



The Accounting Cycle

1. Transaction:

The processing of accounting data begins with an economic transaction, where two or more parties engage in an exchange of goods or services for some form of consideration. Evidence of this happening is the receipt of some form of a source document

2. Analyze and classify :

2.1. Analyze

This phase of the accounting process includes the application of several of the accounting principles, namely: : The Entity Concept– This is probably the most basic of all concepts in accounting. As applied

2.2 Classify

Once past the analysis phase, the transaction is then properly classified in preparation for entry into the accounting database, commonly using a Chart of Accounts.

3. Journalize

This step in the accounting cycle represents the first time that the transaction enters the accounting database. It is the data entry phase.

3.1. General: Journal In the General Journal, transactions are recorded as they were analyzed and classified. First the event is dated as to when it actually happened.

3.2. Special Journals: As their name implies, these journals are used to record uniquely classified types of transactions by use of specially designed journals

4. Posting

Posting refers to the process of transferring or transcribing the information contained in the journal entries to the appropriate accounts in the general ledger.

5. Trial

balance Simply defined, a Trial Balance is a list of all of the general ledger accounts having a balance amount as of that date. It contains the following columns

6. Adjusting

entries Through out an accounting period, an entity will continue to be engaged in a variety of economic transactions.

7. Adjusted trial balance After

all Adjusting Entries and Reclassifying Entries have been journalized and posted an **ADJUSTED TRIAL BALANCE** is prepared from the ledger accounts. It shows the balance of all accounts, including those that have been adjusted, at the end of the accounting period. The purpose of an adjusted trial balance is to show the effects of all financial events that have occurred during the accounting period. The financial statements are usually prepared from this trial balance.

8. Financial statements

Income statement:

- .Presents the results of economic activities, which occurred during the specific accounting period.
- .Bridges the balance sheet of the previous accounting period with that of the current accounting period.

Therefore, it covers a period
of time.

Develops the net income for the current accounting period. This is used to reflect the profitability of that period.

.is linked to the balance sheet via the net income amount, which appears in both of those statements.

Statement of Changes In Owner's Equity Presents the changes that have occurred in the owner's equity as a
result of the current

period's activities. Therefore, its results represent what occurred within a period of time.

It is linked to the balance sheet via the capital account, retained earnings, and any reserves.

Balance Sheet

Sometimes referred to as the statement of financial position, reports the assets, liabilities, and owner's equity of an
enterprise at a
specific date

Statement of Cash Flows

The basic purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash
payments of an

enterprise during a period. To achieve this purpose, the statement of cash flows reports the cash effects of:

- . Operations during a period
- Investing transactions
- Financing transactions; and
- Net Increase or decrease in cash
during the period

9. Closing entries

Closing an account means to "bring the balance to zero". We close what we call the temporary (or nominal) accounts. In the closing process all of the revenue and expense account balances (income statement items) are transferred to a clearing or suspense account called Income Summary (or Income for the year), which is used only at the end of each accounting period (yearly). Revenues and Expenses are matched in the Income Summary account and the net result of this matching, which represents the net income or net loss for the period, is then transferred to an owners' equity account i.e., retained earnings. All closing entries are posted to the appropriate general ledger accounts

10. Post closing trial balance

A trial balance is prepared after all temporary accounts have been closed. The accounts, which remain open are called real accounts and include: Asset accounts, Liability accounts and the Capital account. In other words, the balance sheet accounts remain open.



Atheer Ali Qaid

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