

LESSON

6-1 Creating a Work Sheet



Learning Objectives

- LO1** Prepare the heading of a work sheet.
- LO2** Prepare the trial balance section of a work sheet.

Consistent Reporting

LO1

- The accounting concept *Consistent Reporting* is applied when the same accounting procedures are followed in the same way in each accounting period.

Fiscal Periods

LO1

- The length of time for which a business summarizes its financial information and reports its financial performance is called a **fiscal period**.
 - A fiscal period is also known as an *accounting period*.
- A fiscal period consisting of twelve consecutive months is called a **fiscal year**.

Work Sheet

LO1

- A columnar accounting form used to summarize the general ledger information needed to prepare financial statements is called a **work sheet**.

Reasons Accountants Use a Work Sheet

LO3

- Summarize general ledger account balances to prove that debits equal credits
- Plan needed changes to general ledger accounts to bring account balances up to date
- Separate general ledger account balances according to the financial statements to be prepared
- Calculate the amount of net income or net loss for a fiscal period

Preparing the Heading of a Work Sheet

LO1

1 Name of Company

2 Name of Report

<i>Delgado Web Services</i>
<i>Work Sheet</i>
<i>For Month Ended January 31, 20--</i>

3 Date of Report

Preparing a Trial Balance on a Work Sheet

LO2

Delgado Web Services
Work Sheet
For Month Ended January 31, 20--

	ACCOUNT TITLE	TRIAL BALANCE	
		DEBIT	CREDIT
1	Cash	2 5 9 7 00	
2	Petty Cash	1 0 0 0 00	
3	Accounts Receivable—Main Street Services	3 0 0 0 00	
4	Accounts Receivable—Valley Landscaping	4 0 0 0 00	
5	Supplies	6 2 0 0 00	
6	Prepaid Insurance	9 0 0 0 00	
7	Accounts Payable—Canyon Office Supplies		1 2 0 0 00
8	Accounts Payable—Mountain Graphic Arts		1 0 5 0 00
9	Michael Delgado, Capital		2 0 0 0 00
10	Michael Delgado, Drawing	1 1 5 0 00	
11	Income Summary		
12	Sales		5 8 2 0 00
13	Advertising Expense	3 9 7 0 00	
14	Cash Short and Over	1 00	
15	Communications Expense	8 0 00	
16	Equipment Rental Expense	1 4 5 5 00	
17	Insurance Expense		
18	Miscellaneous Expense	4 5 00	
19	Supplies Expense		
20		8 0 4 5 00	8 0 4 5 00
21			
22			
23			

1. Write the general ledger account titles in the work sheet's Account Title column.
2. Write the general ledger debit account balances in the Trial Balance Debit column. Write the general ledger credit account balances in the Trial Balance Credit column.
3. Rule a single line across the two Trial Balance columns below the last line on which an account title is written.
4. Add both the Trial Balance Debit and Credit columns.
5. Write each column's total below the single line.
6. Rule double lines across both Trial Balance columns.

Lesson 6-1 Audit Your Understanding

1. What is written on the three-line heading on a work sheet?

ANSWER

Name of the business, name of report, and date of report

Lesson 6-1 Audit Your Understanding

2. Which general ledger accounts are listed in the Trial Balance columns of a work sheet?

ANSWER

All general ledger accounts are listed in the Trial Balance columns of a work sheet, even if some accounts do not have balances.

LESSON

6-2 Planning Adjusting Entries on a Work Sheet



Learning Objectives

- LO3** Analyze and explain the adjustments for supplies and prepaid insurance.
- LO4** Complete the Adjustments columns of a work sheet.

Planning Adjustments on a Work Sheet

LO3

- Cash paid for an expense in one fiscal period that is not used until a later period is called a **prepaid expense**.
- Reporting income when it is earned and expenses when they are incurred is called the **accrual basis of accounting**.
 - Generally accepted accounting principles (GAAP) require the use of the accrual basis of accounting.
- Reporting income when the cash is received and expenses when the cash is paid is called the **cash basis of accounting**.
- Changes recorded on a work sheet to update general ledger accounts at the end of a fiscal period are called **adjustments**.

