

CHAPTER 8

The Six-Column Work Sheet

BEFORE
You

READ

What You'll Learn

1. Explain the purpose of the work sheet.
2. Describe the parts of a six-column work sheet.
3. Prepare a six-column work sheet.
4. Calculate net income and net loss.
5. Define the accounting terms introduced in this chapter.

Why It's Important

- The work sheet is the tool used to complete the final steps of the accounting cycle.



Predict

1. What does the chapter title tell you?
2. What do you already know about this subject from personal experience?
3. What have you learned about this in the earlier chapters?
4. What gaps exist in your knowledge of this subject?

Exploring the *Real World* of Business

SUMMARIZING RESULTS

American Express Company

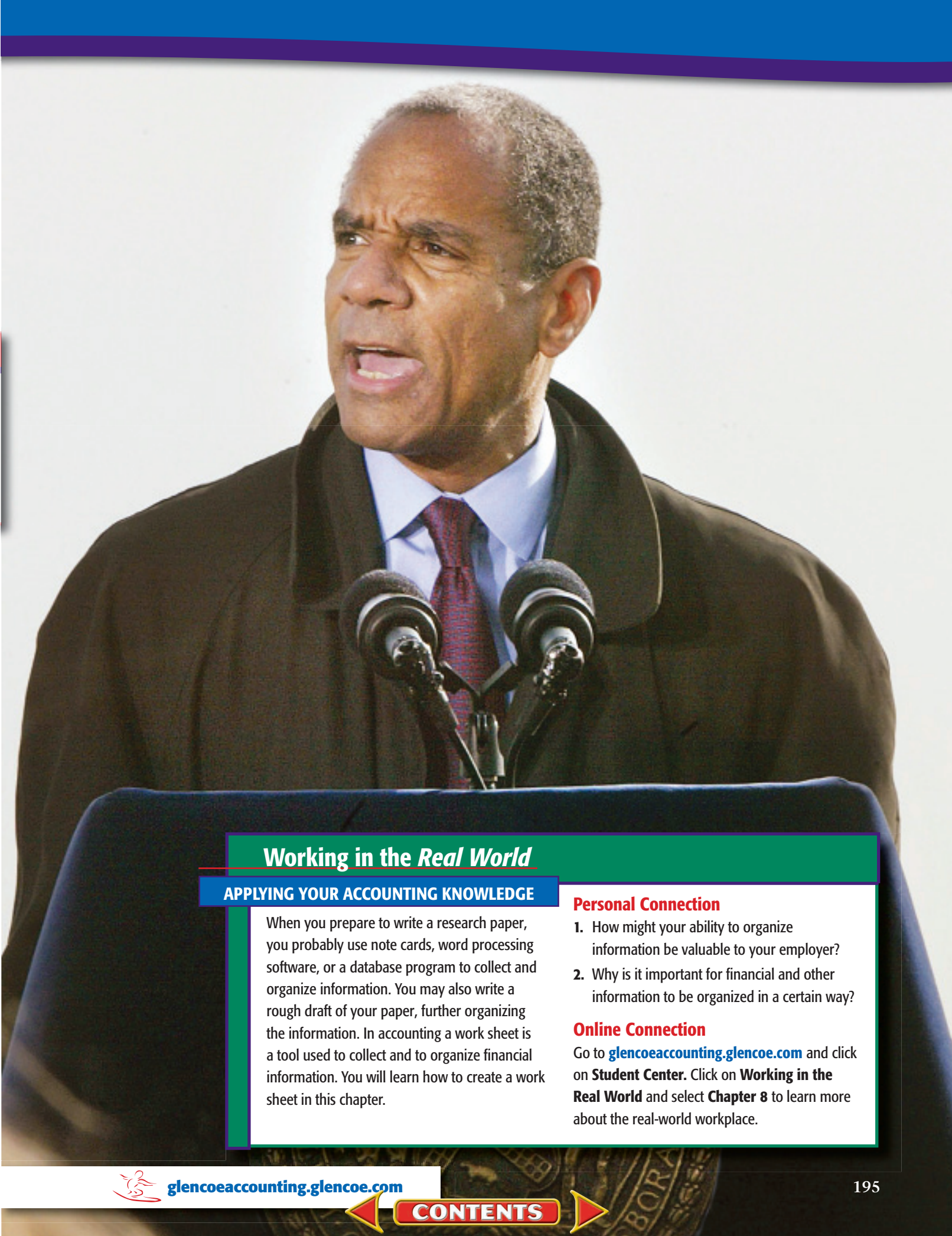
"Don't leave home without it." For decades, people and businesses worldwide have followed the ad slogan's advice and used their **American Express** card for purchases. The **American Express Company**, originally founded as a delivery service in 1850, is also the world's top travel agency.

American Express would not want to leave home without its chief executive officer, Kenneth Chenault. Described as a tough-minded yet warm person, this CEO gets results. His leadership during difficult times enabled the company to not only survive, but thrive.

The company's expenses include advertising, promotions, and salaries. Commissions from retailers provide large revenues. Accountants at **American Express** use tools like work sheets to summarize revenues and expenses.

What Do You Think?

Why do you think summarizing expenses and revenues might help manage a business like **American Express**?



Working in the *Real World*

APPLYING YOUR ACCOUNTING KNOWLEDGE

When you prepare to write a research paper, you probably use note cards, word processing software, or a database program to collect and organize information. You may also write a rough draft of your paper, further organizing the information. In accounting a work sheet is a tool used to collect and to organize financial information. You will learn how to create a work sheet in this chapter.

Personal Connection

1. How might your ability to organize information be valuable to your employer?
2. Why is it important for financial and other information to be organized in a certain way?

Online Connection

Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Working in the Real World** and select **Chapter 8** to learn more about the real-world workplace.



SECTION I

Preparing the Work Sheet

**BEFORE
YOU**

READ

Main Idea

The work sheet organizes general ledger account information for the financial statements.

Read to Learn...

- the purpose of a work sheet. (p. 197)
- the sections of a work sheet. (p. 197)

Key Terms

work sheet
ruling

As you learned in Chapter 6, the length of an accounting period can vary. The maximum period covered by the accounting cycle is one year. The first five steps of the accounting cycle are performed frequently during the cycle. The last four steps—preparing a work sheet, preparing financial statements, journalizing and posting closing entries, and preparing a post-closing trial balance—are performed at the end of the accounting period. Look at **Figure 8–1**. In this chapter you will learn how to prepare a work sheet, the sixth step of the accounting cycle. With this step, businesses like your local Midas Muffler shop or a Nike Outlet collect information from their ledger accounts and record this information on a single form.

