

5

The Accounting Cycle Completed

Adjusting, Closing, and Post-Closing Trial Balance

THE BIG PICTURE

You are planning your school schedule for next term. Your goal is to take a full course load and find a part-time job to help pay your school expenses. You hear through your academic advisor that the school needs to hire someone to help process invoices in the business office a couple of afternoons each week.

You speak with Diane Lemke, the business office manager, about the job. Diane tells you that your work will consist of matching purchase orders with paid invoices and the cheques issued for payment. She also tells you that these last few steps in the process of paying bills is important for the proper operation of the school's business office. "It's essential that this work is done before we can close our books each month," Diane tells you. You believe you'll like the work, and

you're happy you can work your school schedule around the hours you're needed at the business office.

In Chapter 4, we learned about using the worksheet as a tool in the accounting cycle to adjust various balances and to prepare the financial statements. In this chapter, we focus on journalizing and posting adjusting and closing entries. We will also discuss preparing a post-closing trial balance, which is the last step in the accounting cycle.

Like working in your school's business office, the last three steps in the accounting cycle are essential and must be done to prepare a company's books for the next accounting cycle. It's the only way an accountant can begin a new accounting cycle or the business office can prepare itself for a new month of expenses.

Chapter Objectives

- ◆ Journalizing and posting adjusting entries (p. 170)
- ◆ Journalizing and posting closing entries (p. 174)
- ◆ Preparing a post-closing trial balance (p. 184)

Remember: For ease of presentation, we are using a month as the accounting cycle for Clark's. In the business world, the cycle can be any time period but is usually one year.

In Chapters 3 and 4, we completed these steps of the manual accounting cycle for Clark's Desktop Publishing Services:

- Step 1:** Business transactions occurred and generated source documents.
- Step 2:** Business transactions were analyzed and recorded in a journal.
- Step 3:** Information was posted or transferred from journal to ledger.
- Step 4:** A trial balance was prepared.
- Step 5:** A worksheet was completed.
- Step 6:** Financial statements were prepared.

This chapter covers the following steps, which will complete Clark's accounting cycle for the month of May:

- Step 7:** Journalizing and posting adjusting entries
- Step 8:** Journalizing and posting closing entries
- Step 9:** Preparing a post-closing trial balance

Learning Unit 5-1

Journalizing and Posting Adjusting Entries: Step 7 of the Accounting Cycle

RECORDING JOURNAL ENTRIES FROM THE WORKSHEET

The information in the worksheet is up to date. The financial statements prepared from that information can give the business's management and other interested parties a good idea of where the business stands as of a particular date. The problem is that the worksheet is an informal report. The information concerning the adjustments has not been placed in the journal or posted to the ledger accounts. This means that the books are not up to date and ready for the next accounting cycle to begin. For example, the ledger shows \$1,200 of prepaid rent (page 96), but the balance sheet we prepared in Chapter 4 shows an \$800 balance. Essentially, the worksheet is a tool for preparing financial statements. Now we must use the adjustment columns of the worksheet as a basis for bringing the ledger up to date. We do this by **adjusting journal entries** (see Figure 5-1). Again, the updating must be done before the next accounting period starts. For Clark's Desktop Publishing Services, the next period begins on June 1.

Figure 5-1 shows the adjusting journal entries for Clark's taken from the adjustments section of the worksheet (see Figure 5-2). Once the adjusting journal entries are posted to the ledger, the accounts making up the financial statements that were prepared from the worksheet will correspond with the updated ledger. (Keep in mind that this is the same journal we have been using.) Let's look at some simplified T accounts to show how Clark's ledger looked before and after the adjustments were posted (see adjustments A to D on page 172).

Purpose of adjusting entries

At this point, many ledger accounts are *not up to date*.

Figure 5-1
Adjusting Journal Entries

CLARK'S DESKTOP PUBLISHING SERVICES GENERAL JOURNAL					
					Page 2
Date	Account Titles and Description	PR	Dr.	Cr.	
Adjusting Entries					
May 31	Office Supplies Expense	514	50000		
	Office Supplies	114		50000	
	Office Supplies used up				
31	Rent Expense	515	40000		
	Prepaid Rent	115		40000	
	Rent expired				
31	Amortization Expense, DTP Equipment	516	8000		
	Accumulated Amortization, DTP Equipment	122		8000	
	Estimated amortization of asset				
31	Office Salaries Expense	511	35000		
	Salaries Payable	212		35000	
	Accrued salary to May 31				

Figure 5-2
Journalizing and Posting
Adjustments from the
Adjustments Section of the
Worksheet

Account Titles	Trial Balance		Adjustments	
	Dr.	Cr.	Dr.	Cr.
Cash	615500			
Accounts Receivable	500000			
Office Supplies	60000			(A) 50000
Prepaid Rent	120000			(B) 40000
Desktop Publishing Equipment	600000			
Accounts Payable		335000		
Brenda Clark, Capital		1000000		
Brenda Clark, Withdrawals	62500			
Desktop Publishing Fees		800000		
Office Salaries Expense	130000		(D) 35000	
Advertising Expense	25000			
Telephone Expense	22000			
	2135000	2135000		
Office Supplies Expense			(A) 50000	
Rent Expense			(B) 40000	
Amortization Expense, DTP Equipment			(C) 8000	
Accumulated Amortization, DTP Equipment				(C) 8000
Salaries Payable				(D) 35000
			133000	133000

Adjustments A to D in the adjustments section of the worksheet must be recorded in the journal and posted to the ledger.

Adjustment A

Before posting:	Office Supplies 114 <u>600</u>	Office Supplies Expense 514 <u> </u>
After posting:	Office Supplies 114 <u>600</u> <u>500</u>	Office Supplies Expense 514 <u> </u> <u>500</u>

Adjustment B

Before posting:	Prepaid Rent 115 <u>1,200</u>	Rent Expense 515 <u> </u>
After posting:	Prepaid Rent 115 <u>1,200</u> <u>400</u>	Rent Expense 515 <u> </u> <u>400</u>

Adjustment C

Before posting:	Desktop Publishing Equipment 121 <u>6,000</u>	Amortization Expense, DTP Equipment 516 <u> </u>	Accumulated Amortization, DTP Equipment 122 <u> </u>
After posting:	Desktop Publishing Equipment 121 <u>6,000</u>	Amortization Expense, DTP Equipment 516 <u> </u> <u>80</u>	Accumulated Amortization, DTP Equipment 122 <u> </u> <u>80</u>

This last adjustment shows the same balances for Amortization Expense and Accumulated Amortization. However, in subsequent adjustments, the Accumulated Amortization balance will keep getting larger, but the debit to Amortization Expense and the credit to Accumulated Amortization will be the same. We will see why in a moment.

Adjustment D

Before posting:	Office Salaries Expense 511 <u>650</u> 650	Salaries Payable 212 <u> </u>
After posting:	Office Salaries Expense 511 <u>650</u> 650 <u>350</u>	Salaries Payable 212 <u> </u> <u>350</u>

LEARNING UNIT 5-1 REVIEW

AT THIS POINT you should be able to:

- ◆ Define and state the purpose of adjusting entries. (p. 170)
- ◆ Journalize adjusting entries from the worksheet. (p. 171)
- ◆ Post journalized adjusting entries to the ledger. (p. 171)
- ◆ Compare specific ledger accounts before and after posting of the journalized adjusting entries. (p. 172)



Self-Review Quiz 5-1

(The blank forms you need are on pages X-X and X-X of the *Study Guide with Working Papers*.)

Turn to the worksheet of P. Logan Company (p. 140) and (1) journalize and post the adjusting entries and (2) compare the adjusted ledger accounts before and after the adjustments are posted. T accounts with beginning balances are provided in your *Study Guide*.

Solution to Self-Review Quiz 5-1

Quiz Tip

These journal entries come from the adjustments column of the worksheet.

		Page 2									
Date	Account Titles and Description	PR	Dr.			Cr.					
Adjusting Entries											
Dec. 31	Amortization Expense, Store Equipment	511			1 00						
	Accumulated Amortization, Store Equipment	122						1 00			
	Estimated amortization of equipment										
31	Insurance Expense	516			2 00						
	Prepaid Insurance	116						2 00			
	Insurance expired										
31	Supplies Expense	514			4 00						
	Store Supplies	114						4 00			
	Store Supplies used										
31	Salaries Expense	512			3 00						
	Salaries Payable	212						3 00			
	Accrued salaries payable										

PARTIAL LEDGER

Before Posting		After Posting	
Amortization Expense, Store Equipment 511	Accumulated Amortization, Store Equipment 122	Amortization Expense, Store Equipment 511	Accumulated Amortization, Store Equipment 122
	4	1	4 1
Prepaid Insurance 116	Insurance Expense 516	Prepaid Insurance 116	Insurance Expense 516
3		3	2
Store Supplies 114	Supplies Expense 514	Store Supplies 114	Supplies Expense 514
5		5	4
Salaries Expense 512	Salaries Payable 212	Salaries Expense 512	Salaries Payable 212
8		8 3	3

Learning Unit 5-2

Journalizing and Posting Closing Entries: Step 8 of the Accounting Cycle

To make recording of the next fiscal year's transactions easier, a mechanical step, called **closing**, is taken by the accountant at Clark's. Closing is used to end—or close off—the revenue, expense, and withdrawal accounts at the end of the fiscal year. The information needed to complete closing entries will be found in the income statement and balance sheet sections of the worksheet.

To make it easier to understand this process, we will first look at the difference between temporary (nominal) accounts and permanent (real) accounts.

Here is the expanded accounting equation that we used in an earlier chapter:

$$\text{Assets} = \text{Liabilities} + \text{Capital} - \text{Withdrawals} + \text{Revenues} - \text{Expenses}$$

Three of the items in that equation—assets, liabilities, and capital—are known as **real** or **permanent accounts** because their balances are carried over from one fiscal year to another. The other three items—withdrawals, revenue, and expenses—are called **nominal** or **temporary accounts** because their balances are not carried over from one fiscal year to another. Instead, their balances are set to zero at the beginning of each fiscal year. This allows us to accumulate new data about revenue, expenses, and withdrawals in the new fiscal year. The process of closing summarizes the effects of the temporary accounts on capital for that period by using **closing journal entries** and by posting them to the ledger. When the closing process is complete, the accounting equation will be reduced to:

$$\text{Assets} = \text{Liabilities} + \text{Ending Capital}$$

If you look back at page 142 in Chapter 4, you will see that we have calculated the new capital on the balance sheet for Clark's Desktop Publishing Services to be \$14,275. However, before the mechanical closing procedures are journalized and posted, the capital account of Brenda Clark in the ledger is only \$10,000 (Chapter 3, page 96). Let's look now at how to journalize and post closing entries.

Permanent accounts are found on the balance sheet.

After all closing entries are journalized and posted to the ledger, all temporary accounts have a zero balance in the ledger. Closing is a step-by-step process.

HOW TO JOURNALIZE CLOSING ENTRIES

There are four steps to be performed in journalizing closing entries:

An Income Summary is a temporary account located in the chart of accounts under Owner's Equity. It does not have a normal balance of a debit or a credit.

Step 1: Clear the revenue balances and transfer them to Income Summary. **Income Summary** is a temporary account in the ledger needed for closing. At the end of the closing process, there will be no balance in Income Summary.

Revenue → Income Summary

Step 2: Clear the individual expense balances and transfer them to Income Summary.

Expenses → Income Summary

Step 3: Clear the balance in Income Summary and transfer it to Capital.

Income Summary → Capital

Step 4: Clear the balance in Withdrawals and transfer it to Capital.

Withdrawals → Capital

Sometimes, closing the accounts is referred to as "clearing the accounts."

Figure 5-3 is a visual representation of these four steps. Keep in mind that this information must first be journalized and then posted to the appropriate ledger accounts. The worksheet presented in Figure 5-4 contains all the figures we will need for the closing process.

Don't forget two goals of closing:

1. Clear all temporary accounts in the ledger.
2. Update Capital to a new balance that reflects a summary of all the temporary accounts.

Step 1: Clear Revenue Balances and Transfer to Income Summary

Here is what is in the ledger before closing entries are journalized and posted:

Desktop Publishing Fees 411	Income Summary 313
8,000	

The income statement section on the worksheet on page 176 shows that the Desktop Publishing Fees account has a credit balance of \$8,000. To close or clear this to zero in the ledger, a debit of \$8,000 is needed. However, if we add an amount to the debit side, we must also add a credit—so we add \$8,000 on the credit side of the Income Summary account.

All numbers used in the closing process can be found on the worksheet in Figure 5-4 (page 176). Note that the account *Income Summary* is *not* on the worksheet.

Figure 5-3
Four Steps in Journalizing Closing Entries

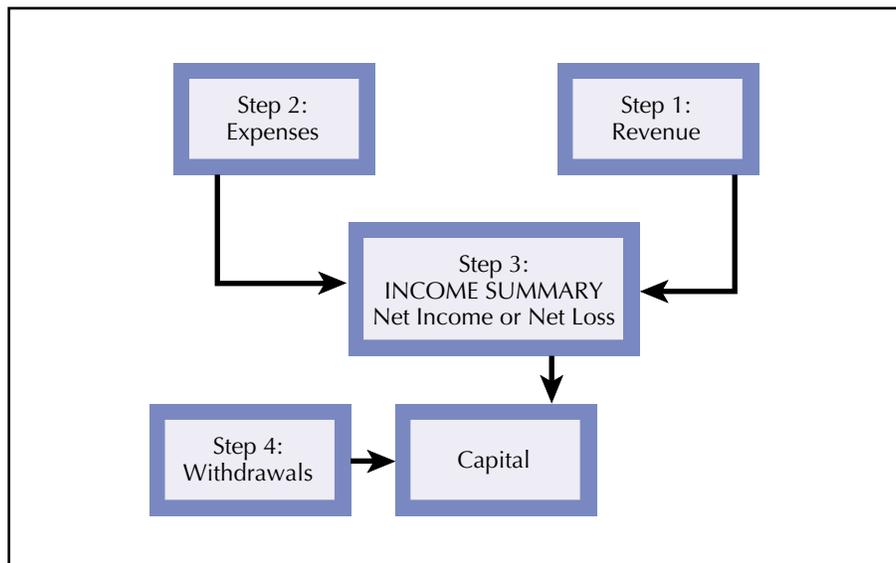


Figure 5-4
Closing Figures on the
Worksheet

Account Titles	Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.
Cash			61 55 00	
Accounts Receivable			5 00 00	
Office Supplies			1 00 00	
Prepaid Rent			8 00 00	
Desktop Publishing Equipment			6 00 00	
Accounts Payable				3 35 00
Brenda Clark, Capital		For Step 1		10 00 00
Brenda Clark, Withdrawals	For Step 2		6 25 00	
Desktop Publishing Fees		8 00 00		
Office Salaries Expense	16 50 00			For Step 4
Advertising Expense	2 50 00			
Telephone Expense	2 20 00			
Office Supplies Expense	5 00 00			
Rent Expense	4 00 00			
Amortization Exp., DTP Equip.	8 00 00			
Accum. Amort., DTP Equip.		For Step 3		8 00 00
Salaries Payable				3 50 00
	3 10 00	8 00 00	18 68 00	13 78 00
Net Income	4 90 00			4 90 00
	8 00 00	8 00 00	18 68 00	18 68 00

The following is the journalized closing entry for step 1:

May 31	Desktop Publishing Fees	411	8 00 00	
	Income Summary	313		8 00 00
	To close income account			

This is what Desktop Publishing Fees and Income Summary should look like in the ledger after step 1 closing entries are journalized and posted:

Desktop Publishing Fees 411	Income Summary 313
8,000 8,000	8,000
<u>Closing Revenue</u>	Revenue

Note that the revenue balance is cleared to zero and transferred to Income Summary, a temporary account also located in the ledger.

Step 2: Clear Individual Expense Balances and Transfer the Total to Income Summary

Here is what is in the ledger for each expense before step 2 closing entries are journalized and posted. Each expense is listed on the worksheet in the debit column of the income statement section as above.

