

Completing the Accounting Cycle

The Accounting Cycle

The steps in the accounting cycle are as follows:

1. Analyze
2. Journalize
3. Post (and prepare a trial balance)
4. Adjust (and prepare an adjusted trial balance)
5. Close (and prepare a post-closing trial balance)
6. Prepare the financial statements

The Worksheet

In the process of organizing data that go into the formal financial reports, accountants prepare many memos, analyses, and informal papers. These are called working papers.

One working paper is the worksheet. Among the functions of a worksheet:

1. To decrease the chance for errors
2. To provide evidence of what was done

The steps in the preparation of worksheet are as follows:

1. Enter and total the account balances
2. Enter and total the adjustments
3. Crossfoot (add/subtract horizontally) the account balances and the adjustments to complete the adjusted trial balance
4. Extend the account balances to the income statement or balance sheet columns
5. Total the income statement columns and the balance sheet columns. Enter the net income/net loss as a balancing figure to the income statement and balance sheet columns

**The adjustments and closing entries are much easier to journalize and post *after* the worksheet has been prepared. The financial statements may be prepared as soon as the worksheet is finished.

**Use the worksheet for 3 purposes:

1. Refer to the adjustment column to journalize and post the adjustments
2. Refer to the income statement column (for the revenue/expense accounts) and the balance sheet (for the withdrawals account) when journalizing and posting closing entries.
3. Refer to the income statement column and balance sheet columns for preparation of the statements. Note that the capital balance is incorrect without the changes applied during the closing process.

FINDING ERRORS IN THE WORKSHEET:

1. If the amount of the error is 1 or a multiple of 10 (such as .01, 10, 100, 1000...) then

The error is most likely in addition. Add the columns again.

2. If the amount of the error can be divided by 2 (for example, if the difference between the two columns is 2, 4, 70...) then

The error is most likely an omitted debit or credit in one of the columns.

3. If the amount of the error can be evenly divided by 9 then

The error is most likely a *transposed* number (like 45 becoming 54). It may also be a *slide* (like 54 becoming 540 or 5.40)

4. If the amount of the error is equal to an amount in one of the accounts then

The error is probably an omitted amount or one that was not carried over in crossfooting horizontally.

Closing Entries

Real (permanent) Accounts =balance sheet accounts whose balances can extend past the end of the accounting cycle

Nominal (temporary) Accounts =revenue and expense (income statement) accounts that show accumulation over one accounting period only. At the end of that period, the account balances are transferred to capital or retained earnings

Purposes of Closing Entries

1. To "zero out" all temporary accounts.
2. To transfer net income or loss to the Capital account.

Steps in the Closing Process

1. **R** -Close all the revenue accounts to Income Summary
2. **E** -Close all the expense accounts to Income Summary
3. **I** -Close Income Summary to Capital or Retained Earnings
4. **D** -Close the Drawing (withdrawals) account to Capital or the Dividends account to Retained Earnings

Post-Closing Trial Balance -must be prepared to again verify the equality of the debits and credits in the accounts. Only balance sheet accounts appear because all income statement accounts have zero balances at this point.