Chapter 4

The Adjustment Process and Financial Statements
Business Background: The Accounting Cycle

Start of the Accounting Period

Phase 1: During the Accounting Period.
- Perform transaction analysis.
- Record journal entries.
- Post amounts to general ledger.

Phase 2: End of the Accounting Period.
- Prepare a trial balance.
- Record and post adjusting entries.
- Prepare financial statements.
- Record and post closing entries.

End of the Accounting Period
As indicated in Phase 1 of the Accounting Cycle, *external* transactions between the business and other *external* parties are recorded during the period as they occur.
At the end of the accounting period, adjusting journal entries are recorded for internal transactions that have a direct and measurable effect on the accounting entity, particularly for revenue and expense recognition.
The Unadjusted Trial Balance

- A listing of individual accounts, usually in financial statement order.
- Ending debit or credit balances are listed in two separate columns.
- Total debit account balances *should* = total credit account balances.
### SPENCER, INC.
Unadjusted Trial Balance
December 31, 2001

<table>
<thead>
<tr>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$3,900</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td></td>
<td>4,985</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
<td>3,300</td>
</tr>
<tr>
<td>Equipment</td>
<td></td>
<td>4,800</td>
</tr>
<tr>
<td>Accumulated depreciation - Equip.</td>
<td></td>
<td>$1,440</td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td></td>
<td>6,600</td>
</tr>
<tr>
<td>Accumulated depreciation - furn. &amp; fix.</td>
<td></td>
<td>2,200</td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
<td>2,985</td>
</tr>
<tr>
<td>Notes payable</td>
<td></td>
<td>4,000</td>
</tr>
<tr>
<td>Common stock</td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td>Retained earnings, 12/31/00</td>
<td></td>
<td>1,760</td>
</tr>
<tr>
<td>Sales Revenues</td>
<td></td>
<td>35,000</td>
</tr>
<tr>
<td>COGS</td>
<td>27,500</td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>6,300</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>$57,385</td>
<td>$57,385</td>
</tr>
</tbody>
</table>

Note that total debits = total credits
## SPENCER, INC.
### Unadjusted Trial Balance
#### December 31, 2001

<table>
<thead>
<tr>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$3,900</td>
<td>$</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>4,985</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>3,300</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>4,800</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation - Equip.</td>
<td>$1,440</td>
<td></td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>6,600</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation - furn. &amp; fix.</td>
<td>2,200</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
<td>2,985</td>
</tr>
<tr>
<td>Notes payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings, 12/31/00</td>
<td></td>
<td>760</td>
</tr>
<tr>
<td>Sales Revenues</td>
<td></td>
<td>30000</td>
</tr>
<tr>
<td>COGS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>$57,385</td>
<td>$57,385</td>
</tr>
</tbody>
</table>

Accumulated depreciation is a **contra-asset** account. It is directly related to an asset account but has the opposite balance.
# SPENCER, INC.
## Unadjusted Trial Balance
### December 31, 2001

<table>
<thead>
<tr>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 3,900</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>4,985</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>3,300</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>4,800</td>
<td>$ 1,440</td>
</tr>
<tr>
<td>Accumulated depreciation - Equip.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture and fixtures</td>
<td>6,600</td>
<td></td>
</tr>
<tr>
<td>Accumulated depreciation - furn. &amp; fix.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes payable</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>Retained earnings, 12/31/00</td>
<td>1,760</td>
<td></td>
</tr>
<tr>
<td>Sales Revenues</td>
<td>35,000</td>
<td></td>
</tr>
<tr>
<td>COGS</td>
<td>27,500.00</td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>6,300.00</td>
<td></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td>$ 57,385</td>
<td>$ 57,385</td>
</tr>
</tbody>
</table>

Cost - Accumulated depreciation = **BOOK VALUE.**
The Unadjusted Trial Balance

If total debits do not equal total credits on the trial balance, errors have occurred.

- in preparing balanced journal entries.
- in posting the correct dollar effects of a transaction.
- in copying ending balances from the ledger to the trial balance.
Now that we have covered the trial balance, let’s discuss adjusting entries.
Adjusting Entries

There are two types of adjusting entries.

<table>
<thead>
<tr>
<th>ACCRUALS</th>
<th>DEFERRALS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues earned or expenses incurred that have not been previously recorded.</td>
<td>Receipts of assets or payments of cash in advance of revenue or expense recognition.</td>
</tr>
</tbody>
</table>
Deferrals

End of accounting period.

