

Completing the Accounting Cycle for a Sole Proprietorship

What You'll Learn

1. Explain why it is necessary to update accounts through closing entries.
2. Explain the purpose of the Income Summary account.
3. Explain the relationship between the Income Summary account and the capital account.
4. Analyze and journalize the closing entries.
5. Post the closing entries to the general ledger.
6. Prepare a post-closing trial balance.
7. Define the accounting terms introduced in this chapter.

Why It's Important

- For accounting purposes the life of a business is divided into specific periods of time.



BEFORE YOU READ

Predict

1. What does the chapter title tell you?
2. What do you already know about this subject from personal experience?
3. What have you learned about this in the earlier chapters?
4. What gaps exist in your knowledge of this subject?

Exploring the *Real World* of Business

LOOKING AT FISCAL YEAR-END ACTIVITIES

Radio Flyer

Many adults love to give children the same kinds of toys they enjoyed when they were young. A **Radio Flyer** wagon is that kind of toy. Antonio Pasin, an Italian immigrant living in Chicago, crafted and sold the first wooden red wagons in 1917.

The company has been passed down through the generations, just like the love of the toys it produces. Antonio's grandson, Robert Pasin, is now the chief executive officer of **Radio Flyer**. He has taken the company in new directions by adding tricycles, scooters, and other riding toys.

Radio Flyer's revenue comes from selling classic wagons and newer toys. At the end of each accounting period, the company closes its accounts and analyzes the revenues and expenses.

What Do You Think?

Why would **Radio Flyer** employees want to compare sales of different toys from one accounting period to another?



Working in the *Real World*

APPLYING YOUR ACCOUNTING KNOWLEDGE

Preparing financial statements can be a hectic time for the accounting staff of Radio Flyer. Professional accountants learn to manage stressful times using good organizational skills. Once the financial statements have been prepared, other tasks must be completed to close one accounting cycle and begin another. You will learn about these tasks to complete the accounting cycle in this chapter.

Personal Connection

1. In your workplace are there especially hectic times of the day or year?
2. How do you and your co-workers handle these busy times?

Online Connection

Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Working in the Real World** and select **Chapter 10**.





SECTION I

Preparing Closing Entries

BEFORE YOU READ

Main Idea

Closing entries transfer the temporary account balances to the owner's capital account.

Read to Learn...

- the last two steps of the accounting cycle. (p. 250)
- the purpose of closing entries. (p. 250)
- the purpose of the **Income Summary** account. (p. 253)
- how to journalize the closing entries. (p. 253)

Key Terms

closing entries
Income Summary account
 compound entry

- In Chapter 9 you learned how to prepare three financial statements:
- The income statement reports revenue, expenses, and net income or net loss for the accounting period.
 - The statement of changes in owner's equity summarizes the impact of the business transactions on the owner's capital account.
 - The balance sheet reports the financial position of the business at the end of the period.

Accountants for a company like Mattel prepare financial statements and then journalize and post the closing entries. They prepare a post-closing trial balance to verify that the accounting records still balance.

Completing the Accounting Cycle

What Are the Last Two Steps of the Accounting Cycle?

During the accounting period, the accountant records transactions involving revenue, expenses, and withdrawals in temporary accounts. At the end of the period, the accountant transfers the balances in the temporary accounts to the owner's capital account to bring it up to date and to prepare the accounting records for the next period.

Closing entries are journal entries made to close, or reduce to zero, the balances in the temporary accounts and to transfer the net income or net loss for the period to the capital account.

After the closing entries have been journalized and posted, a trial balance is prepared to prove the equality of the general ledger after the closing process. The trial balance prepared after closing is called a *post-closing trial balance*. As you can see in **Figure 10–1**, the closing process and the post-closing trial balance complete the accounting cycle.

Starting the Eighth Step in the Accounting Cycle: Journalizing the Closing Entries

What Is the Purpose of Closing Entries?

Preparing financial records for the start of a new period is a little like keeping stats for a basketball team. For basketball stats, individual and team scores are recorded for every game, but each new game starts with a score of zero. Similarly, in keeping the stats or accounting for a business, entries are posted to the accounts during the accounting period (game), but the

As You READ

Instant Recall

Accounting Period

By dividing the life of a business into time periods, decision makers can see patterns and make comparisons.

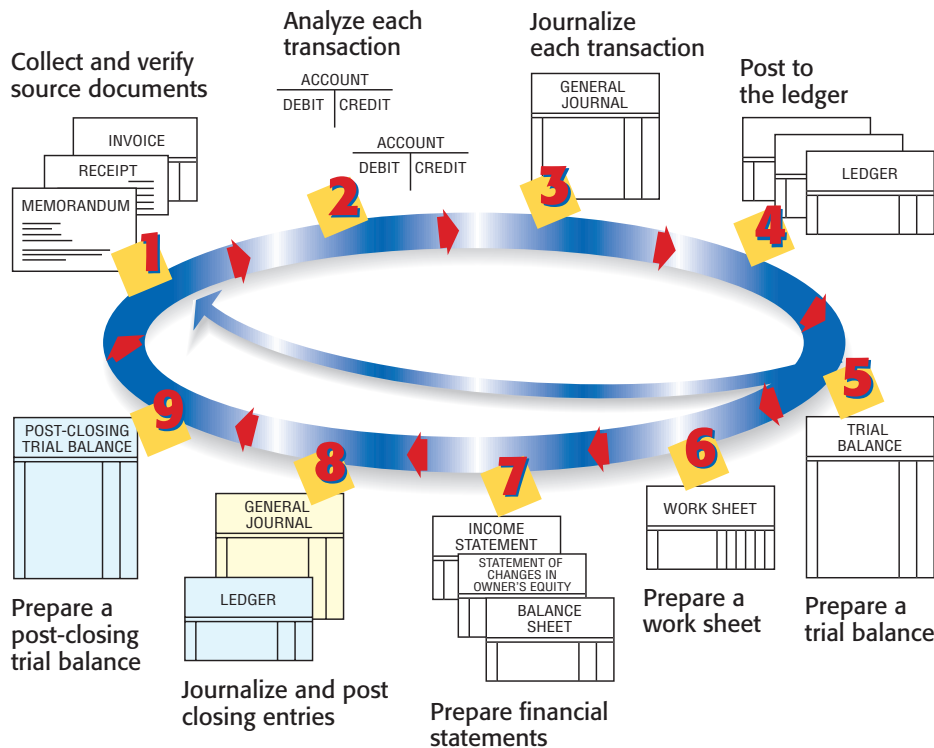


Figure 10-1 The Accounting Cycle with Steps 8 and 9 Highlighted


temporary accounts (**Rent Expense, Maintenance Expense, Revenue, etc.**) start each new accounting period (game) with zero balances.

The income statement, you'll remember, reports the net income or net loss for *one accounting period*. The statement is prepared from information recorded and accumulated in the revenue and expense accounts. At the end of the period, the accountant records entries to close, or reduce to zero, the revenue and expense accounts because their balances also apply to only one accounting period. These closing entries also transfer the net income or net loss for the period to the capital account.

The closing process is shown in **Figure 10-2** on page 252.

