

# 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.



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



### **X** Fiscal period

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

### **X** Fiscal year

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



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



# 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
- 4. Calculate the amount of net income or net loss for a fiscal period



# PREPARING THE HEADING OF A WORK SHEET

NAME OF COMPANY

2

NAME OF REPORT

Delgado Web Services

Work Sheet

For Month Ended January 31, 20--

3 DATE OF REPORT

7

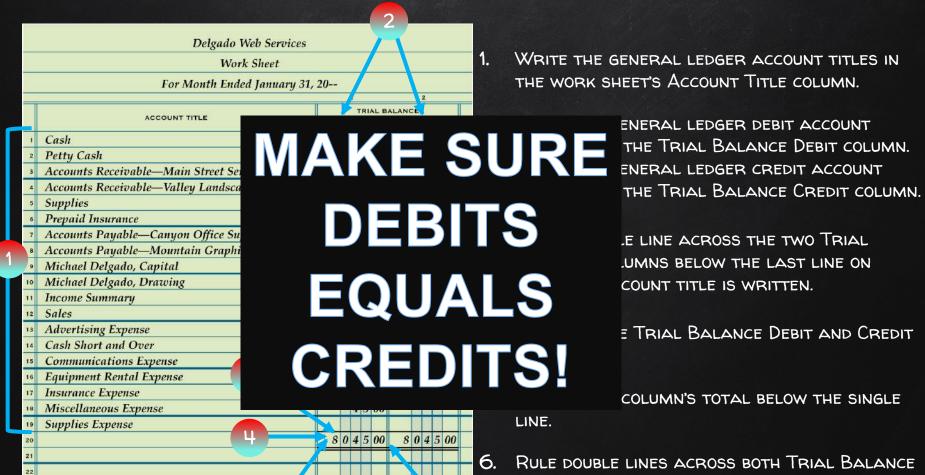
## PREPARING TRIAL BALANCE ON WORK SHEET

### X Trial Balance

- O Proof of the equality of debits and credits in a general ledger
- O Checks that debits = credits
- O Info is pulled from the general ledger
  - Accounts are in same order as in chart of accounts
- O 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

23



6

COLUMNS.



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.



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

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

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

- X Cash basis of accounting
  - O Reporting income when the cash is received and expenses when the cash is paid
  - O 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

- **X** Adjustments
  - O Changes recorded on a work sheet to update general ledger accounts at the end of a fiscal period
- X Portion of asset (ie. supplies or insurance) used to create revenue in a period becomes an expense
- X Must be journalized and posted to ensure accurate account balances.
- **X** 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

SUPPLIES

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

# SUPPLIES ADJUSTMENT ON A WORKSHEET





- 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

PREPAID INSURANCE

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

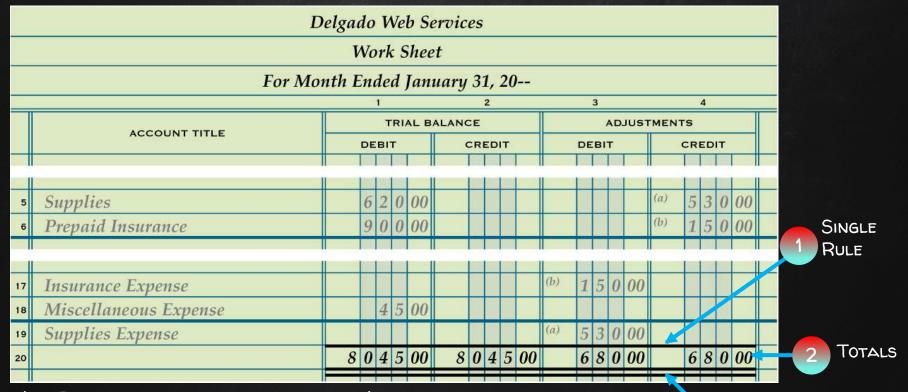
(NEW BAL. 750.00)

# 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.
- 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



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

- **X** Worksheet is used to create:
  - 1. Balance Sheet
    - 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
- **X** Balance Sheet
  - O 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 ADJUSTM 1 TS

