

Toward Business Literacy: Accounting Outlines



Closing Account and Preparing Statements

The temporary accounts are closed to get a new start on the next accounting period.

Temporary accounts include Revenues and Expenses, as well as Dividends.

- Closing entries use an **Income Summary** account that is only used for closing
- Close all revenue accounts by debiting; close all expense accounts by crediting
- The income summary account will have a credit balance, if there is a profit;
 - It will have a debit balance if there is a loss.

Closing temporary accounts gives the business a clean slate for the next period

CJE-1:	Revenue accounts (usually just a few)	xxx	
	Income summary		xxx
CJE-2:	Income summary	xxx	
	Expense accounts (many)		xxx

Close income summary to Retained Earnings

CJE-3:	Income Summary (if profit)	xxx	
	Retained Earnings		xxx

Close dividend or drawing account to Retained Earnings

CJE-4:	Retained Earnings	xxx	
	Dividends		xxx

Prepare the Statements

- The **Income Statement** is a statement of activities over a period of time
 - Revenues minus expenses = net income or loss → Retained Earnings
- The **Retained Earnings** statement resolves income and dividends
 - Beginning RE + net income – dividends = Ending RE on Balance sheet
- The **Balance Sheet** is a snapshot of assets and the claims on them (owe or own)
 - Assets = Liabilities + Owners Equity (contributed and Retained Earnings)
- The **Statement of Cash Flows** shows what happened with cash