

ACG 2021 Introduction to Financial Accounting: Accounting Cycle

1. Define the accounting cycle and explain its purpose.

Solution: The accounting cycle is a series of steps that companies use to record and report their financial transactions. It begins with the recording of transactions in journals, followed by the posting of those transactions to the general ledger. After that, the trial balance is prepared, and then the financial statements are created. The purpose of the accounting cycle is to ensure that all financial transactions are accurately recorded and reported.

2. Describe the steps in the accounting cycle.

Solution: The steps in the accounting cycle include: (1) journalizing transactions; (2) posting to the general ledger; (3) preparing a trial balance; (4) adjusting entries; (5) preparing an adjusted trial balance; (6) preparing financial statements; and (7) closing entries.

3. Explain the purpose of adjusting entries.

Solution: Adjusting entries are made at the end of an accounting period to ensure that the financial statements accurately reflect the company's financial position. Adjusting entries are necessary because some transactions may not have been recorded in the general ledger during the accounting period, or because certain accounts need to be updated to reflect their current balances.

4. Describe the purpose of the trial balance.

Solution: The trial balance is a list of all the accounts in the general ledger and their balances. It is used to ensure that the total of all debits equals the total of all credits. If the totals do not match, it indicates that there is an error in the accounting records.

5. Explain the purpose of closing entries.

Solution: Closing entries are made at the end of an accounting period to transfer the balances of temporary accounts to permanent accounts. This ensures that the financial statements accurately reflect the company's financial position. Closing entries also reset the balances of temporary accounts to zero so that they can be used for the next accounting period.