

# Accounting Principles

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## Chapter 4

### Completing the Accounting Cycle



# Closing Entries (Part 1)

# Think about this

**Consider a very simple scenario,**

**Year wise salaries expense of a particular company is \$25,000, \$30,000, and \$35,000. And This company has always paid salaries expense on time, so no salaries accrued any year.**

Salaries Expense					
Date	Explanation	Ref	Dr (\$)	Cr (\$)	Balance
Year 2018	Cash		25,000		25,000
Year 2019	Cash		30,000		55,000
Year 2020	Cash		35,000		90,000

# Think about this

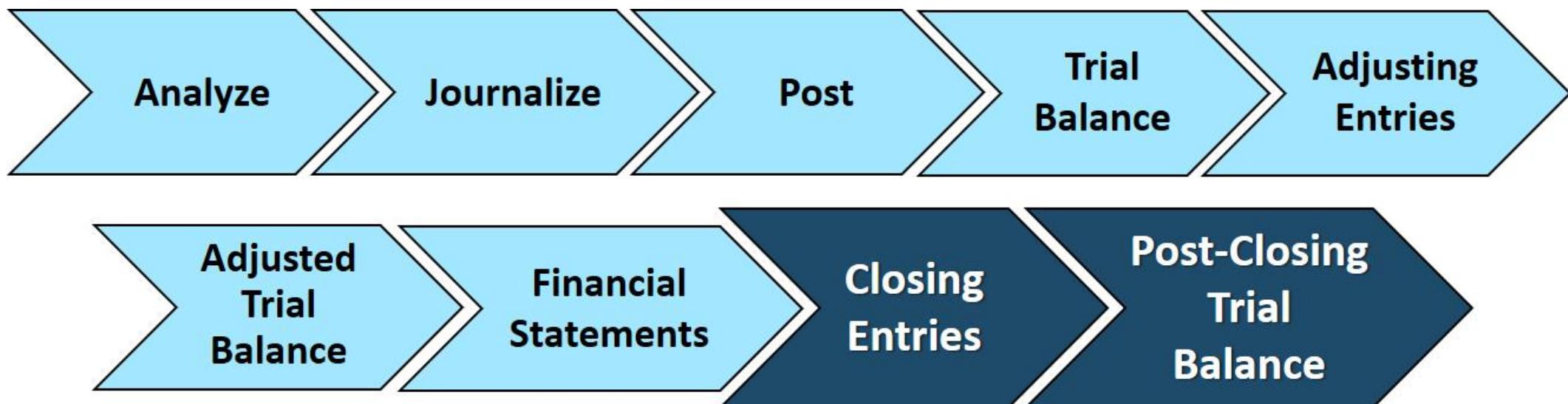
Consider a very simple scenario,

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Salaries Expense					
Date	Explanation	Ref	Dr (\$)	Cr (\$)	Balance
Year 2018	Cash		25,000	25,000	25,000
	Closing Entry				-
Year 2019	Cash		30,000	30,000	30,000
	Closing Entry				-
Year 2020	Cash		35,000	35,000	35,000
	Closing Entry				-

# Closing the Books

At the end of the accounting period, the company makes the accounts ready for the next period.



# Closing the Books

## Temporary

**These accounts are closed**

**All revenue accounts**

**All expense accounts**

**Owner's drawing account**

## Permanent

**These accounts are not closed**

**All asset accounts**

**All liability accounts**

**Owner's capital account**

# Closing Entries Illustrated

General Journal				Page J3
Date	Account Titles and Explanations	Ref.	Debit	Credit
2020 Oct. 31	Service Revenue Income Summary <b>(To close revenue account)</b>	400 350	10,600	10,600
31	Income Summary Supplies Expense Depreciation Expense Insurance Expense Salaries and Wages Expense Rent Expense Interest Expense <b>(To close expense accounts)</b>	350 631 711 722 726 729 905	7,740 1,500 40 50 5,200 900 50	

# Closing Entries Illustrated

General Journal			Page J3	
Date	Account Titles and Explanations	Ref.	Debit	Credit
2020				
Oct. 31	Income Summary Owner's Capital <b>(To close net income to capital)</b>	350 301	2,860	2,860
31	Owner's Capital Owner's Drawings <b>(To close drawings to capital)</b>	301 306	500	500

