

#### **Chapter 6: Worksheets for a Service Business**

# Goals of Chapter 6:



- Define accounting terms related to a worksheet for a service business organized as a proprietorship
- Identify accounting concepts and practices related to a worksheet for a service business organized as a proprietorship
- Prepare a heading and a trial balance on a worksheet
- Plan adjustments for supplies and prepaid insurance
- Complete a worksheet for a service business
- Identify selected procedures for finding and correcting errors in accounting records

# **Creating a Worksheet**

- Accounting information (from general ledger) must be put into some form in order to be useful.
  - Organized
  - Analyzed
  - Summarized
  - Reported

Accounting Concept : 🔆



**Consistent Reporting**: applied when the same accounting procedures are followed in the same way in each accounting period.

# Creating a Worksheet

Fiscal Period: the length of time for which a business summarizes and reports financial information – also called accounting period.



- **Accounting Period Concept:** applied when changes in financial information are reported for a specific period of time in the form of financial statements.
  - •Semi-annually (every 6 mos.) •Monthly •Quarterly (every 3 mos.) •Annually (every 12 mos.)
- Financial information is always summarized and reported at the end of the fiscal period.

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<u>Worksheet</u>: A columnar accounting form used to summarize the general ledger information needed to prepare financial statements.

Accountants use worksheets for 4 reasons:

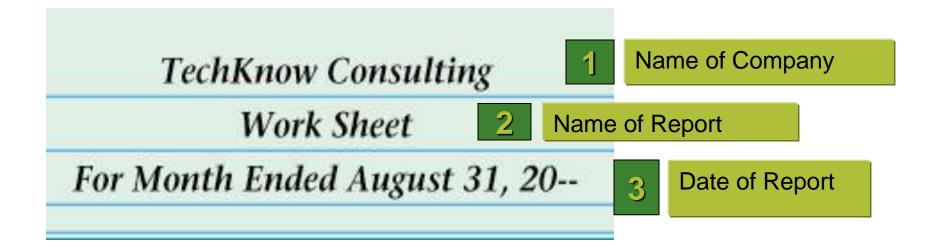
- 1. Prove the <u>debits</u> equal <u>credits</u> (trial balance columns)
- 2. Plan needed <u>adjustments</u> to general ledger accounts to bring them current (adjustments columns)
- Separate general ledger account balances according to the <u>financial statements</u> to be prepared (balance sheet & income statement columns)
- 4. Calculate <u>net income</u> or <u>net loss</u> for a fiscal period



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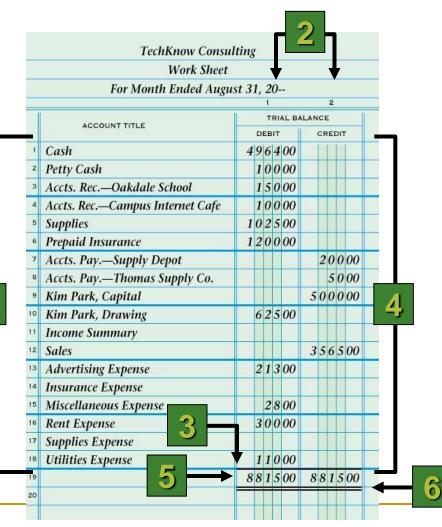
#### PREPARING THE HEADING OF A WORK SHEET

#### Heading contains 3 lines



#### PREPARING A TRIAL BALANCE ON A WORKSHEET

**<u>Trial Balance</u>**: proof of the equality of debits & credits from ledger.



- 1. Write the general ledger account titles.
- 2. Write the general ledger debit account balances. Write the general ledger credit account balances.
- 3. Rule a single line across the two Trial Balance columns.
- 4. Add both the Trial Balance Debit and Credit columns.
- 5. Write each column's total below the single line.
- 6. Rule double lines across
  - both Trial Balance columns.

## PLANNING ADJUSTMENTS ON A WORKSHEET

Adjustments: changes recorded on a worksheet to update general ledger accounts at the end of a fiscal period.

