

## THE ACCOUNTING CYCLE

THE BASIC STEPS IN ACCOUNTING CYCLE ARE AS FOLLOWS:

- I- ANALYZE THE TRANSACTION**
- II- PREPARE JOURNAL ENTRY**
- III- POST TO GENERAL LEDGER**
- IV- PREPARE UNADJUSTED TRAIL BALANCE**
- V- CALCULATE ADJUSTING ENTRY**
- VI- PREPARE ADJUSTED TRAIL BALANCE**
- VII- PREPARE FINANCIAL STATEMENT**
- VIII- RECORD CLOSING ENTRY**
- IX- PREPARE POST-CLOSING TRAIL BALANCE**

## **I- ANALYZE THE TRANSACTION**

Throughout the accounting Period you, the Accountant, have to analyze the transactions as they occurred and either had them recorded as affecting items (Asset, Liability, ...) After that you should know which one the account should be in (Balance sheet or the Income statement)

## **II- PREPARE JOURNAL ENTRY**

After the Analyze transaction the accountant have to post these record the General Journal (GJ)

### **Transaction 1:**

On Jan 1, 03 Mr. Christopher open a new business by investing \$100,000 to the Law Consult Company Co., Ltd.

{	<b>Cash .....</b>	<b>100,000</b>
	<b>Equity .....</b>	<b>100,000</b>
	<b>Open the Business</b>	

### **Transaction 2:**

On Jan 2, the company need to purchase two sets of computer and a set of printer, costing 1,500 by paying cash.

{	<b>Office Equipment .....</b>	<b>1,500</b>
	<b>Cash .....</b>	<b>1,500</b>
	<b>Purchase the computers and printer</b>	

### **Transaction 3:**

On Jan 3, the company provided the services to the client, paying cash 1,500 and the client owed to the company 1,000.

{	<b>Cash .....</b>	<b>1,500</b>
	<b>Account Receivable .....</b>	<b>1,000</b>
	<b>Service Revenue .....</b>	<b>2,500</b>
	<b>Provide the service collect the partial payment</b>	

**Transaction 4:**

On Jan 3, the company purchase supply paying cash 700.

{	<b>Supply .....</b>	<b>700</b>
	<b>Cash .....</b>	<b>700</b>
	<b>Purchase supply paying cash</b>	

**Transaction 5**

On Jan 5, the Company purchase new vehicle costing 5,000, paying in cash 50% and owed the balance.

{	<b>Vehicle .....</b>	<b>5,000</b>
	<b>Cash .....</b>	<b>2,500</b>
	<b>Account Payable .....</b>	<b>2,500</b>
	<b>Purchase new vehicle paying 50%</b>	

**Transaction 6:**

On Jan 8, the company provide the services collect 1,000

{	<b>Cash .....</b>	<b>1,000</b>
	<b>Service Revenue .....</b>	<b>1,000</b>
	<b>Provide the service collect the money</b>	

**Transaction 7:**

On Jan 10, the Company collect the money the customer owed 1,000

{	<b>Cash .....</b>	<b>1,000</b>
	<b>Account Receivable .....</b>	<b>1,000</b>
	<b>The customer pay the balance</b>	

**Transaction 8:**

On Jan 12, the company purchase new table worth 200 by paying cash.

{	<b>Furniture &amp; Fixture .....</b>	<b>200</b>
	<b>Cash .....</b>	<b>200</b>
	<b>Purchase new table paying cash</b>	

**Transaction 9:**

On Jan 14, the company pay to the marketing staff for biweekly wages, 300.

{	<b>Wages Expense .....</b>	<b>300</b>
	<b>Cash .....</b>	<b>300</b>
	<b>Paid biweekly wages to marketing staff.</b>	



**Transaction 10:**

On Jan 15, The company provided the services collected 2,000 in cash and the customer owed 1,200.

{	<b>Cash .....</b>	<b>2,000</b>
	<b>Account Receivable .....</b>	<b>1,200</b>
	<b>Service Revenue .....</b>	<b>3,200</b>
	<b>Provide the service with partial collection</b>	

**Transaction 11:**

On Jan 17, The company received the telephone bill, worth 100.

{	<b>Telephone Expense .....</b>	<b>100</b>
	<b>Account Payable .....</b>	<b>100</b>
	<b>Received the phone bill.</b>	

**Transaction 12:**

On Jan 20, the company paid 500 to the balance of the vehicle.

{	<b>Account Payable .....</b>	<b>500</b>
	<b>Cash .....</b>	<b>500</b>
	<b>Paid on credit for purchase the vehicle.</b>	

**Transaction 13:**

On Jan 21, Paid biweekly wages to marketing staff, 300.

