



7

Work Sheet for a Service Business

AFTER STUDYING CHAPTER 7, YOU WILL BE ABLE TO:

1. Define accounting terms related to a work sheet for a service business organized as a proprietorship.
2. Identify accounting concepts and practices related to a work sheet for a service business organized as a proprietorship.
3. Prepare a heading and a trial balance on a work sheet.
4. Plan adjustments for supplies and prepaid insurance.
5. Complete a work sheet for a service business organized as a proprietorship.
6. Identify selected procedures for finding and correcting errors in accounting records.

TERMS PREVIEW

fiscal period

work sheet

trial balance

adjustments

income statement

net income

net loss

CONSISTENT REPORTING

General ledger accounts contain information needed by managers and owners. Before the information can be used, however, it must be analyzed, summarized, and reported in a meaningful way. The accounting concept, *Consistent Reporting*, is applied when the same accounting procedures are followed in the same way in each accounting period. (*CONCEPT: Consistent Reporting*) For example, in one year a delivery business might report the number of deliveries made. The next year the same business reports the amount of revenue received for the deliveries made. The information for the two years cannot be compared because the business has not been consistent in reporting information about deliveries.

A summary of preparing a work sheet is shown on the Work Sheet Overlay within this chapter.

ACCOUNTING IN YOUR CAREER

NETWORKING ON WORK SHEETS

Darnell Gleason, an administrative assistant at Micelli Tailoring, has been having a good time at the five-year reunion of his high school class. He has caught up with old friends and is surprised to find some familiar careers represented at the reunion today. He has been talking with Rebecca Fong, an employee at Watson Associates, a small marketing consulting company in town. Charles King, accounting assistant with Kovell Advertising, joins them.

Darnell tells Charles that he and Rebecca have been discussing their accounting procedures and had just started talking about preparing work sheets. He says that he does a standard work sheet on 8-column paper with columns for trial balance, adjustments, income statement, and balance sheet. Rebecca immediately says, "Darnell, you still use paper and pencil? I've designed a computer spreadsheet so that whenever I want to do a work sheet, all I have to do is plug in the numbers and all the calculations are done automatically. And if I change one of the numbers, the calculations are updated immediately."

Charles smiles and says, "My company has only one adjustment to make each month, so I don't do a work sheet at all. I run a trial balance, calculate my new adjustment, journalize it and post it, then do another trial balance just to be sure the debits and credits are still equal. Then I'm ready to do the financial statements."

Darnell has never considered other ways of preparing a work sheet. "You two have given me some ideas I think I can use," he tells Rebecca and Charles. "I guess we're networking. What would you think about getting together regularly to share ideas?"

Critical Thinking:

1. Is it ethical for employees to share information about their companies this way?
2. What are the advantages and disadvantages of using a computer to perform accounting procedures?



7-1 Creating a Work Sheet

FISCAL PERIODS

The length of time for which a business summarizes and reports financial information is called a **fiscal period** (also known as an accounting period). Businesses usually select a period of time for which to summarize and report financial information. The accounting concept, *Accounting Period Cycle*, is applied when changes in financial information are reported for a specific period of time in the form of financial statements.

(CONCEPT: *Accounting Period Cycle*) Each business chooses a fiscal period length that meets its needs. Because federal and state tax reports are based on one year, most businesses use a one-year fiscal period. However, because Encore Music is a new business, Ms. Treviño wishes to have financial information reported frequently to help her make decisions. For this reason, Encore

Music uses a one-month fiscal period.

A fiscal period can begin on any date. However, most businesses begin their fiscal periods on the first day of a month. Encore Music started business on August 1. Therefore, Encore Music's monthly fiscal period is for the period from August 1 through August 31, inclusive. Businesses often choose a one-year fiscal period that ends during a period of low business activity. In this way, the end-of-year accounting work comes at a time when other business activities are the lightest.

Financial information may be analyzed, summarized, and reported on any date a business needs the information. However, financial information is always summarized and reported at the end of a fiscal period.

WORK SHEET

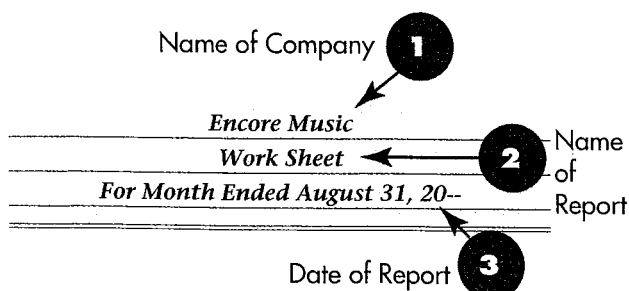
A columnar accounting form used to summarize the general ledger information needed to prepare financial statements is called a **work sheet**.

Accountants use a work sheet for four reasons. (1) To summarize general ledger account balances to prove that debits equal credits. (2) To plan needed changes to general ledger accounts to bring account balances up to date. (3) To separate general ledger account bal-

ances according to the financial statements to be prepared. (4) To calculate the amount of net income or net loss for a fiscal period.

Journals and ledgers are permanent records of a business and are usually prepared in ink or printed by a computer. However, a work sheet is a planning tool and is not considered a permanent accounting record. Therefore, a work sheet is prepared in pencil.

PREPARING THE HEADING OF A WORK SHEET



The heading on a work sheet consists of three lines and contains the name of the business, the name of the report, and the date of the report.

The date on Encore Music's work sheet indicates that the work sheet covers the 31 days from August 1 through and including August 31. If a work sheet were for a calendar year fiscal period, it might have a date stated as *For Year Ended December 31, 20—*.

PREPARING A TRIAL BALANCE ON A WORK SHEET

Encore Music
Work Sheet
For Month Ended August 31, 20--

| ACCOUNT TITLE | | TRIAL BALANCE | |
|---------------|-------------------------------------------|---------------|---------|
| | | DEBIT | CREDIT |
| 1 | Cash | 827200 | |
| 2 | Petty Cash | 20000 | |
| 3 | Accounts Receivable—Kids Time | 10000 | |
| 4 | Accounts Receivable—Learn N Play | 2000 | |
| 5 | Supplies | 475100 | |
| 6 | Prepaid Insurance | 120000 | |
| 7 | Accounts Payable—Ling Music Supplies | | 136000 |
| 8 | Accounts Payable—Sullivan Office Supplies | | 2000 |
| 9 | Barbara Treviño, Capital | | 1000000 |
| 10 | Barbara Treviño, Drawing | 60000 | |
| 11 | Income Summary | | |
| 12 | Sales | | 441100 |
| 13 | Advertising Expense | 27300 | |
| 14 | Insurance Expense | | |
| 15 | Miscellaneous Expense | 1000 | |
| 16 | Rent Expense | 25000 | |
| 17 | Supplies Expense | | |
| 18 | Utilities Expense | 11500 | |
| 19 | Add Totals | 1579100 | 1579100 |
| 20 | | | |

Account Titles **1** →

2 Account Balances

3 Single Rule

4 Add Totals

5 Write Totals

6 Double Rule

The total of all debit account balances must equal the total of all credit account balances. A proof of the equality of debits and credits in a general ledger is called a **trial balance**.