Office Salaries Expense 511	Advertising Expense 512
650	250
650	
350	

Telephone Expense 513	Office Supplies Expense 514
220	500
Rent Expense 515	Amortization Expense, DTP Equipment 516
400	80

The income statement section of the worksheet lists all the expenses as debits. If we want to reduce each expense to zero, each one must be credited.

The following is the journalized closing entry for step 2:

The \$3,100 is the total of the expenses on the worksheet.

31	Income Summary	313	310000	
	Office Salaries Expense	511		165000
	Advertising Expense	512		25000
	Telephone Expense	513		22000
	Office Supplies Expense	514		50000
	Rent Expense	515		40000
	Amortization Expense, DTP Equipment	516		8000
	To close expense accounts			

This is what individual expense accounts and the Income Summary should look like in the ledger after step 2 closing entries are journalized and posted:

Office Salaries Expense 511	Advertising Expense 512
650	250
650	Closing 250
350	Closing 250
Closing 1,650	Closing 250
Telephone Expense 513	Office Supplies Expense 514
220	500
Closing 220	Closing 500
Closing 220	Closing 500
Rent Expense 515	Amortization Expense 516
400	80
Closing 400	Closing 80
Closing 400	Closing 80

Remember: The worksheet is a tool. The accountant realizes that the information about the total of the expenses will be transferred to Income Summary.

Income Summary 313	
Expenses	Revenue
Step 2 3,100	8,000 Step 1

Step 3: Clear Balance in Income Summary (Net Income) and Transfer It to Capital

This is how the Income Summary and Brenda Clark, Capital, accounts look before step 3:

Income Summary 313	Brenda Clark, Capital 311
3,100	8,000
8,000	10,000
4,900	

Note that the balance of Income Summary (Revenue minus Expenses, or \$8,000 – \$3,100) is \$4,900. That is the amount we must clear from the Income Summary account and transfer to the Brenda Clark, Capital, account.

The opposite would take place if the business had a net loss.

At the end of these three steps, Income Summary has a zero balance. If we had a net loss, the end result would be to decrease capital. The entry would be to debit Capital and credit Income Summary for the loss.

Today's accounting software handles the closing process easily. However, accountants usually have to do step 4 separately.

Note that the \$10,000 is a beginning balance since no additional investments were made during the period.

In order to transfer the balance of \$4,900 from Income Summary (check the bottom of the debit column of the income statement section on the worksheet; see Figure 5-4) to Capital, it will be necessary to debit Income Summary for \$4,900 (the difference between the revenue and expenses) and credit or increase Capital of Brenda Clark with \$4,900.

This is the journalized closing entry for step 3:

	31	Income Summary	313	490000	
		Brenda Clark, Capital	311		490000
		Transfer profit for period to Capital acct.			

This is what the Income Summary and Brenda Clark, Capital accounts will look like in the ledger after step 3 closing entries are journalized and posted:

	Income Summary 313			Brenda Clark, Capital 311	
Total of expenses	→ 3,100	8,000	← Revenue		10,000
Debit to close account	→ 4,900	4,900	← Net income		4,900
					Net income

Step 4: Clear the Withdrawals Balance and Transfer It to Capital

Next, we must close the Withdrawals account. The Brenda Clark, Withdrawals, and Brenda Clark, Capital, accounts now look like this:

Brenda Clark, Withdrawals 312	Brenda Clark, Capital 311
625	10,000
	4,900

To bring the Withdrawals account to a zero balance and summarize its effect on Capital, we must credit Withdrawals and debit Capital.

Remember, withdrawals are a non-business expense and thus not transferred to Income Summary. The closing entry is journalized as follows:

	31	Brenda Clark, Capital	311	62500	
		Brenda Clark, Withdrawals	312		62500
		Transfer withdrawals to Capital account			

At this point, the Brenda Clark, Withdrawals, and Brenda Clark, Capital, accounts would look like this in the ledger:

Brenda Clark, Withdrawals 312	Brenda Clark, Capital 311
625	10,000
Closing 625	Beginning balance
	4,900
	Net income

CLARK'S DESKTOP PUBLISHING SERVICES GENERAL JOURNAL						
Date 2007	Account Title and Description	Post. Ref.	Dr.	Cr.		
May 31	Desktop Publishing Fees	411	8000000			
	Income Summary	313		8000000		
	To close income account					
31	Income Summary	313	3100000			
	Office Salaries Expense	511		1650000		
	Advertising Expense	512		250000		
	Telephone Expense	513		220000		
	Office Supplies Expense	514		500000		
	Rent Expense	515		400000		
	Amortization Expense, DTP Equipment	516		80000		
	To close expense accounts					
31	Income Summary	313	4900000			
	Brenda Clark, Capital	311		4900000		
	Transfer profit to capital					
31	Brenda Clark, Capital	311	62500			
	Brenda Clark, Withdrawals	312		62500		
	Transfer withdrawals to capital					

Now let's look at a summary of the closing entries. The complete ledger for Clark's Desktop Publishing Services is shown in Figure 5-5 beginning on this page. Note that the word "adjusting" or "closing" is written in the explanation column of individual ledgers, as for example in the one for Office Supplies. If the goals of closing have been achieved, only permanent accounts will have balances carried to the next fiscal year. All temporary accounts should have zero balances.

Figure 5-5
Complete Ledger

CLARK'S DESKTOP PUBLISHING SERVICES GENERAL LEDGER							
Cash				Account No. 111			
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
May 1		GJ1	1000000		DR	1000000	
1		GJ1		100000	DR	900000	
1		GJ1		120000	DR	780000	
7		GJ1	300000		DR	1080000	
11		GJ1		65000	DR	1015000	
20		GJ1		62500	DR	952500	
25		GJ2		65000	DR	887500	
28		GJ2		250000	DR	637500	
29		GJ2		22000	DR	615500	

Figure 5-5 (Continued)

Accounts Receivable							Acct. No. 112	
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance		
May 22		GJ1	500000		DR	500000		

Office Supplies							Acct. No. 114	
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance		
May 3		GJ1	60000		DR	60000		
31	Adjusting	GJ2		50000	DR	10000		

Prepaid Rent							Acct. No. 115	
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance		
May 1		GJ1	120000		DR	120000		
31	Adjusting	GJ2		40000	DR	80000		

Desktop Publishing Equipment							Acct. No. 121	
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance		
May 1		GJ1	600000		DR	600000		

Accumulated Amortization, Desktop Publishing Equipment							Acct. No. 122	
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance		
May 31	Adjusting	GJ2		8000	CR	8000		

Accounts Payable							Acct. No. 211	
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance		
May 1		GJ1		500000	CR	500000		
3		GJ1		60000	CR	560000		
18		GJ1		25000	CR	585000		
28		GJ2	250000		CR	335000		

Salaries Payable							Acct. No. 212
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
May 31	Adjusting	GJ2		35000	CR	35000	

Brenda Clark, Capital							Acct. No. 311
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
May 1		GJ1		1000000	CR	1000000	
31	Closing (Net Income)	GJ2		490000	CR	1490000	
31	Closing (Withdrawals)	GJ2	62500		CR	1427500	

Note that this is the same ending balance as on page 142.

Brenda Clark, Withdrawals							Acct. No. 312
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
May 20		GJ1	62500		DR	62500	
31	Closing	GJ2		62500		-0-	

Income Summary							Acct. No. 313
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
May 31	Closing (Revenue)	GJ2		800000	CR	800000	
31	Closing (Expense)	GJ2	310000		CR	490000	
31	Closing (Net Income)	GJ2	490000			-0-	

Desktop Publishing Fees							Acct. No. 411
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
May 7		GJ1		300000	CR	300000	
22		GJ1		500000	CR	800000	
31	Closing	GJ2	800000			-0-	

Office Salaries Expense							Acct. No. 511
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
May 11		GJ1	65000		DR	65000	
25		GJ2	65000		DR	130000	
31	Adjusting	GJ2	35000		DR	165000	
31	Closing	GJ2		165000		-0-	

Figure 5-5 (Continued)

Advertising Expense				Acct. No. 512			
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
May 18		GJ1	25000		DR	25000	
31	Closing	GJ2		25000		-0-	

Telephone Expense				Acct. No. 513			
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
May 29		GJ2	22000		DR	22000	
31	Closing	GJ2		22000		-0-	

Office Supplies Expense				Acct. No. 514			
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
May 31	Adjusting	GJ2	50000		DR	50000	
31	Closing	GJ2		50000		-0-	

Rent Expense				Acct. No. 515			
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
May 31	Adjusting	GJ2	40000		DR	40000	
31	Closing	GJ2		40000		-0-	

Amortization Expense, Desktop Publishing Equipment				Acct. No. 516			
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
May 31	Adjusting	GJ2	8000		DR	8000	
	Closing	GJ2		8000		-0-	

LEARNING UNIT 5-2 REVIEW

AT THIS POINT you should be able to:

- ◆ Define closing. (p. 174)
- ◆ Differentiate between temporary (nominal) and permanent (real) accounts. (p. 174)
- ◆ List the four mechanical steps of closing. (p. 175)
- ◆ Explain the role of the Income Summary account. (p. 175)
- ◆ Explain the role of the worksheet in the closing process. (p. 175)



Self-Review Quiz 5-2

(The blank forms you need are on pages X-X and X-X of the *Study Guide with Working Papers*.)

Go to the worksheet for P. Logan on page 140. Then (1) journalize and post the closing entries and (2) calculate the new balance for P. Logan, Capital.

Solution to Self-Review Quiz 5-2

		Closing Entries			
Dec.	31	Revenue from Clients	410	25 00	
		Income Summary	312		25 00
		To close income account			
	31	Income Summary	312	20 00	
		Rent Expense	518		2 00
		Salaries Expense	512		11 00
		Amortization Expense, Store Equipment	510		1 00
		Insurance Expense	516		2 00
		Supplies Expense	514		4 00
		To close expense accounts			
	31	Income Summary	312	5 00	
		P. Logan, Capital	310		5 00
		Transfer net income to Capital accounts			
	31	P. Logan, Capital	310	3 00	
		P. Logan, Withdrawals	311		3 00
		Transfer withdrawals to Capital accounts			

PARTIAL LEDGER

P. Logan, Capital 310	
3	14
	5
	16

Revenue from Clients 410	
25	25

Supplies Expense 514	
4	4

P. Logan, Withdrawals 311	
3	3

Amortization Expense, Store Equipment 510	
1	1

Insurance Expense 516	
2	2

Income Summary 312	Salaries Expense 512	Rent Expense 518
20	11	2
25	11	2
5		

Quiz Tip

No calculations are needed in the closing process. All numbers come from the worksheet. Income Summary is a temporary account in the ledger.

P. Logan, Capital		\$14
Net Income	\$5	
Less: Withdrawals	3	
Increase in Capital		2
P. Logan, Capital (ending)		\$16

Learning Unit 5-3

The Post-Closing Trial Balance: Step 9 of the Accounting Cycle and the Accounting Cycle Reviewed

The post-closing trial balance helps prove the accuracy of the adjusting and closing process. It contains the true ending figure for capital.

PREPARING A POST-CLOSING TRIAL BALANCE

The last step in the accounting cycle is the preparation of a **post-closing trial balance** (sometimes called an opening trial balance), which lists only permanent accounts in the ledger and their balances after adjusting and closing entries have been posted. This post-closing trial balance aids in checking whether the ledger is in balance. It is important to do this checking because so many new postings go to the ledger from the adjusting and closing process.

The procedure for taking a post-closing trial balance is the same as for a trial balance except that since closing entries have closed all temporary accounts, the post-closing trial balance will contain only permanent accounts (balance sheet). Keep in mind, however, that adjustments have occurred.

THE ACCOUNTING CYCLE REVIEWED

Table 5-1 lists the steps that we completed in the manual accounting cycle for Clark's Desktop Publishing Services for the month of May.

Insight: Most companies journalize and post adjusting and closing entries only at the end of their fiscal year. A company that prepares interim reports may complete only the first six steps of the cycle. Worksheets allow the preparation of interim reports without the formal adjusting and closing of the books.

Insight: To prepare a financial report for April, the data needed can be obtained by subtracting the worksheet accumulated totals for the end of March from the worksheet prepared at the end of April. In this chapter, we chose a month that would show the completion of an entire cycle for Clark's Desktop Publishing Services.

TABLE 5-1 Steps of the Manual Accounting Cycle

Step	Explanation
1. Business transactions occur and generate source documents.	Source documents are cash register tapes, sales tickets, bills, cheques, payroll cards, etc.
↓	↓
2. Analyze and record business transactions into a journal.	Called journalizing
↓	↓
3. Post or transfer information from journal to ledger.	Copying the debits and credits of the journal entries into the ledger accounts
↓	↓
4. Prepare a trial balance.	Summarizing each individual ledger account and listing these accounts and their balances to test for mathematical accuracy in recording transactions
↓	↓
5. Prepare a worksheet.	A multicolumn form that summarizes accounting information to complete the accounting cycle
↓	↓
6. Prepare financial statements.	Income statement, statement of owner's equity, and balance sheet
↓	↓
7. Journalize and post adjusting entries.	Use figures in the adjustment columns of worksheet.
↓	↓
8. Journalize and post closing entries.	Use figures in the income statement and balance sheet sections of worksheet.
↓	↓
9. Prepare a post-closing trial balance.	Prove the mathematical accuracy of the adjusting and closing process of the accounting cycle.

LEARNING UNIT 5-3 REVIEW

AT THIS POINT you should be able to:

- ◆ Prepare a post-closing trial balance. (p. 184)
- ◆ Explain the relationship of interim reports to the accounting cycle. (p. 184)



Self-Review Quiz 5-3

(The blank forms you need are on page X-X of the *Study Guide with Working Papers*.)

From the ledger on pages 179 to 182, prepare a post-closing trial balance.

Solution to Self-Review Quiz 5-3

CLARK'S DESKTOP PUBLISHING SERVICES POST-CLOSING TRIAL BALANCE MAY 31, 2007				
	Dr.	Cr.		
Cash	615500			
Accounts Receivable	500000			
Office Supplies	10000			
Prepaid Rent	80000			
Desktop Publishing Equipment	600000			
Accumulated Amortization, Desktop Publishing Equipment		8000		
Accounts Payable		335000		
Salaries Payable		35000		
Brenda Clark, Capital		1427500		
Totals	1805500	1805500		

The post-closing trial balance contains only permanent accounts because all temporary accounts have been closed. All temporary accounts are summarized in the capital account.

“You wait and see,” Stan told his new sandwich artist Wanda Kurtz, “Everything will fall into place soon.” Wanda had a tough time serving customers quickly enough, and Stan was in the middle of giving her a pep talk when the phone rang.

“I’ll let the machine pick up,” Stan reassured Wanda, as he proceeded to train her in some crucial POS touch-screen manoeuvres.

“Stan!” an urgent voice came over the answering machine, “I think you’ve forgotten something!” Stan picked up the phone and said, “Lila, can I get back to you tomorrow? I’m in the middle of an important talk with Wanda.” One of Stan’s strong points as an employer was his ability to focus 100% on his employees’ concerns. Yet, Lila simply would not wait.

“Stan,” Lila said impatiently, “You absolutely must get me your worksheet by 12 noon tomorrow so that I can close your books,” she insisted. “Tomorrow’s the 31st of March and we close on the last day of the month!”

“Ay caramba!” Stan sighed, “Looks like I’m going to be up till the wee hours,” he confided to Wanda when he put down the phone.

Although Subway company policy doesn’t require a closing every month, closing the books is a key part of their accounting training for all new franchisees. By closing their books, business owners can clearly measure their net profit and loss for each period separate from all other periods. This makes activities like budgeting and comparing performance with similar businesses (or performance over time) possible.

At 9:00 a.m. the next morning, an exhausted Stan opened up the restaurant and emailed his worksheet to Lila. He was feeling quite pleased with himself—that is, until he heard Lila’s urgent-sounding voice coming over the answering machine 10 minutes later.

“I’ve been over and over this,” said Lila after Stan picked up, “And I can’t get it to balance. I

SUBWAY CLOSING TIME

know it’s hard for you to do this during working hours, but I need you to go back over the figures.”