- Prior to the closing process, you know that net income or net loss is calculated on the work sheet. **A**
- The net income or net loss amount then appears on the income statement. **B**
- On the statement of changes in owner's equity, the ending balance of the capital account includes net income or net loss. **C**
- The ending balance of the capital account then appears on the balance sheet. **D**
- At this point, however, the balance of the capital account in the general ledger does not equal the amount on the balance sheet because the closing entries need to be journalized and posted. **E**

For example, the balance on the work sheet for **Maria Sanchez, Capital** is \$25,400, but on the balance sheet, it is \$26,050. These two amounts differ because the withdrawals and the net income have not been recorded in the capital account in the general ledger. The closing process updates accounts through closing entries and brings the balance of the general ledger capital account up to date.

CULTURAL 

Diversity

Setting Deadlines

In international business be aware of cultural differences about time. Business is conducted at a faster pace in the United States than in some other cultures. Tight deadlines can cause problems overseas if workers resent being pressured to do things at a pace other than the one they are used to.

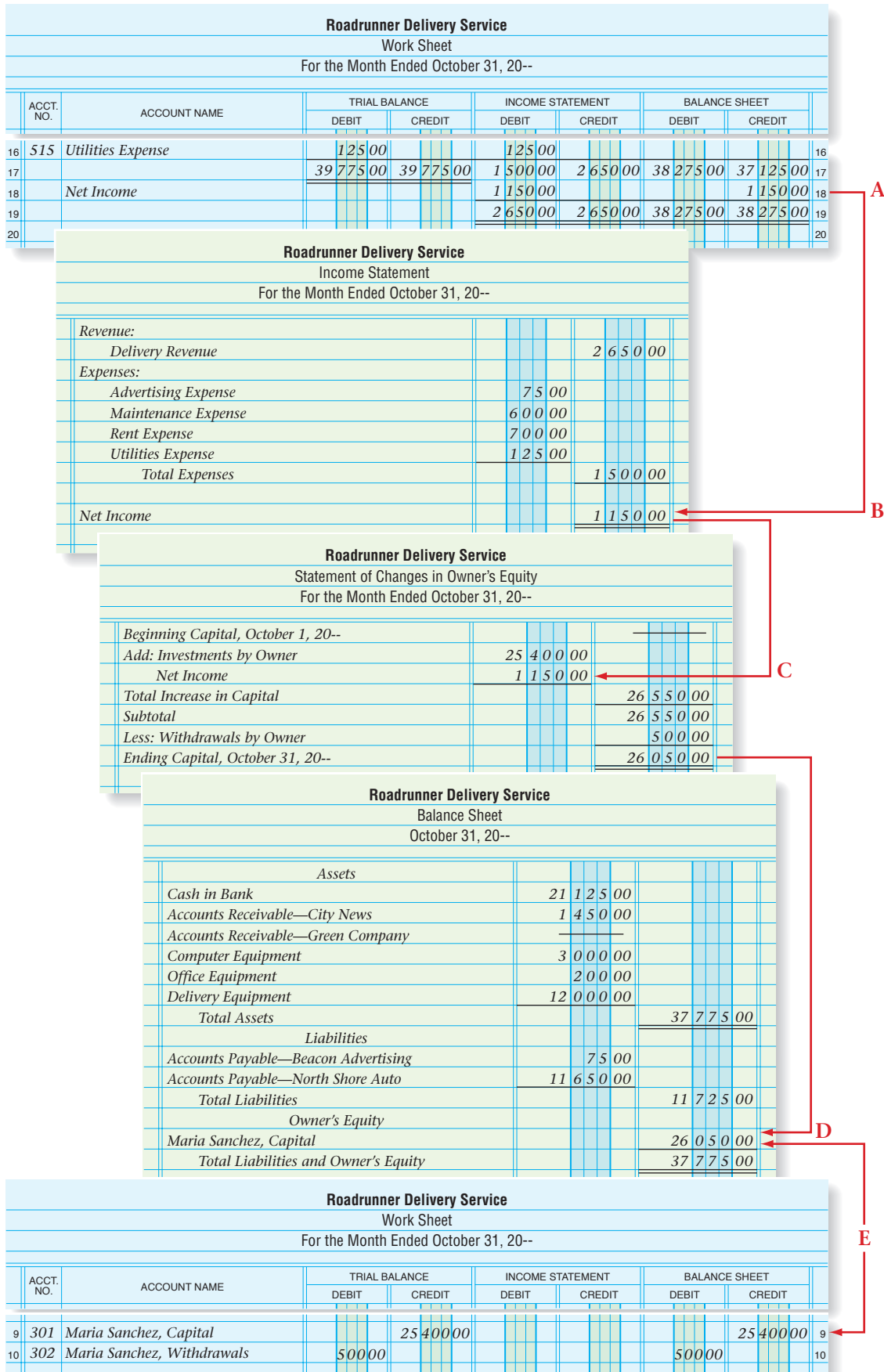


Figure 10-2 The Closing Process



The Income Summary Account

What Is the Purpose of the Income Summary Account?

Before the closing entries are journalized and posted, no single account in the general ledger shows all of the revenue and expenses for the period. This information is scattered among the individual revenue and expense accounts. There is, however, one general ledger account that, until this point, has not been used. That is the **Income Summary** account.

The **Income Summary account** is used to accumulate and summarize the revenue and expenses for the period. This account serves as a simple income statement in the ledger. Expenses, which have debit balances, are transferred as debits to **Income Summary**. Revenues, which have credit balances, are transferred as credits to **Income Summary**. The balance of the account equals the net income or net loss for the fiscal period.

Refer to the chart of accounts for Roadrunner Delivery Service on page 79. Notice that **Income Summary** is in the Owner's Equity section of the general ledger. It is located there because of its relationship to the owner's capital account. Remember that the revenue and expenses transferred to the **Income Summary** account actually represent increases and decreases to owner's equity. The balance of **Income Summary** (the net income or net loss for the period) is transferred to the capital account at the end of the closing process.

Like the withdrawals account, **Income Summary** is a temporary account. However, it is quite different from the other temporary accounts.

- **Income Summary** is used only at the end of the accounting period to summarize the balances from the revenue and expense accounts.
- **Income Summary** does not have a normal balance, which means that it does not have an increase or a decrease side. As shown in the following T account, the debit and credit sides of the account are simply used to summarize the period's revenue and expenses.
- The balance of the **Income Summary** account before and after the closing process is zero.
- The **Income Summary** account does not appear on any financial statement.

Income Summary	
Debit	Credit
Expenses	Revenue
	Balance is net income

If Revenue > Expenses →

If Revenue < Expenses → Balance is net loss

Preparing Closing Entries

How Do You Journalize Closing Entries?

Four journal entries are prepared to close the temporary accounts for Roadrunner:

1. Transfer the balances of all revenue accounts to the credit side of the **Income Summary** account.

As You READ

Key Point

Income Summary

The **Income Summary** account does not have a normal balance.

As You READ

In Your Own Words

Income Summary

Describe how and why the **Income Summary** account is used.

2. Transfer all expense account balances to the debit side of the **Income Summary** account.
3. Transfer the balance of the **Income Summary** account to the capital account (net income to the credit side; net loss to the debit side).
4. Transfer the balance of the withdrawals account to the debit side of the capital account.