Cash received or paid.

Revenues earned or expense incurred

Examples include rent received in advance or insurance paid in advance.
On January 1, 2000, Tipton, Inc. paid $3,600 for a 3-year fire insurance policy.

The entry on January 1, 2000, to record the policy on Tipton’s books would appear as follows . . .

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1</td>
<td>Prepaid Insurance Expense</td>
<td>3,600</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td>3,600</td>
</tr>
</tbody>
</table>

This is an **ASSET** account
Our goal is to record the amount of insurance used up during 2000. Since the policy is for 3 years, we can assume that 1/3 of the policy will expire each year.
Deferrals - Example 1

On December 31, 2000, Tipton must adjust the Prepaid Insurance Expense account to reflect that 1 year of the policy has expired.

$3,600 × 1/3 = $1,200 per year.

**GENERAL JOURNAL**

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 31</td>
<td>Insurance Expense</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Prepaid Insurance Exp.</td>
<td></td>
<td>1,200</td>
</tr>
</tbody>
</table>
Deferrals - Example 1

After we post the entry to the T-accounts, the account balances look like this:

<table>
<thead>
<tr>
<th></th>
<th>Prepaid Insurance Expense</th>
<th>Insurance Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/1</td>
<td>3,600</td>
<td></td>
</tr>
<tr>
<td>12/31</td>
<td>1,200</td>
<td>1,200</td>
</tr>
<tr>
<td>Bal.</td>
<td>2,400</td>
<td>Bal.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,200</td>
</tr>
</tbody>
</table>
Now, let’s look at an example of cash received in advance.
On December 1, 2001, Tom’s Rentals received a check for $3,000, for the first four months’ rent of a new tenant.

The entry on December 1, 2001, to record the receipt of the prepaid rent payment would be . . .

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 1</td>
<td>Cash</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Unearned Rent Revenue</td>
<td></td>
<td>3,000</td>
</tr>
</tbody>
</table>

This is a **LIABILITY** account
Our goal is to record the amount of rent *EARNED* during December. Since the prepayment is for 4 months, we can assume that 1/4 of the rent will be earned each month.
On December 31, 2001, Tom’s Rentals must adjust the Unearned Rent Revenue account to reflect that 1 month of rent revenue has been earned. 

\[ \$3,000 \times \frac{1}{4} = \$750 \text{ per month.} \]

**GENERAL JOURNAL**

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 31</td>
<td>Unearned Rent Revenue</td>
<td>750</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rent Revenue</td>
<td></td>
<td>750</td>
</tr>
</tbody>
</table>
After we post the entry to the T-accounts, the account balances look like this:

<table>
<thead>
<tr>
<th>Date</th>
<th>Unearned Rent</th>
<th>Rent Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31</td>
<td>750</td>
<td>12/31</td>
</tr>
<tr>
<td>12/1</td>
<td>3000</td>
<td>750</td>
</tr>
<tr>
<td>Bal.</td>
<td>2,250</td>
<td>Bal.</td>
</tr>
</tbody>
</table>

Accruals

Now, we need to look at adjusting entries for accruals.
Accruals occur when revenues have been earned or expenses incurred but no cash has been exchanged.
Accruals

End of accounting period.

Revenues earned or expense incurred

Cash received or paid.

Examples include interest earned during the period or wages earned by employees but not yet paid.
Accruals - Example 1

On October 1, 2001, Webb, Inc. invests $10,000 for 6 months in a certificate of deposit that pays 6% interest per year. Webb will not receive the interest until the CD matures on March 31. On December 31, 2001, Webb, Inc. must make an entry for the interest earned so far.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 31</td>
<td>Interest Receivable</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest Revenue</td>
<td></td>
<td>150</td>
</tr>
<tr>
<td></td>
<td>$10,000 × 6% × 3/12 = $150</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
After we post the entry to the T-accounts, the account balances look like this:

<table>
<thead>
<tr>
<th></th>
<th>Interest Receivable</th>
<th>Interest Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>Bal.</td>
<td>150</td>
<td>Bal.</td>
</tr>
</tbody>
</table>

