendar year as their fiscal year because it matches the way in which the owners have to file their personal income tax returns.

### Closing Entry for an Income Statement Account with a Credit Balance

1 Write the heading, Closing Entries, in the middle of the Account Title column of the journal. For Delgado Web Services, this heading is placed in the journal on the first blank line after the last adjusting entry.

2 Write the date, 31, on the next line in the Date column.

3 Write the title of the account debited, Sales, in the Account Title column. Record the debit amount, \$5,820.00, in the Debit column on the same line as the account title.

4 On the next line, indented one centimeter, write the title of the account credited, Income

Summary, in the Account Title column. Record the credit amount, \$5,820.00, in the Credit column on the same line as the account title.

### Closing Entry for Income Statement Accounts with Debit Balances

Delgado Web Services has seven income statement accounts with debit balances. The seven expense accounts have normal debit balances at the end of a fiscal period. The balances of the expense accounts must be reduced to zero to prepare the accounts for the next fiscal period. Each expense account is credited for an amount equal to its balance. Income Summary is debited for the total of all the expense account balances. The amount debited to Income Summary is not entered in the amount column until all expenses have been journalized and the total amount calculated.

ACCOUNT TITLE		INCOME STATEMENT	
		DEBIT	CREDIT
13	Advertising Expense	397.00	
14	Cash Short and Over	1.00	
15	Communications Expense	80.00	
16	Equipment Rental Expense	1,455.00	
17	Insurance Expense	150.00	
18	Miscellaneous Expense	45.00	
19	Supplies Expense	530.00	

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
31	Income Summary			2,658.00			
	Advertising Expense				397.00		
	Cash Short and Over				1.00		
	Communications Expense				80.00		
	Equipment Rental Expense				1,455.00		
	Insurance Expense				150.00		
	Miscellaneous Expense				45.00		
	Supplies Expense				530.00		

The effect of this closing entry on the general ledger accounts is shown in the T accounts. The balance of each expense account is returned to zero, and the accounts are ready for the next fiscal period. The balance of Income Summary is the net income for the fiscal period, \$3,162.00.

### Closing Entry to Record Net Income or Loss and Close the Income Summary Account

Income Summary		Equipment Rental Expense	
Closing (expenses)	2,658.00	Bal.	1,455.00
Closing (revenue)	5,820.00	Closing	1,455.00
(New Bal.)	3,162.00	(New Bal.)	0.00

Advertising Expense		Insurance Expense	
Bal.	397.00	Bal.	150.00
(New Bal.)	0.00	Closing	150.00
	Closing	(New Bal.)	0.00
	397.00		

Cash Short and Over		Miscellaneous Expense	
Bal.	1.00	Bal.	45.00
(New Bal.)	0.00	Closing	45.00
	Closing	(New Bal.)	0.00
	1.00		

Communications Expense		Supplies Expense	
Bal.	80.00	Bal.	530.00
(New Bal.)	0.00	Closing	530.00
	Closing	(New Bal.)	0.00
	80.00		

ACCOUNT TITLE		INCOME STATEMENT	
		DEBIT	CREDIT
20		2 6 5 8 00	5 8 2 0 00
21	<i>Net Income</i>	3 1 6 2 00	
22		5 8 2 0 00	5 8 2 0 00

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
17	31 <i>Income Summary</i>			3 1 6 2 00		17	
18	<i>Michael Delgado, Capital</i>				3 1 6 2 00	18	
19						19	

1 Date  
 2 Debit  
 3 Credit  
 (Income Summary: debit to close)  
 (Capital: credit to record net income)

Delgado Web Services' net income appears on line 21 of the work sheet. The amount of net income increases the owner's capital and, therefore, must be credited to the owner's capital account. The balance of the temporary account, Income Summary, must be reduced to zero to prepare the account for the next fiscal period.

The effect of this closing entry on the general ledger accounts is shown in the T accounts. The debit to the Income Summary account, \$3,162.00, reduces the account balance to zero and prepares the account for the next fiscal period. The credit, \$3,162.00, increases the balance of the owner's capital account, Michael Delgado, Capital.

If a business incurs a net loss, the closing entry is a debit to the owner's capital account and a credit to the Income Summary account.

Closing Entry to Record Net Income or Loss and Close the Income Summary Account

Income Summary			
Closing (expenses)	2,658.00	Closing (revenue)	5,820.00
Closing	3,162.00	(New Bal.)	0.00

Michael Delgado, Capital	
Bal.	2,000.00
Closing (net inc.)	3,162.00
(New Bal.)	5,162.00

1 Write the date, 31, on the next line in the Date column.

2 Write the title of the account debited, Income Summary, in the Account Title column. Record the debit amount, \$3,162.00, in the Debit column on the same line as the account title.

3 On the next line, indented one centimeter, write the title of the account credited, Michael Delgado, Capital, in the Account Title column. Record the credit amount, \$3,162.00, in the Credit column on the same line as the account title.



Amounts for closing entries are taken from the Income Statement and Balance Sheet columns of the work sheet.

### Closing Entry for the Owner's Drawing Account

ACCOUNT TITLE		BALANCE SHEET	
		DEBIT	CREDIT
9	<i>Michael Delgado, Capital</i>		2 0 0 0 00
10	<i>Michale Delgado, Drawing</i>	1 1 5 0 00	

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
19	31 <i>Michael Delgado, Capital</i>			1 1 5 0 00		19	
20	<i>Michael Delgado, Drawing</i>				1 1 5 0 00	20	
21						21	

1 Date                     
 2 Debit                     
 (Credit to close)

3 Credit

Withdrawals are assets that the owner takes out of a business and which decrease the amount of the owner's equity. The drawing account is a temporary account that accumulates information separately for each fiscal period. Therefore, the drawing account balance must be reduced to zero at the end of

one fiscal period to prepare the account for the next fiscal period.

The drawing account is neither a revenue nor an expense account. Therefore, the drawing account is not closed through Income Summary. The drawing account balance is closed directly to the owner's capital account.

