

Accounting I Chapter 8 Terms & Briefs

Fiscal Period-The length of time for which a business summarizes and reports financial information.

Work Sheet-A columnar accounting form used to summarize the general ledger information needed to prepare financial statements.

Trial Balance-A proof of the equality of debits and credits in a general ledger.

Adjustments-Changes recorded on a work sheet to update general ledger accounts at the end of the fiscal period.

Income Statement-A financial statement showing the revenue and expenses for a fiscal period.

Net Income-The difference between total revenue and total expenses when total revenue is greater.

Net Loss-The difference between total revenue and total expenses when total expenses is greater.

Briefs:

Businesses usually select a period time to summarize financial information. This may be a month, quarter(3 months), six months, or a year. Most businesses use a one year time period. Many fiscal periods correspond to the tax year.

Accountants use a work sheet for four reasons:(1)To summarize general ledger account balances to prove the debits equal credits.(2)To plan needed changes to general ledger accounts to account balances up to date(adjustments)(3)To separate general ledger account balances according to the financial statements to be prepared.(4)To calculate the amount of net income or net loss for a fiscal period.

A work sheet is not considered a permanent accounting record but a working paper so pencil may be used rather than ink.

The heading of a work sheet consists of 3 lines: The name of the business on line 1, the type of statement(work sheet) on the 2nd line. The ending date of the fiscal period time on the 3rd line.

Steps in the work sheet process:

Prepare heading

Do Trial Balance and rule the trial balance columns.

Record Adjustments and rule the adjustment columns.
Extend updated financial statement data to the balance sheet and income statement columns.
Calculate and record net income or net loss on work sheet.
Total and rule the income statement and balance sheet columns.

Looking for errors:

The difference is 1 such as .01, .10,\$1.00, or \$10.00—The error is most likely addition.

The difference can be divided by 2 evenly-The error is most likely a misplaced amount in a wrong column.

The difference can be divided evenly by 9-The error is most likely a transposed number(switched numbers around) or a slide error(slid number by one position)

The difference is an omitted amount. You simply missed a extending a balance or number.

The best way to prevent errors is work carefully and methodically.