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Delgado Web Services																													
Work Sheet																													
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				1			2				3			4	i			5			6				7			8	
ACCOUNT TITLE				TRIAL BALANCE						ADJUSTMENTS							INC	TATEMENT				BALANCE				SHEET			
	ACCOUNT TITLE	DEBIT			C	CREDIT			DEBIT			CREDIT				DEBIT			CREDIT				DEBIT			C	CREDIT		
1	Cash	2	5 9	9 7	00																		1	2 5 9	9 7	00	١		1
2	Petty Cash	Ē	1	0 0	00		(A)																	1	00	00			2
3	Accts. Rec.—Main Street Services		3	0	00																			3	00	00			3
4	Accts. Rec.—Valley Landscaping		4	00	00																			4	00	00			4
5	Supplies	Ė	6	20	00								(a)	53	00	0								9	90	00			5
6	Prepaid Insurance		9	0 0	00							7	(b)	1 5	00	0							1	7 5	50	00			6
7	Accts. Pay.—Canyon Office Supplies						1 2	00	0												1							1200	0 7
8	Accts. Pay.—Mountain Graphic Arts						10	50	0									1										1050	<b>0</b> 8
9	Michael Delgado, Capital					2	00	00	0							1	1								1		2	0000	<b>0</b> 9
10	Michael Delgado, Drawing	1	1	5 0	00		317 817							H										1 1 5	50	00			10
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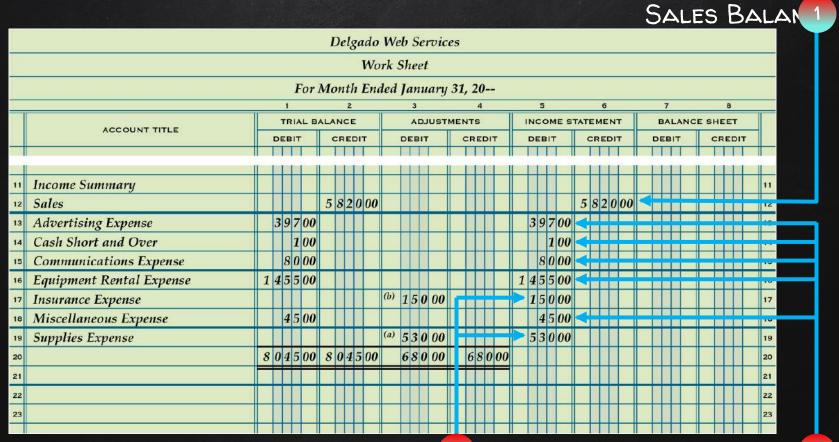
DEBIT BALANCES WITH ADJUSTMENTS

2

# EXTENDING INCOME STATEMENT ACCOUNT BALANCES ON A WORK SHEET

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

### EXTENDING INCOME STATEMENT ACCOUNT BALANCES ON A WORK SHEET



3

EXPENSE BALANCES WITH ADJUSTMENTS

EXPENSE BALANCES WITHOUT ADJUSTMENTS

# RECORDING NET INCOME AND TOTALING AND RULING A WORK SHEET

X Net Income

OThe difference between total revenue and total expenses when total revenue is greater

### Delgado Web Services Work Sheet For Month Ended January 31, 20--5 TRIAL BALANCE ADJUSTMENTS INCOME STATEMENT BALANCE SHEET ACCOUNT TITLE CREDIT DEBIT CREDIT DEBIT DEBIT CREDIT DEBIT CREDIT 2 5 9 7 00 2 5 9 7 00 Cash Petty Cash 10000 10000 30000 Accts. Rec.-Main Street Services 30000 40000 40000 Accts. Rec.-Valley Landscaping 53000 Supplies 62000 9000 90000 15000 75000 Prepaid Insurance Accts. Pay.—Canyon Office Supplies 12000 1 2 0 00 10500 10500 B Accts. Pay.—Mountain Graphic Arts 2 0 0 0 00 9 200000 Michael Delgado, Capital Michael Delgado, Drawing 1 1 5 0 00 1 1 5 0 00 Income Summary 582000 5 8 2 0 00 Sales Advertising Expense 39700 39700 Cash Short and Over 1 00 1 00 8000 8000 Communications Expense 1 4 5 5 00 1 4 5 5 00 Equipment Rental Expense (b) 1 5 0 00 15000 Insurance Expense 4500 Miscellaneous Expense 4500 Supplies Expense (a) 53000 53000 8 0 4 5 00 8 0 4 5 00 680 00 68000 265800 582000 538700 222500 20 3 1 6 2 00 21 3 1 6 2 00 Net Income 5 8 2 0 00 5 8 2 0 00 5 3 8 7 00 5 3 8 7 00 22

1 SINGLE RULE

2 TOTALS

5 SINGLE RULE

6 TOTALS

EXTEND NET INCOME

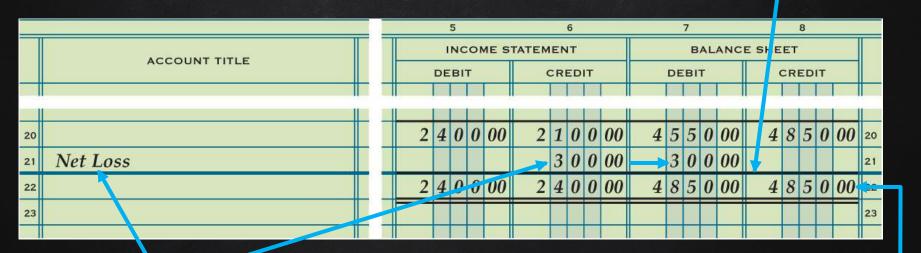
# CALCULATING & RECORDING A NET LOSS

**X** Net Loss

OThe difference between total revenue and total expenses when total expenses are greater

