

# What are Closing Entries?

## Worksheet

Closing entries zero out temporary accounts (revenues, expenses, dividends) at period-end and transfer net income into retained earnings, preparing the books for the next accounting period.

## Questions

1. Which accounts are closed at the end of a period?
  - A) Assets and liabilities
  - B) Revenues, expenses, and dividends
  - C) Only revenues
  - D) Only cash
2. Revenue of \$40,000 is closed. What is the entry?
  - A) Debit Income Summary, Credit Revenue
  - B) Debit Revenue, Credit Income Summary
  - C) Debit Cash, Credit Revenue
  - D) Debit Revenue, Credit Retained Earnings
3. Where does the Income Summary balance ultimately go?
  - A) Cash
  - B) Accounts Payable
  - C) Retained Earnings
  - D) Accounts Receivable
4. Why are dividends closed directly to Retained Earnings instead of through Income Summary?
  - A) Dividends are an expense
  - B) Dividends are not part of net income - they're a direct reduction of equity
  - C) Dividends are a liability
  - D) It's not required
5. A company has Revenue of \$50,000 and Expenses of \$30,000 for the year. Record the closing entries for revenue and expenses.
6. Following the previous example, close the \$20,000 Income Summary balance to Retained Earnings.
7. The company paid \$5,000 in dividends during the year. Record the closing entry for dividends.
8. Define: What accounts get closed at period-end?
9. Define: Which account is permanently affected by closing entries?
10. Define: What is the Income Summary account used for?

## Answer Key

1. B) Revenues, expenses, and dividends - Temporary accounts - revenue, expense, dividends - are closed each period.
2. B) Debit Revenue, Credit Income Summary - Revenue has a credit balance, so closing it means debiting Revenue and crediting Income Summary.
3. C) Retained Earnings - Net income or loss in Income Summary is transferred to Retained Earnings.
4. B) Dividends are not part of net income - they're a direct reduction of equity - Dividends aren't an expense on the income statement; they reduce equity directly.
5. Close revenue: Debit Revenue \$50,000; Credit Income Summary \$50,000 Close expenses: Debit Income Summary \$30,000; Credit Expenses \$30,000 Income Summary now has a \$20,000 credit balance (net income)
6. Income Summary has a \$20,000 credit balance (net income) Entry: Debit Income Summary \$20,000; Credit Retained Earnings \$20,000 Income Summary is now zero
7. Dividends account has a \$5,000 debit balance Entry: Debit Retained Earnings \$5,000; Credit Dividends \$5,000 Retained Earnings' net change for the year =  $+\$20,000 - \$5,000 = \$15,000$
8. Temporary accounts: revenues, expenses, and dividends.
9. Retained Earnings (an equity account).
10. A temporary holding account that nets revenues and expenses before transferring to Retained Earnings.

### **Bounlu**

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