The effect of the entry to close the drawing account is shown in the T accounts.

The drawing account has a zero balance and is ready for the next fiscal period. The capital account's new balance, \$4,012.00, is verified by comparing the balance to the amount of capital shown on the balance sheet prepared at the end of the fiscal period. The capital account balance shown on Delgado Web Services' balance sheet in Chapter 7 is \$4,012.00. The two amounts are the same, and the capital account balance is verified.

Michael Delgado, Capital			
Closing (drawing)	1,150.00	Bal.	2,000.00
		Net Income	3,162.00
		(New Bal.)	4,012.00

Michael Delgado, Drawing			
Bal.	1,150.00	Closing	1,150.00
(New Bal.)	0.00		

#### Closing Entry for the Owner's Drawing Account

1 Write the date, 31, in the Date column.

2 Write the title of the account debited, Michael Delgado, Capital, in the Account Title column.

Record the debit amount, \$1,150.00, in the Debit column on the same line as the account title.

3 On the next line, indented one centimeter, write the title of the account credited, Michael Delgado, Drawing, in the Account Title column. Record the credit amount, \$1,150.00, in the Credit column on the same line as the account title.



Delgado Web Services makes four closing entries: (1) close income statement accounts with credit balances. (2) Close income statement accounts with debit balances. (3) Record net income or loss in the owner's capital account and close Income Summary. (4) Close the owner's drawing account.

#### End of Lesson Review

LO1 Journalize and post closing entries for a service business organized as a proprietorship.

## **Terms Review**

permanent accounts

temporary accounts

closing entries

## **Audit Your Understanding**

1. What do the ending balances of permanent accounts for one fiscal period represent at the beginning of the next fiscal period?
2. What do the balances of temporary accounts show?
3. List the four closing entries.

## **Work Together 8-1**

Journalizing and posting closing entries

A partial work sheet of Fix It Now for the month ended April 30 of the current year is given in the Working Papers. Also given are a journal and general ledger accounts. The general ledger accounts do not show all details for the fiscal period. The balance shown in each account is the account's balance after adjusting entries are posted. Your instructor will guide you through the following example.

Continue on page 8. Journalize and post the closing entries. Save your work to complete Work Together 8-2.

## **On Your Own 8-1**

Journalizing and posting closing entries

A partial work sheet of Repair World for the month ended December 31 of the current year is given in the Working Papers. Also given are a journal and general ledger accounts. The general ledger accounts do not show all details for the fiscal period. The balance shown in each account is the account's balance after adjusting entries are posted. Work this problem independently.

Continue on page 24. Journalize and post the closing entries. Save your work to complete On Your Own 8-2.

## Chapter 8: Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Ethics in Action: Can I Say This on My Résumé?

Ethics in Action: Can I Say This on My Résumé?

### Instructions

Kendra Wheeler applied for an accounting assistant position with Hampton Group. She slightly exaggerated her work experience on her résumé. She felt uncomfortable with this decision, but she was desperate to get a job.

Based on the résumé, Kendra was hired. After one year, she received above-average ratings during her annual review. Then, her boss met Kendra's former supervisor and learned the truth.

### Instructions

Was Kendra's action unethical? Let's apply the ethical model to this situation.

1. Recognize you are facing an ethical dilemma. Kendra should have realized that her uncomfortable feelings were a sign that her actions might not be ethical.
2. Identify the action taken or the proposed action. Kendra could have stated her qualifications honestly. However, she elected to exaggerate her work experience.
3. Analyze the action.
  - a. Is the action illegal? Possibly. Overstating qualifications is generally not illegal, but the employer could terminate her employment. However, overstating qualifications when applying for a government position may be illegal.
  - b. Does the action violate company or professional standards? No. Kendra was neither an employee of the company nor a member of any profession at the time she was hired.
  - c. Who is affected, and how, by the action?

Stakeholders	Negative Impact	Positiv
Kendra	4. When the truth is discovered, she may be terminated. If retained, she may not be promoted.	• Obt
Other applicants	<ul style="list-style-type: none"> <li>• More highly qualified applicants lost an employment opportunity.</li> </ul>	
Hampton Group	<ul style="list-style-type: none"> <li>• The company lost the opportunity of receiving the services of a more qualified employee.</li> <li>• If Kendra is terminated, the company must train another employee.</li> <li>• If Kendra is retained, managers may hesitate to give her responsibilities necessary for the efficient operation of the company.</li> </ul>	

4. Determine if the action is ethical. Kendra's action was not ethical. Exaggerating her résumé provided her with a short-term benefit. However, this benefit does not outweigh the negative impact on other applicants and the Hampton Group. In fact, Kendra's action could possibly cause her more harm in the long run.

## Chapter 8: Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Global Awareness: Global Quality Standards

Global Awareness: Global Quality Standards

### Critical Thinking

The quality of products is a major concern for industry, especially when those products are traded among nations. In order for some products to be used in other nations, they must be standardized. A standard is a technical specification for a product. The company providing the product must be able to consistently produce a quality product that meets certain standards. According to the organizations that help establish these standards, the “product” can be a physical product, a service, or software.

International quality standards have changed over time. They focus on inspecting and measuring the final product to see that it matches defined specifications. They also emphasize process management. Process management includes monitoring all processes and activities involved in the development or production of the product, with the goal of continuous improvement in the efficiency of the operation.

Quality standards have been established for many fields, including information processing and communications, textiles, packaging, energy production, shipbuilding, and banking and financial

services.

More recently, a series of standards is being developed to address environmental issues for organizations involved in international trade.

### Critical Thinking



1. How would your company benefit from global quality standards if it were buying the same product from different vendors in different countries?
2. Could meeting international quality standards give a company a competitive advantage?

### Chapter 8: Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Think Like an Accountant: Analyzing Financial Statements

#### Think Like an Accountant: Analyzing Financial Statements

Lenny Bethune has come to your accounting office seeking your advice. He has operated a heating and air conditioning repair service for several years. Despite a steady increase in revenues, his net income continues to decline.