Stan opened up QuickBooks® and pored over his worksheets. Errors are hard to find when closing the books and, unfortunately, there is no set way to detect errors and even no set place to start. Stan chose payroll because it is one of the largest expenses and because of the new hire.

At 11:45 he called Lila, who sounded both exasperated and relieved to hear from him. “I think I’ve got it! It looks like I messed up on adjusting the Salaries Expense account. I looked at the Payroll Register and compared the total of the Salaries Payable account. It didn’t match! When I hired Wanda Kurtz on the 26th, I should have increased both the Salaries Expense and the Salaries Payable lines because she has accrued wages.”

“Yes,” said Lila, “Salaries Expense is a debit and Salaries Payable is a credit and you skipped the payable. Great! With this adjusting entry in the general journal, the worksheet will balance.

Stan’s sign of relief turned into a big yawn and they both laughed. “I guess I just find it easier to hire people and train them than to account for them,” said Stan.

DISCUSSION QUESTIONS

1. How would the adjustment be made if Wanda Kurtz received \$7 per hour and worked 25 additional hours? Where do you place her accrued wages?
2. Stan bought three new Subway aprons and hats for Wanda Smith for \$20 each but forgot to post it to the Uniforms account. How much will the closing balance be off? In what way will it be off?
3. Put yourself in Stan’s shoes: What is the value of doing a monthly closing, no matter how much—or little—business you do?

Chapter Review

COMPREHENSIVE DEMONSTRATION PROBLEM WITH SOLUTION TIPS

(The blank forms you need are on pages X-X to X-XX of the *Study Guide with Working Papers*.)

From the following transactions for Rolo Company, complete the entire accounting cycle. The chart of accounts includes:

Assets

- 111 Cash
- 112 Accounts Receivable
- 114 Prepaid Rent
- 115 Office Supplies
- 121 Office Equipment
- 122 Accumulated Amortization,
Office Equipment

Liabilities

- 211 Accounts Payable
- 212 Salaries Payable

Owner's Equity

- 311 R. Kern, Capital
- 312 R. Kern, Withdrawals
- 313 Income Summary

Revenue

- 411 Fees Earned

Expenses

- 511 Salaries Expense
- 512 Advertising Expense
- 513 Rent Expense
- 514 Office Supplies Expense
- 515 Amortization Expense,
Office Equipment

We will use unusually small numbers to simplify the calculations and to emphasize the theory.

2007

- Jan. 2 Rolo Kern invested \$1,200 cash and \$100 worth of office equipment to open Rolo Co.
- 2 Paid rent for three months in advance, \$300.
- 4 Purchased office equipment on account, \$50.
- 6 Bought office supplies for cash, \$40.
- 8 Collected \$400 for services rendered.
- 12 Rolo paid his home electric bill from the company bank account, \$20.
- 14 Provided \$100 worth of services to clients who will not pay until next month.
- 16 Paid salaries, \$60.
- 18 Advertising bill for \$70 was received but will not be paid until next month.

Adjustment Data on January 31

- a. Supplies on Hand, \$6
- b. Rent Expired, \$100
- c. Amortization, Office Equipment, \$20
- d. Salaries Accrued, \$50

Journalizing Transactions and Posting to Ledger, Rolo Company

General Journal				Page 1			
Date	Account Titles and Description	PR	Dr.	Cr.			
2007 Jan. 2	Cash	111	120000				
	Office Equipment	121	10000				
	R. Kern, Capital	311		130000			
	Initial investment						
2	Prepaid Rent	114	30000				
	Cash	111		30000			
	Rent paid in advance—3 months						
4	Office Equipment	121	5000				
	Accounts Payable	211		5000			
	Purchased equipment on account						
6	Office Supplies	115	4000				
	Cash	111		4000			
	Supplies purchased for cash						
8	Cash	111	40000				
	Fees Earned	411		40000			
	Services rendered						
12	R. Kern, Withdrawals	312	2000				
	Cash	111		2000			
	Personal payment of a bill						
14	Accounts Receivable	112	10000				
	Fees Earned	411		10000			
	Services rendered on account						
16	Salaries Expense	511	6000				
	Cash	111		6000			
	Paid salaries						
18	Advertising Expense	512	7000				
	Accounts Payable	211		7000			
	Advertising bill, but not paid						

Solution Tips to Journalizing and Posting Transactions

Jan. 2	Cash	Asset	↑	Dr.	\$1,200
	Office Equipment	Asset	↑	Dr.	\$ 100
	R. Kern, Capital	Capital	↑	Cr.	\$1,300

Jan. 2	Prepaid Rent	Asset	↑	Dr.	\$ 300
	Cash	Asset	↓	Cr.	\$ 300

Jan. 4	Office Equipment Accounts Payable	Asset Liability	↑ ↑	Dr. Cr.	\$ 50 \$ 50
Jan. 6	Office Supplies Cash	Asset Asset	↑ ↓	Dr. Cr.	\$ 40 \$ 40
Jan. 8	Cash Fees Earned	Asset Revenue	↑ ↑	Dr. Cr.	\$ 400 \$ 400
Jan. 12	R. Kern, Withdrawals Cash	Owner's Equity (Withdr.) Asset	↑ ↓	Dr. Cr.	\$ 20 \$ 20
Jan. 14	Accounts Receivable Fees Earned	Asset Revenue	↑ ↑	Dr. Cr.	\$ 100 \$ 100
Jan. 16	Salaries Expense Cash	Expense Asset	↑ ↓	Dr. Cr.	\$ 60 \$ 60
Jan. 18	Advertising Expense Accounts Payable	Expense Liability	↑ ↑	Dr. Cr.	\$ 70 \$ 70

Note: All account titles come from the chart of accounts. When journalizing, the PR column of the general journal is blank. It is in the posting process that we update the ledger. The Post. Ref. columns in the ledger accounts tell us from which journal page the information came. After posting to the account in the ledger, we fill in the PR column of the journal, which tells us to what account number the information was transferred.

COMPLETING THE WORKSHEET

See the worksheet on page 191.

Solution Tips to the Trial Balance and Completion of the Worksheet

After the posting process from the journal to the ledger is complete, we take the ending balance in each account and prepare a trial balance on the worksheet. If an account title has no balance, it is not listed on the trial balance. New titles on the worksheet will be added below the trial balance as needed.

**ROLO COMPANY
WORKSHEET
FOR MONTH ENDED JANUARY 31, 2007**

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	118000				118000				118000	
Accounts Receivable	10000				10000				10000	
Prepaid Rent	30000			(B) 10000	20000				20000	
Office Supplies	4000			(A) 3400	600				600	
Office Equipment	15000				15000				15000	
Accounts Payable		12000				12000				12000
R. Kern, Capital		130000				130000				130000
R. Kern, Withdrawals	2000				2000			50000	2000	
Fees Earned		50000				50000				
Salaries Expense	6000		(D) 5000		11000		11000			
Advertising Expense	7000				7000		7000			
	192000	192000								
Office Supplies Expense			(A) 3400		3400		3400			
Rent Expense			(B) 10000		10000		10000			
Amort. Expense, Office Equip.			(C) 2000		2000		2000			
Accum. Amort., Office Equip.				(C) 2000		2000				2000
Salaries Payable				(D) 5000		5000				5000
			20400	20400	199000	199000	33400	50000	165600	149000
Net Income							16600			16600
							50000	50000	165600	165600

The amount of office supplies on hand (\$6) is *not* the adjustment. The amount used up needs to be calculated.

Office Supplies Expense	Expense	↑	Dr.	\$ 34	(\$40 – \$6)
Office Supplies	Asset	↓	Cr.	\$ 34	

Expired

Rent Expense	Expense	↑	Dr.	\$100	
Prepaid Rent	Asset	↓	Cr.	\$100	

Do not touch original cost of equipment.

Amort. Exp., Office Equip.	Expense	↑	Dr.	\$ 20	
Accum. Amort., Office Equip.	Asset (Contra)	↓	Cr.	\$ 20	

Owed but not paid

Salaries Expense	Expense	↑	Dr.	\$ 50	
Salaries Payable	Liability	↑	Cr.	\$ 50	

Note: This information is on the worksheet but has *not* been updated in the ledger. (This will happen when we journalize and post adjustments at the end of cycle.)

Note that the last four columns of the worksheet come from numbers on the adjusted trial balance.

We move Net Income of \$166 to the balance sheet credit column since the capital figure is the old one on the worksheet.

PREPARING THE FORMAL FINANCIAL STATEMENTS

ROLO COMPANY INCOME STATEMENT FOR MONTH ENDED JANUARY 31, 2007									
Revenue:									
Fees Earned								\$ 5 0 0 0 0	
Operating Expenses:									
Salaries Expense	\$ 1 1 0 0 0								
Advertising Expense	7 0 0 0								
Office Supplies Expense	3 4 0 0								
Rent Expense	1 0 0 0 0								
Amortization Expense, Office Equipment	2 0 0 0								
Total Operating Expenses								3 3 4 0 0	
Net Income								\$ 1 6 6 0 0	

ROLO COMPANY STATEMENT OF OWNER'S EQUITY FOR MONTH ENDED JANUARY 31, 2007									
R. Kern, Capital, January 1, 2007								\$ 1 3 0 0 0 0	
Net Income for January	\$ 1 6 6 0 0								
Less: Withdrawals for January	2 0 0 0								
Increase in Capital								1 4 6 0 0	
R. Kern, Capital, January 31, 2007								\$ 1 4 4 6 0 0	

ROLO COMPANY BALANCE SHEET JANUARY 31, 2007												
Assets				Liabilities and Owner's Equity								
Cash			\$118000	Liabilities:								
Accounts Receivable			10000	Accounts Payable				\$12000				
Prepaid Rent			20000	Salaries Payable				5000				
Office Supplies			600	Total Liabilities						\$17000		
Office Equipment	\$15000			Owner's Equity:								
Less: Acc. Amort.	2000		13000	R. Kern, Capital						144600		
Total Assets			\$161600	Total Liabilities and Owner's Equity						\$161600		

Solution Tips to Preparing the Financial Statements

The statements are prepared from the worksheet. (Many of the ledger accounts are not up to date.) The income statement lists revenue and expenses. The net income figure of \$166 is used to update the statement of owner's equity. The statement of owner's equity calculates a new figure for Capital, \$1,446 (Beginning Capital + Net Income - Withdrawals). This new figure is then listed on the balance sheet (Assets, Liabilities, and a new figure for Capital).

JOURNALIZING AND POSTING ADJUSTING AND CLOSING ENTRIES

See the journal at the top of page 194.

Solution Tips to Journalizing and Posting Adjusting and Closing Entries

ADJUSTMENTS

The adjustments from the worksheet are journalized (same journal) and posted to the ledger. Now ledger accounts will be brought up to date. Remember, we have already prepared the financial reports from the worksheet. Our goal now is to get the ledger up to date.

CLOSING

Note: Income Summary is a temporary account located in the ledger.

Goals

1. Adjust all temporary accounts in the ledger to zero balances.
2. Determine a new figure for capital in the ledger.

Where do I get my information for closing?

General Journal					Page 2	
Date	Account Titles and Description	PR	Dr.	Cr.		
Adjusting Entries						
Jan. 31	Office Supplies Expense	514	3400			
	Office Supplies	115		3400		
	Supplies used					
31	Rent Expense	513	10000			
	Prepaid Rent	114		10000		
	Rent expired					
31	Amortization Expense, Office Equipment	515	2000			
	Accumulated Amortization, Office Equip.	122		2000		
	Estimated Amortization					
31	Salaries Expense	511	5000			
	Salaries Payable	212		5000		
	Accrued salaries					
Closing Entries						
31	Fees Earned	411	50000			
	Income Summary	313		50000		
	To close income accounts					
31	Income Summary	313	33400			
	Salaries Expense	511		11000		
	Advertising Expense	512		7000		
	Office Supplies Expense	514		3400		
	Rent Expense	513		10000		
	Amortization Expense, Office Equipment	515		2000		
	To close expense accounts					
31	Income Summary	313	16600			
	R. Kern, Capital	311		16600		
	Transfer profit to Capital					
31	R. Kern, Capital	311	2000			
	R. Kern, Withdrawals	312		2000		
	Transfer withdrawals to Capital					

Closing

Step 1 →

Step 2 →

Step 3 →

Step 4 →

Steps in the Closing Process

Step 1: Close revenue to Income Summary.

Step 2: Close individual expenses to Income Summary.

Step 3: Close balance of Income Summary to Capital. (This really is the net income figure on the worksheet.)

Step 4: Close balance of Withdrawals to Capital.

All the journal closing entries are posted. (No new calculations are needed since all figures are on the worksheet.) The result in the ledger is that all temporary accounts have a zero balance.

GENERAL LEDGER

Cash							Acct. No. 111
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
Jan. 2		GJ1	120000		DR.	120000	
2		GJ1		30000	DR.	90000	
6		GJ1		4000	DR.	86000	
8		G1	40000		DR.	126000	
12		GJ1		2000	DR.	124000	
16		GJ1		6000	DR.	118000	

Rolo Kern, Capital							Acct. No. 311
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
Jan. 2		GJ1		130000	CR.	130000	
31	Closing	GJ2		166000	CR.	146600	
31	Closing	GJ2	2000			144600	

Accounts Receivable							Acct. No. 112
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
Jan. 14		GJ1	10000		DR.	10000	

Rolo Kern, Withdrawals							Acct. No. 312
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
Jan. 12		GJ1	2000		DR.	2000	
31	Closing	GJ2		2000		-0-	

Prepaid Rent							Acct. No. 114
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
Jan. 2		GJ1	30000		DR.	30000	
31	Adjustment	GJ2		10000	DR.	20000	

Income Summary							Acct. No. 313
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
Jan. 31	Closing	GJ2		50000	CR.	50000	
31	Closing	GJ2	33400		CR.	166000	
31	Closing	GJ2	166000			-0-	

Office Supplies							Acct. No. 115
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
Jan. 6		GJ1	4000		DR.	4000	
31	Adjustment	GJ2		3400	DR.	6000	

Fees Earned							Acct. No. 411
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR. CR.	Balance	
Jan. 8		GJ1		40000	CR.	40000	
14		GJ1		10000	CR.	50000	
31	Closing	GJ2	50000			-0-	

Office Equipment							Acct. No. 121
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR. CR.	Balance	
Jan. 2		GJ1	10000		DR.	10000	
4		GJ1	5000		DR.	15000	

Salaries Expense							Acct. No. 511
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR. CR.	Balance	
Jan. 16		GJ1	6000		DR.	6000	
31	Adjusting	GJ2	5000		DR.	11000	
31	Closing	GJ2		11000		-0-	

Accumulated Amortization, Office Equipment							Acct. No. 122
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
Jan. 31	Adjustment	GJ2		2000	CR.	2000	

Advertising Expense							Acct. No. 512
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR. CR.	Balance	
Jan. 18		GJ1	7000		DR.	7000	
31	Closing	GJ2		7000		-0-	

Accounts Payable							Acct. No. 211
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
Jan. 4		GJ1		5000	CR.	5000	
18		GJ1		7000	CR.	12000	

Rent Expense							Acct. No. 513
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR. CR.	Balance	
Jan. 31	Adjusting	GJ2	10000		DR.	10000	
31	Closing	GJ2		10000		-0-	

Salaries Payable							Acct. No. 212
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR or CR	Balance	
Jan. 31	Adjustment	GJ2		5000	CR.	5000	

Office Supplies Expense							Acct. No. 514
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR. CR.	Balance	
Jan. 31	Adjusting	GJ2	3400		DR.	3400	
31	Closing	GJ2		3400		-0-	

Amortization Expense, Office Equipment							Acct. No. 515
Date 2007	Explanation	Post. Ref.	Debit	Credit	DR. CR.	Balance	
Jan. 31	Adjusting	GJ2	2000		DR.	2000	
31	Closing	GJ2		2000		-0-	

These are all permanent accounts.

