

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

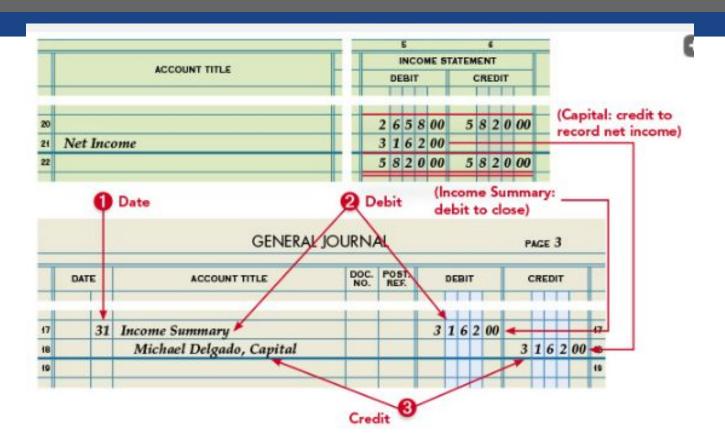
When revenue is greater than total expenses, resulting in a net income, the **Income Summary** account has a credit balance, as shown in the T account.

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			

Lesson Topics - Closing Entry for Income Summary



Closing Entry to close Drawing



Lesson Topics - Closing Entry for Drawing

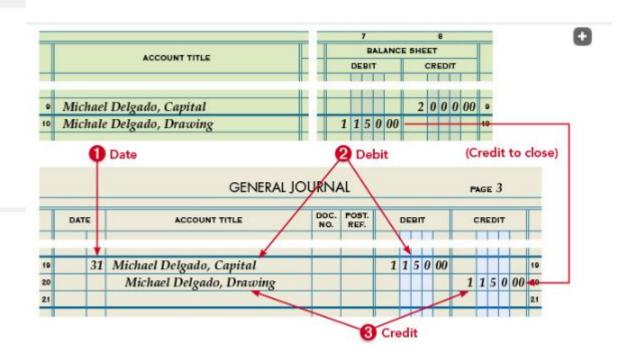
Withdrawals are assets that the owner takes out of a business and which decrease the amount of the owner's equity.

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

- 9	Michael Del	gado, Capital	
Closing (drawing)	1,150.00	Balance Closing (net income) (New Balance	2,000.00 3,162.00 4,012.00)
	Michael Delg	ado, Drawing	
Balance	1,150.00	Closing	1,150.00



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