

Chapter 5 • Adjustments and the Worksheet

TEACHING OBJECTIVES

- 5-1) Complete a trial balance on a worksheet.
- 5-2) Prepare adjustments for unrecorded business transactions.
- 5-3) Complete the worksheet.
- 5-4) Prepare an income statement, statement of owner's equity, and balance sheet from the completed worksheet.
- 5-5) Journalize and post adjusting entries.
- 5-6) Define the accounting terms new to this chapter.

SECTIONS

- 1. The Worksheet
- 2. Financial Statements

CHAPTER OVERVIEW/ LEARNING OBJECTIVES

Learning Link: Chapter 4 introduced and explained how to use the general journal and the general ledger. Chapter 5 shows how to complete and use the worksheet. It also shows how to prepare and record adjustments for unrecorded business transactions. Chapter 5 will also continue using the general journal and general ledger to journalize and post the new adjusting entries introduced in the chapter.

- 5-1. This chapter introduces the worksheet. It describes the procedures required to prepare a worksheet during the fourth step in the accounting cycle.
- 5-2. The chapter explains various adjustments which may be needed for unrecorded business transactions such as:
 - The expiration of prepaid expenses—Prepaid rent, Prepaid insurance.
 - Supplies used during the period.
 - Allocation of a long-term asset's cost—Depreciation.
- 5-3. The chapter explains how to complete the worksheet. An adjusted trial balance is prepared to prove the equality of the debits and credits after adjustments have been entered on the worksheet. If it balances, then the *Income Statement* and *Balance Sheet* columns of the worksheet are completed and the net income/net loss of a business is determined.

- 5-4. The chapter explains how to use the completed worksheet to prepare an income statement, statement of owner's equity and a balance sheet for a business.
- 5-5. Finally the chapter reviews how to use the worksheet to prepare *adjusting journal* entries and their subsequent posting to the general ledger.

Journalizing and posting the adjusting entries is the sixth step in the accounting cycle.

A review of the **steps in the accounting cycle** covered so far:

- Step 1. Analyze transactions.
- Step 2. Journalize transactions.
- Step 3. Post the journal entries.
- Step 4. Prepare a worksheet.
- Step 5. Prepare financial statements.
- Step 6. Record adjusting entries.

At the beginning of the chapter, there is a short paragraph about the *Willamette Valley Vineyards*. Let's read this together. . .



Ask. . . "Why would *Willamette* expand its product offerings beyond one or two different types of wine?"

Answer-- Students should recognize that in order to grow, a business must broaden and diversify its product offerings. *Willamette* recognized quickly that no two wines are alike, and by offering a wide variety of choices to their customers, they were able to generate more sales and more revenue.

FAST FACTS

- Willamette Valley Vineyards is one of Oregon's top wineries. It was started in 1983 with a small 50-acre vineyard.
- The company produces top quality wines that have been served at the White house and have consistently received high marks from the Wine Spectator and Wine Enthusiast.
- Recently the winery has been applauded by environmental groups for using cork stoppers that come from responsibly managed forestlands.
- Despite paying more than \$600,000 in excise taxes from 2004 to 2006, the tax authorities claimed the company had underpaid the taxes. The audit findings eventually resulted in the company recording an additional \$80,000 in expense. The company had to go back and restate the years under question, and also had to record interest and penalties.

Complete the Trial Balance section in four steps:

1. Enter the general ledger account names.
2. Transfer the general ledger account balances to the Debit and Credit columns of the Trial Balance section.
3. Total the Debit and Credit columns to prove that the trial balance is in balance.
4. Place a double rule under each Trial Balance column to show that the work in that column is complete.

Step 1: Enter the general ledger account names.

ACCOUNT NAME	TOTAL BALANCE		ADJUSTMENTS		ADJ. TOTAL BAL.		INCOME STATE.		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash										
Accounts Receivable										
Supplies										
Prepaid Rent										
Equipment										
Accum. Dep.—Equip.										
Accounts Payable										
Consign. Merch. Crd.										
Consign. Merch. Drw.										
Fees Income										
Service Expense										
Utilities Expense										
Supplies Expense										
Rent Expense										
Dep. Exp.—Equip.										
Totals										

Note: Blue arrows point to the 'ACCOUNT NAME' column for the last four rows, with a text box stating: "These four new accounts will be used for the adjustments." A yellow box notes: "If additional new expense accounts are needed in the adjustment process, add them to the bottom of the ACCOUNT NAME column."

Step 2: Transfer the general ledger account balances to the Debit and Credit columns of the Trial Balance section.