ROLO CO. POST-CLOSING TRIAL BALANCE JANUARY 31, 2007				
	Dr.	Cr.		
Cash	118000			
Accounts Receivable	10000			
Prepaid Rent	20000			
Office Supplies	600			
Office Equipment	15000			
Accumulated Amortization, Office Equipment		2000		
Accounts Payable		12000		
Salaries Payable		5000		
R. Kern, Capital		144600		
Total	163600	163600		

Solution Tips for the Post-Closing Trial Balance

The post-closing trial balance is a list of the ledger balances *after* adjusting and closing entries have been completed. Note the figure for capital \$1,446 is the new figure.

Beginning Capital	\$1,300
+ Net Income	166
– Withdrawals	<u>20</u>
= Ending Capital	\$1,446

Next accounting period, we will enter new amounts in the Revenues, Expenses, and Withdrawals accounts. For now, the post-closing trial balance is made up only of permanent accounts.

SUMMARY OF KEY POINTS

Learning Unit 5-1

1. After formal financial reports have been prepared, the ledger still has not been brought up to date.
2. Information for journalizing adjusting entries comes from the adjustments section of the worksheet.

Learning Unit 5-2

1. Closing is a mechanical process that is completed before the accountant can record transactions for the next fiscal year.
2. Assets, Liabilities, and Capital are permanent (real) accounts; their balances are carried over from one fiscal year to another. Withdrawals, Revenue, and Expenses are nominal (temporary) accounts; their balances are *not* carried over from one fiscal year to another.
3. Income Summary is a temporary account in the general ledger and does not have a normal balance. It will summarize revenue and expenses and transfer the balance to capital. Withdrawals do not go into Income Summary because they are *not* business expenses.
4. All information for closing can be obtained from the worksheet.

5. When closing is complete, all temporary accounts in the ledger will have a zero balance, and all this information will be updated in the Capital account.
6. Closing entries are usually done only at year-end. Interim reports can be prepared from worksheets that are prepared monthly, quarterly, et cetera.

Learning Unit 5-3

1. The post-closing trial balance is prepared from the ledger accounts after the adjusting and closing entries have been posted.
2. The accounts on the post-closing trial balance are all permanent accounts.

KEY TERMS

Adjusting journal entries Journal entries that are needed in order to update specific ledger accounts to reflect correct balances at the end of an accounting period (p. 170)

Closing The process of bringing the balances of all revenue, expense, and withdrawal accounts to zero, ready for a new fiscal year (p. 174)

Closing journal entries Journal entries that are prepared to (a) reduce or clear all temporary accounts to a zero balance and (b) update capital to a new closing balance (p. 174)

Income Summary A temporary account in the ledger that summarizes revenue and expenses and transfers its balance (net income or net loss) to capital. It does not have a normal balance. (p. 175)

Nominal accounts See Temporary accounts (p. 174)

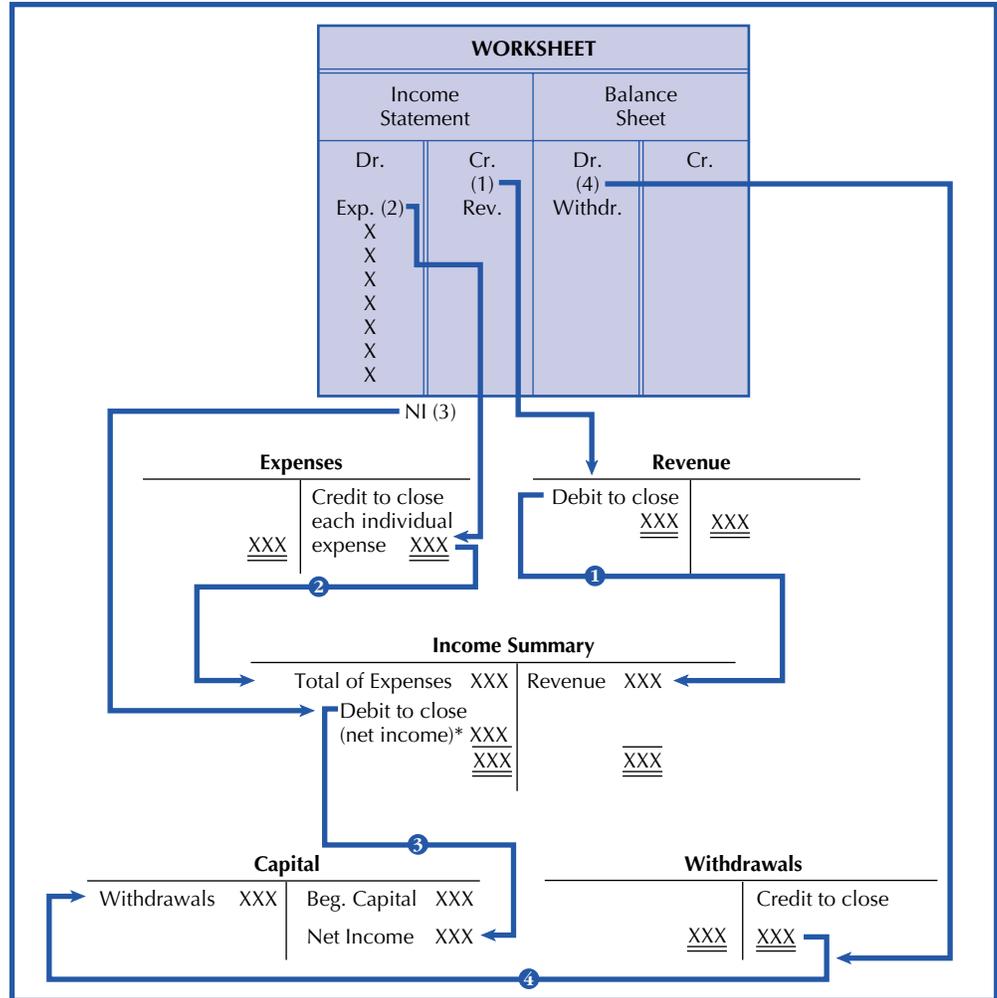
Permanent accounts Balances of accounts that are carried over to the next fiscal year; examples: assets, liabilities, capital (p. 174)

Post-closing trial balance The final step in the accounting cycle that lists only permanent accounts in the ledger and their balances after adjusting and closing entries have been posted (p. 184)

Real accounts See Permanent accounts (p. 174)

Temporary accounts Balances of accounts at the end of a fiscal year that are not carried over to the next fiscal year. These accounts—Revenue, Expenses, Withdrawals—help to provide a new or ending figure for capital to begin the next fiscal year. Keep in mind that Income Summary is also a temporary account. (p. 174)

BLUEPRINT OF THE CLOSING PROCESS FROM THE WORKSHEET



*If a net loss, it would require a credit to close.

The Closing Steps

1. Close revenue balances to Income Summary.
2. Close each *individual* expense and transfer the *total* of all expenses to Income Summary.
3. Transfer the balance in Income Summary (Net Income or Net Loss) to Capital.
4. Close Withdrawals to Capital.

QUESTIONS, MINI EXERCISES, EXERCISES, AND PROBLEMS

Discussion Questions

1. When a worksheet is completed, what balances are found in the general ledger?
2. Why must adjusting entries be journalized even though the formal reports have already been prepared?
3. "Closing slows down the recording of next year's transactions." Defend or reject this statement with supporting evidence.

4. What is the difference between temporary and permanent accounts?
5. What are the two major goals of the closing process?
6. List the four steps in closing.
7. What is the purpose of Income Summary and where is it located?
8. How can a worksheet aid the closing process?
9. What accounts are usually listed on a post-closing trial balance?
10. Closing entries are always prepared once a month. Agree or disagree. Why?

Mini Exercises

(The blank forms you need are on pages X-XX and X-XX of the *Study Guide with Working Papers*.)

Journalizing and Posting Adjusting Entries

1. Post the following adjusting entries (be sure to cross-reference back to the journal) that came from the Adjustment columns of the worksheet.

General Journal					Page 3
	Date	Account Titles and Description	PR	Dr.	Cr.
	Dec. 31	Insurance Expense		6 00	
		Prepaid Insurance			6 00
		Insurance expired			
	31	Supplies Expense		3 00	
		Store Supplies			3 00
		Supplies used			
	31	Amortization Expense, Store Equipment		7 00	
		Accum. Amortization, Store Equipment			7 00
		Estimated amortization			
	31	Salaries Expense		4 00	
		Salaries Payable			4 00
		Accrued salaries			

LEDGER ACCOUNTS BEFORE ADJUSTING ENTRIES POSTED

Prepaid Insurance 115

 10 |

Store Supplies 116

 15 |

Accumulated Amortization, Store Equipment 119

 | 12

Salaries Payable 210

 |

Insurance Expense 510

 |

Amortization Expense, Store Equipment 512

 |

Supplies Expense 514

 |

Salaries Expense 516

 7 |

Closing Steps and Journalizing Closing Entries

2.

Worksheet			
IS		BS	
Dr.	Cr.	Dr.	Cr.
(2)	Revenue (1)	Withdrawals	(4)
E			
X			
P			
E			
N			
S			
E			
S			
_____	_____		
	NI (3)		

Goals of Closing

1. Temporary accounts in the ledger should have a zero balance.
2. New figure for capital is determined in closing.

Note: All closing can be done from the worksheet. Income Summary is a temporary account in the ledger.

From the above worksheet, explain the four steps of closing. Keep in mind that each *individual* expense normally would be listed in the closing process.

Journalizing Closing Entries

3. From the following accounts, journalize the closing entries (assume that December 31 is the closing date).

Mel Blanc, Capital 310	
	30

Gas Expense 510	
	5

Mel Blanc, Withdrawals 312	
	6

Advertising Expense 512	
	4

Income Summary 314	

Amortization Expense, Taxi 516	
	6

Taxi Fare Income 410	
	18

Posting to Income Summary

4. Draw a T account of Income Summary and post to it all entries from question 3 that affect it. Is Income Summary a temporary or permanent account?

Posting to Capital

5. Draw a T account for Mel Blanc, Capital, and post to it all entries from question 3 that affect it. What is the final balance of the capital account?

Exercises

(The blank forms you need are on pages X-XX and X-XX of the *Study Guide with Working Papers*.)

Journalizing adjusting entries

- 5-1. From the adjustments section of a worksheet presented here, prepare adjusting journal entries for the end of December.

	Adjustments	
	Dr.	Cr.
Prepaid Insurance		(A) 7 0 0 0 0
Office Supplies		(B) 1 0 0 0 0
Accumulated Amortization, Equipment		(C) 4 0 0 0 0
Salaries Payable		(D) 1 0 0 0 0
Insurance Expense	(A) 7 0 0 0 0	
Office Supplies Expense	(B) 1 0 0 0 0	
Amortization Expense, Equipment	(C) 4 0 0 0 0	
Salaries Expense	(D) 1 0 0 0 0	
	1 3 0 0 0 0	1 3 0 0 0 0

Temporary versus permanent accounts

- 5-2. Complete this table by placing an X in the correct column for each item.

	Temporary	Permanent	Will Be Closed
Example: Accounts Receivable			X
1. Income Summary			
2. Melissa Bryant, Capital			
3. Salary Expense			
4. Melissa Bryant, Withdrawals			
5. Fees Earned			
6. Accounts Payable			
7. Cash			

Closing entries

- 5-3. From the following T accounts, journalize the four closing entries on December 31, 2006.

J. King, Capital	Rent Expense
14,000	5,000
J. King, Withdrawals	Wages Expense
4,000	7,000
Income Summary	Insurance Expense
	1,200
Fees Earned	Amortization Expense, Office Equipment
33,000	900

Reconstructing closing entries

5-4. From the following posted T accounts, reconstruct the closing journal entries for December 31, 2008.

M. Foster, Capital		Insurance Expense	
Withdrawals 100	2,000 (Dec. 1)	50	Closing 50
	700 Net Income		
M. Foster, Withdrawals		Wages Expense	
100	Closing 100	100	Closing 100
Income Summary		Rent Expense	
Expenses 600	Revenue 1,300	200	Closing 200
700			
Salon Fees		Amortization Expense, Equipment	
Closing 1,300	1,300	250	Closing 250

Post-closing trial balance

5-5. From the following accounts (not in order), prepare a post-closing trial balance for Wey Co. on December 31, 2009. **Note:** These balances are *before* closing.

Accounts Receivable	18,875	P. Wey, Capital	63,450
Legal Library	14,250	P. Wey, Withdrawals	1,500
Office Equipment	59,700	Legal Fees Earned	12,000
Repair Expense	2,850	Accounts Payable	45,000
Salaries Expense	1,275	Cash	22,000

Group A Problems

(The blank forms you need are on pages X-XX to X-XX of the *Study Guide with Working Papers*.)

Review of preparing a worksheet and journalizing adjusting and closing entries

5A-1. The following data are given for Lou's Consulting Service of Vernon:

Check Figure
Net Income \$4,600

LOU'S CONSULTING SERVICE TRIAL BALANCE JUNE 30, 2008			
	Dr.	Cr.	
Cash	20 000 000		
Accounts Receivable	6 500 000		
Prepaid Insurance	4 000 000		
Supplies	1 500 000		
Equipment	3 000 000		
Accumulated Amortization, Equipment		1 900 000	
Accounts Payable		11 000 000	
Lou Dobbs, Capital		12 800 000	
Lou Dobbs, Withdrawals	3 000 000		
Consulting Fees Earned		9 000 000	
Salaries Expense	1 400 000		
Telephone Expense	1 000 000		
Advertising Expense	6 000 000		
	34 700 000	34 700 000	

Adjustment Data

- a. Insurance expired, \$300
- b. Supplies on hand, \$700
- c. Amortization on equipment, \$100
- d. Salaries earned by employees but not to be paid until July, \$200

Required

- 1. Prepare a worksheet.
- 2. Journalize adjusting and closing entries.

Journalizing and posting adjusting and closing entries and preparing a post-closing trial balance

Check Figure

Post-Closing Trial Balance
\$3,504

Comprehensive review of the entire accounting cycle, Chapters 1–5

Check Figure

Net Income \$15,780

5A-2. As the bookkeeper for Potter Cleaning Service, (1) from the trial balance columns of the worksheet on page 204, enter the beginning balance of each account in your working papers, (2) journalize and post adjusting entries, (3) journalize and post closing entries, and (4) from the ledger (after all posting is complete), prepare a post-closing trial balance at March 31, 2007.

5A-3. As the bookkeeper of Pete's Plowing of Fredericton, you have been asked to complete the entire accounting cycle for Pete from the following information:

2006

- Jan. 3 Pete invested \$7,000 cash and \$6,000 worth of snow equipment in the plowing company.
- 3 Paid rent in advance for garage space, \$2,000.
- 4 Purchased office equipment on account from Ling Corp., \$7,200.
- 6 Purchased snow supplies for \$700 cash.
- 9 Collected \$15,000 from plowing local shopping centres.
- 12 Pete Mack withdrew \$1,000 from the business for personal use.
- 20 Plowed North East Co. parking lots, payment not to be received until March, \$5,000.
- 26 Paid salaries to employees, \$1,800.
- 27 Paid Ling Corp. one-half amount owed for office equipment.
- 30 Advertising bill was received from Bush Co. but will not be paid until March, \$900.
- 31 Paid telephone bill, \$210.

