

## Chapter Overview

- Work Sheet and Adjusting Entries for a Service Business: Chapter Objectives
- Work Sheet and Adjusting Entries for a Service Business: Accounting in the Real World
- Work Sheet and Adjusting Entries for a Service Business: Key Terms
- Work Sheet and Adjusting Entries for a Service Business: Chapter Objectives

## Learning Objectives

After studying Chapter 6, in addition to defining key terms, you will be able to:

LO1 Prepare the heading of a work sheet.

LO2 Prepare the trial balance section of a work sheet.

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

LO4 Complete the Adjustments columns of a work sheet.

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.

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

## Work Sheet and Adjusting Entries for a Service Business: Accounting in the Real World

### **Chapter 6: Work Sheet and Adjusting Entries for a Service Business: Lesson 6-1: Creating a Work Sheet**

## 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.

## Fiscal Periods

The length of time for which a business summarizes its financial information and reports its financial performance is called a **fiscal period** . A fiscal period is also known as an accounting period. 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, businesses must report their financial performance for a full year. A fiscal period consisting of twelve consecutive months is called a **fiscal year** . Because Delgado Web Services is a new business, Mr. Delgado wishes to have financial information reported frequently to help him make decisions. For this reason, Delgado Web Services 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. Delgado Web Services started business on January 1. Therefore, Delgado Web Services' monthly fiscal period is for the period from January 1 through January 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** .

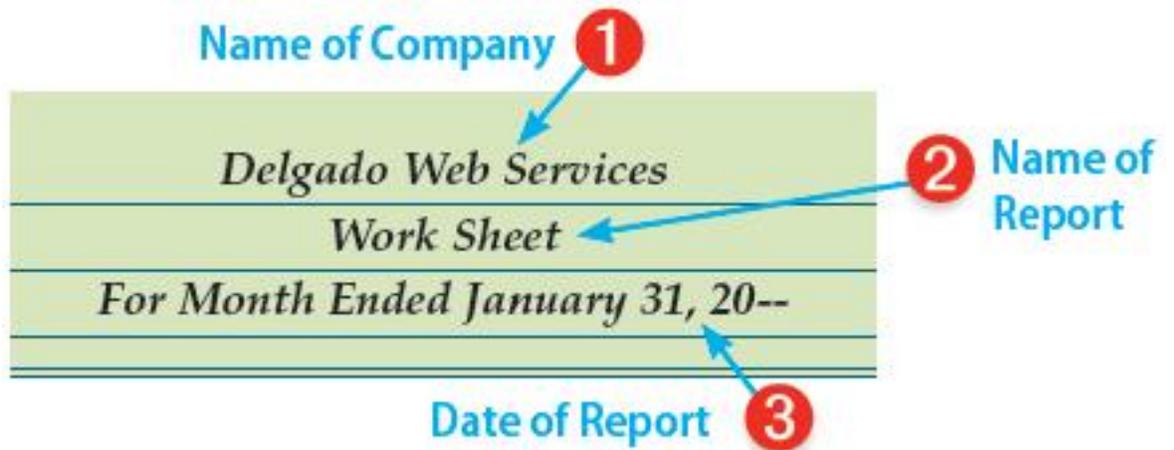
Accountants use a work sheet for four reasons: (1) to summarize general ledger account balances to prove that debits equal credits; (2) to plan needed changes to general ledger accounts to bring account balances up to date; (3) to separate general ledger account balances according to the financial statements to be prepared; and (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 LO1

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 Delgado Web Services' work sheet indicates that the work sheet covers the 31 days from January 1 through and including January 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--.

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**.

		TRIAL BALANCE	
		1	2
ACCOUNT TITLE		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	<b>Add Totals</b>	<b>8 0 4 5 00</b>	<b>8 0 4 5 00</b>
21	<b>Write Totals</b>		

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 they are listed on the chart of accounts. All the account titles are listed, even if some accounts do not have balances.

## Preparing a Trial Balance on a Work Sheet

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. 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.

### End of Lesson Review

LO1 Prepare the heading of a work sheet.

LO2 Prepare the trial balance section of a work sheet.

### Terms Review

fiscal period

fiscal year

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 6-1

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 April 30 of the current year, Fix It Now has the following general ledger accounts and balances. The business uses a monthly fiscal period.

Account Titles	Account Balances	
	Debit	Credit
Cash	\$4,900.00	
Petty Cash	75.00	
Accounts Receivable—B. Widell	1,387.00	
Supplies	228.00	
Prepaid Insurance	375.00	
Accounts Payable—Southside Supplies		\$ 267.00
Connor Whitney, Capital		7,443.00
Connor Whitney, Drawing	1,700.00	
Income Summary		
Sales		2,160.00
Advertising Expense	460.00	
Cash Short and Over	6.00	
Insurance Expense		
Miscellaneous Expense	189.00	
Supplies Expense		
Utilities Expense	550.00	

Prepare the heading and trial balance on a work sheet. Total and rule the Trial Balance columns. Save your work to complete Work Together 6-2.

## On Your Own 6-1

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, Repair World has the following general ledger accounts and balances. The business uses a monthly fiscal period.

Account Titles	Account Balances	
	Debit	Credit
Cash	\$13,600.00	
Petty Cash	150.00	
Accounts Receivable—Stephen Coates	2,996.00	
Supplies	476.00	
Prepaid Insurance	650.00	
Accounts Payable—Jill Stratton		\$ 596.00
Isiah Clausen, Capital		14,886.00
Isiah Clausen, Drawing	3,400.00	
Income Summary		
Sales		8,280.00
Advertising Expense	910.00	
Cash Short and Over	2.00	
Insurance Expense		
Miscellaneous Expense	378.00	
Supplies Expense		
Utilities Expense	1,200.00	

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 6-2.

## Chapter 6: Work Sheet and Adjusting Entries for a Service Business: Ethics in Action: Professional Codes of Conduct

Ethics in Action: Professional Codes of Conduct

### Instructions

Most professional organizations have a code of professional conduct to guide the actions of their members. One of the best-known codes of professional conduct is that of the American Institute of

Certified Public Accountants (AICPA). A national organization of over 370,000 certified public accountants, the AICPA seeks to help its members provide professional services that benefit their employees, clients, and society. An important component of this mission is the AICPA Code of Professional Conduct.

The Code contains Rules of Conduct that its members must follow in their performance of professional services. The Rules address the topics of independence, integrity, objectivity, client relations, and colleague relations. Some Rules have Interpretations that provide further insight into the Rules. The Code is also supported by Ethics Rulings, a series of questions and answers that the AICPA elects to share with its members.

