

Visual Learning Maps

Introductory Financial Accounting



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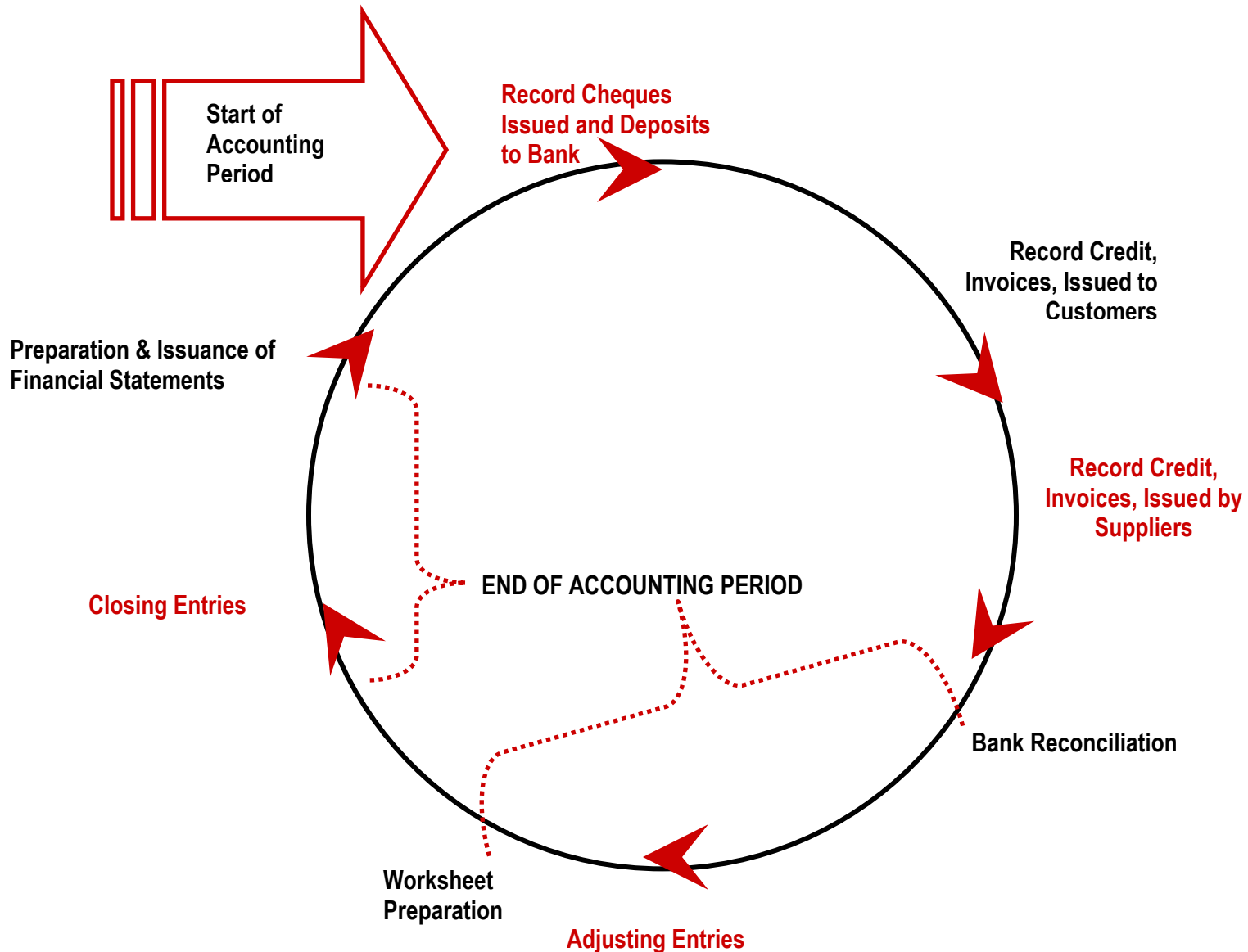
VIRTUAL TEXT BOOK

ACCOUNTING CYCLE - 1 of 3

WHAT IS IT?

The Accounting CYCLE is a **circle** of rigidly defined sequenced tasks.

