6-1 Creating a Work Sheet



- **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.

- 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

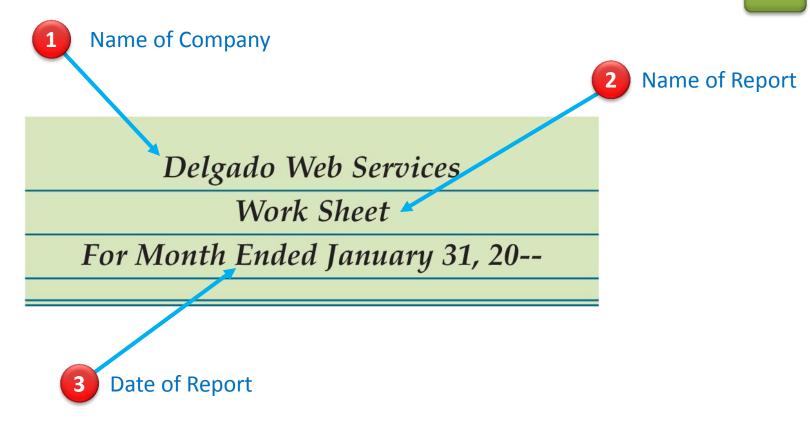
LO1

 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

- 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



Preparing a Trial Balance on a Work Sheet

LO₂

	Delgado Web Services						2						
	Work Sheet												
	For Month Ended January 31, 20												
	, and a second s	23.000.00			2								
	ACCOUNT TITLE	TRIAL B					ALANC						
		DEBIT					CREDIT						
1	Cash	2	-	2000	-	00			Ц				
2	Petty Cash		100		-	00							
3	Accounts Receivable—Main Street Services					00					L		
4	Accounts Receivable—Valley Landscaping			-	200	00							
5	Supplies		-			00							
6	Prepaid Insurance		9	0	0	00							
7	Accounts Payable—Canyon Office Supplies							1	_	00 0	-		
8	Accounts Payable—Mountain Graphic Arts								ALCOHOL: N	5 00			
9	Michael Delgado, Capital						2	0	0	00			
10	Michael Delgado, Drawing	1	1	5	0	00							
11	Income Summary												
12	Sales						5	8	2	00			
13	Advertising Expense		3	9	7	00							
14	Cash Short and Over				1	00							
15	Communications Expense					00							
16	Equipment Rental Expense	1	4	5	5	00							
17	Insurance Expense												
18	Miscellaneous Expense			4	5	00							
19	Supplies Expense												
20	4	8	0	4	5	00	8	0	4	5 00			
21													
22													
23								7					
	5								6				

- 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.
- Write each column's total below the single line.
- **6.** Rule double lines across both Trial Balance columns.

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

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



- 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

- 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

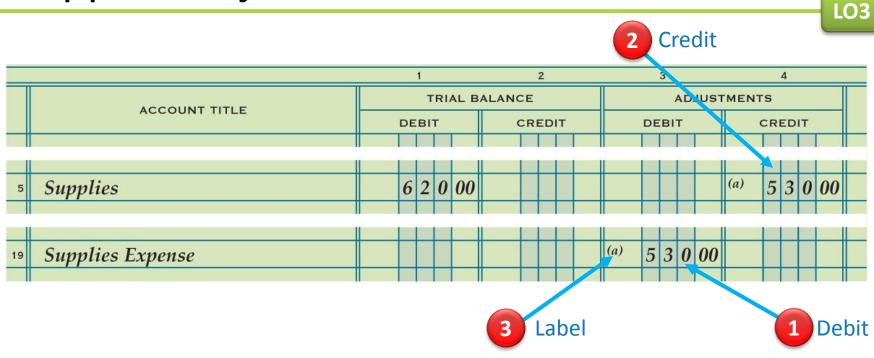
Jan. 31 Bal. 620.00

(New Bal. 90.00)

Adj. (a)

