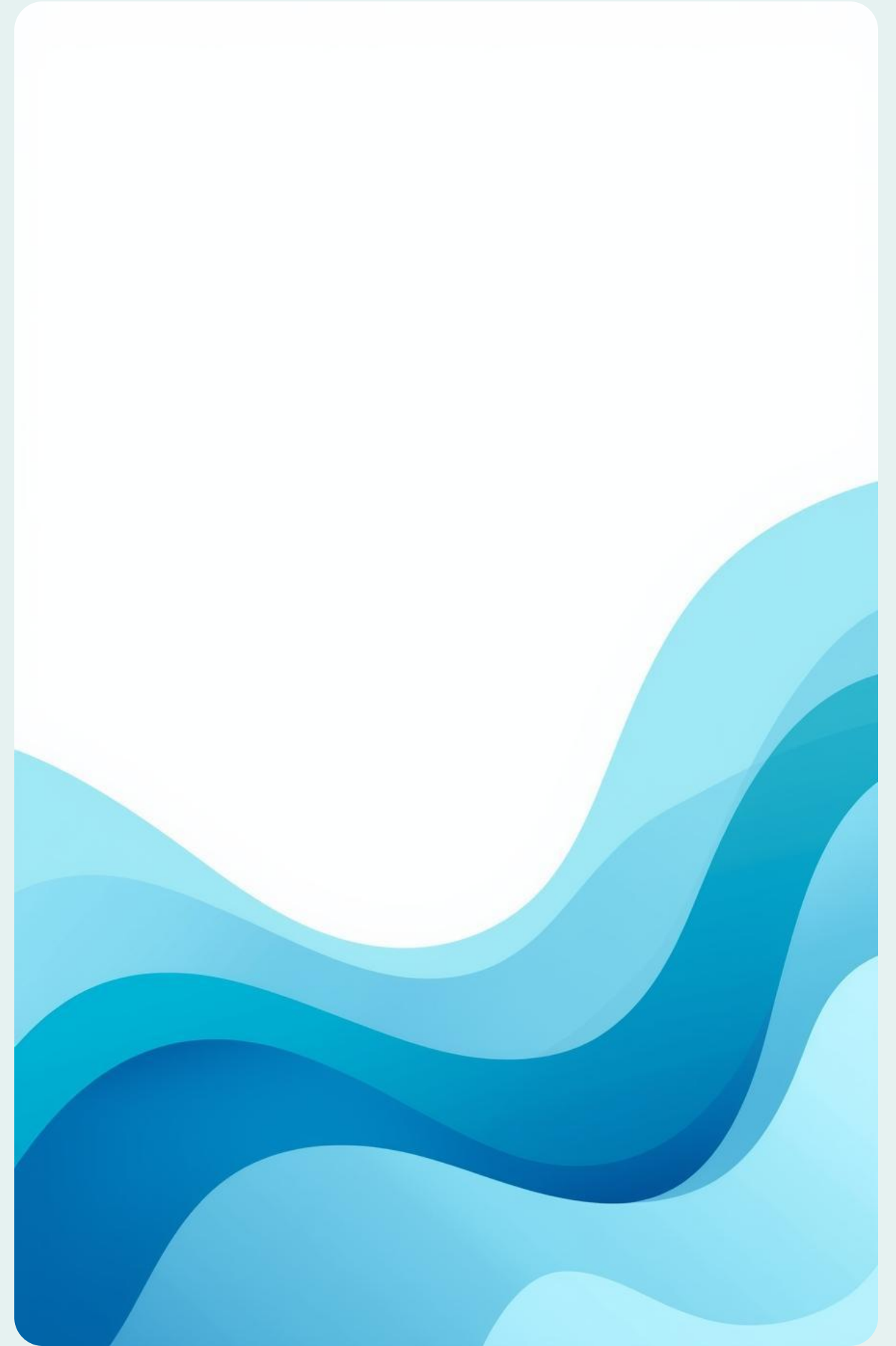


# Chapter 5: Closing the Books

Closing Entries and Financial  
Statements

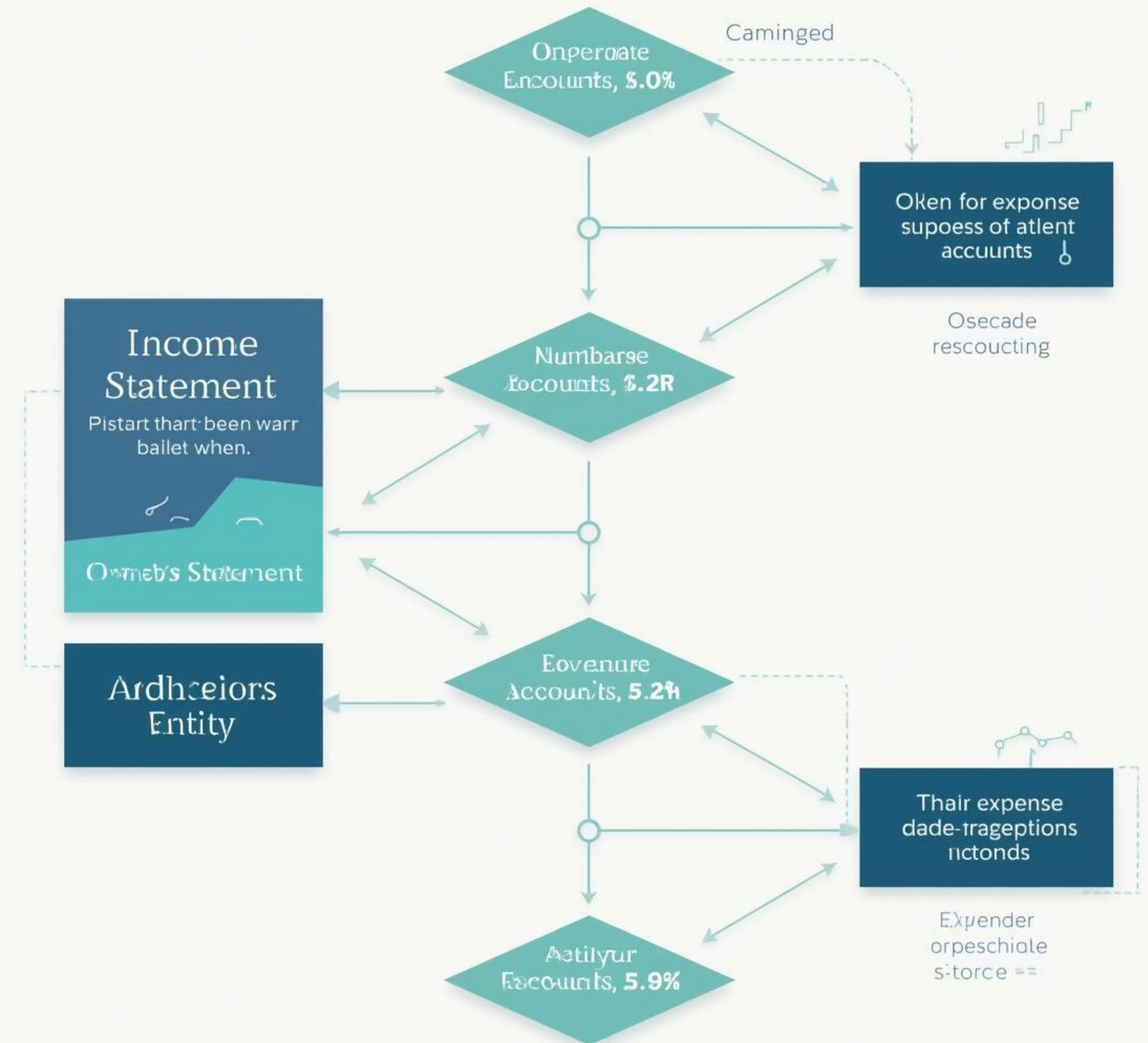


# Purpose of Closing Entries

Closing entries **reset revenue and expense accounts**, transferring the net profit or loss to equity, ensuring accurate opening balances for the next period, and supporting thorough periodic financial reporting.

## Closing entries

This diagram shows the flow of closing entries from the income statement to the equity account, ensuring accurate opening balances for the next period.



# Temporary vs Permanent Accounts

Temporary accounts include revenues, expenses, and drawings, while permanent accounts encompass assets, liabilities, and equity. Closing entries affect only temporary accounts, ensuring accurate reporting and continuity for the next period.

