ACG 2021 Introduction to Financial Accounting: Accounting Cycle

Accounting Cycle

The accounting cycle is the process of recording and processing financial transactions for a business. It begins with the identification and recording of transactions, followed by the preparation of financial statements and finally the closing of the books. The accounting cycle is an important part of the financial reporting process and is used to ensure accuracy and consistency in the financial information reported.

Key Concepts

1. Transaction Analysis: This is the process of identifying, recording, and classifying financial transactions. Transactions are recorded in the form of journal entries, which are then posted to the general ledger.

2. Adjusting Entries: Adjusting entries are made at the end of an accounting period to ensure that the financial statements accurately reflect the results of operations. Adjusting entries are necessary to account for items such as depreciation, accruals, and prepaid expenses.

3. Closing Entries: Closing entries are made at the end of an accounting period to transfer the balances of temporary accounts to permanent accounts. This process ensures that the financial statements accurately reflect the results of operations.

4. Post-Closing Trial Balance: A post-closing trial balance is a list of all accounts and their balances after the closing entries have been made. This is used to ensure that the financial statements accurately reflect the results of operations.

Definitions

1. Journal Entry: A journal entry is a record of a financial transaction that is made in the general ledger. It includes the date, description, and amount of the transaction, as well as the accounts affected by the transaction.

2. General Ledger: The general ledger is a record of all financial transactions that have been recorded in the journal entries. It includes the accounts affected by the transaction, as well as the debit and credit amounts.

3. Temporary Accounts: Temporary accounts are accounts that are used to record transactions during an accounting period. These accounts are closed at the end of the period and their balances are transferred to permanent accounts.

4. Permanent Accounts: Permanent accounts are accounts that are used to record transactions over multiple accounting periods. These accounts are not closed at the end of the period and their balances are carried forward to the next period.

Rules

1. Debits must equal credits: This is a fundamental rule of accounting that states that for every debit there must be an equal and opposite credit. This ensures that the accounting equation is always in balance.

2. Double-entry accounting: This is a system of accounting that requires two entries for every transaction. This ensures that the accounting equation is always in balance and that the financial statements accurately reflect the results of operations.

Examples

1. Transaction Analysis: An example of transaction analysis is the purchase of office supplies. The journal entry for this transaction would include a debit to the Office Supplies account and a credit to the Cash account.

2. Adjusting Entries: An example of an adjusting entry is the recording of depreciation expense. The journal entry for this transaction would include a debit to the Depreciation Expense account and a credit to the Accumulated Depreciation account.

3. Closing Entries: An example of a closing entry is the transfer of the balance of the Supplies account to the Supplies Expense account. The journal entry for this transaction would include a debit to the Supplies Expense account and a credit to the Supplies account.

4. Post-Closing Trial Balance: An example of a post-closing trial balance is a list of all accounts and their balances after the closing entries have been made. This is used to ensure that the financial statements accurately reflect the results of operations.