

# The nine steps of the accounting cycle



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**CheckPoint: The Nine Steps of the Accounting Cycle** The accounting cycle is a logical sequence of procedures used by businesses to record transactions and prepare financial statements.

The cycle begins with a transaction and ends with the closing of the books and is repeated each reporting period. Steps accounting cycle consists of

The accounting cycle consists of nine steps and what each step is responsible for:

- Collect and analyze — As transactions and events related to financial resources occur, they are analyzed with respect to their effect on the financial position of the company.
- Journalize Transactions — After collecting and analyzing the information obtained in the first step, the information is entered in the general journal, which is called the book of original entry.
- Post to General Ledgers — The general journal entries are posted to the general ledger, which is organized by account. The above steps are performed throughout the accounting period as transactions occur or in periodic batch process. The following steps are performed at the end of the accounting cycle.

- Prepare an unadjusted trial balance — At the end of the period, double-entry accounting requires that debits and credits recorded in the general ledger be equal. Preparing an unadjusted trial balance tests the equality of debits and credits as recorded in the general ledger.
- Prepare adjustments — Period-end adjustments are required to bring accounts to their proper balances after considering transactions and/or events not yet recorded. Under accrual accounting, revenue is recorded when earned and expenses when incurred. Thus, an entry may be required at the end of the period to record revenue that has been earned but not yet recorded on the books. Similarly, an

adjustment may be required to record an expense that may have been incurred but not yet recorded.

Prepare an adjusted trial balance — As with an unadjusted trial balance, this step tests the equality of debits and credits. However, assets, liabilities, owners equity, revenues, and expenses will now reflect the adjustments that have been made in the previous step. If there should be unequal amounts of debits and credits or if an account appears to be incorrect, the discrepancy or error is investigated and corrected. Prepare Financial statements — Financial statements are prepared using the corrected balances from the adjusted trial balance. These are one of the primary outputs of the financial accounting system.

Close the accounts — Revenues and expenses are accumulated and reported by period, either a monthly, quarterly, or yearly. To prevent their not being added to or commingled with revenues and expenses of another period, they need to be closed out??” that is, given zero balances??” at the end of each period. Prepare a post closing trial balance — The purpose of this final step is two-fold: to determine that all revenue and expense accounts have been closed properly and to test the equality of debit and credit balances of all the balance sheet accounts, that is, assets, liabilities and owners equity.