Closing Revenue to Income Summary

The first step in the closing procedure is to transfer the balance of the revenue account to **Income Summary**. The balance for the revenue account is found in the Income Statement section of the work sheet. (Refer to the work sheet in **Figure 9–3** on page 222 when reading about closing entries.)

Closing Entry

First Closing Entry—Close Revenue to Income Summary

ANALYSIS *Identify*

Classify

+/-

1. Roadrunner has only one revenue account, **Delivery Revenue**. The accounts affected are **Delivery Revenue** and **Income Summary**.
2. **Delivery Revenue** is a revenue account. **Income Summary** is a temporary owner's equity account.
3. The **Delivery Revenue** account balance is decreased by \$2,650 to zero. That amount, \$2,650, is transferred to the **Income Summary** account.

DEBIT-CREDIT RULE

4. Decreases in revenue accounts are recorded as debits. Debit **Delivery Revenue** for \$2,650.
5. To transfer the revenue to the **Income Summary** account, credit **Income Summary** for \$2,650.

T ACCOUNTS

6.		Delivery Revenue		Income Summary	
Debit	Credit	Debit	Credit		
-	+				
Closing 2,650	Balance 2,650		Closing 2,650		

JOURNAL ENTRY

GENERAL JOURNAL					PAGE	3
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--	Closing Entries				1
2	Oct. 31	Delivery Revenue		2 650 00		2
3		Income Summary			2 650 00	3
4						



To record closing entries in the general journal, follow these steps:

1. Enter *Closing Entries* in the center of the Description column.
2. Enter the date (the last day of the accounting period).
3. Enter the name(s) of the account(s) to be debited and the debit amount(s).
4. Enter the name of the account, **Income Summary**, to be credited and the amount to be credited.

As You READ

In Your Experience

Closing In your personal life, what types of “closing” activities do you perform at the end of a time period?

Closing Expenses to Income Summary

The second closing entry transfers the balances of the expense accounts to **Income Summary**. The balances of the expense accounts are found in the Income Statement section of the work sheet.

Closing Entry																									
<i>Second Closing Entry—Close Expenses to Income Summary</i>																									
<p>ANALYSIS</p> <p><i>Identify</i></p> <p><i>Classify</i></p> <p>+/-</p>	<ol style="list-style-type: none"> 1. The accounts affected by the second closing entry are Advertising Expense, Maintenance Expense, Rent Expense, Utilities Expense, and Income Summary. 2. Advertising Expense, Maintenance Expense, Rent Expense, and Utilities Expense are expense accounts. Income Summary is a temporary owner’s equity account. 3. The balances of the four expense accounts are decreased to zero; the total decrease is \$1,500. The total amount, \$1,500, is transferred to the Income Summary account. 																								
<p>DEBIT-CREDIT RULE</p>	<ol style="list-style-type: none"> 4. To transfer the expenses to the Income Summary account, debit Income Summary for \$1,500. 5. Decreases in expense accounts are recorded as credits. Credit Advertising Expense, \$75; Maintenance Expense, \$600; Rent Expense, \$700; Utilities Expense, \$125. 																								
<p>T ACCOUNTS</p>	<p>6.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center; border-bottom: 1px solid black;">Income Summary</td> <td style="width: 50%; text-align: center; border-bottom: 1px solid black;">Advertising Expense</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px;">Debit</td> <td style="padding: 5px;">Credit</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px;">Closing 1,500</td> <td style="padding: 5px;">Debit + Balance 75</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px;"></td> <td style="padding: 5px;">Credit - Closing 75</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px;"></td> <td style="padding: 5px;"></td> </tr> <tr> <td style="text-align: center; border-bottom: 1px solid black;">Maintenance Expense</td> <td style="text-align: center; border-bottom: 1px solid black;">Rent Expense</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px;">Debit + Balance 600</td> <td style="padding: 5px;">Debit + Balance 700</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px;"></td> <td style="padding: 5px;">Credit - Closing 700</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px;"></td> <td style="padding: 5px;"></td> </tr> <tr> <td style="text-align: center; border-bottom: 1px solid black;">Utilities Expense</td> <td style="text-align: center; border-bottom: 1px solid black;"></td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px;">Debit + Balance 125</td> <td style="padding: 5px;">Credit - Closing 125</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 5px;"></td> <td style="padding: 5px;"></td> </tr> </table>	Income Summary	Advertising Expense	Debit	Credit	Closing 1,500	Debit + Balance 75		Credit - Closing 75			Maintenance Expense	Rent Expense	Debit + Balance 600	Debit + Balance 700		Credit - Closing 700			Utilities Expense		Debit + Balance 125	Credit - Closing 125		
Income Summary	Advertising Expense																								
Debit	Credit																								
Closing 1,500	Debit + Balance 75																								
	Credit - Closing 75																								
Maintenance Expense	Rent Expense																								
Debit + Balance 600	Debit + Balance 700																								
	Credit - Closing 700																								
Utilities Expense																									
Debit + Balance 125	Credit - Closing 125																								

JOURNAL ENTRY

7.



GENERAL JOURNAL					PAGE	3
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
5 Oct. 31	Income Summary		1 500 00			5
6	Advertising Expense			75 00		6
7	Maintenance Expense			600 00		7
8	Rent Expense			700 00		8
9	Utilities Expense			125 00		9
10						10

It is not necessary to use a separate closing entry for each expense account. As you can see, Roadrunner's entry has one debit and four credits. A journal entry with two or more debits or two or more credits is called a **compound entry**. A compound entry saves both space and posting time. For example, each of Roadrunner's expense accounts could be closed to **Income Summary** separately. That, however, requires four entries and postings to the **Income Summary** account instead of one entry and posting.

Closing Income Summary to Capital

The third closing entry transfers the balance of the **Income Summary** account to the capital account. As shown in the T account, after closing Roadrunner's revenue and expense accounts, **Income Summary** has a credit balance of \$1,150. A credit balance indicates net income for the period. It is the same amount that appears on the work sheet.

Income Summary			
2	Closing entry for expenses	1,500	
1	Closing entry for revenue		2,650
	Balance		1,150

Closing Entry

Third Closing Entry—Close Income Summary to Capital

ANALYSIS

Identify
Classify

+/-

1. The accounts **Income Summary** and **Maria Sanchez, Capital** are affected.
2. **Income Summary** is a temporary owner's equity account. **Maria Sanchez, Capital** is an owner's capital account.
3. The **Income Summary** account balance is reduced to zero by transferring \$1,150, the net income amount, to the capital account. **Maria Sanchez, Capital** is increased by \$1,150.

DEBIT-CREDIT RULE

4. To reduce the **Income Summary** balance to zero, debit **Income Summary** for \$1,150.
5. Net income is recorded as a credit to the owner's capital account. Credit **Maria Sanchez, Capital** for \$1,150.

T ACCOUNTS	6.	Income Summary		Maria Sanchez, Capital	
		Debit	Credit	Debit	Credit
		Closing 1,150	Balance 1,150	—	+ Balance 25,400 Closing 1,150

JOURNAL ENTRY	7.	GENERAL JOURNAL					PAGE <u> 3 </u>
		DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
		11 Oct. 31	Income Summary		1 150 00		11
		12	Maria Sanchez, Capital			1 150 00	12
		13					13

After the third closing entry has been posted, the **Income Summary** account appears in T-account form as follows.

