Accounting Cycle

The Accounting Cycle:

1. **Identifying Transactions**: The process starts with identifying and analyzing business transactions such as sales, purchases, and expenses.

2. **Recording Transactions**: Transactions are then recorded in the accounting system using the double-entry system, where each transaction affects at least two accounts.

3. **Posting to Ledger**: The recorded transactions are posted to the general ledger, which is a summarized record of all accounts used by a company.

4. **Preparing Trial Balance**: At the end of the accounting period, a trial balance is prepared to ensure that debits equal credits and to identify any errors in the recording process.

5. **Adjusting Entries**: Adjusting entries are made to update account balances and ensure that the financial statements reflect the company's true financial position.

6. **Preparing Financial Statements**: After adjusting entries are made, financial statements like the income statement, balance sheet, and cash flow statement are prepared to summarize the company's financial performance.

7. **Closing Entries**: Temporary accounts such as revenue and expenses are closed to retained earnings at the end of the accounting period to start the next period with zero balances in these accounts.

8. **Post-Closing Trial Balance**: The post-closing trial balance is prepared to ensure that all temporary accounts have been closed and only permanent accounts remain open.

9. **Reversing Entries** (optional): Reversing entries are made at the beginning of a new accounting period to cancel out adjusting entries made in the previous period and facilitate a smoother start to the new period.

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10. **Starting a New Cycle**: The accounting cycle then begins anew for the next accounting period.

Understanding and following the accounting cycle is crucial for maintaining accurate financial records, preparing reliable financial statements, and making informed business decisions.