



Business Virtual Learning

HS/Accounting I

Topic: The need for Permanent and Temporary Accounts

April 27, 2020



Lesson Topics - Temporary vs. Permanent accounts

Lesson Objectives:

1. Understand the need for permanent accounts.
2. Understand the need for temporary accounts.
3. Determine which type of account (permanent or temporary) each account is.

Lesson Instructions:

1. Read the information on the slides and answer the questions on the last slide. Put them in a google doc and send to your teacher.

Lesson Topics - Temporary vs. Permanent accounts

Accounts used to accumulate information from one fiscal period to the next are called **permanent accounts**. Permanent accounts are also referred to as *real accounts*. Permanent accounts include the asset and liability accounts and the owner's capital account. The ending account balances of permanent accounts for one fiscal period are the beginning account balances for the next fiscal period.

Lesson Topics - Temporary vs. Permanent accounts

Accounts used to accumulate information until it is transferred to the owner's capital account are called **temporary accounts**. Temporary accounts are also referred to as *nominal accounts*. Temporary accounts include the revenue, expense, and owner's drawing accounts plus the income Summary account. Temporary accounts show changes in the owner's capital for a single fiscal period. Therefore, at the end of a fiscal period, the balances of temporary accounts are summarized and transferred to the owner's capital account. The temporary accounts begin a new fiscal period with zero balances.

Lesson Topics - Temporary vs. Permanent accounts

Journal entries used to prepare temporary accounts for a new fiscal period are called **closing entries**. The temporary account balances must be reduced to zero at the end of each fiscal period. This procedure prepares the temporary accounts for recording information about the next fiscal period. Otherwise, the amounts for the next fiscal period would be added to amounts for previous fiscal periods. >> **App. A: Matching Expenses with Revenue**

The net income for the next fiscal period would be difficult to calculate because amounts from several fiscal periods remain in the accounts. Therefore, the temporary accounts must start each new fiscal period with zero balances.

Lesson Questions - Temporary vs. Permanent accounts

1. What do the ending balances of permanent accounts for one fiscal period represent at the beginning of the next fiscal period?
2. Why are permanent accounts “permanent”?
3. Explain the GAAP rule “Accounting Period Cycle”
4. Explain the GAAP rule “Matching Expenses with Revenue”
5. Why are temporary accounts necessary?
6. What balance do temporary accounts begin with at the beginning of each fiscal period?