Adjustment Data

- a. Snow supplies on hand, \$400
- b. Rent expired, \$600
- c. Amortization on office equipment, \$120
 $(\$7,200 \div 5 \text{ yr.} \rightarrow \frac{\$1,440}{12 \text{ mo.}} = \$120)$
- d. Amortization on snow equipment,
\$100 $(\$6,000 \div 5 \text{ yr.} \rightarrow \frac{\$1,200}{12 \text{ mo.}} = \$100)$
- e. Accrued salaries, \$190

**POTTER CLEANING SERVICE
WORKSHEET
FOR MONTH ENDED MARCH 31, 2007**

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	40000				40000				40000	
Prepaid Insurance	52000		(A) 18000		34000				34000	
Cleaning Supplies	14400		(B) 10000		4400				4400	
Auto	272000				272000				272000	
Accum. Amortization, Auto		86000	(C) 15000			101000				101000
Accounts Payable		22400				22400				22400
B. Potter, Capital		54000				54000				54000
B. Potter, Withdrawals	46000				46000				46000	
Cleaning Fees		468000				468000	468000			
Salaries Expense	144000		(D) 16000		160000		160000			
Telephone Expense	26400				26400		26400			
Advertising Expense	19600				19600		19600			
Gas Expense	16000				16000		16000			
	630400	630400								
Insurance Expense			(A) 18000			18000	18000			
Cleaning Supplies Expense			(B) 10000			10000	10000			
Amortization Expense, Auto			(C) 15000			15000	15000			
Salaries Payable			(D) 16000			16000				16000
			59000	59000	661400	661400	265000	468000	396400	193400
Net Income							203000		203000	
							468000	468000	396400	396400

Chart of Accounts

Assets

111	Cash
112	Accounts Receivable
114	Prepaid Rent
115	Snow Supplies
121	Office Equipment
122	Accumulated Amortization, Office Equipment
123	Snow Equipment
124	Accumulated Amortization, Snow Equipment

Liabilities

211	Accounts Payable
212	Salaries Payable

Owner's Equity

311	Pete Mack, Capital
312	Pete Mack, Withdrawals
313	Income Summary

Revenue

411	Plowing Fees
-----	--------------

Expenses

511	Salaries Expense
512	Advertising Expense
513	Telephone Expense
514	Rent Expense
515	Snow Supplies Expense
516	Amortization Expense, Office Equipment
517	Amortization Expense, Snow Equipment

Group B Problems

(The blank forms you need are on pages X-XX to X-XX of the *Study Guide with Working Papers*.)

Review of preparing a worksheet and journalizing and closing entries

5B-1.

TO: Matt Kamimsk
 FROM: Abbey Ellen
 RE: Accounting Needs

Please prepare ASAP from the following information (attached), (1) a worksheet along with (2) journalized adjusting and closing entries.

Check Figure
 Net Income \$3,530

LOU'S CONSULTING SERVICE				
TRIAL BALANCE				
JUNE 30, 2008				
		Dr.	Cr.	
Cash		101,500.00		
Accounts Receivable		50,000.00		
Prepaid Insurance		7,000.00		
Supplies		3,000.00		
Equipment		129,500.00		
Accumulated Amortization, Equipment			40,000.00	
Accounts Payable			57,500.00	
Lou Dobbs, Capital			151,500.00	
Lou Dobbs, Withdrawals		40,000.00		
Consulting Fees Earned			52,000.00	
Salaries Expense		45,000.00		
Telephone Expense		7,000.00		
Advertising Expense		8,000.00		
		301,000.00	301,000.00	

Adjustment Data

- a. Insurance expired, \$100
- b. Supplies on hand, \$20
- c. Amortization on equipment, \$200
- d. Salaries earned by employees but not due to be paid until July, \$490

Journalizing and posting adjusting and closing entries, and preparing a post-closing trial balance

Check Figure (5B-2)

Post-Closing Trial Balance
\$3,294

Comprehensive review of entire accounting cycle, Chapters 1–5

Check Figure

Net Income \$9,610

5B-2. As the bookkeeper for Potter Cleaning Service, (1) from the trial balance columns of the worksheet on page 204, enter the beginning balance of each account in your working papers, (2) journalize and post adjusting entries, (3) journalize and post closing entries, and (4) from the ledger (after all posting is complete), prepare a post-closing trial balance at March 31, 2007.

5B-3. From the following transactions as well as additional data, complete the entire accounting cycle for Pete's Plowing of Fredericton (use the chart of accounts on page 205).

2006

- Jan. 3 To open the business, Pete invested \$8,000 cash and \$9,600 worth of snow equipment.
3 Paid rent for five months in advance, \$3,000.
4 Purchased office equipment on account from Russell Co., \$6,000.
6 Bought snow supplies, \$350.
9 Collected \$7,000 for plowing during winter storm emergency.
12 Pete paid his home telephone bill using a company cheque, \$70.
20 Billed Eastern Freight Co. for plowing fees earned but not to be received until March, \$6,500.
24 Advertising bill was received from Jones Co. but will not be paid until next month, \$350.
26 Paid salaries to employees, \$1,800.
30 Paid Russell Co. one-half of amount owed for office equipment.
31 Paid telephone bill of company, \$165.

Adjustment Data

- a. Snow supplies on hand, \$200
- b. Rent expired, \$600
- c. Amortization on office equipment ($\$6,000 \div 4 \text{ yr.} \rightarrow \$1,500 \div 12 = \$125$), \$125
- d. Amortization on snow equipment ($\$9,600 \div 2 \text{ yr.} \rightarrow \$4,800 \div 12 = \$400$), \$400
- e. Salaries accrued, \$300

Group C Problems

(The forms you need are on pages X-XX to X-XX of the *Study Guide with Working Papers*.)

5C-1.

TO: Perry Smith
FROM: Jamie Cassel
RE: Accounting Procedures

Please prepare from the following information (attached), (1) a worksheet along with (2) journalized adjusting and closing entries for the year ending May 31, 2008.

Review of preparing a worksheet and journalizing adjusting and closing entries

Check Figure

Net Income \$17,532.50

**POTTER CLEANING SERVICE
WORKSHEET
FOR MONTH ENDED MARCH 31, 2007**

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	172,400				172,400				172,400	
Prepaid Insurance	35,000		(A) 20,000		15,000				15,000	
Cleaning Supplies	80,000		(B) 60,000		20,000				20,000	
Auto	122,000				122,000				122,000	
Accumulated Amortization, Auto		66,000	(C) 15,000			81,000				81,000
Accounts Payable		67,400				67,400				67,400
B. Potter, Capital		248,000				248,000				248,000
B. Potter, Withdrawals	60,000				60,000				60,000	
Cleaning Fees		370,000				370,000	370,000			
Salaries Expense	200,000		(D) 175,000		217,500		217,500			
Telephone Expense	28,400				28,400		28,400			
Advertising Expense	27,600				27,600		27,600			
Gas Expense	26,000				26,000		26,000			
	<u>751,400</u>	<u>751,400</u>								
Insurance Expense			(A) 20,000		20,000		20,000			
Cleaning Supplies Expense			(B) 60,000		60,000		60,000			
Amortization Expense, Auto			(C) 15,000		15,000		15,000			
Salaries Payable			(D) 175,000			175,000				175,000
			<u>112,500</u>	<u>112,500</u>	<u>783,900</u>	<u>783,900</u>	<u>394,500</u>	<u>370,000</u>	<u>389,400</u>	<u>413,900</u>
Net Loss							<u>394,500</u>	<u>24,500</u>	<u>24,500</u>	<u>413,900</u>

Adjustment Data

- a. Insurance expired, \$298
- b. Supplies on hand, \$782
- c. Amortization for the year on storage equipment is based on the straight-line method, eight-year life, and a residual value of \$2,000
- d. Amortization for the year on building is also straight-line, 25-year life, and a residual value of \$20,000
- e. Wages earned by employees but not due to be paid until June amounted to 42 hours at \$18/hour plus 27 hours at \$24/hour.

CASSEL STORAGE COMPANY				
TRIAL BALANCE				
MAY 31, 2008				
	Debit	Credit		
Cash in Bank	2 46 000			
Prepaid Insurance	6 81 000			
Storage Supplies	1 74 200			
Storage Equipment	9 74 000			
Accumulated Amortization, Storage Equipment		4 21 800		
Building	5 80 000			
Accumulated Amortization, Building		2 04 700		
Accounts Payable		2 66 000		
Jamie Cassell, Capital		4 13 350		
Jamie Cassell, Withdrawals	1 87 420			
Storage Fees Revenue		5 27 200		
Wages Expense	2 82 400			
Utilities Expense	9 26 000			
Advertising Expense	8 72 000			
Totals	1 21 40 300	1 21 40 300		

Journalizing and posting adjusting and closing entries, and preparing a post-closing trial balance

Check Figure

Post-Closing Trial Balance
\$30,815.63

5C-2. Refer to the worksheet for Tran's Computer Repair Service of Brandon on page 209. The balances (from the trial balance column) in each account are already entered in your working papers. (1) Journalize and post adjusting and closing entries to each account in the ledger, and (2) prepare from the ledger a post-closing trial balance at the end of November.

5C-3. From the following transactions as well as additional data, please complete the entire accounting cycle for Mike's Plumbing of Prince Albert (use a chart of accounts similar to the one on page 205).

2007

- May
- 1 To open the business, Mike Quinlan invested \$10,000 cash and \$7,400 worth of plumbing equipment.
 - 1 Paid rent for four months in advance, \$1,980.
 - 4 Purchased office equipment on account from MacKenzie Co., \$3,800.
 - 7 Bought plumbing supplies, \$1,645.
 - 8 Collected \$3,600 for plumbing services provided.
 - 9 Mike paid his home utility bill with a company cheque, \$122.
 - 10 Billed Western Construction Co. for plumbing fees earned but not to be received until later, \$9,600.
 - 14 Advertising bill was received from ABCD Radio Co. but is not to be paid until next month, \$420.
 - 21 Received cheque from Western Construction Co. in partial payment of transaction dated May 10, \$4,800.

**TRAN'S COMPUTER REPAIR SERVICE
WORKSHEET
NOVEMBER 30, 2006**

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	236648				232964				232964	
Prepaid Insurance	71456		(A) 3684		47637				47637	
Accounts Receivable	527742		(C) 23819		527742				527742	
Repair Parts and Supplies	159747				105720				105720	
Van	2167500		(D) 54027		2167500				2167500	
Accumulated Amortization, Van		810365	(B) 34740			845105				845105
Accounts Payable		377260	(F) 24300			401560				401560
Megan Tran, Capital		1366358				1366358				1366358
Megan Tran, Withdrawals										
Repair Revenue	260000				260000				260000	
Advertising Expense	71438				95738		95738			
Automotive Expense	234551		(F) 24300		234551		234551			
Cleaning Expense	37500				37500		37500			
Miscellaneous Expense	17814				17814		17814			
Postage and Office Expense	28417				28417		28417			
Salaries Expense	387040		(E) 42000		429040		429040			
	<u>4199853</u>	<u>4199853</u>								
Insurance Expense			(C) 23819		23819		23819			
Bank Charges Expense			(A) 3684		3684		3684			
Amortization Expense, Van			(B) 34740		34740		34740			
Salaries Payable						42000				42000
Supplies Expense			(D) 54027		54027		54027			
			182570	182570	4300893	4300893	959330	1645870	3341563	2655023
Net Income							686540			686540
							1645870	1645870	3341563	3341563

- May 28 Paid salaries to employees, \$4,100.
- 28 Paid MacKenzie Co. one-half of amount owed for office equipment, \$1,900.
- 29 Paid telephone bill of company, \$184.
- 31 Received bill from George’s Cleaning to be paid in June, \$215.

Adjusting Data

- a. Plumbing supplies remaining at month-end were \$328
- b. One month’s rent expired in May
- c. Amortization on office equipment uses the straight-line method, a life of five years, and a residual value of \$500
- d. Amortization of plumbing equipment also uses the straight-line method, a life of three years, and zero residual value
- e. Salaries accrued amounted to 20% of the salaries paid on May 28

Check Figure

Net Income \$5,388.44

REAL-WORLD APPLICATIONS

(The forms you need are on page X-XX of the *Study Guide with Working Papers*.)

5R-1. Carol Miller needs a loan from her local bank to help finance her business. She has submitted the following unadjusted trial balance to the bank. As the loan officer, you will be meeting with Carol tomorrow. Could you make some specific written suggestions to Carol regarding her loan report?

Cash in Bank	770	
Accounts Receivable	1,480	
Office Supplies	3,310	
Equipment	7,606	
Accounts Payable		684
C. Miller, Capital		8,000
Service Fees		17,350
Salaries	11,240	
Utilities Expense	842	
Rent Expense	360	
Insurance Expense	280	
Advertising Expense	146	
Totals	26,034	26,034

5R-2. Janet Smother is the new bookkeeper who replaced Dick Burns, owing to his sudden illness. Janet finds a note on her desk requesting that she close the books and supply the ending capital figure. Janet is upset since she can only find the following:

- a. Revenue and expense accounts were all zero balance.
- b. Income Summary
14,360 | 19,300
- c. Owner withdrew \$8,000.
- d. Owner’s beginning capital was \$34,400.

Could you help Janet accomplish her assignment? What written suggestions should Janet make to her supervisor so that this situation will not happen again?



make the call

Critical Thinking/Ethical Case

5R-3. Todd Silver is the purchasing agent for Moore Company. One of his suppliers, Gem Company, offers Todd a free vacation to France if he buys at least 75% of Moore's supplies from Gem Company. Todd, who is angry because Moore Company has not given him a raise in over a year, is considering the offer. Write out your recommendation to Todd.

INTERNET EXERCISES

Exercise 1 www.tadonline.com

The beginning of your accounting education is a good time to begin formulating your philosophy of how to do accounting work. By studying and learning, you are also learning good work habits. The TADOnline website presents a section on "Why Outsource Your Accounting." The discussion presents some good suggestions and may also cause you to reflect on how people choose an accounting or bookkeeping firm.

Use that discussion as a springboard and discuss what factors you believe affect a client's choice for someone to help them with their vital accounting records. TADOnline is not "just around the corner." Is location an important factor in deciding who will do a business's accounting?

Exercise 2 www.peachtree.com www.quickbooks.com

Most businesses today are employing some type of computerized accounting system. Some businesses requirements are simple and they use only a general ledger program. Others are much more complex and employ inventory modules and payroll modules in addition to accounts receivable and accounts payable modules for tracking customer and vendor information.

1. Browse the two websites in this exercise. Compare and contrast the products by looking at information like these suggestions:
 - a. What kind of output is available?
 - b. How are the input systems similar?
 - c. Does the program have an inventory module?
 - d. At each site, are there different products for different complexities in accounting systems?
- e. What online help is available?
2. Set up a visit to a local accounting firm. In addition to the two sample programs in this exercise, ask them what they use in their offices.

CONTINUING PROBLEM

Tony has decided to end the Eldorado Computer Centre's first year as of September 30, 2007. Below is an updated chart of accounts.

Assets

1000 Cash
1020 Accounts Receivable
1025 Prepaid Rent
1030 Supplies
1080 Computer Shop Equipment
1081 Accumulated Amortization
Computer Shop Equipment
1090 Office Equipment
1091 Accumulated Amortization
Office Equipment

Liabilities

2000 Accounts Payable

Owner's Equity

3000 T. Freedman, Capital
3010 T. Freedman, Withdrawals
3020 Income Summary

Revenue

4000 Service Revenue

Expenses

5010 Advertising Expense
5020 Rent Expense
5030 Utilities Expense
5040 Phone Expense
5050 Supplies Expense
5060 Insurance Expense
5070 Postage Expense
5080 Amortization Expense, Computer
Shop Equipment
5090 Amortization Expense, Office
Equipment

Assignment

(See pages X-XX to X-XX in your *Study Guide with Working Papers*.)

1. Journalize the adjusting entries from Chapter 4.
2. Post the adjusting entries to the ledger.
3. Journalize the closing entries.
4. Post the closing entries to the ledger.
5. Prepare a post-closing trial balance.

Valdez Realty

Reviewing the Accounting Cycle Twice

This comprehensive review problem requires you to complete the accounting cycle for Valdez Realty twice. This will allow you to review Chapters 1 to 5 while reinforcing the relationships among all parts of the accounting cycle. By completing two cycles, you will see how the ending June balances in the ledger are used to accumulate data in July. (The blank forms you need are on pages X-XX to X-XX of the *Study Guide with Working Papers*.)

On June 1, Juan Valdez opened a real estate office in Hamilton called Valdez Realty. The following transactions were completed for the month of June. Note that facsimile documents have been provided to illustrate these events:

- 2007
- #1, p. 214 → June 1 Juan Valdez invested \$18,000 cash in the real estate agency along with \$3,000 worth of office equipment.
- #2, p. 214 → 1 Rented office space and paid three months' rent in advance, \$2,100, cheque No. 601.

