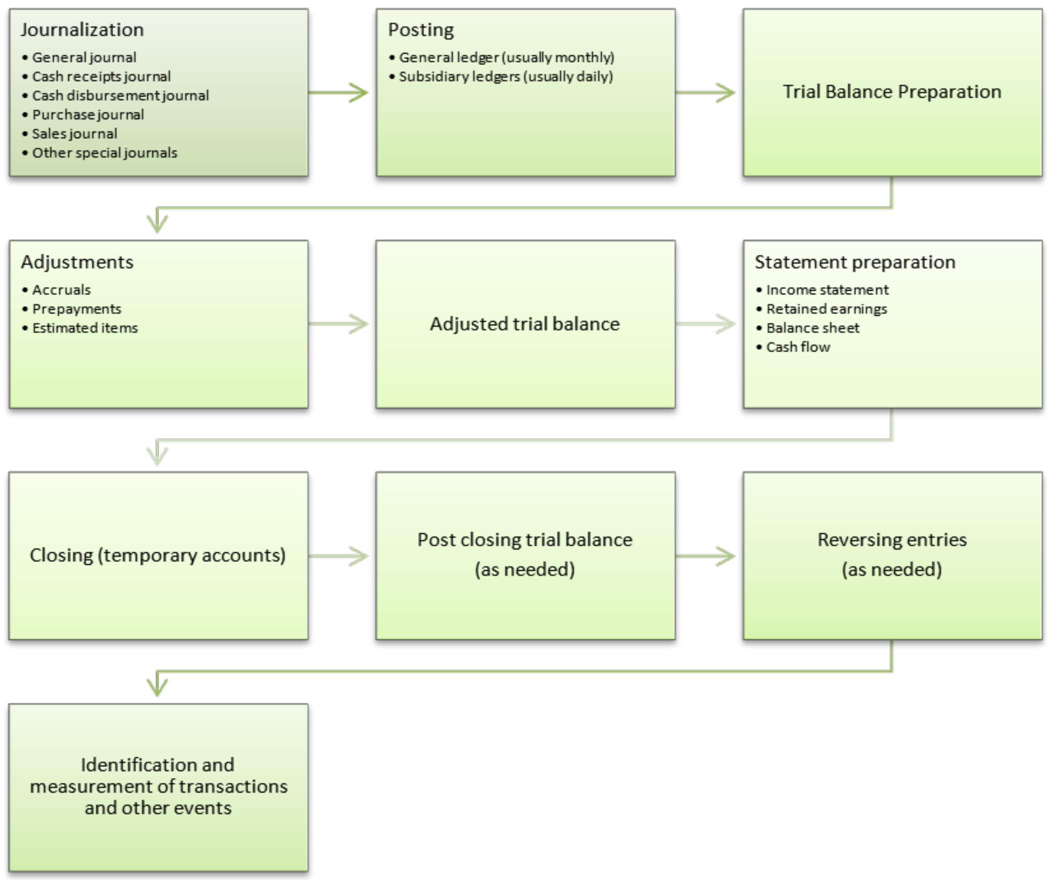
Accounting

Equilibrium Financial will help you with the entire Accounting Cycle process. To better understand the process and what is involved please see below a accounting data flow map that captures a typical small business operation.

Accounting Information System (AIS) and Data Flow



Accountants use the double-entry bookkeeping system that was started in 13th century and refers to a set of rules to record financial information in a financial accounting system wherein every transaction or event impacts at least two different accounts. In modern accounting this is done using debits and credits within the accounting equation, assets = liabilities + equity. The accounting equation serves as a kind of error-detection system: if, at any point, the sum of debits does not equal the corresponding sum of credits, then an error has occurred.

Typical transaction path in accounting information systems:

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- **Journalizing** is entering financial data (taken usually from a source document), pertaining to a specific transaction, in a journal under a double entry bookkeeping system. It involves recording of five aspects of a transaction: (1) its date, (2) journal account to be debited and amount, (3) journal account to be credited and amount, (4) brief description of the transaction, and its (5) cross-reference to the general journal.
  - These are examples of some of the journals found in typical set of company books:
    - General journal
      - Cash receipts journal – also known as Accounts Receivable Journal
      - Cash disbursement journal – also known as Accounts Payable Journal
      - Purchase journal
      - Sales journal
      - Other special journals
- **Posting**
  - General ledger (usually monthly)
  - Subsidiary ledgers (usually daily)
- **Trial Balance Preparation**
  - At this stage we make sure that all of our posted (recorded) transactions balance. Assets = Liabilities + Equities.
- **Adjustments**
  - At this stage we try to make adjustments for transactions that are going to represent true costs for given period. For example:
    - Accruals – we need to make arrangements for transactions that we have preformed but yet not billed, even though we have not received payment for it.
    - Prepayments – we might have made all payments for insurance in one period for rest of the year; therefore we make adjustments for costs that belong to the period we are adjusting.
    - Estimated items – we need to make estimates for the costs that were not billed to us, but we know that we have used it or received it.
- **Adjusted trial balance**

- At this stage we make sure that all of our posted (recorded) adjustments balance. Assets = Liabilities + Equities.

- **Statement preparation**

    - Income statement – A statement of revenues and expenses. It shows the financial progress of a company over a period of time.

    - Retained earnings – Reports the way that net income and the distribution of dividends affected the financial position of the company during the accounting period.

    - Balance sheet – Tool used to show the current financial condition of a business. It is a record of the financial situation of a business on a particular date by listing its assets and the claims against those assets.

    - Cash flow – Summary of a company's cash receipts and cash disbursements over a period of time. Lists cash to and cash from operating, investing, and financing activities, along with the net increase or decrease in cash for the period. It provides a picture of business liquidity (ability to settle its current debt).

- **Closing** (temporary accounts)

- **Post closing trial balance** (as needed)

- **Reversing entries** (as needed)

- **Identification and measurement of transactions and other events**