

The Mechanism of Prepare Closing Entries and a Post-Closing Trial Balance

Isma Zulaiha¹, Mahyuni Miraza², Iskandar Muda³

^{1,2,3}, *Universitas Sumatera Utara. Medan, Indonesia*

Abstract

A company must have very clear records. Therefore, financial reports must be made carefully and precisely. So that the company can assess the company's performance during the previous period and take into account the company's next steps. To find out what steps will be taken in the next period, the company must record the closing journal and trial balance after closing. Companies can record and keep closing journals and manage them properly so that they become appropriate company financial statements. Closing entries are made to present the actual (real) financial information of a company after closing the books. After the journal is posted to the general ledger, the company will make a closing trial balance. Thus the company will know what the company's assets are and where the source of the company's funding comes from. In addition, the trial balance after closing is also useful for maintaining and ensuring that the calculations in the general ledger are balanced or not. Through the method of observation and literature study, the author will create a mechanism for making closing journals and a trial balance after closing.

Keywords: closing journal, trial balance after closing

1.

INTRODUCTION

In running a business or business, bookkeeping is one of the important things that must be done. Bookkeeping is a process that refers to the activities of organizing and storing financial documents, one of which is financial reports (Lee et al., 2022). Financial records for businesses will certainly help companies find out how much business capital has been issued, making it easier to determine targets and future plans. Not only expenses, income records are also very important for every company. Building a strong and large business certainly requires many important things, one of which is the correct financial recording system to record every transaction made (Nguyen et al., 2022). By compiling systematic financial records, of course, business people can see and analyze capital turnover and take steps when there are deviations from the previously planned plan. Financial records also function to determine the company's financial

condition, to determine the efficiency of the company's use of money. By knowing the company's financial condition, of course, the company will be easier to make business decisions in the future. This paper reviews the description and discussion of the mechanism for making closing journals and post-closing trial balances.

2. LITERATURE REVIEW

Closing entries are journals made at the end of an accounting period to close temporary nominal accounts. In the accounting cycle, the last part to do is prepare this report which of course will be a final review tool when the company, especially trading companies are at the end of the accounting period. In a way, the closing journal is a special entry on the retained earnings statement which aims to ensure that the balances reported on the retained earnings statement and the balance sheet match the ending balance of retained earnings in the general ledger

(Chenguel and Mansoer, 2022). The components that include nominal accounts are income and expenses, while capital auxiliary accounts are private and summary profit/loss. After the closing entries are posted to each account, what remains is the real estimate (assets, liabilities, capital/equity).

Purpose and Functions of Making Closing Journal

- Closing the balance contained in all temporary estimates, so that the estimate becomes 0 (zero).
- So that the capital account balance shows the amount that corresponds to the situation at the end of the period, so that the capital account balance will be the same as the final amount of capital reported on the balance sheet.
- Separate transactions for income and expense accounts so that they do not mix with the nominal amount of income and expenses in the following year.
- Presenting the balance sheet at the beginning of the next period after closing the books.
- Make it easier for the audit to be carried out, because transactions have been separated for the next accounting period.
- Presenting the real financial information of a company after closing the book. The actual account consists of assets, liabilities and equity.

The closing of the books is usually done in the following order:

1. Close all income accounts by transferring the balance of each income account to the profit and loss account.
2. Close all expense accounts by transferring the balance of each expense account to the profit and loss account.
3. Close the profit and loss account by transferring the balance to the capital account.
4. Close the private account (if any) by transferring the balance of the account to the capital account.

Closing entries can be made in individual companies or corporate companies. A sole proprietorship is a business entity whose capital comes from an owner. In a sole proprietorship, there is only one capital account. In a sole proprietorship, the owner often takes or uses the company's assets (money or goods) for personal purposes (Hoti and Krasniqi, 2022).

While in a partnership company, the profit or loss of the company must be distributed to the partners in a way that has been regulated in the company's articles of association. The partnership usually has several capital accounts that are adjusted to the number of partners. As in a sole proprietorship, the partners in a partnership are usually allowed to take private interest within a certain limit so that there are several private accounts.