{	<b>Wages Expense .....</b>	<b>300</b>
	<b>Cash .....</b>	<b>300</b>
	<b>Paid biweekly wages to marketing staff.</b>	

**Transaction 14:**

On Jan 24, Paid the phone bill.

{	<b>Account payable .....</b>	<b>100</b>
	<b>Cash .....</b>	<b>100</b>
	<b>Paid the phone bill.</b>	

**Transaction 15:**

On Jan 26, the company provided the service to client collected 2,000 in cash.

{	<b>Cash .....</b>	<b>2,000</b>
	<b>Service Revenue .....</b>	<b>2,000</b>
	<b>Provide the service collect cash</b>	



**Transaction 16:**

On Jan 28, the owner withdrew 300 for his personal use.

Drawing .....	300
Cash .....	300
<b>The owner withdrawal</b>	

**Transaction 17:**

On Jan 29, the company paid the commission to sales staff 200.

Commission Expense .....	200
Cash .....	200
<b>Paid commission to sales staff</b>	

**Transaction 18:**

On Jan 30, the company provided the service to client, 2,500 the client owe the balance.

Account Receivable .....	2,500
Service Revenue .....	2,500
<b>Provide the service the client owe d.</b>	

**Transaction 19:**

On Jan 30, Received the electricity bill, 150.

Utilities Expense .....	150
Account payable .....	150
<b>Receive the electricity bill</b>	

**III- POST TO GENERAL LEDGER**

**Cash**

**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 01	Open the new business		\$100,000		\$100,000
Jan 02	Purchase the new computer & Printer			1,500	98,500
Jan 03	Provide the service collect partial payment		1,500		100,000
Jan 03	Purchase supply paying cash			700	99,300
Jan 05	Purchase new vehicle paying 50%			2,500	96,800
Jan 08	Provide the service collect the money		1,000		97,800
Jan 10	The customer paid the balance		1,000		98,800
Jan 12	Purchase new table paying cash			200	98,600
Jan 14	Paid biweekly wages to marketing staff			300	98,300
Jan 15	Provide the service with partial		2,000		100,300

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Jan 20	collection Paid on credit for purchase the vehicle			500	99,800
Jan 21	Paid biweekly wages to marketing staff			300	99,500
Jan 24	Paid the phone bill			100	99,400
Jan 26	Provide the service collect cash		2,000		101,400
Jan 28	The owner withdrew			300	101,100
Jan 29	Paid commission to staff			200	<u>100,900</u>

**A/R**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 03, 03	Provide the service collect partial payment		1,000		1,000
Jan 10, 03	The customer paid the balance			1,000	0
Jan 15, 03	Provide the service with partial collection		1,200		1,200
Jan 30, 03	Provide the service the client owed		2,500		<u>3,700</u>

**Office Equipment**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 02,	Purchase the new computer & Printer		1,500		<u>1,500</u>

**Accumulate Depreciation Office Equipment**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 31,	For month of Jan 02			25	25

**Furniture & Fixture**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 12,	Purchase new table paying cash		200		<u>200</u>

**Accumulated Depreciation of Furniture & Fixture**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 31,	For month of Jan 03			4	4

**Vehicle**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 05,	Purchase new vehicle paying 50%		5,000		<u>5,000</u>

**Accumulated Depreciation of Vehicle**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 31,	For Jan 2003			41	41

**Supply**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 03, 03	Purchase supply paying cash.		700		700
Jan 31, 03	Supplies used in Jan 03			400	300

**Account Payable**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 05,	Purchase new vehicle paying cash 50%			2,500	2,500
Jan 17,	Received the phone bill			100	2,600
Jan 20,	Paid on credit for purchase the vehicle		500		2,100
Jan 24,	Paid the phone bill		100		2,000
Jan 30,	Received the electricity bill			150	<u>2,150</u>

**Salary Payable**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 31,	The salary didn't paid to office staff			500	<u>500</u>

**Tax Payable**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 31,	Income tax for Jan 2003			500	<u>500</u>

**Equity**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 01,	Open the new business			100,000	<b>100,000</b>
<i>Jan 31,</i>	<i>To close income summary to equity</i>			<i>8,680</i>	<i>108,680</i>
<i>Jan 31,</i>	<i>To close drawing to equity</i>		<i>300</i>		<u><i>108,380</i></u>

**Drawing**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 28,	The owner withdrew		300		<b>300</b>
<i>Jan 31,</i>	<i>To close drawing to equity</i>			<i>300</i>	<u><i>0.00</i></u>

