# 3.0 Journal Entries

This chapter has two purposes: 1) Review additional journal entries and 2) Closing journal entries.

**1) Additional Journal Entries**

Watch this 24 minute video regarding journal entries and financial statements.

**2) Closing journal entries**

These journal entries are challenging for most students, but you can do this.  You may have noticed that we have never used the Retained Earnings account in our day-to-day transaction journal entries.  Remember Net Income (Revenues - Expenses) and Dividends impact Retained Earnings and we have recorded journal entries using Revenues, Expenses, and Dividends.  We need a way to get those temporary accounts (Revenues, Expenses, and Dividends) into Retained Earnings so it can be up-to-date on the Balance Sheet.  That's it!  Closing entries move the temporary account balances into Retained Earnings.  Closing entries have a four step process:

Step 1: Move the revenue accounts into Income Summary (think of the Income Summary as a way to calculate Net Income).

Debit Revenue  
           Credit Income Summary

In order to close out our revenue accounts we have to debit them since they have a normal credit balance.

Step 2:  Move expense accounts into Income Summary.  The journal entry below only includes one expense, but you would include all expense accounts here.

Debit  Income Summary  
           Credit   Expenses

In order to close out our expense accounts we have to credit them since they have a normal debit balance.

Step 3: Now that our Income Summary account has all of our revenues and expenses it equals Net Income.  Now we will move Net Income into the Retained Earnings account.

Debit Income Summary  
           Credit  Retained Earnings

Remember Retained Earnings has a credit balance so Net Income will increase Retained Earnings.  If a company has a Net Loss (Expenses exceed Revenues) the journal entry accounts would be switched.  After this journal entry Income Summary should equal zero becuase we calculated Net Income and then moved it into Retained Earnings making it go to zero.

Step 4: The last one, we need to close our our Dividends account into Retained Earnings.

Debit  Retained Earnings  
           Credit  Dividends

This will always be the journal entry because Dividends always decreases Retained Earnings and we do that by debiting Retained Earnings.

To close out a revenue account we \_\_\_\_\_\_\_ it.

Debit

Credit

To close out an expense account we \_\_\_\_\_\_\_ it.

Debit

Credit

You can watch this video to learn more about closing journal entries.

Read this online at <https://books.byui.edu/financial_statement_preparation_and_analysis/chapter_3>