



CHAPTER 6

WORKSHEET AND ADJUSTING ENTRIES





CREATING A WORKSHEET

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



CONSISTENT REPORTING

- ✗ **GAAP – Consistent Reporting**
 - same accounting procedures are followed in the same way in each accounting period.
- ✗ Data must be analyzed, summarized, and reported to be used in a business



FISCAL PERIODS

✗ Fiscal period

- The length of time for which a business summarizes its financial information and reports its financial performance
- AKA accounting period
- Business can choose when fiscal period starts
- Financial information can be analyzed at any time, but **must be summarized and reported at the end of each fiscal period**

✗ Fiscal year

- A fiscal period consisting of twelve consecutive months
- Necessary to report for a year due to tax reports



WORK SHEET

✕ Work sheet

- A columnar accounting form used to summarize the general ledger information needed to prepare financial statements
- NOT permanent (done in pencil)



REASONS ACCOUNTANTS USE A WORK SHEET

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



PREPARING THE HEADING OF A WORK SHEET

1

NAME OF COMPANY

2

NAME OF REPORT

Delgado Web Services

Work Sheet

For Month Ended January 31, 20--

3

DATE OF REPORT

PREPARING TRIAL BALANCE ON WORK SHEET

✕ Trial Balance

- Proof of the equality of debits and credits in a general ledger
- Checks that debits = credits
- Info is pulled from the general ledger
 - Accounts are in same order as in chart of accounts
- Financial information can be analyzed at any time, but must be summarized and reported at the end of each fiscal period

PREPARING A TRIAL BALANCE ON A WORK SHEET

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

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

Diagram illustrating the preparation of a Trial Balance on a Work Sheet:

- 1. Write the General Ledger account titles in the Work Sheet's Account Title column.
- 2. Write the General Ledger Debit Account in the Trial Balance Debit column.
- 2. Write the General Ledger Credit Account in the Trial Balance Credit column.
- 4. Rule a single line across the two Trial Balance columns below the last line on which an account title is written.
- 5. Write the Trial Balance Debit and Credit column's total below the single line.
- 6. Rule double lines across both Trial Balance columns.

**MAKE SURE
DEBITS
EQUALS
CREDITS!**

1. WRITE THE GENERAL LEDGER ACCOUNT TITLES IN THE WORK SHEET'S ACCOUNT TITLE COLUMN.

GENERAL LEDGER DEBIT ACCOUNT
THE TRIAL BALANCE DEBIT COLUMN.
GENERAL LEDGER CREDIT ACCOUNT
THE TRIAL BALANCE CREDIT COLUMN.

THE LINE ACROSS THE TWO TRIAL
COLUMNS BELOW THE LAST LINE ON
WHICH AN ACCOUNT TITLE IS WRITTEN.

THE TRIAL BALANCE DEBIT AND CREDIT
COLUMN'S TOTAL BELOW THE SINGLE
LINE.

6. RULE DOUBLE LINES ACROSS BOTH TRIAL BALANCE COLUMNS.



CHECK YOURSELF!

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

Name of business, name of report, date of report

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

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



PLANNING ADJUSTMENTS ON A WORK SHEET

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

PLANNING ADJUSTMENTS ON A WORK SHEET

✕ Prepaid expense

- Cash paid for an expense in one fiscal period that is not used until a later period
- Ex. Supplies, Insurance, etc.
- Accounts must be brought up-to-date

PLANNING ADJUSTMENTS ON A WORK SHEET

- ✗ GAAP: Matching Expenses with Revenue
 - revenue from business activities and the expenses associated with earning that revenue are recorded in the same accounting period
- ✗ Accrual basis of accounting
 - Reporting income when it is earned and expenses when they are incurred
 - Generally accepted accounting principles (GAAP) require the use of the accrual basis of accounting.

PLANNING ADJUSTMENTS ON A WORK SHEET

- ✗ Cash basis of accounting
 - Reporting income when the cash is received and expenses when the cash is paid
 - Can be used if difference between accrual and cash basis is not significant
 - Materiality – difference between two reporting basis is not significant
 - Affected by size of business
- ✗ **Timing is essential difference between two types of accounting

SUPPLIES ADJUSTMENT ON A WORK SHEET

✗ Adjustments

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

- ✗ Portion of asset (ie. supplies or insurance) used to create revenue in a period becomes an expense

- ✗ Must be journalized and posted to ensure accurate account balances.

✗ FOUR QUESTIONS TO ASK:

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?

SUPPLIES ADJUSTMENT ON A WORKSHEET

AFTER ADJUSTMENT

SUPPLIES EXPENSE

ADJ. (A)	530.00
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SUPPLIES

JAN. 31 BAL.	620.00	ADJ. (A)	530.00
(NEW BAL. 90.00)			

SUPPLIES ADJUSTMENT ON A WORKSHEET

		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	
19	<i>Supplies Expense</i>									(a)	5	3	0	00				

2 CREDIT

3 LABEL

1 DEBIT

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.

