

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

- **Fiscal period:** 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

Name of Company ①	Delgado Web Services
Name of Report ②	Work Sheet
Date of Report ③	For Month Ended January 31, 20--

#### E. Preparing a Trial Balance on a Work Sheet

General Ledger Balances ②

General Ledger Account Titles

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

Add Debit/Credit ④

Write total debit/credit columns ⑤

Rule single line across Trial balance columns ③

Rule double lines across both Trial Balance columns ⑥

- 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.
  - 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

ACCOUNT TITLE	TRIAL BALANCE		ADJUSTMENTS	
	DEBIT	CREDIT	DEBIT	CREDIT
Supplies	620 00			(a) 530 00
Supplies Expense			(a) 530 00	

Diagram labels: 1 Debit (points to Supplies Expense debit), 2 Credit (points to Supplies credit), 3 Label (points to the adjustment amount 530 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. ( $\$620.00 - \$530.00 = \$90.00$ )
  - 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
  - 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



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

Name: \_\_\_\_\_

1. Fill in heading
2. List and balances in Trial Balance
3. Prove and rule to show balance

Delgado Web Services									
Work Sheet									
For Month Ended January 31, 20--									
	ACCOUNT TITLE	TRIAL BALANCE		ADJUSTMENTS					
		DEBIT	CREDIT	DEBIT	CREDIT				
1	Cash	2 5 9 7 00							
2	Petty Cash	1 0 0 00							
3	Accts. Rec.—Main Street Services	3 0 0 00							
4	Accts. Rec.—Valley Landscaping	4 0 0 00							
5	Supplies	6 2 0 00							
6	Prepaid Insurance	9 0 0 00							
7	Accts. Pay.—Canyon Office Supplies		1 2 0 00						
8	Accts. Pay.—Mountain Graphic Arts		1 0 5 00						
9	Michael Delgado, Capital		2 0 0 0 00						
10	Michael Delgado, Drawing	1 1 5 0 00							
11	Income Summary								
12	Sales		5 8 2 0 00						
13	Advertising Expense	3 9 7 00							
14	Cash Short and Over	1 00							
15	Communications Expense	8 0 00							
16	Equipment Rental Expense	1 4 5 5 00							
17	Insurance Expense								
18	Miscellaneous Expense	4 5 00							
19	Supplies Expense								
		8 0 4 5 00	8 0 4 5 00						
22									
23									


Single-rule shows a calculation is being made

Double-rule shows balance

Name: \_\_\_\_\_

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:

	Prepaid Insurance Balance January 31	–	Insurance Premium Remaining Unused, January 31	=	Insurance Premium Used During January
	\$900.00	–	\$750.00	=	\$150.00

- Analyze adjustment amount by asking the FOUR questions.
  - 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**

BEFORE ADJUSTMENT						AFTER ADJUSTMENT	
Insurance Expense						Insurance Expense	
						Adj. (b)	150.00
Prepaid Insurance						Prepaid Insurance	
Jan. 31 Bal.	900.00					Jan. 31 Bal.	900.00
						(New Bal.	750.00)
						Adj. (b)	150.00

Subtract used up portion





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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:
  - 1. Balance Sheet
  - 2. Income Statement
- Balance sheet:
  - Which account divisions are on the Balance Sheet?
    - 1 Assets
    2. Liabilities
    3. Owner's Equity

Delgado Web Services											
Work Sheet											
For Month Ended January 31, 20--											
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	100.00						100.00				2
3 Accts. Rec.—Main Street Services	300.00						300.00				3
4 Accts. Rec.—Valley Landscaping	400.00						400.00				4
5 Supplies	620.00			(a) 530.00			90.00				5
6 Prepaid Insurance	900.00			(b) 150.00			750.00				6
7 Accts. Pay.—Canyon Office Supplies		120.00						120.00			7
8 Accts. Pay.—Mountain Graphic Arts		105.00						105.00			8
9 Michael Delgado, Capital		2000.00						2000.00			9
10 Michael Delgado, Drawing	1150.00						1150.00				10
11 Income Summary											11
12 Sales		5820.00									12
13 Advertising Expense	397.00										13
14 Cash Short and Over	1.00										14
15 Communications Expense	80.00										15
16 Equipment Rental Expense	1455.00										16
17 Insurance Expense			(b) 150.00								17
18 Miscellaneous Expense	45.00										18
19 Supplies Expense			(a) 530.00								19
20	8045.00	8045.00	680.00	680.00							20

### 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

Delgado Web Services									
Work Sheet									
For Month Ended January 31, 20--									
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) 530 00			90 00		5
6 Prepaid Insurance	900 00			(b) 150 00			750 00		6
7 Accts. Pay.—Canyon Office Supplies		120 00						120 00	7
8 Accts. Pay.—Mountain Graphic Arts		105 00						105 00	8
9 Michael Delgado, Capital		2000 00						2000 00	9
10 Michael Delgado, Drawing	1150 00						1150 00		10
11 Income Summary									11
12 Sales		5820 00				5820 00			12
13 Advertising Expense	397 00				397 00				13
14 Cash Short and Over	1 00				1 00				14
15 Communications Expense	80 00				80 00				15
16 Equipment Rental Expense	1455 00				1455 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	8045 00	8045 00	680 00	680 00					20

