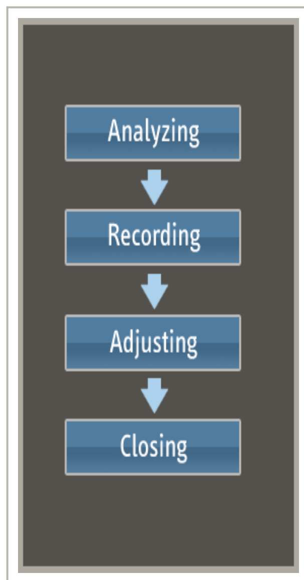
**Job Aid**

# The Accounting Process

**Purpose:** *Use this job aid for a summary of the accounting process and important points of each phase*.




**The four phases of the accounting process**

## Phase 1: Analyzing

Analyzing and understanding each transaction is the first logical step. Ask yourself:

- What type of transaction are you dealing with – debit or credit?
- Which accounts will be affected, and how?

## Phase 2: Recording

The second phase of the accounting process is recording. Recording has two important levels: journalizing and posting to the ledger. You should know the difference between a journal and a ledger:

- A journal is a book that records daily business's transactions in chronological order. Also referred to as "books of original entry," journals are where all transactions are entered first. General journals are used to record all transactions. Some businesses use a number of specific journals instead of a general one. Cash, which is used in many different transactions, may need to be recorded in two journals – one for debits and one for credits.
- A ledger, or general ledger, is where the various journal entries are sorted into their appropriate accounts. This is called posting.

## Phase 3: Adjusting

Adjusting, the third phase of the accounting process, originates with the accountant and is an effort to ensure the financial situation of the business is accurately portrayed. Remember:

- adjustments are needed to compensate for various factors and are made each accounting period, and
- any adjusting entry that shows a decrease in value of an asset – depreciation – must be offset by a corresponding increase in expense on the other side of the balance sheet by the end of the accounting period

## Phase 4: Closing

The fourth and final phase of the accounting process is closing, during which income statement accounts are balanced out so that the revenue and expense sides of the statement are actually "closed" and a new opening balance is started at zero. During closing, information is extracted from the ledger to prepare various financial statements. There are three primary types of business financial statements:

- **Income Statements** – Income Statements are the best known business financial reports. They can also be referred to as a statement of operations, earnings statement, or profit and loss statement. The Income Statement summarizes the company's profit or loss for a given period.
- **Balance Sheets** - A Balance Sheet reports the assets, liabilities, and owners' equity of a company at a point in time, usually at month-end or year-end.
- **Cash Flow Statements** - A Cash Flow Statement shows the movement of cash in operating, investing, and financing activities, and indicates the net increase or decrease in cash during a period.

**Course:** Basic Accounting Concepts for Non-financial Professionals
**Topic:** Understanding the Accounting Process

© 2016 Skillsoft Ireland Limited