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The Steps In The Accounting Cycle and How To Prepare Correcting Entries

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Abstract

The accounting cycle is a vital difficulty depend however hard for introductory monetary accounting college students to learn. However, the accounting cycle is a very simple subject. This is simply a list of the accountant's basic actions that lead to financial statements. The author believes the difficulty stems from the way cycle accounting is presented in accounting texts. In this paper, the authors review step in the accounting cycle and how to prepare correcting entries. Starting from the transaction occurred, and ending with its representation in the financial statements. After the cycle ends, steps are taken to start the next accounting cycle. The purpose of this paper is to assess the stages and know 9 stages and analyze the characteristics of each stage. In doing so secondary records inclusive of textbooks and journals were consulted.

Keywords: *Accounting, Accounting Cycle, Correcting Entries, Financial Statements*

1. INTRODUCTION

In unique economics majoring in accounting, there are numerous exclusive styles of accounting, one in all that's economic assertion accounting. Financial statements as a method of imparting economic facts ought to be organized primarily based on positive requirements or guidelines. The essential reason of accounting is to offer economic facts this is utilized by the control of a corporation and different events out of doors the corporation (Sutrisno et al., 2020). Thus control is capable of manipulating the nation of the corporation and might manipulate the jogging of the corporation. This is done so that the information presented in the financial statements is guaranteed and can be accounted for. So that it may be utilized by involved events as attention in making financial and economic decisions. These financial statements are generated through an accounting process known as the accounting cycle. The usual accounting cycle starts from documenting evidence of transactions in journals, posting to the general ledger, compiling a trial balance, making a work sheet, making adjusting entries, compiling financial statements, and finally compiling closing journals and reversing journals. Each level withinside the corporation's accounting cycle may be very critical in order that deep accuracy is wanted to supply correct economic reports. A small mistakes at one level withinside the accounting cycle will have an effect on the subsequent degrees. According to Suharli (2015) in case you collect the incorrect journal, you may collect the economic statements incorrectly. This paper reviews the description and discussion of the Accounting Cycle.

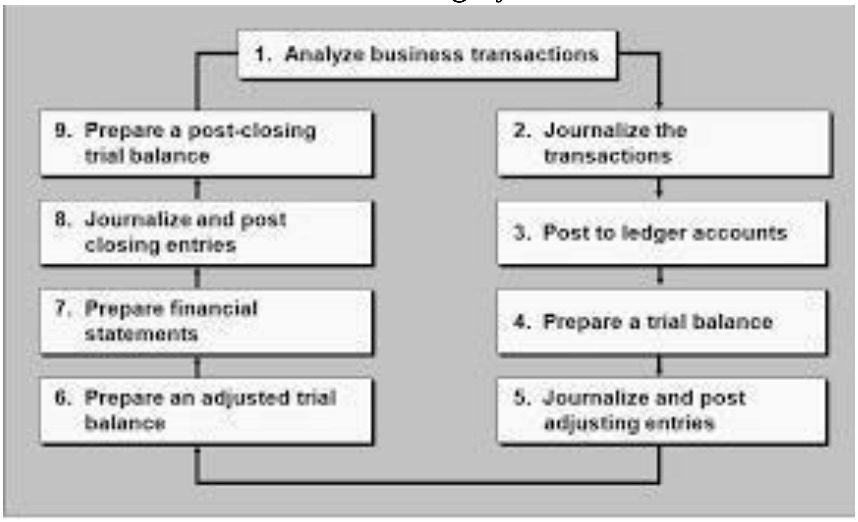
2. LITERATURE REVIEW

Information in the form of financial reports is generated through an accounting process that long. In this process there are degrees that should be met if you want to get good, legitimate and responsible document results. According to Bahri (2016) the accounting cycle is the stages from the occurrence of transactions to the preparation of financial statements so that ready for the next record. Cycle means the occurrence of events in a systematic and repeated the same periodically.

Zamzami and Nusa (2016) briefly describe the steps in the accounting cycle, including: 1. Analysis of financial transactions This analysis is carried out with the aim of studying transactions that have been carried out so that they can be used to determine their effect on the accounts in the accounting equation in the preparation of the financial statements used.
2. Recording of Transactions are recorded in accordance with the evidence of transactions which include accounts for assets, liabilities, capital, income and expenses through the accounting equation.
3. Posting Process At this stage, the transaction date is recorded, writes down the transaction description and records the amount of rupiah in each transaction according to the debit and credit.
4. Prepare trial balance The final balance of each general ledger is presented in the prepared trial balance.

