

Before class

ACC 300 · Class 3 · Tue 9/8

ACCOUNTING & INFORMATION SYSTEMS

External Advisory Board: fall meeting

Friday, September 18 · 1:30–3:30 PM

Minskoff Multipurpose Room (BCC M019)

Meet accounting partners and managers.
Enjoy free Dairy Store ice cream.

Companies include EY, KPMG, Deloitte, PwC, Grant Thornton, BDO, DPO, Plante Moran, Penske, Dow, and more.



Register for the event

Scan the code or use the link.

Business casual or business professional attire required.

BEFORE-CLASS TRIVIA

What is the tallest
building in the world?

Don't look it up—guessing is
more fun.

Statements and closing entries

Building financial statements from the adjusted trial balance; how closing entries reset the temporary accounts for the next period.

UNIT 1

The reporting system and the accounting cycle

How do transactions become financial statements, and who sets the rules for what those statements report?

Class 2 adjustment: update two ledger balances

The adjusting journal entry is complete; determine its effect on the adjusted trial balance.

Red Cedar recorded earlier June payroll before the period-end adjustment:

- That payroll produced a **\$2,100 debit balance** in Wages Expense.
- Wages Payable has a **zero balance**.

CLASS 2 ADJUSTMENT

DATE	ACCOUNT	DEBIT	CREDIT
Jun 30	Wages Expense	900	
	Wages Payable		900

Determine the adjusted balance of each account.

WORK WITHOUT NOTES

Class 2 adjustment: post to the ledger

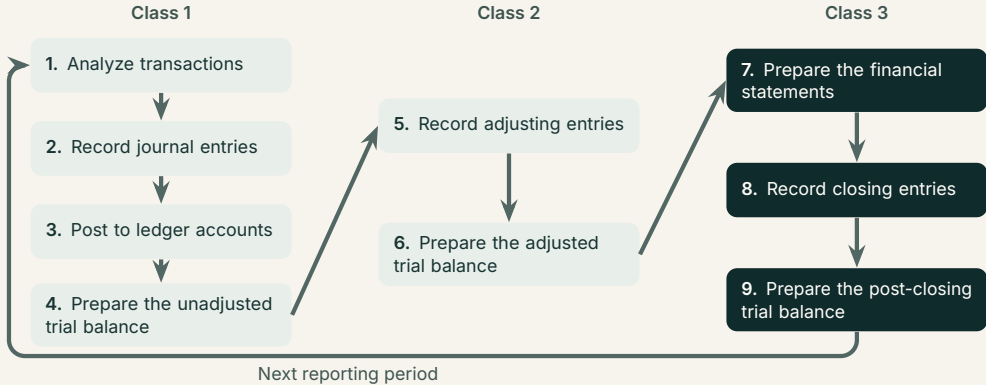
BB = June 1 beginning balance · JE = June 30 adjusting entry · EB = June 30 ending balance

DATE	ACCOUNT	DEBIT	CREDIT
Jun 30	Wages Expense	900	
	Wages Payable		900
Wages Expense		Wages Payable	
DEBIT	CREDIT	DEBIT	CREDIT
Jun 1 BB	0		0
June payroll	2,100		
JE	900		900
Jun 30 EB	3,000		900
			Jun 1 BB
			JE
			Jun 30 EB

The adjusted trial balance lists the **\$3,000 debit balance** and the **\$900 credit balance**.

Accounting cycle: financial statements and closing

The same cycle repeats for each reporting period.



Learning objective for this meeting

By the end of class, you should be able to:

1.3

APPLY ●●○○○

Build the financial statements and the closing entries from an adjusted trial balance, and explain how net income and ending equity connect the statements and why the repeated amounts must agree.

IN PRACTICE

- Build the linked financial statements.
- Close the temporary accounts.
- Trace net income and ending equity across the statements.
- Check that repeated amounts agree.

Preparing the three linked statements

This sequence keeps shared amounts consistent; US GAAP does not prescribe the order in which a preparer drafts the statements.