As you examine a schedule containing his income statement information for the past four years, Lenny explains some of his business decisions. "I used to rent part of an old building in the industrial park. Two years ago, I decided to get serious. I moved my office to a new retail center located on the main drag. I thought that would give me some visibility. People would see my office on a daily basis. They would remember my name when their systems failed. So I figured I wouldn't need to spend as much on advertising."

His income statement information reflects his story. His rent expense jumped in the next year. The new office also caused his insurance and utility expenses to rise.

"After a year," Lenny continued, "I wasn't seeing the increase in service calls that I had hoped. So I started to do more advertising again, in the local newspaper and on the radio. I just don't know what to do next." Lenny has asked you to evaluate his financial information and provide him with some recommendations.

Open the Spreadsheet TLA\_CH08



Click on the Instructions tab. The file contains a structure for writing the memorandum. The memorandum should contain a chart that shows the change in Lenny's expenses and income for the past four years. Consider the following questions in preparing the memo.

1. How do potential customers select a service company when their heat or air conditioning has failed?
2. Does advertising appear to have increased revenue?
3. Did the move to a new office have a positive impact on revenue?
4. What could Lenny do to better understand the increase in Miscellaneous Expense?

## **Chapter 8:Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Lesson 8-2: Preparing a Post-Closing Trial Balance**

### Lesson 8-2: Preparing a Post-Closing Trial Balance

General Ledger Accounts after Closing Entries are Posted

Post-Closing Trial Balance LO2

Accounting Cycle for a Service Business

End of Lesson Review

LO2 Prepare a post-closing trial balance.

General Ledger Accounts after Closing Entries are Posted

Delgado Web Services' general ledger, after the closing entries are posted, is shown here and on the next several pages. When an account has a zero balance, lines are drawn in both the Balance Debit and Balance Credit columns. The lines assure a reader that a balance has not been omitted.

ACCOUNT *Cash* ACCOUNT NO. 110

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 2		G1	2 0 0 0 00			2 0 0 0 00
2		G1		1 6 5 0 00		1 8 3 5 00
3		G1		9 0 0 0 00		9 3 5 0 00
9		G1		1 0 0 0 00		8 3 5 0 00
10		G1	1 1 0 0 00			1 9 3 5 00
12		G1		8 0 0 0 00		1 8 5 5 00
15		G1		4 0 0 0 00		1 4 5 5 00
16		G1	2 0 0 0 00			1 6 5 5 00
16		G1		3 5 0 0 00		1 3 0 5 00
17		G1		3 8 3 0 00		9 2 2 0 00
18		G1	5 3 5 0 00			1 4 5 7 00
19		G1		1 0 0 0 00		1 3 5 7 00
22		G1		5 1 0 0 00		8 4 7 0 00
24		G2	1 3 2 0 00			2 1 6 7 00
28		G2		1 3 0 0 00		2 0 3 7 00
29		G2	1 2 8 0 00			3 3 1 7 00
31		G2		3 5 0 0 00		3 2 8 2 00
31		G2		8 0 0 0 00		2 4 8 2 00
31		G2	6 8 5 0 00			3 1 6 7 00
31		G2		5 4 5 0 00		2 6 2 2 00
31		G2		2 5 0 0 00		2 5 9 7 00

ACCOUNT *Petty Cash* ACCOUNT NO. 120

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 19		G1	1 0 0 0 00			1 0 0 0 00

ACCOUNT *Accounts Receivable—Main Street Services* ACCOUNT NO. 130

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 12		G1	5 0 0 0 00			5 0 0 0 00
16		G1		2 0 0 0 00		3 0 0 0 00

A General Ledger after Closing Entries Are Posted (continued)

ACCOUNT *Accounts Receivable—Valley Landscaping*

ACCOUNT NO. 140

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 16		G1	4 0 0 00			4 0 0 00

ACCOUNT *Supplies*

ACCOUNT NO. 150

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 2		G1	1 6 5 00			1 6 5 00
5		G1	2 2 0 00			3 8 5 00
19		G1	1 0 5 00			4 9 0 00
28		G2	1 3 0 00			6 2 0 00
31		G3		5 3 0 00		9 0 00

ACCOUNT *Prepaid Insurance*

ACCOUNT NO. 160

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 1		G1	9 0 0 00			9 0 0 00
31		G3		1 5 0 00		7 5 0 00

ACCOUNT *Accounts Payable—Canyon Office Supplies*

ACCOUNT NO. 210

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 5		G1		2 2 0 00		2 2 0 00
9		G1	1 0 0 00			1 2 0 00

ACCOUNT *Accounts Payable—Mountain Graphic Arts*

ACCOUNT NO. 220

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 19		G1		1 0 5 00		1 0 5 00

ACCOUNT *Michael Delgado, Capital*

ACCOUNT NO. 310

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 2		G1		2 0 0 0 00		2 0 0 0 00
31		G3		3 1 6 2 00		5 1 6 2 00
31		G3	1 1 5 0 00			4 0 1 2 00

ACCOUNT *Michael Delgado, Drawing*

ACCOUNT NO. 320

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 16		G1	3 5 0 00			3 5 0 00
31		G2	8 0 0 00			1 1 5 0 00
31		G3		1 1 5 0 00		

ACCOUNT *Income Summary*

ACCOUNT NO. 330

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 31		G3		5 8 2 0 00		5 8 2 0 00
31		G3	2 6 5 8 00			3 1 6 2 00
31		G3	3 1 6 2 00			

A General Ledger after Closing Entries Are Posted (continued)

ACCOUNT <i>Sales</i>			ACCOUNT NO. 410			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 10		G1		1 1 0 0 00		1 1 0 0 00
12		G1		5 0 0 0 00		1 6 0 0 00
16		G1		4 0 0 0 00		2 0 0 0 00
18		G1		5 3 5 0 00		2 5 3 5 00
24		G2		1 3 2 0 00		3 8 5 5 00
29		G2		1 2 8 0 00		5 1 3 5 00
31		G2		6 8 5 0 00		5 8 2 0 00
31		G3	5 8 2 0 00			