5. Making Adjusting Journal Adjustments are made on equipment accounts, prepaid expenses, unearned income, income receivables/receivables income, expenses payable, receivable losses and depreciation of fixed assets.
6. Prepare trial balance after adjustment The trial balance needs to be updated after adjustments in several accounts.
7. Prepare financial statements After making a trial balance after adjustment, the next step is to sort out the accounts presented in the financial statements, namely the income statement, statement of financial position, report on changes in capital and cash flow statement.
8. Making closing entries Closing journals are carried out with the aim of closing nominal accounts at the end of the period.
9. Post-closing trial balance The purpose is to ensure the balance of the financial position so that for the next accounting period it can be used to start the accounting cycles.

Accounting Cycle



Source: Kieso, et al (2011)

3. METHODS

In this study, a descriptive approach was chosen by gathering the previous literature on the steps of the accounting cycle and preparation for posting adjustments (Imawan et al., 2020). This journal contains examples of possible cases that may occur in your company. The purpose of this journal is to help users complete the accounting cycle and prepare adjusting journal entries for accounting.

4. RESULT AND DISCUSSON

4.1 DISCUSSION

In accounting, there are several cycle stages, in this case there are several cases encountered in the environment. Among them, Micro, Small and Medium Enterprises (MSMEs) are indeed an important economic driver in Indonesia. Despite making a big contribution, the reality proves that Small, Micro and Medium Enterprises (MSMEs) are still unable to realize their expertise and role optimally in the economy, because Micro, Small and Medium Enterprises (MSMEs) still have obstacles and barriers, both internal and external, especially in making financial statements (Ade et al, 2019). Fund management is the main factor that causes the success or failure of SMEs themselves. Errors in managing funds will cause MSMEs to experience losses sooner or later. Uniquely, business organizations use accounting as a language to facilitate operational activities, make business decisions, and account for the implementation of manager's duties to company owners. Therefore, MSMEs need accounting (David, 2018). Benefits of Accounting for Micro, Small and Medium Enterprises (MSMEs) Accounting can also provide reports on ongoing financial activities, which will provide a basis for information in making strategic decisions regarding the development of business units. The application of basic accounting to MSMEs that produce financial reports as output will facilitate business activities, evaluate performance materials, treat effective planning so as to convince external parties to participate in investment in business units and borrow funds by creditors .

But unfortunately most MSMEs have not implemented the accounting cycle. As many as 70.8% of the 24 MSME actors mostly have not used the accounting cycle, this is due to several factors, including:

a. Lack of knowledge and skills regarding accounting.

b. There is no more time to use the accounting cycle because it is already too time consuming with work.

c. There are no experts in the field of accounting and do not have the funds to recruit these experts.

d. They don't need it because they think that the business they are in is not too big.

4.2 RESULT

The accounting cycle has several stages which include the following:

1. Transaction Identification.
   Transactions must be identified for proper recording of transactions. Recordable transactions are transactions that change the company's financial position and can be measured objectively in monetary units. In addition, recorded transactions require evidence. Transactions cannot be recorded and reported without evidence. Proof of transactions is usually provided in the form of valid and verified receipts, notes, invoices, proof of cash outflows, write-off notes, and so on.

