

## Accounting Cycle

### **Step # 1- Collect & verify Source Documents**

(Invoice, memorandum, receipt, & check stub.)

### **Step # 2- Analyze the Transaction (Hunter's Law)**

(Analyze the source document; Classification of Accounts; Classify the effect on the account is a debit or credit; Check whether the Accounting Equation is in balance.)

### **Step # 3- Journalize each Transaction**

(Journalize in the General Journal, Cash Payments Journal, Cash Receipts Journal, Purchases Journal, & Sales Journal.)

### **Step # 4- Post to the General Ledger & Subsidiary Ledgers**

(After journalizing each transaction, timely post to the appropriate ledger(s) for each account that was journalized.)

### **Step # 5- Prepare the Trial Balance**

(Check the equality of debits & credits in the General Ledger by preparing the Trial Balance; this process can be done repeatedly throughout the accounting period, but definitely must be done at the end of the accounting period.)

### **Step # 6- Prepare the Worksheet (Ten Column)**

(The Worksheet is the source document for preparing the Financial Statements; Income Statement, Statement of Retained Earnings, & Balance Sheet. Here we will complete the Trail Balance, adjusting entries, adjusted Trail Balance, Income Statement, and Balance Sheet for the accounting period.)

### **Step # 7- Prepare the Financial Statements**

(The Financial Statements are for internal & external reporting. We report to management, creditors, investors, competitors, and government agencies by preparing the Income Statement, Statement of Retained Earnings, and Balance Sheet. The source document for these forms is the worksheet. The Income Statement & Statement of Retained Earnings shows the effect of transactions during the accounting period, the Balance Sheet shows the financial condition on a specific date.)

### **Step # 8- Journalize & Post the Adjusting Entries (Merchandising Business)**

(Journalize the adjustments which updates the Merchandise Inventory, Supplies, Prepaid Insurance, and Federal Corporate Income Tax Expense.)

### **Step # 9- Journalize & Post the Closing Entries**

(Journalizing the Closing entries allows the closing of the temporary capital accounts to zero- Revenue & Expenses, balance of Income Summary, and transfer the Net Income or Loss for the period to the Capital or Retained Earnings Account.) Then, post to the accounts affected by the closing entries in the General Ledger.

### **Step # 10- Prepare the Post-Closing Trail Balance**

(After the journalizing & posting of the Closing Entries, we must prove the equality of the General Ledger. We only list accounts with a balance in the Post-Closing Trial Balance.)