AICPA members who fail to adhere to the Code can be disciplined or expelled from the membership. Losing membership in the AICPA can result in serious consequences for a certified public accountant working in the profession.

## Instructions

Access the AICPA's Code of Professional Conduct at [www.aicpa.org](http://www.aicpa.org) . On the Membership tab, select Requirements. Citing the section number supporting each answer, determine whether a member of the AICPA may ethically do the following:

1. Accept an invitation to participate (free of charge) in a client's annual golf outing. (Hint: Search Section 100: Independence, Integrity and Objectivity.)
2. Charge a fee based on the net income reported on the audited income statement. (Hint: Search Section 300: Responsibilities to Clients.)
3. Advertise professional services in television commercials. (Hint: Search Section 500: Other Responsibilities and Practices.)

**Chapter 6: Work Sheet and Adjusting Entries for a Service Business: Forensic Accounting: ZZZZ Best Forensic Accounting: ZZZZ Best**

At the age of 16, Barry Minkow started a carpet cleaning business. Barry's goal was typical for a young man having just earned his driver's license—he wanted to earn enough money to purchase a car. By the age of 21, he was driving a Ferrari and living in a mansion. The listing of his company,

ZZZZ Best, on the NASDAQ stock exchange made him a rich man. His success story earned him an invitation on the Oprah Winfrey Show where he explained his secret as “think big, be big.” He expanded his business beyond carpet cleaning to include the restoration of buildings damaged by fire or floods.

## The Fraud Story

Unknown to his accountants, lawyers, and investors, the building restoration part of the business was complete fiction. The carpet cleaning business had never made a profit. The only way to obtain the money needed to support his lifestyle was to borrow the money from banks. But banks only lend money to profitable businesses. To create profit, Minkow created source documents that appeared to support the contracts and transactions of a building restoration business.

When accountants demanded to see one of his restoration projects, Minkow bribed a building guard to give him weekend access to an office building. He hung ZZZZ Best banners in the lobby and paid the guard to pretend that he knew Minkow and ZZZZ Best personnel. Fueled by the restoration business, ZZZZ Best grew into a \$280 million business.

When the fraud was finally revealed, the assets of ZZZZ Best were sold for a mere \$50,000. Minkow and members of his inner circle were charged with over 50 criminal counts, including securities fraud, tax evasion, and bank fraud. Minkow was sentenced to 25 years of prison and served just over seven years.

## Activity

Amy Heath is a home stager, decorating homes to prepare them for sale. Her schedule does not include time to handle the accounting tasks of the business. So, she hired Barnes Bookkeeping to maintain her accounting records and write checks for her business. Each month, Amy reviews the bank reconciliation and financial statements prepared by Barnes Bookkeeping.

Despite her success, Amy does not seem to be earning the amount of money she expected. She has no reason to suspect that anything is wrong, especially since her friend Mary Kate Sanders is handling her account for Barnes Bookkeeping. Still, she has asked you to compare her bank records with a list of checks obtained from Barnes Bookkeeping.

## Instructions



Open the spreadsheet FA\_CH06. Follow the steps on the Instructions tab. After analyzing the data provided, answer the following questions:

1. Are there any differences in check amounts per the bank and the accounting records?
2. Do you believe any differences are the result of clerical errors? Support your answer.
3. What evidence would you want to examine next?

## Chapter 6: Work Sheet and Adjusting Entries for a Service Business: Lesson 6-2: Planning Adjusting Entries on a Work Sheet

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

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

LO4 Complete the Adjustments columns of a work sheet.

#### Planning Adjustments on a Work Sheet LO3

Delgado Web Services buys supplies in quantity in January. Some of the supplies are used in January, but some supplies are not used until February or March. Cash paid for an expense in one fiscal period that is not used until a later period is called a **prepaid expense**. For example, only the value of the supplies used in January should be reported as expenses in January. 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. In this way, January revenue and the supplies expense associated with earning the January revenue are recorded in the same accounting period. [CONCEPT: Matching Expenses with Revenue] Reporting income when it is earned and expenses when they are incurred is called the **accrual basis of accounting**. Generally accepted accounting principles (GAAP) require the use of the accrual basis of accounting.

Reporting income when the cash is received and expenses when the cash is paid is called the **cash basis of accounting**. Broadly speaking, GAAP requires the use of the accrual basis of accounting and does not allow the use of the cash basis of accounting. However, if the difference in results between the two methods is not large enough to affect decision making, a business could use the cash basis of accounting. The accounting concept Materiality is applied when the amount of an error or omission

in the accounting records is not large enough to affect business decisions. [CONCEPT: Materiality] Materiality is affected by the size of the business. A \$2,000,000 amount would be material to many businesses but could be immaterial to a large corporation.

The major difference between the accrual basis and the cash basis of accounting is in timing. For example, when the accrual basis is used, revenue from sales will be included in the financial statements even if the cash has not yet been collected. Expenses for the period will be included in the financial statements even if the cash has not yet been paid. When the cash basis is used, revenue from sales will not be included in the financial statements until the cash has been collected. Expenses will not be included in the financial statements until the cash has been paid. Over time, the revenues and expenses reported will be the same. The differences are only caused by timing.

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, Delgado Web Services 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 January 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 premium 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 premium used during January is impractical. Therefore, at the end of a fiscal period, the amount of the insurance premium 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 Delgado Web Services' adjustments are described later in this chapter  
**Supplies Adjustment on a Work Sheet**

ACCOUNT TITLE	1 TRIAL BALANCE		3 ADJUSTMENTS		4
	DEBIT	CREDIT	DEBIT	CREDIT	
	5 <i>Supplies</i>	620.00			
19 <i>Supplies Expense</i>			(a) 530.00		1 Debit 3 Label

On January 31, before adjustments, the balance of Supplies is \$620.00, and the balance of Supplies Expense is zero, as shown in the T accounts.