STATEMENT	USES	PRODUCES OR CHECKS
1 · Income statement	Revenue and expense balances	Net income → changes in equity
2 · Changes in equity	Beginning equity, net income, and owner transactions	Ending equity → balance sheet
3 · Balance sheet	Asset, liability, and ending equity balances	Assets = liabilities + equity

The same net income and ending equity amounts must agree wherever they appear.

Red Cedar adjusted trial balance

Red Cedar Paddle Co. · Adjusted trial balance · June 30, 2026 · US dollars

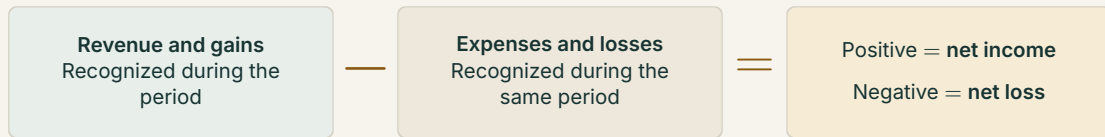
ACCOUNT	DEBIT	CREDIT
Cash*	20,200	
Accounts Receivable*	4,400	
Prepaid Insurance	3,300	
Equipment	30,000	
Accumulated Depreciation		500
Notes Payable		12,000
Accounts Payable		6,000
Unearned Service Revenue		3,000
Wages Payable		900
Common Stock		30,000
Dividends*	600	
Service Revenue*		11,100
Wages Expense*	3,000	
Rent Expense	1,200	
Insurance Expense	300	
Depreciation Expense	500	
Total	63,500	63,500

*This trial balance includes the \$2,100 June payroll recorded before the \$900 adjustment. Since Class 1, Red Cedar also recorded a \$400 service sale on account (Accounts Receivable = \$4,000 + \$400 = \$4,400) and paid a \$600 dividend.

Income statement: what it reports

It measures net income or net loss from revenue, gains, expenses, and losses for a stated period.

CALCULATION



WHICH ADJUSTED TRIAL BALANCE ACCOUNTS APPEAR ON THE INCOME STATEMENT?

✓ Include

- Revenue accounts
- Gain accounts
- Expense accounts
- Loss accounts

× Exclude

- Asset accounts
- Liability accounts
- Equity accounts

Dividends are owner distributions, not expenses.
They do not affect net income.

Red Cedar: adjusted trial balance to income statement

Select the revenue and expense balances, then calculate total expenses and net income.

ACCOUNT	DEBIT	CREDIT
Cash	20,200	
Accounts Receivable	4,400	
Prepaid Insurance	3,300	
Equipment	30,000	
Accumulated Depreciation		500
Notes Payable		12,000
Accounts Payable		6,000
Unearned Service Revenue		3,000
Wages Payable		900
Common Stock		30,000
Dividends	600	
Service Revenue		11,100
Wages Expense	3,000	
Rent Expense	1,200	
Insurance Expense	300	
Depreciation Expense	500	



Red Cedar Paddle Co. Income Statement	
Year Ended June 30, 2026 · US Dollars	
Service Revenue	11,100
Expenses	
Wages Expense	3,000
Rent Expense	1,200
Insurance Expense	300
Depreciation Expense	500
Total expenses	5,000
Net income	6,100

iClicker question 1 of 5

Which line on an income statement is **calculated** rather than copied from a single adjusted trial balance account?

- A. Service Revenue
- B. Wages Expense
- C. Interest Expense
- D. Net income

iClicker answer 1 of 5

Answer D · Net income does not appear as an account balance.

Which income-statement line is calculated rather than copied from a single adjusted trial balance account?

- | | |
|----------------------|---|
| A. Service Revenue | Individual account balance |
| B. Wages Expense | Individual account balance |
| C. Interest Expense | Individual account balance |
| D. Net income | Revenue and gains minus expenses and losses |

Statement of stockholders' equity: the components

The statement reconciles every equity component presented on the balance sheet.

