

CLOSING ENTRIES

Entries that transfer the revenue, expense, and the owner withdrawal balances from their respective accounts to the capital account. These entries consists of journalizing and posting the closing entries to set the balances of the revenue, expense, and withdrawal accounts to zero for the next period.

There are four steps in the closing cycle.

In this scenario we will consider the following balances in the accounts that will be affected by closing entries.

Owner's Capital		50000
Owner's Withdrawals	5000	
Service Revenue		10000
Salary Expense	1000	
Rent Expense	500	
Depreciation Expense	100	

Step 1. Close the revenue accounts into the Income Summary.

Service Revenue	10000	
Income Summary		10000

Step 2. Close the expense accounts into the Income Summary.

Income Summary	1600	
Salary Expense		1000
Rent Expense		500
Depreciation Expense		100

Step 3. Close the Income Summary into Owner's Capital

NOTE: The income summary represents the net income (loss) that the company has on their Income Statement.

Income Summary	8400	
Owner's Capital		8400

Step 4. Close the Owner's Withdrawals into the Owner's Capital

Owner's Capital	5000	
Owner's Withdrawals		5000

When all of the above steps are completed you will have the same equity that is stated on your Statement of Owner's Equity.

You are now ready to begin the new accounting period with zero balances in all of your temporary accounts.