**BEFORE ADJUSTMENT**

<b>Supplies Expense</b>	
<b>Supplies</b>	
Jan. 31 Bal.	620.00

On January 31, Mr. Delgado counted the supplies on hand and found that the value of supplies still unused on that date was \$90.00. The value of the supplies used is calculated as follows:

<b>Supplies Account</b>	<b>Supplies</b>	<b>Supplies</b>
<b>Balance</b>	<b>– on Hand,</b>	<b>= Used During</b>
<b>January 31</b>	<b>January 31</b>	<b>January</b>
<b>\$620.00</b>	<b>– \$90.00</b>	<b>= \$530.00</b>

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

1. What is the balance of the account to be adjusted? \$620.00
2. What should the balance be for this account? \$90.00
3. What must be done to correct the account balance? Decrease \$530.00
4. What adjustment is made? Debit Supplies Expense, \$530.00 Credit Supplies, \$530.00

The expense account, Supplies Expense, is increased by a debit, \$530.00, the value of supplies used. The balance of Supplies Expense, \$530.00, is the value of supplies used during the fiscal period from January 1 to January 31. [CONCEPT: Matching Expenses with Revenue]

<b>AFTER ADJUSTMENT</b>			
<b>Supplies Expense</b>			
Adj. (a)	530.00		
<b>Supplies</b>			
Jan. 31 Bal.	620.00	Adj. (a)	530.00
<i>(New Bal.</i>	<i>90.00)</i>		

The asset account, Supplies, is decreased by a credit, \$530.00, the value of supplies used. The debit balance, \$620.00, less the credit adjustment, \$530.00, equals the new balance, \$90.00. The new balance of Supplies is the same as the value of supplies on hand on January 31.

#### Recording the Supplies Adjustment on a Work Sheet

- 1 Write the debit amount, \$530.00, in the work sheet's Adjustments Debit column on the line with the account title Supplies Expense.

2 Write the credit amount, \$530.00, 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

On January 31, before adjustments, the balance of Prepaid Insurance is \$900.00, and the balance of Insurance Expense is zero.

ACCOUNT TITLE	1 TRIAL BALANCE		3 ADJUSTMENTS	
	DEBIT	CREDIT	DEBIT	CREDIT
	6 <i>Prepaid Insurance</i>	900.00		(b) 150.00
17 <i>Insurance Expense</i>			(b) 150.00	

Labels: 2 Credit (points to 150.00 in Prepaid Insurance credit column), 3 Label (points to (b) in Insurance Expense debit column), 1 Debit (points to 150.00 in Insurance Expense debit column).

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:



<b>Prepaid Insurance Balance</b>	—	<b>Insurance Premium Remaining Unused,</b>
<b>January 31</b>		<b>January 31</b>
\$900.00	—	\$750.00

BEFORE ADJUSTMENT	
Insurance Expense	
Prepaid Insurance	
Jan. 31 Bal.	900.00

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

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

The expense account, Insurance Expense, is increased by a debit, \$150.00, the value of insurance premium used. The balance of Insurance Expense, \$150.00, is the value of insurance premium used

from January 1 to January 31.

[CONCEPT: Matching Expenses with Revenue]

AFTER ADJUSTMENT			
Insurance Expense			
Adj. (b)	150.00		
Prepaid Insurance			
Jan. 31 Bal.	900.00	Adj. (b)	150.00
<i>(New Bal.</i>	<i>750.00)</i>		

The asset account, Prepaid Insurance, is decreased by a credit, \$150.00, the value of insurance premium used. The debit balance, \$900.00, less the credit adjustment, \$150.00, equals the new balance, \$750.00. The new balance of

Prepaid Insurance is the same as the amount of insurance premium unused on January 31.

#### Recording the Prepaid Insurance Adjustment on a Work Sheet

- 1 Write the debit amount, \$150.00, in the work sheet's Adjustments Debit column on the line with the account title Insurance Expense.
- 2 Write the credit amount, \$150.00, 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.

#### Proving the Adjustments Columns of a Work Sheet LO4

Delgado Web Services																		
Work Sheet																		
For Month Ended January 31, 20--																		
ACCOUNT TITLE	1				2				3		4							
	TRIAL BALANCE				ADJUSTMENTS													
	DEBIT		CREDIT		DEBIT		CREDIT											
5 Supplies	6	2	0	00					(a)	5	3	0	00					
6 Prepaid Insurance	9	0	0	00					(b)	1	5	0	00					
17 Insurance Expense							(b)	1	5	0	00							
18 Miscellaneous Expense		4	5	00														
19 Supplies Expense							(a)	5	3	0	00							
20	8	0	4	5	00	8	0	4	5	00	6	8	0	00	6	8	0	00

1 Single Rule  
 2 Totals  
 Double Rule 3

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.

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 the work sheet is completed.
- 3 Rule double lines across both Adjustments columns. The double lines mean that the totals have been verified as correct.



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

## End of Lesson Review

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

LO4 Complete the Adjustments columns of a work sheet.

## Terms Review

prepaid expense

accrual basis of accounting

cash basis of accounting

adjustments

## Audit Your Understanding

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

## Work Together 6-2

Planning adjustments on a work sheet

Use the work sheet from Work Together 6-1. Your instructor will guide you through the following examples.

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

Adjustment Information, April 30	
Supplies on hand	\$ 75.00
Value of prepaid insurance	250.00

2. Total and rule the Adjustments columns. Save your work sheet to complete Work Together 6-3.

## On Your Own 6-2

Planning adjustments on a work sheet

Use the work sheet from On Your Own 6-1. Work this problem independently.

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

Adjustment Information, December 31	
Supplies on hand	\$240.00
Value of prepaid insurance	520.00

3. Total and rule the Adjustments columns. Save your work sheet to complete On Your Own 6-3.

## Chapter 6: Work Sheet and Adjusting Entries for a Service Business: Global Awareness: Global Currencies

### Global Awareness: Global Currencies

As global trade increases, U.S. businesses become more involved in transactions with foreign businesses. These transactions can be stated in terms of U.S. dollars or in the currency of the other country. If the transaction involves foreign currency, a U.S. business must convert the foreign currency into U.S. dollars before the transaction can be recorded. [CONCEPT: Unit of Measurement]

The value of foreign currency may change daily. In the United States, the exchange rate is the value of foreign currency in relation to the U.S. dollar. Banks, online services, and many daily newspapers list current exchange rates.

The exchange rate is stated in terms of one unit of foreign currency. Using China as an example, assume that one Chinese yuan is worth 0.15077 (or about 15 U.S. cents). This rate would be used when exchanging Chinese yuan for U.S. dollars.