ACCOUNT <i>Advertising Expense</i>			ACCOUNT NO. 510			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 17		G1	3 8 3 0 00			3 8 3 0 00
31		G2	1 4 0 0 00			3 9 7 0 00
31		G3		3 9 7 0 00		

ACCOUNT <i>Cash Short and Over</i>			ACCOUNT NO. 520			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 31		G2	1 0 0 0 00			1 0 0 0 00
31		G3		1 0 0 0 00		

ACCOUNT <i>Communications Expense</i>			ACCOUNT NO. 530			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 12		G1	8 0 0 0 00			8 0 0 0 00
31		G3		8 0 0 0 00		

ACCOUNT <i>Equipment Rental Expense</i>			ACCOUNT NO. 540			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 15		G1	4 0 0 0 00			4 0 0 0 00
22		G1	5 1 0 0 00			9 1 0 0 00
31		G2	5 4 5 0 00			1 4 5 5 00
31		G3		1 4 5 5 00		

ACCOUNT <i>Insurance Expense</i>			ACCOUNT NO. 550			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
Jan. 31		G3	1 5 0 0 00			1 5 0 0 00
31		G3		1 5 0 0 00		

A General Ledger after Closing Entries Are Posted (continued)

ACCOUNT <i>Miscellaneous Expense</i>				ACCOUNT NO. 560			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Jan. 31		G2	2 0 00		2 0 00		
31		G2	2 5 00		4 5 00		
31		G3		4 5 00			

ACCOUNT <i>Supplies Expense</i>				ACCOUNT NO. 570			
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Jan. 31		G3	5 3 0 00		5 3 0 00		
31		G3		5 3 0 00			

A General Ledger after Closing Entries Are Posted (concluded)

Post-Closing Trial Balance LO2

1 Heading		
<i>Delgado Web Services</i> <i>Post-Closing Trial Balance</i> <i>January 31, 20--</i>		
ACCOUNT TITLE	DEBIT	CREDIT
Cash	2 5 9 7 00	
Petty Cash	1 0 0 00	
Accounts Receivable—Main Street Services	3 0 0 00	
Accounts Receivable—Valley Landscaping	4 0 0 00	
Supplies	9 0 00	
Prepaid Insurance	7 5 0 00	
Accounts Payable—Canyon Office Supplies		1 2 0 00
Accounts Payable—Mountain Graphic Arts		1 0 5 00
Michael Delgado, Capital		4 0 1 2 00
<b>Totals</b>	<b>4 2 3 7 00</b>	<b>4 2 3 7 00</b>

2 Account Titles  
 3 Account Balances  
 4 Single Rule  
 5 Compare Totals  
 6 Totals  
 7 Record Totals  
 8 Double Rule

After the closing entries are posted, Delgado Web Services verifies that debits equal credits in the general ledger accounts by preparing a trial balance. A trial balance prepared after the closing entries are posted is called a **post-closing trial balance** .

Only general ledger accounts with balances are included on a post-closing trial balance. The permanent accounts (assets, liabilities, and owner's capital) have balances and do appear on a post-closing trial balance. Because the temporary accounts (Income Summary, revenue, expense, and drawing) are closed and have zero balances, they do not appear on a post-closing trial balance.

The total of all debits must equal the total of all credits in a general ledger. The totals of both columns on Delgado Web Services' post-closing trial balance are the same, \$4,237.00. Delgado Web Services' post-closing trial balance shows that the general ledger account balances are in balance and ready for the new fiscal period.

#### Preparing a Post-Closing Trial Balance

1 Write the heading on three lines.

2 Write the titles of all general ledger accounts with balances in the Account Title column.

3 On the same line with each account title, write each account's balance in either the Debit or Credit column.

4 Rule a single line across both amount columns below the last amount, and add each amount column.

5 Compare the two column totals. The two column totals must be the same. If the two column totals are not the same, the errors must be found and corrected before any more work is completed.

6 Write the word Totals on the line below the last account title.

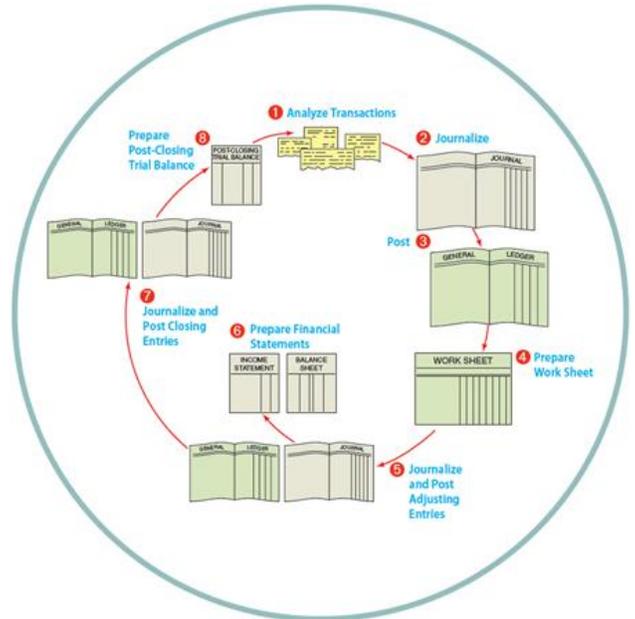
7 Write the column totals, \$4,237.00, below the single line.

8 Rule double lines across both amount columns to show that the totals have been verified as correct.

## Accounting Cycle for a Service Business

Chapters 1 through 8 describe Delgado Web Services' accounting activities for a one-month fiscal period. The series of accounting activities included in recording financial information for a fiscal period is called an **accounting cycle**. [CONCEPT: Accounting Period Cycle]

For the next fiscal period, the cycle begins again at Step 1.



The word post means after. The Post-Closing Trial Balance is prepared after closing entries.



