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Closing Entries and the Post-Closing Trial Balance

STUDY GUIDE QUESTIONS

PART 1 True/False

For each of the following statements, circle T if the statement is true and F if the statement is false.

- T F 1. The first step in the closing procedure is to close the expense accounts into the Income Summary account.
- T F 2. The post-closing trial balance is final proof that the total of the debit balances equals the total of the credit balances.
- T F 3. After the closing entries have been posted, the final balance of the Capital account is the same as the amount recorded on the last line of the statement of owner's equity.
- T F 4. Generally, the closing procedure is completed by making three entries.
- T F 5. The purpose of the closing entries is to close off the asset and liability accounts because their balances apply to only one fiscal period.
- T F 6. The total of the expense accounts is recorded in Income Summary as a credit.
- T F 7. The last step in the closing procedure is to close the Drawing account into the Capital account.
- T F 8. If you have to debit Income Summary to close it, this indicates a net loss.
- T F 9. Income Summary is an example of a nominal or temporary-equity account.
- T F 10. The post-closing trial balance includes only the balances of real or permanent accounts.

PART 2 Completion—Language of Business

Complete each of the following statements by writing the appropriate words in the spaces provided.

1. After the closing entries have been journalized and posted, the _____ is prepared as final proof that the accounts are in balance.
2. The accounts that have balances that are carried over to the next fiscal period are called _____ accounts.
3. Financial statements that are prepared during the fiscal period and cover a period of time less than the fiscal period are called _____ statements.

4. The _____ account is brought into existence to have a debit and credit for each closing entry.
5. A journal entry that is made to clear an account or make the balance of that account equal to zero is called a(n) _____ entry.
6. The _____ accounts apply to only one fiscal period and are closed at the end of the fiscal period.
7. An accounting basis under which revenue is recorded only when it is earned and expenses are recorded only when they are incurred is called the _____.
8. The _____ is an accounting basis under which revenue is recorded only when it is received in cash and most expenses are recorded only when they are paid in cash. Expenses to be counted that are not paid in cash include Depreciation Expense and Insurance Expense.

PART 3 Closing Entries

Using the following list of account titles, determine the account titles to be debited and credited for the closing entries below.

- | | | |
|--------------------------|----------------------------|----------------------------|
| a. Rent Expense | c. L. Drew, Drawing | e. L. Drew, Capital |
| b. Service Income | d. Income Summary | f. Wages Expense |

| | Debit | Credit |
|---|--------------|---------------|
| 1. Close out the balances of the revenue account. | _____ | _____ |
| 2. Close out the balances of the expense accounts. | _____ | _____ |
| 3. Close out the amount of the net income for the period. | _____ | _____ |
| 4. Close out the balance of the Drawing account. | _____ | _____ |

PART 4 Posting Closing Entries

After the first closing entries have been journalized and posted, the remaining accounts are shown below in T account form. Based on the T accounts, answer the following questions.

| Income Summary | | J. See, Capital | | J. See, Drawing | |
|----------------|--------|-----------------|--------------|-----------------|--------|
| Debit | Credit | Debit | Credit | Debit | Credit |
| 46,000 | 41,000 | | Bal. 150,000 | Bal. 22,000 | |

- The amount of the total revenue is \$_____.
- The amount of the total expenses is \$_____.
- The amount of net income or net loss is \$_____.
- The amount of the total withdrawals is \$_____.
- The entry to close Income Summary is a debit to _____ and a credit to _____.
- The entry to close J. See, Drawing, is a debit to _____ and a credit to _____.
- The amount of the increase or decrease in capital for the period is \$_____.
- The ending balance of J. See, Capital, is \$_____.