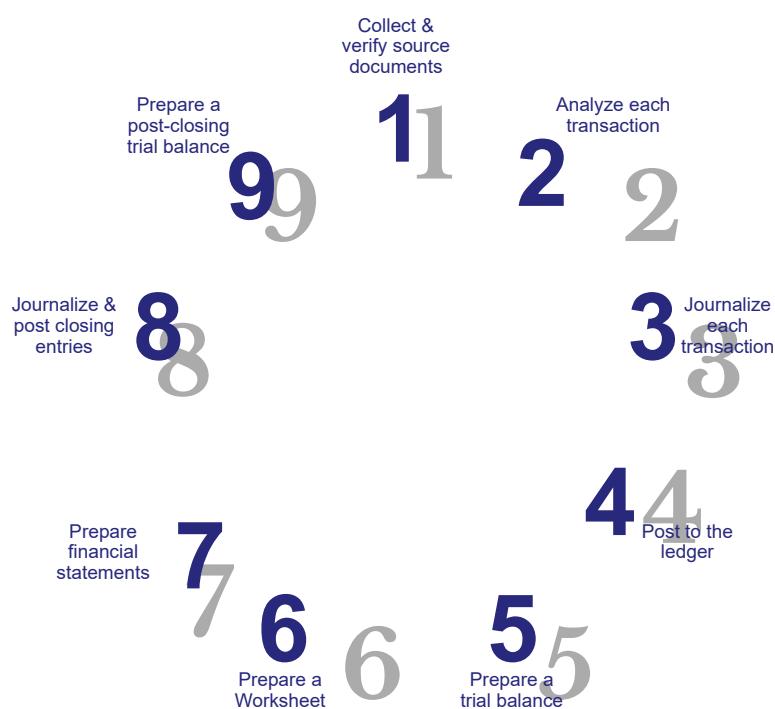


THE WORK SHEET

Chapter 8

THE ACCOUNTING CYCLE



THE ACCOUNTING CYCLE

- The maximum period covered by a cycle is one year
 - Steps 1-5 are performed frequently during the cycle
 - Steps 6-9 are performed at the end of each accounting period

STEP 6 – PREPARE A WORK SHEET

- Work Sheet – a working paper used to collect information from the ledger accounts in one place
 - Information is needed to prepare financial statements

THE WORK SHEET SECTIONS

- **Heading**
 - Business name, name of statement, period covered (date)
- **Account Name**
 - All accounts are listed in order from the chart of accounts
- **Trial Balance**
 - Can be prepared at any time during a period
 - When prepared at end of period, part of worksheet; prepared same way
 - Income Summary does not have a normal balance side, lines are drawn through both debit and credit columns
 - **Ruling** – drawing a line
 - A single rule means entries above are ready to be totaled
 - Double rule means that the amounts are totals and final

THE WORKSHEET SECTIONS

- **Income Statement**
 - Contains revenue and expense accounts
- **Balance Sheet**
 - Contains asset, liability, and owner's equity accounts
- **Totaling**
 - The debit and credit totals in these columns will not equal until the net income/loss for the period is added
- **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.

SHOWING NET INCOME ON THE WORKSHEET

- Net Income – the amount of revenue that remains after expenses for the period have been subtracted
 - Expenses are totaled in the debit column and are subtracted from total revenue (credit column)
 - Net Income is entered as a debit at the bottom of the Income Statement section of the worksheet

1. Skip a line after the last account and write the words Net Income in the Account Name column
2. On the same line, enter the net income amount in the Income Statement debit column
3. On the same line, enter the net income amount in the Balance Sheet credit column

SHOWING NET INCOME ON THE WORKSHEET

4. To check the accuracy of net income on the balance sheet, subtract the credit column from the debit column and it should equal net income
5. Draw a single rule under the net income amounts
6. Total the amounts and double rule if debits now equal credits

- Net Loss – total expenses are more than total revenue
 - Decreases owner's equity
 - Write net loss instead of net income under account name
 - Net loss amount is entered in credit column of Income Statement and debit column of Balance Sheet

REVIEW OF WORKSHEET STEPS

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