A conversion formula can be used to find out how many foreign currency units can be purchased with one U.S. dollar. The formula is:

$$1 \text{ dollar} \div \text{Exchange Rate} = \text{Foreign Currency per U.S. dollar}$$

$$1 \text{ dollar} \div 0.15077 = 6.63262 \text{ yuan per U.S. dollar}$$

To convert an amount in Chinese yuan to U.S. dollars, divide the amount of yuan by the number of yuan per dollar as shown.

$$350 \text{ Chinese yuan} \div 6.63262 = \$52.77$$

## Critical Thinking



1. Current exchange rates change constantly. Do an Internet search and report the current exchange rate for the Chinese yuan.
2. If the exchange rate for one Mexican peso is 0.08142, what U.S. dollar amount would be recorded for a receipt of 5,000 Mexican pesos?
3. If the exchange rate for one European euro is 0.73320, what amount would be recorded in U.S. dollars for a receipt of 200 euros?

## Chapter 6: Work Sheet and Adjusting Entries for a Service Business: Lesson 6-3: Completing the Work Sheet and Finding Errors on a Work Sheet

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

Extending Balance Sheet Account Balances on a Work Sheet LO5

Extending Income Statement Account Balances on a Work Sheet

Recording Net Income and Totaling and Ruling a Work Sheet LO6

Calculating and Recording a Net Loss on a Work Sheet

Finding and Correcting Errors on the Work Sheet LO7

End of Lesson Review

LO5 Prepare the Balance Sheet and Income Statement columns of a work sheet.

LO6 Total and rule the work sheet.

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) 53 00				9 00 00		5
6 Prepaid Insurance	9 00 00		(b) 15 00				75 00 00		6
7 Accts. Pay.—Canyon Office Supplies		12 00 00						12 00 00	7
8 Accts. Pay.—Mountain Graphic Arts		10 50 00						10 50 00	8
9 Michael Delgado, Capital		2 000 00						2 000 00	9
10 Michael Delgado, Drawing	1 150 00						1 150 00		10

Debit Balances without Adjustments 1

Debit Balances with Adjustments 2

Credit Balances without Adjustments 3

LO7 Apply the steps for finding errors on a work sheet.

## Extending Balance Sheet Account Balances on a Work Sheet LO5

At the end of each fiscal period, Delgado Web Services 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 the value of a business' assets, liabilities, and owner's equity on a specific date is called 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.

### Extending Balance Sheet Account Balances on a Work Sheet

1 Extend the balance of Cash, \$2,597.00, 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 that 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, \$620.00, minus the credit adjustment, \$530.00, equals the up-to-date adjusted balance, \$90.00. Extend the up-to-date balance, \$90.00, 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—Canyon Office Supplies, \$120.00, to the Balance Sheet Credit column. The balance of Accounts Payable—Canyon Office 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 that are not affected by adjustments.

### Extending Income Statement Account Balances on a Work Sheet

**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	2	3	4	5	6	7	8
Income Summary								
Sales		5 820 00				5 820 00		
Advertising Expense	397 00				397 00			
Cash Short and Over	1 00				1 00			
Communications Expense	80 00				80 00			
Equipment Rental Expense	1 455 00				1 455 00			
Insurance Expense			(b) 150 00		150 00			
Miscellaneous Expense	45 00				45 00			
Supplies Expense			(a) 530 00		530 00			
	8 045 00	8 045 00	680 00	680 00				

**Expense Balances with Adjustments**

A financial statement showing the revenue and expenses for a fiscal period is called an **income statement**. Delgado Web Services' 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.



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.

### Extending Income Statement Account Balances on a Work Sheet

1 Extend the balance of Sales, \$5,820.00, 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, \$397.00, 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, \$150.00, equals the adjusted balance, \$150.00. Extend the up-to-date adjusted debit balance, \$150.00, 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.

### Recording Net Income and Totaling and Ruling a Work Sheet LO6

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) 530.00					900.00		5
6 Prepaid Insurance	9 000.00		(b) 150.00					7 500.00		6
7 Accts. Pay.—Canyon Office Supplies		12 000.00							12 000.00	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	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	1 455.00				1 455.00					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	8 045.00	8 045.00	680.00	680.00	2 658.00	5 820.00	5 387.00	2 225.00		20
21 Net Income					3 162.00			3 162.00		21
22					5 820.00	5 820.00	5 387.00	5 387.00		22

The difference between total revenue and total expenses when total revenue is greater is called **net income**. Net income is sometimes also referred to as profit. 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.

### 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, \$5,820.00, minus the Income Statement Debit column total, \$2,658.00, equals net income, \$3,162.00. Write the amount of net income, \$3,162.00, 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, \$3,162.00, to the Balance Sheet Credit column. Since the owner's equity account, Michael Delgado, Capital, increases by a credit, extend the net income amount 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 totals below the single line. Check the equality for each pair of columns.

7 Rule double lines across 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				
21	Net Loss			
22				
23				

5	6	7	8
INCOME STATEMENT		BALANCE SHEET	
DEBIT	CREDIT	DEBIT	CREDIT
2 4 0 0 0 0	2 1 0 0 0 0	4 5 5 0 0 0	4 8 5 0 0 0
2 4 0 0 0 0	2 4 0 0 0 0	4 8 5 0 0 0	4 8 5 0 0 0

1 Single Rule (arrow pointing to the line between rows 20 and 21)

2 Totals (arrows pointing to the totals in rows 20 and 21)

3 Net Loss (arrow pointing to the 'Net Loss' entry in row 21)

4 Extend Net Loss (arrow pointing from the 'Net Loss' entry to the Balance Sheet Credit column)

Delgado Web Services' 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 are greater is called a net loss .

## Calculating and Recording a Net Loss on 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 loss. The Income Statement Debit column total, \$2,400.00, minus the Income Statement Credit column total, \$2,100.00, equals net loss, \$300.00. 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, \$300.00, 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, \$300.00, to the Balance Sheet Debit column on the same line as the words Net Loss. The owner's equity account, Michael Delgado, Capital, is decreased by a debit. Therefore, a net loss is extended to the Balance Sheet Debit column.

## Finding and Correcting Errors on the Work Sheet LO7

Several different kinds of errors may be made when preparing a work sheet.

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.

## 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 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 should 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 \$0.01, \$0.10, \$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.



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.

## Checking for Errors in the Work Sheet

### 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?

### 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.

## 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.

## End of Lesson Review

LO5 Prepare the Income Statement and Balance Sheet columns of a work sheet.

LO6 Total and rule the work sheet.

LO7 Apply the steps for finding errors on a work sheet.