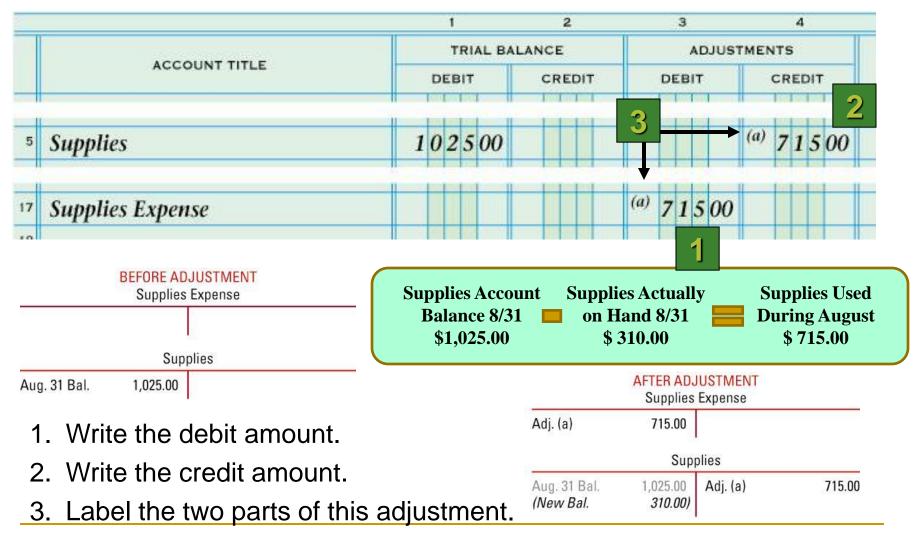
Accounting Concept: 🔆



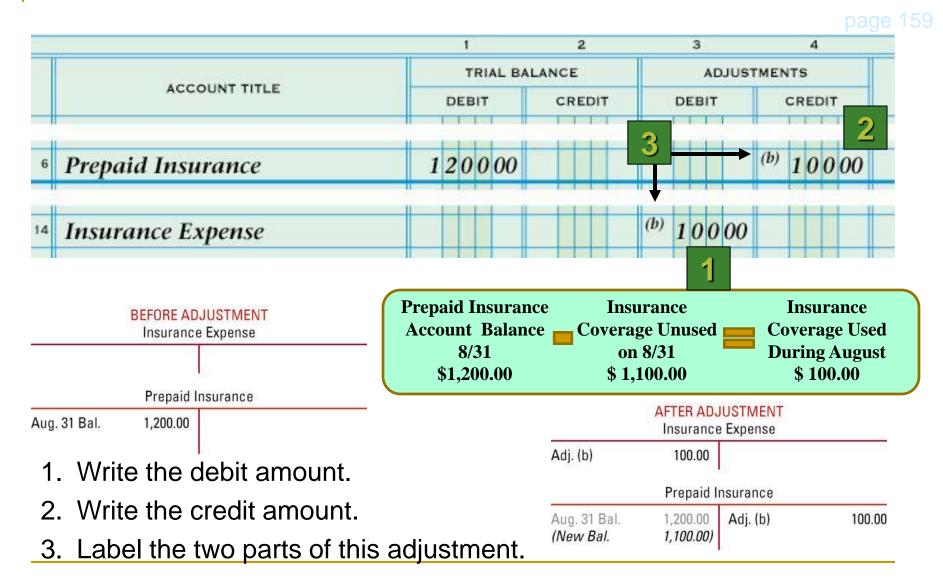
- Matching Expenses with Revenue: applied when revenue from business activities and expenses associated with earning that revenue are recorded in the same accounting period.
- The Worksheet is used to plan out adjustments that will later be journalized & posted.

