Year-End Closing Entries & Income Summary Cheat Sheet

Permanent vs. Temporary Accounts, The 4-Step Closing Sequence & Post-Closing Trial Balance

1. PERMANENT (REAL) VS. TEMPORARY (NOMINAL) ACCOUNTS

Category	Included Accounts	Year-End Closing Action
Permanent (Real) Accounts	Assets, Liabilities, Contributed Capital, Retained Earnings.	**NEVER CLOSED.** Ending balances carry forward directly to Day 1 of the new fiscal period.
Temporary (Nominal) Accounts	Revenues, Expenses, Gains, Losses, Dividends Declared.	**CLOSED TO ZERO ($0).** Balances reset to zero so the new year begins fresh.

2. THE 4-STEP CLOSING ENTRY SEQUENCE

Step	Journal Entry	Underlying Accounting Effect
Step 1: Close Revenues	**Dr. Sales / Service Revenues** **Cr. Income Summary**	Transfers all credit-balance revenue accounts into Income Summary.
Step 2: Close Expenses	**Dr. Income Summary** **Cr. Operating Expenses (COGS, Rent, Salaries...)**	Transfers all debit-balance expense accounts into Income Summary.
Step 3: Close Income Summary	*If Net Income:* **Dr. Income Summary • Cr. Retained Earnings** *If Net Loss:* **Dr. Retained Earnings • Cr. Income Summary**	Transfers period net profit or loss directly into equity Retained Earnings.
Step 4: Close Dividends	**Dr. Retained Earnings** **Cr. Dividends (or Cash Dividends)**	Reduces Retained Earnings directly. *Notice: Dividends bypass Income Summary!*