منشآت
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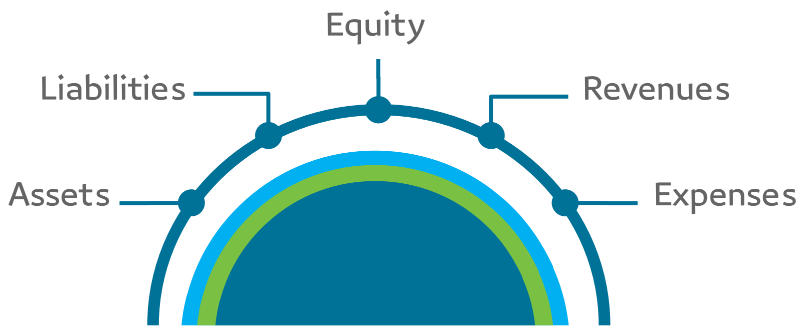
الهيئة العامة للمنشآت الصغيرة والمتوسطة
Small & Medium Enterprises General Authority

Accounting Cycle

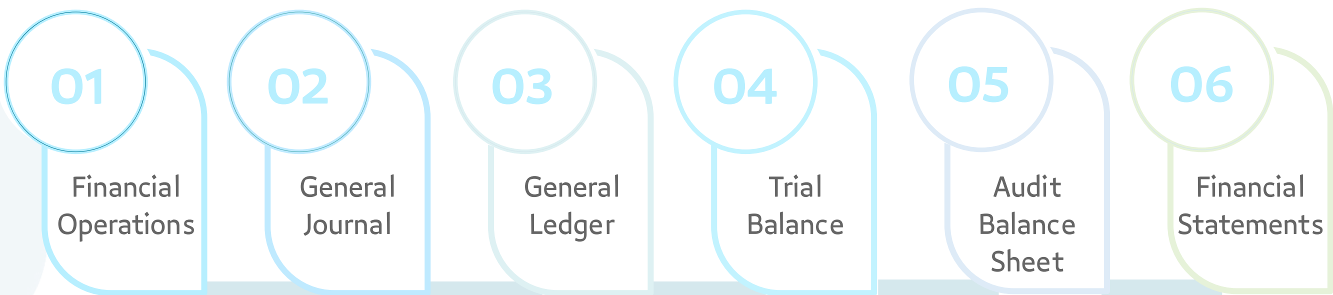
Contents

Introduction

The accounting cycle is a set of manual and computerized operations aimed at creating accounting records, then financial statements, and finally establishing controls and methods that facilitate their analysis and summarization. This makes it easier to handle and benefit from them in making decisions that concern the project.