#### SUPPLIES ADJUSTMENT ON A WORK SHEET

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#### PREPAID INSURANCE ADJUSTMENT ON WORKSHEET



# PROVING THE ADJUSTMENTS COLUMNS OF A WORK SHEET

		Work Sheet			
	For Mo	nth Ended Augu	st 31, 20		
_		1	2	3	4
1		TRIAL B	ALANCE	ADJUST	MENTS
	ACCOUNT TITLE	DEBIT	CREDIT	DEBIT	CREDIT
2	мена имреное	50000			1
7	Supplies Expense			<sup>(a)</sup> 71500	
8	Utilities Expense	11000			
9	2	→ 881500	881500	81500	81500

- 1. Rule a single line.
- 2. Add both the Adjustments Debit and Credit columns. Write each column's total.
- 3. Rule double lines.

			1			2		 З			4		_	5			(	5		7			8	8	
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LESSON 6-2 - Planning Adjusting Entries on a Worksheet

# PREPARING A WORK SHEET

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#### **Steps for Preparing a Worksheet**

- 1. Write the heading.
- 2. Record the trial balance and total debit & credit columns
- 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.

#### TechKnow Consulting

Work Sheet

1

#### For Month Ended August 31, 20--

			1			2		З	0	<i>n</i> 01,	4		5			6		 7			8		
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#### TechKnow Consulting

Work Sheet

1

For Month	Ended	August 31	, 20
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1	Cash	49	964	-00														49	64	.00				1
2	Petty Cash	1	00	000														1	00	00				2
8	Accts. Rec.—Oakdale School	1	50	00													2	1	50	00				з
4	Accts. Rec.—Campus Internet Cafe		100	000													0	1	00	000				4
5	Supplies	1(	025	500							(a) 7	71500		7				3	<b>31</b> C	000				5
6	Prepaid Insurance	12	200	000							(b) ]	0000						11	00	000				6
7	Accts. Pay.—Supply Depot				2	000	0														2	200	00	7
8	Accts. Pay.—Thomas Supply Co.					500	0															50	000	8
9	Kim Park, Capital				50	000	0						3								5(	000	00	9
10	Kim Park, Drawing	6	25	00							4	7						6	525	500				10
11	Income Summary										-													11
12	Sales				35	650	0								3	565	00							12
13	Advertising Expense	2	13	00									2	21300										13
14	Insurance Expense							(b)	100	00			]	0000										14
15	Miscellaneous Expense		28	00										2800				7						15
16	Rent Expense	3	00	00									3	30000										16
17	Supplies Expense							(a)	715	00		5	7	1500										17
18	Utilities Expense	1	10	00									]	1000										18
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21												9	35	56500	3	565	600	73	349	000	7.	349	00	21
												3												

### EXTENDING BALANCE SHEET ACCOUNT BALANCES ON A WORK SHEET

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# **BALANCE SHEET:** a financial statement that reports **assets**, **liabilities** and **owner's equity** as of a **specific** date.

			Techk	Know Consulti	ing					
			1	Work Sheet					2	
			For Month	Ended August	31, 20					
_		1	2	3	4	5	6	7	8	
		TRIAL BAI	LANCE	ADJUSTM	ENTS	INCOME ST	ATEMENT	BALANCE	SHEET	
	ACCOUNT TITLE	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1	Cash	496400						496400		1
2	Petty Cash	10000						10000		2
3	Accts. Rec.—Oakdale School	15000						15000		з
4	Accts. Rec.—Campus Internet Cafe	10000						10000		4
5	Supplies	102500			) 71500			31000		5
6	Prepaid Insurance	120000		(b	) 10000			110000		6
7	Accts. Pay.—Supply Depot		20000						20000	7
8	Accts. Pay.—Thomas Supply Co.		5000						5000	•
9	Kim Park, Capital		500000						500000	9
0	Kim Park, Drawing	62500						62500		10

- 1. Debit balances without adjustments
- 2. Debit balances with adjustments
- 3. Credit balances without adjustments

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

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# **INCOME STATEMENT**: a financial statement showing the **revenue** and **expenses** for a **fiscal** period.

