UNIT 5 COMPLETING THE ACCOUNTING CYCLE

I. ACCOUNTING STATEMENTS

Quick Clean Laundry Service
Balance Sheet
September 30, 1991

ASSETS		
Current Assets:		
Cash		$117
Accounts Receivable		35
Prepaid Advertising		40
Laundry Supplies		5
Plant and Equipment:		
Laundry Equipment	$48	
Less Accumulated Depreciation	1	47
Total Assets		$244
LIABILITIES		
Current Liabilities:		
Accounts Payable		$ 30
Salaries Payable		10
Unearned Laundry Revenue		10
Total Current Liabilities		$ 50
OWNER'S EQUITY		
Capital Sept. 1		$150
Income	$64	
Withdrawals	20	44
Capital Sept. 30		194
Total Liabilities + Owner's Equity		$244

Now that Financial Statements have been made, amounts temporarily stored in expense, revenue, and the withdrawals accounts may be moved to the equity account. A new account entitled Income Summary will be used to calculate income which will then be moved to Owner's Equity.

Quick Clean Laundry Service
Income Statement
For the Month Ended Sept. 30, 1991

Revenue:		
Laundry Revenue		$190
Operating Expenses:		
Washer/Dryer Expense	$75	
Telephone Expense	10	
Advertising Expense	10	
Laundry Supply Expense	20	
Depreciation Expense	1	
Salaries Expense	10	
Total Operating Expenses		126
Net Income		$ 64

II. CLOSING PROCESS LOGIC

Step 1 Reduce Expenses to zero
Step 2 Reduce Revenues to zero
Step 3 Reduce Income Summary to zero
Step 4 Reduce Withdrawals to zero

Owner's Equity

Dr.	Cr.
(4) 20	Bal. 150
	(3) 64

Withdrawals

Dr.	Cr.
Bal. 20	(4) 20

Income Summary

Dr.	Cr.
(1) 126	(2) 190
(3) 64	

Expenses

Dr.	Cr.
Bal. 126	(1) 126

Revenue

Dr.	Cr.
(2) 190	Bal. 190

III. CLOSING JOURNAL ENTRIES

		DR.	CR.
Sept. 30	Income Summary	126	
	Washer/Dryer Expense		75
	Telephone Expense		10
	Advertising Expense		10
	Laundry Supply Expense		20
	Depreciation Expense		1
	Salaries Expense		10
Sept. 30	Laundry Revenue	190	
	Income Summary		190
Sept. 30	Income Summary	64	
	Capital, Darin Jones		64
Sept. 30	Capital, Darin Jones	20	
	Withdrawals, Darin Jones		20

IV. POST-CLOSING TRIAL BALANCE

Quick Clean Laundry Service
Post-Closing Trial Balance
September 30, 1991

Cash	$117	
Accounts Receivable	35	
Prepaid Advertising	40	
Laundry Supplies	5	
Laundry Equipment	48	
Accumulated Depreciation, Laundry Equipment		$ 1
Accounts Payable		30
Salaries Payable		10
Unearned Laundry Revenue		10
Capital, Darin Jones		194
	$245	$245

Note: The closing of all expense and revenue accounts results in a Post-Closing Trial Balance consisting of only Balance Sheet accounts.

V. REVERSING ENTRIES

Adjusting entries sometimes require a unique nonroutine entry early in the next cycle to complete a particular transaction. The September 30th payroll adjustment of $10 to Salaries Expense and Salaries Payable associated with the $15 weekly payroll is an example. A unique entry must be made on the October 2nd payday to complete the payroll. Reversing the September 30 adjustment on October 1 will allow the regular payroll entry on October 2 to complete the payroll. Regardless of the alternative chosen, $10 is charged to Salaries Expense in September, $5 in October, and the salary liability has been brought to zero.

Paying Salaries - No Reversing Entry

		DR.	CR.
Sept. 30	Salaries Expense	10	
	Salaries Payable		10
Oct. 2	Salaries Expense	5	
	Salaries Payable	10	
	Cash		15

Paying Salaries - Reversing Entry

		DR.	CR.
Sept. 30	Salaries Expense	10	
	Salaries Payable		10
Oct. 1	Salaries Payable	10	
	Salaries Expense		10
Oct. 2	Salaries Expense	15	
	Cash		15

VI. CORRECTING ENTRIES

Erasing is never allowed. A line may be drawn through journal entry errors discovered before posting. After posting, errors must be corrected with journal entries. If a $5 purchase of Laundry Supplies had been posted to Laundry Equipment, the following Correcting Entry would be necessary:

		DR.	CR.
Oct. 5	Laundry Supplies	5	
	Laundry Equipment		5

VII. THE THIRTEEN ACCOUNTING STEPS

1. Journal Entries
2. Post to Ledger
3. Trial Balance
4. Adjusting Entries
5. Post to Ledger
6. Adjusted Trial Balance
7. Income Statement
8. Balance Sheet
9. Closing Entries
10. Post to Ledger
11. Post-Closing Trial Balance
12. Reversing Entries
13. Correcting Entries

VIII. OWNER'S EQUITY VS. STOCKHOLDERS' EQUITY

Sole proprietorships and partnerships account for Owner's Equity in essentially the same manner, only the number of capital and withdrawal accounts differ. Corporations, on the other hand, replace the capital account with contributed capital (stock) accounts, use dividends to distribute equity to owners, and accumulated undistributed profits in the Retained Earnings account. September's equity transactions for Quick Clean contrasting a sole proprietorship with a corporation appear below. Also contrasted are the equity sections of the Balance Sheet.

STARTING A BUSINESS

Sole proprietorship	DR.	CR.	Corporation	DR.	CR.
Cash	150		Cash	150	
Capital, Darin Jones		150	Common Stock		150
			Issued 150 shares of $1 par Common Stock.		

RECORDING EARNINGS

Sole proprietorship	DR.	CR.	Corporation	DR.	CR.
Income Summary	64		Income Summary	64	
Capital, Darin Jones		64	Retained Earnings		64

DISTRIBUTING EARNINGS

Sole proprietorship	DR.	CR.	Corporation	DR.	CR.
Withdrawals, Darin Jones	20		Retained Earnings	20	
Cash		20	Dividend Payable		20
			Declared a 13 1/3¢ per share stock dividend.		
Capital, Darin Jones	20		Dividend Payable	20	
Withdrawals, Darin Jones		20	Cash		20

EQUITY SECTION OF BALANCE SHEET

Owner's Equity

Darin Jones, Capital, September 1, 1992		$150
Net Income	$ 64	
Withdrawals	20	44
Capital, September 30		$194

Stockholders' Equity

Common Stock, $1 par 150 shares authorized and outstanding	$150
Retained Earnings	44
Total Stockholders' Equity	$194