



LIFEPAAC®

Accounting

Student Book

Unit 5



ACCOUNTING LIFE PAC 5

PREPARING THE WORKSHEET

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Author:

Editors:



Alpha Omega Publications®

Daniel L. Ritzman, B.S.

Alan Christopherson, M.S.

Jennifer L. Davis, B.S.

804 N. 2nd Ave. E., Rock Rapids, IA 51246-1759

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ACCOUNTING LIFE PAC 5

PREPARING THE WORKSHEET

OVERVIEW

Periodically the owner of a business needs to determine the financial results for the accounting period. That is, has the business income been greater than the business operating expenses? Has the business grown from one accounting cycle to the next? How do the income and expenses of this fiscal period compare to the previous period? Are the profits increasing, thus aiding in business expansion?

To answer these questions, reports must be prepared for the end of the fiscal period. The fifth step in the accounting cycle is to complete a worksheet. LIFE PAC 5 will show you how the worksheet is used to organize the information recorded in the general ledger accounts. You will also learn how to calculate the net income or net loss for the fiscal period.

OBJECTIVES

When you have completed this LIFE PAC® you will be able to:

1. Define the accounting terms associated with the preparation of a worksheet.
2. Recognize accounting concepts and practices associated with a worksheet for a service business.
3. Explain why a business divides its accounting cycle into periods of equal length.
4. Understand and explain why a worksheet is prepared.
5. Describe the parts of a six-column worksheet.
6. Prepare a six-column worksheet.
7. Calculate net income and net loss using a six-column worksheet.
8. Describe the parts of an eight-column worksheet.
9. Plan the adjustments needed at the end of a fiscal period.
10. Explain why adjustments are needed for certain accounts.
11. Calculate net income and net loss using an eight-column worksheet.
12. Find and correct common errors made in recording or calculating amounts.

VOCABULARY

Adjustments – an adjustment is an amount that is added to or subtracted from an account balance to bring the balance up to date.

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

Consistent Reporting – the same accounting concepts are applied the same way for each accounting period for as long as the business operates.

Fiscal Period – the length of the accounting cycle for which a business summarizes and reports financial information.

Income Statement – a financial statement that reports the revenue and expenses for a fiscal period.

Matching Expenses with Revenue – all revenue and expenses associated with a business activity are to be recorded in the same accounting period.

Net – the amount remaining after all deductions have been made.

Net Income – the difference between total revenue and total expenses when total revenue is greater than total expenses.

Net Loss – the difference between total revenue and total expenses when total expenses are greater than total revenue.

Ruling – refers to drawing a line. A single line means the entries above are complete. A double line means the figures have been verified as correct.

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

Working Papers – informal, informational papers provided by accountants to owners and managers.

Worksheet – a columnar accounting form used to summarize the general ledger information needed to prepare financial statements.

SECTION I. PREPARING A SIX-COLUMN WORKSHEET



The general ledger accounts of any business contain vital information needed by managers and owners to determine the growth and profitability of that business. This information is presented account by account in the general ledger but is not very useful. In order for an owner or manager to interpret the information gathered, it must be analyzed, summarized and reported in an understandable and meaningful way. This is accomplished by applying the accounting concept of **consistent reporting**: the same accounting procedure is followed for each accounting period. The same methods of sorting, summarizing and analyzing business information are used for each accounting cycle.

The length of the accounting cycle for which a business summarizes and reports financial information is called a **fiscal period**. A company may choose any time period as a fiscal period—a month, a quarter, six months, or a year. The length of a fiscal period varies from one business to another. Each business can choose a fiscal period that will provide all the information it needs; however, since most federal and state reports are required annually, most businesses design an accounting period that corresponds with the state and federal tax reports. The most common fiscal period for most businesses is annual.

The accountant uses various methods of providing the owners and managers with information vital to all business decisions. The accountant organizes the data that is presented on the formal financial reports by preparing numerous informational reports in the form of memoranda, analysis papers and informal reports. These informal papers are often referred to as **working papers** and are an invaluable tool for accountants. One such tool is the **worksheet**. A worksheet is a columnar accounting form used to summarize the general ledger information needed to prepare the financial statements. This important working paper is not given to the owner or manager, however. It is prepared solely for the benefit of the accountant.

In LIFE PAC 4 you learned that all transactions are recorded in the general journal, posted to the general ledger and a trial balance is then prepared. If the trial balance is in balance, it proves the accuracy of the journalizing and posting process. For a small business, the trial balance is also used in the preparation of all formal financial reports.

