Reading Guide •Chapter 6:	Worksheet and Adjusting Entries for a Service Business
Name:	

Lesson 6-1: Creating a Work Sheet

Objectives: LO1: Prepare the heading of a work sheet.

LO2: Prepare the trial balance section of a work sheet.

A. Consistent reporting

- GAAP: Consistent Reporting: the same accounting procedures are followed in the same way in each accounting period
- Before accounting data can be utilized, It must be analyzed, summarized, and reported in a useful way.

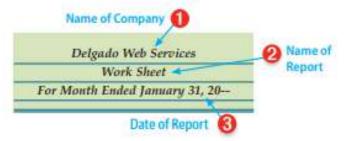
B. Fiscal Periods

- <u>Fiscal period</u>: The length of time for which a business summarizes its financial information and reports its financial performance.
 - AKA: accounting period
 - Each business decides their fiscal period.
- GAAP: Accounting Period Cycle:
- Financial information MUST BE reported for a year due to federal and state tax reports.
- Fiscal year: A fiscal period consisting of twelve consecutive months
- A fiscal period can begin on any date the business chooses.
- Financial information can be analyzed at any time, but must be summarized and reported at the end of each fiscal period.

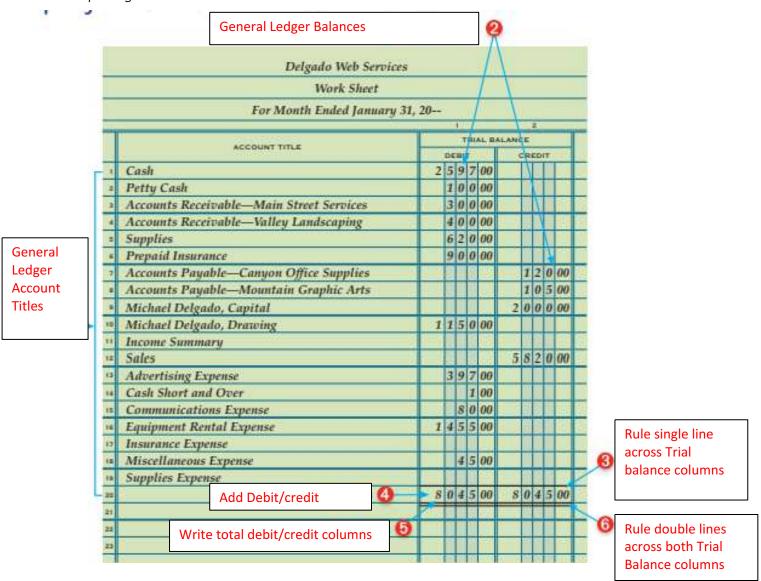
C. Worksheet

- Work sheet: A columnar accounting form used to summarize the general ledger information needed to prepare financial statements
- Four reasons accountants use a worksheet:
 - 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
- A worksheet is not permanent, so pencil is used to prepare it.

D. Preparing the Heading of a Work Sheet



E. Preparing a Trial Balance on a Work Sheet



- Trial balance: A proof of the equality of debits and credits in a general ledger
 - Checks that debits equal credits
 - Where is the information for the trial balance taken from? General ledger
 - What order are accounts listed in? accounts are listed same order as in the chart of accounts
 - ALL/ONLY ACCOUNTS WITH BALANCES (circle one) are listed.

Check yourself!

- 1. What is written on the three-line heading on a work sheet? Name of the business, name of report, and date of report
- 2. What 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.

Lesson 6-2: Planning Adjusting Entries on a Work Sheet

Objectives: LO3: Analyze and explain the adjustments for supplies and prepaid insurance.

LO4: Complete the Adjustments columns of a work sheet.