Contributed capital
Common Stock and
Additional Paid-in Capital

Retained Earnings
Cumulative earnings retained
by the company

**Accumulated other
comprehensive income
(AOCI)**
Cumulative items reported
outside net income

Treasury stock
Shares repurchased and still
held

Noncontrolling interest
Outside owners' share of
consolidated subsidiaries

Other equity components
Additional separately
presented equity

 Applied to Red Cedar here  Returns in Chapter 6  Context only in ACC 300

Beginning balance $\pm$ changes = ending balance

Equity rollforwards: Retained Earnings and AOCI

Accumulated other comprehensive income (AOCI) collects other comprehensive income (OCI).

A rollforward starts with a beginning balance, adds increases, and subtracts decreases to explain the ending balance.

Retained Earnings		AOCI	
DEBIT	CREDIT	DEBIT	CREDIT
	Beginning balance		Beginning balance
Net loss	Net income	Other comprehensive loss	Other comprehensive income
Dividends			
	Ending balance		Ending balance

A retained deficit or an accumulated OCI loss can instead produce a debit balance.

Chapter 6: which items are required to be reported in other comprehensive income under US GAAP.

Red Cedar: a Retained Earnings rollforward

Year ended June 30, 2026 · US dollars · Beginning Retained Earnings was zero.

FROM THE INCOME STATEMENT

Service Revenue	11,100
Total expenses	(5,000)
Net income	6,100

Dividends on the adjusted trial balance:
\$600 debit.

Retained Earnings

DEBIT		CREDIT	
		0	Beginning
		6,100	Net income
Dividends	600		
		5,500	Ending

$$\$0 + \$6,100 - \$600 = \$5,500 \text{ ending Retained Earnings}$$

This shows the changes reported on the equity statement. We will record their closing entries after preparing the statements.

Equity rollforwards: contributed capital

Common Stock and additional paid-in capital (APIC) together form contributed capital.

Common Stock		Additional Paid-In Capital	
DEBIT	CREDIT	DEBIT	CREDIT
	Beginning balance		Beginning balance
Share retirements	Share issuances	Share retirement reductions	Amounts above Common Stock
	Ending balance		Ending balance

Contributed capital = Common Stock + APIC.

Combine their beginning balances, changes, and ending balances in the equity rollforward.

Red Cedar statement of stockholders' equity

Red Cedar Paddle Co. · Statement of stockholders' equity · Year ended June 30, 2026 · US dollars

	COMMON STOCK	RETAINED EARNINGS	TOTAL
Balance, June 1	0	0	0
Shares issued	30,000		30,000
Net income		6,100	6,100
Dividends		(600)	(600)
Balance, June 30	30,000	5,500	35,500

The **\$6,100** agrees with net income on the income statement.

Common Stock and Dividends come from the adjusted trial balance.

Red Cedar: adjusted trial balance to balance sheet

Select the ending asset, liability, and applicable equity balances; add ending Retained Earnings from the prior statement.

ACCOUNT	DEBIT	CREDIT
Cash	20,200	
Accounts Receivable	4,400	
Prepaid Insurance	3,300	
Equipment	30,000	
Accumulated Depreciation		500
Notes Payable		12,000
Accounts Payable		6,000
Unearned Service Revenue		3,000
Wages Payable		900
Common Stock		30,000
Dividends	600	
Service Revenue		11,100
Wages Expense	3,000	
Rent Expense	1,200	
Insurance Expense	300	
Depreciation Expense	500	



BALANCE SHEET	USD
Assets	
Cash	20,200
Accounts Receivable	4,400
Prepaid Insurance	3,300
Equipment	30,000
Less: Accumulated Depreciation	(500)
Total assets	57,400
Liabilities	
Notes Payable	12,000
Accounts Payable	6,000
Unearned Service Revenue	3,000
Wages Payable	900
Total liabilities	21,900
Equity	
Common Stock	30,000
Ending Retained Earnings*	5,500
Total equity	35,500
Total liabilities and equity	57,400

*Calculated on the statement of stockholders' equity.

iClicker question 2 of 5

A student puts Red Cedar's \$30,000 Equipment balance on the income statement as an expense instead of reporting it on the balance sheet. How does this error affect the statements?