Income Summary			
2	Closing entry for expenses	1,500	1 Closing entry for revenue
			2,650
3	Closing balance to owner's capital account	1,150	

If a business has a net loss, **Income Summary** has a debit balance. In that case, the third closing entry debits the capital account and credits **Income Summary** for the amount of the net loss. **Figure 10–3** shows this general journal entry.

GENERAL JOURNAL					PAGE <u> 3 </u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
1	20--	Closing Entries			
2	Oct. 31	Maria Sanchez, Capital		7 0 0 00	
3		Income Summary			7 0 0 00
4					

Figure 10–3 Closing Income Summary for the Amount of Net Loss

Closing Withdrawals to Capital

The fourth and last closing entry transfers the balance of the withdrawals account to the capital account. As you recall, withdrawals decrease owner's equity. The balance of the withdrawals account is transferred to the capital account to reflect the decrease in owner's equity. The balance of the withdrawals account is found in the Balance Sheet section of the work sheet.

Closing Entry

Fourth Closing Entry—Close Withdrawals to Capital

ANALYSIS *Identify*

Classify

+/-

1. The accounts affected by the fourth closing entry are **Maria Sanchez, Withdrawals** and **Maria Sanchez, Capital**.
2. **Maria Sanchez, Withdrawals** is a temporary owner's equity account. **Maria Sanchez, Capital** is an owner's capital account.
3. **Maria Sanchez, Withdrawals** is decreased by \$500. **Maria Sanchez, Capital** is decreased by \$500.

DEBIT-CREDIT RULE

4. Decreases in owner's capital accounts are recorded as debits. Debit **Maria Sanchez, Capital** for \$500.
5. Decreases in owner's withdrawal accounts are recorded as credits. Credit **Maria Sanchez, Withdrawals** for \$500.

T ACCOUNTS

6. Maria Sanchez, Capital		Maria Sanchez, Withdrawals	
Debit – Closing 500	Credit + Balance 26,550	Debit + Balance 500	Credit – Closing 500

JOURNAL ENTRY

7.

GENERAL JOURNAL					PAGE	3
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
14 Oct. 31	Maria Sanchez, Capital		500 00			14
15	Maria Sanchez, Withdrawals			500 00		15

Figure 10–4 summarizes the closing entries for Roadrunner.

GENERAL JOURNAL					PAGE	3
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT		
1 20--	Closing Entries					1
2 Oct. 31	Delivery Revenue		2 650 00			2
3	Income Summary			2 650 00		3
4						4
5 31	Income Summary		1 500 00			5
6	Advertising Expense			75 00		6
7	Maintenance Expense			600 00		7
8	Rent Expense			700 00		8
9	Utilities Expense			1 25 00		9
10						10
11 31	Income Summary		1 150 00			11
12	Maria Sanchez, Capital			1 150 00		12
13						13
14 31	Maria Sanchez, Capital		500 00			14
15	Maria Sanchez, Withdrawals			500 00		15

Figure 10–4 Journalizing the Closing Entries

AFTER
You READ

Reinforce the Main Idea

Use a table like this one to describe the closing entries that are made at the end of each accounting period.

General Journal Entry Description	Account Debited	Account Credited



Do the Math

Using these general ledger account balances, calculate the net income or net loss for the period. Then calculate the increase or decrease in owner's capital.

Anna Zarian, Capital	\$25,000
Anna Zarian, Withdrawals	5,000
Accounting Fees Revenue	9,000
Advertising Expense	1,000
Miscellaneous Expense	2,000
Rent Expense	1,500
Utilities Expense	500



Problem 10-1 Preparing Closing Entries

Instructions Prepare closing entries for the following in your working papers.

1. A closing entry must be made for the account **Ticket Revenue**, which has a balance of \$6,000.
2. A business has three expense accounts: **Gas and Oil Expense** (balance, \$700), **Miscellaneous Expense** (balance, \$600), and **Utilities Expense** (balance, \$1,800). The end of the fiscal year is June 30.



Problem 10-2 Analyzing a Source Document

Instructions Using the source document:

1. Journalize the transaction in a general journal in your working papers.
2. Post the entry to the appropriate T accounts.
3. Assume it is the end of the accounting period. Record the closing entry for this account in the general journal.
4. Post the closing entry to the appropriate T accounts.

DEPARTMENT OF WATER & POWER
455 Main Street
Sarasota, FL 34230

ACCOUNT NO.: 00384843848-339
INVOICE NO.: 32004

Gulfview Tropical Fish and Supplies
TO 4524 West Palm Bay Avenue
Sarasota, FL 34222

DATES		USAGE	RATE	AMOUNT DUE
FROM	TO			
March 15, 20--	April 14, 20--	1,000 kWh	\$.129 per kWh	\$129.00

Posting Closing Entries and Preparing a Post-Closing Trial Balance

BEFORE YOU READ

Main Idea

After the closing entries are posted, a post-closing trial balance is prepared to verify that debits equal credits.

Read to Learn...

- ▶ how to post the closing entries to the general ledger. (p. 260)
- ▶ how to prepare a post-closing trial balance. (p. 262)

Key Terms

post-closing trial balance

In Section 1 you learned how to journalize the closing entries. In this section you will complete the accounting cycle.

Completing the Eighth Step in the Accounting Cycle: Posting the Closing Entries to the General Ledger

What Is Special About Posting the Closing Entries?

The next step in the closing process is to post the closing entries to the general ledger accounts. The posting procedure is the same as for any other general journal entry, with one exception. The words *Closing Entries* are written in the Description column of the general ledger account. The posting of the closing entries for Roadrunner is shown in **Figure 10–5**. Note that *Closing Entries* can be abbreviated as *Clos. Ent.*

GENERAL JOURNAL						PAGE 3
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--	<i>Closing Entries</i>				1
2	Oct. 31	Delivery Revenue	401	2 6 5 0 00		2
3		Income Summary	303		2 6 5 0 00	3
4						4
5	31	Income Summary	303	1 5 0 0 00		5
6		Advertising Expense	501		7 5 00	6
7		Maintenance Expense	505		6 0 0 00	7
8		Rent Expense	510		7 0 0 00	8
9		Utilities Expense	515		1 2 5 00	9
10						10
11	31	Income Summary	303	1 1 5 0 00		11
12		Maria Sanchez, Capital	301		1 1 5 0 00	12
13						13
14	31	Maria Sanchez, Capital	301	5 0 0 00		14
15		Maria Sanchez, Withdrawals	302		5 0 0 00	15
16						16

Figure 10–5 Closing Entries Posted to the General Ledger

ACCOUNT <i>Maria Sanchez, Capital</i>			ACCOUNT NO. <i>301</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Oct. 1		G1		25 000 00		25 000 00
	2	G1		4 000 00		25 400 00
	31 <i>Clos. Ent.</i>	G3		1 150 00		26 550 00
	31 <i>Clos. Ent.</i>	G3	5 000 00			26 050 00

ACCOUNT <i>Maria Sanchez, Withdrawals</i>			ACCOUNT NO. <i>302</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Oct. 31		G1	5 000 00		5 000 00	
	31 <i>Clos. Ent.</i>	G3		5 000 00		

