THE 8-STEP ACCOUNTING CYCLE & ADJUSTING ENTRIES

Master Flowchart & Period-End Adjusting Entry Reference • ***EverythingAboutAccounting.info***

1. The 8 Sequential Steps of the Accounting Cycle

Step #	Cycle Phase	Key Activities & Source Artifacts	Frequency
Step 1	**Analyze Transactions**	Review source documents (invoices, receipts, bank slips, purchase orders)	Daily
Step 2	**Journalize Entries**	Record chronological double-entry debits and credits in the General Journal	Daily
Step 3	**Post to Ledger**	Transfer journal amounts into individual T-Account ledgers to track balances	Weekly/Monthly
Step 4	**Unadjusted Trial Balance**	List all account ending balances to verify Total Debits = Total Credits	Month-End
Step 5	**Prepare Adjusting Entries**	Apply accrual principles for prepaids, accruals, depreciation, bad debts	Period-End
Step 6	**Adjusted Trial Balance**	Re-verify trial balance parity following all adjusting journal postings	Period-End
Step 7	**Prepare Financial Statements**	Draft Income Statement → Statement of Equity → Balance Sheet → Cash Flows	Quarter/Year-End
Step 8	**Close Temporary Accounts**	Zero out temporary accounts (REID) into Retained Earnings; Post-closing trial balance	Year-End

2. The 4 Mandatory Types of Period-End Adjusting Entries

Category	Timing of Cash vs Recognition	Standard Journal Entry	Textbook Example
Prepaid Expenses (Deferrals)	Cash paid **BEFORE** expense is incurred/used	**Dr. Expense** **Cr. Prepaid Asset**	Using up 1 month of 6-month prepaid rent ($1,000/mo)
Unearned Revenues (Deferrals)	Cash received **BEFORE** service/goods delivered	**Dr. Unearned Revenue (Liab)** **Cr. Revenue**	Delivering 1st quarter of an annual software subscription
Accrued Expenses (Accruals)	Expense incurred **BEFORE** cash is paid	**Dr. Expense** **Cr. Accrued Payable**	Staff worked final week of month; payroll paid next month
Accrued Revenues (Accruals)	Service performed **BEFORE** cash is received	**Dr. Accounts Receivable** **Cr. Revenue**	Unbilled consulting hours completed at month-end

3. Closing Entries Rule: Remember 'REID'

Permanent Accounts (NEVER Closed): Assets, Liabilities, and Equity (Balances carry forward to the new year).
Temporary Accounts (CLOSED to Zero): Revenues, Expenses, Dividends (Closed using the 4-step **REID** sequence):

- **R (Revenues):** Debit Revenue accounts, Credit Income Summary.
- **E (Expenses):** Debit Income Summary, Credit Expense accounts.
- **I (Income Summary):** Debit/Credit Income Summary for net profit/loss, balance to Retained Earnings.
- **D (Dividends):** Debit Retained Earnings, Credit Dividends account (Zeroing out dividends).