- A. Net income, ending equity, and total assets are each understated by \$30,000.
- B. Net income is understated by \$30,000, but ending equity and total assets are correct.
- C. Net income and ending equity are understated by \$30,000, but total assets are correct.
- D. Total assets are understated by \$30,000, but net income and ending equity are correct.

iClicker answer 2 of 5

Answer A · Misclassifying an asset as an expense affects all three linked statements.

Red Cedar reports \$30,000 of Equipment as an expense instead of an asset. How does this affect the statements?

- A. Net income, ending equity, and total assets are each understated by \$30,000.**
- B. Net income is understated by \$30,000, but ending equity and total assets are correct.
- C. Net income and ending equity are understated by \$30,000, but total assets are correct.
- D. Total assets are understated by \$30,000, but net income and ending equity are correct.

B and C miss the omitted asset. B and D miss that the false expense reduces net income and therefore ending equity.

Connecting the financial statements

Articulation is the connection among the statements. Shared amounts must agree.

Income statement

Revenue \$11,100 – Expenses \$5,000 = **Net income \$6,100**

Statement of stockholders' equity

Beginning Retained Earnings \$0 + **Net income \$6,100** – Dividends \$600
= **Ending Retained Earnings \$5,500**

Common Stock \$30,000 + **Ending Retained Earnings \$5,500** = **Ending equity \$35,500**

Balance sheet

Common Stock \$30,000 + **Retained Earnings \$5,500** = Equity \$35,500
Assets \$57,400 = Liabilities \$21,900 + Equity \$35,500

Matching amounts can reveal a transcription or calculation error. They cannot prove that every transaction or adjustment was recorded correctly.

A complete set of financial statements

A complete set includes financial statements and the accompanying notes.

REQUIRED INFORMATION	WHERE IT IS REPORTED
Financial position at the reporting date	Balance sheet
Net income and comprehensive income for the period	Income and comprehensive-income statement or statements
Changes in equity during the period	Statement of stockholders' equity
Cash receipts and payments during the period	Statement of cash flows
Required explanations, accounting policies, and supporting details	Notes to the financial statements

Comprehensive income includes net income and other comprehensive income.

Complete-set information: ASC 205-10-45-1A. Comprehensive income presentation: 220-10-45-1A. Accounting-policy notes: 235-10-50-1.

Multiple-step income statement structure

The subtotals separate product margin, operations, other items, and tax (Chapter 6).

Example Company	
Income Statement	
Year Ended December 31 · US Dollars	
Net sales	100,000
Cost of goods sold	(60,000)
Gross profit	40,000
Operating expenses	
Selling expenses	(10,000)
Administrative expenses	(8,000)
Total operating expenses	(18,000)
Operating income	22,000
Other income and expense	
Interest expense	(2,000)
Income before income taxes	20,000
Income tax expense	(4,000)
Net income	16,000

Capitol Sign adjusted trial balance

Capitol Sign Co. is a sign-making corporation. · December 31, 2025 · US dollars

ACCOUNT	DEBIT	CREDIT
Cash	12,500	
Accounts Receivable	5,000	
Equipment	30,000	
Accumulated Depreciation		4,000
Accounts Payable		5,000
Notes Payable		8,000
Common Stock		20,000
Retained Earnings, January 1		7,000
Dividends	3,000	
Service Revenue		22,000
Rent Expense	9,000	
Wages Expense	6,500	
Total	66,000	66,000

Common Stock was \$20,000 on January 1. No shares were issued or retired during the year.

Capitol Sign statement-building practice

Capitol Sign Co. · Adjusted balances at December 31, 2025 · US dollars

ACCOUNT	DEBIT	CREDIT
Cash	12,500	
Accounts Receivable	5,000	
Equipment	30,000	
Accumulated Depreciation		4,000
Accounts Payable		5,000
Notes Payable		8,000
Common Stock		20,000
Retained Earnings, January 1		7,000
Dividends	3,000	
Service Revenue		22,000
Rent Expense	9,000	
Wages Expense	6,500	
Total	66,000	66,000

Common Stock was \$20,000 on January 1. No shares were issued or retired during the year.

