

What is the Accounting Cycle?

Worksheet

The accounting cycle is the sequence of steps - from identifying transactions to closing entries - that a business follows each period to produce accurate financial statements.

Questions

1. What is the correct order of the first three accounting cycle steps?
 - A) Post, Journalize, Identify
 - B) Identify, Journalize, Post
 - C) Journalize, Post, Identify
 - D) Post, Identify, Journalize
2. What does a trial balance confirm?
 - A) Net income is correct
 - B) Total debits equal total credits
 - C) No errors exist
 - D) Cash balance is accurate
3. Which step directly precedes preparing financial statements?
 - A) Journalizing
 - B) Posting
 - C) Adjusting entries
 - D) Closing entries
4. What is the purpose of closing entries?
 - A) To open new accounts
 - B) To zero out temporary accounts and transfer net income to retained earnings
 - C) To record new transactions
 - D) To calculate depreciation
5. A bakery sells \$2,000 of bread on credit on March 1. Walk through the first three steps of the accounting cycle.
6. At period end, a company's trial balance shows Debits \$85,000 and Credits \$85,000. What does this confirm?
7. A company owes \$1,200 of accrued, unpaid, unrecorded wages at year-end. What adjusting entry is needed before statements are prepared?
8. Define: How many main steps are in the accounting cycle?
9. Define: What is the first step of the accounting cycle?
10. Define: What is the purpose of a trial balance?

Answer Key

1. B) Identify, Journalize, Post - Transactions are identified first, then journalized, then posted to the ledger.
2. B) Total debits equal total credits - It only confirms debits equal credits, not the absence of errors.
3. C) Adjusting entries - Adjusting entries update accounts before statements are prepared.
4. B) To zero out temporary accounts and transfer net income to retained earnings - Closing entries reset revenue, expense and dividend accounts for the next period.
5. 1. Identify: sales invoice for \$2,000 dated March 1 2. Journalize: Debit Accounts Receivable \$2,000; Credit Sales Revenue \$2,000 3. Post: both entries transferred to the Accounts Receivable and Sales Revenue ledger accounts
6. Total debits (\$85,000) equal total credits (\$85,000) This confirms the ledger is mathematically balanced before adjustments It does NOT guarantee there are no errors, e.g. a transaction posted to the wrong account
7. Identify the accrual: \$1,200 of wages incurred but not yet paid Adjusting entry: Debit Wage Expense \$1,200; Credit Wages Payable \$1,200 This entry must post before the financial statements step
8. Typically 8: identify, journalize, post, trial balance, adjust, statements, close, post-closing trial balance.
9. Identifying and analyzing a transaction from a source document.
10. To verify total debits equal total credits before adjustments.

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