However, if a company has a large number of accounts or has accounts that need to be adjusted to bring their balances up to date, the accountant takes the additional step of preparing a worksheet. This extra step decreases errors on the formal financial reports.

The worksheet helps the accountant to do the following:

1. Prepare the unadjusted trial balance to prove the equality of the debit and credit balances taken from the ledger;
2. Show the effects of the adjustments on the account balances to bring them up to date;
3. Sort the account balances into columns according to whether that account is used in preparing an income statement or a balance sheet; and
4. Calculate the amount of the net income or net loss for the fiscal period.

The preparation of the worksheet is the next step in the accounting cycle. The first four steps of the accounting cycle are performed frequently during the fiscal period. These steps include analyzing business transactions, journalizing transactions in the general journal, posting to the general ledger and preparing a trial balance.

Many business forms become part of the permanent records of a business. These records include source documents, journals and ledgers. Since these records are permanent, they are prepared in ink. However, the worksheet is not a permanent record of a business and is completed in pencil. Using pencil allows the accountant to correct errors easily, adjust accounts and extend balances without having to cross out amounts if mistakes are made.

The six-column worksheet is usually prepared by small sole proprietorship. These businesses are normally service-type businesses that do not accumulate a great number of assets or liabilities. Most of their income and expenses are easy to determine and calculate. The worksheet for such a business is prepared on standard, multi-column accounting paper. This columnar sheet may or may not include preprinted headings. Many accountants prefer the flexibility of entering their own column headings, while others prefer accounting papers with the heading already printed.



A six-column worksheet has five major parts, as illustrated below:

1. the heading,
2. the account number and account title section,
3. the trial balance section,
4. the income statement section, and
5. the balance sheet section.

1							
ACCT NO.	2 ACCOUNT NAME	3 TRIAL BALANCE		4 INCOME STATEMENT		5 BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT

The Heading Section

1 <i>Overview Tours</i>							
2 <i>Worksheet</i>							
3 <i>For the Month Ended July 31, 20—</i>							
ACCT NO.	ACCOUNT NAME	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT

Just like the balance sheet and the trial balance, the heading on a worksheet consists of three lines that define *who*, *what* and *when*:

- | | | |
|-----------------------------|--------------|-------------------------------------|
| 1. The name of the business | WHO? | “Overview Tours” |
| 2. The name of the report | WHAT? | “Worksheet” |
| 3. The date of the report | WHEN? | “For the Month ended July 31, 20__” |

The above worksheet for Overview Tours has been prepared for the fiscal period ending July 31 of the current year and reflects the account balances for that accounting cycle.

The Account Title and Trial Balance Section

In LIFE PAC 4 you learned that a trial balance is prepared after completing a certain number of transactions. The trial balance provides proof of the equality of debits and credits in a general ledger and can be prepared at any time during a fiscal period. However, when a trial balance is prepared at the end of the accounting cycle, it is prepared on the trial balance section of the worksheet.

The general ledger provides the information needed to prepare the account title and trial balance sections of the worksheet. The account titles are listed on the worksheet in the same order as they appear in the general ledger—assets, liabilities, owner’s equity, revenue and expenses. Accounts with normal debit balances will be listed in the debit column of the trial balance section of the worksheet. Accounts with normal credit balances are listed in the credit column of the trial balance section of the worksheet. Some accounts may have a zero balance. These accounts should also be listed to avoid omitting an account that appears in the general ledger. Listing all the accounts will insure that all information needed to prepare financial reports is available.

Steps for preparing the account title and the trial balance sections of the worksheet:

1. Write the general ledger account titles (and account numbers if a place is provided for them) in the account title section of the worksheet.
2. Copy the general ledger account *debit* balances to the trial balance debit column.
3. Copy the general ledger account *credit* balances to the trial balance credit column.

*Overview Tours
Worksheet
For the Month Ended July 31, 20—*

ACCT NO.	1 ACCOUNT NAME	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
		2 DEBIT	3 CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
110	Cash	24560 00					
120	Petty Cash	300 00					
130	Office Equipment	10000 00					
140	Garage Equipment	900 00					
210	Staples		450 00				
220	Town Supply		250 00				
310	John Jones, Capital		34850 00				
320	John Jones, Drawing	300 00					
410	Sales		1200 00				
510	Advertising Expense	50 00					
520	Miscellaneous Expense	150 00					
530	Rent Expense	450 00					
540	Utilities Expense	40 00					
5	Totals	4 36750 00	6 36750 00				

4. Rule a single line across the debit and credit columns after the last account entered. The single indicates that the columns are to be added. **Ruling** means drawing a line.
5. Write the word *Totals* below the single line and total both columns of the trial balance section. If the column totals are the same, then the debits and credits of the general ledger are in balance.
6. Rule a double line across the trial balance columns. This indicates the balances are equal and correct.