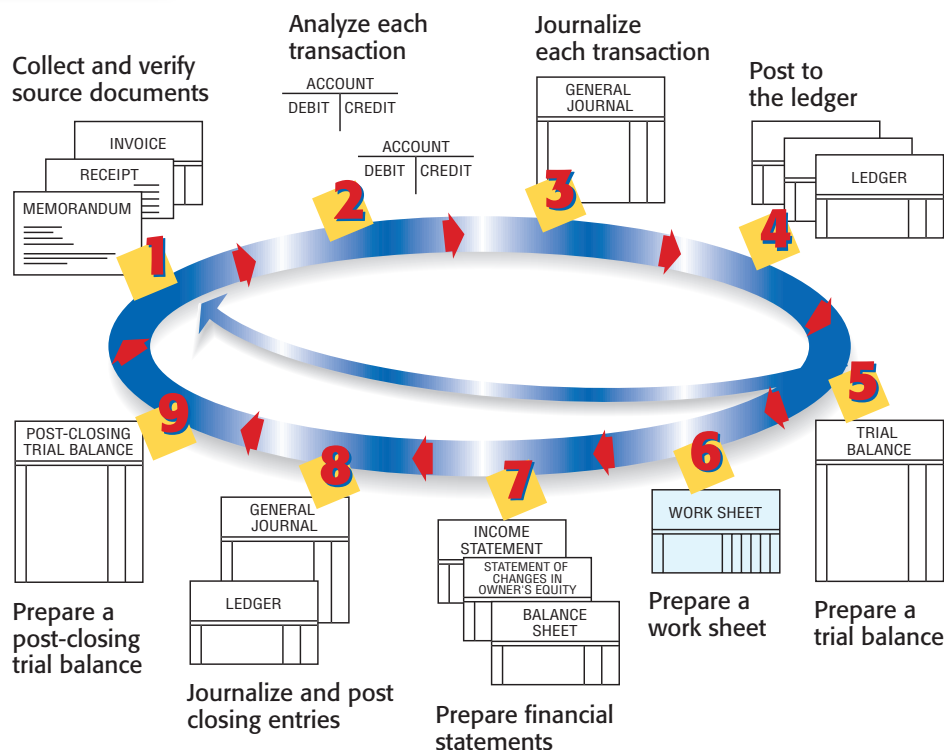


Figure 8–1 Steps in the Accounting Cycle with Step 6 Highlighted

The Sixth Step of the Accounting Cycle: The Work Sheet

What Is the Purpose of a Work Sheet?

A **work sheet** is just what its name implies—a working paper used to collect information from the ledger accounts in one place. Like the T account, the work sheet is a tool that the accountant uses. With the work sheet, an accountant gathers all of the information needed to prepare the financial statements and to complete the other end-of-period activities.

A work sheet may be prepared in pencil on standard multicolumn accounting paper. The paper comes in several sizes and is usually printed without column headings. Blank spaces for column headings allow the accountant to enter the headings needed by a particular business. The work sheet can also be prepared using computer spreadsheet software.

The Work Sheet Sections

How Is the Work Sheet Organized?

The Roadrunner Delivery Service work sheet, shown in Figure 8–2, has five sections:

1. the heading
2. the Account Name section
3. the Trial Balance section
4. the Income Statement section
5. the Balance Sheet section

Roadrunner Delivery Service									
Work Sheet									
For the Month Ended October 31, 20--									
	ACCT. NO.	ACCOUNT NAME	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET		
			DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1	101	Cash in Bank	2112500						1
2	105	Accts. Rec.—City News	145000						2
3	110	Accts. Rec.—Green Company	—						3
4	115	Computer Equipment	300000						4
5	120	Office Equipment	20000						5
6	125	Delivery Equipment	1200000						6
7	201	Accts. Pay.—Beacon Advertising		7500					7
8	205	Accts. Pay.—North Shore Auto		1165000					8
9	301	Maria Sanchez, Capital		2540000					9
10	302	Maria Sanchez, Withdrawals	50000						10
11	303	Income Summary	—	—					11
12	401	Delivery Revenue		265000					12
13	501	Advertising Expense	7500						13
14	505	Maintenance Expense	60000						14
15	510	Rent Expense	70000						15
16	515	Utilities Expense	12500						16
17									17

Figure 8–3 Work Sheet with Account Names and Trial Balance Amounts

The Account Name Section

Information for the Account Name and Trial Balance sections comes from the general ledger accounts. In Chapter 7 you prepared a trial balance by listing the account names and their final balances. A trial balance can be prepared at any time during the accounting period to prove the general ledger. When a trial balance is prepared at the end of an accounting period, though, it is prepared as a part of the work sheet.

Look at the work sheet in **Figure 8–3**. The account numbers and names are from Roadrunner’s general ledger and are listed on the work sheet in the same order that they appear in the general ledger:

- Assets
- Liabilities
- Owner’s Equity
- Revenue
- Expenses

All of the general ledger accounts are listed on the work sheet, even those that have a zero balance. Listing all of the accounts avoids accidentally omitting an account and ensures that the work sheet contains all accounts needed to prepare the financial reports.

The Trial Balance Section

The end-of-period balance in the general ledger for each account is entered in the appropriate amount column of the Trial Balance section. Accounts with debit balances are entered in the Trial Balance Debit column. Accounts with credit balances are entered in the Trial Balance Credit column.

As You READ

Key Point

The Work Sheet On the work sheet, enter the number, name, and balance of every general ledger account.

If an account has a zero balance at the end of the period, a line is drawn in the normal balance column. Notice in **Figure 8–3** that a line was drawn in the Trial Balance Debit column for **Accounts Receivable—Green Company**. Lines were also recorded in the Trial Balance Debit and Credit columns for **Income Summary** since this account does not have a normal balance side. You will learn more about the **Income Summary** account in Chapter 10.

Ruling the Trial Balance Section. **Ruling** means “drawing a line.” In accounting a single rule, or line, drawn under a column of amounts means that the entries above the rule are ready to be totaled. After all account names and balances have been entered on the work sheet, a single rule is drawn under the last entry and across both amount columns of the Trial Balance section as shown in **Figure 8–4**. The Debit and Credit columns are now ready for totaling.