## Temporary vs Permanent Accounts

Temporary accounts



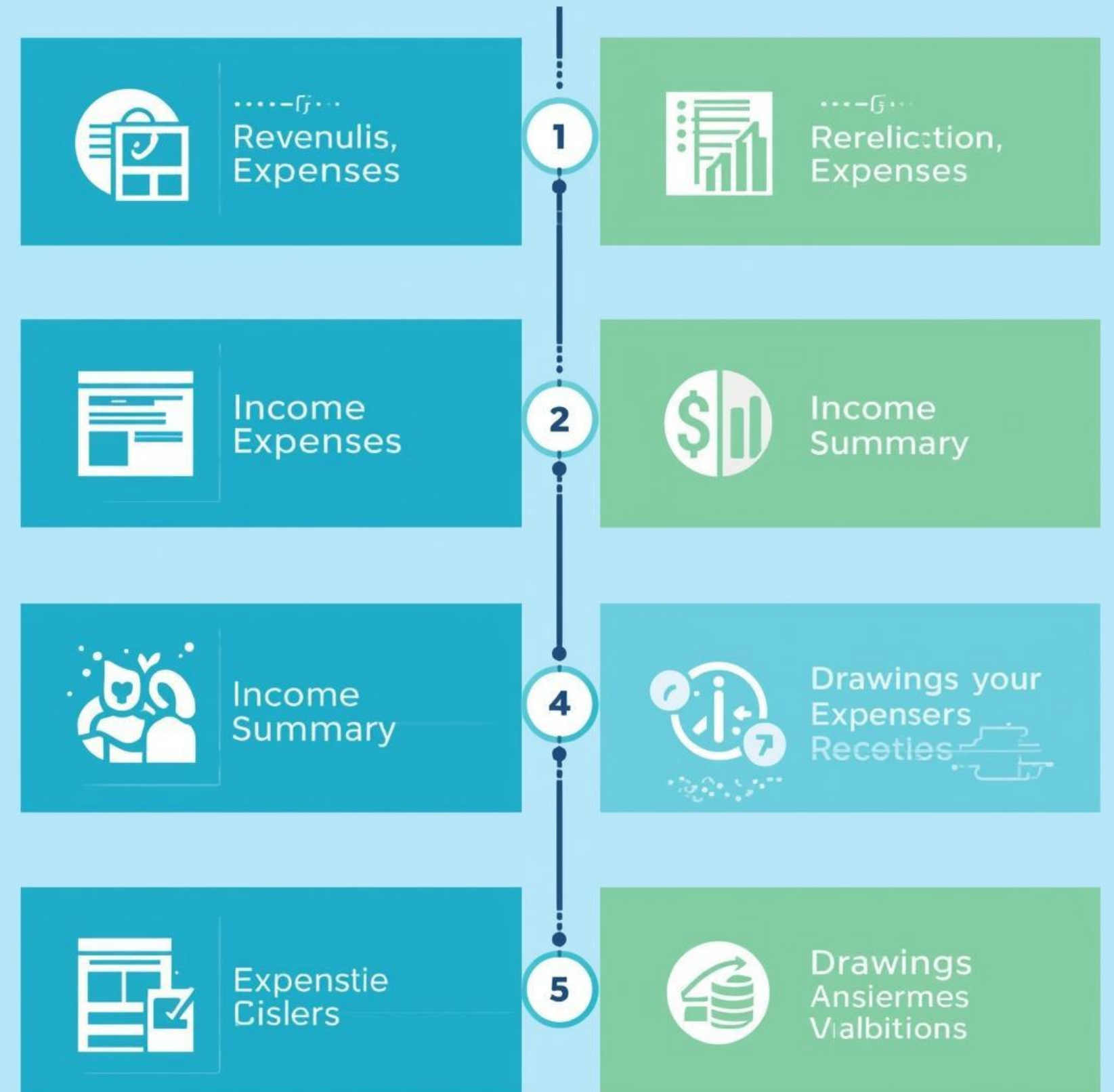
Permanent accounts



# Steps in the Closing Process

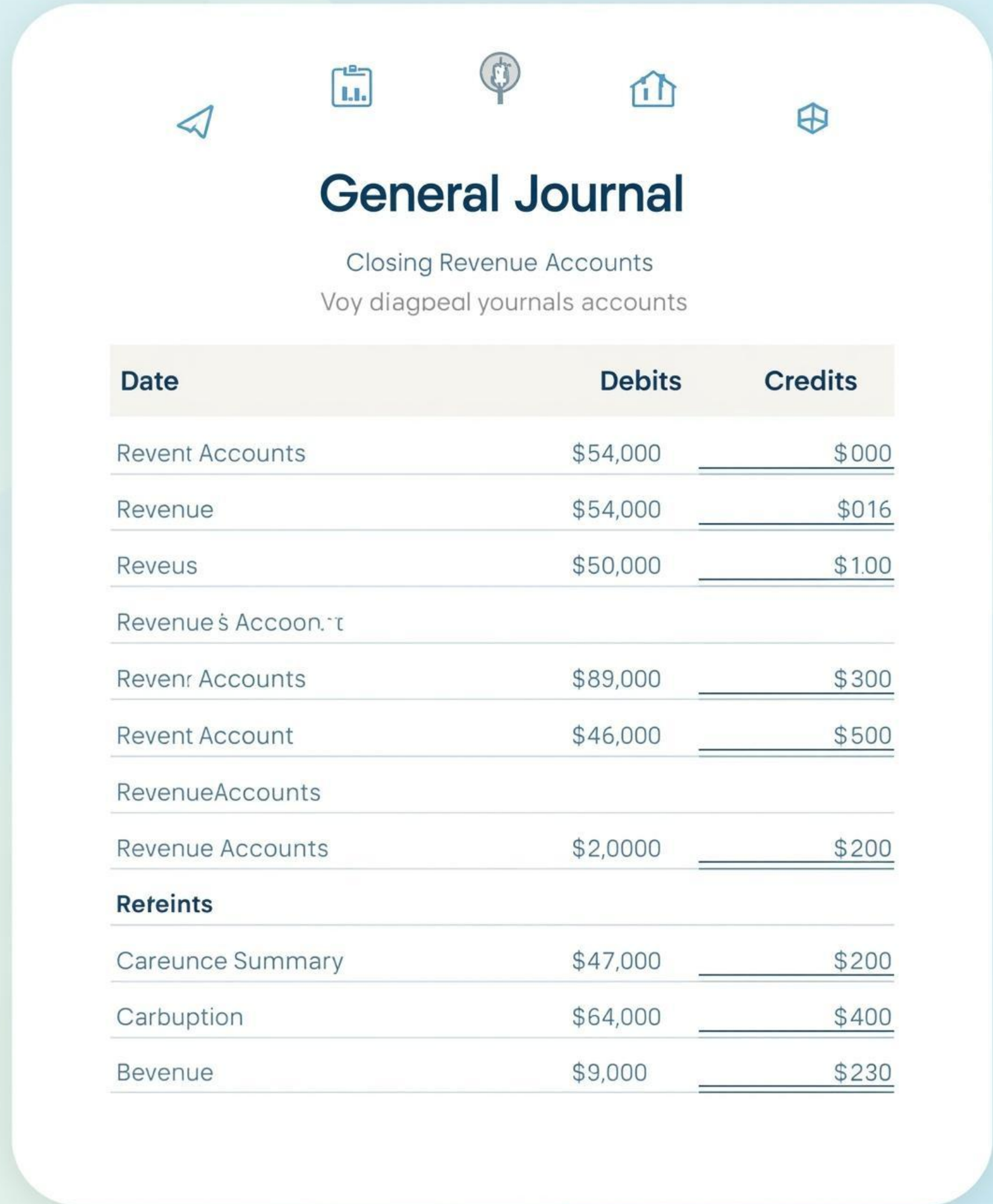
The closing process involves systematically **resetting accounts** by closing revenues, expenses, and the income summary, followed by updating capital or retained earnings and drawing accounts for accurate financial reporting.

## Accountings Diagrams



# Closing Revenue Accounts Explained

To properly close revenue accounts, we **debit** each revenue account and **credit** the Income Summary, effectively transferring total revenues and ensuring that all revenue balances are zeroed out for the next period.