The Balance Sheet Section

As each fiscal period ends, two financial statements are prepared from the information gathered on the worksheet. These statements are used to answer the basic questions asked by the owner of every business: What is the owner's net worth (capital) and what is the net income (profit) for the fiscal period? **Net** refers to the amount that remains after all deductions have been made.

The **balance sheet** is the financial statement that answers the question about the owner's net worth or capital. A balance sheet lists the assets, the liabilities and the owner's equity (capital) for a specific date.

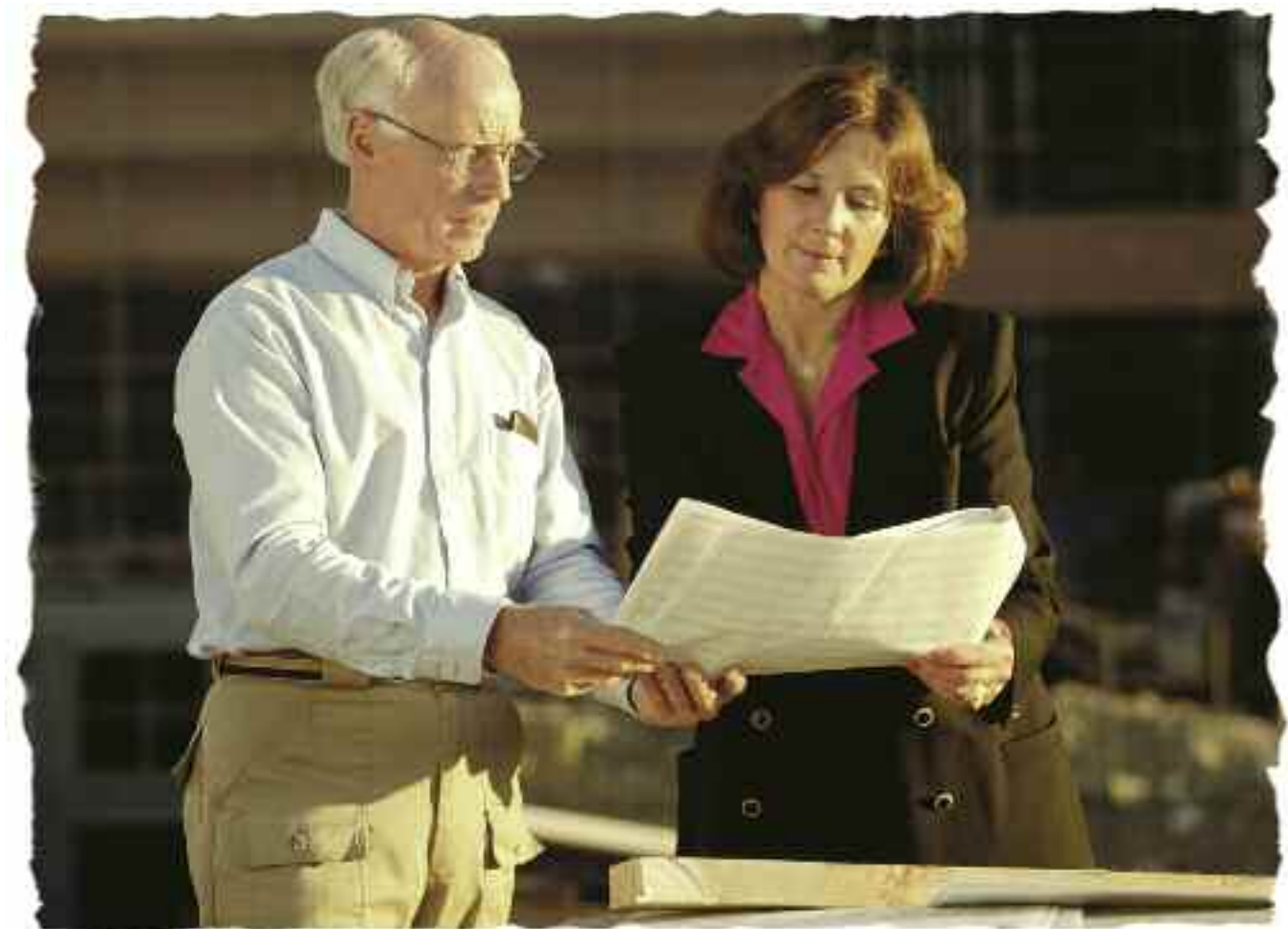
<i>Overview Tours</i>													
<i>Worksheet</i>													
<i>For the Month Ended July 31, 20—</i>													
ACCT NO.	ACCOUNT NAME	TRIAL BALANCE				INCOME STATEMENT				BALANCE SHEET			
		DEBIT		CREDIT		DEBIT		CREDIT		1 DEBIT		2 CREDIT	
110	Cash	24560	00							24560	00		
120	Petty Cash	300	00							300	00		
130	Office Equipment	10000	00							10000	00		
140	Garage Equipment	900	00							900	00		
210	Staples			450	00							450	00
220	Town Supply			250	00							250	00
310	John Jones, Capital			34850	00					3		34850	00
320	John Jones, Drawing	300	00							300	00		
410	Sales			1200	00								
510	Advertising Expense	50	00										
520	Miscellaneous Expense	150	00										
530	Rent Expense	450	00										
540	Utilities Expense	40	00										
	<i>Totals</i>	36750	00	36750	00								