ACCOUNT <i>Income Summary</i>			ACCOUNT NO. <i>303</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Oct. 31	<i>Clos. Ent.</i>	G3		2 650 00		2 650 00
	31 <i>Clos. Ent.</i>	G3	1 500 00			1 150 00
	31 <i>Clos. Ent.</i>	G3	1 150 00			

ACCOUNT <i>Delivery Revenue</i>			ACCOUNT NO. <i>401</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Oct. 15		G1		1 200 00		1 200 00
	20	G1		1 450 00		2 650 00
	31 <i>Clos. Ent.</i>	G3	2 650 00			

ACCOUNT <i>Advertising Expense</i>			ACCOUNT NO. <i>501</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Oct. 18		G1	75 00		75 00	
	31 <i>Clos. Ent.</i>	G3		75 00		

ACCOUNT <i>Maintenance Expense</i>			ACCOUNT NO. <i>505</i>			
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE	
					DEBIT	CREDIT
20--						
Oct. 29		G1	6 000 00		6 000 00	
	31 <i>Clos. Ent.</i>	G3		6 000 00		

Figure 10-5 Closing Entries Posted to the General Ledger (continued)



ACCOUNT <i>Rent Expense</i>					ACCOUNT NO. <i>510</i>				
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT	CREDIT			
20--									
Oct. 16		G1	700 00		700 00				
31	Clos. Ent.	G3		700 00					

ACCOUNT <i>Utilities Expense</i>					ACCOUNT NO. <i>515</i>				
DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	BALANCE				
					DEBIT	CREDIT			
20--									
Oct. 28		G1	125 00		125 00				
31	Clos. Ent.	G3		125 00					

Figure 10–5 Closing Entries Posted to the General Ledger (continued)

As You READ
Compare and Contrast
Post-Closing Trial Balance How is the post-closing trial balance similar to the trial balance? How is it different?

The Ninth Step in the Accounting Cycle: Preparing a Post-Closing Trial Balance

If We Already Have a Trial Balance, Why Do We Need a Post-Closing Trial Balance?

The last step in the accounting cycle is to prepare a post-closing trial balance. The **post-closing trial balance** is prepared to make sure total debits equal total credits after the closing entries are posted. The post-closing trial balance for Roadrunner is shown in Figure 10–6.

Notice that only accounts with balances are listed on the post-closing trial balance. After the closing process, only permanent accounts have balances. Temporary accounts have zero balances, so there is no need to list those accounts on the post-closing trial balance.

Roadrunner Delivery Service						
Post-Closing Trial Balance						
October 31, 20--						
Cash in Bank	21	125	00			
Accounts Receivable—City News	1	450	00			
Computer Equipment	3	000	00			
Office Equipment		200	00			
Delivery Equipment	12	000	00			
Accounts Payable—Beacon Advertising					75	00
Accounts Payable—North Shore Auto					11	650 00
Maria Sanchez, Capital					26	050 00
Total	37	775	00	37	775	00

Figure 10–6 Post-Closing Trial Balance



AFTER
You READ**Reinforce the Main Idea**

Create a table like this one to list the general ledger account classifications. In the column titled "Appears on Post-Closing Trial Balance," place an X next to each account that carries a balance into the next accounting period.

Account Type	Appears on Post-Closing Trial Balance
Asset	
Liability	
Owner's Capital	
Owner's Withdrawals	
Revenue	
Expenses	

**Do the Math**

You work for a company with a large accounting department, and every accounting clerk has specific duties. Your co-worker responsible for preparing the post-closing trial balance is ill today. Your supervisor asked you to prepare the post-closing trial balance. Using your computer or lined paper, draft the post-closing trial balance using the following account balances: Cash, \$27,800; Accounts Receivable, \$33,000; Equipment, \$81,000; Accounts Payable, \$24,500; and Owner's Capital, \$117,300.

**Problem 10-3 Determining Accounts Affected by Closing Entries**

The following list contains some of the accounts used by Living Well Health Spa.

General Ledger

Accts. Pay.—The Fitness Shop	Exercise Equipment	Rent Expense
Accts. Rec.—Linda Brown	Income Summary	Repair Tools
Advertising Expense	Laundry Equipment	Ted Chapman, Capital
Cash in Bank	Maintenance Expense	Ted Chapman, Withdrawals
Exercise Class Revenue	Membership Fees	Utilities Expense
	Miscellaneous Expense	
	Office Furniture	

Instructions Using the form in your working papers:

- In the first column, indicate the financial statement where each account appears: balance sheet or income statement.
- In the next column, indicate whether or not the account is affected by a closing entry.
- In the last column, indicate whether or not the account appears on the post-closing trial balance.

The first account is shown as an example.

Account Name	Financial Statement	Is the account affected by a closing entry?	Does the account appear on the post-closing trial balance?
Accts. Pay.—The Fitness Shop	Balance Sheet	No	Yes

Key Concepts

1. The eighth step in the accounting cycle is to journalize and post the closing entries:
 - *Closing* is the process of transferring the balances in the temporary accounts to the owner’s capital account.
 - The asset, liability, and owner’s capital accounts are *never* closed.
2. The **Income Summary** account has two purposes:
 - to accumulate the revenue and expenses for an accounting period, and
 - to summarize the revenue and expenses for an accounting period.
3. **Income Summary** is a temporary owner’s equity account used to record net income or net loss:
 - A credit balance (net income) in **Income Summary** increases capital.
 - A debit balance (net loss) decreases capital.
 - The **Income Summary** account does not have a normal balance. That is, it does not have an increase side or a decrease side.
 - The **Income Summary** account balance is zero before and after the closing process.
 - The **Income Summary** account does not appear on any financial statements.
4. Prepare four closing entries:
 - a. Close the revenue account(s) to **Income Summary**.

1	20--										1
2	Dec. 31	Revenue Account			x x x	xx					2
3		Income Summary						x x x	xx		3

- b. Close the expense accounts to **Income Summary**.

4	31	Income Summary			x x x	xx					4
5		Expense Account						x x x	xx		5
6		Expense Account						x x x	xx		6
7		Expense Account						x x x	xx		7

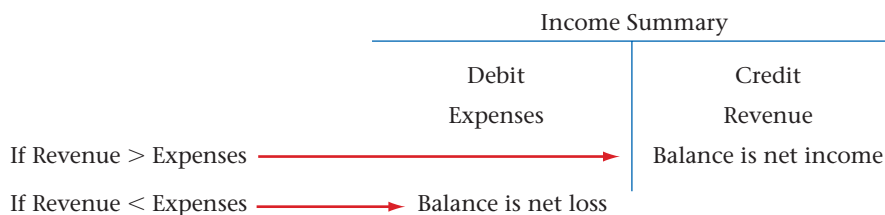
- c. Close **Income Summary** to the owner’s capital account.

8	31	Income Summary			x x x	xx					8
9		Owner’s Capital Account						x x x	xx		9

- d. Close the owner’s withdrawals account to the owner’s capital account.