As of 12/27/02, Denton, Inc. had already paid $1,900,000 in wages for the year. Denton pays its employees every Friday. Year-end, 12/31/02, falls on a Wednesday. The employees have earned total wages of $50,000 for Monday through Wednesday of the week ended 1/02/03.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 31</td>
<td>Wages Expense</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wages Payable</td>
<td></td>
<td>50,000</td>
</tr>
</tbody>
</table>
Accruals - Example 2

After we post the entry to the T-accounts, the account balances look like this:

<table>
<thead>
<tr>
<th></th>
<th>Wages Expense</th>
<th></th>
<th>Wages Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of 12/27</td>
<td>$1,900,000</td>
<td></td>
<td>12/31 50,000</td>
</tr>
<tr>
<td>12/31</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bal.</td>
<td>$1,950,000</td>
<td></td>
<td>Bal. 50,000</td>
</tr>
</tbody>
</table>
Certain circumstances require adjusting entries to record accounting estimates.

Examples include . . .

- Depreciation
- Bad debts
- Income taxes
Accounting Estimates

- Certain circumstances require adjusting entries to record accounting estimates.
- Examples include . . .
  - Depreciation
  - Bad debts
  - Income taxes

Let’s look at how we handle Depreciation expense.
The accounting concept of depreciation involves the systematic and rational allocation of a long-lived asset’s cost to the multiple periods it is used to generate revenue.

This is a “cost allocation” concept, not a “valuation” concept.
Depreciation

The required journal entry requires a debit to *Depreciation expense* and a credit to an account called *Accumulated depreciation*.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 31</td>
<td>Depreciation Expense</td>
<td>$$$$</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accumulated Depreciation</td>
<td></td>
<td>$$$$</td>
</tr>
</tbody>
</table>

As discussed earlier, this is called a Contra-Asset account.
Estimates - Example 1

At January 26, 1999, Papa John’s trial balance showed Property & equipment of $223,100 (all numbers in thousands) and Accumulated depreciation of $48,200. For the period, Papa John’s needs to record an additional $1,670 in depreciation.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 26</td>
<td>Depreciation Expense</td>
<td>1,670</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accumulated Depreciation</td>
<td></td>
<td>1,670</td>
</tr>
</tbody>
</table>
After we post the entry to the T-accounts, the account balances look like this:

<table>
<thead>
<tr>
<th>Date</th>
<th>Depreciation Expense</th>
<th>Accumulated Depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/26</td>
<td>1,670</td>
<td>48,200</td>
</tr>
<tr>
<td>Bal.</td>
<td>1,670</td>
<td>1,670</td>
</tr>
<tr>
<td></td>
<td></td>
<td>49,870</td>
</tr>
</tbody>
</table>
The next step in the accounting cycle is to prepare the financial statements. . .

- Income statement,
- Statement of stockholders’ equity,
- Balance sheet, and
- Statement of cash flows.
The income statement is created first by determining the difference between revenues and expenses. Net income increases retained earnings, while a net loss will decrease retained earnings. Dividends decreases retained earnings.

Financial Statement Relationships

Net income increases retained earnings, while a net loss will decrease retained earnings. Dividends decreases retained earnings.

\[ \text{NET INCOME} = \text{REVENUES} - \text{EXPENSES} \]

DIVIDENDS \(\rightarrow\) Decrease RETAINED EARNINGS

Increase
Contributed Capital and R/E make up Stockholders’ Equity.

Dividends

Contributed Capital

Retained Earnings

Increase

Net Income = Revenues - Expenses

Increase

Stockholders’ Equity
Financial Statement Relationships

\[
\text{ASSETS} = \text{LIABILITIES} + \text{STOCKHOLDERS' EQUITY}
\]

\[
\text{NET INCOME} = \text{REVENUES} - \text{EXPENSES}
\]

Increase
Papa John's International, Inc. and Subsidiaries  
Consolidated Statement of Income  
Month Ended January 26, 1999  
(in thousands of dollars)

