

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

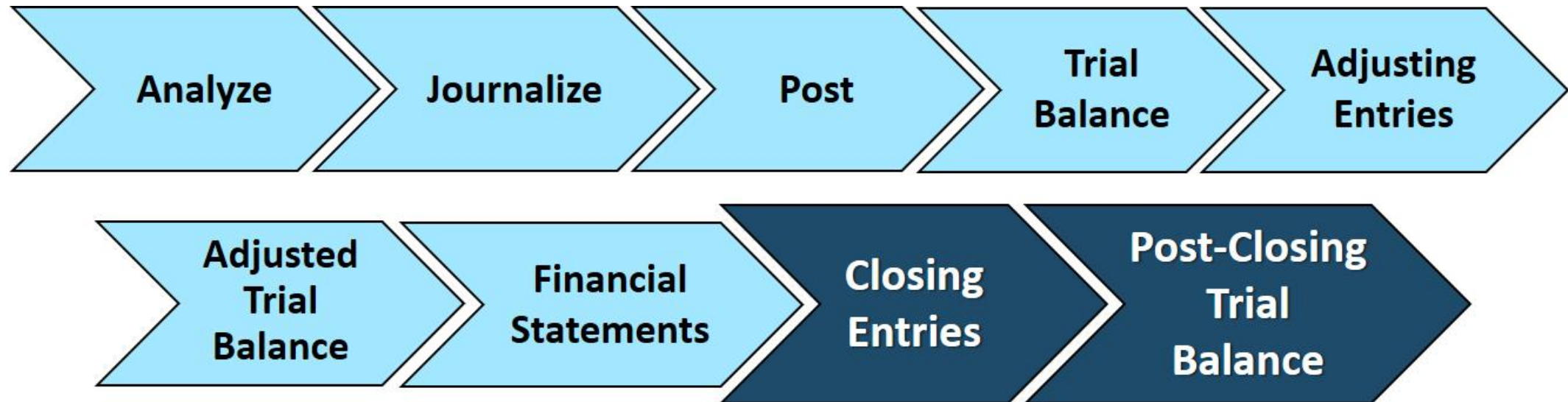
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Salaries Expense					
Date	Explanation	Ref	Dr (\$)	Cr (\$)	Balance
Year 2018	Cash		25,000		25,000
	Closing Entry			25,000	-
Year 2019	Cash		30,000		30,000
	Closing Entry			30,000	-
Year 2020	Cash		35,000		35,000
	Closing Entry			35,000	-

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	400	10,600	
	Income Summary	350		10,600
	(To close revenue account)			
31	Income Summary	350	7,740	
	Supplies Expense	631		1,500
	Depreciation Expense	711		40
	Insurance Expense	722		50
	Salaries and Wages Expense	726		5,200
	Rent Expense	729		900
	Interest Expense	905		50
	(To close expense accounts)			

Closing Entries Illustrated

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

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

Supplies Expense 631		
1,500	(2)	1,500

Depreciation Expense 711		
40	(2)	40

Insurance Expense 722		
50	(2)	50

Salaries and Wages Expense 726		
4,000	(2)	5,200
1,200		
5,200		5,200

Rent Expense 729		
900	(2)	900

Interest Expense 905		
50	(2)	50

2

2

Income Summary 350		
(2) 7,740	(1) 10,600	
(3) 2,860		
10,600		10,600

3

Owner's Capital 301		
(4) 500	(3) 10,000	2,860
	Bal.	12,360

4

Owner's Drawings 306		
500	(4)	500

Service Revenue 400		
(1) 10,600	10,000	400
10,600		10,600

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Key:

- 1 Close Revenues to Income Summary.
- 2 Close Expenses to Income Summary.
- 3 Close Income Summary to Owner's Capital.
- 4 Close Owner's Drawings to Owner's Capital.

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>\$21,950</u>	<u>\$21,950</u>



Classified Balance Sheet (Part 1)

Balance Sheet

Presents a snapshot at a point in time

XYZ Company
Balance Sheet
December 31, 20XX

Assets

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>

Liabilities and Equity

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		\$22,100

Long-term investments

Stock investments	5,200	
Investment in real estate	2,000	7,200

Property, plant, and equipment

Land	10,000	
Equipment	\$24,000	
Less: Accumulated depreciation—equipment	5,000	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	450	
Total current liabilities		\$16,050

Long-term liabilities

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

Owner's equity

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

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.

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

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

Property, plant, and equipment

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
	<u>878,636</u>
Less: Accumulated depreciation	<u>140,142</u>
Total	<u><u>\$738,494</u></u>

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

Intangible assets and goodwill

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	6,720
Total current liabilities	<u>\$127,143</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)

Stockholders' equity

Common stock, 271,331 shares	\$ 685,934
Retained earnings	<u>1,406,747</u>
Total stockholders' equity	<u><u>\$2,092,681</u></u>



THANK YOU

