Week 2 DQ 1 Accounting Cycle

The new the accounting cycle is the process that your accounts go through to create your financial statements each month. From entering transactions to making adjusting entries to closing the books at the end of the month this is a process that gets repeated over and over. That's why it's done as a circle. You do one month, you set your income expense accounts back to zero, and you start the next month and do the same process again.

Let's take a look at this process up close. First, transactions take place, then you can record those transactions in your Books, these transactions then need to be posted to the general ledger, then you're going to print your trial balance and make sure debits equal credit. Next you make any adjusting entries necessary, you are going to reprint the trial balance or the adjusted trial balance, and make sure debits equal credits still are equal. Then you go ahead and print the financial statements, the profit/loss and the balance sheet, then closing entries will be entered. QuickBooks does this automatically and you go back to step 1.

So let's take a look at this in more detail. A transaction taking place includes getting a credit card receipt or cash receipt. You paid for parking. You create an invoice to a customer. You write a check or you write payroll checks or you receive a bill from a vendor. Then you take these original transactions and you enter them into your books and assign them to an account whether it's an income account, expense account, or balance sheet account.

In the old days you had to post these transactions to the general ledger but today you no longer have to do that as most software systems automatically do this for you. After general ledgers look good you print the trial balance, take a look at the report to make sure you're in balance and your debits equal your credits. If you have to do some adjusting entries, or you may have some other month end adjustments to make, you make all of your month and adjustments, then you print an adjusted trial balance, again making sure you balance and your debits equal your credits.

Once you are in balance then you can go ahead and put your financial statements together including your profit & loss, your balance sheet, and your cash flow statement. At this point you're ready to close a month. You will go ahead and save those reports and then income expense accounts can be zeroed out and you move on to the next month. With most software systems you do not have to do the closing entries and the zeroing out of the accounts. The software does that automatically so income expense accounts are closed out and we go back to step 1: transactions taking place. That is the accounting cycle and how it works.