Accounting Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Ch. 7 - Work Sheet for a Service Business

**7-1 Creating a Work Sheet**

A. Fiscal Periods

1. Def - The length of time for which a business summarizes

and reports financial information.

 2. Also known as an “Accounting Period.”

 3. **Accounting Period Cycle (**Accounting Concept**) -**

Applied when changes in financial information are

reported for a specific period of time in the form of financial statements.

 4. Most businesses choose a one-year fiscal period.

 a. Usually chosen because of tax reports.

b. Period usually ends during a period of low business

activity.

**5. Encore Music will use a one-month fiscal period**

**beginning the first day of a month.** (Aug. 1 - 31)

B. Worksheet = pg. 151

1. Def. - A columnar accounting form used to summarize the

general ledger information needed to prepare financial

statements.

 2. 4 Reasons Accountants use a Work Sheet

a. Summarize general ledger account balances to prove

that DR = CR.

b. To plan needed changes to general ledger accounts to

bring account balances up to date.

c. To separate ledger account balances according to the

financial statements to be prepared.

d. To calculate the amount of net income or net loss for

a fiscal period.

 3. Permanent vs. Temporary Records

a. Journals & ledgers are permanent records and usually

prepared in ink or printed by a computer.

b. A Work Sheet is a planning tool and is not

considered permanent. It is prepared in pencil.

C. Preparing the Heading of a Work Sheet

 1. Consists of 3 Lines

 a. Name of the Business: *Encore Music*

 b. Name of the Report: *Work Sheet*

 c. Date of the Report: *For Month Ended August 31, 2020*

D. Preparing a Trial Balance on a Work Sheet

1. Trial Balance - A proof of the equality of debits and

credits in the general ledger.

a. Information is taken from the general ledger.

b. Ledger account titles are listed in the same order as

listed on the Chart of Accounts.

c. All account titles are listed, even if they have no

balances.

 2. Steps to Preparing a Trial Balance on a Work Sheet

 a. Write the Acct. Titles on the Acct. Title Column

b. Write in the account balances in their respective

columns (DR or CR). *If there is a zero balance,*

*leave it blank.*

c. Rule a single line across the two Trial Balance

Columns below the last line on which an account title

is written. (shows each column is to be added).

d. Add both the DR & CR columns. If the two totals

are the same then DR = CR in the general ledger

accounts.

e. If the two totals are not the same recheck the columns

to find the error. *Other parts of a worksheet are NOT*

*completed until the Trial Balance columns are* ***proved****.*

 f. Write each column’s total below the single line.

g. Double rule the total columns. (shows totals have

been verified as correct)

**7-2 Planning Adjusting Entries on a Work Sheet**

A. Planning Adjustments on a Work Sheet

 1. Sometimes a business will pay cash for an expense in one

fiscal period, but the expense is not used until a later

period.

2. Expenses should be reported in the same fiscal period that

it is used to produce revenue.

3. Matching Expenses with Revenue (Concept)

a. Use this concept when revenue from business

activities and expenses associated with earning that

revenue are recorded in the same accounting period.

b. Example: Only the value of supplies used in a month

should be reported as expenses in August.

c. August revenue and supplies expense associated with

earning the August revenue are recorded in the same

accounting period.

4. Adjustments - Changes recorded on a work sheet to

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

a. Assets of a business (supplies & prepaid insurance)

are used to earn revenue.

b. Portions of the assets consumed in order to earn

revenue become expenses of the business.

c. The portions consumed are no longer assets but are

now expenses.

d. Adjustments must be made to both asset and expense

accounts.

e. After adjustments are made, the expenses incurred to

earn revenue are reported in the same fiscal period as

the revenue is earned and reported.

5. Bringing accounts up to date at the end of a fiscal period.

a. Supplies on hand are items of value owned by a

business until the supplies are used.

b. The value of supplies that are used becomes an

expense to a business.