NINE-STEPS TO PREPARING WORK SHEET

1. Write the heading
2. Record the Trial Balance
3. Record the supplies adjustment
4. Record the prepaid insurance adjustment
5. Prove the Adjustments columns
6. Extend all Balance Sheet account balances
7. Extend all Income Statement account balances
8. Calculate and record the net income (or net loss)
9. Total and Rule the Income Statement and Balance Sheet columns

PREPAID INSURANCE ADJUSTMENT ON A WORK SHEET

AFTER ADJUSTMENT

INSURANCE EXPENSE

ADJ. (B)	150.00
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PREPAID INSURANCE

JAN. 31 BAL. 900.00	ADJ. (B) 150.00
(NEW BAL. 750.00)	

PREPAID INSURANCE ADJUSTMENT ON A WORK SHEET

		1				2				3				4			
ACCOUNT TITLE		TRIAL BALANCE				ADJUSTMENTS											
		DEBIT		CREDIT		DEBIT		CREDIT									
6	<i>Prepaid Insurance</i>	9	0	0	00							(b)	1	5	0	00	
17	<i>Insurance Expense</i>									(b)	1	5	0	00			

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

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

CHECK YOURSELF!

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

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

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

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?



COMPLETING THE WORK SHEET AND FINDING ERRORS

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

EXTENDING BALANCE SHEET ACCOUNT BALANCES ON A WORK SHEET

✗ Worksheet is used to create:

1. Balance Sheet

1. A financial statement that reports the value of a business's assets, liabilities, and owner's equity **on a specific date (it's is like a "screenshot")**

2. Income Statement

✗ Balance Sheet

○ A financial statement that reports the value of a business's assets, liabilities, and owner's equity on a specific date.

EXTENDING BALANCE SHEET ACCOUNT BALANCES ON A WORK SHEET

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 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)	53	00	00				9	00	00	5	
6	Prepaid Insurance	9	00	00			(b)	15	00	00				7	50	00	6	
7	Accts. Pay.—Canyon Office Supplies				12	00	00									12	00	7
8	Accts. Pay.—Mountain Graphic Arts				10	50	00									10	50	8
9	Michael Delgado, Capital				2	000	00									2	000	9
10	Michael Delgado, Drawing	1	15	00	00									1	15	00	00	10

DEBIT BALANCES WITH ADJUSTMENTS

CREDIT BALANCES WITHOUT ADJUSTMENTS

EXTENDING INCOME STATEMENT ACCOUNT BALANCES ON A WORK SHEET

✕ Income Statement

- A financial statement showing the revenue and expenses for a fiscal period
- AKA: Profit and Loss (P&L)

EXTENDING INCOME STATEMENT ACCOUNT BALANCES ON A WORK SHEET

SALES BALANCE 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
11	Income Summary																11
12	Sales		5 820 00							5 820 00							12
13	Advertising Expense	397 00								397 00							13
14	Cash Short and Over	100								100							14
15	Communications Expense	80 00								80 00							15
16	Equipment Rental Expense	1 455 00								1 455 00							16
17	Insurance Expense			(b)	150 00					150 00							17
18	Miscellaneous Expense	45 00								45 00							18
19	Supplies Expense			(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

X Net Income

○ The difference between total revenue and total expenses when total revenue is greater

RECORDING NET INCOME AND TOTALING AND RULING A WORK SHEET

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
1	Cash	2 597 00						2 597 00	
2	Petty Cash	1 00 00						1 00 00	
3	Accts. Rec.—Main Street Services	3 00 00						3 00 00	
4	Accts. Rec.—Valley Landscaping	4 00 00						4 00 00	
5	Supplies	6 20 00			(a) 53 00			9 00 00	
6	Prepaid Insurance	9 00 00			(b) 15 00			75 00 00	
7	Accts. Pay.—Canyon Office Supplies		12 00 00						12 00 00
8	Accts. Pay.—Mountain Graphic Arts		10 50 00						10 50 00
9	Michael Delgado, Capital		2 00 00 00						2 00 00 00
10	Michael Delgado, Drawing	1 15 00 00						1 15 00 00	
11	Income Summary								
12	Sales		5 82 00 00				5 82 00 00		
13	Advertising Expense	397 00				397 00			
14	Cash Short and Over	1 00				1 00			
15	Communications Expense	8 00 00				8 00 00			
16	Equipment Rental Expense	1 45 50 00				1 45 50 00			
17	Insurance Expense			(b) 15 00 00		15 00 00			
18	Miscellaneous Expense	45 00				45 00			
19	Supplies Expense			(a) 53 00 00		53 00 00			
20		8 045 00	8 045 00	68 00 00	68 00 00	2 658 00	5 820 00	5 387 00	2 225 00
21	Net Income					3 162 00		3 162 00	
22						5 820 00	5 820 00	5 387 00	5 387 00

1

SINGLE RULE

2

TOTALS

5

SINGLE RULE

6

TOTALS

3

NET INCOME

7

DOUBLE RULE

4

EXTEND NET INCOME

CALCULATING & RECORDING A NET LOSS

✗ Net Loss

○ The difference between total revenue and total expenses when total expenses are greater

CALCULATING & RECORDING A NET LOSS

1 SINGLE RULE

ACCOUNT TITLE		5				6				7				8			
		INCOME STATEMENT				BALANCE SHEET											
		DEBIT				CREDIT				DEBIT				CREDIT			
20		2	4	0	0	00	2	1	0	0	00	4	5	5	0	00	20
21	<i>Net Loss</i>							3	0	0	00	3	0	0	00		21
22		2	4	0	0	00	2	4	0	0	00	4	8	5	0	00	22
23																	23

NET LOSS

3

4

EXTEND NET LOSS

TOTALS

2

FINDING AND CORRECTING ERRORS ON THE WORK SHEET

- ✗ Several different kinds of errors may be made when preparing a work sheet.