### Steps in an Accounting Cycle

- 1 Check source documents for accuracy and analyze transactions into debit and credit parts.
- 2 Record transactions from information on source documents in a journal.
- 3 Post journal entries to the general ledger.
- 4 Prepare a work sheet, including a trial balance, from the general ledger.
- 5 Journalize adjusting entries and post them to the general ledger.
- 6 Prepare financial statements from the work sheet.
- 7 Journalize and post closing entries.
- 8 Prepare a post-closing trial balance of the general ledger.

### End of Lesson Review

LO2 Prepare a post-closing trial balance.

## Terms Review

post-closing trial balance

accounting cycle

## Audit Your Understanding

1. Why are lines drawn in both the Balance Debit and Balance Credit columns when an account has a zero balance?
2. Which accounts go on the post-closing trial balance?
3. Why are temporary accounts omitted from a post-closing trial balance?
4. What are the steps in the accounting cycle?

## Work Together 8-2

Preparing a post-closing trial balance

Use the general ledger accounts from Work Together 8-1. Your instructor will guide you through the following example. A form to complete a post-closing trial balance is given in the Working Papers.

Prepare a post-closing trial balance for Fix It Now on April 30 of the current year.

## On Your Own 8-2

Preparing a post-closing trial balance

Use the general ledger accounts from On Your Own 8-1. Work this problem independently. A form to complete a post-closing trial balance is given in the Working Papers.

Prepare a post-closing trial balance for Repair World on December 31 of the current year.

**Chapter 8:Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Why Accounting?: Group Homes**

Why Accounting?: Group Homes

Critical Thinking



A group home is usually a private residence that has been converted to house a group of unrelated persons. It provides a caring and safe home for people who could not otherwise live on their own. In most cases, the people living at the group home share a trait such as being developmentally disabled. The group home supervisors, sometimes called “parents,” are trained caregivers who provide assistance to the residents as needed. A group home allows the residents to live in a home setting and learn how to help manage a budget or do household tasks.

Group homes are often licensed by the state. Therefore, besides providing direct care and assistance to the group home residents, the group home parents must keep accurate records required by the state. This could include what and how much food each resident consumes and the medicines given to each resident. Group parents may also have to keep track of personal spending money for each resident and a budget for the household.

Group homes are often owned by private companies. A person moving from the position of group home parent to a higher-level position within the company will most likely need to have more experience in recordkeeping, budgeting, and accounting.

### Critical Thinking



1. Using the Internet, find the name of one group home in your area. List the name, location, and type of home it is.
2. Besides good recordkeeping skills, what other skills would a group parent need to possess?

## Chapter 8: Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Forensic Accounting: HealthSouth Inflates Earnings

### Forensic Accounting: HealthSouth Inflates Earnings

#### Activity

#### Instructions

Financial analysts use a variety of information sources and data analysis models to predict corporate earnings. Financial media sources survey financial analysts to get consensus estimates. The

resulting “street expectations” for revenue and earnings are reported in the financial news.

The pressure to meet street expectations can cause honest people to do things they ordinarily would not do. Such was the case at HealthSouth. HealthSouth was a provider of outpatient rehabilitation services. At its peak, HealthSouth was the largest company based in Alabama.

But in 1995, fueled by HealthSouth's success, competitors entered the market, and the federal government tightened its Medicare reimbursement policies. These events had a negative impact on HealthSouth's revenue and earnings. For the first time in over 40 quarters, HealthSouth was going to miss street expectations. A scheme was hatched to falsify revenues to achieve street expectations.

By the end of the next quarter, the company had again missed street expectations. The company again falsified its revenues. The fraud continued for over seven years. Managing the fraud became increasingly complex, requiring 120,000 fraudulent journal entries each quarter. The fraud was finally revealed in 2003 when the chief financial officer, Wesley Smith, alerted government officials.

Fraudsters use many methods to inflate sales, but each method leaves behind a trail of evidence in the accounting system. Forensic accountants can search computer data for signs, or red flags, of each method used to inflate sales.

### Activity

Kelly Boatman dreamed of selling her restaurant supply business and retiring. However, sales began to decline, and the business started to lose money. How could she sell the company if it was losing money? Desperate to return the business to profitability, Kelly began a scheme to record false sales. She created imaginary customers and entered sales invoices to those customers. After each quarter's actual sales were known, she would determine how many false sales to record. Kelly usually waited until her employees left for the day to enter the transactions.

Relying on her new and improved financial statements, Ambro Corporation is considering buying Kelly's business. However, before making a firm offer, the company wants you to perform some basic analysis of the financial data.

1. Identify the number of invoices having different transaction and posting dates.
2. Identify the number of invoices entered after normal working hours (11:00 A.M. to 6:00 P.M.).
3. Identify the number of invoices that require further investigation.

## 4. Instructions



Open the spreadsheet FA\_CH08 and complete the steps on the Instructions tab.

## **Chapter 8: Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: End of Chapter Review**

End of Chapter Review

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: A Look at Accounting Software

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Chapter Summary

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Explore Accounting

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Apply Your Understanding: Application Problem

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Apply Your Understanding: Mastery Problem

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Apply Your Understanding: Challenge Problem

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: 21st Century Skills

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Auditing for Errors

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Analyzing Nike's Financial Statements

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Reinforcement Activity 1—Part B