Stages of the Accounting Cycle



Financial Operations

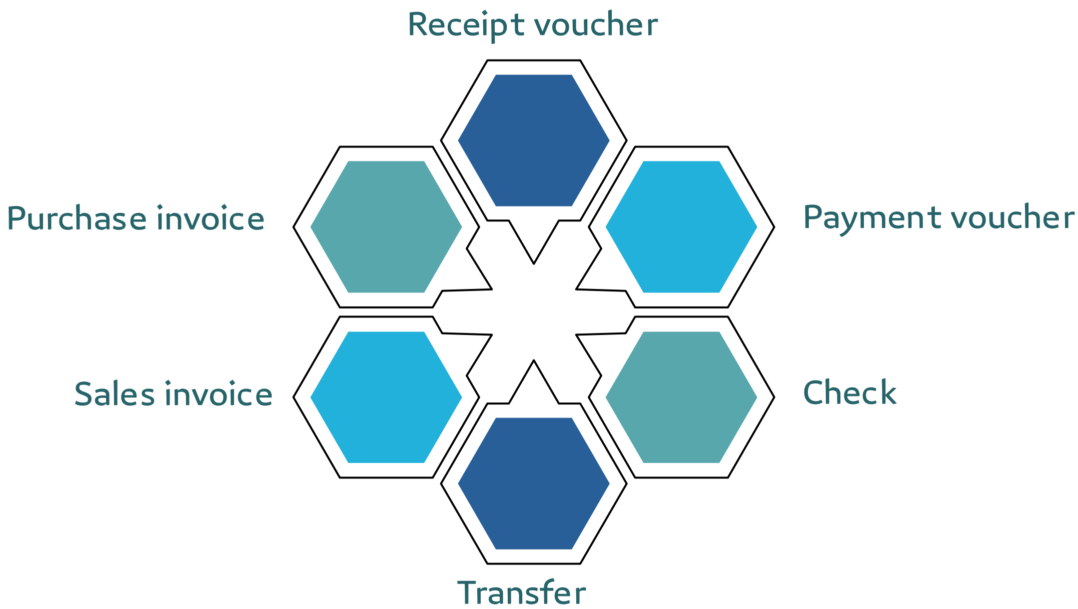
Any event that affects the organization financially and can be recorded is considered a financial operation. There are many operations that impact the organization, such as purchases and sales. However, not all financial operations can be recorded because they are still in progress. Generally, financial operations are recorded when documentary evidence is available. Accounting concepts in various entities generally use the accrual basis, which dictates that a financial operation should be recorded when it occurs, regardless of whether the amount has been received or paid in cash. It is essential to record the operation, ensuring that the debit equals the credit. The nature of each operation is then determined individually, analyzed, recorded in the books, and transferred.

Examples of Financial Operations:

- Buying or selling furniture, appliances, cars, land, or buildings (Assets)
- Repaying loans or bonds, obtaining loans, or acquiring items on credit (Liabilities)
- Depositing funds for investment, distributing withdrawn profits (Equity)
- Collecting amounts from the sale of products or services, returns on the organization's investments with others (Revenues)
- Purchasing goods, paying rent, salaries, electricity expenses, maintenance, marketing expenses (Expenses)

Financial Documents:

These are the primary and most important inputs of the accounting system, documenting the financial operation related to the entity. They are considered historical and legal documents relied upon by accountants, following globally agreed-upon standards and regulations. Examples of financial documents include:



General Journal

It is a dated record of all financial operations related to the entity in the order of their occurrence. These operations are recorded according to the double-entry theory (debit and credit) based on financial documents, and they are referred to as daily entries.

Daily Entries:

They constitute a set of accounting operations written by the accountant to balance the two sides, helping to record the financial activities of the institution. Each financial operation involves both a right and an obligation simultaneously, where the right is debited and the obligation is credited. Each side of a financial operation represents an open account in the accounting books, symbolized by the code "D/." Accounting is based on a simple and intuitive idea that any financial operation involves two parties, one taking and one giving. For example, if you borrow ١٠٠٠ riyals from your friend, you become the recipient of this amount (debtor), and your friend is considered the giver of the amount (creditor), meaning he claims it from you.

Therefore, the accounting entry is a method to record the financial transaction in a way that clarifies:

General Ledger

It is a record where all daily entries are recorded as a set of homogeneous accounts based on previous operations. The purpose is to summarize and organize the presentation, reducing the error rate in the manual system. The process is carried out according to specific steps as follows:

1. Identify the daily entry to be transferred to the general ledger.
2. Transfer the debit side of the entry to the debit side of the same account in the general ledger.
3. Record the name of the other party in the daily entry, which is the credit side, in the same account.
4. Document the entry number and date in the designated space.
5. Transfer the credit side of the entry in the same way as the debit side.

Trial Balance

After completing the transfer of all daily entries to the relevant accounts in the general ledger, the accounts are balanced to determine the impact of financial operations on them. During the balancing process,the following steps are followed:

1. Sum the two sides of the account.
2. Calculate the difference between the two sides of the account.
3. Place the difference on the side with the larger numeric value.
4. Take the final balances and determine the nature of the account (debit or credit).

