THE END OF THE ACCOUNTING CYCLE IS HERE

You have worked through journalizing and posting, the work sheet (which includes the trial balance), prepared financial statements from the work sheet and journalized and posted adjusting entries. Now it is time to do the end-of-the-period work--specifically CLOSING THE BOOKS. See, study, follow the arrows on schematic of cycle on p. 148.

Another term for wrapping up a fiscal period and finding out how we did and setting up the records for the new fiscal period. Kind of like the IRS only wants to know about your income and deductions from Jan. 1-Dec. 31, businesses have periods of time in which they are interested. They want to wrap one up, clean out the temporary accounts (Revenue, Expenses, Drawing) and make their balances zero and start filling them up again with revenue and expenses and withdrawals from the new fiscal period.

This is another one of those chapters which is very procedural and try not to make anything more than it is-four journal entries and postings (following the journalizing and posting of the adjusting entries, that will close or zero out the REVENUE, EXPENSES AND DRAWING, SEND THE PROFIT OR LOSS TO THE CAPITAL AND PREPARE THE GENERAL LEDGER (THE BOOKS) FOR THE NEW FISCAL PERIOD.

THE SOURCE OF CLOSING ENTRIES

There are two sources of closing entries:

1. The ledger (shown on text pp. 150-153
2. The work sheet (the easier route I think, text pp. 154-155

THE STEPS FOR CLOSING

TRACK YOUR WAY THROUGH THESE PAGES, RECOGNIZING THAT YOU ARE FOLLOWING THE FOUR (4) CLOSING STEPS (Text p. 150 middle)

1. Close Revenue into Income Summary
2. Close Expenses into Income Summary
3. Close the Income Summary into the Capital account--by doing so you move the net profit or net loss into the capital--the owner has been waiting for this moment all fiscal period.
4. Close the Drawing account into the Capital account (if the owner has been very greedy and doing a bunch of withdrawing, he/she may find that they took out more than they netted--oops)

AGAIN, CLOSING JUST MEANS MAKING THE BALANCE ZERO. (See cartoon p. 149 and Procedure for Closing p. 149-150.

POSTING THE CLOSING ENTRIES.

Posting is a must (after the adjusting entries, of course), otherwise the books are not complete nor ready for the next fiscal period.