

Closing Process

Must do at the end of the accounting period *after* financial statements have been completed. It prepares accounts for next accounting period.

The **purpose** is to

1. Reset Revenue, expenses, and dividend accounts back to zero for the end of the accounting period.
2. Helps summarize the revenues and expenses for that period.

Steps for Closing

1. **Identify** what accounts need to be closed
2. **Record** and post the entries to be closed
3. **Prepare** the post-closing trial balance

Temporary/ Permanent accounts

Temporary

Revenues

Expenses

Dividends

Income Summary

(The closing process applies only to these accounts)

Permanent

Assets

Liabilities

Common Stock

Retained Earnings

(These accounts carry ending balances to the next period)

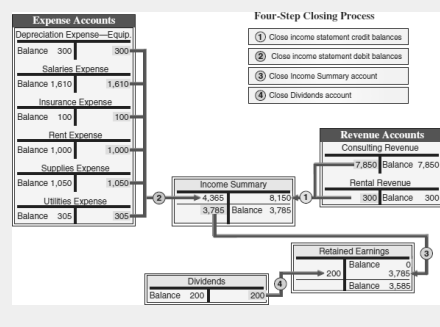
Recording Closing Entries

Income Summary

Is a temporary account (used for CLOSING). The balance equals net income(loss) and it goes to the retained earnings.

Dividends goes to retained earnings.

Closing Process



Recording Closing Entries

Revenues

1. They have a debit balance
2. Close to income summary, it has a credit balance.

Expenses

1. Close to income summary, it has a debit balance.
2. All expenses are going to have a credit balance

Close income summary to retained earnings

1. Income Summary has a debit balance
2. Retained Earnings has a credit balance

Close dividends account

1. Retained Earnings is going to have a debit balance
2. Dividends has a credit balance

Accounting Cycle