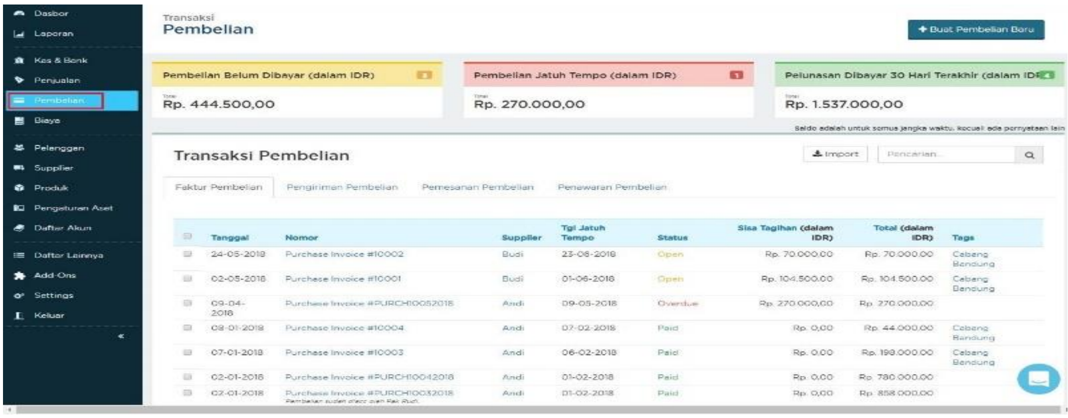


Figure 1. Purchase Transaction
Source: Jurnal.id

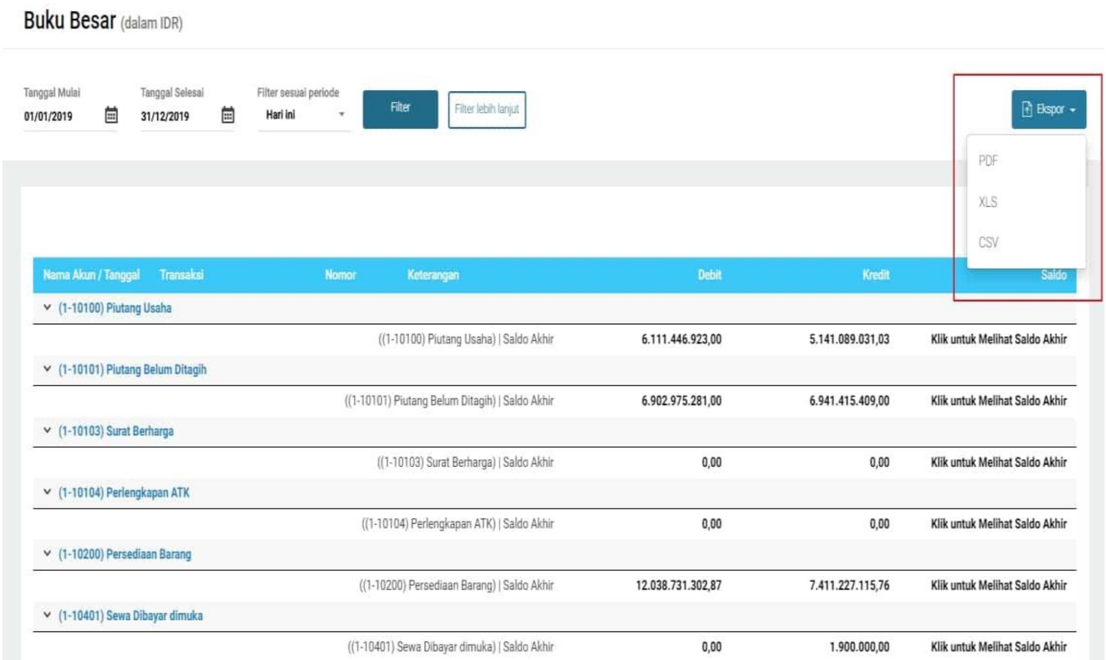
2. Transaction Analysis.
   Once transactions are identified, the accountant must analyze the transactions to determine their impact on the financial position. To make things easier, you can use the basic accounting equation, namely Assets = Liabilities + Capital. The recording system used is a double entry bookkeeping system where every recorded transaction is debited and credited the amount must be equal. Therefore, each transaction affects at least two accounting accounts.

3. Record Transactions in the Journal.
   After the transaction information is analyzed, it is journalized in a gradual manner. Journals are chronological records of transactions that occurred during the accounting cycle. The process of recording transactions in a journal is called journaling. There are two types of journals in the posting cycle phase: general journals and special journals. General journals are usually known as journals only. The procedure that is usually carried out after the input stage is to record transactions entered into debit and credit accounts. Meanwhile, special journals are used to increase the efficiency of recording recurring transactions such as sales journals, purchase journals, cash book journals, and so on.

GENERAL JOURNAL				Page J1
Date	Explanation	Ref.	Debit	Credit
2020				
Oct. 1	Cash	101	10,000	
	Share Capital-Ordinary	311		10,000
1	Equipment	157	5,000	
	Notes Payable	200		5,000
2	Cash	101	1,200	
	Unearned Revenue	209		1,200

Figure 2. General Journal
Source: Jerry J. Weygandt, P. D. (2018)

4. Ledger Posts.
The next step in the accounting cycle is posting the transactions recorded in the journal to the accounting ledger. A general ledger is a collection of accounting accounts, each of which is used to record information about a specific asset. Companies usually have an organized list of general ledger accounts called a table of accounts. Each account is usually assigned a code number, which makes it easy for identification and cross-reference with journal entry of transactions.