The image shows a screenshot of an accounting software interface. At the top, there are several navigation icons: a paper plane, a calendar, a coin with a dollar sign, a house, and a cube. Below these icons, the title "General Journal" is displayed in a large, bold font. Underneath the title, there are two lines of text: "Closing Revenue Accounts" and "Voy diagepel journals accounts". The main part of the interface is a table with three columns: "Date", "Debits", and "Credits". The table contains several rows of data, including "Revent Accounts", "Revenue", "Reveus", "Revenue s Accoon. r", "Revenr Accounts", "Revent Account", "RevenueAccounts", "Revenue Accounts", "Rereints", "Careunce Summary", "Carbuption", and "Bevenue". Each row shows a debit amount and a credit amount, with the credit amounts underlined.

Date	Debits	Credits
Revent Accounts	\$54,000	\$000
Revenue	\$54,000	\$016
Reveus	\$50,000	\$1.00
Revenue s Accoon. r		
Revenr Accounts	\$89,000	\$300
Revent Account	\$46,000	\$500
RevenueAccounts		
Revenue Accounts	\$2,0000	\$200
<b>Rereints</b>		
Careunce Summary	\$47,000	\$200
Carbuption	\$64,000	\$400
Bevenue	\$9,000	\$230

# Closing Expense Accounts Process

To close expense accounts, expenses are **credited** to the Income Summary and **debited** to zero out balances. This process ensures accurate reporting and prepares accounts for the upcoming period.

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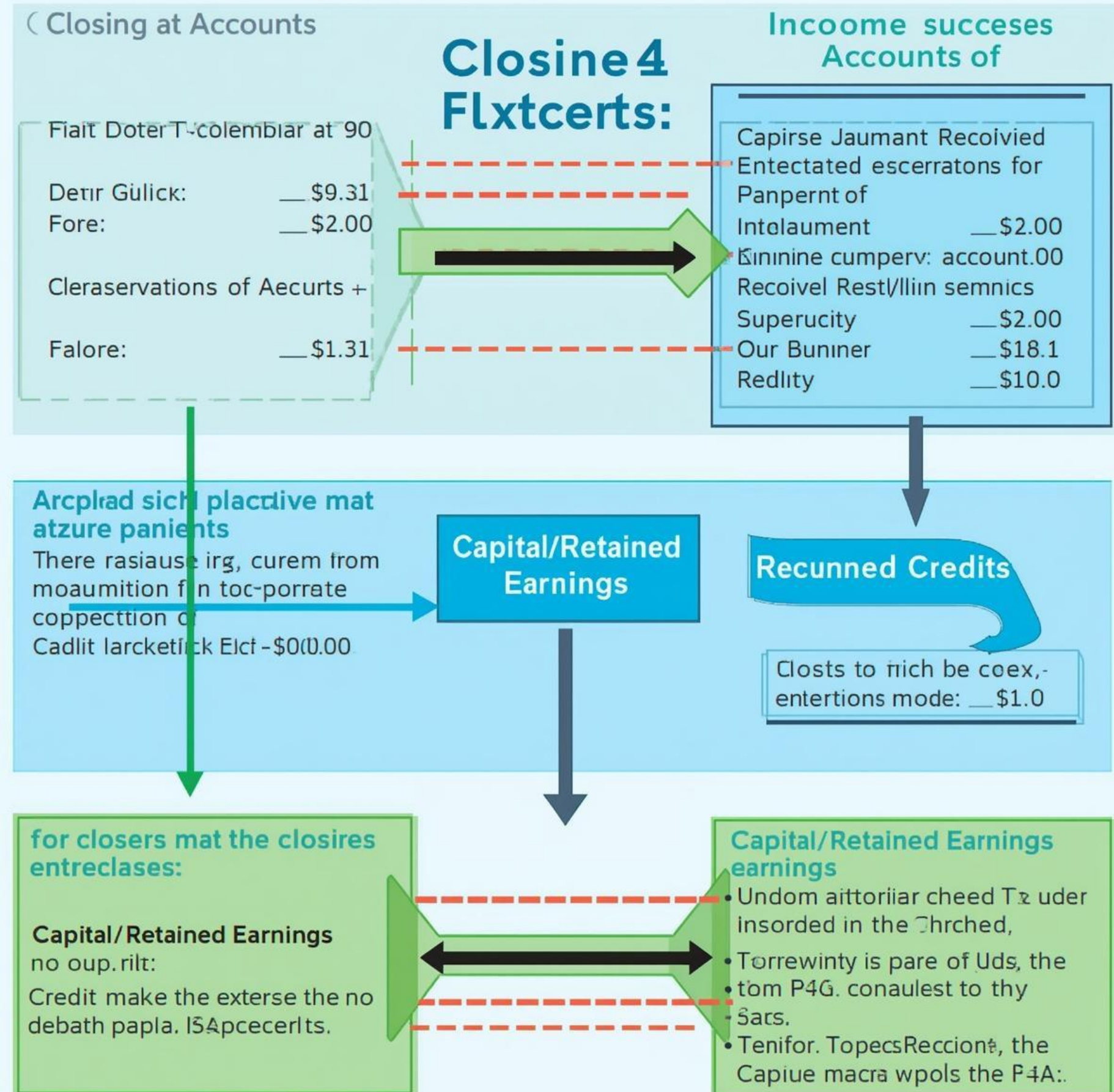