Totaling the Trial Balance Section. If the ledger balances, the total debits will equal the total credits. Look at **Figure 8–4**. The totals match, with each column totaling \$39,775. Since total debits equal total credits, a double rule is drawn across both amount columns just beneath the totals. This double rule means that the amounts just above it are totals and that no other entries will be made in the Trial Balance columns.

If the total debits do not equal the total credits, there is an error. Find and correct the error before completing the work sheet. Procedures for locating errors are discussed in Chapter 7.

As You READ

It's Not What It Seems

Rule We usually think of a *rule* as a law or regulation. When we prepare accounting reports, a *rule* is a straight line that we draw on the paper.

Roadrunner Delivery Service									
Work Sheet									
For the Month Ended October 31, 20--									
	ACCT. NO.	ACCOUNT NAME	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET		
			DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1	101	Cash in Bank	2112500						1
2	105	Accts. Rec.—City News	145000						2
3	110	Accts. Rec.—Green Company							3
4	115	Computer Equipment	300000						4
5	120	Office Equipment	20000						5
6	125	Delivery Equipment	1200000						6
7	201	Accts. Pay.—Beacon Advertising		7500					7
8	205	Accts. Pay.—North Shore Auto		1165000					8
9	301	Maria Sanchez, Capital		2540000					9
10	302	Maria Sanchez, Withdrawals	50000						10
11	303	Income Summary							11
12	401	Delivery Revenue		265000					12
13	501	Advertising Expense	7500						13
14	505	Maintenance Expense	60000						14
15	510	Rent Expense	70000						15
16	515	Utilities Expense	12500						16
17			3977500	3977500					17
18									18

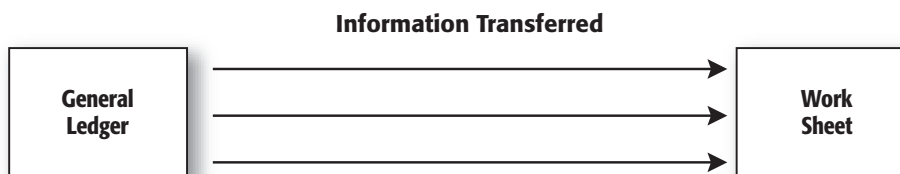
Figure 8–4 Work Sheet with Trial Balance Section Completed

AFTER
You

READ

Reinforce the Main Idea

Create a diagram similar to this one. List the information that is transferred from the general ledger to the worksheet. Add answer lines as needed.

**Do the Math**

The columns in the Trial Balance section of the work sheet have different totals:

$$\text{Debit total} = \$34,800 \qquad \text{Credit total} = \$35,600$$

The accountant discovered that the balance for **Advertising Expense** had been entered in the Credit column instead of the Debit column. Calculate the balance for the **Advertising Expense** account that should have been entered in the Debit column. What is the new total of the Debit column and Credit column?

**Problem 8-1 Entering Account Balances on the Work Sheet**

The following accounts appear on the work sheet for Lee's Bike Shop.

Store Equipment	Scott Lee, Capital	Scott Lee, Withdrawals
Rent Expense	Advertising Expense	Maintenance Expense
Service Fees Revenue	Accts. Rec.—John Langer	Office Supplies
Accts. Pay.—Rubino Supply		

Instructions Use a form similar to the one below in your working papers. Classify each account and use an "X" to indicate whether the account balance is entered in the Debit or the Credit column of the Trial Balance section. The first account is completed as an example.

Account Name	Classification	Trial Balance	
		Debit	Credit
Store Equipment	Asset	X	

**Problem 8-2 Analyzing a Source Document**

Instructions Based on the invoice presented here, answer the following questions in your working papers.

1. Which company shipped the supplies?
2. Which company ordered the supplies?
3. On what date were the supplies received?
4. What does one box of file folders cost?
5. How many ring binders were ordered?
6. What is the invoice number?

Hailey Office Supply 2763 East Meadow Ave. Richardson, TX 75080		INVOICE NO. 220 DATE: June 3, 20-- ORDER NO.: PO304 SHIPPED BY: Truck TERMS: Net 30	
TO	Garmot Electrical Co. 15638 Lone Star Highway Plano, TX 75074		
QTY.	ITEM	UNIT PRICE	TOTAL
2	Ring Binders, 37546	\$ 2.94	\$ 5.88
1	Bond Paper, 27361	5.83	5.83
2	Rotary Cards, 62744	1.75	3.50
4	Fine-Tip Markers, 28733	.84	3.36
4	File Folders, Box 36206	6.23	24.92
			\$43.49
			2.17
			\$45.66
	REC'D 6/15/20--	Sales Tax Total	



SECTION 2

Completing the Work Sheet

In the previous section you learned how to set up the work sheet and prove the Trial Balance section. In this section you will learn how to extend the account balances and compute net income or net loss.

The Balance Sheet and Income Statement Sections

What Are the Balance Sheet and Income Statement?

The balance sheet and income statement are financial statements prepared at the end of the accounting period. The work sheet organizes the information for these reports.

The Balance Sheet Section

The Balance Sheet section of the work sheet contains the asset, liability, and owner's equity accounts. After proving the Trial Balance section, *extend*, or transfer, the appropriate amounts to the Balance Sheet section. To do this, copy the Trial Balance section amounts for the asset, liability, and owner's equity accounts to the appropriate Balance Sheet amount columns. Start with the first account and extend each account balance. Extend debit amounts to the Balance Sheet Debit column. Extend credit amounts to the Balance Sheet Credit column. **Figure 8–5** on page 202 shows the balances extended to the Balance Sheet section.

The Income Statement Section

The next step in completing the work sheet is to extend the appropriate account balances to the Income Statement section. The Income Statement section contains the revenue and expense accounts. After transferring the asset, liability, and owner's equity account balances to the Balance Sheet section, extend the revenue and expense account balances to the Income Statement section. Revenue accounts have a normal credit balance, so extend their balances to the Income Statement Credit column. Since expense accounts have a normal debit balance, extend expense account balances to the Debit column of the Income Statement section. **Figure 8–6** on page 202 shows the amounts in the Debit and Credit columns of the Income Statement section.