PREPARE THREE STATEMENTS

- Income statement
- Statement of stockholders' equity
- Balance sheet

Include accounts, subtotals, and totals.

Use the appropriate date heading for each statement:

- For the year ended
December 31, 2025
- As of December 31, 2025

Capitol Sign income statement

Revenue and expense balances produce the net income used on the next statement.

ADJUSTED TRIAL BALANCE

ACCOUNT	DEBIT	CREDIT
Cash	12,500	
Accounts Receivable	5,000	
Equipment	30,000	
Accumulated Depreciation		4,000
Accounts Payable		5,000
Notes Payable		8,000
Common Stock		20,000
Retained Earnings, January 1		7,000
Dividends	3,000	
Service Revenue		22,000
Rent Expense	9,000	
Wages Expense	6,500	
Total	66,000	66,000

Capitol Sign Co. Income Statement

For the Year Ended December 31, 2025 · US Dollars

Service Revenue	\$22,000
Expenses	
Rent Expense	9,000
Wages Expense	6,500
Total expenses	15,500
Net income	\$6,500

Capitol Sign statement of stockholders' equity

Net income increases Retained Earnings before Dividends reduce it.

ADJUSTED TRIAL BALANCE

ACCOUNT	DEBIT	CREDIT
Cash	12,500	
Accounts Receivable	5,000	
Equipment	30,000	
Accumulated Depreciation		4,000
Accounts Payable		5,000
Notes Payable		8,000
Common Stock		20,000
Retained Earnings, January 1		7,000
Dividends	3,000	
Service Revenue		22,000
Rent Expense	9,000	
Wages Expense	6,500	
Total	66,000	66,000

Capitol Sign Co. Statement of Stockholders' Equity For the Year Ended December 31, 2025 · US Dollars

	COMMON STOCK	RETAINED EARNINGS	TOTAL
Beginning balances	20,000	7,000	27,000
Net income		6,500	6,500
Dividends		(3,000)	(3,000)
Ending balances	20,000	10,500	30,500

The **\$6,500 net income** comes from the income statement.

Capitol Sign balance sheet

Ending Retained Earnings is one component of total stockholders' equity.

ADJUSTED TRIAL BALANCE

ACCOUNT	DEBIT	CREDIT
Cash	12,500	
Accounts Receivable	5,000	
Equipment	30,000	
Accumulated Depreciation		4,000
Accounts Payable		5,000
Notes Payable		8,000
Common Stock		20,000
Retained Earnings, January 1		7,000
Dividends	3,000	
Service Revenue		22,000
Rent Expense	9,000	
Wages Expense	6,500	
Total	66,000	66,000

Capitol Sign Co. Balance Sheet

December 31, 2025 · US Dollars

Assets	
Cash	12,500
Accounts Receivable	5,000
Equipment	30,000
Less: Accumulated Depreciation	(4,000)
Total assets	43,500
Liabilities	
Accounts Payable	5,000
Notes Payable	8,000
Total liabilities	13,000
Stockholders' equity	
Common Stock	20,000
Retained Earnings	10,500
Total stockholders' equity	30,500
Total liabilities and stockholders' equity	43,500

Statement of cash flows: classify cash transactions

The statement groups cash receipts and payments by the activity that produced them.

Operating

- Cash flows not investing or financing; generally the cash effects of net income activities

EXAMPLES

- Collect cash from customers
- Make cash payroll payments
- Pay cash for rent

Investing

- Buy or sell long-term operating assets
- Buy or sell investments

EXAMPLES

- Buy or sell equipment
- Buy or sell land

Financing

- Borrow or repay debt
- Receive capital from owners
- Distribute capital to owners

EXAMPLES

- Borrow or repay principal
- Issue or repurchase stock
- Pay cash dividends

$\text{Beginning cash} + \text{net change in cash} = \text{ending cash}$

ASC 230-10-45-16 and 45-17: operating; 45-12 and 45-13: investing; 45-14 and 45-15: financing.

iClicker question 3 of 5

For a nonfinancial company (not a bank or insurer), which cash payment is classified as an **operating activity** under US GAAP?