Supplies Adjustment on a Work Sheet

LO3

AFTER ADJUSTMENT

Supplies Expense			
	Adj. (a)	530.00	
Supplies			
	Jan. 31 Bal.	620.00	
	<i>(New Bal.</i>	<i>90.00)</i>	
			Adj. (a) 530.00

Supplies Adjustment on a Work Sheet

LO3

ACCOUNT TITLE	1 TRIAL BALANCE		2 ADJUSTMENTS	
	DEBIT	CREDIT	DEBIT	CREDIT
	5 <i>Supplies</i>	6 2 0 00		
19 <i>Supplies Expense</i>			(a) 5 3 0 00	

Diagram annotations:

- Red circle 2 with arrow pointing to the credit amount (5 3 0 00) in the *Supplies* row.
- Red circle 1 with arrow pointing to the debit amount (5 3 0 00) in the *Supplies Expense* row.
- Red circle 3 with arrow pointing to the label (a) in the *Supplies Expense* row.

1. Write the debit amount in the Adjustments Debit column on the line with the account title *Supplies Expense*.
2. Write the credit amount in the Credit column on the line with the account title *Supplies*.
3. Label the two parts of this adjustment with a small letter *a* in parentheses.

Prepaid Insurance Adjustment on a Work Sheet

LO3

AFTER ADJUSTMENT

Insurance Expense			
	Adj. (b)	150.00	
Prepaid Insurance			
	Jan. 31 Bal.	900.00	
	<i>(New Bal.</i>	<i>750.00)</i>	
			Adj. (b) 150.00

Prepaid Insurance Adjustment on a Work Sheet

LO3

ACCOUNT TITLE	1 TRIAL BALANCE		2 ADJUSTMENTS	
	DEBIT	CREDIT	DEBIT	CREDIT
	6 <i>Prepaid Insurance</i>	9 0 0 0 0		
17 <i>Insurance Expense</i>			(b) 1 5 0 0 0	

Diagram annotations:

- Red circle 2 with arrow pointing to the credit amount in the Prepaid Insurance row: Credit
- Red circle 1 with arrow pointing to the debit amount in the Insurance Expense row: Debit
- Red circle 3 with arrow pointing to the label (b) in the Insurance Expense row: Label

1. Write the debit amount in the Adjustments Debit column on the line with the account title Insurance Expense.
2. Write the credit amount in the Credit column on the line with the account title Prepaid Insurance.
3. Label the two parts of this adjustment with a small letter *b* in parentheses.

Proving the Adjustments Columns of a Work Sheet

LO4

<i>Delgado Web Services</i>																			
<i>Work Sheet</i>																			
<i>For Month Ended January 31, 20--</i>																			
		1		2		3		4											
ACCOUNT TITLE		TRIAL BALANCE				ADJUSTMENTS													
		DEBIT		CREDIT		DEBIT		CREDIT											
5	<i>Supplies</i>	6	2	0	00			(a)	5	3	0	00							
6	<i>Prepaid Insurance</i>	9	0	0	00			(b)	1	5	0	00							
17	<i>Insurance Expense</i>							(b)	1	5	0	00							
18	<i>Miscellaneous Expense</i>	4	5	00															
19	<i>Supplies Expense</i>							(a)	5	3	0	00							
20		8	0	4	5	00	8	0	4	5	00	6	8	0	00	6	8	0	00

- 1 Single Rule
- 2 Totals
- 3 Double Rule

1. Rule a single line across the two Adjustments columns on the same line as the single line for the Trial Balance columns.
2. Add both the Adjustments Debit and Credit columns.
3. Rule double lines across both Adjustments columns.

Lesson 6-2 Audit Your Understanding

1. Explain how the concept of Matching Expenses with Revenue relates to adjustments.

ANSWER

An expense should be reported in the same fiscal period that it is used to produce revenue.

Lesson 6-2 Audit Your Understanding

2. List the four questions asked in analyzing an adjustment on a work sheet.

ANSWER

1. What is the balance of the account to be adjusted?
2. What should the balance be for this account?
3. What must be done to correct the account balance?
4. What adjustment is made?

LESSON

6-3 Completing the Work Sheet and Finding Errors on a Work Sheet



Learning Objectives

- LO5** Prepare the Balance Sheet and Income Statement columns of a work sheet.
- LO6** Total and rule the work sheet.
- LO7** Apply the steps for finding errors on a work sheet.

Extending Balance Sheet Account Balances on a Work Sheet

LO5

- A financial statement that reports the value of a business' assets, liabilities, and owner's equity on a specific date is called a **balance sheet**.