12	31	Owner’s Capital Account			x x x	xx					12
13		Withdrawals Account						x x x	xx		13





5. After the closing entries have been journalized, follow this procedure:
 - Post them to the general ledger.
 - For each posted entry, enter the words *Closing Entry* in the Description column of the general ledger account.
6. The ninth step in the accounting cycle is to prepare a post-closing trial balance. Only the permanent accounts are listed on the post-closing trial balance.

Roadrunner Delivery Service											
Post-Closing Trial Balance											
December 31, 20--											
	<i>Cash in Bank</i>										
	<i>Accts. Rec.—City News</i>										
	<i>Computer Equipment</i>										
	<i>Office Equipment</i>										
	<i>Delivery Equipment</i>										
	<i>Accts. Pay.—Beacon Advertising</i>										
	<i>Accts. Pay.—North Shore Auto</i>										
	<i>Maria Sanchez, Capital</i>										
	<i>Totals</i>										

Key Terms

- | | |
|----------------------------|----------|
| closing entries | (p. 250) |
| compound entry | (p. 256) |
| Income Summary account | (p. 253) |
| post-closing trial balance | (p. 262) |

AFTER
YOU READ**Check Your Understanding**

- Closing Entries**
 - Which accounts are considered temporary accounts?
 - Why are temporary accounts closed at the end of the fiscal year?
- Income Summary Account**
 - What is the purpose of the **Income Summary** account?
 - How does the **Income Summary** account differ from the other temporary accounts?
- Income Summary and Capital Accounts**
 - Explain the relationship between the **Income Summary** account and the capital account.
 - Why doesn't the **Income Summary** account have a normal balance?
- Analyzing and Journalizing Closing Entries**
 - What is the source of information for the closing entries?
 - List the steps for journalizing the closing entries.
- Posting the Closing Entries**
 - Classify the **Income Summary** account (asset, liability, owner's equity, revenue, or expense).
 - How is the posting procedure for closing entries different from the posting procedure for other general journal entries?
- Post-Closing Trial Balance**
 - What is the purpose of the post-closing trial balance?
 - Why does the post-closing trial balance have balances of only permanent accounts?

Apply Key Terms

On a separate sheet of paper, write a brief definition for each of the following terms.

closing entries
compound entry
Income Summary account
post-closing trial balance



Closing the Accounting Period

Making the Transition from a Manual to a Computerized System

Task	Manual Methods	Computerized Methods
Closing Entries	<ul style="list-style-type: none"> Using a general journal form, prepare closing entries for revenue, expense, income summary, and withdrawals accounts. Post the closing entries in the general ledger accounts. 	<ul style="list-style-type: none"> It is not necessary to journalize closing entries. Closing entries are performed by the computerized system.



Peachtree® Q & A

Peachtree Question	Answer
What is the difference between changing the accounting period and closing the fiscal year in Peachtree?	<ul style="list-style-type: none"> In Peachtree the <i>accounting period</i> refers to the period used to record transactions. At the end of an accounting period (usually at month-end), you should change to the next accounting period. For example, at March 31, you would select the next accounting period, April 1, 20-- through April 30, 20--. The fiscal year should be closed only when you are sure that all entries have been recorded and all reports have been printed for the year.
How do I close the fiscal year?	<ol style="list-style-type: none"> Post and print all journal entries before closing the fiscal year. Closing the fiscal year cannot be reversed. From the Tasks menu, select System. Select Year-End Wizard. You will be prompted to complete Year-End closing procedures.



QuickBooks Q & A

QuickBooks Question	Answer
What is the difference between changing the accounting period and closing the fiscal year in QuickBooks?	<ul style="list-style-type: none"> In QuickBooks the <i>accounting period</i> refers to the month used to record transactions. Changing the accounting period is as simple as entering the first day of the next month. The software does not require that you manually adjust accounting periods. The fiscal year should be closed only when you are sure that all entries have been recorded and all reports have been printed for the year.
How do I close the fiscal year?	<ol style="list-style-type: none"> Record all journal entries before closing the fiscal year. From the Edit menu, select Preferences. Choose the Accounting preference and click the Company Preferences tab. In the <i>Date</i> field, enter the closing date and click the Set Password button. Enter and confirm the password, and click OK.

For detailed instructions, see your Glencoe Accounting Chapter Study Guides and Working Papers.

Complete problems using:

Manual Glencoe Working Papers **OR** **Spreadsheet** Templates

Peachtree®

SMART GUIDE

Step-by-Step Instructions:
Problem 10-4

1. Select the problem set for Wilderness Rentals (Prob. 10-4).
2. Rename the company and set the system date.
3. Select **System** from the **Tasks** menu and then choose **Year-End Wizard**.
4. Complete the Analyze activity.
5. End the session.

TIP: Print the General Ledger or General Ledger Trial Balance report to find an account balance.

Problem 10-4 Preparing Closing Entries

A portion of the work sheet for Wilderness Rentals for the period ended December 31 follows.

Instructions Using the information from the work sheet, prepare the journal entries to close the temporary accounts.

1. Record the closing entry for the revenue account.
2. Record the closing entry for the expense accounts.
3. Record the closing entry for the **Income Summary** account.
4. Record the closing entry for the withdrawals account.

		Wilderness Rentals			
		Work Sheet			
		For the Period Ended December 31, 20--			
ACCT. NO.	ACCOUNT NAME	INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT
1	101 Cash in Bank			7 000 00	
2	105 Accts. Rec.—Helen Katz			2 000 00	
3	110 Accts. Rec.—Polk and Co.			1 000 00	
4	115 Office Supplies			900 00	
5	120 Office Equipment			12 000 00	
6	125 Camping Equipment			6 000 00	
7	201 Accts. Pay.—Adventure Equip. Inc.				900 00
8	203 Accts. Pay.—Digital Tech Computers				400 00
9	205 Accts. Pay.—Greg Mollaro				500 00
10	301 Ronald Hicks, Capital				19 775 00
11	305 Ronald Hicks, Withdrawals			2 350 00	
12	310 Income Summary				
13	401 Equipment Rental Revenue		14 965 00		
14	501 Advertising Expense	1 500 00			
15	505 Maintenance Expense	1 560 00			
16	515 Rent Expense	1 000 00			
17	525 Utilities Expense	1 230 00			
18		5 290 00	14 965 00	31 250 00	21 575 00
19	Net Income	9 675 00			9 675 00
20		14 965 00	14 965 00	31 250 00	31 250 00
21					

Analyze

Predict the balance of the capital account after the closing entries are posted.

Problem 10-5 Preparing a Post-Closing Trial Balance

Instructions Use the accounts shown on the next two pages to prepare a Dec. 31 post-closing trial balance for Hot Suds Car Wash.