Totaling the Income Statement and Balance Sheet Sections

After all amounts have been extended to the Balance Sheet and Income Statement sections, these sections are totaled. A single rule drawn across

**BEFORE
You**

READ

Main Idea

After completing the work sheet, you will know the net income or net loss for the accounting period.

Read to Learn...

- how amounts are entered in the work sheet sections. (p. 201)
- how to calculate net income. (p. 203)
- how to enter totals. (p. 205)
- a summary of steps used to prepare a work sheet. (p. 206)

Key Terms

matching principle
net income
net loss

**As
You**

READ

Compare and Contrast

Income Statement and Balance Sheet Sections

How are the Income Statement and Balance Sheet sections similar?
How are they different?



Roadrunner Delivery Service									
Work Sheet									
For the Month Ended October 31, 20--									
	ACCT. NO.	ACCOUNT NAME	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET		
			DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1	101	Cash in Bank	2112500				2112500		1
2	105	Accts. Rec.—City News	145000				145000		2
3	110	Accts. Rec.—Green Company							3
4	115	Computer Equipment	300000				300000		4
5	120	Office Equipment	20000				20000		5
6	125	Delivery Equipment	1200000				1200000		6
7	201	Accts. Pay.—Beacon Advertising		7500				7500	7
8	205	Accts. Pay.—North Shore Auto		1165000				1165000	8
9	301	Maria Sanchez, Capital		2540000				2540000	9
10	302	Maria Sanchez, Withdrawals	50000				50000		10
11	303	Income Summary							11
12	401	Delivery Revenue		265000					12
13	501	Advertising Expense	7500						13
14	505	Maintenance Expense	60000						14
15	510	Rent Expense	70000						15
16	515	Utilities Expense	12500						16
17			3977500	3977500					17
18									18

Figure 8–5 Work Sheet with Trial Balance Amounts Extended to Balance Sheet Section

Roadrunner Delivery Service									
Work Sheet									
For the Month Ended October 31, 20--									
	ACCT. NO.	ACCOUNT NAME	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET		
			DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1	101	Cash in Bank	2112500				2112500		1
2	105	Accts. Rec.—City News	145000				145000		2
3	110	Accts. Rec.—Green Company							3
4	115	Computer Equipment	300000				300000		4
5	120	Office Equipment	20000				20000		5
6	125	Delivery Equipment	1200000				1200000		6
7	201	Accts. Pay.—Beacon Advertising		7500				7500	7
8	205	Accts. Pay.—North Shore Auto		1165000				1165000	8
9	301	Maria Sanchez, Capital		2540000				2540000	9
10	302	Maria Sanchez, Withdrawals	50000				50000		10
11	303	Income Summary							11
12	401	Delivery Revenue		265000		265000			12
13	501	Advertising Expense	7500		7500				13
14	505	Maintenance Expense	60000		60000				14
15	510	Rent Expense	70000		70000				15
16	515	Utilities Expense	12500		12500				16
17			3977500	3977500					17
18									18

Figure 8–6 Work Sheet with Trial Balance Amounts Extended to Income Statement Section



Roadrunner Delivery Service									
Work Sheet									
For the Month Ended October 31, 20--									
	ACCT. NO.	ACCOUNT NAME	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET		
			DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1	101	Cash in Bank	2112500				2112500		1
2	105	Accts. Rec.—City News	145000				145000		2
3	110	Accts. Rec.—Green Company							3
4	115	Computer Equipment	300000				300000		4
5	120	Office Equipment	20000				20000		5
6	125	Delivery Equipment	1200000				1200000		6
7	201	Accts. Pay.—Beacon Advertising		7500				7500	7
8	205	Accts. Pay.—North Shore Auto		1165000				1165000	8
9	301	Maria Sanchez, Capital		2540000				2540000	9
10	302	Maria Sanchez, Withdrawals	50000				50000		10
11	303	Income Summary							11
12	401	Delivery Revenue		265000		265000			12
13	501	Advertising Expense	7500		7500				13
14	505	Maintenance Expense	60000		60000				14
15	510	Rent Expense	70000		70000				15
16	515	Utilities Expense	12500		12500				16
17			3977500	3977500	150000	265000	3827500	3712500	17
18									18

the four Debit and Credit columns indicates that the columns are ready to be added. Unlike the Trial Balance section debit and credit totals, the Debit and Credit column totals in these two sections will not be equal until the net income or net loss for the period is added. See Figure 8–7.

Figure 8–7 Work Sheet with Income Statement and Balance Sheet Sections Totaled

Showing Net Income or Net Loss on the Work Sheet

What Is Meant by Net Income or Net Loss?

The work sheet's Income Statement section shows the period's revenue and expenses. The GAAP **matching principle** requires matching expenses incurred in an accounting period with the revenue earned in the same period. Matching expenses with revenue gives a reliable measure of profit by showing the dollar value of resources used to produce the revenue. Owners and managers use this information to analyze results and make decisions.

Showing Net Income on the Work Sheet

After the Income Statement section columns have been totaled, total expenses (Debit column total) are subtracted from total revenue (Credit column total) to find net income. **Net income** is the amount of revenue that remains after expenses for the period have been subtracted. Net income is entered as a debit at the bottom of the Income Statement section of the work sheet. Look at **Figure 8–8** on page 204. Roadrunner's net income is \$1,150.

1. Skip a line after the last account and write the words *Net Income* in the Account Name column. **A**

Connect to... **LANGUAGE ARTS**

People often think of accounting as dull and mechanical. Johann von Goethe didn't. The Romantic author most famous for *Faust* described Luca Pacioli's system of accounting as "among the finest inventions of the human mind."