Extending Balance Sheet Account Balances on a Work Sheet

LO5

Debit Balances without Adjustments

1

Delgado Web Services																		
Work Sheet																		
For Month Ended January 31, 20--																		
		1		2		3		4		5		6		7		8		
ACCOUNT TITLE		TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET										
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1	Cash	2 597 00												2 597 00				1
2	Petty Cash	1 00 00												1 00 00				2
3	Accts. Rec.—Main Street Services	3 00 00												3 00 00				3
4	Accts. Rec.—Valley Landscaping	4 00 00												4 00 00				4
5	Supplies	6 20 00				(a) 5 30 00								9 00 00				5
6	Prepaid Insurance	9 00 00				(b) 1 50 00								7 50 00				6
7	Accts. Pay.—Canyon Office Supplies		1 20 00														1 20 00	7
8	Accts. Pay.—Mountain Graphic Arts		1 05 00														1 05 00	8
9	Michael Delgado, Capital		2 00 00														2 00 00	9
10	Michael Delgado, Drawing	1 15 00												1 15 00				10

Debit Balances with Adjustments

2

Credit Balances without Adjustments

3

Extending Income Statement Account Balances on a Work Sheet

LO5

- A financial statement showing the revenue and expenses for a fiscal period is called an **income statement**.

Extending Income Statement Account Balances on a Work Sheet

LO5

Sales Balance 1

Delgado Web Services									
Work Sheet									
For Month Ended January 31, 20--									
ACCOUNT TITLE	TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET		
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
11 <i>Income Summary</i>									11
12 <i>Sales</i>		5 820 00				5 820 00			12
13 <i>Advertising Expense</i>	397 00				397 00				13
14 <i>Cash Short and Over</i>	1 00				1 00				14
15 <i>Communications Expense</i>	8 000				8 000				15
16 <i>Equipment Rental Expense</i>	1 455 00				1 455 00				16
17 <i>Insurance Expense</i>			(b) 150 00		150 00				17
18 <i>Miscellaneous Expense</i>	45 00				45 00				18
19 <i>Supplies Expense</i>			(a) 530 00		530 00				19
20	8 045 00	8 045 00	680 00	680 00					20
21									21
22									22
23									23

Expense Balances with Adjustments 3

Expense Balances without Adjustments 2

Recording Net Income and Totaling and Ruling a Work Sheet

LO6

- The difference between total revenue and total expenses when total revenue is greater is called **net income**.

Recording Net Income and Totaling and Ruling a Work Sheet

LO6

Delgado Web Services									
Work Sheet									
For Month Ended January 31, 20--									
ACCOUNT TITLE	TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET		
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1 Cash	2 597 00						2 597 00		1
2 Petty Cash	1 00 00						1 00 00		2
3 Accts. Rec.—Main Street Services	3 00 00						3 00 00		3
4 Accts. Rec.—Valley Landscaping	4 00 00						4 00 00		4
5 Supplies	6 20 00		(a) 5 30 00				9 00 00		5
6 Prepaid Insurance	9 00 00		(b) 1 50 00				7 50 00		6
7 Accts. Pay.—Canyon Office Supplies		1 20 00						1 20 00	7
8 Accts. Pay.—Mountain Graphic Arts		1 05 00						1 05 00	8
9 Michael Delgado, Capital		2 000 00						2 000 00	9
10 Michael Delgado, Drawing	1 15 00						1 15 00		10
11 Income Summary									11
12 Sales		5 820 00				5 820 00			12
13 Advertising Expense	3 97 00				3 97 00				13
14 Cash Short and Over	1 00				1 00				14
15 Communications Expense	8 00				8 00				15
16 Equipment Rental Expense	1 45 50				1 45 50				16
17 Insurance Expense			(b) 1 50 00		1 50 00				17
18 Miscellaneous Expense	4 50				4 50				18
19 Supplies Expense			(a) 5 30 00		5 30 00				19
20	8 045 00	8 045 00	6 80 00	6 80 00	2 658 00	5 820 00	5 387 00	2 225 00	20
21 Net Income					3 162 00			3 162 00	21
22					5 820 00	5 820 00	5 387 00	5 387 00	22

1 Single Rule

2 Totals

5 Single Rule

6 Totals

3 Net Income

7 Double Rule

4 Extend Net Income

Calculating and Recording a Net Loss on a Work Sheet

LO6

- The difference between total revenue and total expenses when total expenses are greater is called a **net loss**.