1) Recording an expense each time an individual

**supply** (pencil) is used would be impractical.

2) On August 31 the balance of the asset account is

the value of all supplies bought, *rather than the*

*value of only the supplies that have not yet been*

*used.*

3) **The amount of supplies that have been used**

**must be deducted from the asset account**

(supplies) **and** **recorded in the expense account**

(supplies expense).

c. The amount of **insurance** that has been used during

the fiscal period is also an expense of the business.

1) When the yearly insurance premium is paid, the

entire amount is debited to an asset account -

Prepaid Insurance.

2) Recording each day’s amt. of ins. used during

August is impractical.

3) **At the end of a fiscal period, the amt. of the**

**Insurance coverage must be deducted from**

**the asset account (Prepaid Insurance) and**

**recorded in the expense account (Insurance**

**Expense).**

B. Supplies Adjustment on a Work Sheet

1. Balances Before Adjustments on August 31

 Supplies Supplies Expense

 4,751 0

2. August 31 supplies on hand were counted and found that

the value of supplies still unused on the date was $2,187.

**Calculation of Current Value of Supplies**

Supplies Account Supplies on Supplies Used

 Balance - Hand, = During

 August 31 August 31 August

 $4,751 - $2,187 = $2,564

3. The 4 questions to be asked when analyzing the

adjustment for an asset account.

a. What is the balance of the account?

 ***Supplies = $4,751***

b. What should the balance be for this account?

 ***$2,187***

c. What must be done to correct the account balance?

***Decrease $2,564***

d. What adjustment is made?

 ***DR Supplies Expense, $2,564***

 ***CR Supplies, $2,564***

 4. The Adjusting Entry

a. The Expense Account is increased with a DR by the

value of the supplies used.

b. The balance of Supplies Expense is the value of

supplies used during the fiscal period from August 1

to August 31 (Matching Expenses with Revenue Concept).

c. The Asset Account (supplies) is decreased with a CR,

 the value of supplies used.

d. The DR balance minus the credit adjustment equals

the new balance. The new balance of Supplies is the

same as the value of Supplies on hand on August 31.

 5. Recording the supplies adjustment on a Work Sheet

a. Write the DR amount in the work sheet’s adjustments

Debit column on the line with the account title

Supplies Expense.

b. Write the credit amount in the Adjustments Credit

column on the line with the account title Supplies.

c. 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.

 6. Balance After Adjustment

Supplies Expense Supplies

Adj. (a) 2,564 Aug. 31 Bal. 4,751 Adj. (a) 2,564

(New Bal. 2,187)

C. Prepaid Insurance Adjustment on a Work Sheet

1. Balances Before Adjustments on August 31

Insurance Expense Pre-Paid Insurance

 1,200.00

2. August 31, Mrs. Treveno checked the insurance records

and found that the value of insurance coverage remaining

was $1,100.00. She also found that the value of supplies

still unused on the date was $2,187.

**Calculation of Current Value of Prepaid Insurance**

Pre-Paid Insurance Ins. Coverage Ins. Coverage

 Balance - Remaining Unused = Used During

 August 31 August 31 August

 $1,200 - $1,100 = $100

3. The 4 questions to be asked when analyzing the

adjustment for an asset account.

a. What is the balance of the account?

 ***Pre-Paid Insurance =$1,200***

b. What *should* the balance be for this account?

 ***$1,100***

c. What must be done to correct the account balance?

***Decrease $100***

d. What adjustment is made?

 ***DR Insurance Expense, $100***

 ***CR Pre-paid Insurance, $100***

 4. The Adjusting Entry

a. The Insurance Expense Account is increased with a

DR by the value of the insurance coverage used.

b. The balance of Insurance Expense is the value of

insurance coverage used during the fiscal period from

August 1 to August 31 (Matching Expenses with Revenue Concept).

c. The Asset Account Pre-Paid Insurance is decreased

with a CR, the value of insurance coverage used

($100).

d. The DR balance ($1,200) minus the credit adjustment

equals the new balance ($1,100). The new balance of

Pre-Paid Insurance is the same as the amount of Insurance coverage unused on August 31.

