

Principles of Accounting

Help Lesson #5

Closing Entries

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Principles of Accounting

Help Lesson #5

Viewing this Presentation

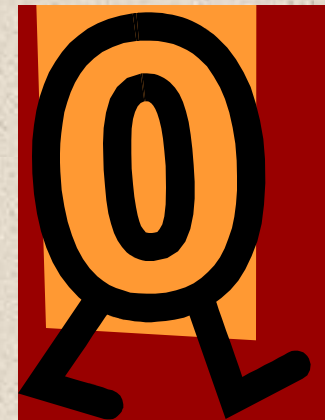
Press the F11 key to expand the screen.

Click the button below to navigate to each slide.

Closing Entries

The last step in the accounting cycle is the closing process.

The purpose of the **Closing Entries** is to close, or zero out, the balances of certain accounts at the end of the fiscal period.



Temporary Accounts

Temporary accounts are accounts that accumulate balances for one accounting period only. At the end of the accounting period the balances in these accounts are closed, or zeroed out, so that the accounts can begin accumulating new balances that apply only to the current period.

Temporary Accounts

The temporary account types are listed below.

- Revenue
- Expense
- Income Summary
- Drawing (withdrawals)

Temporary Accounts

Memory Device

Remembering **REID** may help you remember the types of accounts that are temporary.

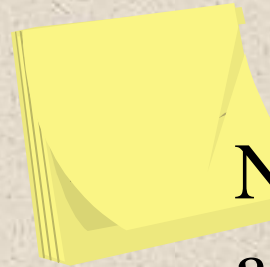
- **R**evenue
- **E**xpense
- **I**ncome Summary
- **D**rawing (withdrawals)



Real Accounts

Accounts whose balances remain open indefinitely are known as **real** or **permanent** accounts. The real account types are listed below.

- **Assets**
- **Liabilities**
- **Capital**



Note that these are the **Balance Sheet** Accounts.

Journalizing the Closing Entries

Use the memory device **REID** to help you journalize the closing entries. “R” stands for Revenue, so the first closing entry will be to close the **Revenue** accounts.

Journalizing the Closing Entries

Revenue Accounts

The revenue accounts are closed into a temporary account known as **Income Summary**. Recall that the purpose of the closing entries is to “close” or zero out the balance of the temporary accounts. Since revenue accounts have a normal credit balance, to be closed the revenue accounts must be debited and Income Summary will be credited.

Journalizing the Closing Entries

Revenue Accounts

Jones Career Consulting has two revenue accounts with the following balances:

| | |
|--------------------------|------------------|
| Consulting Income | \$100,000 |
| Interest Revenue | 500 |

The entry to close the revenue accounts is as follows.

Journalizing the Closing Entries

Revenue Accounts

Jones Career Consulting has two revenue accounts with the following balances:

Consulting Income **\$100,000**
Interest Revenue **500**

The entry to close the revenue accounts is as follows.

| DATE | | ACCOUNT | POST REF | DEBIT | | CREDIT | |
|------|----|-------------------|-------------|--------|----|--------|----|
| Dec | 31 | Consulting Income | | 100000 | 00 | | |
| | | Interest Revenue | | 500 | 00 | | |
| | | Income Summary | | | | 100500 | 00 |

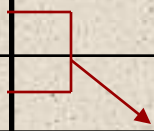
(Note that closing entries are always made at the end of the fiscal period. JCC's fiscal period is the calendar year.)

Journalizing the Closing Entries

Revenue Accounts

Note that the amount of the credit to Income Summary is the total of the amounts debited to the revenue accounts.

| DATE | | ACCOUNT | POST REF | DEBIT | | CREDIT | |
|------|----|-------------------|----------|--------|----|--------|----|
| Dec | 31 | Consulting Income | | 100000 | 00 | | |
| | | Interest Revenue | | 500 | 00 | | |
| | | Income Summary | | | | 100500 | 00 |



Journalizing the Closing Entries

Expense Accounts

Refer back to **REID**. The next closing entry will be to close the **Expense** accounts. As with the revenue accounts, expense accounts are closed into **Income Summary**. Again, the purpose of the closing entries is to “close” the balance of the temporary accounts. Since expense accounts have a normal debit balance, they will be credited in the closing entry and Income Summary will therefore be debited.

Journalizing the Closing Entries

Expense Accounts

Jones Career Consulting has three expense accounts with the following balances:

| | |
|--------------------------|-----------------|
| Rent Expense | \$15,000 |
| Utilities Expense | 4,000 |
| Wages Expense | 36,000 |

The entry to close the expense accounts is as follows.