# Preparing Closing Entries

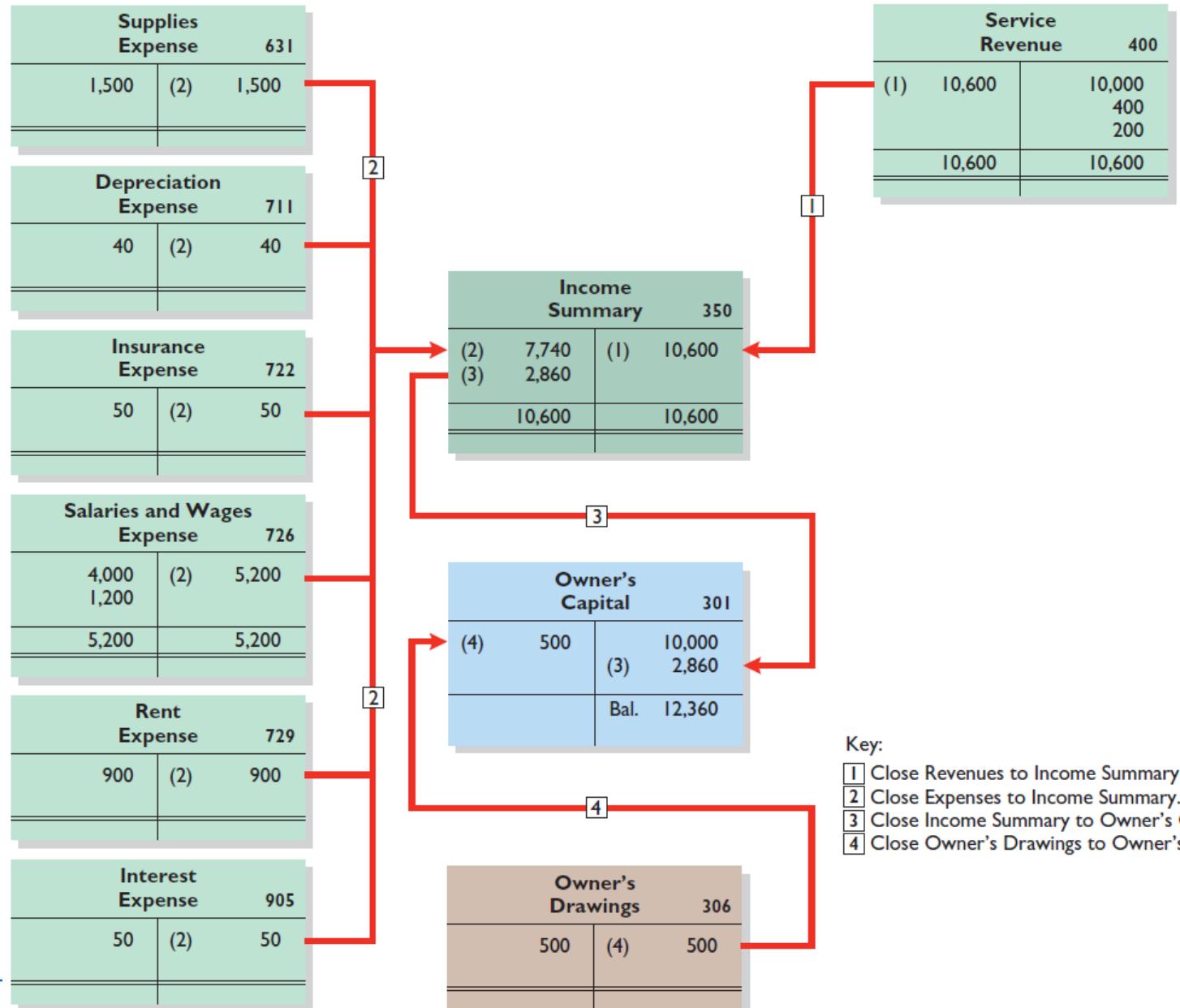
**Closing entries** formally recognize in the ledger the transfer of:

- Net income (or net loss) to owner's capital.
- Owner's drawings to owner's capital.

Produce a zero balance in each temporary account.

**Companies generally journalize and post closing entries only at end of the accounting period.**

# Posting Closing Entries



# Preparing a Post-closing Trial Balance

Pioneer Advertising Post-Closing Trial Balance October 31, 2020		
	<u>Debit</u>	<u>Credit</u>
Cash	\$15,200	
Accounts Receivable	200	
Supplies	1,000	
Prepaid Insurance	550	
Equipment	5,000	
Accumulated Depreciation	\$ 40	
Notes Payable	5,000	
Accounts Payable	2,500	
Unearned Service Revenue	800	
Salaries and Wages Payable	1,200	
Interest Payable	50	
Owner's Capital	12,360	
	<u><b>\$21,950</b></u>	<u><b>\$21,950</b></u>



# Classified Balance Sheet (Part 1)

# Balance Sheet

Presents a snapshot at a point in time

**XYZ Company  
Balance Sheet  
December 31, 20XX**

<u>Assets</u>	
Cash	12,500
Accounts Receivable	5,000
Prepaid Insurance	1,000
Supplies	700
Equipment	29,000
Accumulated Depreciation	(14,000)
Total Assets	<u>34,200</u>

