

FINANCE AT A GLANCE

Closing the Income summary account

Lesson 60

We mentioned in previous lessons that the Retained earnings is where the income statement meets the balance sheet. We shall show here what we exactly mean by that.

In Lesson 58, we introduced the temporary account called *Income summary* where we “parked” the balances of the revenue and expense accounts. As of Lesson 59, we have parked in it all that need to be lodged there. The succeeding step will be the transfer of the net balance of *Income summary* to *Retained earnings*. The closing entries for this step are put in the journal as follows:

	Dr		1,090	
		Income summary		(i)
	Cr			
		Retained earnings	1,090	(i)
		<i>To close Income summary to Retained earnings.</i>		

These entries are posted as follows:

Income summary	
Debit	Credit
	0 Beginning bal
	50,000 (a)
(b) 35,000	
(c) 5,000	
(d) 2,000	
(e) 2,000	
(f) 550	
(g) 4,168	
(h) 192	
(i) 1,090	
	0 Ending bal

3.90 Retained earnings	
Debit	Credit
	0 Beginning bal
	1,090 Jan. 31, 2010
	1,090 Ending bal

Note: The letters (a) through (h) refer to the entries made in Lesson 58 ad 59.

In effect, what we have just done is to reflect on the *Retained earnings* account the net of the revenues and expenses incurred over the period under consideration, which is the month of January. This net figure is indeed the bottom line of the *Income statement*, (the *Net profit after tax*). Thus, the closing entries shown in this lesson are the linkage between the *income statement* and the *balance sheet*.

In the next lesson, we shall finally derive the *income statement* and the *balance*, which are the end results of the accounting process.