Valdez Realty Chart of Accounts

Assets		Revenue	
111	Cash	411	Commissions Earned
112	Accounts Receivable		
114	Prepaid Rent	Expenses	
115	Office Supplies	511	Rent Expense
121	Office Equipment	512	Salaries Expense
122	Accumulated Amortization, Office Equipment	513	Gas Expense
123	Automobile	514	Repairs Expense
124	Accumulated Amortization, Automobile	515	Telephone Expense
		516	Advertising Expense
		517	Office Supplies Expense
		518	Amortization Expense, Office Equipment
Liabilities		519	Amortization Expense, Automobile
211	Accounts Payable	524	Miscellaneous Expense
212	Salaries Payable		
Owner's Equity			
311	Juan Valdez, Capital		
312	Juan Valdez, Withdrawals		
313	Income Summary		

CURRENT ACCOUNT DEPOSIT SLIP		PLEASE LIST FOREIGN CHEQUES ON A SEPARATE DEPOSIT SLIP		
ROYAL BANK		VISA AND CHEQUES	DETAILS	CASH (INCL COUPONS)
June 1, 2007 DATE		VISA VOUCHER TOTAL	X 2	
DEPOSITOR'S INITIALS: <i>N</i>		<i>Valdez</i> 18,000.00	X 5	
TELLER'S INITIALS: <i>PRL</i>			X 10	
CREDIT ACCOUNT OF			X 20	
VALDEZ REALTY			X 50	
			X 100	
			X	
			COIN	
			CANADIAN CASH TOTAL	
		18,000.00	VISA & CHQS	18,000.00
			RATE	
			RATE	
			NET DEPOSIT	18,000.00
I: 05337 123'498'6 51		COMPARED WITH ORIGINAL DEPOSIT SLIP AS TO TOTAL ONLY		

V	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	601
		June 1 20 07
PAY TO <u>Hamilton One Property Management Co.</u>		\$ 2,100.00
THE ORDER OF <u>Two thousand one hundred</u>		00/100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9		VALDEZ REALTY
FOR <u>Rent - June-August 2007</u>	PER <u>Juan Valdez</u>	
11*000601 I: 05337 123'498'6		

- 2007
- #3a & b, p. 215 → June 4 Bought a company automobile. Cheque No. 602, \$12,000.
 - #4a & b, pp. 215 & 216 → 4 Purchased office supplies. Wrote cheque No. 603, \$300.
 - #5, p. 216 → 5 Purchased additional office supplies on account, \$150.
 - #6a & b, pp. 216 & 217 → 6 Sold a house and collected a \$6,000 commission.
 - #7, p. 217 → 8 Paid gas bill for car, \$22. Cheque No. 604.
 - #8, p. 217 → 15 Paid the salary of the part-time office secretary, \$350. Cheque No. 605.
 - #9, p. 217 → 18 Sold a building lot and earned a commission, \$6,500. Payment is to be received on July 9.
 - #10, p. 218 → 20 Juan Valdez withdrew \$1,000 from the business to pay personal expenses. Cheque No. 606.
 - #11a & b, p. 218 → 21 Sold a house and collected a \$3,500 commission.
 - #12, p. 219 → 22 Paid gas bill for car. \$25. Cheque No. 607.
 - #13a & b, p. 219 → 25 Paid \$600 to repair automobile. Cheque No. 608.
 - #14, p. 220 → 29 Paid the salary of the part-time office secretary, \$350. Cheque No. 609.
 - #15a & b, p. 220 → 29 Paid the June telephone bill, \$510. Cheque No. 610.
 - #16, p. 221 → 29 Received advertising bill for June, \$1,200. The bill is to be paid on July 3.

3a.

	2674 King Street West Hamilton, Ontario L9H 1A1 Phone (905) 527-9755; Fax (905) 527-9756		<h1>INVOICE</h1>																								
			INVOICE NO. WEA1097 DATE: June 4/07 TERMS: Cash																								
To: Valdez Realty 485 King Street West Hamilton, Ontario L9H 6W3	Ship To: Pickup																										
<table border="1" style="width: 100%;"> <thead> <tr> <th style="width: 15%;">QUANTITY</th> <th style="width: 55%;">DESCRIPTION</th> <th style="width: 15%;">UNIT PRICE</th> <th style="width: 15%;">AMOUNT</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td>ONLY 1999 Z75 4-Door Automatic</td> <td style="text-align: right;">12,000.00</td> <td style="text-align: right;">\$ 12,000.00</td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">SUBTOTAL 12,000.00</td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">FREIGHT</td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">TAX</td> </tr> <tr> <td colspan="3"></td> <td style="text-align: right;">TOTAL DUE \$ 12,000.00</td> </tr> </tbody> </table>				QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT	1	ONLY 1999 Z75 4-Door Automatic	12,000.00	\$ 12,000.00				SUBTOTAL 12,000.00				FREIGHT				TAX				TOTAL DUE \$ 12,000.00
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			TOTAL DUE \$ 12,000.00																								
Make all cheques payable to Auto City West PAYMENT RECEIVED - Cheque #602 - Thank you			THANK YOU FOR YOUR BUSINESS!																								

3b.

	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	602 <u>June 4 20 07</u> \$ 12,000.00
PAY TO <u>Auto City West</u> THE ORDER OF <u>Twelve thousand</u>		00 /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9		VALDEZ REALTY PER <u>Juan Valdez</u>
FOR <u>Automobile - Inv. WEA1097</u>		
11*000602 1: 05337 123'498'6		

4a.

Office Depot #53 Niagara Mall Hamilton, Ontario L9H 1B1 Phone (905) 527-1233, Fax (905) 527-1234		<h1>INVOICE</h1>																
		DATE: Jun 4/07 NUMBER: D198795 TERMS: Cash																
SOLD TO: Valdez Realty 485 King Street West Hamilton, Ontario L9H 6W3	SHIPPED TO: Valdez Realty 485 King Street West																	
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Jun 4/07	Office supplies PAYMENT RECEIVED - CHQ #603 - THANK YOU		\$300.00															
			Subtotal 300.00															
			Total \$300.00															
Business Number: 11555559 THANK YOU FOR YOUR BUSINESS																		
PLEASE PAY THE ABOVE																		

4b.

V	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	603 <u>June 4 20 07</u>
PAY TO <u>Office Depot</u> \$ 300.00		
THE ORDER OF <u>Three hundred</u> 00 /100 DOLLARS		
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9		VALDEZ REALTY PER <u>Juan Valdez</u>
FOR <u>Office supplies</u>		
11 000603 1: 05337 123'498'6		

5.

Office Depot #53 Niagara Mall Hamilton, Ontario L9H 1B1 Phone (905) 527-1233, Fax (905) 527-1234	INVOICE DATE: Jun 5/07 NUMBER: D198825 TERMS: net 30																
SOLD TO: Valdez Realty 485 King Street West Hamilton, Ontario L9H 6W3	SHIPPED TO: Valdez Realty 485 King Street West																
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	Subtotal		150.00														
	Total		\$150.00														
Business Number: 11555559																	
THANK YOU FOR YOUR BUSINESS																	
PLEASE PAY THE ABOVE																	

6a.

CURRENT ACCOUNT DEPOSIT SLIP ROYAL BANK June 6, 2007 DATE <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 2px;">DEPOSITOR'S INITIALS PD</td> <td style="width: 50%; padding: 2px;">TELLER'S INITIALS MG</td> </tr> </table> CREDIT ACCOUNT OF VALDEZ REALTY	DEPOSITOR'S INITIALS PD	TELLER'S INITIALS MG	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="3" style="text-align: center;">PLEASE LIST FOREIGN CHEQUES ON A SEPARATE DEPOSIT SLIP</th> </tr> <tr> <th style="width: 50%;">VISA AND CHEQUES</th> <th style="width: 20%;">DETAILS</th> <th style="width: 30%;">CASH (INCL COUPONS)</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">VISA VOUCHER TOTAL</td> <td style="text-align: center;">X 2</td> <td></td> </tr> <tr> <td style="text-align: right;"><u>H. Penchant</u> 6,000.00</td> <td style="text-align: center;">X 5</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">X 10</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">X 20</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">X 50</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">X 100</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">X</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">COIN</td> <td></td> </tr> <tr> <td></td> <td style="text-align: center;">CANADIAN CASH TOTAL</td> <td></td> </tr> <tr> <td style="text-align: right;">6,000.00</td> <td style="text-align: center;">VISA & CHQS RATE</td> <td style="text-align: right;">6,000.00</td> </tr> <tr> <td style="text-align: center;">U.S. CHQS. RATE</td> <td></td> <td></td> </tr> <tr> <td style="text-align: center;">U.S. CASH RATE</td> <td></td> <td></td> </tr> <tr> <td colspan="2" style="text-align: center;">NET DEPOSIT</td> <td style="text-align: right;">6,000.00</td> </tr> </tbody> </table>	PLEASE LIST FOREIGN CHEQUES ON A SEPARATE DEPOSIT SLIP			VISA AND CHEQUES	DETAILS	CASH (INCL COUPONS)	VISA VOUCHER TOTAL	X 2		<u>H. Penchant</u> 6,000.00	X 5			X 10			X 20			X 50			X 100			X			COIN			CANADIAN CASH TOTAL		6,000.00	VISA & CHQS RATE	6,000.00	U.S. CHQS. RATE			U.S. CASH RATE			NET DEPOSIT		6,000.00
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6b.

VALDEZ REALTY COMMISSION REPORT				Date
				June 6, 2007
Name: Mr. and Mrs. Harold Penchant				
Date	Sales Description	Sales No.	Commission Amount	
Jun 6/07	Home at 44 Brookhaven Crescent	A1001	\$6,000.00	Paid in full.
C001	Remarks:			

7.

	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	604 <u>June 8 20 07</u>
	PAY TO <u>Anderson Petroleum Ltd.</u> THE ORDER OF <u>Twenty-two</u>	\$ 22.00 <u>00</u> /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9		VALDEZ REALTY PER <u>Juan Valdez</u>
FOR <u>Gas bill - June 6</u>		
11*000604 1: 05337 123'498'6		

8.

	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	605 <u>June 15 20 07</u>
	PAY TO <u>Pamela Dawson</u> THE ORDER OF <u>Three hundred fifty</u>	\$ 350.00 <u>00</u> /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9		VALDEZ REALTY PER <u>Juan Valdez</u>
FOR <u>Salary - June 1-15</u>		
11*000605 1: 05337 123'498'6		

9.

VALDEZ REALTY COMMISSION REPORT				Date
				June 18, 2007
Name: East End Land Developers				
Date	Sales Description	Sales No.	Commission Amount	
Jun 18/07	Lot at 999 King Street East	A1002	\$6,500.00	
C002	Remarks: Payment due July 9, 2007			

10.

	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	606 <u>June 20</u> 20 <u>07</u> \$ 1,000.00
PAY TO <u>Juan Valdez</u> THE ORDER OF <u>One thousand</u>		<u>00</u> /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9		VALDEZ REALTY
FOR <u>Withdrawal</u>		PER <u>Juan Valdez</u>
11*000606 1: 05337 123*498*6		

11a.

CURRENT ACCOUNT DEPOSIT SLIP ROYAL BANK <u>June 21, 2007</u> DATE <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;">DEPOSITOR'S INITIALS PD</td> <td style="width: 50%; text-align: center;">TELLER'S INITIALS AS</td> </tr> </table> CREDIT ACCOUNT OF VALDEZ REALTY	DEPOSITOR'S INITIALS PD	TELLER'S INITIALS AS	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="4" style="text-align: center;">PLEASE LIST FOREIGN CHEQUES ON A SEPARATE DEPOSIT SLIP</th> </tr> <tr> <th style="width: 30%;">VISA AND CHEQUES</th> <th style="width: 20%;">VISA VOUCHER TOTAL</th> <th style="width: 20%;">DETAILS</th> <th style="width: 30%;">CASH (INCL COUPONS)</th> </tr> </thead> <tbody> <tr> <td><u>L. Harrison</u></td> <td style="text-align: right;"><u>3,500.00</u></td> <td style="text-align: center;">X 2</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">X 5</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">X 10</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">X 20</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">X 50</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">X 100</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">X</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">COIN</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">CANADIAN CASH TOTAL</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>3,500.00</u></td> <td style="text-align: center;">VISA & CHQS RATE</td> <td style="text-align: right;"><u>3,500.00</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">U.S. CHQS. RATE</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">U.S. CASH RATE</td> <td></td> </tr> <tr> <td colspan="3" style="text-align: right;">NET DEPOSIT</td> <td style="text-align: right;"><u>3,500.00</u></td> </tr> </tbody> </table>	PLEASE LIST FOREIGN CHEQUES ON A SEPARATE DEPOSIT SLIP				VISA AND CHEQUES	VISA VOUCHER TOTAL	DETAILS	CASH (INCL COUPONS)	<u>L. Harrison</u>	<u>3,500.00</u>	X 2				X 5				X 10				X 20				X 50				X 100				X				COIN				CANADIAN CASH TOTAL			<u>3,500.00</u>	VISA & CHQS RATE	<u>3,500.00</u>			U.S. CHQS. RATE				U.S. CASH RATE		NET DEPOSIT			<u>3,500.00</u>
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1: 05337 123*498*6 51

COMPARED WITH ORIGINAL DEPOSIT SLIP AS TO TOTAL ONLY

11b.

VALDEZ REALTY				<i>Date</i> June 21, 2007
COMMISSION REPORT				
<i>Name:</i> Ms Laura Harrison				
<i>Date</i>	<i>Sales Description</i>	<i>Sales No.</i>	<i>Commission Amount</i>	
<u>Jun 21/07</u>	<u>Home at 842 Alder Road</u>	<u>A1003</u>	<u>\$3,500.00</u>	<u>Paid in full.</u>
C003	<i>Remarks:</i>			

12.

V	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	607 <u>June 22 2007</u>
PAY TO <u>Anderson Petroleum Ltd.</u>		<u>\$ 25.00</u>
THE ORDER OF <u>Twenty-five</u>		<u>00</u> /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9		VALDEZ REALTY
FOR <u>Gas bill - June 22</u>		PER <u>Juan Valdez</u>
11*000607 1: 05337 123'498'6		

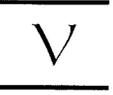
13a.

	2674 King Street West Hamilton, Ontario L9H 1A1 Phone (905) 527-9755; Fax (905) 527-9756	<h2 style="margin: 0;">INVOICE</h2>								
		INVOICE NO. WES3750 DATE: June 25/07 TERMS: Cash								
To: Valdez Realty 485 King Street West Hamilton, Ontario L9H 6W3		Ship To: Pickup								
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;">QUANTITY</th> <th style="width: 40%;">DESCRIPTION</th> <th style="width: 15%;">UNIT PRICE</th> <th style="width: 35%;">AMOUNT</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td>Only Z75 Air conditioning repair</td> <td></td> <td style="text-align: right;">\$ 600.00</td> </tr> </tbody> </table>	QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT	1	Only Z75 Air conditioning repair		\$ 600.00	
QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT							
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Make all cheques payable to Auto City West PAYMENT RECEIVED - Cheque #608 - Thank you		<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;">SUBTOTAL</td> <td style="text-align: right;">600.00</td> </tr> <tr> <td>FREIGHT</td> <td></td> </tr> <tr> <td>TAX</td> <td></td> </tr> <tr> <td>TOTAL DUE</td> <td style="text-align: right;">\$ 600.00</td> </tr> </table>	SUBTOTAL	600.00	FREIGHT		TAX		TOTAL DUE	\$ 600.00
SUBTOTAL	600.00									
FREIGHT										
TAX										
TOTAL DUE	\$ 600.00									
THANK YOU FOR YOUR BUSINESS!										

13b.

V	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	608 <u>June 25 2007</u>
PAY TO <u>Auto City West</u>		<u>\$ 600.00</u>
THE ORDER OF <u>Six hundred</u>		<u>00</u> /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9		VALDEZ REALTY
FOR <u>Automobile repairs - Inv WES3750</u>		PER <u>Juan Valdez</u>
11*000608 1: 05337 123'498'6		

14.