<b>Debit</b>	<b>7.56</b>
Income Summary	1140
Credit	\$130
<b>Income Summary</b>	<b>7.50</b>
Credit	320
Besbit pragpest	2000
<b>Expense al accounts</b>	<b>\$25</b>
<b>Expense Shiot</b>	<b>\$411</b>
Expense Entrny	\$65
<b>Expense Adr</b>	<b>\$18</b>

# Closing the Income Summary

When closing the Income Summary, if there is a profit, it is debited to Income Summary and credited to Capital/Retained Earnings. A loss requires a reverse entry to update equity accordingly.

# T-Account Exp+s



# Closing Drawings and Dividends

Closing drawings or dividends involves debiting Capital or Retained Earnings and crediting the Drawings or Dividends account, effectively reducing equity while ensuring these accounts are reset for the new period.



# Post-Closing Trial Balance Overview

The post-closing trial balance confirms that **permanent accounts are accurately carried forward** to the next period. It consists solely of asset, liability, and equity accounts, ensuring a balanced ledger.

## Trial Balance Table

Account	Debits Sart. 1.3	Accounts Sert. 1.0	PemFarand credits Sart 7.50 Sert. 7208
Debit 1	-\$1,000	-\$3,000	-\$4,000
Debit 2	-\$5,000	-\$1,000	-\$5,000
Debit 3	-\$5,000	-\$7,000	-\$5,000
Debit 4	-\$3,000	-\$5,000	-\$5,000
Debit 5	-\$5,000	-\$5,000	-\$2,000
Debit 3	-\$1,000	-\$5,000	-\$5,000
Debit 4	-\$1,000	-\$5,000	-\$6,000
Debit 3	-\$5,000	-\$5,000	-\$5,000
Debit 4	-\$6,000	-\$5,000	-\$5,000
Debit 5	-\$3,000	-\$5,000	-\$3,000
Debit 5	-\$7,000	-\$5,000	-\$3,000
Debit 6	-\$5,000	-40,000	-\$6,000
Debit 7	-\$5,000	-\$7,000	-\$0,000
Debit 6	-\$5,000	-\$2,000	-\$0,000
Debit 5	-\$3,000	-\$5,050	-\$5,000
Debit 9	-\$5,000	-\$2,000	-\$3,000
Debit 6	-\$5,000	-\$5,000	-\$3,000
Debit 9	-\$165,000	-\$35,000	-\$564,000
Debit 11	-\$30,000,000	-\$2,500,000	-\$50,350,000

# Balances of Accounts Not Closed

Assets, liabilities, and equity accounts remain open and are crucial as they form the opening balances for the next period, ensuring continuity and accuracy in financial reporting.