530.00

Supplies Adjustment on a Work Sheet



- 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

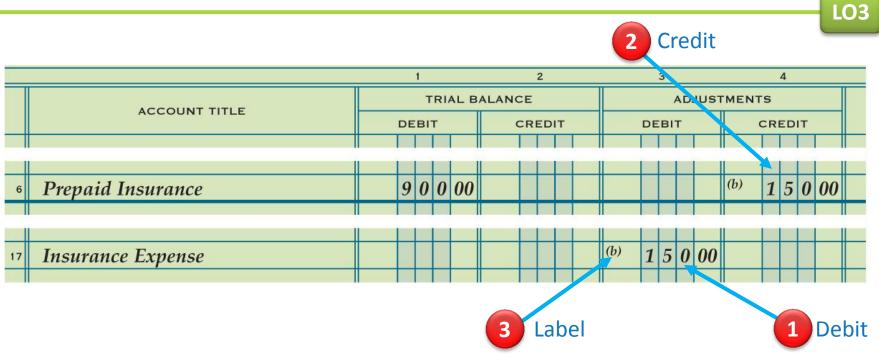
Jan. 31 Bal. 900.00

(New Bal. 750.00)

Adj. (b)

150.00

Prepaid Insurance Adjustment on a Work Sheet



- 1. Write the debit amount in the Adjustments Debit column on the line with the account title Insurance Expense.
- 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

Rule double lines across both Adjustments columns.

LO4 Delgado Web Services Work Sheet For Month Ended January 31, 20--TRIAL BALANCE **ADJUSTMENTS** ACCOUNT TITLE DEBIT CREDIT DEBIT CREDIT 6 2 0 00 (a) 5 3 0 00 Supplies 9 0 0 00 Prepaid Insurance (b) Single Rule (b) 1 5 0 00 Insurance Expense 4 5 00 Miscellaneous Expense Supplies Expense **Totals** 8 0 4 5 00 8 0 4 5 00 6 8 0 00 6 8 0 00 Rule a single line across the two Adjustments columns on the same line as the single line for the Trial Balance columns. **Double Rule** Add both the Adjustments Debit and Credit columns.

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.

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



- 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

	Delgado Web Services													
Work Sheet														
For Month Ended January 31, 20														
		1	2	3	4	5	6	7	8					
	ACCOUNT TITLE	TRIAL B	ALANCE	ADJUS	TMENTS	INCOME S	TATEMENT	BALANCE	SHEET					
	ACCOUNT THEE	DEBIT	CREDIT	DEBIT	IT CREDIT DEBIT			DEBIT	CREDIT					
1	Cash	2 5 9 7 00						2 5 9 7 00		1				
2	Petty Cash	10000						10000		2				
3	Accts. Rec.—Main Street Services	30000						30000		3				
4	Accts. Rec.—Valley Landscaping	40000						40000		4				
5	Supplies	62000			(a) 5 3 0 00			9000		5				
6	Prepaid Insurance	90000			(b) 1 5 0 00			75000		6				
7	Accts. Pay.—Canyon Office Supplies		12000						12000	7				
8	Accts. Pay.—Mountain Graphic Arts		10500						10500	8				
9	Michael Delgado, Capital		2 0 0 0 00						2 0 0 0 00	9				
10	Michael Delgado, Drawing	1 1 5 0 00						1 1 5 0 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.