**Income Summary**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 31,	To close revenue to income summary			11,200	11,200
Jan 31,	To close expense to income summary		2,520		8,680
<b>Jan 31,</b>	<b>To close Income summary to equity</b>		<b>8,680</b>		<b><u>0.00</u></b>

**Service Revenue**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 03,	Provide the service collect the partial payment			2,500	2,500
Jan 08,	Provide the service collect the money			1,000	3,500
Jan 15,	Provide the service with partial payment			3,200	6,700
Jan 26,	Provide the service collect cash			2,000	8,700
Jan 30,	Provide the service the client owed			2,500	<b>11,200</b>
<b>Jan 31,</b>	<b>To close revenue to Income summary</b>		<b>11,200</b>		<b><u>0.00</u></b>

**Telephone Expense**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 17,	Received the phone bill.		100		<b>100</b>
<b>Jan 31,</b>	<b>To close expense to income summary</b>			<b>100</b>	<b><u>0.00</u></b>

**Wages Expense**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 14,	Paid biweekly wages to marketing staff		300		300
Jan 21,	Paid biweekly wages to marketing staff		300		<b>600</b>
<b>Jan 31,</b>	<b>To close expense to income summary</b>			<b>600</b>	<b><u>0.00</u></b>

**Commission Expense**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 29, <i>Jan 31,</i>	Paid commission to sales staff <i>To close expense to income summary</i>		200	200	200 <u>0.00</u>

**Utilities Expense**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 30, <i>Jan 31,</i>	Receive the electricity bill <i>To close expense to income summary</i>		150	150	150 <u>0.00</u>

**Income tax Expense**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 31, <i>Jan 31,</i>	Income tax for Jan 03 <i>To close expense to income summary</i>		500	500	500 <u>0.00</u>

**Depreciation Expense**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 31, <i>Jan 31,</i>	For month of Jan 03 <i>To close expense to income summary</i>		70	70	70 <u>0.00</u>

**Supplies Expense**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 31, <i>Jan 31,</i>	Supply used in Jan 03 <i>To close expense to income summary</i>		400	<b>400</b>	400 <u><b>0.00</b></u>

**Salary Expense**
**Acc. ID:**

Date	Description	Ref	Debit	Credit	Balance
Jan 31, <i>Jan 31,</i>	Salary Didn't paid to office staff <i>To close expense to income summary</i>		500	<b>500</b>	500 <u><b>0.00</b></u>

**IV- PREPARE UNADJUSTED TRAIL BALANCE**

**Law Consulting Co., Ltd  
Unadjusted Trial Balance  
As of January 2003**

Account Items	Debit	Credit
Cash	\$100,900	
Account Receivable	3,700	
Office Equipment	1,500	
Furniture \$ Fixture	200	
Vehicle	5,000	
Supply	700	
Account Payable		2,150
Equity		100,000
Drawing	300	
Service Revenue		11,200
Telephone Expense	100	
Wages Expense	600	
Commission Expense	200	
Utilities Expense	150	
<b>Total</b>	<u><b>113,350</b></u>	<u><b>113,350</b></u>

## V- CALCULATE ADJUSTING ENTRY

### Assumed that:

- 1- The office equipment is estimated to use in 5 years. (Straight Line Method)
- 2- The Furniture & Fixture is estimated to use in 4 years (SL)
- 3- Vehicle is estimated to use in 10 years (SL)
- 4- Supply was discovered that at the end of the period is 300 remaining.
- 5- This month the company paid to the government tax, 500 for income.
- 6- Salary for this month didn't pay yet to the staff, 500.

### Journal Entry:

{	Depreciation Expense .....	70	
	Accumulated Depreciation of Off. Equ.....		25
	Accumulated Depreciation of Fur. & Fix .....		4
	Accumulated Depreciation of Vehicle .....		41
	For 1 month		

{	Supply Expense .....	400	
	Supply .....		400
	Supply expense for one month.		

{	Income Tax Expense .....	500	
	Tax payable .....		500
	Credit on income tax.		

