



VARZA SCHOOL · THE FOUNDATIONAL 100

The Accounting Cycle: Record, Review, Adjust, Close, and Report

Chapter 30 · Track 3 — The Language and Logic of Accounting

THE QUESTION IT ANSWERS

How can an organization convert continuous daily activity into a reliable period result without turning month-end into a crisis?

CONCEPTS DEFINED

Accounting cycle · Posting · Trial balance · Adjusting entry · Closing entry · Period lock · Financial review · Audit trail

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Varza promise: clear enough for a first-time learner, exact enough for a professional conversation, and practical enough to support a real decision.

Why this chapter matters

This track introduces accounting as a disciplined language. It explains how real events become structured records and how those records preserve the financial memory of an organization. The emphasis is not memorizing debit and credit rules in isolation; it is understanding why the system remains balanced and traceable.

Central question: How can an organization convert continuous daily activity into a reliable period result without turning month-end into a crisis?

The accounting cycle is a controlled rhythm. Timely source capture, subledger close, reconciliation, estimates, review, adjustment, consolidation, approval, and period lock build reporting quality progressively rather than attempting to create it on the final day.

Varza approaches the subject from life to ledger and from ledger to decision. We begin with what actually happened, identify the rights, obligations, resources, timing, and uncertainty, and only then choose the correct term, calculation, document, or account. This order protects the learner from a common error: learning a label without understanding the economic reality that the label is supposed to describe.

Learning outcomes

- Define and distinguish accounting cycle in plain and professional language.
- Define and distinguish posting in plain and professional language.
- Define and distinguish trial balance in plain and professional language.
- Define and distinguish adjusting entry in plain and professional language.
- Apply the concepts to a numerical case and explain the result rather than only calculate it.
- Identify evidence, workflow, controls, and Varza entities required for reliable use.
- Recognize when jurisdiction-specific or licensed professional advice is required.

The Varza mental model

A financial concept becomes decision-ready when six questions have answers: **what, who, when, how much, based on what evidence, and under which assumption or rule**. A seventh question—**what should happen next**—turns knowledge into management.

This chapter uses internationally recognized terminology, but it remains jurisdiction-neutral unless explicitly stated. Accounting standards, tax rules, contract law, consumer protection, labor

requirements, and investment regulation can produce different legal outcomes in different countries. The global foundation gives the learner a stable map; local collections must add the binding rules.

Core concepts

1. Accounting cycle

Working definition. Accounting cycle is the recurring sequence of capturing events, posting, reconciling, adjusting, reviewing, closing, and reporting for a period.

The cycle should be designed as a controlled workflow with dependencies and evidence, not as a last-day rush. In Varza language, the concept becomes useful when it changes a decision.

Simple example. Daily transaction capture and bank matching feed month-end accruals, review, close, and statements.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

2. Posting

Working definition. Posting is the controlled transfer of an approved transaction or journal entry into the official ledger.

Posting changes the accounting record and should follow validation, authorization, period, currency, and balance rules. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. An approved supplier invoice posts a payable, inventory or expense, and recoverable tax.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

3. Trial balance

Working definition. Trial balance is a list of ledger account balances at a point in time used to verify debit-credit equality and support reporting.

Equality detects some posting failures but does not prove correct classification, completeness, valuation, authorization, or timing. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. A balanced trial balance can still contain an expense posted to the wrong department.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

4. Adjusting entry

Working definition. Adjusting entry is a period-end or corrective journal entry used to recognize amounts in the appropriate period or measurement basis.

Adjustments should have a clear rationale, preparer, approver, support, reversal rule when relevant, and effect on future periods. The concept should be measured at the smallest level that still supports a real action.

Simple example. An accrued utility expense recognizes consumption before the invoice arrives.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

5. Closing entry

Working definition. Closing entry is an entry or system process that transfers temporary-period results and prepares accounts for the next reporting period.

Closing preserves period boundaries. The exact mechanism depends on system and reporting framework. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. Revenue and expense results are accumulated into retained earnings at year-end.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

6. Period lock

Working definition. Period lock is a system restriction preventing or tightly controlling postings to a reviewed accounting period.

Locks protect reported history but need governed exception and reopening procedures for legitimate corrections. This is where operational activity and financial reporting meet.

Simple example. After month-end approval, ordinary users cannot post to the closed month.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

7. Financial review

Working definition. Financial review is a structured assessment of records, reconciliations, estimates, trends, exceptions, and explanations before information is relied upon.

Review should challenge both numbers and narratives. Evidence of review matters, but professional skepticism matters more than a signature. In Varza language, the concept becomes useful when it changes a decision.

Simple example. A controller investigates margin changes by product rather than accepting 'market conditions' as a complete explanation.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

8. Audit trail

Working definition. Audit trail is the chronological and relational evidence that allows a reported amount or system state to be traced back to authorization, source, calculation, and subsequent changes.