Audit Balance Sheet

After completing the transfer and balancing process for all accounts, it is necessary to ensure that the registration process in the general journal and general ledger was done correctly. To confirm the accuracy of the accounting work and its freedom from errors, a trial balance must be prepared. This is the fifth step in the accounting cycle, and it is a list consisting of two columns, one for debit balances and the other for credit balances, extracted from the general ledger. The purpose of preparing it monthly is to ensure the accuracy of the accounting work and its freedom from errors. If the sum of debit balances equals the sum of credit balances, this means that all financial operations have been recorded correctly.

Financial Statements

Financial statements are the final product issued at the end of the year or the financial period for the accounting system. They include financial and non-financial information and are considered one of the means of conveying information to relevant parties.

These are prepared based on a specific request (from financiers, the board of directors, regulatory bodies, etc.).

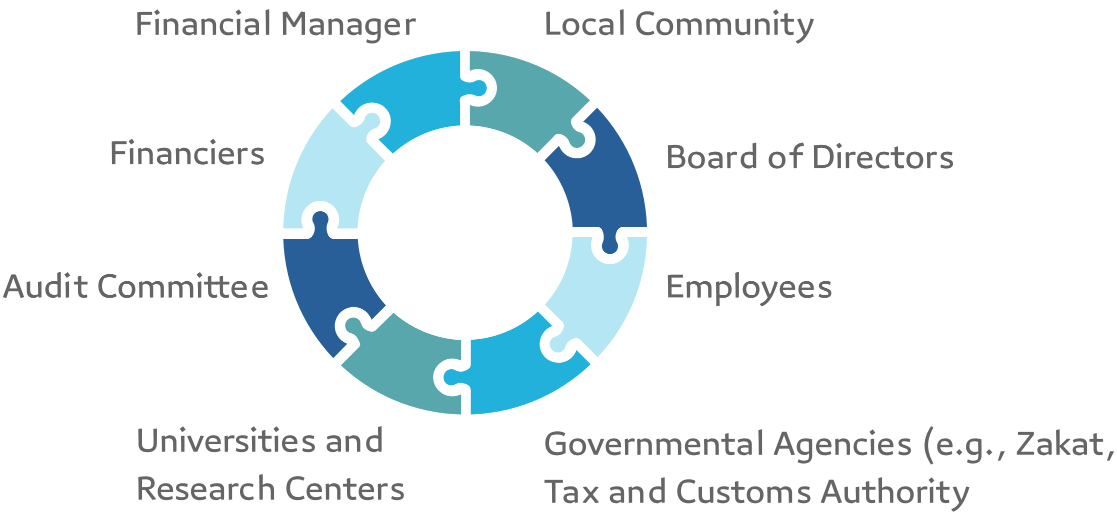
Prepared according to universally accepted accounting standards for anyone related to the enterprise.

Financial Statements

Objectives of Financial Statements:

- Provide information about the results of the operations conducted by the institution during a specific period (Income Statement).
- Present information about the institution's position in terms of assets and liabilities in a specific period (Balance Sheet).
- Provide accounting data and information for the beneficiaries.

Beneficiaries of Financial Statements:



Responsibility for Preparing Financial Statements:

The accountant prepares the financial statements for the financial management, then they are submitted to the CEO, and finally to the audit committee and, in the case of joint-stock companies, to the board of directors. In the case of sole proprietorships, the CEO alone may be sufficient. These steps are taken monthly, quarterly, semi-annually, or at the end of the year, depending on the agreement.

Importance of Financial Statements:

If budgets are plans, financial statements show where the money was spent and where it came from. If actual expenses and revenues differ from what is stated in the budget, a conscious board member should inquire about the reasons. These financial data help board members understand the financial position of the organization, enabling them to formulate policies more effectively, monitor areas of concern, and guide the organization toward future trends. For this comprehensive task, board members may receive financial reports at every meeting they hold.

