Hey, everyone, and welcome to our video, today, on Case Study-- Merchandising Adjusting and Closing. So what is today's video about? Well, we're going to discuss our subject company-- Legacy Clothing-- and we're going to discuss that company and close it.

So how does closing relate to our company-- "closing" being the closing process, within our accounting cycle? And then we're going to look at a case study of preparing the closing entries, for our subject company, Legacy Clothing. But let's learn a little bit about that company, first.

So our case-study company is Legacy Clothing. What type of company is it? They're a sole proprietorship, which means it's a type of company that is owned by a single individual, where the individual and the business are legally treated as the same.

What does the company do? Well, our company owns and operates clothing/merchandise stores. So they sell men's, women's, and children's clothing and other related items. Think of them as a department store. Where are the business locations? Well, they're located throughout Washington, DC, and they have a staff of 50 people, working at their stores.

So now, what do we need to know about our company? Does our company need to perform closing procedures? Do we need to perform closing procedures, for this company? Yes, we do. Well, why do we need to perform closing procedures?

Well, we need to have accurate reporting, so we need to close out our temporary or our period-based accounts and reset for the next period, which helps us to track activity, so that we can track activity for individual periods. That's why we need to reset them, OK? Because those temporary accounts are, again, period-based-- activity-based-- and transfer that net income or loss into cumulative equity.

And, again, our temporary accounts are, then, reopened, for the following period, so that we can report activity for only one specific period. So that's why we need to do the closing process and make our closing entries.

So now, what we're going to look at, for our subject company-- Legacy Clothing-- is identifying and creating our closing entries. So let's go ahead and start creating those closing entries, for our subject company.

OK, everyone. So what we're doing, here, is we're going to be preparing our closing entries for our merchandising company, Legacy Clothing. And the starting point is going to be our adjusted trial balance. So we've already gone through and prepared our financial statements. Those are completed. So now, we need to take our adjusted trial balance and prepare our closing entries, for our merchandising company.

Now, what we're going to look at, today, are just those closing entries that are unique to a merchandising company. So any company, merchandising- or service-related, is going to have to close out their revenues, as well as their operating expenses-- those temporary accounts. But what we're going to focus on, today, are those temporary accounts that are unique to a merchandising company.

So the first accounts that we need to close out are our sales returns and allowances and our sales discounts. Now you'll see, here, that they're being closed out with credits. That's because they have natural debit balances, because they reduce our sales. They're contra revenue accounts.

Next, we can close out our purchases account. So the purchases account needs to be closed out with a credit. Then, after we've closed purchases, we can close our purchase returns and allowances, as well as our purchase discounts. And now you'll see, here, that our purchase returns and allowances and purchase discounts are being closed out with debits. That's because they have natural credit balances, because they're a reduction of our purchases.

So now we've closed our sales returns and allowances, sales discounts, purchases, purchase returns and allowances, purchase discounts. The last account that we need to close out, for our merchandising company, is going to be the freight-in account. So we need to close out that freight-in-- the cost to ship those goods to us. And we close out freight-in with a credit, because it's an expense, so it's going to have a natural debit balance.

So those are the closing entries they need to be made, for a merchandising company, to close out the temporary accounts that are unique to that type of business. Great. So, now that we've seen how to identify and prepare those closing entries, let's summarize what we talked about, today.

In a nutshell, we discussed our case-study company-- Legacy Clothing-- and we looked at preparing merchandising-company closing entries-- so closing entries for our subject company. We had to start with our adjusted trial balance, and then we looked at preparing our closing entries. So closing all of our temporary accounts-- all of our revenue and expense accounts, our discounts, our returns and allowances. OK? So that's what we looked at, today.

I hope everybody enjoyed this video, and I hope to see you next time.