{	Salary Expense .....	500	
	Salary Payable .....		500
	Staff salary for Jan 03		



## VI- PREPARE ADJUSTED TRIAL BALANCE

**Law Consulting Co., Ltd**  
**Adjusted Trial Balance**  
**As of January 2003**

Account Items	Debit	Credit
Cash	\$100,900	
Account Receivable	3,700	
Office Equipment	1,500	
<b>Accumulated Depreciation of Office Equipment</b>		<b>25</b>
Furniture \$ Fixture	200	
<b>Accumulated Depreciation of Furniture &amp; Fixture</b>		<b>4</b>
Vehicle	5,000	
<b>Accumulated Depreciation of Vehicle</b>		<b>41</b>
<b>Supply</b>	<b>300</b>	
Account Payable		2,150
<b>Salary Payable</b>		<b>500</b>
<b>Tax Payable</b>		<b>500</b>
Equity		100,000
Drawing	300	
Service Revenue		11,200
Telephone Expense	100	
Wages Expense	600	
Commission Expense	200	
Utilities Expense	150	
<b>Depreciation Expense</b>	<b>70</b>	
<b>Salary Expense</b>	<b>500</b>	
<b>Income Tax Expense</b>	<b>500</b>	
<b>Supply Expense</b>	<b>400</b>	
<b>Total</b>	<b><u>114,420</u></b>	<b><u>114,420</u></b>



## VII- PREPARE FINANCIAL STATEMENT

- 1- Income Statement/Profit & Loss Statement
- 2- Statement of Retained Earning/Statement of Owner's Equity
- 3- Balance Sheet

**Law Consulting Co., Ltd.  
Income Statement  
As of January 2003**

**Revenue:**

Service Revenue	11,200
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**Less:  
Expense**

Telephone Expense	100
Wages Expense	600
Commission Expense	200
Utilities Expense	150
Depreciation Expense	70
Salary Expense	500
Supply Expense	400
<b>Income Before Tax</b>	<b>9,180</b>

**Less:**

Income Tax Expense	500
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<b>Net income</b>	<b><u>8,680</u></b>
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**Law Consulting Co., Ltd.**  
**Statement of Retained Earning**  
**As of January 2003**

<b>Beginning Equity .....</b>	<b>100,000</b>
<b>Add:</b>	
Net Income .....	8,680
<b>Less: Drawing .....</b>	<b>300</b>
<b>Ending Equity</b>	<b><u>108,380</u></b>

**Law Consulting Co., Ltd.**  
**Balance Sheet**  
**As of January 2003**

<b>Assets:</b>	
<b>Current Assets</b>	
Cash	\$100,900
Account Receivable	3,700
<b>Total Current Asset</b>	<b><u>104,600</u></b>
<b>Fixed Assets</b>	
Office Equipment	1,500
Accumulated Depreciation of Office Equipment	(25)
Furniture \$ Fixture	200
Accumulated Depreciation of Furniture & Fixture	(4)
Vehicle	5,000
Accumulated Depreciation of Vehicle	(41)
Supply	300
<b>Total Fixed Assets</b>	<b><u>6,930</u></b>
<b>Total Assets</b>	<b><u>111,530</u></b>
<b>Liability &amp; Equity</b>	
Account Payable	2,150
Salary Payable	500
Tax Payable	500
<b>Ending Equity</b>	<b><u>108,380</u></b>
<b>Total Liability &amp; Equity</b>	<b><u>111,530</u></b>

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## VIII- RECORD CLOSING ENTRY

Before we close the account we need to create a new account named “**Income Summary Account**”

### To close Account:

- 1- Close **Revenue** to Income Summary Account
- 2- Close **Expense** to Income Summary Account
- 3- Close **Income Summary Account** to Equity
- 4- Close **Drawing** to Equity

### Journal Entry :

#### 1- Close Revenue to Income Summary Account

{	Service Revenue .....	11,200	
	Income Summary .....		11,200
	To close revenue to Income Summary		

#### 2- To Close Expense into Income Summary Account

{	Income Summary .....	2,520	
	Telephone Expense.....	100	
	Wages Expense .....	600	
	Commission Expense .....	200	
	Utility Expense .....	150	
	Depreciation Expense .....	.70	
	Salary Expense .....	500	
	Supply Expense .....	400	
	Income Tax Expense.....	500	
	To close Expense to Income Summary Account		

#### 3- To Close Income Summary Account to Equity

{	Income Summary .....	8,680	
	Equity .....		8,680
	To close Income Summary to Equity		

**4- To Close Drawing into Equity**

{	Equity .....	300
	Drawing .....	300
	To close Drawing into Equity	

**IX- PREPARE POST-CLOSING TRIAL BALANCE**

**Law Consulting Co., Ltd.  
Trial Balance After Post-Closing  
As of January 2003**

Account Items	Debit	Credit
Cash	\$100,900	
Account Receivable	3,700	
Office Equipment	1,500	
Accumulated Depreciation of Office Equipment		25
Furniture & Fixture	200	
Accumulated Depreciation of Furniture & Fixture		4
Vehicle	5,000	
Accumulated Depreciation of Vehicle		41
Supply	300	
Account Payable		2,150
Salary Payable		500
Tax Payable		500
Equity		108,380
<b>Total</b>	<b><u>111,600</u></b>	<b><u>111,600</u></b>



