

## CLOSING ENTRIES

Closing entries are used to close out (or bring the balance to \$0) temporary accounts (a.k.a. nominal accounts) to Retained Earnings. For the accounting period being closed, temporary accounts are: revenue, expense, income summary and dividends paid/declared accounts

Example:

Mattel, Inc.  
Income Statement  
For the Year Ending December 31, 2006  
(in millions of U.S. dollars)

<u>Revenues</u>	
Sales Revenue	\$4,960
Total Revenues	4,960
 <u>Expenses</u>	
Cost of Goods Sold Expense	2,531
Advertising and Promotion Expenses	636
Other Selling and Administrative Expenses	991
Interest Expense	62
Income Tax Expense	203
Total Expenses	4,423
<b>Net Income</b>	<b>\$ 537</b>

**CLOSING REVENUES** – Revenues reported on the income statement are closed to the income summary account. Since Revenues are posted to the General Ledger as a credit, debiting the Revenue accounts for the total balance will zero them out. The entry to close Revenues to the Income Summary account is as follows:

Revenues	\$4,960	
Income Summary		4,960

**CLOSING EXPENSES** – Expenses reported on the income statement are closed to the income summary account. Since Expenses are posted to the General Ledger as a debit, crediting the Expense accounts for the total balance will zero them out. The entry to close Expenses to the Income Summary account is as follows:

Income Summary	\$4,423	
Expenses		4,423

**CLOSING INCOME SUMMARY** – The income summary account is used as a check figure because the balance in the account, after Revenues and Expenses are closed out, should be equal to Net Income or Net Loss for the period being closed. A Net Income for an accounting period creates a credit balance in the income summary account, and a Net Loss creates a debit balance. Now close the Income Summary account to Retained Earnings, debiting or crediting the account depending on the ending balance:

Income Summary	\$537	
Retained Earnings		537

**CLOSING DIVIDENDS** – If Dividends were paid or declared during the accounting period in questions, the account will need to be closed out to Retained Earnings. Since Dividends have a debit balance, and reduce Retained Earnings, the account will be credited in order to close it out:

Retained Earnings	XXX
Dividends	XXX

**Finally, the balance in the Retained Earnings account will be the ending retained earnings for the accounting period in question and go on the balance sheet in its proper place.**

**\*T-Chart for Income Summary\***

<b>Income Summary</b>			
	Net Loss		Net Income
		4,960	(close revenue)
(close expenses)	4,423		
		537	(balance/net income)
(close to RE)	537		
	0	0	

-