

# Accounting Cycle

## Accounting 422/522

- (1) Noticing/identifying event/transaction and determining the proper amount
- (2) Writing a journal entry that captures the essence of the transaction. Every transaction affects at least two or more accounts. The most common pattern is an increase in a resource and an increase in some other account explaining the source or reason of the resource increase. Example, if a transaction is about borrowing money, then the two affected accounts are increase cash with a debit and increase notes payable with a credit.
- (3) Add/subtract amounts in the journal entry from the related accounts in the general ledger. This is called posting to the accounts. In accounting courses, we use accounts shaped like a capital T.
- (4) Compute, or take, a trial balance. A trial balance is a listing of all accounts with the current balance or total. The sum of accounts with a debit balance should equal the sum of all accounts with a credit balance, hence the use of “balance.” The debits and credits should equal or balance. A trial balance can be taken at any time during the accounting period, and is always taken at the end of the accounting period before adjustments and closing.
- (5) Write journal entries for adjustments such as (1) accruals and other estimated amounts and (2) deferrals or prepayments. Then post these to the proper accounts.
- (6) Take another trial balance, this time after all adjustments. This is called the adjusted trial balance.
- (7) Prepare financial statements from the adjusted trial balance. Remember that the retained earnings account has not yet been changed from the balance at the beginning of the year.
- (8) Write journal entries to close all revenue, expense, gain, loss and dividends accounts. You might have learned to use an intermediary account, or you might have learned to close all nominal accounts directly to retained earnings. Post these closing entries to the proper accounts.
- (9) Take another balance, this time called the post-closing trial balance. These reflect the account balances for starting the new accounting period.