Problems

CHAPTER 10

Cash in Bank		Accounts Receivable— Linda Brown	
Debit + Balance 8,000	Credit –	Debit + Balance 875	Credit –
Accounts Receivable— Valley Auto		Office Equipment	
Debit + Balance 5,050	Credit –	Debit + Balance 6,000	Credit –
Office Furniture		Car Wash Equipment	
Debit + Balance 9,000	Credit –	Debit + Balance 65,000	Credit –
Accounts Payable— Allen Vacuum Systems		Accounts Payable— O'Brian's Office Supply	
Debit –	Credit + Balance 41,000	Debit –	Credit + Balance 2,500
Regina Delgado, Capital		Regina Delgado, Withdrawals	
Debit – Closing 1,500	Credit + 35,925 Closing 16,000	Debit + Balance 1,500	Credit – Closing 1,500
Income Summary		Wash Revenue	
Debit Closing 19,000 Closing 16,000	Credit Closing 35,000	Debit – Closing 15,000	Credit + Balance 15,000
Wax Revenue		Interior Detailing Revenue	
Debit – Closing 8,000	Credit + Balance 8,000	Debit – Closing 12,000	Credit + Balance 12,000
Advertising Expense		Equipment Rental Expense	
Debit + Balance 2,500	Credit – Closing 2,500	Debit + Balance 3,000	Credit – Closing 3,000

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 10–5

1. Select the problem set for Hot Suds Car Wash (Prob. 10–5).
2. Rename the company and set the system date.
3. Print a post-closing Trial Balance.
4. Complete the Analyze activity.
5. End the session.

TIP: Print the **General Ledger Trial Balance** after you complete the closing process to generate a post-closing trial balance.

QuickBooks

PROBLEM GUIDE

Step-by-Step Instructions: Problem 10–5

1. Restore the Problem 10-5.QBB file.
2. Print a Post-Closing Trial Balance.
3. Complete the Analyze activity.
4. Back up your work.

CONTINUE 

Maintenance Expense		Rent Expense	
Debit + Balance 5,000	Credit - Closing 5,000	Debit + Balance 5,000	Credit - Closing 5,000

Utilities Expense	
Debit + Balance 3,500	Credit - Closing 3,500

Analyze Predict the balance of the temporary accounts after the closing entries are posted.

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SMART GUIDE

Step-by-Step Instructions: Problem 10-6

1. Select the problem set for Kits & Pups Grooming (Prob. 10-6).
2. Rename the company and set the system date.
3. Close the current fiscal year.
4. Complete the Analyze activity.
5. End the session.

Problem 10-6 Journalizing Closing Entries

The following account names and balances appear on the work sheet for Kits & Pups Grooming for the month ended December 31.

		Kits & Pups Grooming Work Sheet For the Month Ended December 31, 20--			
ACCT. NO.	ACCOUNT NAME	INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT
1	Cash in Bank			9 300 00	
2	Accts. Rec.—Juan Alvarez			3 000 00	
3	Accts. Rec.—Nathan Carlsbad			10 000 00	
4	Accts. Rec.—Martha Giles			5 000 00	
5	Office Equipment			8 000 00	
6	Office Furniture			10 000 00	
7	Computer Equipment			9 000 00	
8	Grooming Equipment			15 000 00	
9	Kennel Equipment			21 000 00	
10	Accts. Pay.—Able Store Equip.				5 000 00
11	Accts. Pay.—Dogs & Cats Inc.				1 500 00
12	Accts. Pay.—Pet Gourmet				15 000 00
13	Abe Shultz, Capital				52 700 00
14	Abe Shultz, Withdrawals			7 000 00	
15	Income Summary				
16	Boarding Revenue		20 000 00		
17	Grooming Revenue		8 000 00		
18	Advertising Expense	7 000 00			
19	Equipment Repair Expense	12 000 00			
20	Maintenance Expense	5 000 00			
21	Rent Expense	17 000 00			
22	Utilities Expense	8 000 00			

Instructions Using this information, record the closing entries for Kits & Pups Grooming. Use general journal page 11.

Analyze Calculate the change in the capital account for the period.

Problem 10-7 Posting Closing Entries and Preparing a Post-Closing Trial Balance

Period ending December 31 closing entries for Outback Guide Service are:

GENERAL JOURNAL						PAGE <u>1</u>
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20--	Closing Entries				1
2	Dec. 31	Guide Service Revenue		16 3 0 0 0 0		2
3		Income Summary			16 3 0 0 0 0	3
4	31	Income Summary		10 0 0 0 0 0		4
5		Advertising Expense			3 0 0 0 0 0	5
6		Maintenance Expense			1 1 0 0 0 0	6
7		Rent Expense			4 0 0 0 0 0	7
8		Utilities Expense			1 9 0 0 0 0	8
9	31	Income Summary		6 3 0 0 0 0		9
10		Juanita Ortega, Capital			6 3 0 0 0 0	10
11	31	Juanita Ortega, Capital		4 0 0 0 0 0		11
12		Juanita Ortega, Withdrawals			4 0 0 0 0 0	12
13						13

Instructions Using your working papers, post the closing entries to the appropriate general ledger accounts and prepare a post-closing trial balance.

Analyze Calculate the balance of the capital account after closing.

Problem 10-8 Completing Period-End Activities

The general ledger for Showbiz Video shows the following at December 31:

General Ledger

101 Cash in Bank	12,000	207 Accts. Pay.—	
105 Accts. Rec.—G. Cohen	3,000	New Media Suppliers	3,000
110 Accts. Rec.—J. Coletti	900	209 Accts. Pay.—Palace Films	14,000
113 Accts. Rec.—S. Flannery	1,800	301 Greg Failla, Capital	33,775
115 Accts. Rec.—Spring		305 Greg Failla, Withdrawals	4,000
Branch School District	1,500	310 Income Summary	—
130 Office Equipment	5,000	401 Video Rental Revenue	9,600
135 Office Furniture	8,000	405 VCR Rental Revenue	3,500
140 Computer Equipment	10,000	501 Advertising Expense	1,600
145 Video Tapes	20,000	505 Equipment Repair	
150 Video Equipment	9,000	Expense	1,200
201 Accts. Pay.—Broad Street		510 Maintenance Expense	400
Office Supply	400	520 Rent Expense	1,000
205 Accts. Pay.—		530 Utilities Expense	375
Computer Horizons	15,500		

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SMART GUIDE

Step-by-Step Instructions: Problem 10-7

1. Select the problem set for Outback Guide Service (Prob. 10-7).
2. Rename the company and set the system date.
3. Close the fiscal year.
4. Print a post-closing Trial Balance.
5. Complete the Analyze activity.
6. End the session.

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SMART GUIDE

Step-by-Step Instructions: Problem 10-8

1. Select the problem set for Showbiz Video (Prob. 10-8).
2. Rename the company and set the system date.
3. Print a General Ledger Trial Balance.
4. Print an Income Statement, Balance Sheet, and Statement of Changes in Owner's Equity.
5. Close the fiscal year.
6. Print a post-closing Trial Balance.
7. Complete the Analyze activity.
8. End the session.

QuickBooks

PROBLEM GUIDE

Step-by-Step Instructions: Problem 10-8

1. Restore the Problem 10-8.QBB file.
2. Print a Trial Balance, a Profit & Loss report, and a Balance Sheet.
3. Close the fiscal year and print a Trial Balance.
4. Complete the Analyze activity.
5. Back up your work.

CONTINUE

Instructions Using the preceding account names and balances:

1. Prepare the six-column work sheet. The period covered is one month.
2. Prepare the financial statements. Greg Failla invested \$10,000 during the month.
3. Record the closing entries on page 12 of the general journal.
4. Post the closing entries.
5. Prepare a post-closing trial balance.

Analyze Calculate the total amount of all the accounts receivable accounts on December 31.

