The Accounting Cycle: Manual vs. Computerized Systems

The accounting cycle ensures that financial statements are accurate, consistent, and compliant with accounting standards. Below are the eight core steps and how they evolve in a digital environment.

1. Identify and Analyze Transactions

- **Manual:** The bookkeeper gathers physical documents (invoices, receipts, bank statements) and determines which accounts are affected.
- **Computerized:** Often automated. Point-of-Sale (POS) systems or bank feeds automatically import transaction data directly into the software.

2. Record Transactions (Journalizing)

- **Manual:** Transactions are handwritten into a **General Journal** in chronological order using double-entry bookkeeping (Debits = Credits).
- **Computerized:** The user enters data into a form (e.g., an "Invoice" screen). The software creates the underlying journal entry automatically.

3. Post to the General Ledger

- **Manual:** This is the most tedious step. The bookkeeper must manually rewrite every journal entry into individual "T-accounts" in the **General Ledger**.
- **Computerized: Instantaneous.** Once a transaction is saved, the software automatically updates the General Ledger and all subsidiary ledgers (like Accounts Receivable).

4. Prepare an Unadjusted Trial Balance

- **Manual:** The bookkeeper lists all ledger balances to ensure total debits equal total credits. If they don't match, a "search for errors" begins.
- **Computerized:** The software generates this report with one click. Because most software prevents "out-of-balance" entries, this report is usually balanced by default.

5. Analyze the Worksheet

- **Manual:** A large multi-column sheet is used to draft adjustments (like depreciation or accrued expenses) before they are finalized.
- **Computerized:** Adjustments are often calculated by the software based on pre-set rules (e.g., fixed asset modules automatically calculating monthly depreciation).

6. Adjusting Journal Entries

- **Manual:** Adjustments are handwritten into the journal and then posted to the ledger, just like original transactions.
- **Computerized:** The accountant enters specific "Adjusting Journal Entries." The system automatically ripples these changes through all financial reports.

7. Generate Financial Statements

- **Manual:** The accountant manually drafts the Income Statement, Balance Sheet, and Cash Flow Statement using the adjusted balances.
- **Computerized:** Statements are generated in real-time. Management can view a Balance Sheet at any moment, not just at the end of the month.

8. Closing the Books

- **Manual:** Temporary accounts (Revenue/Expenses) are manually zeroed out and transferred to Retained Earnings. New ledger pages are prepared for the next period.
- **Computerized:** The "Closing" is a software function that prevents further entries into the prior period and automatically rolls balances forward to the new year.

Summary Comparison Table

Feature	Manual Bookkeeping	Computerized Bookkeeping
Speed	Slow; requires physical writing.	Fast; automated posting.
Accuracy	High risk of mathematical errors.	High; calculations are internal.
Data Retrieval	Requires sifting through paper files.	Searchable database.
Storage	Physical cabinets and ledgers.	Cloud storage or local servers.
Role of Accountant	Mechanical data entry.	Analysis and oversight.