A. Planning Adjustments on a Work Sheet

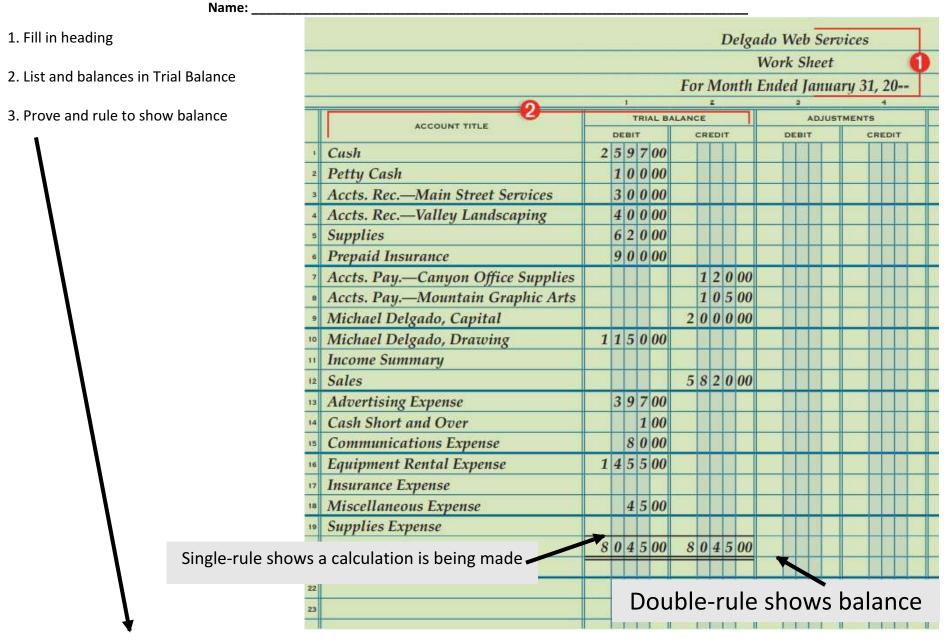
- Prepaid expense: Cash paid for an expense in one fiscal period that is not used until a later period
 - Example of a prepaid expense? Supplies, Insurance
 - GAAP: Matching Expenses with Revenue: revenue from business activities and expenses
 associated with earning that revenue are recorded in the same accounting period
- Accrual basis of accounting: Reporting income when it is earned and expenses when they are incurred
 - GAAP requires this form of accounting
- Cash basis accounting: Reporting income when the cash is received and expenses when the cash is paid
 - If the difference between using accrual basis accounting or cash basis accounting is not significant, a business can use cash basis.
 - GAAP: Materiality: when the amount of an error or omission in the accounting records is not large enough to affect business decisions
 - Materiality is affected by the size of the business.
- The major difference between accrual and cash basis is timing.
 - For accrual basis, revenue from sales is reported on financial statements even if it has not yet been collected.
 - o Likewise, expenses for the period will also be included even if they have not been paid yet.
 - ***With cash basis revenue and expenses are only included on financial statements when the cash is received or paid.
- Adjustments must be made to bring accounts up-to-date.
 - For example, some supplies were used throughout the fiscal period, but the account only shows purchases of supplies.
 - The value of supplies used in a fiscal period becomes a(n) expense to a business.
 - Therefore, owners must calculate value of supplies left on hand and adjust the account.
 - Adjustments: Changes recorded on a work sheet to update general ledger accounts at the end of a fiscal period
 - The portions of the assets consumed to earn revenue become expenses of a business and must be recorded.

- These adjustments must be journalized and posted.
- B. Supplies Adjustment on a Work sheet

1,0000,000,000,000	TRIAL BAL	ANCE	ADJUSTME	INTS	10/
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		101040	10000		-
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				1111111	
Supplies Expense			5 3 0 00		
Supplies Expense			a) 5 3 0 00		

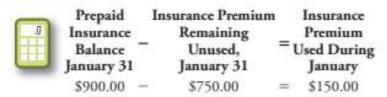
- To record the adjustments, the remaining balance of the asset will be given.
 - For example, in the example above, the remaining balance of the SUPPLIES on hand is \$90, so an adjustment is made to get the account to that amount. (\$620.00 \$530.00 = \$90.00)
 - O FOUR QUESTIONS TO ASK:
 - 1. What 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?
- List the NINE steps to preparing a worksheet:
 - 1. Write the heading
 - 2. Record the Trial Balance
 - 3. Record the supplies adjustment
 - 4. Record the prepaid insurance adjustment
 - o 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

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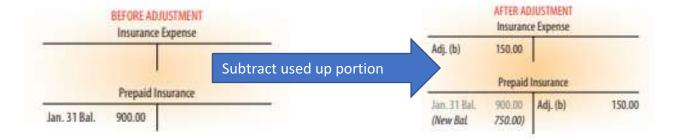


C. Prepaid Insurance Adjustment on a Work Sheet I

On January 31, Mr. Delgado checked the insurance records and found that the value of insurance premium remaining was \$750.00. The value of the insurance premium used during the fiscal period is calculated as follows:



- Analyze adjustment amount by asking the FOUR questions.
 - Output
 1. What is the balance of the account to be adjusted? \$900.00
 - 2. What should the balance be for this account? \$750.00
 - 3. What must be done to correct the account balance? Decrease \$150.00
 - 4. What adjustment is made? Debit insurance expense, \$150.00; Credit prepaid insurance,
 \$150.00



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Name:	

- D. Proving the Adjustments Column on a Work Sheet
 - o Don't forget single/double rules!