The **income statement** is the financial statement that answers the question about net income. An income statement lists the revenue, expenses and the net income for a fiscal period. All up-to-date balances are extended to the proper columns of the worksheet for the two financial reports.

The balance sheet section of the worksheet contains the balances of the asset, liability and owner's equity accounts. The amounts are extended from the trial balance section. The accountant simply copies the balances of these accounts into the appropriate columns of the balance sheet section of the worksheet. These accounts are referred to as balance sheet accounts or real (permanent) accounts. These permanent accounts are carried from fiscal period to fiscal period for as long as the business exists.

The steps to extend balances to the balance sheet section are:

1. Extend the asset account debit balances.
2. Extend the liability account credit balances.
3. Extend the owner's equity account balances: the credit balance of the owner's capital account is extended to the credit column and the debit balance of the owner's drawing account is extended to the debit column of the balance sheet section.



The Income Statement Section

This section contains the balances of all revenue and expense accounts. Since revenue and expense accounts follow the assets, liabilities and owner's equity accounts on the trial balance, their balances are extended *after* completing the balance sheet section of the worksheet.

The steps for extending the revenue and expenses are as follows:

1. Extend the revenue account balance. Revenue accounts have a credit balance; therefore, they are extended to the credit column of the income statement section of the worksheet.
2. Extend the balances of all expenses. Expense accounts have debit balances; therefore, they are extended to the debit column of the income statement section of the worksheet.

<i>Overview Tours</i>											
<i>Worksheet</i>											
<i>For the Month Ended July 31, 20—</i>											
ACCT NO.	ACCOUNT NAME	TRIAL BALANCE				INCOME STATEMENT				BALANCE SHEET	
		DEBIT		CREDIT		DEBIT		CREDIT		DEBIT	CREDIT
110	Cash	24560	00								
120	Petty Cash	300	00								
130	Office Equipment	10000	00								
140	Garage Equipment	900	00								
210	Staples			450	00						
220	Town Supply			250	00						
310	John Jones, Capital			34850	00						
320	John Jones, Drawing	300	00								
410	Sales			1200	00			1	200	00	
510	Advertising Expense	50	00			2	50	00			
520	Miscellaneous Expense	150	00			150	00				
530	Rent Expense	450	00			450	00				
540	Utilities Expense	40	00			40	00				
	Totals	36750	00	36750	00						

*Overview Tours
Worksheet
For the Month Ended July 31, 20—*

ACCT NO.	ACCOUNT NAME	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
110	Cash	24560 00				24560 00	
120	Petty Cash	300 00				300 00	
130	Office Equipment	10000 00				10000 00	
140	Garage Equipment	900 00				900 00	
210	Staples		450 00				450 00
220	Town Supply		250 00				250 00
310	John Jones, Capital		34850 00				34850 00
320	John Jones, Drawing	300 00				300 00	
410	Sales		1200 00		1200 00		
510	Advertising Expense	50 00		50 00			
520	Miscellaneous Expense	150 00		150 00			
530	Rent Expense	450 00		450 00			
540	Utilities Expense	40 00		40 00			
	Totals	36750 00	36750 00	690 00	1200 00	36060 00	35550 00

Difference: \$510.00

Difference: \$510.00

After extending the amounts in the trial balance section to the income statement and balance sheet section, the columns are then totaled as shown above. A single line is drawn across the last four columns to indicate they are to be added. Unlike the trial balance section of the worksheet, in these two sections the *debits and credits do not equal*. The difference between the column totals (\$510.00) represents the net income or net loss for the fiscal period.