## Terms Review

balance sheet

net income

income statement

net loss

## Audit Your Understanding

1. In which Balance Sheet column is net income recorded on the work sheet?
2. In which Balance Sheet column is net loss recorded on the work sheet?
3. What is the first step in checking for arithmetic errors when two column totals are not in balance?
4. What is one way to check for an error caused by transposed numbers?
5. 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 6-3

Completing a work sheet

Use the work sheet from Work Together 6-2. Your instructor will guide you through the following examples.

1. Extend the up-to-date balances to the Balance Sheet and 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. Save your work sheet to complete Work Together 6-4.

## On Your Own 6-3

## Completing a work sheet

Use the work sheet from On Your Own 6-2. Work this problem independently.

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. Save your work sheet to complete On Your Own 6-4.

## Chapter 6: Work Sheet and Adjusting Entries for a Service Business: Why Accounting?: Marketing Management

### Why Accounting?: Marketing Management

Have you ever muted the sound on your television during an advertisement? Maybe you record and view your favorite show after it has been broadcast and skip the commercials completely. Have you ever thought about how much the advertiser is paying for that commercial spot?



Television commercials are only one small part of marketing. Marketing includes many activities from the original design of a product through selling and distribution. Marketing management is involved with making decisions as to how a firm's marketing resources will be used. In order to make wise decisions, marketing managers need to have a good understanding of how the sales of different products affect the profit of the company. Some products cost the company very little to produce and sell. Other products have high costs associated with them. The accounting department works with marketing management to determine and communicate these costs.

### Critical Thinking



1. In this chapter, you learned that the Matching Expenses with Revenue concept requires that an expense should be reported in the same fiscal period that it is used to produce revenue. What might this mean for a company that pays for a television

commercial?

2. What might a marketing manager consider when deciding on which channel and at what time to run a commercial?

## Chapter 6: Work Sheet and Adjusting Entries for a Service Business: Think Like an Accountant: Evaluating a New Sales Item

### Think Like an Accountant: Evaluating a New Sales Item

Tommy Dawson owns and operates Tigers' Den, a sports-oriented diner located near the campus of his alma mater, Central Georgia College. Tommy relies on his former classmate, Andre Miller, CPA, to assist him in evaluating the performance of his business.

Each month, Andre creates a series of charts to show Tommy how the business is performing. One of those charts reports the sales of what Tommy jokingly refers to as his “cash cow” items. Although nearly every customer orders an entrée, many do not order appetizers, side salads, beverages, and desserts. Tommy knows that getting customers to purchase these “cash cow” items can have a dramatic impact on earnings.

Tommy recently introduced a line of nonfood items with the Tigers' Den logo. “Getting people to pay us to advertise for us—I like it!” bragged Tommy. Similar to many national restaurant chains, Tommy created an area near the front entrance to display T-shirts, mugs, visors, and other items for sale.

During June, sales were as follows: appetizers, \$4,093; desserts, \$3,625; beverages, \$3,743; side salads, \$1,164; and logo items, \$4,163.

Open the Spreadsheet TLA\_CH06



The worksheet contains a schedule and chart reporting sales for January through May. Add the sales for June and answer the following questions:

1. What is the impact on sales of adding the merchandise?
2. Are there any categories that declined in sales from May to June?
3. Suggest reasons for the changes in sales between May and June.

## Chapter 6: Work Sheet and Adjusting Entries for a Service Business: Lesson 6-4: Journalizing and Posting Adjusting Entries

### Lesson 6-4: Journalizing and Posting Adjusting Entries

#### Adjusting Entry for Supplies LO8

#### Adjusting Entry for Prepaid Insurance

#### Partial Ledger Accounts after Posting Adjusting Entries

#### End of Lesson Review

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

#### Adjusting Entry for Supplies LO8

The diagram illustrates the process of journalizing an adjusting entry. It shows a partial ledger account from a work sheet and a corresponding entry in a general journal.

**Work Sheet (Partial Ledger Account):**

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

**General Journal (PAGE 3):**

DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT
	<i>Adjusting Entries</i>				
Jan. 31	Supplies Expense			530 00	
	Supplies				530 00

**Callouts:**

- 1 Heading:** Points to the "Adjusting Entries" header in the journal.
- 2 Date:** Points to the date "Jan. 31" in the journal entry.
- 3 Debit:** Points to the debit amount "530 00" in the journal entry, which is derived from the debit amount in the work sheet.
- 4 Credit:** Points to the credit amount "530 00" in the journal entry, which is derived from the credit amount in the work sheet.

Delgado Web Services' adjustments are analyzed and planned on a work sheet. However, these adjustments must be journalized so they can be posted to the general ledger accounts. Journal entries recorded to update general ledger accounts at the end of a fiscal period are called **adjusting entries**. Adjusting entries are recorded on the next journal page following the page on which the last daily transactions for the month are recorded.

The information needed to journalize the adjusting entry for Supplies is obtained from lines 5 and 19 of the work sheet, as shown in the illustration. The entry must be recorded in a journal and posted to

the general ledger accounts affected by the entry.

The effect of posting the adjusting entry for Supplies to the general ledger accounts is shown in the T accounts.

Supplies Expense has an up-to-date balance of \$530.00, which is the value of the supplies used during the fiscal period. [CONCEPT: Matching Expenses with Revenue] Supplies has a new balance of \$90.00, which is the cost of the supplies on hand at the end of the fiscal period.

Supplies Expense			
Adj. (a)	530.00		

Supplies			
Jan. 31 Bal.	620.00	Adj. (a)	530.00
<i>(New Bal.</i>	<i>90.00)</i>		

#### Adjusting Entry for Supplies

1 Write the heading, Adjusting Entries, in the middle of the Account Title column of the journal. Because no source document is prepared for adjusting entries, the entries are identified with a heading in the journal. The heading is

written only once for all adjusting entries.

2 Write the date, 20--, Jan. 31, in the Date column.

3 Write the title of the account debited, Supplies Expense, in the Account Title column. Record the debit amount, \$530.00, in the General Debit column on the same line as the account title.

4 Write the title of the account credited, Supplies, on the next line in the Account Title column. Record the credit amount, \$530.00, in the General Credit column on the same line as the account title.

#### Adjusting Entry for Prepaid Insurance

ACCOUNT TITLE	ADJUSTMENTS	
	DEBIT	CREDIT
6 <i>Prepaid Insurance</i>		(b) 1 5 0 00
17 <i>Insurance Expense</i>	(b) 1 5 0 00	

Date

1

Debit

2

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
	<i>Adjusting Entries</i>					1	
Jan. 31	<i>Supplies Expense</i>			5 3 0 00		2	
	<i>Supplies</i>				5 3 0 00	3	
31	<i>Insurance Expense</i>			1 5 0 00		4	
	<i>Prepaid Insurance</i>				1 5 0 00	5	

Credit

3

The information needed to journalize the adjusting entry for Prepaid Insurance is obtained from lines 6 and 17 of the work sheet. The entry must be recorded in a journal and posted to the general ledger accounts affected by the entry.