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Century 21 Accounting

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: A Look

## at Accounting Software

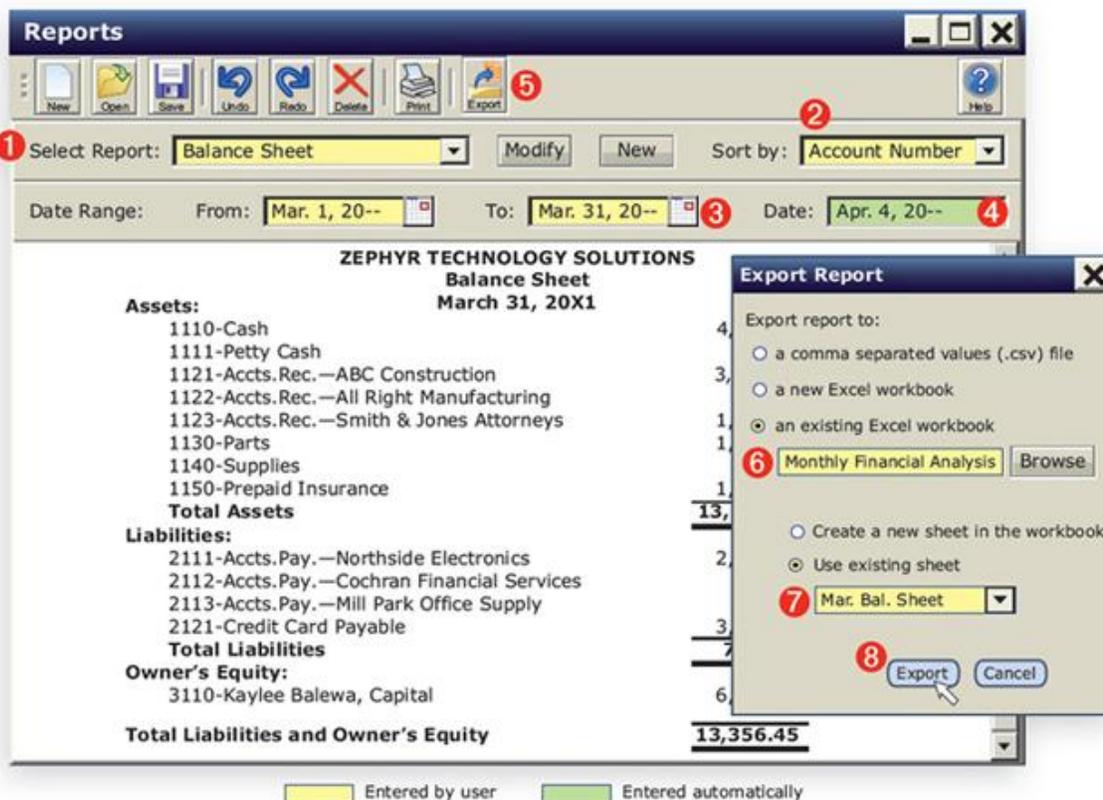
### Exporting Report Data to Excel

Computerized accounting systems can display or print many different kinds of reports. Accountants, however, need to do more with reports than look at them.

Virtually all accounting systems can export report data in a variety of formats. One common format is “comma separated values.” CSV files, which have a .csv file extension, are usable in database programs.

Most accountants, however, prefer to use spreadsheet software like Excel to analyze report data. The computational and charting features of Excel enable accountants to better understand what the report data say about the business's performance.

In Chapters 16 and 17, you will learn about the types of analysis performed by accountants, managers, and investors.



1 The user selects the desired report.

2 The user selects the way the report data will be sorted.

3 The date range for the report is selected. Dates can be key-entered or selected from a calendar by clicking on the calendar buttons at the end of each frame.

4 The system displays the current date. It cannot be changed by the user.

5 The user clicks the Export icon on the menu bar, and the system displays the “Export Report” dialog box.

6 The user chooses the type of output desired. In this window, an existing Excel workbook was selected. Then the user clicked the Browse button and located the Excel workbook named “Monthly Financial Analysis.”

7 Next, the user can select whether to export to a new sheet in the workbook or to an existing sheet. Here, the user clicked on the drop-down menu and selected the already formatted spreadsheet titled “Mar. Bal. Sheet.”

8 Finally, the user clicks on the Export button to transfer the data.

## Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Chapter Summary

After the financial statements are prepared at the end of an accounting period, the temporary accounts are closed. There are four closing entries. First, revenue accounts are closed and the balances are transferred to the Income Summary account. The second closing entry is to close expense accounts and transfer the balances to the Income Summary account. The third closing entry closes the Income Summary account and transfers the net income (or net loss) to the capital account. The last closing entry closes the drawing account and transfers the balance to the capital account. After closing, the equality of the general ledger is proven by preparing a post-closing trial balance. The steps in the accounting cycle are completed each accounting period.

## Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Explore Accounting

## Audits and Public Accounting Firms

An examination of financial records, accounts, and supporting documents to check their accuracy is called an audit. An audit is performed periodically so that users of financial statements can trust the accuracy of the reports. The accountant who conducts the audit is called an auditor.

When performing an audit for a client, the auditor looks closely at the client's financial statements and the way the client records transactions. The auditor traces transactions from the ledger accounts back to the journal entries and source documents. A paper or electronic path that provides a documented history of a transaction is called an audit trail. The auditor's job is to determine if the financial statements fairly present the financial position of the client. The auditor issues an opinion, which is a statement as to whether the financial statements follow standard accounting rules (GAAP). (GAAP stands for Generally Accepted Accounting Principles.) This "opinion" is used by bankers deciding to lend money to the company. It is also used by investors when making investment decisions.

An accounting business that helps other businesses with accounting issues is called a public accounting firm. An audit is only one of many services provided by public accounting firms. Other services include tax preparation, tax advice, payroll services, bookkeeping services, financial statement preparation, and consulting services. These other services often make up a higher percentage of business for the accounting firm than performing audits.

Many accounting firms report that they are getting more requests for consulting services than for other services they can provide. In many cases, consulting is also the area that produces the largest profit margin for the public accounting firm. Therefore, some firms are actively advertising their ability to provide management consulting services for clients.

#### Instructions

Contact a public accounting firm in your area. Research what services the firm provides and which service area (if any) is growing. Present your findings to your class.

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Apply Your Understanding: Application Problem

INSTRUCTIONS: Download problem instructions for Excel, QuickBooks, and Peachtree from the textbook companion website at [www.C21accounting.com](http://www.C21accounting.com) .

**8-1 Application Problem: Journalizing and Posting Closing Entries** LO1

A journal and general ledger accounts for Rosemount Copy Center are given in the Working Papers. A partial work sheet for the month ended June 30 of the current year is shown below.

Instructions:

Continue on page 12 of the journal. Journalize and post the closing entries. Save your work to complete Problem 8-2.