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Name:
Check yourself!
1. 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.

- 2. 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?

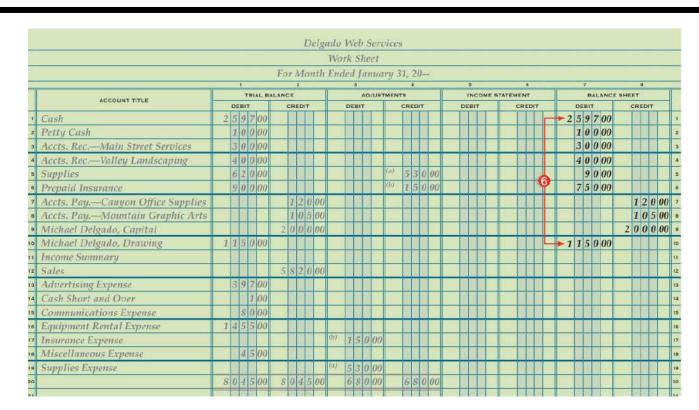
Lesson 6-3: Completing the Work Sheet and Finding Errors on a Work Sheet

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.

- A. Extending Balance Sheet Account Balances on a Work Sheet
 - We use the worksheet to prepare for creating these two financial statements:
 - o 1. Balance Sheet
 - o 2. Income Statement
 - Balance sheet:
 - O Which account divisions are on the Balance Sheet?
 - 1 Assets
 - 2. Liabilities
 - 3.Owner's Equity



6. Calculate and Extend Balance Sheet accounts (Assets/Liabilities/Owner's Equity)

- B. Extending Income Statement Account Balances on a Work Sheet
 - Income Statement:
 - Lists which accounts? Revenue Expenses
 - AKA Profit and Loss Statement

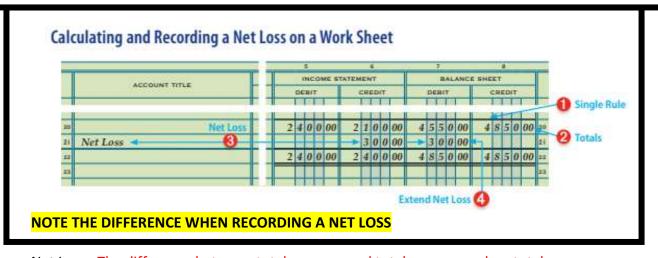
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7. Calculate and extend new Income Statement account balances (Revenue/Expenses)

- C. Recording Net Income and Totaling and Ruling a Work Sheet
 - Net Income: The difference between total revenue and total expenses when total revenue is greater
 - Net Income/Loss is added or subtracted from both the Income Statement column and the Balance Sheet column (as it affects the CAPITAL account which is a balance sheet account)

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- 8. Calculate Net Income/Loss (Difference between Revenue and Expenses)
- 9. Total (Prove) and Rule the Income Statement and Balance Sheet Columns



- Net Loss: The difference between total revenue and total expenses when total expenses are greater
 - Expenses are greater than Revenue

Name:			

EXTENDING THE BALANCES ON A WORKSHEET

Balance Sheet Accounts

A = L + O

Income Statement Accounts

Revenue – Expenses = Net Income/Loss

Pro-Floors

Worksheet

For Period Ended December 31, 2018

		Trial B	alance	Adjust	ment	Income S	tatement	Balance	Sheet
		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
	Cash	26,549.00		į ji				26,549.00	
10000000	A/R-Brimms Construction	2,000.00						2,000.00	
Assets	A/R-Smith & Varney	1,250.00						1,250.00	
100	Suppiles	750.00			275.00			475.00	
	Prepaid Insurance	900.00			150.00			750.00	
Liabilities	A/P-Office Max		321.00						321.00
Owner's	Jim Smith, Capital		12,000.00	Don't for	rget to make				12,000.00
Equity	Jim Smith, Drawing	1,000.00			its to balance:	s		1,000.00	
	Income Summary			before	extending				
Revenue	Sales		26,510.00	" 1			26,510.00		
	Insurance Expense			150.00		150.00			
Topone Company	Miscellaneous Expense	425.00	The state of the s			425.00			
Expenses	Rent Expense	2,000.00			/	2,000.00			
it s	Supplies Expense	575.00		275.00		850.00			
	Utilities Expense	350.00				350.00			
	Totals	35,799.00	38,831.00	425.00	425.00	3,775.00	26,510.00	32,024.00	12,321.00
	Net Income					22,735.00			22,735.00
						26,510.00	26,510.00	32,024.00	35,056.00

