



Business Virtual Learning

HS/Accounting I

Topic: Closing Entries for Sales & Expenses

April 28, 2020



Lesson Topics - Closing Entries for Sales & Expenses

Lesson Objectives:

1. Journalize closing entries for Income statement accounts

Lesson Instructions:

1. Read the information on the slides and answer the questions on the last slide. Put them in a google doc and send to your teacher.

Lesson Topics - Closing Entries for Sales & Expenses

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.

Lesson Topics - Closing Entries for Sales & Expenses

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.

Lesson Topics - Closing Entries for Sales & Expenses

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.

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

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 (greater than revenue) (Debit balance is the net loss.)	Revenue

Lesson Topics - Closing Entries for Sales & Expenses

Most service businesses have 4 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 worksheet.

Closing Entry to close Income statement accounts with a Credit balance.

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 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**.

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 to close Income statement accounts with a debit balance.

The 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	3 9 7 00	
14	Cash Short and Over	1 00	
15	Communications Expense	8 0 00	
16	Equipment Rental Expense	1 4 5 5 00	
17	Insurance Expense	1 5 0 00	
18	Miscellaneous Expense	4 5 00	
19	Supplies Expense	5 3 0 00	

(Credit to close)

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
31	Income Summary			2 6 5 8 00		9	
	Advertising Expense				3 9 7 00	10	
	Cash Short and Over				1 00	11	
	Communications Expense				8 0 00	12	
	Equipment Rental Expense				1 4 5 5 00	13	
	Insurance Expense				1 5 0 00	14	
	Miscellaneous Expense				4 5 00	15	
	Supplies Expense				5 3 0 00	16	

Lesson Questions - Closing Entries

1. What is the purpose of the Income Summary account?
2. If expenses are greater than revenue, is there a net income or loss?
3. If expenses are greater than revenue, is the balance of income summary a debit or credit?
4. If revenue is greater than expenses, is there a net income or loss?
5. If revenue is greater than expenses, is the balance of income summary a debit or credit?
6. Record the following closing entries on a t-accounts:
 - a. Sales of \$43,678
 - b. Expenses of \$21,498