The effect of posting the adjusting entry for Prepaid Insurance to the general ledger accounts is shown in the T accounts.

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

Adjusting entries are journalized on the next journal page following the page on which the last transaction of the month is recorded.



## Adjusting Entry for Prepaid Insurance

1 Write the date, 31, in the Date column.

2 Write the title of the account debited, Insurance Expense, in the Account Title column. Record the debit amount, \$150.00, in the General Debit column on the same line as the account title.

3 Write the title of the account credited, Prepaid Insurance, on the next line in the Account Title column. Record the credit amount, \$150.00, in the General Credit column on the same line as the account title.

## 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	165 00			165 00	
5		G1	220 00			385 00	
19		G1	105 00			490 00	
28		G2	130 00			620 00	
31		G3		530 00		90 00	

ACCOUNT <i>Prepaid Insurance</i>			ACCOUNT NO. 160				
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Jan. 3		G1	900 00			900 00	
31		G3		150 00		750 00	

ACCOUNT <i>Insurance Expense</i>			ACCOUNT NO. 550				
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Jan. 31		G3	150 00			150 00	

ACCOUNT <i>Supplies Expense</i>			ACCOUNT NO. 570				
DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE		
					DEBIT	CREDIT	
Jan. 31		G3	530 00			530 00	

Delgado Web Services' partial general ledger, after the adjusting entries are posted, is shown above.



Planning and entering adjustments on a work sheet does not actually change any account balances. Adjusting entries must be journalized and posted in order to bring the general ledger accounts up to date.

## **End of Lesson Review**

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

## **Term Review**

adjusting entries

## **Audit Your Understanding**

1. Why are adjusting entries journalized?
2. Where is the information obtained to journalize adjusting entries?
3. What accounts are increased from zero balances after adjusting entries for supplies and prepaid insurance are journalized and posted?

## **Work Together 6-4**

Journalizing and posting adjusting entries

Use the work sheet from Work Together 6-3. A journal and general ledger accounts are given in the Working Papers. The general ledger accounts do not show all details for the fiscal period. The balance shown in each account is the account's balance before adjusting entries are posted. Your instructor will guide you through the following example.

Use page 8 of a journal. Journalize and post the adjusting entries.

## **On Your Own 6-4**

Journalizing and posting adjusting entries

Use the work sheet from On Your Own 6-3. A journal and general ledger accounts are given in the Working Papers. The general ledger accounts do not show all details for the fiscal period. The

balance shown in each account is the account's balance before adjusting entries are posted.

Use page 24 of a journal. Journalize and post the adjusting entries.

## **Chapter 6: Work Sheet and Adjusting Entries for a Service Business: End of Chapter Review**

### End of Chapter Review

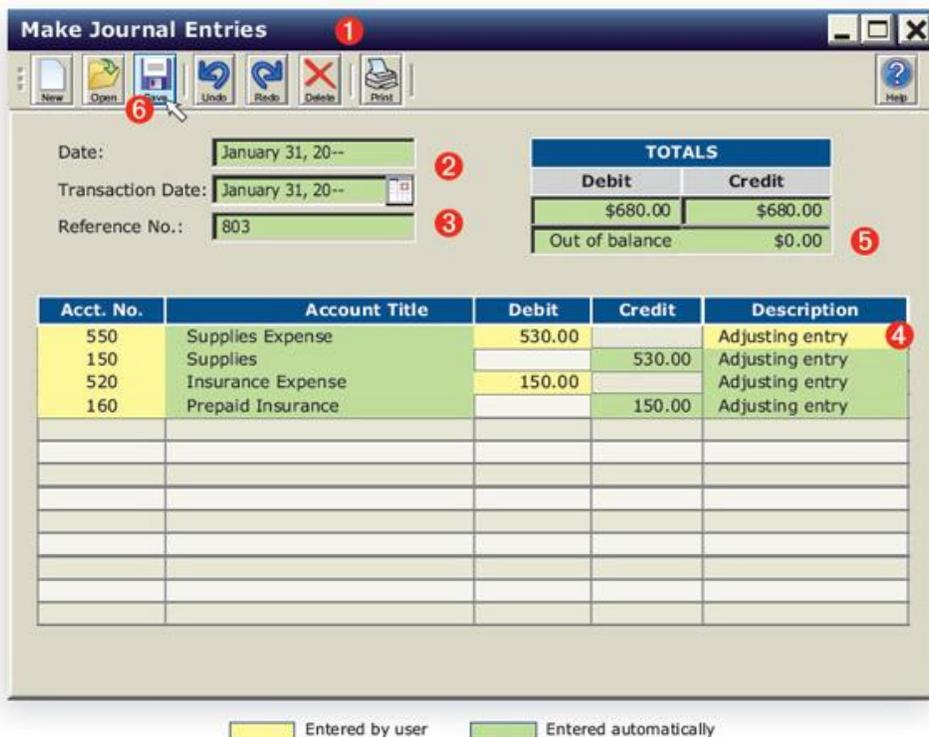
- [Work Sheet and Adjusting Entries for a Service Business: A Look at Accounting Software](#)
- [Work Sheet and Adjusting Entries for a Service Business: Chapter Summary](#)
- [Work Sheet and Adjusting Entries for a Service Business: Explore Accounting](#)
- [Work Sheet and Adjusting Entries for a Service Business: Apply Your Understanding: Application Problem](#)
- [Work Sheet and Adjusting Entries for a Service Business: Apply Your Understanding: Mastery Problem](#)
- [Work Sheet and Adjusting Entries for a Service Business: Apply Your Understanding: Challenge Problem](#)
- [Work Sheet and Adjusting Entries for a Service Business: 21st Century Skills](#)
- [Work Sheet and Adjusting Entries for a Service Business: Auditing for Errors](#)
- [Work Sheet and Adjusting Entries for a Service Business: Analyzing Nike's Financial Statements](#)
- [Work Sheet and Adjusting Entries for a Service Business: A Look at Accounting Software](#)

### Making Adjustments

You learned in this chapter that adjustments are made to the general ledger at the end of a fiscal period. The process of making adjustments is not much different in a computerized accounting system than it is in a manual accounting system. An accountant still needs to review the general ledger accounts to determine which accounts need to be adjusted and by how much.

