

CLOSING ENTRIES



The *Income Summary* account is used to close (set to zero) all of the revenue and expense accounts. Like the revenue, expense, and withdrawals accounts, it is a temporary owner's equity account. It also will be closed (set to zero) at the end of the accounting period.

Five Steps in Closing the Nominal Accounts

1. Close (with debits) all revenue accounts to the income summary account.
2. Close (with credits) all expense accounts to the income summary account.
3. Determine the balance in the income summary account.
4. Close the income summary account to the capital account.
5. Close the withdrawal account (with a credit) to the capital account.

Please note, we use compound entries with step 1 (if more than one revenue account is used) and step two. We do not record a separate closing entry for each revenue and expense account as it would defeat the convenience of summarizing the effect of all revenues and all expenses into one account. The more often we record a number the greater the chance for error.

DEMONSTRATION PROBLEM

The income statement columns of a worksheet prepared December 31, 1993, for Phil Howell, consultant, contain only the following accounts.

	Debit	Credit
Service Fees Earned		\$60,300
Rent Expense	\$14,800	
Salaries Expense	36,700	
Supplies Expense	4,600	
Depreciation Expense	6,100	

Included among the accounts in the balance sheet columns of the worksheet are P. Howell, Capital, \$57,000 (credit) and P. Howell, Drawing, \$8000 (debit). Prepare entries to close the accounts. After these entries are posted, what is the balance of the P. Howell, Capital account.

<table style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: center; border-top: 1px solid black;">Service Fees Earned</td></tr> <tr><td style="text-align: right; border-right: 1px solid black;">60,300</td></tr> </table>	Service Fees Earned	60,300	<table style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: center; border-top: 1px solid black;">Rent Expense</td></tr> <tr><td style="text-align: right; border-right: 1px solid black;">14,800</td></tr> </table>	Rent Expense	14,800	<table style="width: 100%; border-collapse: collapse;"> <tr><td style="text-align: center; border-top: 1px solid black;">Salaries Expense</td></tr> <tr><td style="text-align: right; border-right: 1px solid black;">36,700</td></tr> </table>	Salaries Expense	36,700
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