Roadrunner Delivery Service									
Work Sheet									
For the Month Ended October 31, 20--									
	ACCT. NO.	ACCOUNT NAME	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET		
			DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1	101	Cash in Bank	2112500				2112500		1
2	105	Accts. Rec.—City News	145000				145000		2
3	110	Accts. Rec.—Green Company							3
4	115	Computer Equipment	300000				300000		4
5	120	Office Equipment	20000				20000		5
6	125	Delivery Equipment	1200000				1200000		6
7	201	Accts. Pay.—Beacon Advertising		7500				7500	7
8	205	Accts. Pay.—North Shore Auto		1165000				1165000	8
9	301	Maria Sanchez, Capital		2540000				2540000	9
10	302	Maria Sanchez, Withdrawals	50000				50000		10
11	303	Income Summary							11
12	401	Delivery Revenue		265000		265000			12
13	501	Advertising Expense	7500		7500				13
14	505	Maintenance Expense	60000		60000				14
15	510	Rent Expense	70000		70000				15
16	515	Utilities Expense	12500		12500				16
17			3977500	3977500	150000	265000	3827500	3712500	17
18		Net Income			115000			115000	18
19									19

Figure 8–8 Partial Work Sheet with Net Income

- On the same line, enter the net income amount in the Income Statement Debit column. **B**
- On the same line, enter the net income amount in the Balance Sheet Credit column. **C**

Figure 8–9 The Effects of Income or Loss on Capital

Why is the net income also shown in the Balance Sheet section of the work sheet? Remember, revenue and expense accounts are temporary accounts. As you can see in **Figure 8–9**, revenues increase capital, while

The Effects of Net Income or Net Loss on Capital



Revenues

>



Expenses

=



Net income



Capital increases



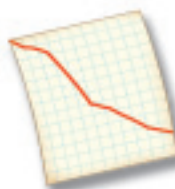
Revenues

<



Expenses

=



Net loss



Capital decreases

expenses decrease capital. Net income, therefore, increases capital since revenues exceed expenses.

During the accounting period, revenue and expense amounts are recorded in the temporary accounts (like **Delivery Revenue** and **Utilities Expense**). At the end of the period, net income will be transferred to the owner's capital account. Since the capital account is increased by credits, the amount of the net income is entered in the Credit column of the Balance Sheet section of the work sheet.

To check the accuracy of the net income amount in the Balance Sheet section, subtract the total of the Credit column from the total of the Debit column. If the result does not equal net income, there is an error. Before continuing, you must find and correct the error. To find the error, check that the amounts from the Trial Balance section are extended correctly and that the totals of all columns are added correctly.

As You

READ

In Your Experience

Revenue and Expenses

What types of revenue and expenses would a person your age have?

Figure 8–10 Completed Work Sheet

Roadrunner Delivery Service									
Work Sheet									
For the Month Ended October 31, 20--									
	ACCT. NO.	ACCOUNT NAME	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET		
			DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1	101	Cash in Bank	2112500				2112500		1
2	105	Accts. Receivable—City News	145000				145000		2
3	110	Accts. Receivable—Green Company							3
4	115	Computer Equipment	300000				300000		4
5	120	Office Equipment	20000				20000		5
6	125	Delivery Equipment	1200000				1200000		6
7	201	Accts. Payable—Beacon Advertising		7500				7500	7
8	205	Accounts Pay.—North Shore Auto		1165000				1165000	8
9	301	Maria Sanchez, Capital		2540000				2540000	9
10	302	Maria Sanchez, Withdrawals	50000				50000		10
11	303	Income Summary							11
12	401	Delivery Revenue		265000		265000			12
13	501	Advertising Expense	7500		7500				13
14	505	Maintenance Expense	60000		60000				14
15	510	Rent Expense	70000		70000				15
16	515	Utilities Expense	12500		12500				16
17			3977500	3977500	150000	265000	3827500	3712500	17
18		Net Income			115000			115000	18
19					265000	265000	3827500	3827500	19
20									20

A
B D
E
F
G C

Completing the Work Sheet

The completed work sheet for Roadrunner is shown in **Figure 8–10**. To complete the Income Statement and Balance Sheet sections, follow these steps:

- On the line under the net income amount, draw a single rule across the four columns. **D**
- In the Income Statement section Debit column, add the net income amount to the previous total and enter the new total. Bring down

the total of the Income Statement section Credit column. Total debits should equal total credits. **E**

3. In the Balance Sheet section Credit column, add net income to the previous total and enter the new total. Bring down the total of the Balance Sheet section Debit column. The total debit amount should equal the total credit amount. **F**
4. In the Balance Sheet and Income Statement sections, draw a double rule under the four column totals. The double rule indicates that the Debit and Credit columns are equal and that no more amounts are to be entered in these columns. **G**

Showing a Net Loss on the Work Sheet

What if total expenses are more than total revenue? When that happens, a **net loss** occurs. A net loss decreases owner's equity. This decrease will eventually be shown as a debit to the capital account. When a net loss occurs, the steps to complete the work sheet are the same as described for Net Income except that the words *Net Loss* are written in the Account Name column. The net loss amount is entered in the Credit column of the Income Statement section and in the Debit column of the Balance Sheet section. The partial work sheet in **Figure 8–11** shows a net loss. Expenses exceed revenue by \$746.

14	501	Maintenance Expense	375 00		375 00							14
15	510	Rent Expense	940 00		940 00							15
16	515	Utilities Expense	97 00		97 00							16
17			46 492 00	46 492 00	25 83 00	18 37 00	27 791 00	28 537 00				17
18		Net Loss				746 00	746 00					18
19					25 83 00	25 83 00	28 537 00	28 537 00				19
20												20

A
B
E
F
G
D
C

Figure 8–11 Partial Work Sheet Showing a Net Loss

A Review of the Steps in Preparing a Six-Column Work Sheet

How Do You Prepare a Work Sheet?

Follow these steps when preparing a six-column work sheet:

1. Write the heading on the work sheet.
2. In the Account Name and Trial Balance sections, enter the account numbers, names, and balances for all general ledger accounts.
3. Prove the equality of the Trial Balance total debits and total credits.
4. Extend the amounts of the Trial Balance section to the appropriate columns in the Balance Sheet and Income Statement sections.
5. Total the columns in the Income Statement and Balance Sheet sections.
6. Determine the amount of the net income or net loss for the period.
7. Enter the amount of the net income or net loss in the appropriate columns in the Income Statement and Balance Sheet sections.
8. Total and rule the Income Statement and Balance Sheet sections.

AFTER
You READ

Reinforce the Main Idea

Create a chart like this one. Fill in the blanks to describe how net income and net loss are shown on the work sheet.

Situation	Is the result a net income or a net loss?	Extend to which column in the Income Statement section?	Extend to which column in the Balance Sheet section?
Revenue > Expenses			
Revenue < Expenses			



Do the Math

For Art's Sake is a sole proprietorship that sells artwork. The first two quarterly financial statements for this year have been grim. Using the revenue and expense information for the third quarter, calculate the net profit or loss. (Balances of the Accounts Receivable accounts represent third-quarter revenue.) Compare the third-quarter figure with the figures from the first and second quarters. What do you predict the future of For Art's Sake will be?