Information for the trial balance is taken

from the general ledger. General ledger account titles are listed on a trial balance in the same order as listed on the chart of accounts. All the account titles are listed, even if some accounts do not have balances.

S Preparing a trial balance on a work sheet

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E
P
S
1. Write the general ledger account titles in the work sheet's Account Title column.
 2. Write the general ledger debit account balances in the Trial Balance Debit column. Write the general ledger credit account balances in the Trial Balance Credit column. If an account does not have a balance, the space in the Trial Balance columns is left blank.
 3. Rule a single line across the two Trial Balance columns below the last line on which an account title is written. This single line shows that each column is to be added.
 4. Add both the Trial Balance Debit and Credit columns. Use a calculator if one is available. If the two column totals are the same, then debits equal credits in the general ledger accounts. If the two column totals are not the same, recheck the Trial Balance columns to find the error. Other parts of a work sheet are not completed until the Trial Balance columns are proved. Suggestions for locating errors are described later in this chapter.
 5. Write each column's total below the single line.
 6. Rule double lines across both Trial Balance columns. The double lines mean that the Trial Balance column totals have been verified as correct.

TERMS REVIEW

fiscal period
work sheet
trial balance

AUDIT YOUR UNDERSTANDING

1. What is written on the three-line heading on a work sheet?
2. What general ledger accounts are listed in the Trial Balance columns of a work sheet?

WORK TOGETHER

Recording the trial balance on a work sheet

Use the work sheet given in the *Working Papers*. Your instructor will guide you through the following example.

On February 28 of the current year, Golden Tan has the following general ledger accounts and balances. The business uses a monthly fiscal period.

| Account Titles | Account Balances | |
|----------------------------------|------------------|-----------|
| | Debit | Credit |
| Cash | \$9,800.00 | |
| Petty Cash | 150.00 | |
| Accounts Receivable—Ruby Prince | 2,795.00 | |
| Supplies | 456.00 | |
| Prepaid Insurance | 750.00 | |
| Accounts Payable—Richard Navarro | | \$ 555.00 |
| Gary Baldwin, Capital | | 14,885.00 |
| Gary Baldwin, Drawing | 3,400.00 | |
| Income Summary | — | — |
| Sales | | 4,320.00 |
| Advertising Expense | 931.00 | |
| Insurance Expense | — | |
| Miscellaneous Expense | 378.00 | |
| Supplies Expense | — | |
| Utilities Expense | 1,100.00 | |

3. Prepare the heading and trial balance on a work sheet. Total and rule the Trial Balance columns. Save your work to complete Work Together on page 158.



Recording the trial balance on a work sheet

Use the work sheet given in the *Working Papers*. Work this problem independently.

On December 31 of the current year, Cragan's Copies has the following general ledger accounts and balances. The business uses a monthly fiscal period.

| Account Titles | Account Balances | |
|------------------------------|------------------|-----------|
| | Debit | Credit |
| Cash | \$6,900.00 | |
| Petty Cash | 75.00 | |
| Accounts Receivable—Ross Kim | 1,398.00 | |
| Supplies | 228.00 | |
| Prepaid Insurance | 375.00 | |
| Accounts Payable—Renee Elk | | \$ 278.00 |
| Lana Arola, Capital | | 7,443.00 |
| Lana Arola, Drawing | 1,700.00 | |
| Income Summary | — | — |
| Sales | | 4,160.00 |
| Advertising Expense | 466.00 | |
| Insurance Expense | — | |
| Miscellaneous Expense | 189.00 | |
| Supplies Expense | — | |
| Utilities Expense | 550.00 | |

4. Prepare the heading and trial balance on a work sheet. Total and rule the Trial Balance columns. Save your work to complete On Your Own on page 158.

7-2 Planning Adjusting Entries on a Work Sheet

PLANNING ADJUSTMENTS ON A WORK SHEET

Sometimes a business will pay cash for an expense in one fiscal period, but the expense is not used until a later period. The expense should be reported in the same fiscal period that it is used to produce revenue. The accounting concept, *Matching Expenses with Revenue*, is applied when revenue from business activities and expenses associated with earning that revenue are recorded in the same accounting period. For example, Encore Music buys supplies in quantity in August, but some of the supplies are not used until September. Only the value of the supplies used in August should be reported as expenses in August. In this way, August revenue and the supplies expense associated with earning the August revenue are recorded in the same accounting period. (CONCEPT: *Matching Expenses with Revenue*)

In order to give accurate information on financial statements, some general ledger accounts must be brought up to date at the end of a fiscal period. For example, Encore Music debits an asset account, *Supplies*, each time supplies are bought. Supplies on hand are items of value owned by a business until the supplies are used. The value of supplies that are used becomes an expense to the business. However, recording an expense each time an individual supply, such as a pencil, is used would be impractical. Therefore, on August 31 the balance of the asset account, *Supplies*, is the value of all supplies bought rather than the value of only the supplies that have not yet been used. The amount of supplies that have been used must be deducted from the asset account, *Supplies*, and recorded in the expense account, *Supplies Expense*.

Likewise, the amount of insurance that has been used during the fiscal period is also an expense of the business. When the insurance premium for a year of insurance coverage is paid, the entire amount is debited to an asset account, *Prepaid Insurance*. Recording each day's amount of insurance used during August is impractical. Therefore, at the end of a fiscal period, the amount of the insurance coverage used must be deducted from the asset account, *Prepaid Insurance*, and recorded in the expense account, *Insurance Expense*.

Changes recorded on a work sheet to update general ledger accounts at the end of a fiscal period are called **adjustments**. The assets of a business, such as supplies and prepaid insurance, are used to earn revenue. The portions of the assets consumed in order to earn revenue become expenses of the business. The portions consumed are no longer assets but are now expenses. Therefore, adjustments must be made to both the asset and expense accounts for supplies and insurance. After the adjustments are made, the expenses incurred to earn revenue are reported in the same fiscal period as the revenue is earned and reported. (CONCEPT: *Matching Expenses with Revenue*)

A work sheet is used to plan adjustments. Changes are not made in general ledger accounts until adjustments are journalized and posted. The accuracy of the planning for adjustments is checked on a work sheet before adjustments are actually journalized.

Procedures for journalizing Encore Music's adjustments are described in Chapter 9.

REMEMBER

The ending balance of the asset account, *Supplies*, should represent the amount of supplies remaining on hand at the end of the fiscal period. The amount of supplies used during the period should be recorded in the expense account, *Supplies Expense*.

