

CLOSING ENTRIES

Chapter 4

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

Record the following as compound entries at the end of the fiscal period. See page 144 of your accounting text for examples.

1. Close all revenue accounts into Income Summary.
2. Close all expense accounts into Income Summary.
3. Close Income Summary into Capital.
4. Close Drawing into Capital.

Income Summary is a temporary account used in the closing process to summarize the income and expense accounts of a business.

The balance in the Income Summary Account that is transferred to Capital should be equal to the amount of net income or loss for the period.

The accounts that are closed, revenue, expenses, income summary, and drawing (REID), are known as temporary or nominal accounts because their balances are zeroed out at the end of each fiscal period.

The accounts that remain open, assets, liabilities, and owner's equity (the balance sheet accounts), are known as permanent or real accounts because they remain open indefinitely.