Buku Besar (dalam IDR)

Tanggal Mulai 01/01/2019 · Tanggal Selesai 31/12/2019 · Filter sesuai periode Hari ini · Filter · Filter lebih lanjut · Ekspor (PDF, XLS, CSV)

Nama Akun / Tanggal	Transaksi	Nomor	Keterangan	Debit	Kredit	Saldo
(1-10100) Piutang Usaha						
			((1-10100) Piutang Usaha) | Saldo Akhir	6.111.446.923,00	5.141.089.031,03	Klik untuk Melihat Saldo Akhir
(1-10101) Piutang Belum Ditagih						
			((1-10101) Piutang Belum Ditagih) | Saldo Akhir	6.902.975.281,00	6.941.415.409,00	Klik untuk Melihat Saldo Akhir
(1-10103) Surat Berharga						
			((1-10103) Surat Berharga) | Saldo Akhir	0,00	0,00	Klik untuk Melihat Saldo Akhir
(1-10104) Perlengkapan ATK						
			((1-10104) Perlengkapan ATK) | Saldo Akhir	0,00	0,00	Klik untuk Melihat Saldo Akhir
(1-10200) Persediaan Barang						
			((1-10200) Persediaan Barang) | Saldo Akhir	12.038.731.302,87	7.411.227.115,76	Klik untuk Melihat Saldo Akhir
(1-10401) Sewa Dibayar dimuka						
			((1-10401) Sewa Dibayar dimuka) | Saldo Akhir	0,00	1.900.000,00	Klik untuk Melihat Saldo Akhir

Figure 3. **Ledger**
Source: Jurnal.id

5. Preparation of Trial Balance.
A trial balance is a list of general ledger balances for a certain period of time. Creating a trial balance is very easy. accountants just need to move the general ledger balances to the trial balance and combine them. The balances in the trial balance must be the same. If the debit and credit balances do not match, the trial balance is said to be unbalanced and an error has occurred. In this case, the accountant must look for errors that occurred before the report was made.

Yazici Advertising A.S. Trial Balance October 31, 2020		
	Debit	Credit
Cash	₺15,200	
Supplies	2,500	
Prepaid Insurance	600	
Equipment	5,000	
Notes Payable		₺5,000
Accounts Payable		2,500
Unearned Service Revenue		1,200
Share Capital—Ordinary		10,000
Retained Earnings		0
Dividends	500	
Service Revenue		10,000

Figure 4. **Trial Balance**
Source: Jerry J. Weygandt, P. D. (2018)

6. Preparation of Adjusting Journal.
   If at the end of the accounting cycle period there are transactions that have not been recorded, or there are transactions that are wrong, or need to be adjusted, they are recorded in the adjusting journal. Adjustments are made periodically, usually when the report is to be prepared. Recording adjustments are the same as recording transactions in general. Adjusting transactions are recorded in the adjusting journal and then posted to the general ledger. After that, the balance in the general ledger is ready to be presented in the financial statements. In other words, the end result of accounting is accrual accounting.

7. Preparation of the Trial After Adjustment.
   At this stage of the trial balance preparation accounting cycle, the accountant only needs to create a second trial balance by transferring the adjusted balances in the general ledger to a new trial balance. Account balances in the general ledger are grouped into assets or liabilities. The balance between the groups of assets and liabilities in this trial balance also needs to be balanced. However, keep in mind that a balanced balance is not always correct, but a correct balance will balance.

8. Preparation of Financial Statements.
   Based on the adjusted trial balance information, the next series of accounting cycles is the preparation of financial statements. Financial reports are made such as income statements that explain the company's performance, reports of changes in capital to identify changes in capital that have occurred, balance sheets to predict liquidity, solvency, flexibility, and cash flow statements that provide relevant information about cash inflows and cash outflows during the current period. .

Yazici Advertising A.S. Income Statement For the Month Ended October 31, 2020	
Revenues	
Service revenue	₺10,600

Yazici Advertising A.S. Retained Earnings Statement For the Month Ended October 31, 2020	
Retained earnings, October 1	₺ 0

Yazici Advertising A.S. Statement of Financial Position October 31, 2020	
Assets	
Cash	₺15,200
Accounts receivable	200

Figure 5. **Financial Statements**
Source: Jerry J. Weygandt, P. D. (2018)

9. Closing Journal Preparation.
   After the financial statements are prepared, the accountant must make closing entries. Closing entries are made only at the end of the accounting period. Closed accounts are nominal accounts or income statements. The trick is to create blank or zero those linked accounts. Nominal accounts are used to measure activities or resource flows that occurred during the current period and should be closed. At the end of the accounting period, nominal accounts have completed their function and need to be closed. In addition, nominal accounts can be reused in subsequent periods to measure new initial activity.