You learned to use a work sheet to calculate adjustments and to extend account balances to the financial statement columns. When a computerized accounting system is being used, the accountant would print out a trial balance report and use that to find the accounts that need adjusted. Then, the accountant would access the Make Journal Entries window and enter the adjustments. After the

adjustments are posted, the accountant would print out a new trial balance. A trial balance produced after adjustments are posted is called an adjusted trial balance. Finally, the adjusted trial balance is used to produce the financial statements.



1 From the Reports window, the user prints out a trial balance.

2 The user opens the Make Journal Entries window to enter adjustments. The system displays the current date. The transaction date is initially displayed the same, but it can be changed.

3 The system enters a sequential reference number for the transaction.

4 The user enters the first account number, 550, and the system automatically enters the account title. The user enters the debit amount and the description. For the credit entry, the system enters the same amount as the debit. It could be changed if necessary. The description will remain the same until changed by the user.

5 The total of the debit and credit are entered by the system with each new entry. They should balance when all debits and credits are entered. The system will display an out of balance amount if debits and credits are not equal.

6 Clicking Save posts the transaction. The system will not post if there is an out of balance condition.

7 From the Reports window, again, the user prints out a new trial balance. This is an adjusted trial balance.

Delgado Web Services		
1 TRIAL BALANCE		
As of January 31, 20--		
Account	Debit	Credit
Cash	2,597.00	
Petty Cash	100.00	
Accounts Receivable—Main Street Services	300.00	
Accounts Receivable—Valley Landscaping	400.00	
Supplies	620.00	
Prepaid Insurance	900.00	
Accounts Payable—Canyon Office Supplies		120.00
Accounts Payable—Mountain Graphic Arts		105.00
Michael Delgado, Capital		2,000.00
Michael Delgado, Drawing	1,150.00	
Income Summary		
Sales		5,820.00
Advertising Expense	397.00	
Cash Short and Over	1.00	
Communications Expense	80.00	
Equipment Rental Expense	1,455.00	
Insurance Expense		
Miscellaneous Expense	45.00	
Supplies Expense		
Totals	8,045.00	8,045.00

**7**

Delgado Web Services  
TRIAL BALANCE  
As of January 31, 20--

<b>Account</b>	<b>Debit</b>	<b>Credit</b>
Cash	2,597.00	
Petty Cash	100.00	
Accounts Receivable—Main Street Services	300.00	
Accounts Receivable—Valley Landscaping	400.00	
Supplies	90.00	
Prepaid Insurance	750.00	
Accounts Payable—Canyon Office Supplies		120.00
Accounts Payable—Mountain Graphic Arts		105.00
Michael Delgado, Capital		2,000.00
Michael Delgado, Drawing	1,150.00	
Income Summary		
Sales		5,820.00
Advertising Expense	397.00	
Cash Short and Over	1.00	
Communications Expense	80.00	
Equipment Rental Expense	1,455.00	
Insurance Expense	150.00	
Miscellaneous Expense	45.00	
Supplies Expense	530.00	
<b>Totals</b>	<b>8,045.00</b>	<b>8,045.00</b>

### Work Sheet and Adjusting Entries for a Service Business: Chapter Summary

Before accounting information can be used, it must be analyzed, summarized, and reported. The work sheet is a planning tool used to summarize general ledger information, analyze adjustments, and prepare financial statements. The work sheet is not considered a part of the permanent accounting records. The first step in completing a work sheet is to prepare a trial balance. The second step is to plan and enter the adjustments that must be made to bring all account balances up to date. Next, the new balances are extended to either the Balance Sheet or Income Statement columns of the work sheet. The Income Statement and Balance Sheet columns are totaled, and net income or net loss is calculated. The last step is to calculate the final totals and rule the work sheet. Any errors revealed on the work sheet must be investigated and corrected. The work sheet is used to

aid in journalizing the adjusting entries. Once the adjusting entries are posted, the general ledger accounts are up to date.

## Work Sheet and Adjusting Entries for a Service Business: Explore Accounting

### Fiscal Periods

A fiscal period is the length of time for which a business summarizes and reports financial information. Many companies are required to prepare reports of their operations each year. These annual reports show the results of a company's operations for the year in the form of financial statements. 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 often referred to as a natural business year.

A survey of 500 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	27
February	8
March	17
April	9
May	15
June	33
July	8

August	13
September	31
October	14
November	9
December	316

### Instructions

Assume you work for a company that makes snowboards. 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, 2006, published by the American Institute of Certified Public Accountants.

### Work Sheet and Adjusting Entries for a Service Business: Apply Your Understanding: Application Problem

INSTRUCTIONS: Download problem files and instructions for Excel, QuickBooks, and Peachtree from the textbook companion website at [www.C21accounting.com](http://www.C21accounting.com).

### 6-1 Application Problem: Recording the Trial Balance on a Work Sheet LO1, 2



1. Key the account balances in the trial balance section of the worksheet.
2. Use the required formulas to calculate the totals of the Trial Balance columns.
3. Key the adjusting entries in the Adjustments columns.
4. Create the appropriate formulas to extend amounts to the income statement and balance sheet.

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

Account Titles	Account Balances	
	Debit	Credit
Cash	\$8,715.00	
Petty Cash	75.00	
Accounts Receivable—Raymond O'Neil	642.00	
Supplies	518.00	
Prepaid Insurance	675.00	
Accounts Payable—Western Supply		\$ 268.00
Akbar Sharma, Capital		9,695.00
Akbar Sharma, Drawing	375.00	
Income Summary		
Sales		1,704.00
Advertising Expense	255.00	
Cash Short and Over	2.00	
Insurance Expense		
Miscellaneous Expense	138.00	
Supplies Expense		
Utilities Expense	272.00	

Instructions:

Prepare the heading and trial balance on a work sheet. Total and rule the Trial Balance columns. Save your work to complete Problem 6-2.

**6-2 Application Problem: Planning Adjustments on a Work Sheet** LO3, 4

Use the work sheet from Problem 6-1.

Instructions:

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

Adjustment Information, June 30	
Supplies inventory	\$188.00

Value of prepaid insurance	540.00
----------------------------	--------

2. Total and rule the Adjustments columns.

3. Save your work to complete Problem 6-3.

### 6-3 Application Problem: Completing a Work Sheet LO5, 6

Use the work sheet from Problem 6-2.

