

Step 8...Post-closing trial balance

The **post-closing trial balance** (also known as **after-closing trial balance**) is the last step of accounting cycle and is prepared after making and posting all necessary closing entries to relevant ledger accounts. Since closing entries close all temporary ledger accounts, the post-closing trial balance consists of only permanent ledger accounts (i.e, balance sheet accounts). The purpose of preparing a post-closing trial balance is to assure that accounts are in balance and ready for recording transactions in the next accounting period.

Example

Adjusted trial balance and closing entries of Business Consulting Company are given below:

BUSINESS CONSULTING COMPANY.		
Adjusted Trial Balance		
December 31, 2015		
Account Name	Debit	Credit
Cash	\$ 85,550	
Accounts receivable	4,700	
Prepaid building rent	1,500	
Unexpired insurance	3,600	
Supplies	250	
Equipment	9,000	
Accumulated depreciation - equipment		\$ 3,600
Notes payable		5,000
Accounts payable		1,600
Salaries payable		2,000
Income taxes payable		3,000
Unearned service revenue		4,400
Capital stock		50,000
Retained earnings		20,000
Dividends	3,000	
Service revenue earned		82,500
Salaries expense	42,500	
Supplies expense	1,950	
Rent expense	6,000	
Insurance expense	950	
Advertising expense	250	
Depreciation expense - equipment	900	
Interest expense	450	
Income tax expense	11,500	
Totals	\$ 172,100	\$ 172,100

BUSINESS CONSULTING COMPANY
General Journal
December 31, 2015

Date	Account title and explanation	Debit	Credit
<u>2015</u>			
Dec. 31	Service revenue earned	82,500	
	Income summary		82,500
	(To close service revenue earned account)		
Dec. 31	Income summary	64,500	
	Salaries expense		42,500
	Supply expense		1,950
	Rent expense		6,000
	Insurance expense		950
	Advertising expense		250
	Depreciation expense - equipment		900
	Interest expense		450
	Income tax expense		11,500
	(To close all expense accounts)		
Dec. 31	Income summary	*18,000	
	Retained earnings		18,000
	(To transfer net income earned in 2015 to the retained earnings account: \$82,500 - \$64,500)		
Dec. 31	Retained earnings	3,000	
	Dividends account		3,000
	(To transfer dividends declared in 2015 to retained earnings account)		

*\$82,500 – \$64,500

Required: Using the information from adjusted trial balance and closing entries given above, prepare post-closing trial balance of Business Consulting Company.

Solution

BUSINESS CONSULTING COMPANY.		
Post-closing Trial Balance		
December 31, 2015		
Account Name	Debit	Credit
Cash	\$ 85,550	
Accounts receivable	4,700	
Prepaid building rent	1,500	
Unexpired insurance	3,600	
Supplies	250	
Equipment	9,000	
Accumulated depreciation - equipment		\$ 3,600
Notes payable		5,000
Accounts payable		1,600
Salaries payable		2,000
Income taxes payable		3,000
Unearned service revenue		4,400
Capital stock		50,000
Retained earnings		*35,000
Totals	\$ 104,600	\$ 104,600

*Balance of retained earnings account has been updated as follows:

Retained earnings as per adjusted trial balance + Net income – Dividends

= \$20,000 + \$18,000 – \$3,000

= **\$35,000**

Notice that the post-closing trial balance lists only permanent or balance sheet accounts. The balances of all temporary accounts (revenue, expense, dividend and income summary accounts) have become zero as a result of closing entries. The temporary accounts have therefore not been listed in post-closing trial balance.

With the preparation of post-closing trial balance, the accounting cycle for an accounting period comes to its end. In the next accounting period, this cycle starts again with the first step i.e., preparation of journal entries.