After the closing entries are posted to their respective ledgers, the general ledger is then closed (underlined) to indicate that the nominal accounts no longer have balances.

Real accounts also do not need to be closed because the balance is closed because the account balance will be carried over to the next period. Only at the end of the period should the balance be calculated whether it is a debit or a credit to carry over to the next period as a beginning balance. Finally, after the closing process is complete, only the asset, payable, and capital accounts have balances so that the general ledger can be presented again with the basic form of the accounting equation, namely:

$$\text{ASSETS} = \text{DEBT} + \text{CAPITAL}$$

Meanwhile, the post-closing trial balance is a list that contains all the real account balances. The trial balance is prepared after the closing entries are made and the general ledger is closed. Thus, all nominal accounts will have a zero balance, while only real accounts (assets, debts, and capital) will have a balance. These real accounts will be included in the trial balance after closing. This balance is made to test the balance between debit and credit balances of real accounts after the closing of the books. The accounts that appear on the balance sheet will look exactly like the trial balance after this closing. However, it differs somewhat in both the form and structure of the accounts (Hasibuan et al., 2020). The account and the total balance listed in the balance sheet must be the same as the account and the total balance listed in the trial balance after closing the books. If there is a discrepancy, it means that an error has occurred, the cause of which must be sought and the necessary corrections made. The trial balance after closing is a collection of data

presented in the form of a list, which is made after the account is closed.

The objectives of this balance sheet are as follows:

- Shows Ledger Balance

Between incoming and outgoing balances for future periods the total must be equal and balanced. After an account closes, and has closed the books and is strengthened by data in the general ledger. The flow of transactions must be balanced.

- Reducing the Risk of Fraud

Making a trial balance after closing can reduce the risk of fraud that could occur. Thus the balance of a company's accounting ledger can be maintained. In the post closing trial balance, there is no record of income, expenses, profit, or loss. Then what is left is the calculation of the wealth, debt, and capital accounts that are recorded in it. The closing trial balance is usually carried out in the following order:

1. Prepare a nominal account to be closed including income both inside and outside the business
2. Make a closing journal in which the expense that was originally debited is then credited and the income that was originally credited is debited
3. After adding up the nominal account will be zero and leave the real account
4. In the preparation of the trial balance after closing, it is made every time a new journal is opened in the next period
5. This balance includes the name of the company, the period of opening up to the number along with the name of the account
6. The balance in the post-closing trial balance is the final result.

3. METHODS

The closing journal provides information on the real financial condition of the company after the closing of the book is completed. The company will find out from the value listed in assets, liabilities, and equity or equity. Make it easier for companies to carry out financial audits for the current period. As a finishing step in the accounting cycle, preparing a trial balance after closing is an absolute must. The descriptive approach was adopted in this study

through the collection of previous literature and examples to describe what is a closing journal, post-closing trial balance and the mechanism of making closing journals and post-closing trial balances. This journal will provide examples of cases that occurred in the company. The purpose of this journal is to help users how to record or the mechanism for making closing journals and post-closing trial balances in companies in the accounting side.

Methods for estimating the mechanism for making closing entries and post-closing trial balances. There are two methods for recording closing journals:

1. Periodic Recording Method

An inventory management system in which an inventory is carried out through physical calculations which are usually carried out at the end of each accounting period in the context of preparing financial statements (Tampubolon et al., 2020). This method is usually used by small companies.

2. Perpetual Method of Recording

The recording method that is carried out every time is adjusted to the incoming and outgoing transactions of inventory that occur. This perpetual recording system is also known as the book method, where every incoming and outgoing inventory is recorded in the books. This method is usually used by large companies, the accuracy of this recording is also higher than the periodic method, even purchase transactions will be recorded in the inventory account on debit.

4. RESULTS AND DISCUSSION

4.1. Result

All transactions related to closing journal entries and post-closing trial balances can be recorded and reported in the company's financial position. An example of a company closing journal entry mechanism. The following is an example of an account in the financial statements of PT. BINA JAYA ABADI.