<u>Liabilities and Equity</u>	
Accounts Payable	3,200
Notes Payable	8,000
Contributed Capital	10,000
Retained Earnings	13,000
Total Liabilities and Equity	<u>34,200</u>

**Franklin Company**  
**Balance Sheet**  
**October 31, 2020**

**Assets**

**Current assets**

Cash	\$ 6,600
Debt investments	2,000
Accounts receivable	7,000
Notes receivable	1,000
Inventory	3,000
Supplies	2,100
Prepaid insurance	400
Total current assets	<u>\$22,100</u>

**Long-term investments**

Stock investments	5,200
Investment in real estate	<u>2,000</u> 7,200

**Property, plant, and equipment**

Land	10,000
Equipment	\$24,000
Less: Accumulated depreciation—equipment	<u>5,000</u> 19,000      29,000

**Intangible assets**

Patents	3,100
Total assets	<u>\$61,400</u>

**Franklin Company**

**Balance Sheet**

**October 31, 2020**

**Liabilities and Owner's Equity**

**Current liabilities**

Notes payable	\$ 11,000
Accounts payable	2,100
Unearned service revenue	900
Salaries and wages payable	1,600
Interest payable	<u>450</u>
Total current liabilities	\$16,050

**Long-term liabilities**

Mortgage payable	10,000
Notes payable	<u>1,300</u>
Total long-term liabilities	<u>11,300</u>
Total liabilities	27,350

**Owner's equity**

Owner's capital	34,050
Total liabilities and owner's equity	<u><u>\$61,400</u></u>

# Classified Balance Sheet

To improve understanding, companies group similar assets and similar liabilities together

Assets	Liabilities and Owner's Equity
Current assets	Current liabilities
Long-term investments	Long-term liabilities
Property, plant, and equipment	Owner's (Stockholders') equity
Intangible assets	

# Current Assets

Assets that a company expects to **convert to cash or use up** within one year.

<b>Current assets</b>	
Cash and cash equivalents	\$1,355
Short-term investments	1,797
Accounts receivable	419
Inventories	467
Prepaid expenses and other current assets	<u>418</u>
Total current assets	\$4,456

# Property, Plant, and Equipment

- Long term use and are generally not for sale
- Currently used in operations
- Help the business earn revenue
- Includes land, buildings, machinery and equipment, delivery equipment, and furniture

<b>Property, plant, and equipment</b>	
Machinery, equipment and office furniture	\$322,394
Tooling	230,385
Leasehold improvements	94,763
Building and building improvements	67,707
Land	45,020
Computer equipment and software	42,073
Construction in progress	76,294
	<hr/>
Less: Accumulated depreciation	878,636
	<hr/>
Total	140,142
	<hr/>
	\$738,494

# Long-Term Investments

- Investments in stocks and bonds of other companies
- Investments in long-term assets such as land or buildings that are not currently being used in operating activities

## Long-term investments

Non-marketable equity investments

\$1,469

# Intangible Assets

- Long-lived assets that do not have physical substance

<b>Intangible assets and goodwill</b>	
Character/franchise intangibles and copyrights	\$ 5,830
Other amortizable intangible assets	903
Accumulated amortization	<u>(1,204)</u>
Net amortizable intangible assets	5,529
FCC licenses	667
Trademarks	1,218
Other indefinite lived intangible assets	<u>20</u>
	7,434
Goodwill	<u>27,881</u>
	<u><u>\$35,315</u></u>



# Classified Balance Sheet (Part 2)

# Current Liabilities

- Obligations company is to pay within the coming year
- Common examples are accounts payable, salaries and wages payable, notes payable, interest payable, income taxes payable and current maturities of long-term obligations

# Current Liabilities

**Marcus Corporation**  
**Balance Sheet (partial)**  
**(in thousands)**

**Current liabilities**

Notes payable	\$ 239
Accounts payable	24,242
Current maturities of long-term debt	57,250
Other current liabilities	27,477
Income taxes payable	11,215
Salaries and wages payable	<u>6,720</u>
Total current liabilities	<u><u>\$127,143</u></u>

# Long-Term Liabilities

- Obligations a company expects to pay **after** one year.

Nike, Inc.  
Balance Sheet (partial)  
(in millions)

## Long-term liabilities

Bonds payable	\$ 1,106
Notes payable	51
Deferred income taxes and other	<u>1,544</u>
Total long-term liabilities	<u><u>\$2,701</u></u>

# Owner's Equity

- Proprietorship - One Capital Account (Owner's Capital)
- Corporation - Common Stock and Retained Earnings

Nordstrom, Inc. Balance Sheet (partial) (in thousands)	
<b>Stockholders' equity</b>	
Common stock, 271,331 shares	\$ 685,934
Retained earnings	1,406,747
Total stockholders' equity	<u><u>\$2,092,681</u></u>

**THANK YOU**