

4. THE ACCOUNTING CYCLE

Accounting starts with an event or transaction and ends in the preparation and interpretation of the financial reports. The phases from the recognition to report preparation are as follows:

4.1 Source Documents

Source documents are prepared to provide evidence of each transaction. The basic rule here is “a document is prepared for every transaction at the time the transaction occurs”.

Transaction	Document
for CASH RECEIVED	OFFICIAL RECEIPT (accompanied by validated deposit slip)
for CASH DISBURSED	CASH VOUCHER (accompanied by invoice/request for payment/cash advance form) and the check stub. In the case of petty cash disbursements, the Petty Cash Voucher is the source document.
for OTHER TRANSACTIONS	JOURNAL VOUCHER (accompanied by supporting documents)

The types of transactions and the representing documents are the basic requirements for NPOs. Other documents may be necessary if the transactions of a specific NPO become more complex such that there are more transaction types than the items enumerated above.

4.2 Journalizing

Transactions are recorded in the book of original entry called the Journal. The process of recording is termed “Journalizing.” A transaction must be analyzed in its debit and credit elements before it is recorded in the books of accounts. Journalizing

begins with the source document. The information in it tells the bookkeeper all that is needed for the entry.

The basic rule here is “every source document should be recorded in the appropriate journal on a daily basis or on a frequency which the NPO determines to be efficient”.

Following the categories of the transactions above, the primary books of original entry are:

Document	Journal
OFFICIAL RECEIPT	Cash Receipts Book
CASH VOUCHER	Cash Disbursements Book
JOURNAL VOUCHER	General Journal

4.3 Posting

Posting is the procedure of transferring entries from the journal to the general ledgers and subsidiary ledgers. Posting should be done on a regular (daily or monthly) basis, depending on the volume and frequency of transactions. The ledger is an account form where all accounts taken together as one group are recorded.

4.4 Trial Balance

When all journalizing and posting have been completed at the end of the period, the Bookkeeper checks the accuracy of that work. A list is made of all ledger accounts and their balances; this is called Trial Balance.

4.5 Financial Statements

Financial statements are prepared to summarize the financial operation of the organization. This information allows the management to see how financially efficient the organization has been, to compare one period with prior periods, and to determine future courses of action. Financial statements may be communicated to other interested parties such as the Board of Directors, members of the organization, donors, government, etc.

(Financial Statements are described and illustrated in Chapter 6)