- A. Repay principal on bank debt
- B. Pay interest on bank debt
- C. Buy equipment
- D. Repurchase the company's common stock

iClicker answer 3 of 5

Answer B · Interest paid is an operating cash flow under US GAAP.

For a nonfinancial company (not a bank or insurer), which cash payment is classified as an **operating activity** under US GAAP?

- | | |
|--|------------------|
| A. Repay principal on bank debt | Financing |
| B. Pay interest on bank debt | Operating |
| C. Buy equipment | Investing |
| D. Repurchase the company's common stock | Financing |

Debt payments can split between sections: interest paid is an operating cash flow; repayment of principal is a financing cash flow.

ASC 230-10-45-17(d): interest; 45-15(b): principal; 45-13(c): equipment; 45-15(a): stock repurchase.

Which accounts close?

Closing resets period activity; permanent account balances carry forward.

Temporary accounts

Revenue and gains
Expenses and losses
Dividends

Reset to zero for the next period.

Permanent accounts

Assets, including contra accounts
Liabilities
Permanent equity accounts

Carry their balances forward.

Red Cedar closes June revenue, expenses, and Dividends. Its assets, liabilities, Common Stock, and Retained Earnings continue into July.

Closing temporary accounts: three steps

After the statements are prepared, closing transfers period activity to Retained Earnings.

1 · IDENTIFY

Find each temporary account's ending balance.

Revenue, gain, expense, loss, and dividend accounts



2 · RESET

Record the opposite of that balance.

Debit a credit balance;
credit a debit balance.



3 · TRANSFER

Record the other side in Retained Earnings.

We close directly here.
Income Summary is an alternative route.

Check: Temporary accounts are zero, and Retained Earnings equals the amount calculated on the statement of stockholders' equity.

Closing changes ledger balances. It does not erase the journal entries, supporting records, or financial statements for the completed period.

Red Cedar revenue closing entry

Red Cedar Paddle Co. · June 30, 2026 · US dollars

ADJUSTED TRIAL BALANCE

ACCOUNT	DEBIT	CREDIT
Cash	20,200	
Accounts Receivable	4,400	
Prepaid Insurance	3,300	
Equipment	30,000	
Accumulated Depreciation		500
Notes Payable		12,000
Accounts Payable		6,000
Unearned Service Revenue		3,000
Wages Payable		900
Common Stock		30,000
Dividends	600	
Service Revenue		11,100
Wages Expense	3,000	
Rent Expense	1,200	
Insurance Expense	300	
Depreciation Expense	500	
Total	63,500	63,500

CLOSING ENTRY

ACCOUNT	DEBIT	CREDIT
Service Revenue	11,100	
Retained Earnings		11,100

Service Revenue

Credit balance \$11,100 – debit \$11,100 = **\$0**

Retained Earnings

Receives the \$11,100 credit

Red Cedar expense closing entry

Red Cedar Paddle Co. · June 30, 2026 · US dollars

ADJUSTED TRIAL BALANCE

ACCOUNT	DEBIT	CREDIT
Cash	20,200	
Accounts Receivable	4,400	
Prepaid Insurance	3,300	
Equipment	30,000	
Accumulated Depreciation		500
Notes Payable		12,000
Accounts Payable		6,000
Unearned Service Revenue		3,000
Wages Payable		900
Common Stock		30,000
Dividends	600	
Service Revenue		11,100
Wages Expense	3,000	
Rent Expense	1,200	
Insurance Expense	300	
Depreciation Expense	500	
Total	63,500	63,500

CLOSING ENTRY

ACCOUNT	DEBIT	CREDIT
Retained Earnings	5,000	
Wages Expense		3,000
Rent Expense		1,200
Insurance Expense		300
Depreciation Expense		500

Credit each expense account for its debit balance to reset it to zero. The **\$5,000 debit** reduces Retained Earnings by total expenses.

Red Cedar dividend closing entry

Red Cedar Paddle Co. · June 30, 2026 · Dividends do not change net income.