An audit trail should show who did what, when, under which authority, and what existed before the change. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. A credit note retains the original invoice link, reason, approver, affected stock, tax adjustment, and posting.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

How the concepts connect

The concepts in this chapter are a system, not a vocabulary list. Accounting cycle, Posting, Trial balance, Adjusting entry, Closing entry, Period lock, Financial review, and Audit trail describe different parts of the same decision. Confusing them usually creates one of three failures: the wrong amount is measured, the right amount is assigned to the wrong period or person, or a correct report is used for a decision it was never designed to support.

A useful analysis therefore preserves both **classification** and **relationship**. Classification tells us what an item is. Relationship tells us what caused it, what it affects, and what could change it. Varza should store both. A report that shows only totals may be suitable for orientation; a controlled decision requires traceability to the underlying relationships.

Quantitative model

This chapter does not depend on a single universal formula. Use a structured model instead: define the unit of analysis, identify relevant inflows and outflows, place them on a timeline, state assumptions, and test at least one adverse scenario. A formula becomes trustworthy only after its inputs and boundaries are trustworthy.

Worked case — A ten-day close becomes a five-day controlled close

A company repeatedly finishes month-end on day ten because teams wait for finance to request information.

Item	Amount or observation
Old process	sequential requests after month - end
Bank and subledger reconciliation	begins day 4
Accrual support	collected by email
Review	day 9 with many surprises
Target	reliable day - 5 close

Calculation and reasoning

1. Move high-volume reconciliation to daily or weekly operation and define cutoff rules before month-end.
2. Create a close calendar with owners and dependencies for bank, inventory, payroll, project, tax, and intercompany tasks.
3. Use recurring accrual templates with evidence and automatic reversal where appropriate.
4. Run a preliminary analytical review on day 3 to identify margin, balance, and trend exceptions early.
5. Lock on day 5 only after documented materiality and exception decisions.

What the result means

The faster close is achieved by earlier quality and parallel ownership, not by reducing review. Speed without reliability is only earlier error.

The case is deliberately compact. In practice, Varza would preserve the supporting documents, currency, dates, counterparty, project or cost center, approvals, and links to the resulting records. The lesson is not merely to reach a number; it is to make the path to that number reviewable.

Practical workflow

1. **Define the decision, responsible person, economic unit, period, and acceptable uncertainty.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
2. **Maintain daily transaction quality and resolve exceptions before close.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
3. **Close and reconcile subledgers, banks, inventory, payroll, assets, and intercompany balances.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
4. **Prepare supported accruals, deferrals, estimates, reclassifications, and corrections.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
5. **Review statements and analytics, approve the close, lock the period, and document later adjustments.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
6. **Reconcile the result to source evidence and investigate exceptions rather than forcing agreement.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
7. **Approve the decision or record at the authority level required by value, risk, and legal consequence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
8. **Monitor the outcome, compare it with the original assumption, and retain the learning for the next cycle.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.

How this concept should appear in Varza

The minimum Varza data model for this chapter includes `close_calendar`, `task`, `dependency`, `subledger_close`, `reconciliation`, `adjustment`, `trial_balance`, `review`, `financial_statement`, `period_lock`. These names are not merely interface labels. Each entity should have a stable identifier, status history, responsible owner, applicable currency or unit, effective dates, evidence links, and access controls.

A useful Varza screen should answer four questions without forcing the user to reconstruct the story manually:

1. **What happened or is expected to happen?** Show the operational event, obligation, or decision in plain language.
2. **What changed financially?** Show cash, asset, liability, equity, income, expense, commitment, or risk effects.

3. **Why should the user trust it?** Show source documents, calculations, approvals, and revision history.
4. **What requires attention now?** Show exceptions, due dates, thresholds, and the next responsible action.

The Varza design principles most relevant here are:

- Begin with the real event, not the accounting label.
- Keep value, cash, profit, and ownership distinct until their relationship is proven.
- Attach every important number to a source, period, currency, entity, and responsible person.

Varza AI may explain, classify, compare, simulate, and prepare a proposed action. It should not silently change a legal record, post a material transaction, close a period, release a payment, or make an investment decision on the user's behalf. Material actions require visible evidence, permissions, validation rules, and an accountable human approval path.

Controls and professional boundaries

1. **Close calendar with owners, dependencies, evidence, and status.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
2. **Material journal and estimate review.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
3. **Post-close change report and governed reopening.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
4. **Stable definitions, versioned assumptions, and consistent units across plans, records, and reports.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
5. **Traceability from every material total to evidence, calculation, owner, and change history.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
6. **Access and approval rights aligned with responsibility and the possible consequence of error or misuse.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

A control is effective only when it operates in practice. A policy that everyone can bypass is a statement of hope, not a control. Likewise, a control that blocks ordinary work without distinguishing low-risk and high-risk cases encourages hidden workarounds.