 5. Recording the Pre-Paid Insurance adjustment on a

Work Sheet

a. Write the DR amount in the work sheet’s adjustments

Debit column on the line with the account title

Insurance Expense.

b. Write the credit amount in the Adjustments Credit

column on the line with the account title Pre-Paid

Insurance.

c. 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.

6. Balance After Adjustment

 Insurance Expense Pre-paid Insurance

Adj. (b) 100 Aug. 31 Bal. 1,200 Adj. (b) 100

(New Bal. 1,100)

D. 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 Debits and Credit Columns.

a. If the two column totals are the same, then DR = CR

for these two columns. The worksheet’s Adjustment

columns are in balance. Write each column’s total

below the single line.

b. If the two Adjustments column totals are not the

same, the Adjustment columns are rechecked and

errors corrected before completing the work sheet.

3. Rule double lines across both Adjustment Columns. The

double lines mean that the totals have been verified as

correct.

**7-3 Extending Financial Statement Information on a Worksheet**

A. Extending Balance Sheet Account Balances on a Work Sheet

1. At the end of each fiscal period Encore Music prepares 2

financial statements from the information on a worksheet.

2. Up-to-date balances on a work sheet are extended to

columns for the two financial statements.

3. **Balance Sheet** - Financial statement that reports assets,

liabilities, and owner’s equity on a specific date.

 4. Balance Sheet Accounts

 a. Assets

 b. Liabilities

 c. Owner’s Equity

5. Up-to-date balance sheet account balances are extended to

the Balance Sheet DR & CR columns of the Work Sheet.

 6. See pg. 159

B. Extending Income Statement Account Balances on a

Worksheet

1. **Income Statement** - Financial statement showing the

revenue and expenses for a fiscal period.

 2. Income Statement Accounts

 a. Revenue Accounts - Sales

 b. Expense Accounts

3. Up-to-date income statement account balances are

extended to the Income Statement DR & CR columns of

the work sheet. Pg. 160

C. Recording Net Income, and Totaling and Ruling a Work Sheet

1. Net Income - The difference between total revenue and

total expenses when the total revenue is greater. (pg. 161)

2. Before the worksheet is complete, net income must be

calculated and the worksheet must be totaled and ruled.

3. Calculating and recording net income on a work sheet;

totaling and ruling a work sheet.

a. Rule a single line across the four Income Statement and Balance Sheet Columns.

 b. Add both the Income and Balance Sheet columns.

c. Write the totals below the single line.

 d. Calculate the net income.

1) The Income Statement CR column total, minus

the Income Statement DR column total equals

net income.

2) Write the amount of net income below the

Income Statement DR column total.

3) Write the words Net Income on the same line in

the Account Title column.

e. Extend the amount of net income to the Balance

Sheet CR column on the same line as the words Net

Income.

1) The owner’s equity account is increased by a CR 2) Therefore, the net income amount is extended to

the balance Sheet CR column.”

f. Rule a single line across the four Income Statement

and Balance Sheet columns just below the net income

amounts.

g. Add the subtotal and net income amount for each

column to get proving totals for the income

Statement and Balance Sheet columns.

1) Write the proving totals below the single line.

2) Check the equality of the proving totals for each

pair of columns.

h. Rule double lines across the Income Statement

Balance Sheet Columns. The double lines mean that

the totals have been verified as correct.

D. Calculating and Recording a Net Loss on a Work Sheet

1. Net Loss - The difference between total revenue and total

expenses when total expenses is greater.

 2. Calculating and Recording a Net Loss on a Work Sheet:

a. Rule a single line across the four Income Statement and Balance Sheet columns.

b. Add both the Income Statement and Balance Sheet columns.

c. Write the totals below the single line.

 d. Calculate the net loss.

 1) The Income Statement debit column, minus the

Income Statement Credit column total = net loss.

2) Because expenses exceed revenue, there is a net

loss.

e. Write the amount of the net loss below the Income

Statement Credit Column total.

f. Write the words Net loss on the same line in the

Account Title Column.

 g. Extend the amount of the net loss to the Balance

Sheet Debit column on the same line as the words

Net Loss.

h. The owner's equity account, BT Capital is decreased

by a debit.

i. Therefore a net loss is extended to the Balance Sheet

Debit Column.

