

## Unit 13 - Adjusting and Closing Entries

Changes have been made to the worksheet but changes have not been made to the ledger yet. The ledger accounts are incorrect and must be changed to reflect the adjustments made on the worksheet. The purpose of **adjusting entries** is to record the adjustments in the ledger accounts.

The ledger accounts must be updated to be in agreement with the adjusting entries on the worksheet.

Adjusting entries are necessary to record the adjustments in the ledger accounts.

GENERAL JOURNAL				PAGE
DATE	PARTICULARS	P.R.	DEBIT	CREDIT
19--	Supplies Expense		600	
Dec. 31	Supplies			600
	To record supplies used.			
31	Insurance Expense		300	
	Prepaid Insurance			300
	To record insurance for the year.			
31	Rent Expense		5 100	
	Prepaid Rent			5 100
	To record rent for three months.			
31	Depreciation Expense—Equipment		1 920	
	Acc. Depreciation—Equipment			1 920
	To record one year's depreciation, declining-balance method.			

FIGURE 6-13 General Journal entries to record the adjustments

GENERAL LEDGER			
Supplies		Supplies Expense	
Dec. 31	1 000		
Prepaid Insurance		Insurance Expense	
Dec. 31	900		
Prepaid Rent		Rent Expense	
Dec. 31	5 100	Dec. 31	15 300
Equipment		Depreciation Expense— Equipment	
Dec. 31	12 000		
Accumulated Depreciation— Equipment			
	Dec. 31	2 400	

**GENERAL LEDGER**

Supplies		Supplies Expense	
	1 000	Dec. 31	600
Dec. 31 Balance	400	Dec. 31	600
Prepaid Insurance		Insurance Expense	
	900	Dec. 31	300
Dec. 31 Balance	600	Dec. 31	300
Prepaid Rent		Rent Expense	
	5 100	Dec. 31	5 100
Dec. 31 Balance	0	Dec. 31	15 300
		31	<u>5 100</u>
		Balance	20 400
Equipment		Depreciation Expense— Equipment	
	12 000	Dec. 31	1 920
Dec. 31	12 000	Dec. 31	1 920
Accumulated Depreciation— Equipment			
		Dec. 31	2 400
Dec. 31		31	<u>1 920</u>
Balance		Balance	4 320

FIGURE 6-15 Partial General Ledger in T-account form after end-of-year adjustments have been posted

### Adjusted Trial Balance

After posting the adjusting entries, you may wish to prepare an adjusted trial balance to verify that the ledger is still mathematically correct before preparing the financial statements

What would be wrong with the income statement if adjustments had not been made?

What would be wrong with the balance sheet if adjustments had not been made?

## Closing Entries

When one accounting period ends and a new one begins, the revenue and expense accounts should show zero balances so that in the new accounting period they contain only data that refer to the new period. This allows the calculation of the net income/net loss according to the **matching principle**.

The revenue and expense accounts are reduced to zero by a process called **closing the books**.

Because revenue and expense accounts are reduced to zero each accounting period they are known as **temporary accounts**. They contain information for the current accounting period only.

Assets, liabilities and owner's equity accounts are known as **permanent accounts**. They go from accounting period to accounting period and are not closed (reduced to zero)

### Purpose of Closing the Books

1. To prepare the revenue and expense accounts for the next accounting period by reducing them to zero
2. To update the owner's equity account

### Updating the Owner's Equity Account

Before closing entries are prepared, the owner's Capital account does not include the net income or net loss and withdrawals by the owner (Drawings account). When the balance sheet is prepared the owner's Capital account is adjusted. (+net income, -net loss, -drawings)

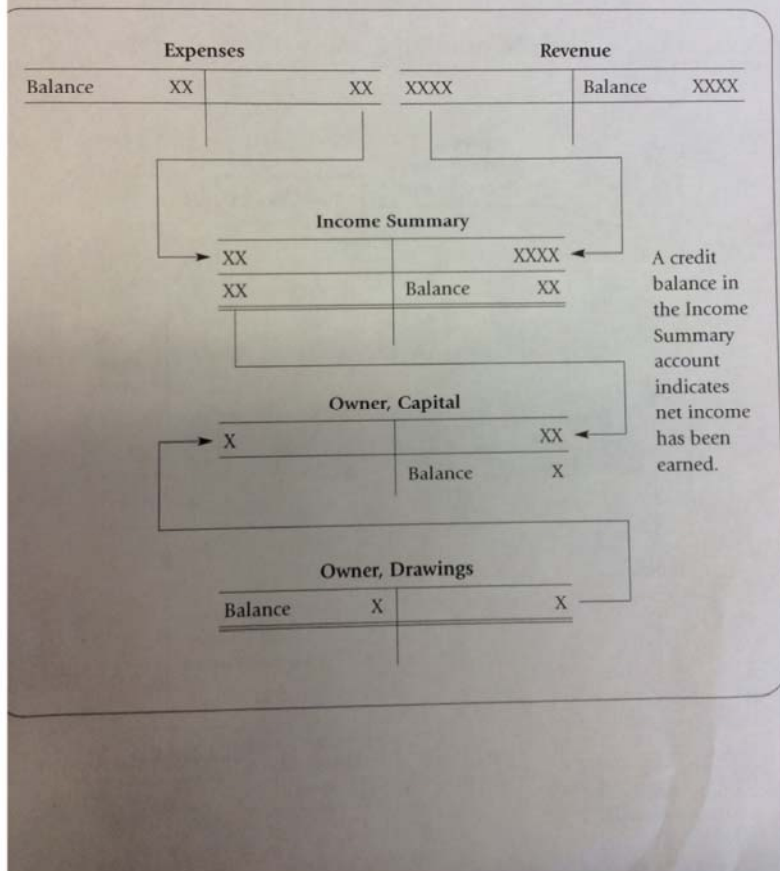
The closing entries update the Capital account in the ledger. They increase or decrease the Capital account balance

### Steps in Closing the Books

1. Closing the Revenue Accounts
2. Closing the Expense Accounts
3. Closing the income Summary Account
4. Closing the Drawings Account

See page 283 of textbook for the journal entries for closing entries

### Closing the Books



### Post Closing Trial Balance

After the adjusting and closing entries have been posted to the General Ledger, a post-closing trial balance is prepared. The purpose is to prove the mathematical accuracy of the General Ledger. pg. 287