Calculating and Recording a Net Loss on a Work Sheet

LO6

1 Single Rule

ACCOUNT TITLE	5		6		7		8	
	INCOME STATEMENT				BALANCE SHEET			
	DEBIT		CREDIT		DEBIT		CREDIT	
20	2 4 0 0 0 0	2 1 0 0 0 0	4 5 5 0 0 0	4 8 5 0 0 0	20			
21 <i>Net Loss</i>		3 0 0 0 0 0	3 0 0 0 0 0					21
22	2 4 0 0 0 0	2 4 0 0 0 0	4 8 5 0 0 0	4 8 5 0 0 0	22			
23					23			

Net Loss 3

4 Extend Net Loss

Totals 2

Finding and Correcting Errors on the Work Sheet

LO7

- Several different kinds of errors may be made when preparing a work sheet.
- Three examples
 - There may be errors in the accounting records.
 - There may be errors in calculations.
 - An amount may be entered in the wrong column

Lesson 6-3 Audit Your Understanding

1. In which Balance Sheet column is net income recorded on the work sheet?

ANSWER

Balance Sheet Credit column

Lesson 6-3 Audit Your Understanding

2. In which Balance Sheet column is net loss recorded on the work sheet?

ANSWER

Balance Sheet Debit column

Lesson 6-3 Audit Your Understanding

- 3.** What is the first step in checking for arithmetic errors when two column totals are not in balance?

ANSWER

Subtract the smaller total from the larger total to find the difference.

Lesson 6-3 Audit Your Understanding

4. What is one way to check for an error caused by transposed numbers?

ANSWER

The difference between two column totals can be divided evenly by 9.

Lesson 6-3 Audit Your Understanding

5. What term is used to describe an error that occurs when numbers are moved to the right or left in an amount column?

ANSWER

Slide

LESSON

6-4 Journalizing and Posting Adjusting Entries



Learning Objectives

LO8 Journalize and post the adjusting entries for supplies and prepaid insurance.

Adjusting Entry for Supplies

LO8

- Journal entries recorded to update general ledger accounts at the end of a fiscal period are called **adjusting entries**.

Adjusting Entry for Supplies

LO8

Supplies Expense

Adj. (a)	530.00
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Supplies

Jan. 31 Bal.	620.00	Adj. (a)	530.00
(New Bal.)	90.00		

ACCOUNT TITLE	
5	Supplies
19	Supplies Expense

ADJUSTMENTS	
DEBIT	CREDIT
	(a) 530 00
(a) 530 00	

1 Heading

2 Date

3 Debit

4 Credit

JOURNAL						PAGE 3	
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL			
				DEBIT	CREDIT		
	<i>Adjusting Entries</i>						
Jan. 31	Supplies Expense			530 00			
	Supplies				530 00		

Adjusting Entry for Prepaid Insurance

LO8

Insurance Expense

Adj. (b)	150.00
----------	--------

Prepaid Insurance

Jan. 31 Bal.	900.00	Adj. (b)	150.00
(New Bal.)	750.00		

ACCOUNT TITLE	
6	<i>Prepaid Insurance</i>
17	<i>Insurance Expense</i>

ADJUSTMENTS	
DEBIT	CREDIT
	(b) 150 00
(b) 150 00	

1 Heading

3 Debit

2 Date

4 Credit

JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	GENERAL			
				DEBIT	CREDIT		
	<i>Adjusting Entries</i>						
Jan. 31	<i>Supplies Expense</i>			530 00			
	<i>Supplies</i>				530 00		
31	<i>Insurance Expense</i>			150 00			
	<i>Prepaid Insurance</i>				150 00		

Partial Ledger Accounts after Posting Adjusting Entries

LO8

ACCOUNT <i>Supplies</i>							ACCOUNT NO. 150						
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE								
					DEBIT	CREDIT							
Jan. 2		1	1 6 5 00			1 6 5 00							
5		1	2 2 0 00			3 8 5 00							
19		1	1 0 5 00			4 9 0 00							
28		2	1 3 0 00			6 2 0 00							
31		3		5 3 0 00		9 0 00							

ACCOUNT <i>Prepaid Insurance</i>							ACCOUNT NO. 160						
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE								
					DEBIT	CREDIT							
Jan. 3		1	9 0 0 00			9 0 0 00							
31		3		1 5 0 00		7 5 0 00							

ACCOUNT <i>Insurance Expense</i>							ACCOUNT NO. 550						
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE								
					DEBIT	CREDIT							
Jan. 31		3	1 5 0 00			1 5 0 00							

ACCOUNT <i>Supplies Expense</i>							ACCOUNT NO. 570						
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE								
					DEBIT	CREDIT							
Jan. 31		3	5 3 0 00			5 3 0 00							

Lesson 6-4 Audit Your Understanding

1. Why are adjusting entries journalized?

ANSWER

To update general ledger accounts at the end of a fiscal period

Lesson 6-4 Audit Your Understanding

2. Where is the information obtained to journalize adjusting entries?

ANSWER

Balance Sheet Credit column

Lesson 6-4 Audit Your Understanding

- 3.** Which accounts are increased from zero balances after adjusting entries for supplies and prepaid insurance are journalized and posted?

ANSWER

Supplies expense

Insurance expense