LO5

Extending Income Statement Account Balances on a Work Sheet

TRIAL BALANCE

CREDIT

5 8 2 0 00

DEBIT

3 9 7 00 1 00

8000

4500

8 0 4 5 00 8 0 4 5 00

1 4 5 5 00

ACCOUNT TITLE

Income Summary

Advertising Expense

Cash Short and Over

Insurance Expense

Supplies Expense

Miscellaneous Expense

Communications Expense

Equipment Rental Expense

Sales

22

Sales Balance BALANCE SHEET DEBIT CREDIT 20

21

Expense Balances with Adjustments

Expense Balances 2 without Adjustments

Delgado Web Services

Work Sheet

For Month Ended January 31, 20--

ADJUSTMENTS

CREDIT

DEBIT

(b) 150000

(a) 53000

68000 68000

INCOME STATEMENT

CREDIT

5 8 2 0 00

DEBIT

39700

1 00

8000

1 4 5 5 00

15000

4500

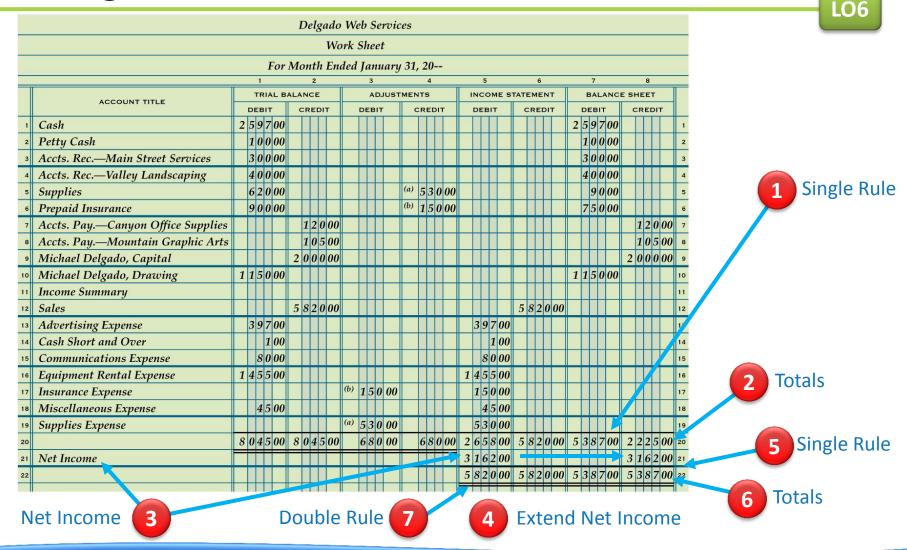
53000

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

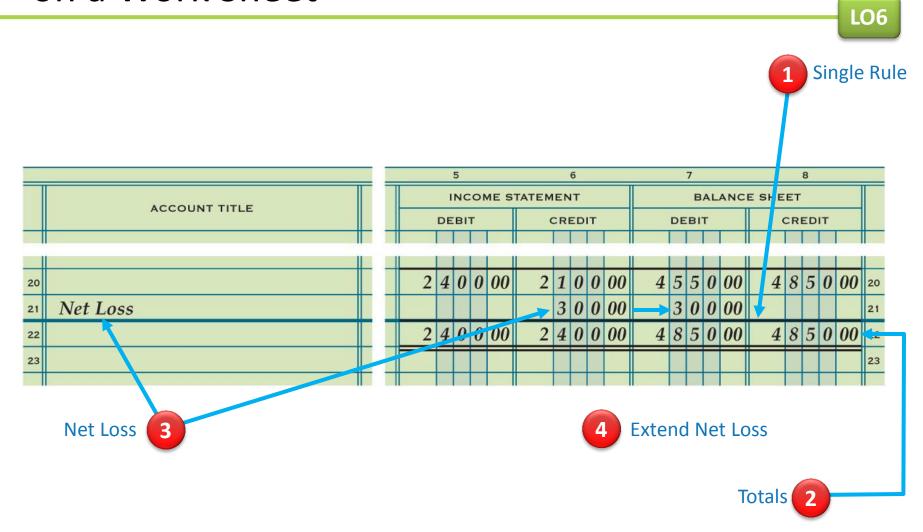


Calculating and Recording a Net Loss on a Work Sheet

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



Finding and Correcting Errors on the Work Sheet

- 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

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

ANSWER

Balance Sheet Credit column

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

ANSWER

Balance Sheet Debit column

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.

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.

