



Business Virtual Learning

HS/Accounting I

Topic: Closing Entries for Income Summary & Drawing

April 29, 2020



Closing Entries for Income Summary & Drawing

Lesson Objectives:

1. Analyze and journalize closing entry for Income summary
2. Analyze and journalize closing entry for Drawing

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.

Closing Entry to close Income Summary



Lesson Topics - Closing Entry for Income Summary

The amount of net income increases the owner's capital and, therefore, must be credited to the owner's capital account. The balance of the temporary account, **Income Summary**, must be reduced to zero to prepare the account for the next fiscal period.

The effect of this closing entry on the general ledger accounts is a debit to the **Income Summary** account to the account balance to zero and prepares the account for the next fiscal period. The credit increases the balance of the owner's capital account.

If there is a net loss, this transaction will be switched: Credit Income summary, debit capital.

****SEE VISUAL ON NEXT SLIDE****

Lesson Topics - Closing Entry for Income Summary

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 Entry for Income Summary

ACCOUNT TITLE	5 DEBIT	6 CREDIT
20		
21 <i>Net Income</i>	2 6 5 8 00	5 8 2 0 00
22	3 1 6 2 00	
	5 8 2 0 00	5 8 2 0 00

(Capital: credit to record net income)

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
17	31 <i>Income Summary</i>			3 1 6 2 00		17	
18	<i>Michael Delgado, Capital</i>				3 1 6 2 00	18	
19							

(Income Summary: debit to close)

1 Date

↓

2 Debit

↙ ↘

3 Credit

↙ ↘

Closing Entry to close Drawing



Lesson Topics - Closing Entry for Drawing

Withdrawals are assets that the owner takes out of a business and which decrease the amount of the owner's equity.

The **drawing account** is a temporary account that accumulates information separately for each fiscal period. **Therefore, the drawing account balance must be reduced to zero at the end of one fiscal period to prepare the account for the next fiscal period.**

The drawing account is neither a revenue nor an expense account. Therefore, the drawing account is not closed through **Income Summary**. The drawing account balance is closed directly to the owner's capital account.

Closing Entry to close Drawing into Capital

Michael Delgado, Capital			
Closing (drawing)	1,150.00	Balance	2,000.00
		Closing (net income)	3,162.00
		(New Balance)	4,012.00

Michael Delgado, Drawing			
Balance	1,150.00	Closing	1,150.00
(New Balance)	0.00		

ACCOUNT TITLE		7	8
		BALANCE SHEET	
		DEBIT	CREDIT
0	Michael Delgado, Capital		2 0 0 0 00
10	Michael Delgado, Drawing	1 1 5 0 00	

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
31	Michael Delgado, Capital			1 1 5 0 00		10	
	Michael Delgado, Drawing				1 1 5 0 00	10	

① Date → 31
② Debit → 1 1 5 0 00 (Credit to close)
③ Credit → 1 1 5 0 00

Lesson Questions - Closing Entries

1. What are the four closing entries that were shown in the previous lesson and this lesson?
2. Why does Income Summary not have a NORMAL balance?
3. Explain the purpose of the income summary account.
4. Explain the purpose of the drawing account.
5. Record the following closing entries on a t-accounts:
 - a. Income Summary credit balance of \$15,550
 - b. Drawing of \$5,500