Calculating Net Income

The **net income** is the difference between total revenue and total expenses when total revenue is greater than total expenses. A **net loss** would occur when the total expenses were greater than the total revenue for a fiscal period.

Revenue for a fiscal period is always matched with expenses for the same period. The income statement section includes both the revenue and expenses for the fiscal period. After the columns have been totaled, the total expenses (the debit column total) are subtracted from total revenue (the credit column total) to find the net income.

The net income must also be transferred to the balance sheet section of the worksheet. Revenue and expense accounts are temporary *capital* accounts. At the end of the fiscal period, the net income is transferred to the capital account in the ledger by using an account called *Income*

*Overview Tours
Worksheet
For the Month Ended July 31, 20—*

ACCT NO.	ACCOUNT NAME	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
110	Cash	24560 00				24560 00	
120	Petty Cash	300 00				300 00	
130	Office Equipment	10000 00				10000 00	
140	Garage Equipment	900 00				900 00	
210	Staples		450 00				450 00
220	Town Supply		250 00				250 00
310	John Jones, Capital		34850 00				34850 00
320	John Jones, Drawing	300 00				300 00	
410	Sales		1200 00		1200 00		
510	Advertising Expense	50 00		50 00			
520	Miscellaneous Expense	150 00		150 00			
530	Rent Expense	450 00		450 00			
540	Utilities Expense	40 00		1 40 00			
	Totals	36750 00	36750 00	2 690 00	1200 00	36060 00	35550 00
3	Net Income			4 510 00			510 00
				5 1200 00	1200 00	36060 00	36060 00

Summary. The Income Summary account will be explained in detail in LIFEPAK 7. Since the capital account is increased by a credit, the amount of the net income is added to the total of the balance sheet credit column on the worksheet, as illustrated above:

1. Rule a single line across the four columns of the income statement and balance sheet sections of the worksheet.
2. Add both debit and credit columns of the income statement and balance sheet sections. Write the total below the single line. Net income is the difference between the debit and credit columns of the income statement section of the worksheet.
3. Write the amount of net income below the income statement debit column total. Write the words *Net Income* on the same line in the account title column.
4. Since the owner's capital account is increased by the net income of the business, Capital must be credited to increase its value. Extend the amount of net income to the balance sheet *credit* column on the same line as the words *Net Income*.
5. Draw a single line underneath the net income amounts and bring down the totals of these four columns. Check the equality of the debits and credits in the columns and draw a double rule underneath to indicate that the totals are correct and the form is complete.



Complete the following activity.

The account balances for the **Fox Amusement Park** for the fiscal period ending October 31 of the current year are given below.

Account No. & Title		Debit	Credit
110	Cash	\$ 4,580.00	
120	Concession Equipment	5,800.00	
130	Repair Equipment	7,800.00	
210	Concession Supply Co.		\$ 1,560.00
310	Jason Fox, Capital		10,200.00
320	Jason Fox, Drawing	900.00	
410	Admissions Income		11,500.00
420	Concessions Income		2,600.00
510	Advertising Expense	2,500.00	
520	Rent Expense	3,500.00	
530	Utilities Expense	780.00	

1.1 Using the above information, prepare a worksheet for the **Fox Amusement Park** for the month ended October 31 of the current year.

Instructions:

- Write the heading** on the worksheet.
- List all of the account numbers, titles and balances** in the trial balance section.
- Balance and rule** the trial balance.
- Extend the amounts** of the trial balance section to the balance sheet and income statement sections.
- Total the columns** for the income statement and balance sheet sections.
- Calculate** the Net Income or Net Loss.
- Enter the amount of Net Income or Net Loss** in the proper column of the balance sheet and income statement sections.
- Total and rule** the income statement and balance sheet sections.



Worksheet for Exercise 1.1

ACCT NO.	ACCOUNT NAME	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT



Complete the following activity.

The account balances for **Johnson's Computer Services** for the fiscal period ending December 31 of the current year are given below.