SUPPLIES ADJUSTMENT ON A WORK SHEET

| | ACCOUNT TITLE | TRIAL BALANCE | | ADJUSTMENTS | | Credit |
|----|------------------|---------------|--------|--------------|--------------|--------|
| | | DEBIT | CREDIT | DEBIT | CREDIT | |
| 5 | Supplies | 4,751.00 | | | (a) 2,564.00 | 2 |
| 17 | Supplies Expense | | | (a) 2,564.00 | | |
| 18 | | | | | | |

Label Debit 1

On August 31, before adjustments, the balance of Supplies is \$4,751.00, and the balance of Supplies Expense is zero, as shown in the T accounts.

| BEFORE ADJUSTMENT | |
|-------------------|----------|
| Supplies Expense | |
| | |
| Supplies | |
| Aug. 31 Bal. | 4,751.00 |

On August 31, Ms. Treviño counted the supplies on hand and found that the value of supplies still unused on that date was \$2,187.00. The value of the supplies used is calculated as follows.

| Supplies Account | Supplies on | Supplies Used | |
|------------------|-------------|---------------|------------|
| Balance, | Hand, | = | During |
| August 31 | August 31 | = | August |
| \$4,751.00 | \$2,187.00 | = | \$2,564.00 |

Four questions are asked in analyzing the adjustment for the asset account, Supplies.

1. What is the balance of Supplies? \$4,751.00

2. What should the balance be for this account? \$2,187.00
3. What must be done to correct the account balance? Decrease \$2,564.00
4. What adjustment is made?
Debit Supplies Expense, \$2,564.00
Credit Supplies, \$2,564.00

The expense account, Supplies Expense, is increased by a debit, \$2,564.00, the value of supplies used. The balance of Supplies Expense, \$2,564.00, is the value of supplies used during the fiscal period from August 1 to August 31. (CONCEPT: Matching Expenses with Revenue)

| AFTER ADJUSTMENT | |
|------------------|-----------|
| Supplies Expense | |
| Adj. (a) | 2,564.00 |
| Supplies | |
| Aug. 31 Bal. | 4,751.00 |
| (New Bal. | 2,187.00) |
| Adj. (a) | 2,564.00 |

The asset account, Supplies, is decreased by a credit, \$2,564.00, the value of supplies used. The debit balance, \$4,751.00, less the credit adjustment, \$2,564.00, equals the new balance, \$2,187.00. The new balance of Supplies is the same as the value of supplies on hand on August 31.

Recording the supplies adjustment on a work sheet

1. Write the debit amount, \$2,564.00, in the work sheet's Adjustments Debit column on the line with the account title Supplies Expense.
2. Write the credit amount, \$2,564.00, in the Adjustments 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, (a). The letter *a* identifies the debit and credit amounts as part of the same adjustment.

PREPAID INSURANCE ADJUSTMENT ON A WORK SHEET

| | | 1 | | 2 | | 3 | | 4 | | Credit |
|---------------|-------------------|---------------|--------|-------------|--|--------|--------|--------|--|--------|
| ACCOUNT TITLE | | TRIAL BALANCE | | ADJUSTMENTS | | | | | | |
| | | DEBIT | CREDIT | DEBIT | | CREDIT | | | | |
| 6 | Prepaid Insurance | 1200.00 | | | | | (b) | 100.00 | | 2 |
| 14 | Insurance Expense | | | | | (b) | 100.00 | | | |

Label Debit 1

On August 31, before adjustments, the balance of Prepaid Insurance is \$1,200.00 and the balance of Insurance Expense is zero.

| BEFORE ADJUSTMENT | |
|-------------------|----------|
| Insurance Expense | |
| | |
| Prepaid Insurance | |
| Aug. 31 Bal. | 1,200.00 |

On August 31, Ms. Treviño checked the insurance records and found that the value of insurance coverage remaining was \$1,100.00. The value of the insurance coverage used during the fiscal period is calculated as follows.

| Prepaid Insurance Balance, August 31 | Insurance Coverage Remaining August 31 | Insurance Coverage Used During August |
|--------------------------------------|----------------------------------------|---------------------------------------|
| \$1,200.00 | — \$1,100.00 | = \$100.00 |

Four questions are asked in analyzing the adjustment for the asset account, Prepaid Insurance.

1. What is the balance of Prepaid Insurance?
\$1,200.00

Recording the prepaid insurance adjustment on a work sheet

1. Write the debit amount, \$100.00, in the work sheet's Adjustments Debit column on the line with the account title Insurance Expense.
2. Write the credit amount, \$100.00, in the Adjustments 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, (*b*). The letter *b* identifies the debit and credit amounts as part of the same adjustment.

2. What should the balance be for this account? \$1,100.00
3. What must be done to correct the account balance? Decrease \$100.00
4. What adjustment is made?
Debit Insurance Expense, \$100.00
Credit Prepaid Insurance, \$100.00

The expense account, Insurance Expense, is increased by a debit, \$100.00, the value of insurance used. The balance of Insurance Expense, \$100.00, is the value of insurance coverage used from August 1 to August 31. (CONCEPT: Matching Expenses with Revenue)

| AFTER ADJUSTMENT | |
|-------------------|-----------|
| Insurance Expense | |
| Adj. (b) | 100.00 |
| Prepaid Insurance | |
| Aug. 31 Bal. | 1,200.00 |
| (New Bal. | 1,100.00) |

The asset account, Prepaid Insurance, is decreased by a credit, \$100.00, the value of insurance used. The debit balance, \$1,200.00, less the credit adjustment, \$100.00, equals the new balance, \$1,100.00. The new balance of Prepaid Insurance is the same as the amount of insurance coverage unused on August 31.

PROVING THE ADJUSTMENTS COLUMNS OF A WORK SHEET

| Encore Music | | | | | | | | | |
|---------------------------------|---------------|----------|-------------|---------|-----|---------|--|--|--|
| Work Sheet | | | | | | | | | |
| For Month Ended August 31, 20-- | | | | | | | | | |
| ACCOUNT TITLE | TRIAL BALANCE | | ADJUSTMENTS | | | | | | |
| | DEBIT | CREDIT | DEBIT | CREDIT | | | | | |
| 5 Supplies | 4751.00 | | | | (a) | 2564.00 | | | |
| 6 Prepaid Insurance | 1200.00 | | | | (b) | 1000.00 | | | |
| 14 Insurance Expense | | | (b) | 1000.00 | | | | | |
| 15 Miscellaneous Expense | 10.00 | | | | | | | | |
| 16 Rent Expense | 250.00 | | | | | | | | |
| 17 Supplies Expense | | | (a) | 2564.00 | | | | | |
| 18 Utilities Expense | 115.00 | | | | | | | | |
| 19 | 15791.00 | 15791.00 | 2664.00 | 2664.00 | | | | | |

1 Single Rule

2 Totals

3 Double Rule

After all adjustments are recorded in a work sheet's Adjustments columns, the equality of

debits and credits for the two columns is proved by totaling and ruling the two columns.