Third Quarter

Rent Expense	\$2,000
Utilities Expense	800
Advertising Expense	3,000
Maintenance Expense	1,200
Accounts Receivable—Sammy Wong	500
Accounts Receivable—The Artist Collection	5,525
Accounts Receivable—Vera Samuels	3,200

Second Quarter

Net Loss = \$1,200

First Quarter

Net Loss = \$2,000



Problem 8-3 Extending Amounts Across the Work Sheet

The following accounts have balances and appear in the Account Name section of the work sheet for Lee's Bike Shop.

Store Equipment	Advertising Expense
Rent Expense	Accounts Receivable—John Langer
Service Fees Revenue	Scott Lee, Withdrawals
Accounts Payable—Rubino Supply	Maintenance Expense
Scott Lee, Capital	Office Supplies

Instructions Use a form similar to the one below in your working papers or on a separate sheet of paper. For the above accounts, enter an "X" in the column where the account balance is transferred. The first account has been completed as an example.

Account Name	Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit
Store Equipment			X	

Key Concepts

1. Preparing a work sheet is the sixth step in the accounting cycle. The purpose of the worksheet is to gather all the information needed to complete the end-of-period activities. Its heading contains the following information:

The diagram shows a worksheet heading with four callouts pointing to specific areas:

- The fiscal period covered by the work sheet**: Points to the first column of the heading.
- Who? What? When?**: Points to the second, third, and fourth columns of the heading.
- Name of the business**: Points to the fifth column of the heading.
- Name of the accounting form**: Points to the sixth column of the heading.

2. The six-column work sheet has five sections:

- (a) Heading
 - Who
 - What
 - When
- (b) Account Name section
 - Account number
 - Account name
 - List all accounts in general ledger order
- (c) Trial Balance section
- (d) Income Statement section
- (e) Balance Sheet section

Three of these sections have amount columns. Each of the following sections has a Debit column and a Credit column:

- Trial Balance section
- Income Statement section
- Balance Sheet section

3. Use the following steps to prepare a work sheet:

- (a) Create a heading.
- (b) In the Account Name and Trial Balance sections, enter account numbers, names, and balances.
- (c) Complete the Trial Balance section, making sure that total debits equal total credits.
- (d) Extend amounts from the Trial Balance section to the appropriate columns in the Balance Sheet and Income Statement sections.
- (e) Total the columns in the Income Statement and Balance Sheet columns.

- (f) Calculate the net income or net loss for the period.
 (g) Enter net income or net loss on the worksheet as follows:

Account Name	Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit
Net Income	X			X

Account Name	Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit
Net Loss		X	X	

- (h) Total and rule the Income Statement and Balance Sheet sections.
 4. The *matching principle* requires expenses incurred during an accounting period to be matched with revenues earned in the same period. The result is net income or net loss:

If revenue > expenses, then

$$\begin{array}{r} \text{Revenue} \\ - \text{Expenses} \\ \hline = \text{Net Income} \end{array}$$

If revenue < expenses, then

$$\begin{array}{r} \text{Expenses} \\ - \text{Revenue} \\ \hline = \text{Net Loss} \end{array}$$

Key Terms

matching principle	(p. 203)
net income	(p. 203)
net loss	(p. 206)
ruling	(p. 199)
work sheet	(p. 197)

Check Your Understanding

1. **Purpose of a Work Sheet**
 - a. Preparing the work sheet is which step of the accounting cycle?
 - b. What is the purpose of the work sheet?
2. **Parts of a Six-Column Work Sheet**
 - a. Name and briefly describe the five sections of a six-column worksheet.
 - b. List the items that are included in the work sheet heading.
3. **Preparing a Six-Column Work Sheet**
 - a. Which section of the work sheet should you complete first?
 - b. Why are all accounts, including those with zero balances, listed on the work sheet?
4. **Net Income and Net Loss**
 - a. Explain how to record net income or net loss on the work sheet.
 - b. How does net income affect owner's equity? How does net loss affect owner's equity?

Apply Key Terms

You just finished the work sheet for the third quarter and it looks like your company will make a considerable profit. In the second quarter, the company had a net loss. On a separate sheet of paper, write a memo to your boss, Tonya Newman, asking her to review your trial balance and work sheet. Use the terms listed below in your memo.

matching principle
net income
net loss

ruling
work sheet



The Trial Balance

Making the Transition from a Manual to a Computerized System

Task	Manual Methods	Computerized Methods
Preparing the trial balance	<ul style="list-style-type: none"> After all journal entries have been posted and all general ledger balances have been updated, list account names and balances on two-column accounting stationery. List debit balances in one column and credit balances in the other. Add all debit balances. Add all credit balances. Compare the totals. If totals are not in balance, locate and correct any journalizing or posting errors. The trial balance is correct when total debits equal total credits. 	<ul style="list-style-type: none"> Although the Trial Balance is not necessary to check the equality of debits and credits since out-of-balance entries cannot be posted, it is one of the most commonly used accounting statements. It provides a clear list format for reviewing accounts. You can view and print the Trial Balance from the <i>Reports</i> menu.



Peachtree® Q & A

Peachtree Question	Answer
How do I generate a trial balance in Peachtree?	<ol style="list-style-type: none"> From the <i>Reports</i> menu, select General Ledger. From the Reports list, select General Ledger Trial Balance. Click Print.



QuickBooks Q & A

QuickBooks Question	Answer
How do I generate a trial balance in QuickBooks?	<ol style="list-style-type: none"> From the <i>Reports</i> menu, select Accountant & Taxes. From the Accountant & Taxes submenu, select Trial Balance. Click Print.

For detailed instructions, see your Glencoe Accounting Chapter Study Guides and Working Papers.

CHAPTER 8

Problems

Complete problems using:

Manual Glencoe
Working Papers

OR

Peachtree Complete
Accounting Software

OR

QuickBooks
Templates

OR

Spreadsheet
Templates

SPREADSHEET SMART GUIDE

Step-by-Step Instructions: Problem 8-4

1. Select the spreadsheet template for Problem 8-4.
2. Enter your name and the date in the spaces provided on the template.
3. Complete the spreadsheet using the instructions in your working papers.
4. Print the spreadsheet and proof your work.
5. Complete the Analyze activity.
6. Save your work and exit the spreadsheet program.