8-2 Application Problem: Preparing a Post-Closing Trial Balance LO2

Use the general ledger accounts for Rosemount Copy Center from Problem 8-1. A form to complete a post-closing trial balance is given in the Working Papers.

ACCOUNT TITLE	5		6		7		8	
	INCOME STATEMENT				BALANCE SHEET			
	DEBIT		CREDIT		DEBIT		CREDIT	
1 Cash					8 715 00			1
2 Petty Cash					75 00			2
3 Accounts Receivable—Raymond O'Neil					642 00			3
4 Supplies					188 00			4
5 Prepaid Insurance					540 00			5
6 Accounts Payable—Western Supplies							268 00	6
7 Akbar Sharma, Capital							9695 00	7
8 Akbar Sharma, Drawing					375 00			8
9 Income Summary								9
10 Sales				1 704 00				10
11 Advertising Expense	255 00							11
12 Cash Short and Over	2 00							12
13 Insurance Expense	135 00							13
14 Miscellaneous Expense	138 00							14
15 Supplies Expense	330 00							15
16 Utilities Expense	272 00							16
17	1 132 00	1 704 00	10 535 00	9 963 00				17
18 Net Income	572 00						572 00	18
19	1 704 00	1 704 00	10 535 00	10 535 00				19
20								20
21								21
22								22
23								23

Instructions:

Prepare a post-closing trial balance for Rosemount Copy Center on June 30 of the current year.

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Apply Your Understanding: Mastery Problem

8-M Mastery Problem: Journalizing and Posting Closing Entries with a Net Loss; Preparing a Post-Closing Trial Balance LO1, 2

Rausch Company's partial work sheet for the month ended May 31 of the current year is given below. The general ledger accounts are given in the Working Papers. The general ledger accounts do not show all details for the fiscal period. The balance shown in each account is the account's balance before closing entries are posted.

Instructions:

- Continue on page 10 of the journal. Journalize and post the closing entries.
- Prepare a post-closing trial balance.

ACCOUNT TITLE	INCOME STATEMENT		BALANCE SHEET		
	DEBIT	CREDIT	DEBIT	CREDIT	
1 Cash			3 4 7 5 00		1
2 Petty Cash			2 0 0 00		2
3 Accounts Receivable—M. Monesrud			3 7 5 00		3
4 Supplies			3 9 0 00		4
5 Prepaid Insurance			4 0 0 00		5
6 Accounts Payable—Lexington Supply				3 0 0 00	6
7 Rhonda Rausch, Capital				5 0 1 2 00	7
8 Rhonda Rausch, Drawing			3 0 0 00		8
9 Income Summary					9
10 Sales		1 7 9 0 00			10
11 Advertising Expense	2 2 5 00				11
12 Cash Short and Over	2 00				12
13 Insurance Expense	1 7 5 00				13
14 Miscellaneous Expense	4 0 00				14
15 Supplies Expense	7 0 0 00				15
16 Utilities Expense	8 2 0 00				16
17	1 9 6 2 00	1 7 9 0 00	5 1 4 0 00	5 3 1 2 00	17
18 Net Loss		1 7 2 00	1 7 2 00		18
19	1 9 6 2 00	1 9 6 2 00	5 3 1 2 00	5 3 1 2 00	19
20					20
21					21
22					22
23					23



Jour

nalize and post adjusting and closing entries to the general journal.

From the menu bar, select Reports & Forms; General Ledger.

Make the selections to print the general journal and post-closing trial balance.



Journalize and post adjusting and closing entries to the journal.

From the menu bar, select Reports; Accountant and Taxes.

Make the selections to print the journal and post-closing trial balance.



Key the account balances to complete the post-closing trial balance.

Use the required formulas to calculate the totals of the Trial Balance columns.

Prepare a chart of accounts that only includes asset accounts.

Make the selections to print the spreadsheet.



Go to [www.cengage.com/login](http://www.cengage.com/login)

Click on AA Online to access.

Go to the online assignment and follow the instructions.

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Apply Your Understanding: Challenge Problem

**8-C Challenge Problem: Journalizing and Posting Closing Entries with Two Revenue Accounts and a Net Loss; Preparing a Post-Closing Trial Balance LO1, 2**

Yanta's Yard Care's partial work sheet for the month ended June 30 of the current year is given below. The general ledger accounts are given in the Working Papers. The general ledger accounts do not show all details for the fiscal period. The balance shown in each account is the account's balance before closing entries are posted.

ACCOUNT TITLE	INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT
1 Cash			3 796 00	
2 Accounts Receivable—V. Mathaney			1 900 00	
3 Supplies			1 300 00	
4 Prepaid Insurance			2 400 00	
5 Accounts Payable—Eveleth Repair				1 160 00
6 Accounts Payable—Fremont Supplies				2 200 00
7 Accounts Payable—Olmstad Company				4 300 00
8 Jon Yanta, Capital				8 000 00
9 Jon Yanta, Drawing			2 000 00	
10 Income Summary				
11 Sales—Lawn Care		9 800 00		
12 Sales—Shrub Care		5 000 00		
13 Advertising Expense	7 800 00			
14 Insurance Expense	8 000 00			
15 Miscellaneous Expense	1 100 00			
16 Rent Expense	6 600 00			
17 Supplies Expense	6 400 00			
18	15 680 00	14 800 00	7 886 00	8 766 00
19 Net Loss		880 00	880 00	
20	15 680 00	15 680 00	8 766 00	8 766 00
21				
22				
23				

Instructions:

- Continue on page 12 of the journal. Journalize and post the closing entries.
- Prepare a post-closing trial balance.
- Jon Yanta, owner of Yanta's Yard Care, is disappointed that his business incurred a net loss for June of

the current year. Mr. Yanta would have preferred not to have to reduce his capital by \$880.00. He knows that you are studying accounting, so Mr. Yanta asks you to analyze his work sheet for June. Based on your analysis of the work sheet, what would you suggest might have caused the net loss for Yanta's Yard Care? What steps would you suggest so that Mr. Yanta can avoid a net loss in future months?