		1	Work Sheet			_		
		Contraction of the	Ended Augus	t 31, 20				
	1	2	3	4	5	6	7	8
	TRIAL BA	LANCE	ADJUSTM	IENTS	INCOME ST	TEMENT	BALANCI	E SHEET
ACCOUNT TITLE	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
						A REAL PROPERTY AND A REAL		
Income Summary				2		•		
Sales		356500				356500		
Advertising Expense	21300				21300			
Insurance Expense			<sup>(b)</sup> 10000		10000	<b></b>		
Miscellaneous Expense	2800				2800			
Rent Expense	30000				30000			
Supplies Expense			<sup>(a)</sup> 71500		71500	←		
Utilities Expense	11000				11000			
	881500	881500	81500	81500				

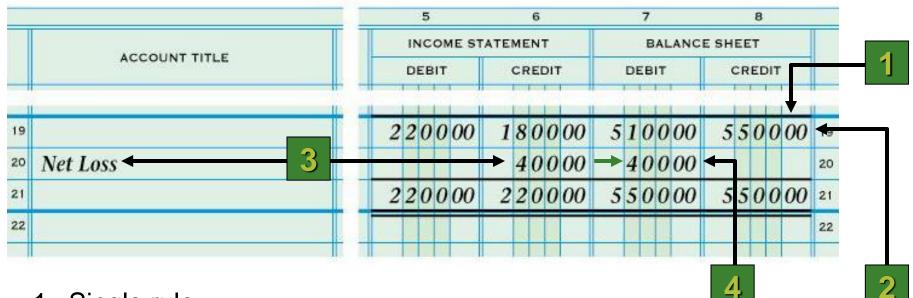
- 1. Sales balance
- 2. Expense balances without adjustments
- 3. Expense balances with adjustments

# RECORDING NET INCOME, AND TOTALING AND RULING A WORK SHEET

				Work Sheet						
		1	For Month	Ended Augus	st 31, 20	5	6	7	8	
		TRIAL BA		ADJUST		INCOME ST		BALANCE		_
	ACCOUNT TITLE	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1	Cach Income Summary	106100						106100		
2	Sales		356500				356500			12
3	Advertising Expense	21300				21300		4		13
4	Insurance Expense			<sup>(b)</sup> 10000		10000			1	14
5	Miscellaneous Expense	2800				2800				15
6	Rent Expense	30000				30000				16
7	Supplies Expense			<sup>(a)</sup> 71500		71500				17
8	Utilities Expense	11000				11000				18
9		881500	881500	81500	81500	146600	356500	734900	525000	-
1	Net Income					209900	356500	734900	2 0 9 9 00 7 3 4 9 00	
*						356500	330300	734900	734900	21
	1. Single rule		3				6		<b>1</b> 7	
2	2. Totals	<b>4.</b> E	xtend	net inc	come		6. Tot	als		
	3. Net income		ingle r				7. Do		1.	

LESSON 6-3 – Extending Financial Statement Information on Worksheets

# CALCULATING AND RECORDING A NET LOSS ON A WORK SHEET



- 1. Single rule
- 2. Totals
- 3. Net loss
- 4. Extend net loss

## **Errors on Worksheets**

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Typical errors:

- Journal entry not posted
- Information not <u>transferred</u> correctly from <u>ledger</u> to worksheet <u>trial balance</u>
- Recording <u>adjustment</u> information incorrectly
- > Adding columns incorrectly
- Errors <u>extending</u> the balances to the balance sheet and income statement columns

## **Errors on Worksheets**

When 2 columns are not in balance, <u>subtract</u> the smaller total from the larger to find the difference.

#### **Typical Calculation Errors:**

- The <u>difference</u> is 1, such as \$.01, \$.10, \$1.00 or \$10.00 most likely addition error
- The difference can be <u>divided</u> evenly by 2 Look for ½ the difference...the amount may have been recorded as a debit rather than a credit or vise versa
- The difference can be <u>divided</u> evenly by 9 look for <u>transposed</u> numbers – Ex: 54 written as 45.
  - □ <u>Slide</u> numbers moved to the right or left: \$12 written as \$120.
- The difference is an <u>omitted</u> amount look for an amount equal to the difference that may not have been extended.