- ✗ Three examples

1. There may be errors in the accounting records.
2. There may be errors in calculations.
3. An amount may be entered in the wrong column.

- ✗ Errors should be corrected before completing more work

 - Errors can be erased (worksheet is NOT permanent)

TYPICAL CALCULATION ERRORS

- ✗ First step to solving errors – subtract smaller balance from larger balance
 - Difference 1? (ie. \$0.01, \$1, \$10) → read
 - Divisible by 2? → make sure add/subtract correctly
 - Divisible by 9? → transposed numbers?
 - Difference omitted amount? → (ie. \$50 difference, look for account with \$50 balance → readd)

CHECKING FOR ERRORS IN THE WORK SHEET

✗ Trial Balance columns

1. Have all general ledger account balances been copied in the Trial Balance column correctly?
2. Have all general ledger account balances been recorded in the correct Trial Balance column?

✗ Adjustment columns

3. Do the debits equal the credits for each adjustment?
4. Use the small letters that label each part of an adjustment to help check accuracy and equality of debits and credits.
5. Is the amount for each adjustment correct?

CHECKING FOR ERRORS IN THE WORK SHEET

**BEST WAY TO PREVENT
ERRORS?**

**CHECK YOUR WORK! WORK
CAREFULLY!**

CHECK YOURSELF!

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

Balance Sheet Credit column

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

Balance Sheet Debit column

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

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

CHECK YOURSELF!

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

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

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

Slide



JOURNALIZING AND POSTING ADJUSTING ENTRIES

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

JOURNALIZING A DEBIT CARD TRANSACTION

✕ Adjusting Entries

- Journal entries recorded to update general ledger accounts at the end of a fiscal period.
- Journalized on next blank page
- Word “adjustments” on first line of journal
- Use info from work sheet to record

ADJUSTING ENTRY FOR SUPPLIES

ADJ. (A) 530.00			
		SUPPLIES	
JAN. 31 BAL.	620.00	ADJ. (A)	530.00
(NEW BAL. 90.00)			

ACCOUNT TITLE		3				4				
		ADJUSTMENTS								
		DEBIT				CREDIT				
5	Supplies					(a)	5	3	0	00
19	Supplies Expense	(a)	5	3	0	00				

1

HEADING

2

DATE

3

DEBIT

4

CREDIT

ADJUSTING ENTRY FOR PREPAID INSURANCE

INSURANCE EXPENSE	
Adj. (B)	150.00
PREPAID INSURANCE	
JAN. 31 BAL. 900.00	Adj. (B) 150.00
(NEW BAL. 750.00)	

ACCOUNT TITLE		ADJUSTMENTS	
		DEBIT	CREDIT
6	Prepaid Insurance		(b) 150 00
17	Insurance Expense	(b) 150 00	

1 HEADING

3 DEBIT

2 DATE

4 CREDIT

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
1	Adjusting Entries					1	
2 Jan. 31	Supplies Expense			530 00		2	
3	Supplies				530 00	3	
4 31	Insurance Expense			150 00		4	
5	Prepaid Insurance				150 00	5	

PARTIAL LEDGER ACCOUNTS AFTER POSTING ADJUSTING ENTRIES

ACCOUNT *Supplies*

ACCOUNT NO. 150

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE			
					DEBIT		CREDIT	
20-Jan.	2	G1	1 6 5 00		1 6 5 00			
	5	G1	2 2 0 00		3 8 5 00			
	19	G1	1 0 5 00		4 9 0 00			
	28	G2	1 3 0 00		6 2 0 00			
	31	G3		5 3 0 00	9 0 00			

ACCOUNT *Prepaid Insurance*

ACCOUNT NO. 160

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE			
					DEBIT		CREDIT	
20-Jan.	3	G1	9 0 0 00		9 0 0 00			
	31	G3		1 5 0 00	7 5 0 00			

ACCOUNT *Insurance Expense*

ACCOUNT NO. 550

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE			
					DEBIT		CREDIT	
20-Jan.	31	G3	1 5 0 00		1 5 0 00			

ACCOUNT *Supplies Expense*

ACCOUNT NO. 570

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE			
					DEBIT		CREDIT	
20-Jan.	31	G3	5 3 0 00		5 3 0 00			

CHECK YOURSELF!

Why are adjusting entries journalized?

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

Where is the information obtained to journalize adjusting entries?

Balance Sheet Credit column

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

Supplies Expense

Insurance Expense