Common mistakes and better responses

Mistake 1: Starting reconciliation only after the period ends

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 2: Using close entries to hide operational subledger errors

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 3: Locking the period before unresolved material exceptions are assessed

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 4: Reopening and changing history without notifying report users

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 5: Using a technically correct number outside the period, entity, currency, or decision boundary for which it was calculated

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 6: Accepting an automated result without reviewing the evidence, assumptions, exceptions, and required professional judgment

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Decision checklist

- ☐ Can I explain accounting cycle in plain language and in professional terms?
- ☐ Can I explain posting in plain language and in professional terms?
- ☐ Can I explain trial balance in plain language and in professional terms?

- ☐ Can I explain adjusting entry in plain language and in professional terms?
- ☐ Have I stated the entity, currency or unit, date or period, and decision boundary?
- ☐ Can another person reproduce the number from retained evidence?
- ☐ Have I separated actuals, estimates, commitments, and scenarios?
- ☐ Have I tested timing, liquidity, risk, and at least one adverse outcome?
- ☐ Is the required approval proportional to the possible loss or legal consequence?
- ☐ Does the final output lead to a specific action, owner, and review date?

Practice lab

1. **Explain it.** Describe Accounting cycle to a person who has never studied finance. Then add the professional definition and identify one boundary your simple explanation omitted.
2. **Classify it.** Create five examples from your household or a small business and classify each using Posting. State any assumptions.
3. **Calculate it.** Rebuild the worked case with amounts 20% higher. Identify which conclusions change and which remain structurally true.
4. **Challenge it.** Describe a situation in which Trial balance could be measured correctly but still lead to a poor decision because timing, risk, or incentives were ignored.
5. **Design it.** Sketch a Varza screen or report for this chapter. Include fields, evidence links, status, owner, exceptions, and one AI-assisted action.

Answer guidance

A strong answer uses consistent definitions, reveals assumptions, distinguishes fact from estimate, and connects the result to an action. More than one conclusion may be reasonable when the learner clearly states the decision objective and uncertainty. The worked-case recalculation should preserve the method even when the numbers change.

Varza AI knowledge capsule

This capsule is intentionally explicit so that a retrieval system can distinguish canonical teaching points from examples and commentary.

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  "Trial balance: a list of ledger account balances at a point in time used to verify debit-credit equality and support reporting.",
  "Adjusting entry: a period-end or corrective journal entry used to recognize amounts in the appropriate period or measurement basis.",
  "Closing entry: an entry or system process that transfers temporary-period results and prepares accounts for the next reporting period.",
  "Period lock: a system restriction preventing or tightly controlling postings to a reviewed accounting period.",
  "Financial review: a structured assessment of records, reconciliations, estimates, trends, exceptions, and explanations before information is relied upon.",
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Suggested questions for Varza AI

- Explain this chapter using an example from a household, a shop, and a service business.
- Ask me five diagnostic questions before applying this concept to my situation.
- Show the difference between cash effect, accounting effect, and decision effect.
- Recalculate the worked case using my currency and assumptions, but preserve the original definitions.
- Identify which parts require local accounting, tax, legal, labor, or investment rules.

Sources and standards horizon

This chapter is original Varza educational content. It paraphrases and synthesizes concepts; it does not reproduce a standard or third-party article. The following sources were used to establish terminology, scope, and current professional context:

- **S101 — IFRS Foundation, *Conceptual Framework for Financial Reporting*.** 2018; accessed 2026-08-31. Objectives, qualitative characteristics and elements of financial reporting. Source: <https://www.ifrs.org/issued-standards/list-of-standards/conceptual-framework/>
- **S104 — IFRS Foundation, *IAS 8 Basis of Preparation of Financial Statements*.** 2026 standards set. Accounting policies, estimates and correction of errors. Source: <https://www.ifrs.org/issued-standards/list-of-standards/ias-8-basis-of-preparation-of-financial-statements/>
- **S116 — IFRS Foundation, *IFRS 18 Presentation and Disclosure in Financial Statements*.** issued 2024; effective 2027. Future presentation and disclosure requirements replacing IAS 1 from 2027. Source: <https://www.ifrs.org/issued-standards/list-of-standards/ifrs-18-presentation-and-disclosure-in-financial-statements/>
- **S117 — IFRS Foundation, *IFRS for SMEs Accounting Standard*.** third edition 2025; effective 2027. Simplified global reporting framework for eligible small and medium-sized entities. Source: <https://www.ifrs.org/issued-standards/ifrs-for-smes/>
- **S118 — IFRS Foundation, *IFRS Accounting Standards—Required 2026*.** 2026-01-29. Standards and amendments effective from 1 January 2026. Source: <https://www.ifrs.org/news-and-events/news/2026/01/now-available-ifrs-accounting-standards-required-2026-two-editions/>
- **S203 — Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control —Integrated Framework*.** 2013 framework; accessed 2026-08-31. Control environment, risk assessment, control activities, information and monitoring. Source: <https://www.coso.org/internal-control>

Standards horizon. Reviewed through 2026-08-31. IFRS 18 and the third edition of the IFRS for SMEs Accounting Standard are included as transition knowledge where relevant; both have mandatory effective dates beginning in 2027, with early application permitted under their respective requirements.

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