It is a repeated circle of defined sequenced tasks that is used by small proprietorships and the largest corporations. Its purpose is to prepare and publish financial statements to manage the business and provide information to other internal users and external users. It looks like this:



ACCOUNTING CYCLE 2 of 3

Step-By-Step Tasks

The Beginning of One Accounting Period is One Nanosecond After the Closing of the Previous Accounting Period.

At the beginning of the Accounting period all income statement accounts are zero and the balance sheet has been updated for the "results of operations" (last period's income statement). The first step at the beginning of the new Accounting period, whether it's the month, quarter or year, is the bookkeeping process.

STEP 1. - The Bookkeeping Process

The bookkeeping process records 4 types of external economic events:

- **Cash Increases** - customers buy and pay for goods or services; customers pay on account for goods or services in previous accounting periods; and cash is received for events not related to customers such as from financing or from selling assets other than merchandise
- **Cash Decreases** - payments to suppliers directly for goods or services in the current accounting period; payments on account to suppliers for goods or services purchased in previous accounting periods; and payments not related to suppliers such as cash paid to reduce financing.
- **Credit Received from Suppliers** - This relates to invoices received from suppliers for goods or services in the current accounting period that increase the liabilities of the business (accounts payable).
- **Credit Granted to Customers** - This relates to invoices issued to customers for the current accounting period that increase the assets of the business (accounts receivable).

The resulting balances in all of the accounts of all this activity goes to the first two columns of the worksheet (Debit column & Credit column) - these two columns are called **the Unadjusted Trial balance**.

STEP 2. - The Bank Reconciliation

The bank reconciliation is prepared at the end of the month / end of the accounting period to a) ensure the bank statement is correct and b) prove the book balance in the account "cash / bank."

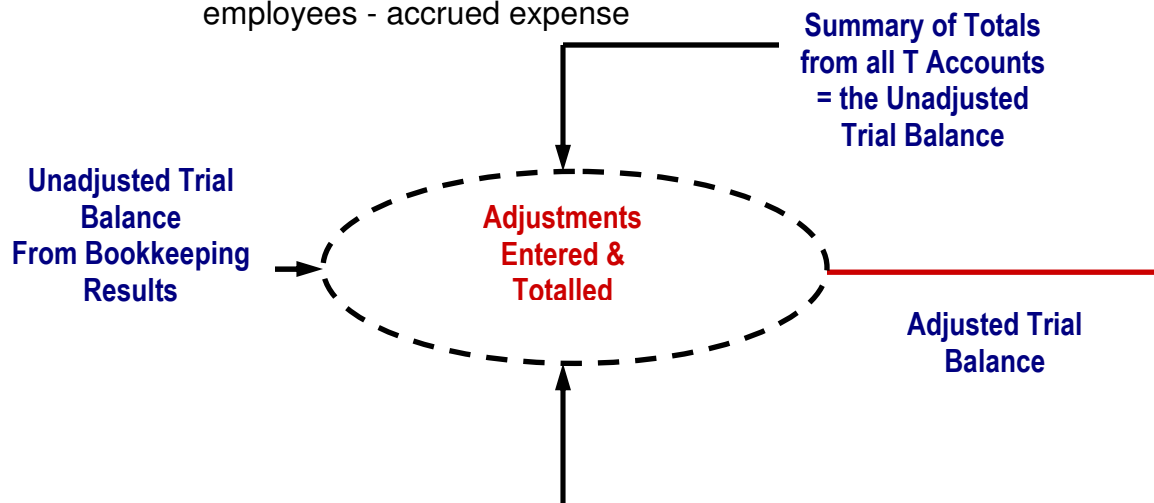
ACCOUNTING CYCLE 3 of 3

Step-By-Step Tasks...continued

STEP 3. - The Adjustment Process

The internal adjustment process occurs at the end of the bookkeeping process and records 7 types of economic events.

- Recording depreciation (amortization)
- Recording the effect of the passage of time on prepaid items
- Recording the effect of the passage of time on unearned revenue
- Recording the use of supplies during the period
- Recording revenue that has been earned but not yet recorded - accrued revenue
- Recording expenses that have been incurred but not yet recorded - accrued expense
- Recording payroll expense that has not been paid but is owed to employees - accrued expense



STEP 5. - The Closing Process

The income statement is closed / reset to zero to begin the new accounting period.

STEP 6. - Preparation of financial Statements

The cycle is now complete - Start at STEP 1 for the New Accounting Period