

Accounting Cycle

Overview

- Detailed overview of how transactions should be evaluated and eventually added to financial documents.
- The accounting cycle consists of eight distinct steps.

The Accounting Cycle

1

Identify Transactions



2

Journal Recording

$$\begin{array}{r} + \$120 \\ - \$80 \\ + \$15 \\ - \$25 \end{array}$$

8

Closing Books

7

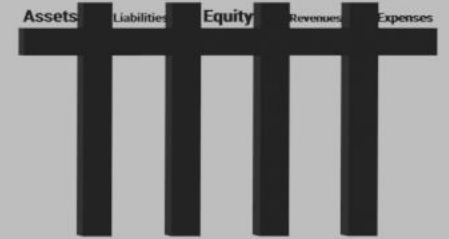
Financial Statements



3

Posting

Assets Liabilities Equity Revenues Expenses



4

Unadjusted Trial Balance



6

Adjusting Entries



5

Worksheet

Debits = Credits

Step 1 - Identify Transactions

- Transactions are collected and organized.
- Companies now typically use Point of Sale (POS) systems to streamline this step.

Step 2 - Journal Recording

- Transactions are posted in a journal
- The journal shows all transactions during the desired accounting period.
- Transactions are organized in chronological order
- Debits and credits to accounts may not balance quite yet

Step 3 - Posting

- Journal entries are posted to a ledger
- The ledger can be divided into categories: Assets, liabilities, equities, revenues, and expenses categories.

Step 4 - Unadjusted Trial Balance

- Total balances are calculated for accounts in the ledger
- Balances might be different from each other.
- In this step we have still not adjusted accounts that show a discrepancy between debits and credits.
 - Perhaps there are missing transactions
 - Or unforeseen tax deductions

Step 5 - Worksheet

- Here we identify all the erroneous accounts in the ledger.
- These accounts are added to a worksheet, where:
 - 1) it is easier to see what the errors are and
 - 2) figuring what led to such errors

Step 6 - Adjusted Trial Balance

- Entries in the ledger are adjusted with help from the worksheet.
- This step ensures that debits have been properly balanced with credits.

Step 7 - Financial Statements

- Now that the ledger is looking good, we can transition information to financial statements.
- The income statement, the balance sheet, and the statement of cash flow receive information after the adjusted trial balance step.

Step 8 - Closing the Books

- Temporary accounts are zeroed. Most temporary accounts are found on the income statement.
- Permanent account totals are combined into prior totals. Most permanent accounts are found on the balance sheet.
- Now we are ready for the next financial period to begin.

To summarize...

- The Accounting Cycle is extremely valuable in maintaining financial transparency to your stakeholders.
- Without these steps there would certainly be more errors, and higher uncertainty associated with multiple business activities.