

# Closing Entries

by Cshortla via cheatography.com/32889/cs/10242/

### 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 Permanent Revenues Assets Expenses Liabilities Dividends Common Stock Income Summary Retained Earnings (The closing process applies only to these ending balances to the

# Recording Closing Entries

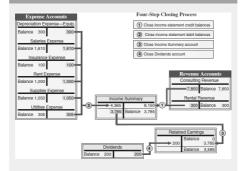
### **Income Summary**

accounts)

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**



# Accounting Cycle 1. Analyze transactions 10. Reverse (Optional Cycle) 11. Analyze roundouts of the Company o

## **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

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next period)

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