

# Accounting cycle paper

[Business](#), [Accounting](#)



When making decisions, businesses must provide and be able to gather relevant and accurate financial information. Being able to gather and understand this information helps companies make the best informed decisions for business operations, which can only benefit the company. When it comes to gathering the information needed, it is pertinent that companies fully understand each step of the accounting cycle.

Averkamp (2010) defines the accounting cycle as: “ a process that includes the following steps: identifying, collecting and analyzing documents and transactions, recording the transactions in journals, posting the journalized amounts to accounts in the general and subsidiary ledgers, preparing an unadjusted trial balance, perhaps preparing a worksheet, determining and recording adjusting entries, preparing an adjusted trial balance, preparing the financial statements, recording and posting closing entries, preparing a post-closing trial balance, and perhaps recording reversing entries” (p. ).

The accounting cycle is made up of eight basic steps which include The basic steps in the accounting cycle are (1) identifying and measuring transactions and other events; (2) journalizing; (3) posting; (4) preparing an unadjusted trial balance; (5) making adjusting entries; (6) preparing an adjusted trial balance; (7) preparing financial statements; and (8) closing. Identifying and measuring transactions and other events The first step in the accounting cycle is determining what information that should be recorded.

Kieso, Weygandt & Warfield (2007) explain that items should be recognized if, “ it is an element, is measurable, and is relevant and reliable” (p 68).

Companies are able to recognize as many dealings as they wish, especially if

they feel that these dealings will affect the financial position of the company.

**Journalizing** Journalizing includes entering the financial transactions and events into a journal. As part of the journalizing process general ledger, t-accounts, and general journals are used.

Kieso, Weygandt & Warfield (2007) explain that the general ledger “ contains all the assets, liability, stockholders’ equity, revenue, and expense accounts” (p 69). T-accounts are used to visualize the affects of the debit and credit on more then one account. A “ general journal chronologically lists transactions and other events, expressed in terms of debits and credits to accounts” (Kieso, Weygandt & Warfield, 2007, p 69). Posting Posting, defined by Kieso, Weygandt & Warfield (2007) is the process of transferring journal entries to the ledger accounts.

The general ledger provides information for the Balance Sheet . **Trial Balance** The trial balance step in the accounting cycle is the process of totaling the debits and credits and making sure that the sum of all debits equals the sum of all credits. Kieso, Weygandt & Warfield (2007), state that the procedures for preparing a trial balance includes, “ listing the account titles and their balances; totaling the debit and credit columns; and providing theequalityof the two columns” (p. 74).

**Adjusting Entries** Adjusting Entries are journal entries that are made at the end of the accounting period, to adjust expenses and revenues to the accounting period where they actually occurred” (Cram, 2011, p 1).

Adjusting entries are required every time the company prepares financial statements. Adjusting entries can be classified as prepayments or accruals.

The purpose for this step in the accounting cycle is to determine the net income for the current period and to achieve an accurate statement of the end-of-the-period balance in assets, liabilities, and owners' equity (Kieso, Weygandt & Warfield, 2007).

**Adjusted trial balance** The next step in the accounting cycle is the step adjusted trial balance. This step is important because it is where companies make sure that the debits still equal the credits after making the adjustments in the previous step. Kieso, Weygandt & Warfield (2007) explain that, “ It shows the balance of all accounts, including those adjusted, at the end of the accounting period” (p. 84). Preparing Financial Statements

The seventh step in the accounting cycle is where the company would prepare the financial statements from the second trial balance. Closing The last step in the accounting cycle is closing entries. This is where companies prepare and post closing entries in order to transfer balances from temporary accounts to owner's equity on the balance sheet. This step reduces the balance of normal accounts to zero to prepare the accounts for the next period's transactions (Kieso, Weygandt & Warfield, 2007).

## **References**

<http://www.college-cram.com/study/accounting/accounting-cycle/adjusting-entries-in-accounting/>

<https://assignbuster.com/accounting-cycle-paper/>