Reading Guide •Chapter 6: Worksheet and Adjusting Entries for a Service Business Name:

- D. Finding and Correcting Errors on the Work Sheet
 - Many different kinds of errors:
 - 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.
 - 1. Correcting Accounting Errors on the Work Sheet
 - Any errors found on the worksheet should be corrected before further work is completed.
 - Unlike in journals and ledgers, errors are erased and corrected when found on the worksheet.
 - 2. Checking for Typical Calculation Errors
 - When two columns are not in balance, subtract the smaller from the larger to find the difference.
 - i. Difference is 1 (ie. \$0.01, \$0.10, \$1.00, \$10.00)
 - 1. Add columns again
 - ii. Difference is divisible by 2
 - 1. Look for an amount that is half the difference. Was it added/subtracted incorrectly?
 - iii. Difference divisible by 9
 - 1. Look for transposed number (ie. 45 and 54)
 - iv. Difference is an omitted amount
 - 1. Ie. Difference is \$50 look for an account with \$50. Was it forgotten when adding?
 - 3. Checking for Errors in the Work Sheet
 - a. Check for Errors in the 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?
 - b. Check for Errors in the Adjustments Columns
 - 1. Do the debits equal the credits for each adjustment?

Use the small letters that label each part of an adjustment to help check accuracy and equality of debits and credits.

- 2. Is the amount for each adjustment correct?
- c. Check for Errors in the Financial Statements Columns
 - 1. Has each amount been copied correctly when extended to the Income Statement or Balance

Sheet column?

- 2. Has each account balance been extended to the correct Income Statement or Balance Sheet column?
- 3. Has the net income or net loss been calculated correctly?
- 4. Has the net income or net loss been recorded in the correct Income Statement or Balance

Sheet column?

- 4. Preventing Errors
 - Check your work! Work carefully!

Check yourself!

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

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

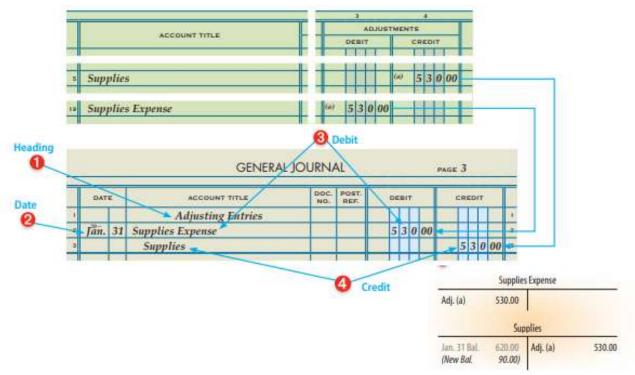
 Balance Sheet Debit column
- 3. What is the first step in checking for arithmetic errors when two column totals are not in balance? Subtract the smaller total from the larger total to find the difference.
- 4. What is one way to check for an error caused by transposed numbers? The difference between two column totals can be divided evenly by 9.
 - 5. What term is used to describe an error that occurs when numbers are moved to the right or left in an amount column?

Slide

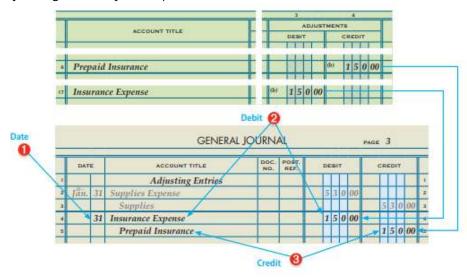
Lesson 6-4: Journalizing and Posting Adjusting Entries

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

A. Adjusting Entries for Supplies



- Remember, the worksheet is just a TOOL it is not a permanent record, so we must RECORD our adjusting entries to update our accounts to accurate amounts.
- Adjusting entries
 - Adjusting entries are journalized on WHAT page? Next blank page
 - o What is written on the FIRST journal line before the entries? Adjustments
 - We use information from the Work Sheet to record our entries.
- B. Adjusting Entries for Prepaid Insurance



C. Partial Ledger Accounts after Posting Adjusting Entries

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Check yourself!

1. Why are adjusting entries journalized?

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

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

Balance Sheet Credit column

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

Supplies Expense Insurance Expense