SPREADSHEET SMART GUIDE

Step-by-Step Instructions: Problem 10-9

1. Select the spreadsheet template for Problem 10-9.
2. Enter your name and the date.
3. Complete the spreadsheet using the instructions in your working papers.
4. Print the spreadsheet and proof your work.
5. Complete the Analyze activity.
6. Save your work and exit the spreadsheet program.



Problem 10-9 Completing End-of-Period Activities

At the end of December, the general ledger for Job Connect showed the following account balances:

General Ledger

101 Cash in Bank	6,000	207 Accts. Pay.—Wildwood	
105 Accts. Rec.—		Furniture Sales	2,000
CompuRite Systems	1,000	301 Richard Tang, Capital	23,600
110 Accts. Rec.—		302 Richard Tang,	
Marquez Manufact.	500	Withdrawals	3,000
113 Accts. Rec.—Roaring		303 Income Summary	—
Rivers Water Park	600	401 Placement Fees Revenue	6,900
115 Accts. Rec.—M. Spencer	200	405 Technology Classes	
130 Office Equipment	7,000	Revenue	2,400
135 Office Furniture	5,000	501 Advertising Expense	3,000
140 Computer Equipment	8,500	505 Maintenance Expense	800
201 Accts. Pay.—Micro		510 Miscellaneous Expense	800
Solutions Inc.	2,800	520 Rent Expense	2,000
205 Accts. Pay.—Vega		530 Utilities Expense	900
Internet Services	1,600		

Instructions Using the preceding account names and balances:

1. Prepare the six-column work sheet. The period covered is one month.
2. Prepare the financial statements.
3. Record the closing entries on page 28 of the general journal.
4. Post the closing entries.
5. Prepare a post-closing trial balance.

Analyze Identify the largest expenditure for the period.

Practice your test-taking skills! The questions on this page are reprinted with permission from national organizations:

- Future Business Leaders of America
- Business Professionals of America

Use a separate sheet of paper to record your answers.



Future Business Leaders of America

MULTIPLE CHOICE

1. Which of the following accounts needs no closing entries?
 - a. Capital
 - b. Supplies Expense
 - c. Fees Owed
 - d. All of the above
2. After adjusting and closing entries have been posted, a
 - a. balance sheet is prepared.
 - b. trial balance is prepared.
 - c. post-closing balance sheet is prepared.
 - d. post-closing trial balance is prepared.
3. The Capital account balance minus the net loss minus the Drawing account balance equals
 - a. net loss.
 - b. total liabilities.
 - c. the capital amount shown on a balance sheet.
 - d. the capital amount shown on an income statement.



Business Professionals of America

MULTIPLE CHOICE

4. Which of the following *will not* appear on a post-closing trial balance?
 - a. Accounts Payable
 - b. Sales
 - c. Owner's Capital
 - d. Cash
5. At the end of the fiscal period, the income summary account shows a credit balance of \$3,500. This income summary account balance will be closed out to which account?
 - a. a debit to owner's capital
 - b. a credit to owner's capital
 - c. a debit to owner's revenue
 - d. a credit to owner's withdrawals

Need More Help?

Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Winning Competitive Events** and select **Chapter 10**.

- Practice Questions and Test-Taking Tips
- Concept Capsules and Terminology

CRITICAL Thinking

Completing the Accounting Cycle

1. What is the last step of the accounting cycle?
2. Why are the temporary accounts closed to the owner's capital account at the end of the accounting period?
3. Make the closing entries for (a) a \$5,000 net income for the year ending December 31 and (b) a \$4,000 net loss for the quarter ending June 30.
4. Compare and contrast the closing entry for an expense account and the closing entry for the withdrawals account.
5. What items do you need to journalize the closing entries? Include office supplies and forms as well as any information that will be needed.
6. What is the value of preparing a post-closing trial balance?

CASE STUDY

Service Business: Computer Consulting

You note after preparing financial statements for Computer Works and completing the closing entries below that the owner's capital account balance is \$34,400 in the general ledger but is \$43,400 on the statement of changes in owner's equity. The capital account balance was \$38,900 at the beginning of the month.

INSTRUCTIONS (1) Identify the mistakes in the closing entries and (2) calculate the correct capital account balance.

Date	Description	Debit	Credit
Aug. 31	Consulting Fee Revenue	9,240	
	Income Summary		9,240
Aug. 31	Income Summary	870	
	Advertising Expense		300
	Internet Access Expense		20
	Rent Expense		550
Aug. 31	Rex Moran, Capital	8,100	
	Income Summary		8,100

a matter of ETHICS

Computer Viruses

Computer viruses "reproduce" themselves in computer programs, slowing the system or destroying data. A friend gives you a computer game with a harmless virus. To add some fun at work, you load the game onto the company's network.

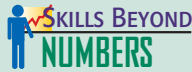
ETHICAL DECISION MAKING

1. What are the ethical issues?
2. What are the alternatives?
3. Who are the affected parties?
4. How do the alternatives affect the parties?
5. What would you do?

COMMUNICATING ACCOUNTING

Explaining Cause and Effect

Your boss left you a note questioning the decrease in his owner's capital account. You see that his withdrawals were the cause. List some points to explain the situation. Pick a classmate to listen to your explanation, which should prove that you understand that the withdrawals account is closed to the capital account.



Working in a Team

Imagine that you work in the accounting department for the multimedia division of MTV. The CD-ROM project manager wants to produce and sell a new CD-ROM with clips from the latest music videos. You and your co-workers have questions.

INSTRUCTIONS Form a team of five students and list the questions you may have. Compile your questions and opinions about the product (from a financial perspective) into a one-page report and present it to the class.



The World Trade Organization

The World Trade Organization (WTO) negotiates most trade agreements between nations. The organization is dedicated to resolving disputes, stimulating economic growth, and lowering trade barriers. It handles issues including tariffs, customs processes, professional services, e-commerce, and import licensing.

INSTRUCTIONS List the issues the WTO is reviewing this month. Locate the Web site for the WTO and click on the 'Events calendar' link.



Your Checking Account

Whether you are a business owner or a consumer, you will probably use a checking account. You are responsible for keeping track of your cash by recording deposits and withdrawals on the check stubs in the checkbook.

PERSONAL FINANCE ACTIVITY Assume that you opened a checking account by depositing \$200 at the beginning of the month. During the month you wrote three checks: 101 for \$25, 102 for \$50, and 103 for \$75. When and where should you record each deposit and check? Calculate the checking account balance.

PERSONAL FINANCE ONLINE Log on to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Making It Personal** and select **Chapter 10**.



Calculating Return on Owner's Equity

One measure of business success is the **return on owner's equity (ROE)**:

$$\frac{\text{Net Income}}{\text{Beginning Owner's Equity} - \text{Withdrawals}} = \frac{\$3,600}{\$34,500 - \$2,500} = 11.25\%$$

The resulting percentage shows the amount earned during the period on each dollar invested by the owner.

INSTRUCTIONS Use Roadrunner's income statement (page 222) and statement of changes in owner's equity (page 226) to calculate October's ROE. How does this return compare with a bank savings account that pays 2 percent interest per year?



Closing Entries

The closing entries for professional sports teams are similar to those for other types of businesses. Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **WebQuest** and select **Unit 2** to continue your Internet project.