# CALCULATING & RECORDING A NET LOSS





NET LOSS



EXTEND NET LOSS

TOTALS

# FINDING AND CORRECTING ERRORS ON THE WORK SHEET

- X 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 OErrors can be erased (worksheet is NOT permanent)

# TYPICAL CALCULATION ERRORS

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

# CHECKING FOR ERRORS IN THE WORK SHEET

## X 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?

# X 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



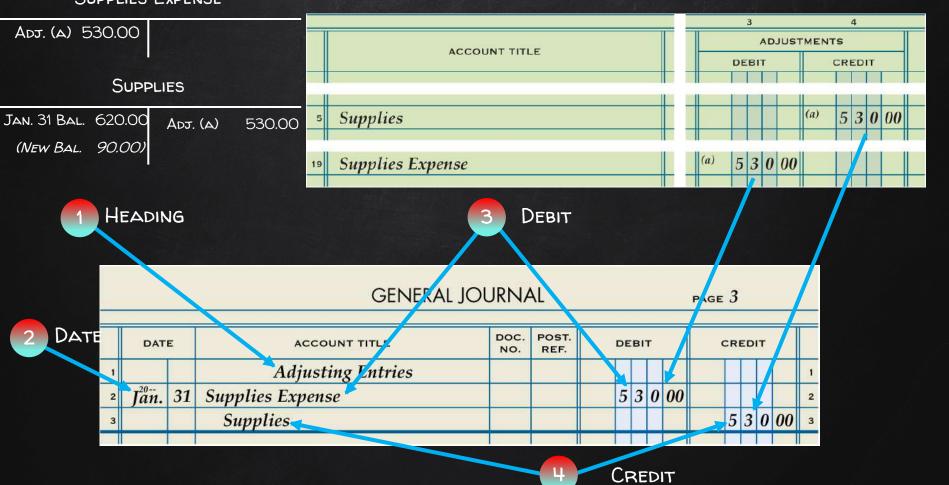
# JOURNALIZING AND POSTING ADJUSTING ENTRIES

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

# JOURNALIZING A DEBIT CARD TRANSACTION

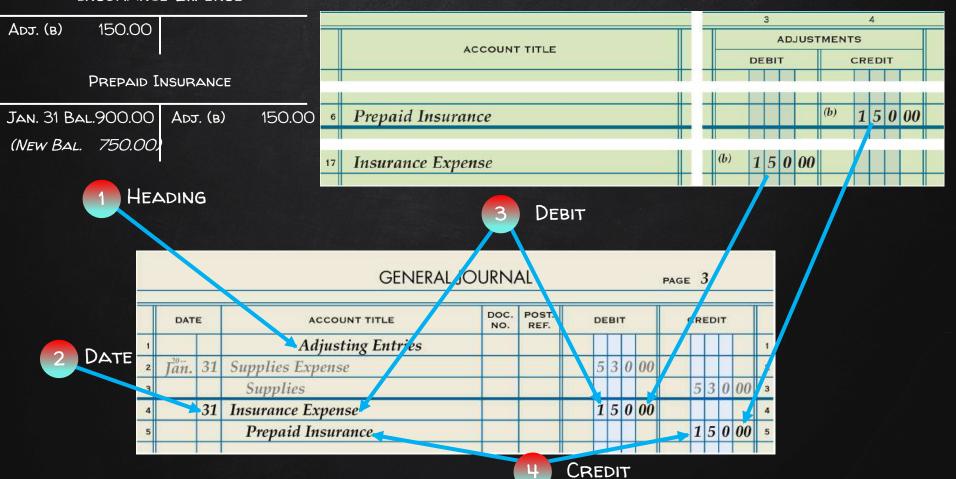
- **X** Adjusting Entries
  - O Journal entries recorded to update general ledger accounts at the end of a fiscal period.
  - O Journalized on next blank page
  - OWord "adjustments" on first line of journal
  - OUse info from work sheet to record

# ADJUSTING ENTRY FOR SUPPLIES

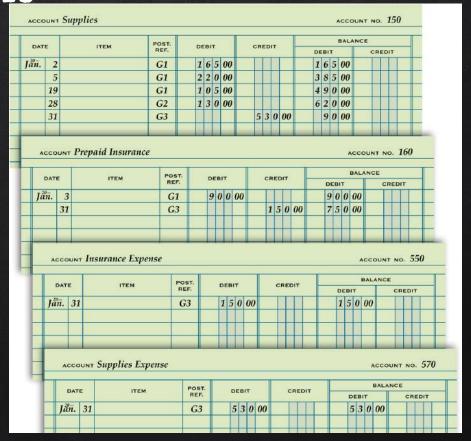


# ADJUSTING ENTRY FOR PREPAID INSURANCE

INSURANCE EXPENSE



# PARTIAL LEDGER ACCOUNTS AFTER POSTING ADJUSTING ENTRIES



# 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