4.



- Journalize and post adjusting and closing entries to the general journal.

2. From the menu bar, select Reports & Forms; General Ledger.
3. Make the selections to print the general journal and post-closing trial balance.



1. Journalize and post adjusting and closing entries to the journal.
2. From the menu bar, select Reports; Accountant and Taxes.
3. Make the selections to print the journal and post-closing trial balance.



1. Go to [www.cengage.com/login](http://www.cengage.com/login)
2. Click on AA Online to access.
3. Go to the online assignment and follow the instructions.

## Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: 21st Century Skills

### Advertising—Just Do It!

Theme: Financial, Economic, Business, and Entrepreneurial Literacy; Health Literacy

Skills: ICT Literacy, Creativity and Innovation, Critical Thinking and Problem Solving

At the end of an accounting period, a business owner usually reflects on the expenses incurred. One of the most costly expenses is advertising expense. What is advertising? What is the difference between advertising and marketing? Who utilizes advertising?

Advertising is just a part of marketing; however, advertising is often more expensive than marketing. Marketing is the process of trying to understand the customer and what influences customer behavior. Advertising promotes the company and its products or services in various media. The media may include the method the company will use to reach the customer. Advertising includes television, radio, billboards, Internet websites or promotions, magazines, and newspapers. Almost all businesses pay for advertising to persuade customers to purchase products or services. Advertising for nonprofit organizations is sometimes in the form of public service announcements. Almost all businesses need to spend money on advertising. Businesses with poor sales may especially need to buy advertising to increase sales. Advertising might just be what a company needs to “jump start” its business.

### Application

1. Use the Internet to research nutritional guidelines for teens. Select an advertising medium of your

choice to create a public service announcement advertising the nutritional guidelines.

2. Compare and contrast the costs of advertising for three different types of advertising.
3. With a partner, brainstorm three nontraditional forms of advertising that a business on a budget might want to utilize.
4. Create an income statement for a nonprofit organization that educates young people on nutrition. Explain how an income statement for a nonprofit will look different from an income statement for a for-profit business.

### Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Auditing for Errors

The closing entries for Clausen Enterprises are given below.

#### Review and Answer

Assuming all account balances are correct, review the entries. List any errors you find.

Date	Account Title	Doc. No.	Post. Ref.	General	
				Debit	Credit
20-- July 31	Sales			16,000	
	Income Summary				16,000
31	Insurance Expense			450	
	Rent Expense			1,250	
	Supplies Expense			600	
	Utilities Expense			1,700	
	Income Summary				4,000
31	Income Summary			20,000	
	Jennifer Clausen, Capital				20,000
31	Jennifer Clausen, Drawing			4,500	
	Jennifer Clausen, Capital				4,500

### Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Analyzing Nike's Financial Statements

Refer to Nike's Consolidated Statements of Income in Appendix B on page B-5. To calculate what

percentage an item increased or decreased from one year to another, calculate the difference between the two amounts and divide this difference by the amount for the earlier year. For example, Nike's percentage of increase in revenue from 2009 to 2010 would be calculated as follows:  
 $(\$19,014,000,000 - \$19,176,000,000) \div \$19,176,000,000 = 0.8\%$  decrease.

#### Instructions

1. What is Nike's revenue (sales) for each of the three years? Is this a favorable or an unfavorable trend?
2. Calculate the percentage of increase in revenue from 2010 to 2011.

### Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business: Reinforcement Activity 1—Part B

#### An Accounting Cycle for a Proprietorship: End-of-Fiscal-Period Work



The general ledger prepared in Reinforcement Activity 1—Part A is needed to complete Reinforcement Activity 1—Part B. Reinforcement Activity 1—Part B includes end-of-fiscal-period activities studied in Chapters 6 through 8.

#### Work Sheet

#### Instructions

8. Prepare a trial balance on the work sheet given in the Working Papers. Use a one-month fiscal period ended August 31 of the current year.
9. Analyze the following adjustment information into debit and credit parts. Record the adjustments on the work sheet.

Adjustment Information, August 31	
Supplies on hand	\$ 845.00

Value of prepaid insurance	2,200.00
----------------------------	----------

10. Total and rule the Adjustments columns.

11. Extend the up-to-date account balances to the Balance Sheet and Income Statement columns.

12. Complete the work sheet.

### Adjusting Entries

#### Instructions

13. Use page 3 of the general journal. Journalize and post the adjusting entries.

### Financial Statements

#### Instructions

14. Prepare an income statement. Figure and record the component percentages for sales, total expenses, and net income. Round percentage calculations to the nearest 0.1%.

15. Prepare a balance sheet.

### Closing Entries

#### Instructions

16. Continue using page 3 of the general journal. Journalize and post the closing entries.

### Post-Closing Trial Balance

#### Instructions

17. Prepare a post-closing trial balance.

Recording Closing Entries and Preparing a Post-Closing Trial Balance for a Service Business:

Century 21 Accounting



This simulation covers the transactions completed by Red Carpet Events, an event planning service business organized as a proprietorship. Morgan Hartley, the owner, began the event planning business on June 1 of the current year. Morgan provides party

planning services for a wide variety of events including parties, banquets, and weddings.

The activities included in the accounting cycle for Red Carpet Events are listed below. The company uses a general journal and a general ledger similar to those described for Delgado Web Services in Part 1.

This simulation is available in manual and in automated versions, for use with Automated Accounting Online software.

The following activities are included in this simulation:

- 1 Journalizing transactions in a general journal.
- 2 Preparing a bank statement reconciliation and recording a bank service charge.
- 3 Proving cash.
- 4 Posting from a general journal to a general ledger.
- 5 Preparing a trial balance on a work sheet.
- 6 Recording adjustments on a work sheet.
- 7 Completing a work sheet.
- 8 Preparing financial statements (income statement and balance sheet).
- 9 Journalizing and posting adjusting entries.
- 10 Journalizing and posting closing entries.
- 11 Preparing a post-closing trial balance.
- 12 Completing the Think Like an Accountant Financial Analysis activities.