# The Accounting Process Explained

## 1. Identifying Transactions

The accounting process begins with identifying and analyzing business transactions that have a financial impact. Examples include sales, purchases, rent payments, salaries, and utility bills.

## 2. Recording Transactions (Journalizing)

Every transaction is recorded chronologically in the General Journal using the double-entry system (debits and credits). Example: When goods are bought on credit, “Purchases” is debited and “Accounts Payable” is credited.

## 3. Posting to the Ledger

Entries from the journal are transferred to their respective ledger accounts. This step helps in classifying transactions into categories such as Cash, Sales, Expenses, and Assets.

## 4. Preparing the Trial Balance

After posting, the balances of all ledger accounts are extracted and listed in a Trial Balance to check the arithmetic accuracy of debits and credits. If total debits ≠ total credits, errors must be investigated.

## 5. Adjusting Entries

At the end of the accounting period, adjusting entries are made for accruals, prepayments, depreciation, and provisions to ensure revenues and expenses are recorded in the correct period.

## 6. Preparing the Adjusted Trial Balance

After adjustments, a new trial balance is prepared to confirm that debits still equal credits. This forms the basis for preparing financial statements.

## 7. Financial Statements Preparation

From the adjusted trial balance, the following statements are prepared:  
1. Income Statement (Profit & Loss Account) – shows revenues and expenses, resulting in net profit or loss.  
2. Statement of Financial Position (Balance Sheet) – shows assets, liabilities, and equity at a point in time.  
3. Cash Flow Statement – shows inflows and outflows of cash.  
4. Statement of Changes in Equity – shows changes in owners’ equity during the period.

## 8. Closing Entries

Temporary accounts (revenues, expenses, drawings/dividends) are closed to prepare accounts for the next period. Profits are transferred to retained earnings or capital accounts.

## 9. Post-Closing Trial Balance

A final trial balance is prepared to ensure all temporary accounts are closed and only permanent accounts remain.

## 10. Reversing Entries (Optional)

In the next period, reversing entries may be made for certain adjusting entries to simplify recording.

## Importance of Following This Process

• Ensures accuracy in financial reporting.  
• Helps management make informed decisions.  
• Provides a clear audit trail for verification.  
• Ensures compliance with accounting standards.