	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	609 <u>June 29 2007</u>
	PAY TO <u>Pamela Dawson</u> THE ORDER OF <u>Three hundred fifty</u>	<u>\$ 350.00</u> <u>00</u> /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9	VALDEZ REALTY PER <u>Juan Valdez</u>	FOR <u>Salary - June 16-30</u>
11*000609 1: 05337 123'498'6		

15a.

<h1>Phones Ontario</h1> 	#2110 Steel Place Hamilton, Ontario L9G 4B4 Phone (905) 529-7190 Fax (905) 529-0063
<h2>Your Statement</h2>	
In Account with Account #09444 710-190 Billing Period: June 1 to June 30	VALDEZ REALTY 485 KING STREET WEST HAMILTON ON L9H 6W3
<div style="border: 1px solid black; padding: 5px; display: inline-block;"> <i>Payment received June 30, 2007</i> Phones Ontario </div>	
Payments/Adjustments/Deposits Details Opened account June 1, 2007. Thank you.	\$0.00
Monthly rental and changes to service	510.00
Amount now due Payment due after July 10, 2007 \$522.75	Total Due <u>\$510.00</u>

15b.

	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	610 <u>June 29 2007</u>
	PAY TO <u>Phones Ontario</u> THE ORDER OF <u>Five hundred ten</u>	<u>\$ 510.00</u> <u>00</u> /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9	VALDEZ REALTY PER <u>Juan Valdez</u>	FOR <u>June phone bill</u>
11*000610 1: 05337 123'498'6		

16.

City News		
85 Main Street, Hamilton, Ontario L9H 0C0 Phone (905) 527-1030 Fax (905) 527-1031		
I N V O I C E		
SOLD TO:	Valdez Realty 485 King Street West Hamilton ON L9H 6W3	Invoice No.: 4879 Date: June 26, 2007 Due Date: July 3, 2007
DATE	DESCRIPTION	AMOUNT
June 26/07	Advertising in City News during June 2007	\$1,200.00
	SUBTOTAL	1,200.00
Business Number 944122338 MAKE ALL CHEQUES PAYABLE TO CITY NEWS.		TOTAL \$1,200.00

Required Work for June

1. Journalize transactions and post to ledger accounts.
2. Prepare a trial balance in the first two columns of the worksheet and complete the worksheet using the following adjustment data:
 - a. One month's rent had expired
 - b. An inventory shows \$50 worth of office supplies remaining
 - c. Amortization on office equipment, \$100
 - d. Amortization on automobile, \$200
3. Prepare a June income statement, statement of owner's equity, and balance sheet.
4. From the worksheet, journalize and post adjusting and closing entries (page 3 of journal).
5. Prepare a post-closing trial balance.
During July, Valdez Realty completed these transactions:

2007

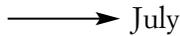
- | | | | |
|------------------|--------|----|--|
| #17, p. 222 | → July | 3 | Paid for June office supplies purchased on account, \$150. Cheque No. 611. |
| #18, p. 222 | → | 3 | Purchased additional office supplies on account, \$700. |
| #19, p. 222 | → | 3 | Paid advertising bill for June. Cheque No. 612. |
| #20a & b, p. 223 | → | 4 | Sold a house and collected a commission, \$6,600. |
| #21, p. 223 | → | 6 | Paid for gas for car, \$29. Cheque No. 613. |
| #22, p. 224 | → | 9 | Collected commission from sale of building lot on June 18. |
| #23, p. 224 | → | 12 | Paid \$300 to send employees to realtor's workshop. Cheque No. 614. |
| #24, p. 224 | → | 16 | Paid the salary of the part-time office secretary, \$350. Cheque No. 615. |
| #25, p. 225 | → | 17 | Sold a house and earned a commission of \$2,400. Commission to be received on August 11. |
| #26a & b, p. 225 | → | 18 | Sold a building lot and collected a commission of \$7,000. |
| #27, p. 226 | → | 23 | Sent a cheque for \$40 to help sponsor a local road race to aid the poor. (This is not to be considered an advertising expense, but it is a business expense.) Cheque No. 616. |
| #28a & b, p. 226 | → | 24 | Paid for repairs to automobile, \$590. Cheque No. 617. |
| #29, p. 227 | → | 27 | Juan Valdez withdrew \$1,800 from the business to pay personal expenses. Cheque No. 618. |

#30, p. 227



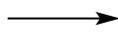
31 Paid the salary of the part-time office secretary, \$350. Cheque No. 619.

#31a & b, pp. 227 & 228



31 Paid the July telephone bill, \$236. Cheque 620.

#32, p. 228



31 Advertising bill for July was received, \$1,400. The bill is to be paid in August.

17.

V	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	611 <u>July 3</u> 20 07
		\$ 150.00
PAY TO <u>Office Depot</u>		
THE ORDER OF <u>One hundred fifty</u>		00 /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9		VALDEZ REALTY
FOR <u>Invoice #D198825</u>		PER <u>Juan Valdez</u>
11*000611 1: 05337 123'498'6		

18.

Office Depot #53 Niagara Mall Hamilton, Ontario L9H 1B1 Phone (905) 527-1233, Fax (905) 527-1234	INVOICE DATE: July 3/07 NUMBER: D1996035 TERMS: Cash																
SOLD TO: Valdez Realty 485 King Street West Hamilton, Ontario L9H 6W3	SHIPPED TO: Valdez Realty 485 King Street West																
<table border="1" style="width: 100%;"> <thead> <tr> <th>DATE</th> <th>DESCRIPTION</th> <th>UNIT PRICE</th> <th>AMOUN</th> </tr> </thead> <tbody> <tr> <td>July 3/07</td> <td>Office supplies</td> <td></td> <td style="text-align: right;">\$700.00</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">Subtotal</td> <td style="text-align: right;">700.00</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">Total</td> <td style="text-align: right;">\$700.00</td> </tr> </tbody> </table>		DATE	DESCRIPTION	UNIT PRICE	AMOUN	July 3/07	Office supplies		\$700.00			Subtotal	700.00			Total	\$700.00
DATE	DESCRIPTION	UNIT PRICE	AMOUN														
July 3/07	Office supplies		\$700.00														
		Subtotal	700.00														
		Total	\$700.00														
Business Number: 11555559																	
THANK YOU FOR YOUR BUSINESS																	
PLEASE PAY THE ABOVE																	

19.

V	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	612 <u>July 3</u> 20 07
		\$ 1,200.00
PAY TO <u>City News</u>		
THE ORDER OF <u>One thousand two hundred</u>		00 /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9		VALDEZ REALTY
FOR <u>Invoice #4879</u>		PER <u>Juan Valdez</u>
11*000612 1: 05337 123'498'6		

20a.

VALDEZ REALTY COMMISSION REPORT			Date July 4, 2007	
Name: Mr. and Mrs. Andrew Tran				
Date	Sales Description	Sales No.	Commission Amount	
July 4/07	Home at 1014 Cedar Lane	A1004	\$6,600.00	Paid in full.
C004	Remarks:			

20b.

CURRENT ACCOUNT DEPOSIT SLIP ROYAL BANK		PLEASE LIST FOREIGN CHEQUES ON A SEPARATE DEPOSIT SLIP		
July 4, 2007 DATE		VISA AND CHEQUES		CASH (INCL COUPONS)
DEPOSITOR'S INITIALS PD	TELLER'S INITIALS MG	VISA VOUCHER TOTAL	DETAILS	
CREDIT ACCOUNT OF VALDEZ REALTY		A. Tran 6,600.00	X 2	
			X 5	
			X 10	
			X 20	
			X 50	
			X 100	
			X	
			COIN	
			CANADIAN CASH TOTAL	
		6,600.00	VISA & CHQS RATE	6,600.00
			U.S. CHQS RATE	
			U.S. CASH RATE	
			NET DEPOSIT	6,600.00
1: 05337 123'498'6 51		COMPARED WITH ORIGINAL DEPOSIT SLIP AS TO TOTAL ONLY		

21.

 VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	613
	July 6 20 07
PAY TO <u>Anderson Petroleum Ltd.</u>	\$ 29.00
THE ORDER OF <u>Twenty-nine</u>	00/100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9	VALDEZ REALTY
FOR <u>Gas bill - July 6</u>	PER <u>Juan Valdez</u>
11 000613 1: 05337 123'498'6	

22.

CURRENT ACCOUNT DEPOSIT SLIP		PLEASE LIST FOREIGN CHEQUES ON A SEPARATE DEPOSIT SLIP		
ROYAL BANK		VISA AND CHEQUES	DETAILS	CASH (INCL COUPONS)
July 9, 2007 DATE		VISA VOUCHER TOTAL	X 2	
DEPOSITOR'S INITIALS: PD			X 5	
TELLER'S INITIALS: MG			X 10	
CREDIT ACCOUNT OF		6,500.00	X 20	
VALDEZ REALTY			X 50	
			X 100	
			X	
			COIN	
			CANADIAN CASH TOTAL	
		6,500.00	VISA & CHQS RATE	6,500.00
			U.S. CASH RATE	
			NET DEPOSIT	6,500.00
1: 05337 123'498'6 51		COMPARED WITH ORIGINAL DEPOSIT SLIP AS TO TOTAL ONLY		

23.

 VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	614
	July 12 20 07
PAY TO <u>Hamilton Realtors' Association</u>	\$ 300.00
THE ORDER OF <u>Three hundred</u>	00 /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9	VALDEZ REALTY PER <u>Juan Valdez</u>
FOR <u>Workshop registration</u>	
11*000614 1: 05337 123'498'6	

24.

 VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	615
	July 16 20 07
PAY TO <u>Pamela Dawson</u>	\$ 350.00
THE ORDER OF <u>Three hundred fifty</u>	00 /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9	VALDEZ REALTY PER <u>Juan Valdez</u>
FOR <u>Salary - July 1-15</u>	
11*000615 1: 05337 123'498'6	

25. **VALDEZ REALTY**
COMMISSION REPORT *DATE* July 17, 2007

Name: Mr. Hans Hollemeyer

<i>Date</i>	<i>Sales Description</i>	<i>Sales No.</i>	<i>Commission Amount</i>	
Jul 17/07	Home at RR2, Site 3	A1010	\$2,400.00	
C005		<i>Remarks:</i> Payment due August 11, 2007		

26a. CURRENT ACCOUNT DEPOSIT SLIP
ROYAL BANK

July 18, 2007
DATE

DEPOSITOR'S INITIALS DD	TELLER'S INITIALS PRC
-----------------------------------	---------------------------------

CREDIT ACCOUNT OF
VALDEZ REALTY

PLEASE LIST FOREIGN CHEQUES ON A SEPARATE DEPOSIT SLIP

VISA AND CHEQUES	DETAILS	CASH (INCL COUPONS)
	X 2	
<i>B Game</i>	X 5	
	X 10	
	X 20	
	X 50	
	X 100	
	X	
	COIN	
	CANADIAN CASH TOTAL	
	VISA & CHQS	7,000.00
	RATE	
	RATE	
	NET DEPOSIT	7,000.00

U.S. CHQS. RATE
U.S. CASH RATE

1: 05337 123'498'6 51

COMPARED WITH ORIGINAL DEPOSIT SLIP AS TO TOTAL ONLY

26b. **VALDEZ REALTY**
COMMISSION REPORT *Date* July 18, 2007

Name: Mr. and Mrs. Benjamin Game

<i>Date</i>	<i>Sales Description</i>	<i>Sales No.</i>	<i>Commission Amount</i>	
Jul 18/07	Building lot at 5004 King St. E	A1005	\$7,000.00	<i>Paid in full.</i>
C006		<i>Remarks:</i>		

27.

V	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	616 <u>July 23 20 07</u>
PAY TO <u>Mustard Seed Ministries</u>		<u>\$ 40.00</u>
THE ORDER OF <u>Fourty</u>		<u>00</u> /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9		VALDEZ REALTY
FOR <u>Aid to the poor</u>		PER <u>Juan Valdez</u>
⑆0000616 ⑆ 05337 123'498'6		

28a.

	2674 King Street West Hamilton, Ontario L9H 1A1 Phone (905) 527-9755; Fax (905) 527-9756	<h2 style="margin: 0;">INVOICE</h2>								
		INVOICE NO. WES3945 DATE: July 24/07 TERMS: Cash								
To: Valdez Realty 485 King Street West Hamilton, Ontario L9H 6W3		Ship To: Pickup								
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">QUANTITY</th> <th style="width: 45%;">DESCRIPTION</th> <th style="width: 15%;">UNIT PRICE</th> <th style="width: 25%;">AMOUNT</th> </tr> </thead> <tbody> <tr> <td></td> <td style="text-align: center;">Z75 75,000 km maintenance</td> <td></td> <td style="text-align: right;">\$ 590.00</td> </tr> </tbody> </table>	QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT		Z75 75,000 km maintenance		\$ 590.00	
QUANTITY	DESCRIPTION	UNIT PRICE	AMOUNT							
	Z75 75,000 km maintenance		\$ 590.00							
Make all cheques payable to Auto City West PAYMENT RECEIVED - Cheque #617 - Thank you		SUBTOTAL 590.00 FREIGHT TAX TOTAL DUE \$ 590.00								
THANK YOU FOR YOUR BUSINESS!										

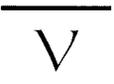
28b.

V	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	617 <u>July 24 20 07</u>
PAY TO <u>Auto City West</u>		<u>\$ 590.00</u>
THE ORDER OF <u>Five hundred ninety</u>		<u>00</u> /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9		VALDEZ REALTY
FOR <u>Automobile repairs - Inv. WES3945</u>		PER <u>Juan Valdez</u>
⑆0000617 ⑆ 05337 123'498'6		

29.

	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	618 <u>July 27 20 07</u>
	PAY TO <u>Juan Valdez</u> THE ORDER OF <u>One thousand eight hundred</u>	\$ 1,800.00 <u>00</u> /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9		VALDEZ REALTY
FOR <u>Withdrawal</u>	PER <u>Juan Valdez</u>	
⑈0000618 ⑈ 05337 123149816		

30.

	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	619 <u>July 31 20 07</u>
	PAY TO <u>Pamela Dawson</u> THE ORDER OF <u>Three hundred fifty</u>	\$ 350.00 <u>00</u> /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9		VALDEZ REALTY
FOR <u>Salary - July 16-31</u>	PER <u>Juan Valdez</u>	
⑈0000619 ⑈ 05337 123149816		

31a.

<h1>Phones Ontario</h1>		#2110 Steel Place Hamilton, Ontario L9G 4B4 Phone (905) 529-7190 Fax (905) 529-0063
<h2>Your Statement</h2>		
In Account with Account #09444 710-190 Billing Period: July 1 to July 31	VALDEZ REALTY 485 KING STREET WEST HAMILTON ON L9H 6W3	<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> <i>Payment received July 31, 2007</i> Phones Ontario </div>
Payments/Adjustments/Deposits Details Payment Received July 2. Thank you.		\$510.00 -510.00
	Monthly rental and services	236.00
Amount now due Payment due after August 10, 2007 \$241.90	Total Due	<hr/> \$236.00

31b.

	VALDEZ REALTY 485 KING STREET WEST HAMILTON, ONTARIO L9H 6W3 PHONE (905) 527-1223	620 <i>July 31</i> 20 <i>07</i>
PAY TO <u>Phones Ontario</u>		\$ 236.00
THE ORDER OF <u>Two hundred thirty-six</u>		00 /100 DOLLARS
THE ROYAL BANK OF CANADA MAIN BRANCH 204 KING STREET WEST HAMILTON, ONTARIO L9H 4Z9		VALDEZ REALTY
FOR <u>July phone bill</u>		PER <u>Juan Valdez</u>
11*000620 1: 05337 123'498'6		

32.