<table>
<thead>
<tr>
<th>Revenues:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Restaurant sales $</td>
<td>35,200</td>
</tr>
<tr>
<td>Franchise royalties &amp; development fees $</td>
<td>3,875</td>
</tr>
<tr>
<td>Commissary, equipment, &amp; other sales $</td>
<td>34,500</td>
</tr>
<tr>
<td>Investment income $</td>
<td>455</td>
</tr>
<tr>
<td><strong>Total revenues</strong> $</td>
<td><strong>74,030</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs and expenses:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Restaurant expenses:</td>
<td></td>
</tr>
<tr>
<td>Cost of sales $</td>
<td>9,600</td>
</tr>
<tr>
<td>Salaries &amp; benefits $</td>
<td>9,200</td>
</tr>
<tr>
<td>Advertising &amp; related costs $</td>
<td>2,700</td>
</tr>
<tr>
<td>Occupancy costs &amp; other expenses $</td>
<td>6,300</td>
</tr>
<tr>
<td><strong>Total restaurant expenses</strong> $</td>
<td><strong>27,800</strong></td>
</tr>
<tr>
<td>Commissary, equipment &amp; other expenses:</td>
<td></td>
</tr>
<tr>
<td>Cost of sales $</td>
<td>18,900</td>
</tr>
<tr>
<td>Salaries, benefits, &amp; other expenses $</td>
<td>4,000</td>
</tr>
<tr>
<td><strong>Total commissary, equipment &amp; other expenses</strong> $</td>
<td><strong>22,900</strong></td>
</tr>
<tr>
<td>General &amp; administrative expenses $</td>
<td>6,910</td>
</tr>
<tr>
<td>Depreciation &amp; amortization $</td>
<td>1,670</td>
</tr>
<tr>
<td>Other costs &amp; expenses $</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total cost &amp; expenses</strong> $</td>
<td><strong>59,290</strong></td>
</tr>
<tr>
<td>Income before income taxes $</td>
<td>14,740</td>
</tr>
<tr>
<td>Income tax expense $</td>
<td>5,450</td>
</tr>
<tr>
<td><strong>Net income</strong> $</td>
<td><strong>9,290</strong></td>
</tr>
<tr>
<td><strong>Earnings per share</strong> $</td>
<td><strong>$ 0.316</strong></td>
</tr>
</tbody>
</table>

Note that this statement has ONLY revenues & expenses!

Earnings Per Share (EPS) must be reported on the income statement.
EPS for Papa John’s is based on 29,409,000 shares outstanding and net income of $9,290,000.

\[ \text{EPS} = \frac{\text{Net Income}}{\text{Weighted-Average # of common shares outstanding for the period}} \]

\[ = \frac{$9,290,000}{29,409,000} \]

\[ = $0.316 \text{ per share} \]
Net income appears on the statement of stockholders’ equity as an increase in Retained Earnings.

### Papa John's International, Inc. and Subsidiaries
#### Consolidated Statement of Stockholders' Equity
**For the Month Ended January 26, 1999**
*(in thousands of dollars)*

<table>
<thead>
<tr>
<th></th>
<th>Contributed Capital</th>
<th>Retained Earnings</th>
<th>Stockholders' Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning balance,</strong> 12/27/98</td>
<td>$164,500</td>
<td>$98,200</td>
<td>$262,700</td>
</tr>
<tr>
<td><strong>Stock Issuance</strong></td>
<td></td>
<td>1,300</td>
<td>1,300</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td></td>
<td>9,290</td>
<td>9,290</td>
</tr>
<tr>
<td><strong>Dividends</strong></td>
<td></td>
<td>(200)</td>
<td>(200)</td>
</tr>
<tr>
<td><strong>Ending balance,</strong> 1/26/99</td>
<td>$165,800</td>
<td>$107,290</td>
<td>$273,090</td>
</tr>
</tbody>
</table>
# Balance Sheet

**Papa John's International, Inc. & Subsidiaries**  
**Consolidated Balance Sheet**  
**January 26, 1999**  
(in thousands of dollars)

## Assets

### Current Assets:
- Cash: $55,415
- Accounts receivable: 15,450
- Inventories: 10,200
- Prepaid expenses: 7,500
- Other current assets: 2,430

**Total current assets**: $90,995

### Other Assets:
- Investments: 50,300
- Net property and equipment: 173,230
- Notes receivable: 16,750
- Other assets: 22,400

**Total assets**: $353,675

$223,100 cost - 49,870 accumulated depreciation and amortization.
Papa John's International, Inc. & Subsidiaries  
Consolidated Balance Sheet  
January 26, 1999  
(in thousands of dollars)

<table>
<thead>
<tr>
<th>Liabilities &amp; stockholders' equity</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities:</strong></td>
<td>$</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>28,100</td>
</tr>
<tr>
<td>Accrued expenses payable</td>
<td>29,100</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>5,450</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total current liabilities:</strong></td>
<td>62,660</td>
</tr>
<tr>
<td>Unearned franchise &amp; development fees</td>
<td>6,725</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
<td>11,200</td>
</tr>
<tr>
<td><strong>Stockholders' equity:</strong></td>
<td></td>
</tr>
<tr>
<td>Contributed capital</td>
<td>165,800</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>107,290</td>
</tr>
<tr>
<td><strong>Total stockholders' equity:</strong></td>
<td>273,090</td>
</tr>
<tr>
<td><strong>Total liabilities &amp; stockholders' equity</strong></td>
<td>$ 353,675</td>
</tr>
</tbody>
</table>
The Closing Process

Even though the balance sheet account balances carry forward from period to period, the income statement accounts do not.

