

# The accounting circle – festo usa

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



This circle takes place in any company whether it is a production or just a sales company. The first step is identifying the transaction. An event occurs and then one identifies it as a transaction as well as generates the source documents.

Festo purchased \$3, 000 of supplies on account - this is the transaction. The source documents which are generated in this case are purchase order from Festo, invoice received from the supplier.

The second step is analyzing the transaction when one determines which accounts are affected and in which direction. In our case this transaction affect Balance sheet and income statement. As for accounts this will be Current Liabilities and namely Accounts Payable.

After that one should record the transaction in the journal as a debit and a credit.

Debit Account - Supplies Expenses

Debit Amount - 3, 000. 00

Credit Account - Accounts Payable

Credit Amount - 3, 000. 00

Supplies expense is debited because the entity purchased supplies. Accounts payable is credited because the supplies were purchased on account (charged).

After that these journal entries are transferred to the appropriate accounts in the ledger where all the transactions are registered.

Then an accountant calculates the trial balance in order to verify that the sum of the debits is equal to the sum of the credits. After it is verified that the columns are “balanced”. The figures (among which the figures mentioned above) are transposed to their respective columns into the balance sheet and income statement.