STEPS Proving the Adjustments columns of a work sheet

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. If the two column totals are the same, then debits equal credits for these two columns, and the work sheet's Adjustments columns are in balance. Write each column's total below the single line. If the two Adjustments column totals are not the same, the Adjustments columns are rechecked and errors corrected before completing the work sheet.
3. Rule double lines across both Adjustments columns. The double lines mean that the totals have been verified as correct.

INTERNATIONAL WEIGHTS AND MEASURES

The primary system of measurement in the United States is the *customary system*. Among the units of measurement in the customary system are inches, feet, and quarts. The United States is one of the few major industrial countries that does not use the *metric system* exclusively. Among the units of measurement in the metric system are centimeters, meters, and liters. The metric system is based on a decimal system—like our currency. Some U.S. industries have converted to the metric

system. Others specify measurements in both customary and metric systems.

To conduct international business, the U.S. has recognized the need to convert customary units to the metric system. For example, beverages are routinely packaged in liter containers. Automobile mechanics frequently need two sets of socket wrenches—one in the customary system and an additional set in the metric system. Although the U.S. is a global business leader, it has had to adjust to meet the needs of the rest of the world.



GLOBAL
PERSPECTIVE

TERMS REVIEW

adjustments

AUDIT YOUR UNDERSTANDING

1. Explain how the concept of Matching Expenses with Revenues relates to adjustments.
2. List the four questions asked in analyzing an adjustment on a work sheet.

WORK TOGETHER

Planning adjustments on a work sheet

Use the work sheet from Work Together on page 152. Your instructor will guide you through the following examples.

3. Analyze the following adjustment information into debit and credit parts. Record the adjustments on the work sheet.

Adjustment Information, February 28

| | |
|----------------------------|----------|
| Supplies on hand | \$325.00 |
| Value of prepaid insurance | 500.00 |

4. Total and rule the Adjustments columns. Save your work sheet to complete Work Together on page 163.

ON YOUR OWN

Planning adjustments on a work sheet

Use the work sheet from On Your Own on page 153. Work these problems independently.

5. Analyze the following adjustment information into debit and credit parts. Record the adjustments on the work sheet.

Adjustment Information, December 31

| | |
|----------------------------|----------|
| Supplies on hand | \$130.00 |
| Value of prepaid insurance | 250.00 |

6. Total and rule the Adjustments columns. Save your work sheet to complete On Your Own on page 163.

7-3 Extending Financial Statement Information on a Work Sheet

EXTENDING BALANCE SHEET ACCOUNT BALANCES ON A WORK SHEET

| Encore Music | | | | | | | | | |
|----------------------------------|---------------|-----------|-------------|--------------|------------------|--------|---------------|-----------|----|
| Work Sheet | | | | | | | | | |
| For Month Ended August 31, 20-- | | | | | | | | | |
| ACCOUNT TITLE | TRIAL BALANCE | | ADJUSTMENTS | | INCOME STATEMENT | | BALANCE SHEET | | |
| | DEBIT | CREDIT | DEBIT | CREDIT | DEBIT | CREDIT | DEBIT | CREDIT | |
| 1 Cash | 8 272 00 | | | | | | 8 272 00 | | 1 |
| 2 Petty Cash | 200 00 | | | | | | 200 00 | | 2 |
| 3 Accts. Rec.—Kids Time | 100 00 | | | | | | 100 00 | | 3 |
| 4 Accts. Rec.—Learn N Play | 200 00 | | | | | | 200 00 | | 4 |
| 5 Supplies | 4 751 00 | | | (a) 2 564 00 | | | 2 187 00 | | 5 |
| 6 Prepaid Insurance | 1 200 00 | | | (b) 100 00 | | | 1 100 00 | | 6 |
| 7 Accts. Pay.—Ling Music Sup. | | 1 360 00 | | | | | | 1 360 00 | 7 |
| 8 Accts. Pay.—Sullivan Off. Sup. | | 200 00 | | | | | | 200 00 | 8 |
| 9 Barbara Treviño, Capital | | 10 000 00 | | | | | | 10 000 00 | 9 |
| 10 Barbara Treviño, Drawing | 600 00 | | | | | | 600 00 | | 10 |

Debit Balances
without Adjustments

Debit Balances
with Adjustments

Credit Balances
without Adjustments

At the end of each fiscal period, Encore Music prepares two financial statements from information on a work sheet. (**CONCEPT: Accounting Period Cycle**) The up-to-date account balances on a work sheet are extended to columns for the two financial statements.

A financial statement that reports assets, lia-

bilities, and owner's equity on a specific date is known as a balance sheet. The balance sheet accounts are the asset, liability, and owner's equity accounts. Up-to-date balance sheet account balances are extended to the Balance Sheet Debit and Credit columns of the work sheet.

S Extending balance sheet account balances on a work sheet

1. Extend the balance of Cash, \$8,272.00, to the Balance Sheet Debit column. The balance of Cash in the Trial Balance Debit column is up to date because no adjustment affects this account. Extend to the Balance Sheet Debit column the balances of all accounts with debit balances, which are not affected by adjustments.
2. Calculate the up-to-date adjusted balance of Supplies. The balance of Supplies in the Trial Balance Debit column is not up to date because it is affected by an adjustment. The debit balance, \$4,751.00, *minus* the credit adjustment, \$2,564.00, *equals* the up-to-date adjusted balance, \$2,187.00. Extend the up-to-date balance, \$2,187.00, to the Balance Sheet Debit column. Using the same procedure, calculate and extend the up-to-date adjusted balance of the other asset account affected by an adjustment, Prepaid Insurance.
3. Extend the up-to-date balance of Accounts Payable—Ling Music Supplies, \$1,360.00, to the Balance Sheet Credit column. The balance of Accounts Payable—Ling Music Supplies in the Trial Balance Credit column is up to date because no adjustment affects this account. Extend to the Balance Sheet Credit column the balances of all accounts with credit balances, which are not affected by adjustments.

EXTENDING INCOME STATEMENT ACCOUNT BALANCES ON A WORK SHEET

Expense Balances without Adjustments **2** **1** Sales Balance

Encore Music
Work Sheet
For Month Ended August 31, 20--

| ACCOUNT TITLE | TRIAL BALANCE | | ADJUSTMENTS | | INCOME STATEMENT | | BALANCE SHEET | |
|-----------------------|---------------|----------|-------------|---------|------------------|---------|---------------|--------|
| | DEBIT | CREDIT | DEBIT | CREDIT | DEBIT | CREDIT | DEBIT | CREDIT |
| Income Summary | | | | | | | | |
| Sales | | 4411.00 | | | | 4411.00 | | |
| Advertising Expense | 273.00 | | | | 273.00 | | | |
| Insurance Expense | | | (b) 100.00 | | 100.00 | | | |
| Miscellaneous Expense | 10.00 | | | | 10.00 | | | |
| Rent Expense | 250.00 | | | | 250.00 | | | |
| Supplies Expense | | | (a) 2564.00 | | 2564.00 | | | |
| Utilities Expense | 115.00 | | | | 115.00 | | | |
| | 15791.00 | 15791.00 | 2664.00 | 2664.00 | | | | |

Expense Balances with Adjustments **3**

A financial statement showing the revenue and expenses for a fiscal period is called an **income statement**. Encore Music's income statement accounts are the revenue and expense accounts. Up-to-date income statement account balances are extended to the Income Statement Debit and Credit columns of the work sheet.

