

## The Closing Process

- The purpose of the closing process is to close out all temporary accounts (i.e. income statement accounts and dividends) into retained earnings
- Steps in the closing process:
  - o Close all revenue accounts to retained earnings
  - o Close all expense accounts to retained earnings
  - o Account for any dividends declared

## Players in the Game

- Firm – responsible for providing the financial reports
- Board of directors – group of individuals who represents shareholders' interests
- Auditors – provides an independent assessment of whether the statements conform to GAAP rules
- Regulators – provides legal standards for various steps in the process (e.g., FASB, SEC, PCAOB)

The December 31, 2013, adjusted trial balance for Crosby Corporation is presented below.

Account Title	Debit	Credit
Cash	\$ 11,000	
Accounts receivable	140,000	
Prepaid rent	5,000	
Office supplies	25,000	
Equipment	300,000	
Accumulated depreciation		\$125,000
Accounts payable		11,000
Salaries payable		10,000
Interest payable		4,000
Notes payable (due in two years)		30,000
Common stock		200,000
Retained earnings		50,000
Service revenue		400,000
Salaries expense	300,000	
Rent expense	15,000	
Depreciation expense	30,000	
Interest expense	4,000	
	<u>\$830,000</u>	<u>\$830,000</u>

## Required:

1. Record the necessary closing entries at December 31, 2013.
2. Prepare a post-closing trial balance.
3. Prepare an income statement for the year ended December 31, 2013.
4. Prepare a classified balance sheet as of December 31, 2013.

**Requirement 1**

<u>December 31, 2013</u>	<u>Debit</u>	<u>Credit</u>
Service Revenue	400,000	
Retained Earnings		400,000
<i>(Close revenue accounts)</i>		
Retained Earnings	349,000	
Salaries Expense		300,000
Rent Expense		15,000
Depreciation Expense		30,000
Interest Expense		4,000
<i>(Close expense accounts)</i>		

**Requirement 2**

**Post-Closing Trial Balance**

<u>Account Title</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$ 11,000	
Accounts receivable	140,000	
Prepaid rent	5,000	
Office supplies	25,000	
Equipment	300,000	
Accumulated depreciation		\$125,000
Accounts payable		11,000
Salaries payable		10,000
Interest payable		4,000
Notes payable		30,000
Common stock		200,000
Retained earnings		101,000
Totals	<u>\$481,000</u>	<u>\$481,000</u>

**Requirement 3**

**Crosby Corporation  
Income Statement**

**For the year ended December 31, 2013**

Service revenue		\$400,000
Expenses:		
Salaries	\$300,000	
Rent	15,000	
Depreciation	30,000	
Interest	4,000	
Total expenses		<u>349,000</u>
Net income		<u>\$ 51,000</u>

**Requirement 4**

**Crosby Corporation  
Balance Sheet  
December 31, 2013**

<u>Assets</u>		<u>Liabilities</u>	
Cash	\$ 11,000	Accounts payable	\$ 11,000
Accts. receivable	140,000	Salaries payable	10,000
Prepaid rent	5,000	Interest payable	<u>4,000</u>
Office supplies	<u>25,000</u>	Total current liabilities	25,000
Total current assets	181,000	Notes payable	30,000
		<u>Stockholders' Equity</u>	
Equipment	300,000	Common stock	200,000
Accum. depr.	(125,000)	Retained earnings	<u>101,000 *</u>
		Total stockholders' equity	<u>301,000</u>
		Total liabilities and	
Total assets	<u>\$356,000</u>	stockholders' equity	<u>\$356,000</u>

\* Retained earnings = beginning retained earnings + net income – dividends  
= \$50,000 + \$51,000 – \$0  
= \$101,000