The nine steps of the accounting cycle essay sample

Business, Accounting

The accounting process starts with analyzing transactions and events. Not all transactions and events are entered into the accounting system. Only those that pertain to the business entity are included in the process. The transactions identified are then analyzed to determine the accounts affected and the amounts to be recorded. A journal is a book in which transactions are recorded. Business transactions are recorded using the double-entry bookkeeping system. To simplify the recording process, special journals are often used for transactions that recur frequently such as sales, purchases, cash receipts, and cash disbursements. A ledger is a collection of accounts that shows the changes made to each account as a result of past transactions, and their current balances. After the posting process, the balances of each account can then be determined. All increases and decreases in cash will be entered into one ledger account. A trial balance is prepared to test the equality of the debits and credits. All account balances are extracted from the ledger and arranged in one report. Afterwards, all debit balances are added. All credit balances are also added.

The total debits should be equal to total debits. Adjusting entries are prepared as an application of the accrual basis of accounting. At the end of the accounting period, some expenses may have been incurred but not yet recorded in the journals. Some income may have been earned but not entered in the books. Adjusting entries are prepared to have the accounts updated before they are summarized into the financial statements. An adjusted trial balance may be prepared after adjusting entries are made and before the financial statements are prepared. This is to test if the debits are equal to credits after adjusting entries are made.

When the accounts are already up-to-date and equality between the debits and credits has been tested, the financial statements can now be prepared. The financial statements are the end-products of an accounting system. Temporary or nominal accounts, such as income statement accounts, are closed to prepare them for the next accounting period. Temporary accounts include income, expense, and withdrawal accounts. Closing entries are made only for temporary accounts. The last step is to prepare a post-closing trial balance. It is prepared to test the equality of debits and credits after closing entries are made. Since temporary accounts are already closed at this point, the post-closing trial balance contains real accounts only.

Works Cited

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