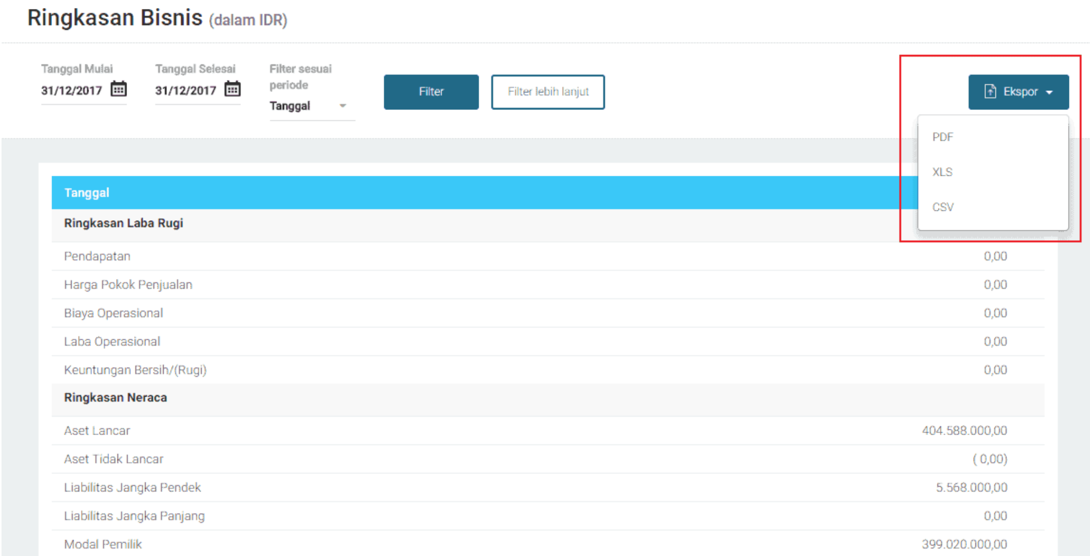


Figure 6. **Business Summary**
Source: Jurnal.id

Correcting journal is a journal that helps accountants when correcting incorrect journals due to incorrect numbering or incorrect account formats. Journal entry errors can occur in any account. It is recommended that correction journals be made during the current period, and it is not recommended to make corrections outside the current period because it will cause the structure of the financial statements that have been formed to change. Accountants need to make corrections when they find an error. There are two ways to correct the posting. Cancel the erroneous posting and then use the second journal entry to record the transaction correctly, or create a single journal entry that corrects the error in combination with the original erroneous posting.

For example:
On March 2, 2021, Sinar Company must pay employee salaries of Rp. 3,300,000.
In this transaction, the accounting employee makes the following accounting entries:

	debit	Credit
Employee salary	IDR 3,000,000	-
Cash	-	IDR 3,000,000

After checking, it turned out that there was an error in the recording of the transaction journal above. In the journal, it appears that the nominal value that should have been Rp. 3,300,000, was recorded with a nominal amount of Rp. 3,000,000. So there is a recording shortfall of IDR 300,000.

To justify the recording error above, it can be done in two ways, namely:

1. Making Reverse Journal.
   Before the correction entries is made, the first step that must be done is to make a reversing journal so that the balance of each account returns to its original value.

	debit	Credit
Employee salary	IDR 3,300,000	-

Cash	-	IDR 3,300,000

2. Make a Correction Entries.
   Correcting entries is made by adding a note of deficiency that should have been written from the beginning. Correcting entries can be made without having to use reversing journals first.

	debit	Credit
Employee salary	IDR 3,000,000	-
Cash	-	IDR 3,000,000

Then added with the shortcomings that should be written.

	debit	Credit
Employee salary	IDR 300,000	-
Cash	-	IDR 300,000

5. CONCLUTION

The accounting cycle is a sequence of steps that arise over a predetermined duration of time, so that you can produce economic reviews which are beneficial for customers of economic statements, each inner and outside parties. And begins with the occurrence of transactions that are recorded and collected systematically. At the stop of the year from the listing of running papers that include all of the estimates within side the preferred ledger. This running paper is likewise used to collect the calculation of income and loss and the stability sheet after corrections and transfers of sure objects are made, that are known as adjustments.

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