FYI

Use a ruler when extending amounts on a work sheet to keep track of the line you are on.

S Extending income statement account balances on a work sheet

**T
E
P
S**

1. Extend the balance of Sales, \$4,411.00, to the Income Statement Credit column. The balance of Sales in the Trial Balance Credit column is up to date because no adjustment affects this account.
2. Extend the balance of Advertising Expense, \$273.00, to the Income Statement Debit column. The balance of Advertising Expense is up to date because no adjustment affects this account. Extend the balances of all expense accounts not affected by adjustments to the Income Statement Debit column.
3. Calculate the up-to-date adjusted balance of Insurance Expense. The balance of Insurance Expense in the Trial Balance Debit column is zero. This zero balance is not up to date because this account is affected by an adjustment. The debit balance, \$0.00, plus the debit adjustment, \$100.00, equals the adjusted balance, \$100.00. Extend the up-to-date adjusted debit balance, \$100.00, to the Income Statement Debit column. Using the same procedure, calculate and extend the up-to-date adjusted balance of each expense account affected by an adjustment.

FYI

A work sheet is prepared in manual accounting to adjust the accounts and sort amounts needed to prepare financial statements. However, in automated accounting, adjustments are prepared from the trial balance and the software automatically generates the financial statements with no need for a work sheet.

RECORDING NET INCOME, AND TOTALING AND RULING A WORK SHEET

| Encore Music | | | | | | | | | |
|----------------------------------|---------------|----------|-------------|---------|------------------|---------|---------------|----------|----|
| Work Sheet | | | | | | | | | |
| For Month Ended August 31, 20-- | | | | | | | | | |
| ACCOUNT TITLE | TRIAL BALANCE | | ADJUSTMENTS | | INCOME STATEMENT | | BALANCE SHEET | | |
| | DEBIT | CREDIT | DEBIT | CREDIT | DEBIT | CREDIT | DEBIT | CREDIT | |
| 1 Cash | 8272.00 | | | | | | 8272.00 | | 1 |
| 2 Petty Cash | 200.00 | | | | | | 200.00 | | 2 |
| 3 Accts. Rec.—Kids Time | 100.00 | | | | | | 100.00 | | 3 |
| 4 Accts. Rec.—Learn N Play | 20.00 | | | | | | 20.00 | | 4 |
| 5 Supplies | 475.10 | | (a) 256.40 | | | | 218.70 | | 5 |
| 6 Prepaid Insurance | 120.00 | | (b) 100.00 | | | | 110.00 | | 6 |
| 7 Accts. Pay.—Ling Music Sup. | | 1360.00 | | | | | | 1360.00 | 7 |
| 8 Accts. Pay.—Sullivan Off. Sup. | | 20.00 | | | | | | 20.00 | 8 |
| 9 Barbara Treviño, Capital | | 10000.00 | | | | | | 10000.00 | 9 |
| 10 Barbara Treviño, Drawing | 600.00 | | | | | | 600.00 | | 10 |
| 11 Income Summary | | | | | | | | | 11 |
| 12 Sales | | 4411.00 | | | | 4411.00 | | | 12 |
| 13 Advertising Expense | 273.00 | | | | 273.00 | | | | 13 |
| 14 Insurance Expense | | | (b) 100.00 | | 100.00 | | | | 14 |
| 15 Miscellaneous Expense | 10.00 | | | | 10.00 | | | | 15 |
| 16 Rent Expense | 250.00 | | | | 250.00 | | | | 16 |
| 17 Supplies Expense | | | (a) 256.40 | | 256.40 | | | | 17 |
| 18 Utilities Expense | 115.00 | | | | 115.00 | | | | 18 |
| 19 | 15791.00 | 15791.00 | 2664.00 | 2664.00 | 3312.00 | 4411.00 | 12479.00 | 11380.00 | 19 |
| 20 Net Income | | | | | 1099.00 | | | 1099.00 | 20 |
| 21 | | | | | 4411.00 | 4411.00 | 12479.00 | 12479.00 | 21 |

The difference between total revenue and total expenses when total revenue is greater is called **net income**. Before the work sheet is complete, net income must be calculated and the

work sheet must be totaled and ruled. A summary of preparing a work sheet is shown on the Work Sheet Overlay.

STEPS Calculating and recording net income on a work sheet; totaling and ruling a work sheet

1. Rule a single line across the four Income Statement and Balance Sheet columns.
2. Add both the Income Statement and Balance Sheet columns. Write the totals below the single line.
3. Calculate the net income. The Income Statement Credit column total, \$4,411.00, *minus* the Income Statement Debit column total, \$3,312.00, *equals* net income, \$1,099.00. Write the amount of net income, \$1,099.00, below the Income Statement Debit column total. Write the words *Net Income* on the same line in the Account Title column.
4. Extend the amount of net income, \$1,099.00, to the Balance Sheet Credit column on the same line as the words *Net Income*. The owner's equity account, Barbara Treviño, Capital, is increased by a credit. Therefore, the net income amount is extended to the Balance Sheet Credit column.
5. Rule a single line across the four Income Statement and Balance Sheet columns just below the net income amounts.
6. Add the subtotal and net income amount for each column to get proving totals for the Income Statement and Balance Sheet columns. Write the proving totals below the single line. Check the equality of the proving totals for each pair of columns.
7. Rule double lines across the Income Statement and Balance Sheet columns. The double lines mean that the totals have been verified as correct.

CALCULATING AND RECORDING A NET LOSS ON A WORK SHEET

| ACCOUNT TITLE | | 5 INCOME STATEMENT | | 6 BALANCE SHEET | |
|---------------|----------|--------------------|---------|-----------------|---------|
| | | DEBIT | CREDIT | DEBIT | CREDIT |
| 19 | | 2200.00 | 1800.00 | 5100.00 | 5500.00 |
| 20 | Net Loss | 400.00 | | 400.00 | |
| 21 | | 2200.00 | 2200.00 | 5500.00 | 5500.00 |
| 22 | | | | | |
| 23 | | | | | |

1 Single Rule
2 Totals
3
4 Extend Net Loss

Encore Music's completed work sheet shows a net income. However, a business might have a net loss to report. The difference between total

revenue and total expenses when total expenses is greater is called a **net loss**.