Journalizing the Closing Entries

Expense Accounts

Jones Career Consulting has three expense accounts with the following balances:

| | |
|--------------------------|-----------------|
| Rent Expense | \$15,000 |
| Utilities Expense | 4,000 |
| Wages Expense | 36,000 |

The entry to close the expense accounts is as follows.

| DATE | | ACCOUNT | POST REF | DEBIT | | CREDIT | |
|------|----|-------------------|----------|-------|----|--------|----|
| Dec | 31 | Income Summary | | 55000 | 00 | | |
| | | Rent Expense | | | | 15000 | 00 |
| | | Utilities Expense | | | | 4000 | 00 |
| | | Wages Expense | | | | 36000 | 00 |

Journalizing the Closing Entries

Expense Accounts

As with the revenue accounts, the amount closed into Income Summary is the total of the expense accounts.

| DATE | | ACCOUNT | POST REF | DEBIT | | CREDIT | |
|------|----|-------------------|----------|-------|----|--------|----|
| Dec | 31 | Income Summary | | 55000 | 00 | | |
| | | Rent Expense | | | | 15000 | 00 |
| | | Utilities Expense | | | | 4000 | 00 |
| | | Wages Expense | | | | 36000 | 00 |

Journalizing the Closing Entries

Income Summary

Using **REID** as a guide, the next closing entry will be to close the **Income Summary** account. Income Summary closes into the **Capital** account. In order to complete this entry, you must first determine the balance in the Income Summary account. If you're using a ledger, post the first two closing entries. If you need to quickly determine the balance, use a T-account.

Journalizing the Closing Entries

Income Summary

Analyze the balance in Income Summary using the T-account below.

| | | | | | | | |
|-----|----|-------------------|--|--------|----|--------|----|
| Dec | 31 | Consulting Income | | 100000 | 00 | | |
| | | Interest Revenue | | 500 | 00 | | |
| | | Income Summary | | | | 100500 | 00 |
| | | | | | | | |
| Dec | 31 | Income Summary | | 55000 | 00 | | |
| | | Rent Expense | | | | 15000 | 00 |
| | | Utilities Expense | | | | 4000 | 00 |
| | | Wages Expense | | | | 36000 | 00 |

Income Summary



Journalizing the Closing Entries

Income Summary

Analyze the balance in Income Summary using the T-account below.

| | | | | | | | |
|-----|----|-------------------|--|--------|----|--------|----|
| Dec | 31 | Consulting Income | | 100000 | 00 | | |
| | | Interest Revenue | | 500 | 00 | | |
| | | Income Summary | | | | 100500 | 00 |
| Dec | 31 | Income Summary | | 55000 | 00 | | |
| | | Rent Expense | | | | 15000 | 00 |
| | | Utilities Expense | | | | 4000 | 00 |
| | | Wages Expense | | | | 36000 | 00 |

Income Summary

| | |
|--------|----------------|
| 55,000 | 100,500 |
| | 45,500 Balance |

Journalizing the Closing Entries

Income Summary

Check Point #1



The ending balance in the Income Summary account should match the net income (or loss) for the period.

| Income Summary | |
|----------------|----------------|
| 55,000 | 100,500 |
| | 45,500 Balance |

Check to see that this matches net income or loss.

Journalizing the Closing Entries

Income Summary

Since the Income Summary account had an ending *credit* balance, Income Summary must be debited for the amount of the ending balance to be closed. Therefore, the capital account must be credited. The entry to close Income Summary into Capital is as follows:

| DATE | | ACCOUNT | POST REF | DEBIT | | CREDIT | |
|------|----|----------------------|----------|-------|----|--------|----|
| Dec | 31 | Income Summary | | 45500 | 00 | | |
| | | Karen Jones, Capital | | | | 45500 | 00 |

Journalizing the Closing Entries

Income Summary

If the ending balance of Income Summary is a *debit*, Income Summary must be credited for the amount of the ending balance to be closed and the capital account must be debited.

Journalizing the Closing Entries

Drawing

Refer back to **REID**. The last closing entry is to close the **Drawing** (withdrawals) account. Drawing is closed into the **Capital** account. Since the normal balance of the Drawing account is debit, this account must be credited to close it. Therefore, the Capital account will be debited in the closing entry for Drawing.

Journalizing the Closing Entries

Expense Accounts

The balance in the drawing (withdrawals) account for Jones Career Consulting is shown below:

Karen Jones, Drawing \$25,000

The entry to close the expense accounts is as follows.

Journalizing the Closing Entries

Expense Accounts

The balance in the drawing (withdrawals) account for Jones Career Consulting is shown below:

Karen Jones, Drawing \$25,000

The entry to close the expense accounts is as follows.

| DATE | | ACCOUNT | POST REF | DEBIT | | CREDIT | |
|------|----|----------------------|-------------|-------|----|--------|----|
| Dec | 31 | Karen Jones, Capital | | 25000 | 00 | | |
| | | Karen Jones, Drawing | | | | 25000 | 00 |

Journalizing the Closing Entries

Complete the Process

When all the closing entries have been journalized and posted, prepare a Post-Closing Trial Balance to ensure that debits and credits have remained in balance.

The only accounts appearing on the Post-Closing Trial Balance should be the real accounts—*all other accounts have been closed.*

Journalizing the Closing Entries

Complete the Process

Check Point #2

When all the closing entries have been journalized and posted, the balance the **Capital** account should be the same as the ending balance shown on the Statement of Owner's Equity.



Next Step

You have completed the Accounting Cycle.



The remaining lessons provide a more in-depth look at specific accounting areas.

Click the button below to return to Lesson 4.