Problem 8-4 Preparing a Six-Column Work Sheet

The ending balances in the general ledger accounts of Wilderness Rentals for the period ended May 31 follow.

		Debit Balances	Credit Balances
101	Cash in Bank	\$5,814	
105	Accts. Rec.—Helen Katz	717	
110	Accts. Rec.—Polk and Co.	590	
115	Office Supplies	847	
120	Office Equipment	4,360	
125	Camping Equipment	6,130	
201	Accts. Pay.—Adventure Equipment Inc.		\$ 1,680
203	Accts. Pay.—Digital Tech Computers		3,554
205	Accts. Pay.—Greg Mollaro		635
301	Ronald Hicks, Capital		12,760
305	Ronald Hicks, Withdrawals	1,200	
310	Income Summary	—	—
401	Equipment Rental Revenue		9,716
501	Advertising Expense	1,940	
505	Maintenance Expense	1,083	
515	Rent Expense	3,500	
525	Utilities Expense	2,164	

Instructions Prepare a work sheet for the period ended May 31.

1. Write the heading on the work sheet.
2. List all of the accounts in the Account Name and Trial Balance sections. For each account, include the account number, name, and balance.
3. Total and rule the Trial Balance section. Do total debits equal total credits? If not, find and correct the problem before continuing.
4. Extend the appropriate amounts to the Balance Sheet section.
5. Extend the appropriate amounts to the Income Statement section.
6. Total the amount columns in the Income Statement and Balance Sheet sections.
7. Enter the amount of net income or net loss in the appropriate columns in the Income Statement and Balance Sheet sections.
8. Total and rule the Income Statement and Balance Sheet sections.

Analyze

Identify the permanent accounts on the work sheet that have normal debit balances.

Problem 8-5 Preparing a Six-Column Work Sheet

The general ledger for Hot Suds Car Wash shows the following account balances on May 31, the end of the period.

CONTINUE

Problems

CHAPTER 8

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 8-5

1. Select the problem set for Hot Suds Car Wash (Prob. 8-5).
2. Rename the company and set the system date.
3. Print a General Ledger Trial Balance.
4. Complete the Analyze activity.
5. End the session.

TIP: As a shortcut, you can choose to print the trial balance from the **General Ledger Navigation Aid**.

QuickBooks

PROBLEM GUIDE

Step-by-Step Instructions: Problem 8-5

1. Restore the Problem 8-5.QBB file.
2. Print a Trial Balance.
3. Complete the Analyze question.
4. Back up your work.

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 8-6

1. Select the problem set for Kits & Pups Grooming (Prob. 8-6).
2. Rename the company and set the system date.
3. Print a General Ledger Trial Balance.
4. Complete the Analyze activity.
5. End the session.

101	Cash in Bank	\$9,400
105	Accts. Rec.—Linda Brown	429
110	Accts. Rec.—Valley Auto	372
115	Detailing Supplies	694
120	Detergent Supplies	418
125	Office Equipment	15,195
130	Office Furniture	2,029
135	Car Wash Equipment	7,486
201	Accts. Pay.—Allen Vacuum Systems	4,346
205	Accts. Pay.—O'Brian's Office Supply	2,730
301	Regina Delgado, Capital	26,530
305	Regina Delgado, Withdrawals	2,500
310	Income Summary	
401	Wash Revenue	7,957
405	Wax Revenue	5,329
410	Interior Detailing Revenue	2,970
501	Advertising Expense	1,940
505	Equipment Rental Expense	3,836
510	Maintenance Expense	1,424
520	Rent Expense	3,500
530	Utilities Expense	639

Instructions Prepare a work sheet for Hot Suds Car Wash in your working papers.

Analyze

Identify the temporary accounts on the work sheet that have normal credit balances.

Problem 8-6 Preparing a Six-Column Work Sheet

The account balances in the general ledger of Kits & Pups Grooming at the end of May are:

101	Cash in Bank	\$11,194
105	Accts. Rec.—Juan Alvarez	357
110	Accts. Rec.—Nathan Carlsbad	547
115	Accts. Rec.—Martha Giles	1,450
120	Grooming Supplies	842
125	Office Equipment	4,147
130	Office Furniture	935
135	Computer Equipment	2,200
140	Grooming Equipment	1,948
145	Kennel Equipment	7,305
201	Accts. Pay.—Able Store Equipment	7,945
205	Accts. Pay.—Dogs & Cats Inc.	1,205
207	Accts. Pay.—Pet Gourmet	2,846
301	Abe Shultz, Capital	23,048
305	Abe Shultz, Withdrawals	2,500
310	Income Summary	—

CONTINUE

CHAPTER 8

Problems

QuickBooks

PROBLEM GUIDE

Step-by-Step Instructions: Problem 8-6

1. Restore the Problem 8-6.QBB file.
2. Print a Trial Balance.
3. Complete the Analyze question.
4. Back up your work.

Peachtree®

SMART GUIDE

Step-by-Step Instructions: Problem 8-7

1. Select the problem set for Outback Guide Service (Prob. 8-7).
2. Rename the company and set the system date.
3. Print a General Ledger Trial Balance.
4. Complete the Analyze activity.
5. End the session.

SPREADSHEET SMART GUIDE

Step-by-Step Instructions: Problem 8-8

1. Select the spreadsheet template for Problem 8-8.
2. Enter your name and the date in the spaces provided on the template.
3. Complete the spreadsheet using the instructions in your working papers.
4. Print the spreadsheet and proof your work.
5. Complete the Analyze activity.
6. Save your work and exit the spreadsheet program.

401	Boarding Revenue	11,596
405	Grooming Revenue	4,496
501	Advertising Expense	3,675
505	Equipment Repair Expense	932
510	Maintenance Expense	2,658
520	Rent Expense	7,500
530	Utilities Expense	2,946

Instructions Prepare a work sheet for the month ended May 31 for Kits & Pups Grooming in your working papers.

Analyze Compute the total liabilities for Kits & Pups.