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



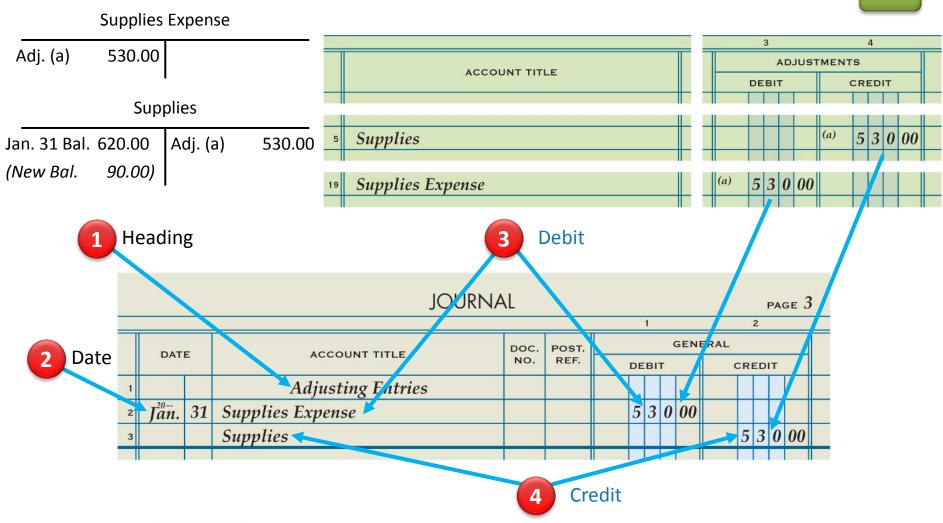
LO8 Journalize and post the adjusting entries for supplies and prepaid insurance.

Adjusting Entry for Supplies

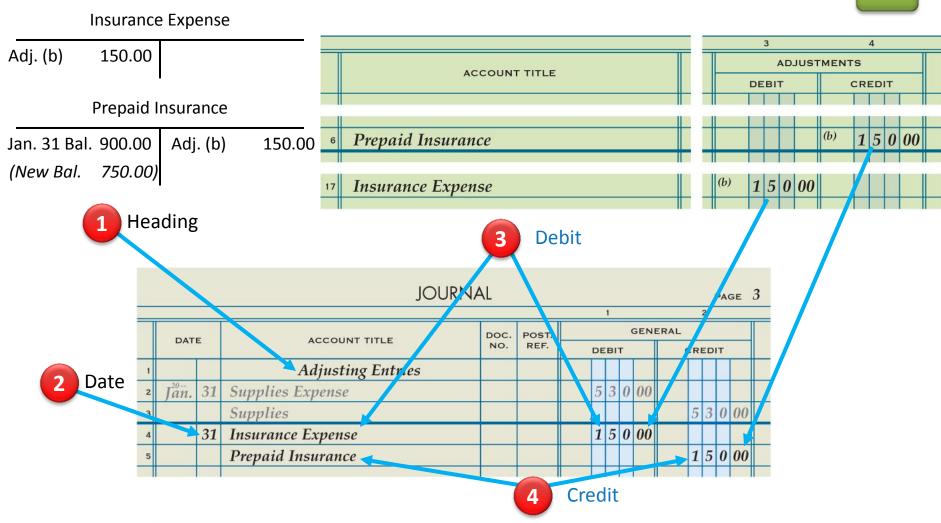
LO8

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

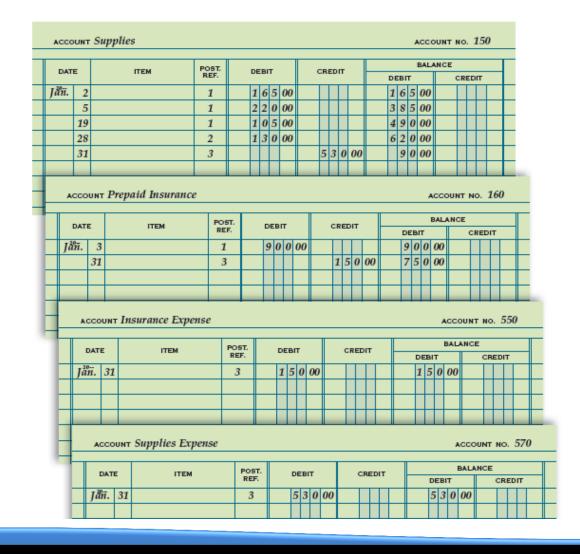
Adjusting Entry for Supplies



Adjusting Entry for Prepaid Insurance



Partial Ledger Accounts after Posting Adjusting Entries



1. Why are adjusting entries journalized?

ANSWER

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

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

ANSWER

Balance Sheet Credit column

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