Financial Statements

Income Statement:

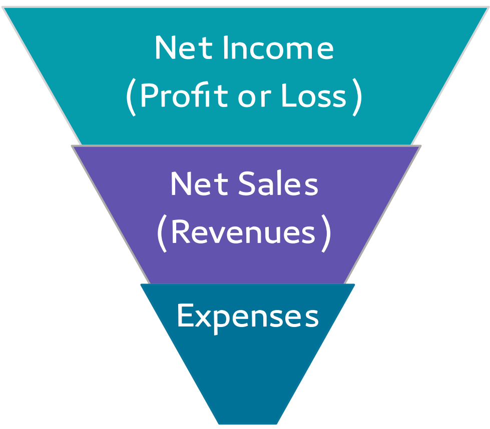
Also known as a statement of activity, it lists items such as the primary revenues of the project and revenues or commissions from other investments or the sale of project assets. It also illustrates how the organization's resources were spent and whether it has made a profit or is experiencing a loss.

There are several questions related to this topic:

- Do these expenses equal what was approved in the budget?
- Are they in line with the goal set in the plan?
- What is the primary source of the organization's income?
- How were the financing amounts used?
- Is there a noticeable change in the availability of cash?

The Income Statement provides an idea of what happened in the organization during the period represented by the statement, which may be a month, three months, six months, or a year.

Components of the Income Statement:



Importance of the Income Statement:

- Evaluate the profitability of investments.
- Assess the efficiency of management.
- Determine the necessity of borrowing for the project.

The Income Statement is based on the principle of matching the revenues of the organization with the expenses that contributed to generating those revenues. The result of this match is whether the organization has achieved a profit or a loss. An increase in revenues over expenses leads to profit, while an increase in expenses over revenues leads to losses.

Financial Statements

Balance Sheet:

Also known as a statement of financial position, it represents the financial status of the organization at a specific moment, usually at the end of the fiscal year. It details various assets according to their categories, such as cash balance, bonds, commodity inventory, receivables from others (money owed to the organization for completed transactions), and properties like equipment and real estate.
The balance sheet also identifies the amount of the organization's liabilities and reveals the quantity of net assets (also known as the balance sheet).

The Financial Position Statement illustrates what assets and liabilities the organization holds at a specific moment:

- Assets indicate the enterprise’s possessions.
- Liabilities (external obligations) and equity (internal obligations).

Assets = Liabilities + Equity

Components of the Financial Position Statement:

The Financial Position Statement should include all assets, liabilities, and equity in detail:

Assets include:

- Current Assets (cash in hand or bank, inventory, goods, receivables, short-term investments)
- Fixed Assets (land, buildings, machinery, equipment, cars, furniture)
- ntangible Assets (reputation, trademarks, copyrights, and patents)

Liabilities include:

- Current Liabilities (short-term obligations payable within the year, such as monthly loan installments)
- Non-current Liabilities (long-term obligations) requiring payment in more than a year (bank loans)

Equity includes:

- Paid-in Capital (amounts invested in establishing the enterprise)
- Grants from financiers
- Profits
- Withdrawals

Financial Statements

Cash Flow Statement:

This statement measures liquidity and quantifies all cash amounts received and spent by the enterprise during the accounting period from operating, investing, and financing activities.The balance sheet also identifies the amount of the organization's liabilities and reveals the quantity of net assets (also known as the balance sheet).

Components of the Cash Flow Statement:

- Net Cash Flows from Operating Activities (revenues and expenses)
- Net Cash Flows from Financing Activities (acquiring loans, repaying loans)
- Net Cash Flows from Investing Activities (buying and selling assets)

Importance of the Cash Flow Statement:

- Make appropriate operational decisions based on liquidity volume.
- Make appropriate financing decisions based on liquidity volume.
- Make appropriate investment decisions based on liquidity volume.

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