Financial Statements
PT. Bina Jaya Abadi
31 December 2020

Description	Debit	Credit
Cash	Rp. 10.000.000,-	
Account Receivable	Rp. 4.000.000,-	
Service supplies	Rp. 600.000,-	
Equipment	Rp. 5.000.000,-	
Equipment service	Rp. 7.000.000,-	
Accumulated depreciation		Rp. 1.200.000,-
Account Payable		Rp. 4.000.000,-
Debt Utility		Rp. 4.000.000,-
Loan debt		Rp. 3.000.000,-
Owner's capital		Rp. 15.000.000,-
Privete	Rp. 3.500.000,-	
Service income		Rp. 14.400.000,-
Rental fee	Rp. 4.000.000,-	
Salary costs	Rp. 2.000.000,-	
Tax and license	Rp. 500.000,-	
Utility Fee	Rp. 2.000.000,-	
Service inventory costs	Rp. 1.000.000,-	
Depreciation expense	Rp. 2.000.000,-	
Total	Rp. 41.600.000,-	Rp. 41.600.000,-

To prepare the closing of the journal, must do the following steps.

1. Close all revenue accounts and move to revenue summary.

Date	Description	Debit	Credit
31 December 2020	Service Revenue	Rp.14.400.000,-	
	Income summary		Rp.14.400.000,-

2. Close all company expense accounts and transfer their balances to the income summary.

Date	Description	Debit	Credit
31 December 2020	Income summary	Rp.11.500.000,-	
	Rental costs		Rp.4.000.000,-
	Salary expense		Rp.2.000.000,-
	Tax and license		Rp.500.000,-
	Utility costs		Rp.2.000.000,-
	Service supply cost		Rp.1.000.000,-
	Depreciation expense		Rp.2.000.000,-

3. Close the income summary in number two and move it to the owner's equity section.

Date	Description	Debit	Credit
31 Desember 2020	Income summary		Rp.2.900.000,-
	Owner's capital	Rp.2.900.000,-	

Summary revenue is subtracted from service revenue, to:

Rp.14.400.000 – Rp. 11,500,000, = Rp. 2,900,000,-

4. Close the private account and transfer it to the capital account.

Date	Description	Debit	Credit
31 Desember 2020	Modal pemilik	Rp.3.500.000,-	
	Prive pemilik		Rp.3.500.000,-

After making closing entries, a company must prepare a post-closing trial balance. In preparing the trial balance after closing the company needs to take into account nominal accounts and closing entries.

An example of a trial balance after closing is as follows:

PT. BINA JAYA ABADI
Post Closing Trial Balance
Per 31 Desember 2020

Account number	Account name	Debit	Credit
101	Cash	Rp.10.000.000,-	
102	Accounts receivable	Rp.4.000.000,-	
103	Equipment	Rp.5.000.000,-	
211	Account payable		Rp.4.000.000,-
311	Owner's capital		Rp.15.000.000,-
	Total	Rp.19.000.000,-	Rp.19.000.000,-

Based on the post-closing trial balance, the accounts on the balance sheet are only real accounts (assets, debts and capital).

4.2. Discussion

One of the main purposes of creating closing entries is to reset temporary account balances to zero in the general journal, the documentation system for company finances (Aini et al., 2020). In this case, we need to understand the difference between a temporary account and a permanent account. Temporary accounts are used to record financial

activity for a certain period. All income and expense accounts need to be set to zero because the reporting is only valid for a certain period of time and is not calculated for the next period. While the trial balance after closing is a way to test the correctness of a journal before it is entered into the general ledger. This is done to re-assure if the journal that has been made is correct and there are no errors. Usually, a post-closing trial balance will be created when you want to open a new journal for the next period. Not all accounts can be calculated on the trial balance after closing because only real accounts (assets, debts, and capital) can. Meanwhile, nominal accounts (revenues and

expenses) cannot be entered because they are included in the closing journal.

5. CONCLUSION

The conclusion of this paper is that the closing journal is a journal that exists at the end of the accounting period and plays a role in adjusting existing accounts so that the number becomes zero and will not affect transactions in the next period. Meanwhile, the balance after closing is a list containing real accounts (assets, debts and capital).

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