**7-4 Finding and Correcting Errors on the Work Sheet**

A. Correcting Accounting Errors on the Work Sheet

1. Supplies may not have been posted from a general journal

to the general ledger supplies account.

a. Omission may not be discovered until the work sheet’s trial balance doesn’t balance.

b. Information may be transferred incorrectly from

general ledger accounts to the worksheet’s trial

balance.

c. Recording adjustment information incorrectly.

d. Adding columns incorrectly.

 2. Any errors found on a worksheet must be corrected before

any further work is completed.

 a. If any incorrect amount is found on a worksheet, erase the error and replace it with the correct amount.

b. If an amount is written in an incorrect column, erase

 the amount and record it in the correct Column.

B. Checking for Typical Calculation Errors

1. Find the Difference - If two column totals are not in

balance, subtract the smaller total from the larger to find

the difference.

2. If the Difference is 1, ($.01, $.10, $1.00 or $10.00) the

error is most likely in addition. Add the columns again.

 3. The Difference in the two column totals can be divided

evenly by 2 with no remainder.

a. Look for the amount. If the amount is found, check

to be sure it has been recorded in the correct DR or

CR column.

b. If the error is not found on the work sheet, check the

general ledger accounts and general journal entries.

4. The difference between the two column totals can be

divided evenly by 9 with no remainder.

 a. Look for transposed numbers. 78=87 to = ot

b. Check for a “slide” - when numbers are moved the

the right or left in the amount column. (+/- in a 0)

5. The difference between the two column totals is an omitted amount.

a. Look in the ledger and journal for an amount equal to

the difference.

b. An acct. balance may not have been extended.

C. Checking for Errors in the Work Sheet

(Correct all errors found on the Work Sheet)

 1. Checking for Errors in the Trial Balance Column

 a. Have all account balances been copied in the Trial

Balance Column correctly?

1. Have all general ledger account balances been

recorded in the correct Trial Balance Column?

 2. Check for Errors in the Adjustments Columns

a. Do DR = CR check (a), (b) etc.?

b. Is the amount for each adjustment correct?

 3. Check for Errors in the Income Statement and Balance

Sheet Columns

a. Have ALL balances been extended?

b. Did you copy each extended amount correctly?

c. Are Net Income/Loss calculated correctly?

d. Are Net Income/Loss in the correct column?

D. Correcting an Error in Posting to the Wrong Account

 1. If a pair of work sheet columns don't balance and you

cannot find an error, look for an error in posting from the

general journal to the general ledger.

 2. Have all amounts that need to be posted actually been

posted to the general journal?

a. If not, complete the posting.

 b. Recalculate the account balance and correct it on the

work sheet.

 3. Have all amts. been posted to the correct accounts?

 a. ~~Draw a line through the entire incorrect entry.~~

 b. Recalculate the balance and correct the work sheet.

 c. Record the posting in the correct account.

 d. Recalculate the account balance.

 e. Correct the work sheet.

E. Correcting an Incorrect Amount and an Amount Posted to the

Wrong Column

1. Errors may be made in writing amounts in general ledger.

2. Errors in permanent records should never be erased!

3. Correcting an Incorrect Amount

 a. ~~Draw a line through~~ the incorrect amount.

 b. Write the correct amount just above the correction in

the same space.

 c. Recalculate the account balance, and correct the

account balance on the worksheet.

 4. Correcting an amount posted to the wrong column.

 a. ~~Draw a line through the incorrect item in the account.~~

 b. Record the postings in the correct amount column

 c. Recalculate the account balance, and correct the

worksheet.

F. Checking for Errors in General Journal Entries

 1. Do DR = CR in every entry?

 2. Is the journal entry amt. 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?

G. Preventing Errors

 1. Work Carefully!

 2. Check work after each step.

 3. Most errors occur in doing arithmetic = use a calculator.

 4. When you find an error do no more work until the cause

of the error is found and corrections are made.