

### **Business Virtual Learning**

# HS/Accounting I

Topic: Closing Entries for Sales & Expenses April 28, 2020



#### **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.

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.

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.

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.

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	Revenue (greater than expense (Credit balance is the net incom

Income Summary		
Debit	Credit	
Total expenses (greater than revenue) (Debit balance is the net loss.)	Revenue	

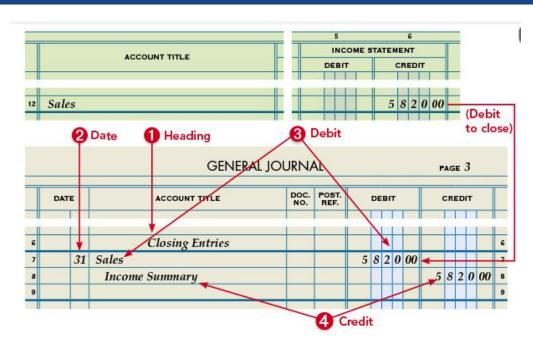
Most service businesses have 4 closing entries:

- 1. An entry to close income statement accounts with credit balances.
- 2. An entry to close income statement accounts with debit balances.
- 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.** 

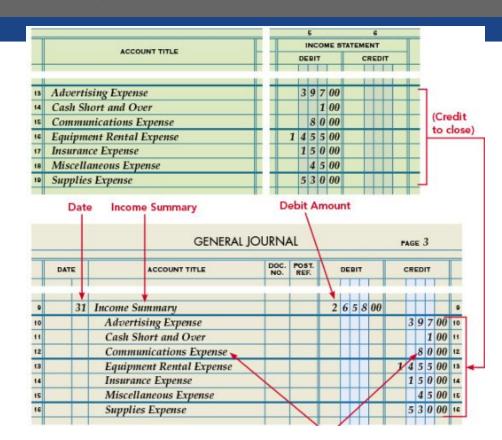


The balance of **Sales** is now zero, and the account is ready for the next fiscal period. The credit balance of **Sales** is transferred to **Income Summary**.

## 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.



#### **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