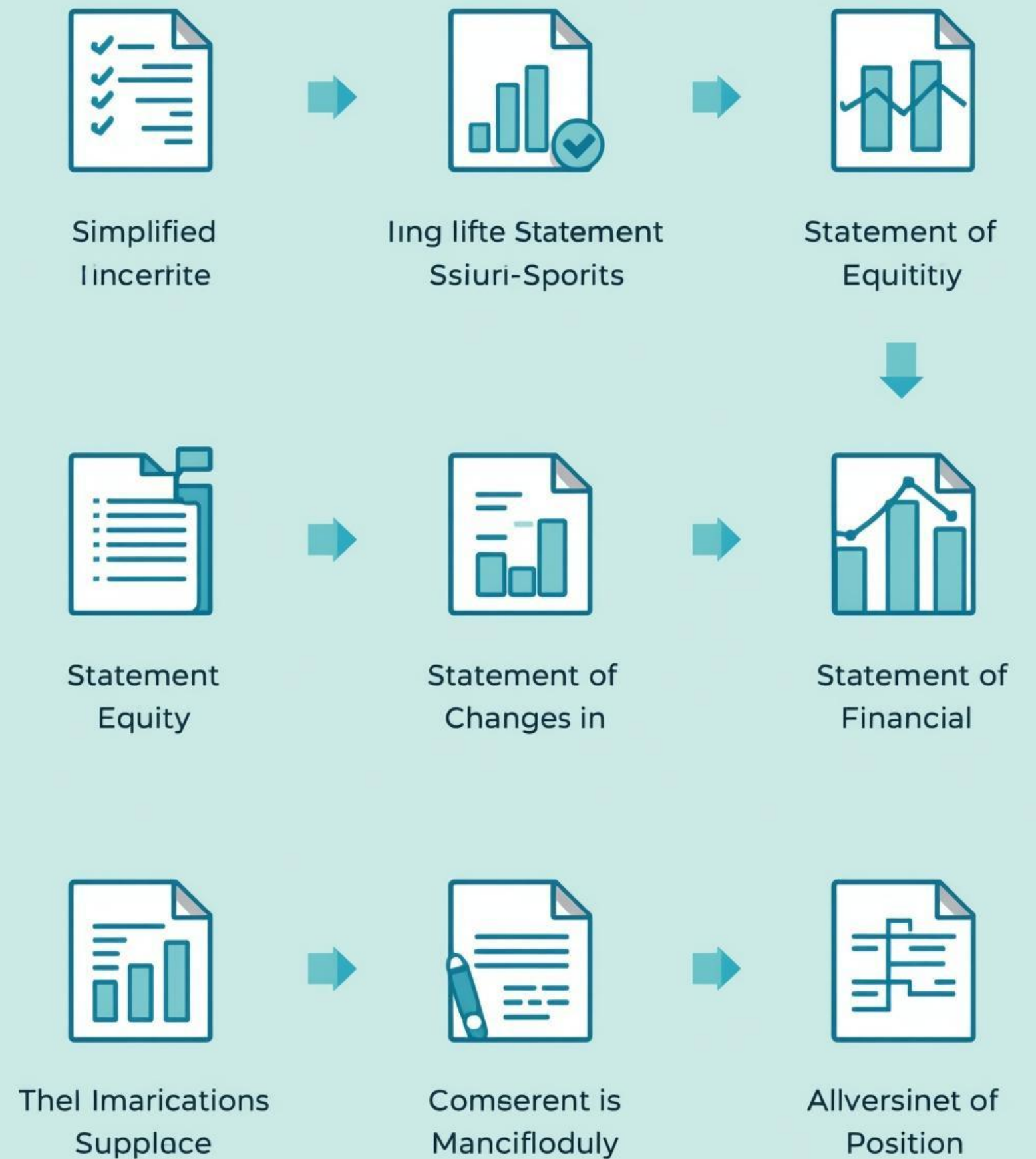
## An buniriător in agysu: Balance Sheet

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and it re accoung thadprov fillen.



# Preparing Financial Statements

The preparation of financial statements involves using the **adjusted trial balance** to create an income statement, a statement of changes in equity, and a statement of financial position, ensuring consistency throughout.



# Understanding Reversing Entries

Reversing entries simplify the recording process in the next period by eliminating double counting and adjusting certain entries. They are often optional but beneficial for accruals, enhancing accuracy in financial reporting.



**BEFORE**



**AFTER**



# Example of Reversing Entries

Reversing entries, such as **debiting Payable** and **crediting Expense**, streamline the recording process by eliminating the effects of prior adjustments, ensuring clarity for future transactions in the new accounting period.



# Exercise

1. Explain the purpose and steps of closing entries. Why is it necessary to distinguish between temporary accounts and permanent accounts in the closing process?
2. Describe the preparation of the post-closing trial balance and explain the role of reversing entries. How do reversing entries help simplify accounting in the next accounting period?

## The Chapter:



Recording entries



Trial Balances



Financial statements



Reversing entries



Final competitor



Thank You