# THE 8 STEPS OF THE ACCOUNTING CYCLE YOU NEED TO KNOW

Understanding the accounting cycle is key to maintaining accurate records, making informed decisions, and ensuring reliable financial reporting. This guide walks you through the 8 essential steps.

## 1 Identifying Transactions

Recognize and document all financial activities—sales, expenses, debts—as they occur, using accrual accounting for accurate reporting.

## 2 Recording Journal Entries

Record each transaction with precise debit and credit entries using the double-entry accounting system to maintain balance.

## 3 Posting to the General Ledger

Transfer journal entries to their respective ledger accounts to categorize financial data and track overall performance.

## 4 Preparing an Unadjusted Trial Balance

List all accounts with balances to check if total debits equal total credits before making any adjustments.

## 5 Adjusting Journal Entries

Make corrections and align revenues and expenses with the proper accounting period to ensure accurate and complete records.

## 6 Creating Financial Statements

Prepare the income statement, balance sheet, and cash flow statement using the adjusted trial balance.

## 7 Closing Temporary Accounts

Reset accounts by transferring revenues, expenses, and dividends to retained earnings to prepare for the next period.

## 8 Restarting the Cycle

Open a new accounting period and begin recording transactions anew, maintaining consistent financial tracking.