Closing entries:

★ Transfer net income (or loss) to Retained Earnings.

❖ Establish a zero balance in each of the temporary accounts to start the next accounting period.
The Closing Process

The following accounts are called temporary or nominal accounts and are closed at the end of the period . . .

- Revenues
- Expenses
- Gains,
- Losses, and
- Dividends declared.
The Closing Process

Assets, liabilities, and stockholders’ equity are permanent, or real accounts, and are never closed.

- Assets
- Liabilities
- Stockholders’ Equity
Two steps are used in the closing process . . .

- Close revenues and gains to Retained Earnings.
- Close expenses and losses to Retained Earnings.
To close Papa John’s *Restaurant Sales Revenue* account, the following entry is required:

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 26</td>
<td>Restaurant Sales Revenue</td>
<td>35,200</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Retained Earnings</td>
<td></td>
<td>35,200</td>
</tr>
</tbody>
</table>

The Closing Process
If we close the other revenue accounts in a similar fashion, the retained earnings account looks like this . . .
To close Papa John’s *Cost of Sales - Restaurants* account, the following entry is required:

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 26</td>
<td>Retained Earnings</td>
<td>9,600</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cost of Sales - Restaurants</td>
<td></td>
<td>9,600</td>
</tr>
</tbody>
</table>

Cost of Sales Restaurants

9,600

Retained Earnings

9,600

Close
If we close the other expense accounts in a similar fashion, the retained earnings account looks like this . . .

<table>
<thead>
<tr>
<th>Close</th>
<th>Retained Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9,600</td>
</tr>
<tr>
<td>Close</td>
<td>9,200</td>
</tr>
<tr>
<td>Close</td>
<td>2,700</td>
</tr>
<tr>
<td>Close</td>
<td>6,300</td>
</tr>
<tr>
<td>Close</td>
<td>18,900</td>
</tr>
<tr>
<td>Close</td>
<td>2,500</td>
</tr>
<tr>
<td>Close</td>
<td>1,500</td>
</tr>
<tr>
<td>Close</td>
<td>6,910</td>
</tr>
<tr>
<td>Close</td>
<td>1,670</td>
</tr>
<tr>
<td>Close</td>
<td>10</td>
</tr>
<tr>
<td>Close</td>
<td>5,450</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total</th>
<th>98,200 Beg. Bal.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Close</td>
<td>35,200</td>
</tr>
<tr>
<td>Close</td>
<td>3,875</td>
</tr>
<tr>
<td>Close</td>
<td>34,500</td>
</tr>
<tr>
<td>Close</td>
<td>455</td>
</tr>
</tbody>
</table>

The Closing Process
Finally, we close dividends to Retained Earnings and the account balances out to $107,290 and looks like this . . .

<table>
<thead>
<tr>
<th>Close</th>
<th>9,600</th>
<th>98,200</th>
<th>Beg. Bal.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Close</td>
<td>9,200</td>
<td>35,200</td>
<td>Close</td>
</tr>
<tr>
<td>Close</td>
<td>2,700</td>
<td>3,875</td>
<td>Close</td>
</tr>
<tr>
<td>Close</td>
<td>6,300</td>
<td>34,500</td>
<td>Close</td>
</tr>
<tr>
<td>Close</td>
<td>18,900</td>
<td>455</td>
<td>Close</td>
</tr>
<tr>
<td>Close</td>
<td>2,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Close</td>
<td>1,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Close</td>
<td>6,910</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Close</td>
<td>1,670</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Close</td>
<td>10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Close</td>
<td>5,450</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Close</td>
<td>200</td>
<td></td>
<td></td>
</tr>
<tr>
<td>107,290</td>
<td></td>
<td></td>
<td>End Bal.</td>
</tr>
</tbody>
</table>