

## SOLUTIONS

## Learning Goal 8

## Multiple Choice

1. d
2. a
3. b
4. d Because the dividends account is closed directly into the retained earnings account, not into income summary.
5. c
6. b This a permanent account—specifically, a contra asset.
7. a
8. a
9. a
10. c
11. d

## Discussion Questions and Brief Exercises

1. Closing entries accomplish three specific objectives:
  - Transfer net income or net loss of the current period into the retained earnings account
  - Transfer the current period balance of the dividends account into the retained earnings account
  - Create zero balances in the temporary accounts at the end of the current period
2. Closing entries are prepared at the end of an accounting period. They are the very last entries of an accounting period. This is to be sure that all other transactions and adjustments have been completed so that the accounts are up to date and correct as of the end of the period.
3. To “close” an account means to remove the existing balance so the balance will become zero. An opposite entry is needed to close an account balance. If an account balance is a debit, an entry that is opposite is a credit. If an account balance is a credit, an opposite entry is a debit.
4. A temporary account is a stockholders’ equity account and is closed at the end of an accounting period. The temporary accounts that we studied are revenue, expense, and dividend accounts. (The other two temporary accounts are gain and loss accounts.) These accounts are sometimes referred to as *income statement accounts*. Permanent accounts are accounts that are never closed: asset, liability, and retained earnings accounts, which are sometimes referred to as *balance sheet accounts*.
5. Adjusting entries apply the revenue and recognition and matching principles to ensure that all revenues and expenses are properly recorded in each accounting period. Adjusting entries are also used for valuation purposes to change recorded account values under certain circumstances. Closing entries close temporary accounts into the retained earnings account.
6. The format of the correct closing entry is:
 

Income Summary	55,400	
retained earnings		55,400

This represents net income because the income summary account has a credit balance.
7. The post-closing trial balance verifies that the ledger remains in balance (total debits equal total credits) after the closing entries have been posted.
8. Service revenue and depreciation expense are temporary accounts and would not appear in a post-closing trial balance.

**SOLUTIONS****Learning Goal 8, continued**

9. The debit and credit totals of a worksheet income statement column should be the same amounts posted as debit and credit entries to the income summary account. The total of the debit column is the total of all temporary items that reduce net income. The total of the credit column is the total of all temporary items that increase net income.
10. (1) Close revenue accounts into the income summary account (debit each revenue, credit income summary for the total).  
 (2) Close expense accounts into the income summary account (debit income summary for the total, credit each expense account).  
 (3) Close the balance of income summary into the retained earnings account.  
 (4) Close the dividends account into the retained earnings account.
11. The dividends account is not an expense. Therefore, it does not belong in income summary because it is not an item that affects net income. Rather, the dividends account shows reductions in the retained earnings account because of assets that are removed from the business by the owner for personal use. The Dividends account is closed directly into the retained earnings account.

**LG 8-1.**

General Journal				
Date	Account	Ref.	Dr.	Cr.
xxx	Service Revenue		15,300	
	Interest Revenue		150	
	Income Summary			15,450
	(To close revenue accounts)			
	Income Summary		10,240	
	Wages Expense			4,100
	Travel Expense			3,800
	Insurance Expense			250
	Rent Expense			1,900
	Utilities Expense			190
	(To close expense accounts)			
	Income Summary		5,210	
	Retained Earnings			5,210
	(To close the income summary account)			
	Retained Earnings		2,500	
	Dividends			2,500
	(To close the dividends account)			

**SOLUTIONS****Learning Goal 8, continued****Reinforcement Problems****LG 8-2.**

Account Name	Permanent	Temporary	Closed	Appears on the:	
				Balance Sheet	Income Statement
Cash	✓			✓	
Unearned Revenue	✓			✓	
Accumulated Depreciation	✓			✓	
Fees Earned		✓	✓		✓
Insurance Expense		✓	✓		✓
Prepaid Insurance	✓			✓	
Income Summary		✓	✓	—	—
Supplies	✓			✓	
Supplies Expense		✓	✓		✓
Common Stock	✓			✓	
Rent Expense		✓	✓		✓
Depreciation Expense		✓	✓		✓
Interest Revenue		✓	✓		✓
Accounts Payable	✓			✓	
Office Equipment	✓			✓	
Dividends		✓	✓	—	—

*Note:* Notice that only temporary (income statement accounts and dividends) are closed. Permanent (balance sheet) accounts are not closed.

## SOLUTIONS

## Learning Goal 8, continued

## LG 8-3.

a.