## Problem

### *I- Summary*

- 1- The income statement and balance sheet are known as .....
- 2- The statement that shows net income for the period is known as the ..... statement.
- 3- The statement that shows net loss the period as the ..... statement.
- 4- Two groups of items on the income statement are ..... and .....
- 5- The different between income and expense is know as .....
- 6- Withdrawal of money by the owner is not a expense but a reduction of .....
- 7- To show the change in the owner's equity of a business, the statement of ..... is used.
- 8- The balance sheet contains ..... , ..... and .....
- 9- Assets must equal .....
- 10- Expense and income must be matched in the same .....

### *II- Solved Problem*

- 1- Prepared an income statement based on the following information:  
Fee Income, \$38,000; Supplies Expense, \$16,000; Miscellaneous Expense, \$7,000.
- 2- Based on the problem 1, what would the net income or net loss be if, in addition to the listed expenses, there was an additional expense of \$5,000 charged to Rent?
- 3- The following information was taken from an income statement: Fees Income, \$14,000; Rent Expense, \$2,000; salaries Expense, \$5,000; Miscellaneous Expense, \$1,000. If the owner withdrew \$2,000 from the firm, what is the increase of decrease in capital?
- 4- Based on the following information, determine the capital on December 31:

a. Cash	\$6,000
b. Supplies	400
c. Equipment	8,000
d. Account Payable	4,500
e. Note payable	2,500

5- Selected accounts of the Ruez Company produced the following balances:

	January 1	January 31
Assets	\$16,000	\$19,000
Liabilities	4,000	3,000

6- Prepare a statement of owner's equity and balance sheet as of December 31, 200x from the following data:

a. Accounts Payable	\$3,000
b. Cash	4,000
c. Equipment	16,000
d. Note payable	12,000
e. Supplies	200
f. Net Income	11,400
g. Drawing	10,200
h. Capital, Jan 1, 2002	4,000

7- Below are the account balance as of December 31, 2002 of Mr. R Gregg, Owner of a movie theatre.

a. Account Payable	\$11,400
b. Admission Income	34,200
c. Capital, Jan 1, 2002	16,000
d. Cash	7,500
e. Drawing	5,400
f. Equipment	18,500
g. Film Rental Expense	6,000
h. Miscellaneous expense	4,000
i. Note payable	1,000
j. Rent Expense	10,000
k. Salaries Expense	7,000
l. Supplies	4,200

Prepare (a) an income statement, (b) a statement of owner's equity, (c) a balance sheet.

8- Mr. Christopher opened the new company by taking from his saving account for accounting firm.

- **01 Jan:** He invested \$20,000 for new business.
- **01 Jan:** Purchase the new computer for 2 sets, worth \$1,700 paying cash \$700, and promise to pay the balance next time.

- **02 Jan:** Purchase the new table for staff \$ 400 paying cash \$200 and owe to supplier in the balance.
- **03 Jan:** Provide the service to the client collect \$2,000 and \$1,500 the client owed to company.
- **05 Jan:** The company need to open the new bank account by deposit \$500.
- **05 Jan:** The company purchase supplies paying cash \$500.
- **06 Jan:** Provide the service collected check \$2,500.
- **07 Jan:** The client paid cash \$1,500 which owed the company by providing the service on 03 Jan.
- **08 Jan:** Purchase new computer paying cash \$600.
- **08 Jan:** Purchase printer paying cash \$300.
- **10 Jan:** Pay for wage for two weeks, \$150.
- **13 Jan:** Provide the service to the collected check \$490.
- **15 Jan:** Provide the service to the client collected cash \$500.
- **20 Jan:** Received the electricity bill, \$150.
- **22 Jan:** Received the water bill, \$256.
- **23 Jan:** Paid to balance 01 Jan 2002 for purchasing the computer.
- **25 Jan:** The owner withdrew for his personal use \$300.
- **27 Jan:** Paid the electricity.
- **27 Jan:** Paid the water bill.
- **29 Jan:** Paid for office rental \$200.
- **30 Jan:** Provide the service collecting cash, \$1,500.
- **31 Jan:** Paid wages \$150 cash.
- **31 Jan:** Supplies on hand is \$300.

**Required:**

- Make the depreciation by useful life 5 years (SL).
- General Journal
- General Ledger
- Trial balance
- Income statement
- Balance sheet.
- Statement of Retained earning.
- Closing entry.
- Trial Balance after closing entry

