

Accounting Cycle – Steps in Accounting Cycle with Examples

9 Steps in Accounting Cycle Explained with Examples

Accounting Cycle Steps: Accounting cycle is an accounting procedure starting from recording of business transactions and ends in final preparation of financial statements for reporting. It is a step by step process of accounts collecting, recording, maintaining and reporting. A book keeper of company track all the process of accounting from the starting of transaction to closing of booking.

The accounting cycle process can continue in whole fiscal year as long as company business continues.

The following are the steps that forms an accounting cycle

1. [Collection of Transactions](#)
2. [Recording transactions into journal entries](#)
3. [Post entries into Ledger accounts](#)
4. [Prepare unadjusted trial balances](#)
5. [Prepare adjusting entries](#)
6. [Prepare adjusted trial balances](#)
7. [Prepare financial statements](#)
8. [Prepare closing entries](#)
9. [Prepare post closing trial balances](#)

Collection of transactions

- Every business involves various types of transactions on daily basis, i.e. purchase of goods, sales, payments, purchases, banking, etc.
- All this business transactions should be collected for analyzing, measuring and recording.

Recording transactions into Journal Entries

After transactions are collected, the next step of accounting cycle is recording of this collected transactions into journal. In [journal entries](#) you need to post:

- [Debit and credit entries](#)
- Which [account](#) and amount to be debited
- Which account and amount to be credited
- Maintaining date of each transaction

- maintaining date of each transaction.
- Description of the transaction.

Post Journal Entries into Ledger Accounts

- These general ledger accounts are very important accounts to the financial statements.
- Each journal entry will have a general ledger account that is posted to it.

Prepare an Unadjusted Trial Balances

- Trial balances are sources for preparation of financial statements, so we should take care while preparing trial balances.
- Before adjustments of accounts, we will prepare list of ledger accounts with their balances.
- The list will have the order in which they appear in ledger and debit balance will be posted in left side and credit balance in right side.
- The sum of debit and credit must be equal and same.

Preparing adjusting entries

- After preparation of unadjusted trial balances, we need to adjust the entries.
- Analyze the trial balances and prepare final balances that are calculated in general ledger accounts

Prepare Adjusted Trial Balances

- After a successfully preparation of journal entries and adjusted entries, it is good to prepared another new trial balances.
- This is called as an adjusted trial balances
- This new prepared adjusted trial balances can be used for preparation of financial statements.

Preparing Financial Statements

- After preparation of adjusted trial balances, you are now ready to prepare financial statements.
- This is the important step of accounting cycle, as the financial statements are final results and plays major important role for financials, cash flow for investors, etc.
- You can prepare financial statements from trial balances like Profit & loss accounts, balance sheets, cash flow statements, etc.

Preparing to close entries

- Closing entries means that all financial statements are prepared and all business transactions are created, recorded and analyzed.
- After successfully creation of financial statements as per requirements of firm, now its time to close the entries (closing books) and set them to zero.
- Setting accounts to zero means, transferring all the balances to permanent account number that which will be a revenue of firm.
- After closing the books, a new [accounting](#) period (financial year) starts and new accounting cycle starts.

Preparing post closing trial balances

- The final step of accounting cycle is creating a post closing trial balances. These are called real accounts or permanent accounts.
- This step helps to find out that you have properly closed books.
- If book not closed properly, when you are preparing post closing trial balances there will be an amount in books. If this happen you need to go back and close the account and re-prepare post closing trial balances.

After successfully completion of nine steps in accounting cycle, the new accounting period (fiscal year) starts and new accounting cycle starts from step 1.

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