ADJUSTED TRIAL BALANCE

ACCOUNT	DEBIT	CREDIT
Cash	20,200	
Accounts Receivable	4,400	
Prepaid Insurance	3,300	
Equipment	30,000	
Accumulated Depreciation		500
Notes Payable		12,000
Accounts Payable		6,000
Unearned Service Revenue		3,000
Wages Payable		900
Common Stock		30,000
Dividends	600	
Service Revenue		11,100
Wages Expense	3,000	
Rent Expense	1,200	
Insurance Expense	300	
Depreciation Expense	500	
Total	63,500	63,500

CLOSING ENTRY · US DOLLARS

ACCOUNT	DEBIT	CREDIT
Retained Earnings	600	
Dividends		600

INCOME STATEMENT · US DOLLARS

Service Revenue	11,100
Wages Expense	(3,000)
Rent Expense	(1,200)
Insurance Expense	(300)
Depreciation Expense	(500)
Total expenses	(5,000)
Net income	6,100

Retained Earnings rollforward

\$0 beginning + \$6,100 net income
– \$600 dividends = **\$5,500 ending**

Capitol Sign closing-entry practice

Return to Capitol Sign Co. · December 31, 2025 · US dollars

ADJUSTED TRIAL BALANCE

ACCOUNT	DEBIT	CREDIT
Cash	12,500	
Accounts Receivable	5,000	
Equipment	30,000	
Accumulated Depreciation		4,000
Accounts Payable		5,000
Notes Payable		8,000
Common Stock		20,000
Retained Earnings, January 1		7,000
Dividends	3,000	
Service Revenue		22,000
Rent Expense	9,000	
Wages Expense	6,500	
Total	66,000	66,000

Prepare the closing entries from the adjusted trial balance.

Identify which accounts close and which balances carry forward.

Calculate Retained Earnings after closing.

WORK ON YOUR OWN OR WITH THOSE AROUND YOU

Capitol Sign closing-entry practice: answer

Capitol Sign Co. · December 31, 2025 · US dollars

CLOSE THESE FOUR TEMPORARY ACCOUNTS

ACCOUNT	DEBIT	CREDIT
Service Revenue	22,000	
Retained Earnings		22,000
Retained Earnings	15,500	
Rent Expense		9,000
Wages Expense		6,500
Retained Earnings	3,000	
Dividends		3,000

Retained Earnings

DEBIT		CREDIT	
		7,000	Beginning
		22,000	Revenue
Expenses	15,500		
Dividends	3,000		
		10,500	Ending

One compound entry can produce the same closing balances.

CARRY FORWARD THE PERMANENT BALANCES

Debits: Cash \$12,500; Accounts Receivable \$5,000; Equipment \$30,000.

Credits: Accumulated Depreciation \$4,000; Accounts Payable \$5,000; Notes Payable \$8,000; Common Stock \$20,000; Retained Earnings \$10,500.

iClicker question 4 of 5

Which account is permanent, so its balance is not reset by closing entries?

- A. Advertising Expense
- B. Interest Revenue
- C. Loss on Sale of Equipment
- D. Unearned Service Revenue

iClicker answer 4 of 5

Answer D · Unearned Service Revenue is a permanent account.

Which account is permanent, so its balance is not reset by closing entries?

- A. Advertising Expense
- B. Interest Revenue
- C. Loss on Sale of Equipment
- D. Unearned Service Revenue**

An expense, revenue, or loss account measures one period's activity. Unearned Service Revenue reports services still owed to customers after that period ends.

Capitol Sign post-closing trial balance

Capitol Sign Co. · December 31, 2025 · US dollars · Balances after posting the closing entries

ACCOUNT	DEBIT	CREDIT
Cash	12,500	
Accounts Receivable	5,000	
Equipment	30,000	
Accumulated Depreciation		4,000
Accounts Payable		5,000
Notes Payable		8,000
Common Stock		20,000
Retained Earnings		10,500
Total	47,500	47,500

CHECK THE ACCOUNT LIST

Only permanent accounts remain.
Revenue, expense, and dividend
accounts have zero balances.

CHECK THE TOTALS

Debits equal credits. Retained Earnings
agrees with the \$10,500 calculated on
the equity statement.

