Chapter 8

Recording Adjusting and Closing Entries for a Service Business

Objectives

1. Define accounting terms related to adjusting and closing entries for a service business organized as a proprietorship.

2. Identify accounting concepts and practices related to adjusting and closing entries for a service business organized as a proprietorship.
Objectives (con’t)

3. Record adjusting entries for a service business organized as a proprietorship.

4. Record closing entries for a service business organized as a proprietorship.

5. Prepare a post-closing trial balance for a service business organized as a proprietorship.
ADJUSTING ENTRY FOR SUPPLIES

1. Write the heading.
2. Write the date.
3. Write the title of the account debited. Record the debit amount.
4. Write the title of the account credited. Record the credit amount.

ADJUSTING ENTRY FOR PREPAID INSURANCE

1. Write the date.
2. Write the title of the account debited. Record the debit amount.
3. Write the title of the account credited. Record the credit amount.
Application Problem 8-1
(pg. 221)

http://www.quia.com/files/quia/users/pcarter9/Wk5_Ch8/Ch-8_Five-Column-General-Journal_Application-Problems-1_2_Pg-221
NEED FOR THE INCOME SUMMARY ACCOUNT

**Income Summary**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expenses</td>
<td>Revenue (greater than expenses)</td>
</tr>
<tr>
<td>(Credit balance is the net income.)</td>
<td></td>
</tr>
</tbody>
</table>

CLOSING ENTRY FOR AN INCOME STATEMENT ACCOUNT WITH A CREDIT BALANCE

1. Write the heading.
2. Write the date.
3. Write the title of the account debited. Record the debit amount.
4. Write the title of the account credited. Record the credit amount.
### CLOSING ENTRY FOR INCOME STATEMENT ACCOUNTS WITH DEBIT BALANCES

1. **Date**
2. **Income Summary**
3. **Credit**
4. **Debit amount**

<table>
<thead>
<tr>
<th>ACCOUNT TITLE</th>
<th>Income Statement</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising Expense</td>
<td>21,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous Expense</td>
<td>2,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent Expense</td>
<td>3,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>7,150</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>11,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### JOURNAL

- **Date**: 31
- **ACCOUNT TITLE**: Income Summary
- **Debit**: 146,600
- **Credit**: 0

### CLOSING ENTRY TO RECORD NET INCOME OR LOSS AND CLOSE THE INCOME SUMMARY ACCOUNT

1. **Date**
2. **Debit**
3. **Credit**

<table>
<thead>
<tr>
<th>ACCOUNT TITLE</th>
<th>Income Statement</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Income</td>
<td>14,600</td>
<td></td>
<td>3,565,00</td>
</tr>
<tr>
<td></td>
<td>20,990</td>
<td></td>
<td>3,565,00</td>
</tr>
</tbody>
</table>

#### JOURNAL

- **Date**: 31
- **ACCOUNT TITLE**: Income Summary
- **Debit**: 20,990
- **Credit**: 0

(Credit: income summary; debit to close)

(Capital: credit to record net income)
**CLOSING ENTRY FOR THE OWNER’S DRAWING ACCOUNT**

<table>
<thead>
<tr>
<th>ACCOUNT TITLE</th>
<th>BALANCE SHEET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kim Park, Capital</td>
<td>500000</td>
</tr>
<tr>
<td>Kim Park, Drawing</td>
<td>62500</td>
</tr>
</tbody>
</table>

1. **Date:** 31
2. **Debit:** Kim Park, Capital $500,000
3. **Credit:** Kim Park, Drawing $62,500

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**Application Problem 8-2**

(pg. 221)

http://www.quia.com/files/quia/users/pcarter9/Wk5_Ch8/Ch-8_Five-Column-General-Journal_Application-Problems-1_2_Pg-221

and

http://www.quia.com/files/quia/users/pcarter9/Wk5_Ch8/Ch-8_Application-Problem-2_General-Ledger-Accts_Pg-221
LESSON 8-3

Preparing a Post-Closing Trial Balance

GENERAL LEDGER ACCOUNTS AFTER ADJUSTING AND CLOSING ENTRIES ARE POSTED
POST-CLOSING TRIAL BALANCE

1. Heading
2. Account titles
3. Account balances
4. Single rule
5. Compare totals
6. Totals
7. Record totals
8. Double rule

ACCOUNTING CYCLE FOR A SERVICE BUSINESS

1. Analyzes transactions
2. Journalize
3. Post
4. Prepare work sheet
5. Prepare financial statements
6. Journalize adjusting and closing entries
7. Post adjusting and closing entries
8. Prepare post-closing trial balance
TERM REVIEW

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

Application

Application Problem 8-3
(pg. 222)

http://www.quia.com/files/quia/users/pcarter9/Wk5_Ch8/Ch-8_Application-Problem-3_Pg-222
Homework

1.1 Application Problems
   a. Review problems completed in class.
   b. Use available interactive e-workpapers to complete application problems not worked in class.
   c. No Chapter 8 application problems are due this week.

1.2 Mastery Problem 8-4 (p. 222)
   Sect. 3A – Due 07/05/07
   Sect. 5B – Due 07/03/07

1.3 Quiz – Chapter 8
   a. Sect. 3A – Due 07/05/07
   b. Email quiz results to Instructor (lcarter9@mccneb.edu) and to yourself.
   c. Sect. 5B – Due 07/03/07

1.4 Exam 2 (Chapters 6 – 8), 100 points, 75 minutes
   Sect. 3A – Sat, 07/07/07
   Sect. 5B – Sat, 07/05/07

Congratulations! You have made it through:
- Chapter 8
- Section 1
- Halfway through the book!

Reminder:

Exam #2

 Chapters 6 through 8

Sect. 3A – Saturday, 07/07/07
Sect. 5B – Thursday, 07/05/07