S Calculating and recording a net loss on a work sheet

STEPS

1. Rule a single line across the four Income Statement and Balance Sheet columns.
2. Add both the Income Statement and Balance Sheet columns. Write the totals below the single line.
3. Calculate the net loss. The Income Statement Debit column total, \$2,200.00, *minus* the Income Statement Credit column total, \$1,800.00, *equals* net loss, \$400.00. The Income Statement Debit column total (expenses) is greater than the Income Statement Credit column total (revenue). Therefore, because expenses exceed revenue, there is a net loss. Write the amount of net loss, \$400.00, below the Income Statement Credit column total. Write the words *Net Loss* on the same line in the Account Title column.
4. Extend the amount of net loss, \$400.00, to the Balance Sheet Debit column on the same line as the words *Net Loss*. The owner's equity account, Barbara Treviño, Capital, is decreased by a debit. Therefore, a net loss is extended to the Balance Sheet Debit column.

ACCOUNTING AT WORK



DARYL STANTON

Daryl Stanton works for John Hancock Mutual Life Insurance Company as a Senior Financial Accountant and highly recommends accounting as a field full of opportunities for those who are dedicated to their work.

Daryl studied accounting in high school and later graduated from Suffolk University with a BSBA, majoring in accounting. At Suffolk, Daryl participated in an internship program, during which he interned at John Hancock. Each year he had a different set of responsibilities. This internship confirmed for Daryl that

accounting was the career he wanted.

Daryl highly recommends seeking out an internship program in accounting. He says that it is the best way to discover what working in the accounting field is really like and whether you want to pursue it as a career. An internship program can also help you get your foot in the door of a particular company. In addition to acquiring accounting knowledge and skills, Daryl believes in the importance of developing strong communication skills so you can present yourself and your ideas well.

TERMS REVIEW

income statement

net income

net loss

AUDIT YOUR UNDERSTANDING

1. Which accounts are extended into the Balance Sheet columns of the work sheet?
2. Which accounts are extended into the Income Statement columns of the work sheet?
3. In which Balance Sheet column do you record net income on the work sheet?
4. In which Balance Sheet column do you record net loss on the work sheet?

WORK TOGETHER

Completing a work sheet

Use the work sheet from Work Together on page 158. Your instructor will guide you through the following examples.

5. Extend the up-to-date balances to the Balance Sheet and Income Statement columns.
6. Rule a single line across the Income Statement and Balance Sheet columns. Total each column. Calculate and record the net income or net loss. Label the amount in the Account Title column.
7. Total and rule the Income Statement and Balance Sheet columns.

ON YOUR OWN

Completing a work sheet

Use the work sheet from On Your Own on page 158. Work these problems independently.

8. Extend the up-to-date balances to the Balance Sheet or Income Statement columns.
9. Rule a single line across the Income Statement and Balance Sheet columns. Total each column. Calculate and record the net income or net loss. Label the amount in the Account Title column.
10. Total and rule the Income Statement and Balance Sheet columns.

7-4 Finding and Correcting Errors on the Work Sheet

CORRECTING ACCOUNTING ERRORS ON THE WORK SHEET

Some errors in accounting records are not discovered until a work sheet is prepared. For example, a debit to Supplies may not have been posted from a general journal to the general ledger supplies account. The omission may not be discovered until the work sheet's trial balance does not balance. Also, information may be transferred incorrectly from general ledger accounts to the work sheet's trial balance. Additional errors may be made, such as recording adjustment information incorrectly or

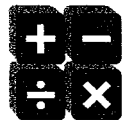
adding columns incorrectly. In addition, errors may be made in extending amounts to the Income Statement and Balance Sheet columns.

Any errors found on a work sheet must be corrected before any further work is completed. If an incorrect amount is found on a work sheet, erase the error and replace it with the correct amount. If an amount is written in an incorrect column, erase the amount and record it in the correct column.

CHECKING FOR TYPICAL CALCULATION ERRORS

When two column totals are not in balance, subtract the smaller total from the larger total to find the difference. Check the difference between the two amounts against the following guides.

1. **The difference is 1, such as \$.01, \$.10, \$1.00, or \$10.00.** For example, if the totals of the two columns are Debit, \$14,657.00, and Credit, \$14,658.00, the difference between the two columns is \$1.00. The error is most likely in addition. Add the columns again.
2. **The difference can be divided evenly by 2.** For example, the difference between two column totals is \$48.00, which can be divided by 2 with no remainder. Look for a \$24.00 amount in the Trial Balance columns of the work sheet. If the amount is found, check to make sure it has been recorded in the correct Debit or Credit column. A \$24.00 debit amount recorded in a credit column results in a difference between column totals of \$48.00. If the error is not found on the work sheet, check the general ledger accounts and journal entries. An entry for \$24.00 may have been recorded in an incorrect column in the journal or in an account.
3. **The difference can be divided evenly by 9.** For example, the difference between two columns is \$45.00, which can be divided by 9 with no remainder. When the difference can be divided equally by 9, look for transposed numbers such as 54 written as 45 or 19 written as 91. Also, check for a "slide." A "slide" occurs when numbers are moved to the right or left in an amount column. For example, \$12.00 is recorded as \$120.00 or \$350.00 is recorded as \$35.00.
4. **The difference is an omitted amount.** Look for an amount equal to the difference. If the difference is \$50.00, look for an account balance of \$50.00 that has not been extended. Look for any \$50.00 amount on the work sheet and determine if it has been handled correctly. Look in the accounts and journals for a \$50.00 amount, and check if that amount has been handled correctly. Failure to record a \$50.00 account balance will make a work sheet's column totals differ by \$50.00.



CHECKING FOR ERRORS IN THE WORK SHEET

Check for Errors in the Trial Balance Column

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?

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?

Check for Errors in the Income Statement and Balance Sheet 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?

For all three of these cases, correct any errors found and add the columns again.

CORRECTING AN ERROR IN POSTING TO THE WRONG ACCOUNT

ACCOUNT *Supplies*

ACCOUNT NO. 130

| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------------------|----|------|---------------|--------|--------|---------|--------|
| | | | | | | DEBIT | CREDIT |
| ²⁰⁻ Feb. | 1 | | G1 | 400 00 | | 400 00 | |
| | 25 | | G2 | 90 00 | | 490 00 | |
| | 12 | | G1 | 50 00 | | 540 00 | |

Correct Entry

2

→

ACCOUNT *Prepaid Insurance*

ACCOUNT NO. 140

| DATE | | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------------------|----|------|---------------|--------|--------|---------|--------|
| | | | | | | DEBIT | CREDIT |
| ²⁰⁻ Feb. | 9 | | G1 | 600 00 | | 600 00 | |
| | 12 | | G1 | 50 00 | | 650 00 | |

Incorrect Entry

1

→

Correct Entry

2

Incorrect Entry

1

If a pair of work sheet columns do not balance and an error cannot be found on the work sheet, look for an error in posting from the general journal to the general ledger accounts.

As each item in an account or a general journal entry is verified, a check mark should be placed next to it. The check mark indicates that the item has been checked for accuracy.

