Accounting

Chapter 17: Recording Adjusting and Closing Entries for a Partnership

- General ledger account balances are changed only by posting journal entries
- Adjusting entries bring general ledger account balances up to date
- Closing entries prepare temporary accounts for the next fiscal period

Section 1

- Adjusting entries are recorded in a general journal – on a new page
- Write adjusting entries in the middle of the top line
  - No source document necessary for adjustments
- Record the work sheet adjustments in alphabetical order into the general journal
- Adjusting entries
  - Merchandise Inventory and Income Summary
  - Supplies Expense – Office (debit) and Supplies – Office (credit)
  - Supplies Expense – Store (debit) and Supplies – Store (credit)
  - Insurance Expense (debit) and Prepaid Insurance (credit)
- When figuring adjustment amounts, need to ask the 4 questions from Chapter 15
  - What is the balance?
  - What should the balance be?
  - What must be done to correct the account balance?
  - What adjustment is made?

Section 2

- At the end of a fiscal period, the temporary accounts are closed to prepare the general ledger for the next fiscal period
- To close an account, an amount equal to its balance is recorded on the side opposite the balance
- 4 Types of Closing Entries
  - Closing income statement accounts with credit balances
  - Closing income statement accounts with debit balances
  - An entry to record net income or loss and close the income summary account
  - Entries to close the partners’ drawing accounts
- Amounts needed for closing entries are obtained from Income Statement and Balance Sheet columns on the work sheet and the distribution of net income statement
• Closing entries are recorded in the General Journal after adjusting entries
• The ending balance of permanent accounts are the beginning balance for the new fiscal period
• Permanent accounts: assets, liabilities, owner’s capital accounts
• Temporary accounts: revenue, cost, expense, owner’s drawing accounts
• Income Summary: temporary account that summarizes the closing entries for revenue, cost, and expenses
  o Used only at the end of the fiscal period to help prepare other accounts for a new fiscal period
• Income Summary account is unique because it does not have a normal balance side
  o When revenue is greater than expenses have a credit balance (Net income)
  o When expenses greater than revenue have a debit balance (Net loss)
• Closing entry for an Income Statement account with a credit balance: debit the account (Sales) and credit Income Summary
• Closing entry for an Income Statement account with a debit balance: credit the accounts and debit Income Summary for the sum of all the credits

Section 3

• Net Income increases the partners’ equity and must be credited to the partners’ capital accounts
• Share of net income to be recorded for each partner is shown on the distribution of net income statement
• If there is a net loss, partners’ capital accounts are debited and Income Summary credited
• If there is a net income, partners’ capital accounts are credited and Income Summary is debited
• Drawing accounts are not closed through Income Summary - closed directly through capital accounts
• Debit capital accounts and credit drawing accounts
• After closing must post all the entries to the general ledger

Section 4

• Balance Sheet accounts have up to date balances to begin the new fiscal period
• Income Statement accounts have zero balances to begin the new fiscal period
• A post-closing trial balance is prepared to prove the equality of debits and credits in the general ledger
• See page 445 for steps to preparing the Post-Closing Trial Balance
• See page 446 for the accounting cycle for a merchandising business