Tallahassee Company, Inc.										
Worksheet										
For the Year Ended June 30, 2017										
	Trial Balance		Adjustments		Adjusted		Income		Balance	
Account Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	200				200				200	
Accounts Receivable	30		(e) 8		38				38	
Office Supplies	15			(a) 3	12				12	
Prepaid Insurance	20			(b) 10	10				10	
Office Equipment	100				100				100	
Accum. Dep'n.—										
Office Equipment		20		(c) 2		22				22
Common Stock		30				30				30
Retained Earnings		302				302				302
Dividends	10				10				10	
Fees Earned		40		(e) 8		48		48		
Salaries Expense	5		(d) 5		10		10			
Rent Expense	12				12		12			
Totals	<u>392</u>	<u>392</u>								
Office Supplies Expense			(a) 3		3		3			
Depreciation Expense			(c) 2		2		2			
Insurance Expense			(b) 10		10		10			
Salaries Payable				(d) 5		5				5
Totals			<u>28</u>	<u>28</u>	<u>407</u>	<u>407</u>	37	48	370	359
Net Income							11			11
Totals							<u>48</u>	<u>48</u>	<u>370</u>	<u>370</u>

*Note:* The income statement numbers are just extensions from the adjusted trial balance, except for the totals.

**SOLUTIONS****Learning Goal 8, continued****LG 8-3, continued**

b.

**GENERAL JOURNAL**

J43

Date	Account Titles and Explanation	Post. Ref.	Debit	Credit
June	<i>Closing Entries</i>			
30	Fees Earned		48	
	Income Summary			48
	To close revenue into income summary			
30	Income Summary		37	
	Salaries Expense			10
	Rent Expense			12
	Office Supplies Expense			3
	Depreciation Expense			2
	Insurance Expense			10
	To close expenses into income summary			
30	Income Summary		11	
	Retained Earnings			11
	To close income summary into Retained Earnings			
30	Retained Earnings		10	
	Dividends			10
	To close the dividends account into Retained Earnings			

## SOLUTIONS

## Learning Goal 8, continued

## LG 8-3, continued

c and d.

Cash	Accounts Receivable	Office Supplies	Prepaid Insurance	Office Equipment
bal. 200	bal. 30 (e) <u>8</u> 38	bal. <u>15</u> (a) 3 12	bal. <u>20</u> (b) 10 10	bal. 100
Accum. Dep'n Office Equip.	Salaries Payable	Common Stock	Retained Earnings	Dividends
bal. 20 (c) <u>2</u> 22	(d) 5	bal. 30	bal. 332 11 10 <u>333</u>	bal. 10 10 <u>-0-</u>
Fees Earned	Salaries Expense	Rent Expense	Office Supplies Expense	Depreciation Expense
bal. 40 (e) <u>8</u> 48	bal. 5 (d) <u>5</u> 10	bal. 12 <u>12</u> -0-	(a) 3 <u>3</u> -0-	(c) 2 <u>2</u> -0-
<b>48</b>	<i>10</i>			
-0-	-0-			
Insurance Expense	Income and Expense Summary			
(b) 10 <u>10</u> -0-	<b>48</b> 37 11 <u>-0-</u>			

Note: Revenue closing entries are shown in **bold** and expense closing entries are shown in *italics*.

**SOLUTIONS****Learning Goal 8, continued****LG 8-4.**

*Note:* Part of the skill required here is to be able to distinguish between permanent and temporary accounts, because permanent accounts are never closed.

a.

**GENERAL JOURNAL**

J59

Date	Account Titles and Explanation	Post. Ref.	Debit	Credit
2017	<i>Closing Entries</i>			
June	Tennis Instruction Fees		8,500	
30	Dues Revenue		28,500	
	Interest Earned		80	
	Income Summary			37,080
	To close revenue into income summary			
30	Income Summary		12,134	
	Salaries Expense			4,100
	Equipment Rent Expense			1,750
	Utilities Expense			280
	Insurance Expense			200
	Maintenance Expense			750
	Office Supplies Expense			1,050
	Tennis Supplies Expense			1,787
	Depreciation Expense			842
	Interest Expense			1,375
	To close expenses into income summary			
30	Income Summary		24,946	
	Retained Earnings			24,946
	To close income summary into Retained Earnings			
30	Retained Earnings		1,880	
	Dividends			1,880
	To close the Dividends account into Retained Earnings			

## SOLUTIONS

## Learning Goal 8, continued

## LG 8-4, continued

b.