1. Have all amounts that need to be posted actually been posted from the general journal? To correct, complete the posting to the correct account. When posting is corrected, recalculate the account balance and correct it on the work sheet.

2. Have all amounts been posted to the correct accounts? To correct, follow these steps.

S
T
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P
S

Correcting an error in posting to the wrong account

1. Draw a line through the entire incorrect entry. Recalculate the account balance and correct the work sheet.
2. Record the posting in the correct account. Recalculate the account balance, and correct the work sheet.

CORRECTING AN INCORRECT AMOUNT AND AN AMOUNT POSTED TO THE WRONG COLUMN

Incorrect Amount Correct Amount Correct Balance

1 2 3

ACCOUNT *Utilities Expense* ACCOUNT NO. 550

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------|------|------------|--------|--------|---------|--------|
| | | | | | DEBIT | CREDIT |
| Sept. 8 | | G1 | 700.00 | | 700.00 | |
| 17 | | G1 | 27.00 | 27.00 | 673.00 | |
| | | | | | | |

Correct Entry Incorrect Entry Correct Balance

5 4 6

Errors may be made in writing amounts in general ledger accounts. Errors in permanent records should *never* be erased. Erasures in

permanent records raise questions about whether important financial information has been altered.

S

Correcting an incorrect amount

**T
E
P
S**

1. Draw a line through the incorrect amount.
2. Write the correct amount just above the correction in the same space.
3. Recalculate the account balance, and correct the account balance on the work sheet.

Correcting an amount posted to the wrong column

4. Draw a line through the incorrect item in the account.
5. Record the posting in the correct amount column.
6. Recalculate the account balance, and correct the work sheet.

CHECKING FOR ERRORS IN GENERAL JOURNAL ENTRIES

1. Do debits equal credits in each general journal entry?
 2. Is each general journal entry amount recorded in the correct journal column?
 3. Is information in the Account Title column correct for each general journal entry?
 4. Have all transactions been recorded?
- Some suggestions for correcting errors in general journal entries are described in Chapter 4.

PREVENTING ERRORS

The best way to prevent errors is to work carefully. Check the work at each step in an accounting procedure. Most errors occur in doing arithmetic, especially in adding columns.

When possible, use a calculator. When an error is discovered, do no more work until the cause of the error is found and corrections are made.

AUDIT YOUR UNDERSTANDING

1. What is the first step in checking for arithmetic errors when two column totals are not in balance?
2. What is one way to check for an error caused by transposed numbers?
3. What term is used to describe an error that occurs when numbers are moved to the right or left in an amount column?

WORK TOGETHER

Finding and correcting errors in accounting records

Paul Coty has completed the September monthly work sheet for his business, LeafyLift. The work sheet and general ledger accounts are given in the *Working Papers*. Mr. Coty believes that he has made one or more errors in preparing the work sheet. He asks you to help him verify the work sheet. Your instructor will guide you through the following examples.

4. Examine the work sheet and the general ledger accounts. Make a list of the errors you find.
5. Correct any errors you find in the general ledger accounts.
6. Prepare a corrected work sheet.

ON YOUR OWN

Finding and correcting errors in accounting records

Marlene Lewis has completed the November monthly work sheet for her business, Internet Access. The work sheet and general ledger accounts are given in the *Working Papers*. Ms. Lewis believes that she has made one or more errors in preparing the work sheet. She asks you to help her verify the work sheet. Work these problems independently.

7. Examine the work sheet and the general ledger accounts. Make a list of the errors you find.
8. Correct any errors you find in the general ledger accounts.
9. Prepare a corrected work sheet.

After completing this chapter, you can

1. Define important accounting terms related to a work sheet for a service business organized as a proprietorship.
2. Identify accounting concepts and practices related to a work sheet for a service business organized as a proprietorship.
3. Prepare a heading and a trial balance on a work sheet.
4. Plan adjustments for supplies and prepaid insurance.
5. Complete a work sheet for a service business organized as a proprietorship.
6. Identify selected procedures for finding and correcting errors in accounting records.

EXPLORE ACCOUNTING

FISCAL PERIODS

A fiscal period is the length of time for which a business summarizes and reports financial information. Since many companies are required to publish yearly annual reports, these companies choose a year for the fiscal period. In such a case, a company will prepare financial statements every year.

A fiscal year can be any consecutive 12-month period. The Internal Revenue Service (IRS) requires many companies to report taxable income for the fiscal year January 1 through December 31. A fiscal year beginning January 1 can also be called a *calendar year*. Because they use a calendar year for reporting taxable income, many companies choose to use the calendar year for issuing financial statements also.

However, there is no requirement to begin a fiscal year on January 1. Companies often choose a fiscal year that ends during a period of low business activity. Twelve consecutive months which end when business activities have reached the lowest point in their annual cycle are called a *natural business year*.

The following survey conducted on 600 businesses shows the number of companies that

chose a fiscal year ending at the end of a specific month.

| Fiscal Year End | No. of Companies |
|--------------------|---------------------|
| January | 23 |
| February | 11 |
| March | 15 |
| April | 8 |
| May | 16 |
| June | 58 |
| July | 14 |
| August | 15 |
| September | 35 |
| October | 23 |
| November | 17 |
| December | 365 |

Activity: Assume you work for a company that makes snowmobiles. You must determine what fiscal year should be used. Make a written recommendation to the owner. Explain why your recommendation is preferable.

Source: *Accounting Trends and Techniques*, 1996, published by the American Institute of Certified Public Accountants.

7-1**APPLICATION PROBLEM**
Recording the trial balance on a work sheet

Use the work sheet given in the *Working Papers*. On June 30 of the current year, Renville Rental has the following general ledger accounts and balances. The business uses a monthly fiscal period.

| Account Titles | Account Balances | |
|---------------------------------|------------------|-----------|
| | Debit | Credit |
| Cash | \$10,610.00 | |
| Petty Cash | 100.00 | |
| Accounts Receivable—Noah Felsen | 805.00 | |
| Supplies | 750.00 | |
| Prepaid Insurance | 800.00 | |
| Accounts Payable—Faith Meltman | | \$ 555.00 |
| Rebecca Chin, Capital | | 11,926.00 |
| Rebecca Chin, Drawing | 700.00 | |
| Income Summary | — | — |
| Sales | | 2,220.00 |
| Advertising Expense | 480.00 | |
| Insurance Expense | — | |
| Miscellaneous Expense | 144.00 | |
| Supplies Expense | — | |
| Utilities Expense | 312.00 | |

Instructions:

Prepare the heading and trial balance on a work sheet. Total and rule the Trial Balance columns. Save your work to complete Application Problem 7-2.

7-2**APPLICATION PROBLEM**
Planning adjustments on a work sheet

Use the work sheet from Application Problem 7-1.

