

Accounting Cycle

Accounting cycle refers to the sequence of accounting procedures used to record, classify and summarize the business transactions. It begins with the identification of the business transaction and ends with the reversing entries. A business enterprise has numerous transactions every day during an accounting period. Unless the transactions are analyzed and recorded individually; it is not possible to determine the impact of each transaction in the financial statements. In order to follow the sequence of accounting cycle, the following steps must be followed:

1. **Journalizing Transactions:** Analyze and record the business transactions in the general journal, thus creating a chronological record of events.
2. **Posting to the ledger accounts:** Post debits and credits from the general journal to the proper ledger account, thus creating a record classified by accounts.
3. **Preparation of trial balance:** A trial balance proves the equality of debits and credits entries in the ledger. The purpose of this procedure is to verify the accuracy of the posting process and the computation of the ledger account balances.
4. **Making end-of -period adjustments:** Draft adjusting entries in the general journal, and post to the ledger accounts.
5. **Preparation of an adjusted trial balance:** Prove the equality of debit and credit in the ledger again.
6. **Preparation of financial statements and adequate disclosures:** Prepare an income statement showing the results of operations for the period, a statement of owner's equity showing the changes in owner's equity during the period and a balance sheet showing the financial position of the business at the end of the period. Financial statements must be accompanied by notes disclosing any facts necessary for the proper interpretation of those statements.
7. **Journalizing and posting closing entries:** The closing entries clear the revenue, expense and drawing accounts making them ready for recording the events of the next accounting period. The closing entries also transfer the net income or loss of the completed period to the owner's capital account.
8. **Preparation of an after-closing trial balance:** This step ensures that the ledger remains in balance after posting of the closing entries.

Format of Income Statement and Closing Entries for Servicing Business

Name of Organization

Income Statement

For the year ended

<u>Revenue:</u>				
Commission Income			Rs.xxx	
Fee Income etc.			(xxx)	
Total Revenues				Rs.xxx
<u>Less: Operating Expenses:</u>				
Salaries expense			Rs.xxx	
Advertising expense			xxx	
Rent expense			xxx	
Miscellaneous expense etc.			xxx	
Total operating expenses				(xxx)
Net Income				<u>Rs.xxx</u>

Name of the Organization

General Journal

Date	Account Titles and Explanation	Post. Ref	Debit	Credit
	(Closing)			
xxx	Commission Income		xxx	
	Fee Income		xxx	
	Consultation Income		xxx	
	Service Income		xxx	
	Admission Income etc.		xxx	

	Income Summary (To close all revenue accounts)			xxx
xxx	Income summary Salaries expense Advertising expense Rent expense Insurance Expense Depreciation Expense Miscellaneous expense (To close all expenses accounts)		xxx	xxx xxx xxx xxx xxx xxx xxx
xxx	Income summary Capital OR Capital Income summary (To close income summary account)		xxx xxx	xxx xxx
xxx	Capital Drawing (To close drawing account)		xxx	xxx

Note: Income Summary, Expense and Revenue Summary and Profit or Loss Account are used interchangeably.

Accounting Cycle-Servicing Business

Qno1: Following is the trial balance of Iqbal & Sons (Broker) for the period ended Dec 31, 2008:

S.no	Titles of Accounts	Debit	Credit
1	Cash	Rs.4,550	
2	Accounts Receivable	3,500	
3	Office supplies	300	
4	Furniture	5,000	
5	Accounts Payable		Rs.700
6	Capital		5,000
7	Commission Income		8,000
8	Office rent expense	350	
	Total	Rs.13,700	Rs.13,700

Data for adjustment:

- i. Estimated depreciation on furniture is Rs.500.
- ii. Office supplies expired Rs.50.
- iii. Bad debts are estimated at Rs.500.
- iv. Accrued salaries Rs.1,000
- v. Accrued commission Rs.5, 000.

Required:

Complete entire accounting cycle.

Qno2: Following is the trial balance of the business run by Mr.Ahmed for the period ended Dec 31, 2008:

S.no	Titles of Accounts	Debit	Credit
1	Cash	Rs.101,500	
2	Accounts Receivable	5,000	
3	Office supplies	1,000	

4	Furniture	10,000	
5	Dry Cleaning Machine	80,000	
6	Accounts Payable		Rs.54,500
7	Capital		50,000
8	service Income		100,000
9	Wages Expense	2,000	
10	Utilities Expense	5,000	
	Total	Rs.204,500	Rs.204,500

Data for adjustment:

- Estimated deprecation on furniture is Rs.1000 and on dry cleaning machine Rs.8,000.
- Office supplies expired Rs.600.
- Bad debts are estimated at Rs.50.
- Accrued salaries Rs.1,000
- Accrued service Rs.5, 000.
- Prepaid Utilities Rs.1,000.

Required:

Complete entire accounting cycle.

Qno3: Following is the pre-closing / unadjusted trial balance of Javed & Co (Auditor) for the period ended Oct 31, 2006:

S.no	Titles of Accounts	Debit	Credit
1	Cash	Rs.3,500	
2	Accounts Receivable	250	
3	Supplies	200	
4	Furniture	2,500	
5	Accounts Payable		Rs.100
6	Fee Income		1,750
7	Capital		5,000

8	Drawing	100	
9	Rent Expense	300	
	Total	Rs.6,850	Rs.6,850

Data for adjustment:

- i. Estimated bad debts are 10% of accounts receivable.
- ii. Supplies expense Rs.100.
- iii. Estimated depreciation on furniture is Rs.400.
- iv. Prepaid rent Rs.100.
- v. Unpaid salaries Rs.1,000.
- vi. Accrued Fee Income Rs.10,000.

Required:

Complete the whole accounting cycle

Qno4: Following is the pre-closing / unadjusted trial balance of Imran Printing & Co for the period ended Nov 30, 2006:

S.no	Titles of Accounts	Debit	Credit
1	Cash	Rs.170,000	
2	Accounts Receivable	10,000	
3	Office Supplies	1,000	
4	Printing Equipment	80,000	
5	Furniture	10,000	
6	Accounts Payable		Rs.80,000
7	Service Income		151,000
8	Capital		50,000
9	Drawing	6,000	
10	Office Rent Expense	4,000	
	Total	281,000	281,000

Data for adjustment:

- i. Estimated depreciation on furniture and printing equipment are Rs.1,000 and Rs.8,000 respectively.
- ii. Estimated bad debts are @ 10% of accounts receivable.
- iii. Office supplies Rs.800.
- iv. Unearned service Rs.1,000.
- v. Outstanding office rent Rs.1,000.
- vi. Unpaid salaries Rs.150,000.

Required:

Complete the whole accounting cycle.

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