Balances at the start of the next period

Capitol Sign Co. · Closing December 31, 2025 leads to opening January 1, 2026.

PERMANENT BALANCES CARRY FORWARD

ACCOUNT	DEC 31 CLOSE	JAN 1 OPEN
Cash	12,500	12,500
Accounts Receivable	5,000	5,000
Equipment	30,000	30,000
Accumulated Depreciation	4,000	4,000
Accounts Payable	5,000	5,000
Notes Payable	8,000	8,000
Common Stock	20,000	20,000
Retained Earnings	10,500	10,500

USD; each balance keeps its debit or credit side.

TEMPORARY BALANCES RESET TO ZERO

ACCOUNT	BEFORE CLOSING	JAN 1 OPEN
Service Revenue	22,000	0
Rent Expense	9,000	0
Wages Expense	6,500	0
Dividends	3,000	0

These accounts start the new period at zero. Their completed-period activity remains in the accounting records.

iClicker question 5 of 5

A corporation has closed its 2025 revenue and expense accounts. Retained Earnings now has an \$18,400 credit balance. Dividends still has a \$2,700 debit balance. The trial balance totals agree. What should happen before opening the 2026 ledger?

- A. Pay \$2,700 cash to close Dividends.
- B. Close Dividends; carry forward \$15,700 of Retained Earnings.
- C. Close Dividends; carry forward \$21,100 of Retained Earnings.
- D. Carry both balances forward because the totals agree.

iClicker answer 5 of 5

Answer B · Closing Dividends reduces Retained Earnings without another cash payment.

A corporation has closed revenue and expenses, but Dividends still has a \$2,700 debit balance. Retained Earnings has an \$18,400 credit balance. What remains before opening the 2026 ledger?

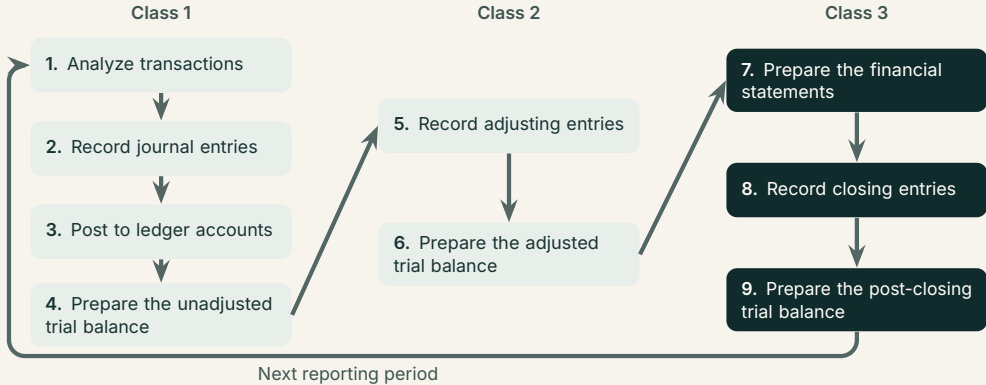
- A. Pay \$2,700 cash to close Dividends.
- B. Close Dividends; carry forward \$15,700 of Retained Earnings.**
- C. Close Dividends; carry forward \$21,100 of Retained Earnings.
- D. Carry both balances forward because the totals agree.

DATE	ACCOUNT	DEBIT	CREDIT
Dec 31, 2025	Retained Earnings	2,700	
	Dividends		2,700

$\$18,400 - \$2,700 = \textbf{\$15,700}$. Cash is unchanged; Dividends is zero. Equal trial balance totals alone did not prove closing was complete.

Accounting cycle: finish the period

Closing transfers period activity to Retained Earnings and resets temporary accounts to zero.



NEXT MEETING · THU 9/10

Where the rules come from

Required before Thursday: Read Chapter 3 on the course site.

Optional equivalent: Kieso Chapter 2, section 2.4, pages 2-37 through 2-41.

Optional practice: Chapter 3 practice is on the course site.

Due next week: Submit the Unit 1 review assignment in D2L by Mon., Sep. 14 at 11:59 PM.