<h2 style="margin: 0;">City News</h2> <p style="font-size: small; margin: 0;">85 Main Street, Hamilton, Ontario L9H 0C0 Phone (905) 527-1030 Fax (905) 527-1031</p>		
<h3 style="margin: 0;">I N V O I C E</h3>		
SOLD TO: Valdez Realty 485 King Street West Hamilton ON L9H 6W3	Invoice No.: 5400 Date: July 27, 2007 Due Date: August 6, 2007	
DATE	DESCRIPTION	AMOUNT
July 27/07	Advertising in City News during July 2007	\$1,400.00
	SUBTOTAL	1,400.00
Business Number 944122338 MAKE ALL CHEQUES PAYABLE TO CITY NEWS.		TOTAL \$1,400.00

Required Work for July

1. Journalize transactions in a general journal (pages 4 and 5) and post to ledger accounts.
2. Prepare a trial balance in the first two columns of the worksheet and complete the worksheet using the following adjustment data:
 - a. One month's rent had expired.
 - b. An inventory shows \$90 worth of office supplies remaining.
 - c. Amortization on office equipment, \$100
 - d. Amortization on automobile, \$200
3. Prepare a July income statement, statement of owner's equity, and balance sheet.
4. From the worksheet, journalize and post adjusting and closing entries (page 6 of journal).
5. Prepare a post-closing trial balance.

Computerized Accounting Application (Chapter 5) for Valdez Realty Mini Practice Set

End of Period Tasks, including Closing Process and Post-Closing Trial Balance

Before starting on this assignment, read and complete the tasks discussed in Parts A, B, and F of Appendix B, Computerized Accounting, at the back of this book and complete the Computer Workshops at the end of Chapter 3 and 4, or their alternatives.

This comprehensive review problem requires you to complete the accounting cycle for Valdez Realty twice. This will allow you to review Chapters 1 to 5 while reinforcing the relationships among all parts of the accounting cycle. By completing two cycles, you will see how the ending June balances in the ledger are handled with respect to accumulating data in July. You are encouraged to refer to the facsimile documents shown beginning on page 214 as you do this workshop, as the data is identical to the manual simulation.

There is another simulation (but without facsimile documents) included on the CD called Verity Realty. Your instructor may ask you to complete this instead of Valdez. If you require step-by-step instructions, refer to the Chapter 5 sub-folder on the Student Resource CD. If you are required to complete the Verity Workshop, your instructor may provide the instructions.

Part A: The June Accounting Cycle

On June 1, Juan Valdez opened a real estate office in Hamilton called Valdez Realty.

Open the company data files

1. Copy the Valdez data to a working location of your choice, perhaps D:\HOME WORK\VALDEZ (if you are storing your student data files on drive D, in a folder called Homework), otherwise substitute the correct path that you are using. Note that you must copy the files from the CD for them to work properly. If you are doing the Verity workshop instead, then copy those files, not the ones for Valdez.
2. Start Simply Accounting® or QuickBooks® Pro.
3. Open your data set and, if required to do so, enter 6/30/07 into the Session date field (from now on we will not refer to the calendar feature, which you can also use to enter any date); then click OK. The Home (or Company) Window for Valdez will appear.
4. Insert your initials in front of the Company name so that your reports can be identified. Return to the Company Window.
5. Open the General Journal window and record the following journal entries. Enter appropriate details into the Source text box for each transaction and remember to enter the exact date listed for each transaction:

Add your name to the company name

Record June transactions

2007

- | | | |
|------|----|--|
| June | 1 | Juan Valdez invested \$18,000 cash in the real estate agency along with \$3,000 in office equipment. Deposit No. 1 |
| | 1 | Rented office space and paid three months' rent in advance, \$2,100. Cheque No. 601 |
| | 1 | Bought a company automobile, \$12,000. Cheque No. 602 |
| | 4 | Purchased office supplies from Office Depot, \$300. Cheque No. 603. Invoice No. D198795 |
| | 5 | Purchased more office supplies on account from Office Depot, \$150. Invoice No. D198825. Net 30 days |
| | 6 | Sold a house (H. Penchant) and collected a \$6,000 commission. Deposit 2 |
| | 8 | Paid gas bill for car to Anderson Petroleum, \$22. Cheque No. 604 |
| | 15 | Paid the salary of the part-time office secretary, Pamela Dawson, \$350. Cheque No. 605 |
| | 17 | Sold a building lot for East End Land Developers and earned a commission, \$6,500. Expected to be received 7/8/07. |
| | 20 | Juan Valdez withdrew \$1,000 from the business to pay personal expenses. Cheque No. 606 |
| | 21 | Sold a house (L. Harrison) and collected a \$3,500 commission. Deposit No. 3 |
| | 22 | Paid gas bill for car (Anderson Petroleum), \$25. Cheque No. 607 |

- June 24 Paid \$600 to Auto City West for repairs to car. Invoice No. WES3750. Cheque No. 608
- 30 Paid salary for the office secretary, Pamela Dawson, \$350. Cheque No. 609
- 30 Paid the June telephone bill, \$510 to Phones Ontario. Cheque No. 610
- 30 Received advertising bill for June from *City News*, \$1,200. Their invoice No. 4879 is to be paid on 7/3/07.

Print reports

6. After you have made and posted each of the journal entries, close the General Journal; then print the following reports:
 - a. General Journal (By posting date; All ledger entries; Start: 6/1/07, Finish: 6/30/07)
 - b. Trial Balance as at 6/30/07

Review your printed reports. If you have made an error in a posted journal entry, make a correction as described in the Appendix, then post your correction(s). You should reprint both of the above reports because your instructor will probably want them handed in.

Make a backup of your data

7. This would be a good time to make a backup of your data using the Save As method. See Part B of the Chapter 4 workshop for details. Suggestion – call this backup copy ValJun1. Step-by-step guidance for this backup procedure is found in the detailed instructions document on the Student Resource CD.

Record June adjusting entries

8. Open the General Journal; then record adjusting journal entries based on the adjustment data below (Source: Memo; Date: 6/30/07; *Comment*: Adjustment No. ___):
 - a. One month's rent has expired. Adjustment No. 1
 - b. An inventory shows \$120 of office supplies remaining. Adjustment No. 2
 - c. Amortization on office equipment, \$100. Adjustment No. 3
 - d. Amortization on automobile, \$200. Adjustment No. 4

Print reports

9. After you have posted the above adjusting journal entries, close the General Journal; then print the following reports:
 - a. General Journal (By posting date, All ledger entries, Start: 6/1/07, Finish 6/30/07)
 - b. Trial Balance As at 6/30/07
 - c. General Ledger Report (Start: 6/1/07, Finish: 6/30/07, Select All)
 - d. Income Statement (Start: 6/1/07, Finish: 6/30/07)
 - e. Balance Sheet As at 6/30/07

Review your printed reports. If you have made an error in a posted journal entry, make any corrections you need to. See Appendix B, Computerized Accounting, for information on how to correct errors.

Close the accounting records

10. Simply Accounting® and QuickBooks® Pro both have the capability of performing the first three steps of the closing process automatically. Follow the steps in the detailed illustration to close the books at the end of June. It is somewhat unusual for a business to operate for only one month, then close its books, but this is done to allow you to practise this procedure (which is normally done annually). Each program performs the following three steps:

Done automatically by the program

- Step 1:** Clear Revenue Balance and Transfer to Income Summary.
- Step 2:** Clear Individual Expense Balances and Transfer the Total Income Summary.
- Step 3:** Clear Balance in Income Summary and Transfer it to Capital.

Record entry to close Withdrawals account

It does not have the capability of performing the fourth step of the closing process automatically, so you will need to record this closing journal entry by making a separate journal entry dated June 30, 2007.

You need to record this closing entry. Step 4: Clear the Withdrawals account Balance and transfer it to the owner's Capital account.

11. After you have posted the closing entry for Juan Valdez's Withdrawals account, close the General Journal to return to the Company Window.

Make a backup copy of June accounting records

Important information about the closing process using Simply Accounting®

Closing the year using QuickBooks® Pro

How to advance the Session Date

Print a Post-closing trial balance

Exit from the program

Complete the report transmittal.

Open the company data files.

Optional—Modify the fiscal year ending date

12. Make a backup of your data at this point. Refer to the Chapter 4 workshop for the step-by-step instructions if you need help. Name this backup ValJun2.
13. You now have three sets of company data files for Valdez Realty. The current data still lives where you put it (we suggested D:\HOMEWORK\VALDEZ). The two sets of backup data for June are stored on your backup media under the file names ValJun1 and ValJun2.
14. The next instruction will ask you to advance the Session date to a new month. In the Simply Accounting® software, it is this procedure that instructs the program to complete the first three steps in the closing process. It is important that you have a reliable, tested backup copy of a company's data files prior to advancing the Session date into a new fiscal year. When you advance the Session date to a first new month of a new fiscal year, most accounting programs will permanently remove all journal entries from all journals and all individual postings of journal entries to the general ledger accounts. You will find it difficult to display or print a General Journal or General Ledger report based on dates in the prior month, and you will not be able to record journal entries for dates in the prior month. If, for some reason, you need to print a General Journal or General Ledger, or record a transaction that occurred in the prior month, you can do so by signing on to your backup copy of the company's data files that you created prior to advancing the Session date.
15. QuickBooks® Pro does not require you to close your books at year end but will zero out revenue and expense accounts and place their total balance into Owner's Equity. The detailed step-by-step instructions for the QuickBooks® Pro software shows how to manage this process and explains briefly why closing is handled differently in this software. Please refer to the detailed instructions for additional information, as well as a guide to year-end procedures using QuickBooks® Pro.
16. In Simply Accounting®, click the Company Window Maintenance menu; then click Change Session Date. Click No in response to the question, "Would you like to back up now?" Enter 7/1/07 into the New Session text box; then click OK. Click OK in response to any warning message you may see (after reading it, of course).
17. Typically, these warning messages state that the revenue and expense accounts will be closed to an account titled Retained Earnings. This is the account that corporations use to accumulate earnings. Valdez Realty is a sole proprietorship. The program will correctly close the revenue and expense accounts to Income Summary and close Income Summary to the Juan Valdez, Capital account even though the message used a different account name. The backup you created using the Save As method will serve as the backup suggested in the warning message.
18. Print a Post-Closing Trial Balance As at 7/1/07. Note that all revenue and expense accounts have zero balances at this date, ready to receive new transactions in the next period.
19. Click the Company Window File menu; then click Exit to end the current work session and return to your Windows desktop.
20. Complete the Valdez Realty Report Transmittal for June located in Appendix A of your *Study Guide with Working Papers*. Take a well-deserved break!

PART B: The July Accounting Cycle

1. Start Simply Accounting® or QuickBooks® Pro.
2. Choose Select an existing company, then enter (or choose) the following path:
D:\HOMEWORK\VALDEZ if this is the correct path to your data. Otherwise, substitute the correct path.
3. Open your Valdez data set entering 7/31/07 into the Session field if you are using Simply Accounting®, then click OK. The Company Window for Valdez Realty will appear.
4. Optional Step—Some instructors will request you to change the company's fiscal year-end date at this point in order to provide you with additional practice in closing the books. If this is true for you, your instructor will provide details on how to alter the company's fiscal date so that the books can be closed again at the end of July. This is

not a realistic change because companies change their year-end date very seldom, but this may be justified in the workshop to give you additional practice using the closing function.

Record July transactions.

5. Open the General Journal window; record the following journal entries [enter appropriate source details (invoice numbers, cheque numbers, etc.) into the Source text box, and be certain to enter the exact Date listed for each transaction]:

2007

- | | | |
|------|----|--|
| July | 2 | Paid for June office supplies purchased on account, \$150. Cheque No. 611 |
| | 2 | Purchased more office supplies on account from Office Depot, \$700, their invoice No. D1996035. |
| | 3 | Paid advertising bill for June. Cheque No. 612 |
| | 4 | Sold a house for A. Tran and collected a commission, \$6,600. Deposit No. 4 |
| | 6 | Paid for gas expense to Anderson Petroleum, \$29. Cheque No. 613 |
| | 8 | Collected commission from sale of building lot on 6/17/07. |
| | 12 | Paid \$300 to Hamilton Realtors' Association re attendance at realtors' workshop. Cheque No. 614 |
| | 15 | Paid the salary of the office secretary Pamela Dawson, \$350. Cheque No. 615 |
| | 17 | Sold a house for H. Hollemeyer, earning a commission of \$2,400. Receipt to be received August 10, 2007. |
| | 18 | Sold a building lot for B. Game and deposited a commission of \$7,000. Deposit No. 5 |
| | 22 | Sent a cheque to Mustard Seed Ministries for \$40 to help sponsor a local road race to aid the poor. (Not an advertising expense, but it is a business expense.) |
| | 24 | Paid to Auto City West for repairs to automobile, \$590. Cheque No. 617 |
| | 28 | Juan Valdez withdrew \$1,800 from the business to pay personal expenses. Cheque No. 618 |
| | 30 | Paid the salary of the office secretary, Pamela Dawson, \$350. Cheque No. 619 |
| | 30 | Paid the July telephone bill to Phones Ontario, \$590. Cheque No. 620 |
| | 30 | Advertising bill for July received from <i>City News</i> , \$1,400. Their invoice No. 5400 will be paid on August 4, 2007. |

Print reports

6. After you have made and posted each of these July journal entries, close the General Journal; then print the following reports:
- a. General Journal (By posting date; All ledger entries; Start: 7/1/07, Finish: 7/31/07)
 - b. Trial Balance As at 7/31/07

Review your reports. If you have made an error in a posted journal entry, see "Reversing an Entry Made in the General Journal Dialogue Box" in Part C of Appendix B, Computerized Accounting, for information on how to correct the error. This is a good point to practise your backup steps. Call this backup ValJul1.

Record July adjusting entries

7. Open the General Journal; then record adjusting journal entries based on this adjustment data (Source: Memo; Date: 7/31/07; *Comment*: Adjusting entry No. __):
- a. One month's rent has expired. Adjustment No. 1
 - b. An inventory shows \$340 of office supplies remaining. Adjustment No. 2
 - c. Amortization on office equipment, \$100. Adjustment No. 3
 - d. Amortization on automobile, \$200. Adjustment No. 4

Print reports

8. After you have posted these adjusting journal entries, close the General Journal; then print the following reports:
- a. General Journal (By posting date, All ledger entries, Start: 7/1/07, Finish: 7/31/07)
 - b. Trial Balance As at 7/31/07
 - c. General Ledger Report (Start: 7/1/07, Finish: 7/31/07, Select All)
 - d. Income Statement (Start: 7/1/07, Finish: 7/31/07)
 - e. Balance Sheet As at 7/31/07

Record entry to close
Withdrawals account

Make a backup copy of July
accounting records

Optional additional closing

Print a post-closing trial
balance

Backup details

Exit from the program

Complete the Report
Transmittal

Review your reports. If you have made an error in a posted journal entry, see “Reversing an Entry Made in the General Journal Dialogue Box” in Part C of Appendix B, Computerized Accounting, for information on how to correct the error.

9. After you have printed the needed reports for your instructor, close any open windows and return to the Company Window.
10. Click the Company Window File menu; click Save As; and make another backup copy of your files. Call this copy ValJul2.
11. Optional step—If you altered your fiscal year-end in step 4 above, do a year-end closing for additional practice at this point.
12. Print a post-closing trial balance as of the first day of the next month if your instructor has asked you to perform a year-end closing.
13. You now have three sets of July company data files for Valdez Realty. The July current data is still stored under the path D:\HOMEWORK\VALDEZ. The backup data for July is stored twice—once under the file name ValJul1 and again as ValJul2. You also have two backup copies of your data from June—one called ValJun1 and the other ValJun2. Note that the working copy of your data as it was at the end of June no longer exists, except as a backup called ValJun2. Note that since the company’s fiscal year-end has been set up as June 30, it is not possible to close the books using Simply Accounting® at this time. If you are using QuickBooks® Pro, you are able to close off casual access to the July data by providing a password, but the formal zeroing-out of revenue and expense accounts will not happen until the current year ends—next June 30.
14. Click the Company Window File menu; then click Exit to end the current work session and return to your Windows desktop.
15. Complete the Valdez Realty Report Transmittal for July located in Appendix A of your *Study Guide with Working Papers*.