Account No. & Title		Debit	Credit
110	Cash	\$ 2,580.00	
120	Computer Supplies	800.00	
130	Delivery Equipment	10,600.00	
140	Repair Equipment	7,800.00	
210	Computer Supply Co.		\$ 6,560.00
310	Kellie Johnson, Capital		19,200.00
320	Kellie Johnson, Drawing	1,900.00	
410	Computer Sales		11,500.00
420	Repair Income		11,500.00
510	Advertising Expense	12,500.00	
520	Miscellaneous Expense	1,200.00	
530	Rent Expense	9,600.00	
540	Utilities Expense	1,780.00	

- 1.2 Using the above information, prepare a worksheet for the **Johnson's Computer Service** for the month ended December 31 of the current year.

Instructions:

1. **Write the heading** on the worksheet.
2. **List all of the account numbers, titles and balances** in the trial balance section.
3. **Balance and rule** the trial balance.
4. **Extend the amounts** of the trial balance section to the balance sheet and income statement sections.
5. **Total the columns** for the income statement and balance sheet sections.
6. **Calculate** the Net Income or Net Loss.
7. **Enter the amount of Net Income or Net Loss** in the proper column of the balance sheet and income statement sections.
8. **Total and rule** the income statement and balance sheet sections.



Worksheet for Exercise 1.2

ACCT NO.		ACCOUNT NAME	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET		
			DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	



Complete the following activity.

The account balances for **Lawson’s Travel Agency** for the fiscal period ending June 30 of the current year are given below.

Account No. & Title		Debit	Credit
110	Cash	\$ 9,450.00	
120	Accounts Receivable	4,860.00	
130	Office Equipment	17,800.00	
140	Office Supplies	800.00	
150	Furniture	1,600.00	
210	Accounts Payable		\$ 6,890.00
220	Sales Tax Payable		950.00
310	Donald Lawson, Capital		26,390.00
320	Donald Lawson, Drawing	900.00	
410	Fees Income		10,550.00
510	Entertainment Expense	290.00	
520	Miscellaneous Expense	200.00	
530	Rent Expense	600.00	
540	Travel Expense	6,500.00	
550	Utilities Expense	1,780.00	

1.3 Using the above information, prepare a worksheet for **Lawson’s Travel Agency** for the month ended June 30 of the current year.

Instructions:

1. **Write the heading** on the worksheet.
2. **List all of the account numbers, titles and balances** in the trial balance section.
3. **Balance and rule** the trial balance.
4. **Extend the amounts** of the trial balance section to the balance sheet and income statement sections.
5. **Total the columns** for the income statement and balance sheet sections.
6. **Calculate** the Net Income or Net Loss.
7. **Enter the amount of Net Income or Net Loss** in the proper column of the balance sheet and income statement sections.
8. **Total and rule** the income statement and balance sheet sections.



Worksheet for Exercise 1.3

ACCT NO.	ACCOUNT NAME	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT



Review the material in this section in preparation for the Self Test. The Self Test will check your mastery of this particular section. The items missed on this Self Test will indicate specific areas where restudy is needed for mastery.

SELF TEST 1

Complete the following activities (each answer, 4 points).

1.01 What is a fiscal period? _____

1.02 What is the normal length of a fiscal period and why? _____

1.03 List other possible fiscal periods. _____

1.04 List four reasons for preparing a worksheet.

a. _____

b. _____

c. _____

d. _____

1.05 Why is it permissible to prepare a worksheet in pencil? _____

1.06 List the five parts of a six-column worksheet.

a. _____

b. _____

c. _____

d. _____

e. _____

1.07 What three items appear in the heading of the worksheet?

a. _____

b. _____

c. _____

- 1.08 How are the accounts listed in the account title section? _____

- 1.09 What controls the order of the accounts in the general ledger? _____

- 1.010 What effect does net income have on the owner's capital account? _____

- 1.011 How is net income shown on the balance sheet section of a worksheet? _____

- 1.012 What is the purpose of a single line ruled under a column of numbers on the worksheet?

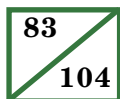
- 1.013 What is the effect of a net loss on the owner's capital account? _____

- 1.014 How is a net loss shown on the balance sheet section of a worksheet? _____

- 1.015 What is the purpose of a double line drawn across two columns of a worksheet? _____

- 1.016 After completing the trial balance section of a worksheet, to which section do you extend the balances of assets, liabilities and owner's equity? _____

- 1.017 After completing the trial balance section of a worksheet, to which section do you extend the balances of revenue and expenses? _____



Score _____

Adult Check _____

Initial

Date