Closing Entries

Closing entries are gradually becoming a task of the past due to the advent of accounting and bookkeeping software. This software normally performs this task automatically.

The "ole"manual sytem used thes entries.

The closing entries were those journal entries made in a manual accounting system at the end of an accounting period to transfer the balances in temporary accounts to permanent accounts and transfer the balances of owner's drawing or dividend accounts to owner capital accounts.

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What are temporary accounts ?
Temporary accounts are the revenue, expense, draw, and dividend accounts.

A temporary account accumulates balances for a single reporting period, whereas a permanent account stores balances over multiple periods.

The accounts listed in the balance sheet are called permanent account.

The Procedure

1. Closing entries transfers all revenue and expense account totals at the end of a reporting period to an income summary account, which then transfers its ending balance to the Owner's Equity Account or the Retained Earnings Acount for corporations.

As a result, the temporary account balances are set to zero, so that they can be used again to store period-specific amounts in the following accounting period.

2. Closing entries also transfer the drawing and dividend accounts to the owner's capital account or for corporations, this entry closes any dividend accounts to the retained earnings account.