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)

Delgado Web Services											
Work Sheet											
For Month Ended January 31, 20--											
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	1 000 00						1 000 00		2		
3 Accts. Rec.—Main Street Services	3 000 00						3 000 00		3		
4 Accts. Rec.—Valley Landscaping	4 000 00						4 000 00		4		
5 Supplies	6 200 00			(a) 5 300 00			9 000		5		
6 Prepaid Insurance	9 000 00			(b) 1 500 00			7 500 00		6		
7 Accts. Pay.—Canyon Office Supplies		1 200 00						1 200 00	7		
8 Accts. Pay.—Mountain Graphic Arts		1 050 00						1 050 00	8		
9 Michael Delgado, Capital		2 000 00						2 000 00	9		
10 Michael Delgado, Drawing	1 150 00						1 150 00		10		
11 Income Summary									11		
12 Sales		5 820 00				5 820 00			12		
13 Advertising Expense	3 970 00				3 970 00				13		
14 Cash Short and Over	1 00				1 00				14		
15 Communications Expense	8 000				8 000				15		
16 Equipment Rental Expense	1 455 00				1 455 00				16		
17 Insurance Expense			(b) 1 500 00		1 500 00				17		
18 Miscellaneous Expense	4 500				4 500				18		
19 Supplies Expense			(a) 5 300 00		5 300 00				19		
20	8 045 00	8 045 00	6 800 00	6 800 00	2 658 00	5 820 00	5 387 00	2 225 00	20		
21 <b>Net Income</b>					3 162 00			3 162 00	21		
22					5 820 00	5 820 00	5 387 00	5 387 00	22		

8. Calculate Net Income/Loss (Difference between Revenue and Expenses)

9. Total (Prove) and Rule the Income Statement and Balance Sheet Columns

### Calculating and Recording a Net Loss on a Work Sheet

ACCOUNT TITLE	INCOME STATEMENT		BALANCE SHEET		
	DEBIT	CREDIT	DEBIT	CREDIT	
20	2 400 00	2 100 00	4 550 00	4 850 00	20
21 <b>Net Loss</b>		3 000	3 000		21
22	2 400 00	2 400 00	4 850 00	4 850 00	22

1 Single Rule  
2 Totals  
3  
4 Extend Net Loss

**NOTE THE DIFFERENCE WHEN RECORDING A NET LOSS**

- **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

$$\text{Revenue} - \text{Expenses} = \text{Net Income/Loss}$$

Pro-Floors

Worksheet

For Period Ended December 31, 2018

		Trial Balance		Adjustment		Income Statement		Balance Sheet	
		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Assets	Cash	26,549.00						26,549.00	
	A/R-Brimms Construction	2,000.00						2,000.00	
	A/R-Smith & Varney	1,250.00						1,250.00	
	Supplies	750.00			275.00			475.00	
Liabilities	Prepaid Insurance	900.00			150.00			750.00	
	A/P-Office Max		321.00						321.00
Owner's Equity	Jim Smith, Capital		12,000.00						12,000.00
	Jim Smith, Drawing	1,000.00						1,000.00	
Income Summary									
Revenue	Sales		26,510.00				26,510.00		
Expenses	Insurance Expense			150.00		150.00			
	Miscellaneous Expense	425.00				425.00			
	Rent Expense	2,000.00				2,000.00			
	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

Don't forget to make adjustments to balances before extending



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: L08: **Journalize and post the adjusting entries for supplies and prepaid insurance.**

### A. Adjusting Entries for Supplies

ACCOUNT TITLE		ADJUSTMENTS	
		DEBIT	CREDIT
5	Supplies		(a) 530 00
19	Supplies Expense	(a) 530 00	

Heading

1

3 Debit

Date

2

GENERAL JOURNAL						PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
	<i>Adjusting Entries</i>					
Jan. 31	Supplies Expense			530 00		1
	Supplies				530 00	2

4 Credit

Supplies Expense		Supplies	
Adj. (a)	530.00		
Jan. 31 Bal.	620.00	Adj. (a)	530.00
(New Bal.)	90.00		

- 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**
  - 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

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

Debit 2

Date 1

GENERAL JOURNAL							PAGE 3
	DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
1		<i>Adjusting Entries</i>					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

Credit 3

### C. Partial Ledger Accounts after Posting Adjusting Entries

ACCOUNT <i>Supplies</i>										ACCOUNT NO. 150									
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE										DEBIT	CREDIT			
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 <i>Prepaid Insurance</i>										ACCOUNT NO. 160									
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE										DEBIT	CREDIT			
Jan. 3		G1	9 0 0 00												9 0 0 00				
31		G3		1 5 0 00											7 5 0 00				

ACCOUNT <i>Insurance Expense</i>										ACCOUNT NO. 550									
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE										DEBIT	CREDIT			
Jan. 31		G3	1 5 0 00												1 5 0 00				

ACCOUNT <i>Supplies Expense</i>										ACCOUNT NO. 570									
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE										DEBIT	CREDIT			
Jan. 31		G3	5 3 0 00												5 3 0 00				

#### 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