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. Save your work to complete Problem 6-4.

### 6-4 Application Problem: Journalizing and Posting Adjusting Entries LO8

1.  Go to [www.cengage.com/login](http://www.cengage.com/login)
2. Click on AA Online to access.
3. Go to the online assignment and follow the instructions.

Use the work sheet from Problem 6-3. A journal and general ledger accounts are given in the Working Papers. The general ledger accounts do not show all details for the fiscal period. The balance shown in each account is the account's balance before adjusting entries are posted.

Instructions:

Use page 12 of a journal. Journalize and post the adjusting entries.

Work Sheet and Adjusting Entries for a Service Business: Apply Your Understanding: Mastery Problem

### 6-M Mastery Problem: Completing a Work Sheet; Journalizing and Posting Adjusting Entries LO1, 2,

3, 4, 5, 6, 8



1. Journalize and post adjusting entries to the general journal.
2. Make the selections to print the income statement and the balance sheet.
3. Make the selections to print the general journal and the adjusted trial balance.



1. Journalize and post adjusting entries to the journal.
2. Make the selections to print the balance sheet and the profit and loss statement.
3. Make the selections to print the journal and the adjusted trial balance.



6. Key the account balances in the trial balance section of the worksheet.
7. Use the required formulas to calculate the totals of the Trial Balance columns.
8. Key the adjusting entries in the Adjustments columns.
9. Create the appropriate formulas to extend amounts to the income statement and balance sheet.

4. **AA ONLINE** Go to [www.cengage.com/login](http://www.cengage.com/login)

5. Click on AA Online to access.

6. Go to the online assignment and follow the instructions.

On April 30 of the current year, Naples Electric Repair 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	\$5,658.00	
Petty Cash	300.00	
Accounts Receivable—Barbara Bye	3,022.00	
Supplies	1,710.00	
Prepaid Insurance	2,200.00	
Accounts Payable—Seaside Supplies		\$1,000.00
Kaelynn Guerero, Capital		9,004.00
Kaelynn Guerero, Drawing	880.00	
Income Summary		
Sales		6,800.00
Advertising Expense	900.00	

Cash Short and Over	4.00	
Insurance Expense		
Miscellaneous Expense	380.00	
Rent Expense	750.00	
Supplies Expense		
Utilities Expense	1,000.00	

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	\$ 440.00
Value of prepaid insurance	1,800.00

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.
7. A journal and general ledger accounts are given in the Working Papers. The general ledger accounts do not show all details for the fiscal period. The balance shown in each account is the account's balance before adjusting entries are posted. Use page 8 of a journal. Journalize and post the adjusting entries.

**Work Sheet and Adjusting Entries for a Service Business: Apply Your Understanding: Challenge Problem**

6-C Challenge Problem: Completing a Work Sheet LO1, 2, 3, 4, 5, 6

ProSource 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—C. Grumpa	\$1,650.00
Supplies	1,400.00
Donna Beggin, Drawing	600.00
Sales	7,600.00
Advertising Expense	400.00
Rent Expense	1,200.00
Utilities Expense	780.00
Information from the business's checkbook:	
Cash balance on last unused check stub	\$6,238.00
Total payments for miscellaneous expense	100.00
Total payments for insurance	800.00
Information obtained through inquiries to other businesses:	
Owed to Century Supplies	\$3,000.00
Value of prepaid insurance, November 30	500.00
Information obtained by counting supplies on hand after the fire:	
Supplies on hand	\$400.00

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.

Work Sheet and Adjusting Entries for a Service Business: 21st Century Skills

## Insurance Expense

Theme: Financial, Economic, Business, and Entrepreneurial Literacy

Skills: Workplace Competency, Information Literacy, Critical Thinking and Problem Solving

Adjustments for prepaid insurance are made by most companies. Insurance, or risk management, is crucial for owners to protect the business against unexpected loss or damage. In addition to the familiar property, liability, and automobile insurance, many other types of insurance coverage are available for a business.

One example is business interruption insurance. This insurance provides funds to make up for income that is lost due to something that disturbs the normal business operations. For example, a printing press that is struck by lightning might interrupt revenue until it can be repaired.

Another example is professional liability insurance that provides protection against being sued for professional negligence. Malpractice insurance, carried by physicians and other health professionals, is probably the most common professional liability insurance. Professional liability insurance is also used by architects, accountants, teachers, counselors, and other professionals. The rate for professional liability insurance varies by state and by specialty. Malpractice insurance for doctors may cost upwards of \$100,000 per year!

### Application

1. Use the Internet to find the malpractice insurance rates in your state, two nearby states, and two distant states. Prepare a chart showing how rates in your state compare to the others. What do you think could explain the variances?
2. With a partner, brainstorm at least five different business interruptions that might cause a business to suffer a loss of income.

### Work Sheet and Adjusting Entries for a Service Business: Auditing for Errors

The trial balance for Ogren Company is given below.

Account Titles	Account Balances	
	Debit	Credit
Cash		\$2,196.00
Petty Cash	\$ 150.00	
Accounts Receivable—Halstad Co.		1,475.00
Supplies		163.00
Accounts Payable—Eglund Inc.	625.00	
Wendy Mackerman, Capital		3,250.00
Wendy Mackerman, Drawing		300.00
Income Summary		
Sales	1,250.00	
Advertising Expense		716.00
Supplies Expense		
Rent Expense	125.00	
Totals	<u>\$2,150.00</u>	<u>\$8,100.00</u>

The Debit column does not equal the Credit column. The new bookkeeper knows that the amounts are correct but is not sure if the amounts are in the correct columns.

#### Review and Answer

- Using what you know about the normal balance side of each account, find which amount(s) are in the wrong column.
- On a separate piece of paper, copy the balances, putting them in the correct columns.
- Total the columns to prove that debits now equal credits.

#### Work Sheet and Adjusting Entries for a Service Business: Analyzing Nike's Financial Statements

The length of time for which a business summarizes and reports financial information is known as a fiscal period. Annual statements use a fiscal period equal to one year. However, the fiscal year does not necessarily begin on January 1 and end on December 31 (a calendar year). A company's fiscal year can begin on any date. Most companies choose a fiscal year that ends during a period of low business activity, often after a period of high activity, when inventories are low. Look at Nike's financial statements in Appendix B beginning on page B-5.

#### Instructions

1. When does Nike's fiscal year end?

2. Why do you think Nike's management feels that this is a good time for a fiscal year-end?