CHAPTER 6 – WORK SHEET FOR A SERVICE BUSINESS

I. Consistency in Reporting

A. General ledger accounts must be analyzed, summarized, and reported in a meaningful way in order for managers and owners to use the information.

B. **Consistent Reporting** — The same accounting procedures are followed in the same way in each accounting period (Accounting Concept).

C. Unless the business is consistent in reporting information, different years cannot be compared.

<u>6-1 Creating a Work Sheet</u>

II. Beginning a Work Sheet

A. ***Fiscal Period*** – The length of time for which a business summarizes and reports financial information. This is also called an accounting period. The most common fiscal periods are a month, a quarter (3 months), six months, and a year (a year does not have to be January to December).

1. **Accounting Period Cycle** – When changes in financial information are reported for a specific period of time in the form of financial statements. Each business chooses a fiscal period length that meets its needs. Because federal and state tax reports are based on one year, most businesses use a one-year fiscal period.

2. TechKnow Consulting uses a one-month fiscal period. This is done to help Ms. Parks make decisions because this is such a new business.

3. Many businesses that use a one-year fiscal period choose a time to end it when other business activities are the lightest. (Schools – July 1 - June 30)

4. 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.

A. ***Work Sheet*** – A columnar accounting form used to summarize the general ledger information needed to prepare financial statements.

1. Accountants use work sheets to summarize general ledger account balances to prove that debits equal credits, to plan needed changes to general ledger accounts to bring account balances up to date, to separate general ledger account balances according to the financial statements to be prepared, to calculate the amount of net income or net loss for a fiscal period.

2. 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 account record. Therefore, a work sheet is always prepared in pencil.

3. Heading of the Work Sheet – name of the business on the first line, name of the report (Work Sheet) on the second line, date of the report on the third line. This is just like any other type of report. The date includes the words “For Period Ended” – Period could be month, year, etc.

B. ***Trial Balance*** –A proof of the equality of debits and credits in a general ledger.

1. The trial balance must work out (debits equal credits) before going on to the next part of the work sheet.

2. Information for the trial balance is taken from the general ledger.

3. General ledger account titles are listed on a trial balance in the same order as listed on the chart of accounts.

4. All account titles are listed, even if some accounts do not have balances.

6- 2 Planning Adjusting Entries on a Work Sheet

III. Adjustments

A. Sometimes a business will pay cash for an expense in one fiscal period, but the expense is not used until a later period. The expense should be reported in the same fiscal period that it is used to produce revenue.

B. **Matching Expenses with Revenue** – when revenue from business activities and expenses associated with earning that revenue are recorded in the same accounting period (Accounting Concept).

C. If supplies are bought in August and only part are used that month and part in September, only the value of the supplies used in August should be reported as expenses in August.

D. 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.

1. Supplies that are used become an expense to the business.
Supplies Expense – Debit
Supplies – Credit

2. Insurance that has been used (expired) becomes an expense to the business.
Insurance Expense – Debit
Prepaid Insurance – Credit

E. ***Adjustments*** – Changes recorded on a work sheet to update general ledger accounts at the end of a fiscal period.

1. Assets such as supplies and prepaid insurance are used to earn revenue. The portions of the assets consumed in order to earn revenue become expenses. The portions consumed are no longer assets but are now expenses. These accounts are adjusted on the work sheet.

2. A work sheet is used to plan adjustments. Changes are not made in general ledger accounts until adjustments are journalized and posted.

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.

6 - 3 Extending Financial Statement Information on a Work Sheet

IV. Completing the Work Sheet

E. At the end of a fiscal period, a business prepares two financial statements from the work sheet.

1. Balance Sheet – reports assets, liabilities, and owner's equity on a specific date.

a. Up-to-date balances of assets, liabilities, and owner's equity are extended to the Balance Sheet Debit and Credit columns.

2. Income Statement – shows the revenue and expenses for a fiscal period.

a. Up-to-date balances of revenue and expenses are extended to the Income Statement Debit and Credit columns.

3. ***Net Income*** – The difference between total revenue and total expenses when total revenue is greater.

4. ***Net Loss*** – The difference between total revenue and total expenses when total expenses are greater.

5. Before a work sheet is completed, the Income Statement and Balance Sheet columns must be totaled.

6. In order to find net income or net loss, you subtract the Income Statement Debit and Credit columns. If the credit side (revenue) is larger, there is net income. If the debit side (Expenses) is larger, there is net loss.

6 - 4 Finding and Correcting Errors on the Work Sheet

V. Errors on the Work Sheet and Journal

A. Some errors in accounting records may not be discovered until a work sheet is prepared. Any errors found on a work sheet must be corrected before any further work is completed.

B. 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.

C. When two column totals are not in balance, subtract the smaller total from the larger total to find the difference.

1. If the difference is 1 (.01, .10, $1, etc.), the error is most likely addition. Add the columns again.

2. If the difference can be divided evenly by 2 ($48 divided by 2 = $24), look for that number in the Trial Balance columns of the work sheet. If the amount is found, be sure it's in the correct column–debit or credit. If the error is not found on the work sheet, check the general ledger account and journal entries – may be in the wrong column of one of these.

3. If the difference can be divided evenly by 9, look for transposition error.

4. The difference may be an omitted amount. Look for an amount equal to the difference. (Example – the difference is $40; look for that amount on the work sheet)

D. Correcting an error in posting to the wrong account.

    1. Draw a line through the entire incorrect entry in the account. 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.

F. Correcting an incorrect amount.

    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.

G. Correcting an amount posted to the wrong column.

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

    2. Record the posting in the correct amount column.

    3. Recalculate the account balance, and correct the work sheet.

H. Checking for errors in journal entries.

    1. Do debits equal credits in each journal entry?

    2. Is each journal entry amount recorded in the correct journal column?

    3. Is information in the Account Title column correct for each journal entry?

    4. Are all of the journal amount column totals correct?

    5. Does the sum of debit column totals equal the sum of credit column totals in the journal?

    6. Have all transactions been recorded?

I. Preventing Errors

    1. Work carefully to avoid errors.

    2. Check the work at each step in an accounting procedure.

    3. Most errors occur in doing arithmetic, especially in adding columns. When possible, use a calculator.

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