## **Errors on Worksheets**

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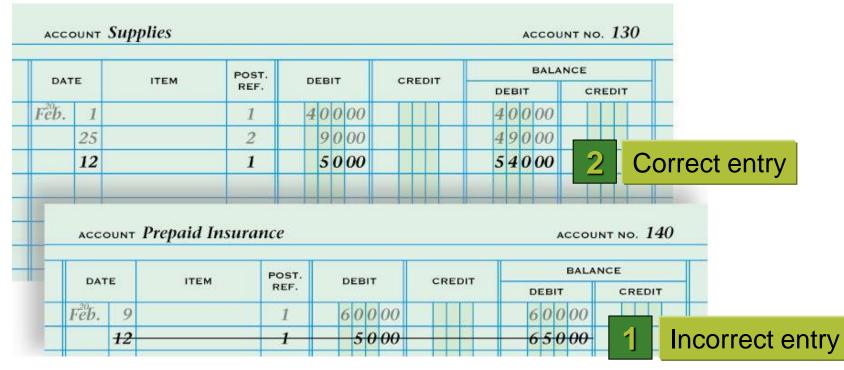
#### Preventing Errors:

- Be <u>careful</u>
- Check your work frequently <u>PROVE</u>
- Use a <u>calculator</u>
- Once you find an error <u>Fix it before going on</u>
- Most errors are <u>math</u> errors work carefully

See Table top of page 168 for Tips for Checking for Errors on the Worksheet

### CORRECTING AN ERROR IN POSTING TO THE WRONG ACCOUNT

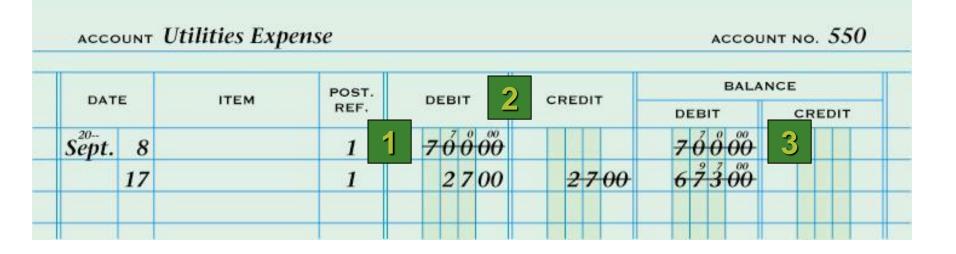
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- 1. Draw a line through the entire incorrect entry. Recalculate the account balance and correct the work sheet.
- 2. Record the posting in the correct account. Recalculate the account balance, and correct the work sheet.

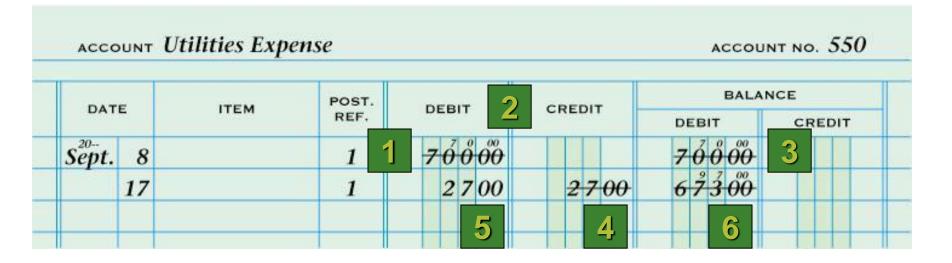
#### CORRECTING AN INCORRECT AMOUNT

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- 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.

### **TERMS REVIEW**

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- fiscal period
- work sheet
- trial balance
- Adjustments

- balance sheet
- income statement
- net income
- net loss