Instructions:

1. Analyze the following adjustment information into debit and credit parts. Record the adjustments on the work sheet.

Adjustment Information, June 30

| | |
|----------------------------|----------|
| Supplies on hand | \$600.00 |
| Value of prepaid insurance | 700.00 |

2. Total and rule the Adjustments columns. Save your work to complete Application Problem 7-3.

7-3**APPLICATION PROBLEM**
Completing a work sheet

Use the work sheet from Application Problem 7-2.

Instructions:

1. Extend the up-to-date balances to the Balance Sheet or Income Statement columns.
2. Rule a single line across the Income Statement and Balance Sheet columns. Total each column. Calculate and record the net income or net loss. Label the amount in the Account Title column.
3. Total and rule the Income Statement and Balance Sheet columns.

7-4**APPLICATION PROBLEM****Finding and correcting errors in accounting records**

Ervin Watkins has completed the April monthly work sheet for his business, EverClean. The work sheet and general ledger accounts are given in the *Working Papers*. Mr. Watkins believes that he has made one or more errors in preparing the work sheet. He asks you to help him verify the work sheet.

Instructions:

1. Examine the work sheet and the general ledger accounts. Make a list of the errors you find.
2. Correct any errors you find in the general ledger accounts.
3. Prepare a corrected work sheet.

7-5**MASTERY PROBLEM****Completing a work sheet**

On April 30 of the current year, EasyGlo has the following general ledger accounts and balances. The business uses a monthly fiscal period. A work sheet is given in the *Working Papers*.

| Account Titles | Account Balances | |
|---------------------------------|------------------|-----------|
| | Debit | Credit |
| Cash | \$1,729.00 | |
| Petty Cash | 200.00 | |
| Accounts Receivable—Lois Mabry | 561.00 | |
| Supplies | 895.00 | |
| Prepaid Insurance | 1,000.00 | |
| Accounts Payable—Amery Supplies | | \$ 500.00 |
| Natasha Kabila, Capital | | 3,500.00 |
| Natasha Kabila, Drawing | 400.00 | |
| Income Summary | — | — |
| Sales | | 2,300.00 |
| Advertising Expense | 425.00 | |
| Insurance Expense | — | |
| Miscellaneous Expense | 240.00 | |
| Rent Expense | 400.00 | |
| Supplies Expense | — | |
| Utilities Expense | 450.00 | |

Instructions:

1. Prepare the heading and trial balance on a work sheet. Total and rule the Trial Balance columns.
2. Analyze the following adjustment information into debit and credit parts. Record the adjustments on the work sheet.

Adjustment Information, April 30

| | |
|----------------------------|----------|
| Supplies inventory | \$200.00 |
| Value of prepaid insurance | 750.00 |

3. Total and rule the Adjustments columns.
4. Extend the up-to-date balances to the Balance Sheet or Income Statement columns.
5. Rule a single line across the Income Statement and Balance Sheet columns. Total each column. Calculate and record the net income or net loss. Label the amount in the Account Title column.
6. Total and rule the Income Statement and Balance Sheet columns.

CHALLENGE PROBLEM

Completing a work sheet

Green Grass Company had a small fire in its office. The fire destroyed some of the accounting records. On November 30 of the current year, the end of a monthly fiscal period, the following information was constructed from the remaining records and other sources. A work sheet is given in the *Working Papers*.

Remains of the general ledger:

| Account Titles | Account Balances |
|--------------------------------|------------------|
| Accounts Receivable—J. Kjeseth | \$ 350.00 |
| Supplies | 1,700.00 |
| Donna Arnold, Drawing | 170.00 |
| Sales | 4,200.00 |
| Advertising Expense | 400.00 |
| Rent Expense | 700.00 |
| Utilities Expense | 490.00 |

Information from the business's checkbook:

| | |
|------------------------------------------|------------|
| Cash balance on last unused check stub | \$3,400.00 |
| Total payments for miscellaneous expense | 60.00 |
| Total payments for insurance | 325.00 |

Information obtained through inquiries to other businesses:

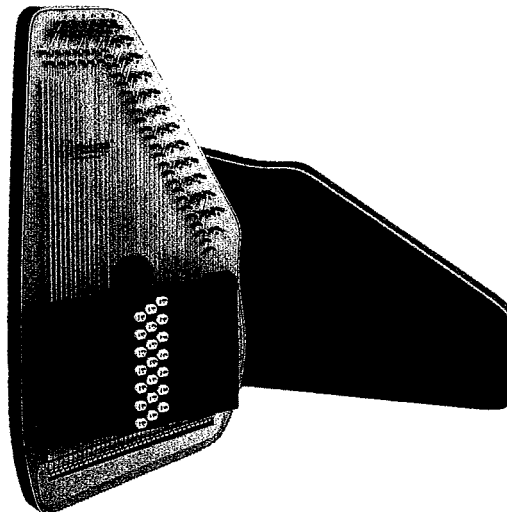
| | |
|-----------------------------------------|------------|
| Owed to Outdoor Supplies | \$1,800.00 |
| Value of prepaid insurance, November 30 | 225.00 |

Information obtained by counting supplies on hand after the fire:

| | |
|------------------|------------|
| Supplies on hand | \$1,100.00 |
|------------------|------------|

Instructions:

- From the information given, prepare a heading and reconstruct a trial balance on a work sheet. The owner's capital account balance is the difference between the total of all debit account balances minus the total of all credit account balances.
- Complete the work sheet.





INTERNET ACTIVITY

Point your browser to

<http://accounting.swpco.com>

Choose **First-Year Course**, choose **Activities**, and complete the activity for Chapter 7.

Applied Communication

Accounting information is used by managers to make business decisions. But exactly what kind of decisions does the owner of a local business make? How does accounting information enable the manager to make better decisions?

Instructions: Identify a local business of personal interest to you. Write five questions you would ask the manager to learn how that person uses accounting information to make decisions. Interview the manager and write a one- or two-page summary of the interview.

Cases for Critical Thinking

Case 1 Peter Dowther owns a small business. At the end of a fiscal period, he does not make an adjustment for supplies. Are Mr. Dowther's accounting procedures correct? What effect will Mr. Dowther's procedures have on the business's financial reporting? Explain your answer.

Case 2 When posting amounts from a journal to general ledger accounts, a \$10.00 debit to Supplies is mistakenly posted as a credit to Utilities Expense. Will this error be discovered when the work sheet is prepared? Explain.

Case 3 Accuracy is of critical importance in accounting. Most employees who are responsible for maintaining accounting records value accuracy and completeness. Accounting employees work very hard to avoid errors and to correct any errors that do get made. Other employees within a business and other people who have contact with a business also value accurate accounting records. Other than accounting employees, who are some of the other people who expect and require accurate accounting records? Why is accounting accuracy important to these people? How tolerant should people be of mistakes? Are a small number of mistakes acceptable? Are mistakes involving small amounts—for example, just a few cents—acceptable? Or should it be expected that accounting records are completely accurate?