Problem 8-7 Preparing a Six-Column Work Sheet

The general ledger account balances on May 31 for Outback Guide Service are:

101	Cash in Bank	\$ 2,834
105	Accts. Rec.—Mary Johnson	384
125	Office Supplies	307
130	Office Equipment	5,902
135	Office Furniture	2,804
140	Computer Equipment	3,295
145	Hiking Equipment	922
150	Rafting Equipment	8,351
205	Accts. Pay.—Peak Equipment Inc.	1,204
301	Juanita Ortega, Capital	20,419
302	Juanita Ortega, Withdrawals	1,800
310	Income Summary	—
401	Guide Service Revenue	9,179
501	Advertising Expense	795
505	Maintenance Expense	125
515	Rent Expense	2,000
525	Utilities Expense	1,283

Instructions Prepare a work sheet for Outback Guide Service for the period ended May 31 in your working papers.

Analyze Compute the total assets for Outback.

CHALLENGE PROBLEM

Problem 8-8 Completing the Work Sheet

The work sheet for Job Connect appears in your working papers. The amounts that have been entered are correct. Several amounts, however, are missing from various columns.

Instructions Calculate all missing amounts and complete the work sheet.

Analyze Calculate the owner's equity. (Hint: Be sure to include the temporary accounts.)

Practice your test-taking skills! The questions on this page are reprinted with permission from national organizations:

- Future Business Leaders of America
- Business Professionals of America

Use a separate sheet of paper to record your answers.



Future Business Leaders of America

MULTIPLE CHOICE

1. A(n) _____ results when revenue is larger than expenses.
 - a. debit
 - b. net income
 - c. net loss
 - d. credit
2. The asset, liability, and owner's equity accounts are extended to the _____ of the work sheet.
 - a. Balance Sheet section
 - b. Income Statement section
 - c. Retained Earnings statement
 - d. Trial Balance
3. Revenue and expense accounts are listed in the Trial Balance section of the work sheet and in the _____ of the work sheet.
 - a. Retained Earnings statement
 - b. Balance Sheet section
 - c. Income Statement section
 - d. Accounts Payable section
4. The amount of net income for the period is added to the Balance Sheet credit total because it increases the balance in the _____ account.
 - a. accounts receivable
 - b. accounts payable
 - c. asset
 - d. capital



Business Professionals of America

MULTIPLE CHOICE

5. A net loss will appear
 - a. in the debit column of the Income Statement on the work sheet.
 - b. in the credit column of the Income Statement on the work sheet.
 - c. in the debit column of the Trial Balance.
 - d. on the Post-Closing Trial Balance.

Need More Help?

Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Winning Competitive Events** and select **Chapter 8**.

- Practice Questions and Test-Taking Tips
- Concept Capsules and Terminology



CRITICAL Thinking

The Six-Column Work Sheet

1. Name the types of accounts whose balances are extended to the Income Statement section of the work sheet.
2. Explain why the Trial Balance section is completed first.
3. What items do you need to complete the six-column work sheet? Include office supplies and forms as well as any information that will be needed.
4. Why is the net income amount entered in the Credit column of the Balance Sheet section? Why is net loss entered in the Debit column?
5. Predict what would happen if a revenue account balance were not extended to the Income Statement section of the work sheet.
6. What is the value of the matching principle?

CASE STUDY

Service Business: Advertising Agency

You work for Creative Advertising as an assistant to the company's accountant. You are preparing a work sheet for the month of July. The trial balance totals are \$127,750, and you have extended the account balances to the amount columns in the Balance Sheet and Income Statement sections. After adding the Balance Sheet and Income Statement columns and calculating net income, you find that the totals do not balance.

INSTRUCTIONS

1. List the steps you would take to find the problem.
2. Provide a likely reason to explain why the net income amounts do not match.

a matter of ETHICS

Padding Expense Accounts

Imagine that you are employed as an auditor for a public accounting firm like PricewaterhouseCoopers. You and a co-worker, Mark, have been sent to Chicago to perform an audit. You have an allowance of \$200 a day to cover lodging, meals, and transportation. At the end of the trip, you are to turn in an expense account report detailing how you spent the allowance. Mark adds a few dollars to each of his expenses so he can have some extra cash. You figure that the firm will not miss a few dollars, so you consider doing the same.

ETHICAL DECISION MAKING

- | | |
|----------------------------------|--|
| 1. What are the ethical issues? | 4. How do the alternatives affect the parties? |
| 2. What are the alternatives? | 5. What would you do? |
| 3. Who are the affected parties? | |

COMMUNICATING ACCOUNTING

Creating a Handout

Your accounting firm, AccountFast, volunteered to provide mentors to area schools for accounting and math programs. As a mentor, you are assigned to work with three accounting students. Your topic for this week is "Ruling and Totaling the Trial Balance." Create a handout to explain and illustrate this topic. Use any company, accounts, and account balances you wish. Remember, it is helpful to provide step-by-step instructions.



Understanding Organizational Systems

- Can you read and interpret a company's organizational chart?
- Can you identify who reports to whom?

If you can answer “yes” to these questions, then you can probably work and operate effectively within an organizational system.

ON THE JOB

Your employer, The Teen Scene, was just bought out by a large, national clothing chain—Natural Fibers. The buyout has created a huge reorganization.

INSTRUCTIONS

1. The change from a small clothing store to a national chain store has affected employee morale. What do you think would help build loyalty to Natural Fibers?
2. How would an organizational chart that depicts who reports to whom help with the transition?



Time Zones

What time is it now on your watch? What time is it in London or New York? Without knowledge of the world's time zones, the international businessperson may have difficulty contacting a person at the right place and the right time. There are 24 time zones in the world, each representing 15 degrees of longitude, or one hour intervals.

INSTRUCTIONS Imagine that your company has manufacturing locations in Dublin, Ireland and Denver, Colorado. Managers work from 8:00 a.m. to 3:30 p.m. at both locations. Dublin is 7 hours behind Denver. Schedule a telephone meeting so that both managers are present. What will you need to consider when scheduling the meeting?



Your Savings

A business needs to save for expansion and unexpected expenses. You also need to save to have money available when you want or need something. Without savings, both you and a business could have a difficult time.

PERSONAL FINANCE ACTIVITY List some typical cash expenditures a high school student might have in an average week. Include the amount spent on each item. Identify the items that could be easily eliminated or reduced. By reducing this spending, how much money would be saved in one year?

PERSONAL FINANCE ONLINE Go to glencoeaccounting.glencoe.com and click on **Student Center**. Click on **Making It Personal** and select **Chapter 8**.