Winslow Tennis Club, Inc. Post-Closing Trial Balance June 30, 2017		
Account	Dr.	Cr.
Cash.....	\$45,750	
Dues Receivable.....	2,800	
Office Supplies .....	50	
Tennis Supplies .....	215	
Notes Receivable.....	12,000	
Prepaid Insurance.....	500	
Office Equipment.....	14,520	
Accum. Dep'n—Office Equipment.....		\$11,858
Building .....	345,000	
Accum. Dep'n—Building.....		20,100
Accounts Payable.....		855
Notes Payable.....		275,000
Common Stock.....		5,000
Retained Earnings .....		105,227
Unearned Tennis Fees.....		1,000
Salaries and Wages Payable .....		500
Interest Receivable.....	80	
Interest Payable.....		1,375
Totals	<u>\$420,915</u>	<u>\$420,915</u>

- c. The net income of \$24,946 and the dividends of \$1,880 have been closed into the retained earnings account resulting in the ending balance of \$105,227 as follows:  $\$82,161 + \$24,946 - \$1,880 = \$105,227$ .



**SOLUTIONS****Learning Goal 8, continued****LG 8-5.**

a.

Date	Account	Post. Ref.	Dr.	Cr.
2017	<i>Closing Entries</i>			
Dec. 31	Service Revenue		248,100	
	Rental Revenue		20,000	
	Interest Revenue		450	
	Income and Expense Summary			268,550
31	Income and Expense Summary		199,100	
	Depreciation Expense—Office Equipment			2,500
	Advertising Expense			22,400
	Travel Expense			4,500
	Utilities Expense			5,700
	Miscellaneous Expense			300
	Interest Expense			7,500
	Rent Expense			26,000
	Wages Expense			115,300
	Insurance Expense			9,900
	Depreciation Expense—Automotive			5,000
31	Income and Expense Summary		69,450	
	Retained Earnings			69,450
31	Retained Earnings		35,000	
	Dividends			35,000

*Comments:* Any prepaid expense is an asset; therefore, Prepaid Insurance Expense and Prepaid Rent Expense are assets (permanent accounts) and are not closed. Unearned revenue is always a liability and therefore also a permanent account and never closed.

## SOLUTIONS

## Learning Goal 8, continued

## LG 8-5, continued

b.

Service Revenue	Rental Revenue	Interest Revenue	Dep'n Expense Office Equipment	Advertising Expense
248,100	20,000	450	2,500	22,400
<b>248,100</b>	<b>20,000</b>	<b>450</b>	2,500	22,400
-0-	-0-	-0-	-0-	-0-
Travel Expense	Utilities Expense	Miscellaneous Expense	Interest Expense	Rent Expense
4,500	5,700	300	7,500	26,000
4,500	5,700	300	7,500	26,000
-0-	-0-	-0-	-0-	-0-
Wages Expense	Insurance Expense	Dep'n Expense— Automotive Equipment	Dividends	Retained Earnings
115,300	9,900	5,000	35,000	170,300
115,300	9,900	5,000	35,000	69,450
-0-	-0-	-0-	-0-	204,750
Income and Expense Summary	Common Stock			
268,550	10,000			
199,100				
69,450				

Note: Revenue closing entries are shown in **bold** and expense closing entries are shown in *italics*.

**SOLUTIONS****Learning Goal 8, continued****LG 8-6.**

a.

<b>Date</b>	<b>Account</b>	<b>Post. Ref.</b>	<b>Dr.</b>	<b>Cr.</b>
20XX	<i>Closing Entries</i>			
Aug. 31	Service Revenue		64,900	
	Income and Expense Summary			64,900
31	Income and Expense Summary		43,000	
	Wages Expense			8,000
	Rent Expense			3,700
	Office Supplies Expense			600
	Depreciation Expense			25,000
	Advertising Expense			5,700
31	Income and Expense Summary		21,900	
	Retained Earnings			21,900
31	Retained Earnings		5,000	
	Dividends			5,000

## SOLUTIONS

## Learning Goal 8, continued

## LG 8-6, continued

b.

Cash	Accounts Receivable	Office Supplies	Prepaid Insurance	Office Equipment
49,800	76,100	2,000	11,100	125,000
	(a) 6,000	(b) 500	(c) 3,700	
	82,100	1,500	7,400	
Accum. Dep'n Office Equip.	Accounts Payable	Unearned Revenue	Common Stock	Retained Earnings
18,750	44,900	7,000	20,000	132,650
(d) 25,000	(f) 1,500	(e) 900		5,000
43,750	45,400	6,100		21,900
				149,550
Dividends	Service Revenue	Wages Expense	Rent Expense	Office Supplies Expense
5,000	58,000	8,000	(c) 3,700	100
5,000	(a) 6,000	8,000	3,700	(b) 500
-0-	(e) 900	-0-	-0-	600
	64,900	-0-		-0-
Depreciation Expense	Advertising Expense	Income and Expense Summary		
(d) 25,000	4,200	64,900		
25,000	(f) 1,500	43,000		
-0-	5,700	21,900		
	-0-	-0-		