ACCOUNT NAME	TOTAL BALANCE		ADJUSTMENTS		ADJ. TOTAL BAL.		INCOME STATE.		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	111,200				111,200				111,200	
Accounts Receivable	3,000				3,000				3,000	
Supplies	3,000				3,000				3,000	
Prepaid Rent	8,000				8,000				8,000	
Equipment	15,000				15,000				15,000	
Accum. Dep.—Equip.		3,000				3,000				3,000
Accounts Payable		100,000				100,000				100,000
Consign. Merch. Crd.		5,000				5,000				5,000
Consign. Merch. Drw.		5,000				5,000				5,000
Fees Income		47,000				47,000	47,000			
Service Expense	8,000				8,000		8,000			
Utilities Expense	600				600		600			
Supplies Expense	800				800		800			
Rent Expense	800				800		800			
Dep. Exp.—Equip.	800				800		800			
Totals	156,500	156,500			156,500	156,500	156,500	156,500		

Note: Red lines are drawn under the Debit and Credit columns. A yellow box highlights the totals row.

Step 3: Total the Debit and Credit columns to prove that the trial balance is in balance.

ACCOUNT NAME	TOTAL BALANCE		ADJUSTMENTS		ADJ. TOTAL BAL.		INCOME STATE.		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	111,200				111,200				111,200	
Accounts Receivable	3,000				3,000				3,000	
Supplies	3,000				3,000				3,000	
Prepaid Rent	8,000				8,000				8,000	
Equipment	15,000				15,000				15,000	
Accum. Dep.—Equip.		3,000				3,000				3,000
Accounts Payable		100,000				100,000				100,000
Consign. Merch. Crd.		5,000				5,000				5,000
Consign. Merch. Drw.		5,000				5,000				5,000
Fees Income		47,000				47,000	47,000			
Service Expense	8,000				8,000		8,000			
Utilities Expense	600				600		600			
Supplies Expense	800				800		800			
Rent Expense	800				800		800			
Dep. Exp.—Equip.	800				800		800			
Totals	156,500	156,500			156,500	156,500	156,500	156,500		

Note: A yellow box highlights the totals row. A text box says: "Step 4: Place a double rule under each Trial Balance column to show that the work in that column is complete." An illustration of a person pointing at a screen is included.

Objective 5-2: Prepare adjustments for unrecorded business transactions.

ACCOUNT NAME	TOTAL BALANCE		ADJUSTMENTS		ADJ. TOTAL BAL.		INCOME STATE.		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	111,200				111,200				111,200	
Accounts Receivable	3,000				3,000				3,000	
Supplies	3,000				3,000				3,000	
Prepaid Rent	8,000				8,000				8,000	
Equipment	15,000				15,000				15,000	
Accum. Dep.—Equip.		3,000				3,000				3,000
Accounts Payable		100,000				100,000				100,000
Consign. Merch. Crd.		5,000				5,000				5,000
Consign. Merch. Drw.		5,000				5,000				5,000
Fees Income		47,000				47,000	47,000			
Service Expense	8,000				8,000		8,000			
Utilities Expense	600				600		600			
Supplies Expense	800				800		800			
Rent Expense	800				800		800			
Dep. Exp.—Equip.	800				800		800			
Totals	156,500	156,500			156,500	156,500	156,500	156,500		

Note: A yellow box highlights the totals row. A text box says: "Adjusting entries are first entered in the Adjustments section of the worksheet." A red line is drawn under the Debit and Credit columns.

Objective 5-1

The Trial Balance Section

- Explain that students will prepare their trial balance directly on the worksheet. It will look just like it did in chapter 3 except it will be placed in the trial balance columns of the worksheet-tool.
- Point out that only accounts that have a balance currently show up on the *Trial Balance*.
- As we make adjustments to some of the accounts, additional accounts may need to be added to the *Account Name* column as are needed.

Objective 5-2

The Adjustments Section

- Tell the students that in previous chapters, most of our transactions fell neatly within one accounting period. -- But this is not always the case.
- Occasionally, transactions overlap accounting periods. If this is the case, *adjustments* need to be made to some accounts to bring about a matching of revenue and expenses within an accounting period.

- Explain that ALL adjustments will include a balance sheet account and an income statement account.

◆ **Adjusting for Supplies Used**

The Supplies Adjustment

Wells* Consulting Services began the month with \$1,500 in supplies.
At the end of the month, \$1,000 in supplies remained.

QUESTION:
What dollar amount of supplies was used during the month? **\$1,500**
- **1,000**

ANSWER: **\$500**

- Explain that the *Supplies* account needs to be adjusted to account for supplies used during the period.
- **Teaching TIP**--Draw both the Supplies account and the Supplies Expense T-accounts on the board. Write in their balances as shown on the Trial Balance.



Ask—"If we created a *Balance Sheet* right now, it would show \$1,500 of supplies in our supply cabinet. Is this correct?" **NO!** The supplies on hand are actually **\$1,000**.



Ask—"If we created our *Income Statement* right now, it would show \$0 of supplies used during the period, is this correct?"—**NO!** We should be showing **\$500** of supplies expense.

Wells* Consulting Services Worksheet Month Ended December 31, 2016										
ACCOUNT NAME	TOTAL BALANCE		ADJUSTMENTS		ADJ. TOTAL BAL.		INCOME STATE.		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	111,200									
Accounts Receivable	9,000									
Supplies	1,500			500		1,000				
Prepaid Rent	8,000									
Equipment	11,000									
Accounts Payable		1,500								
Common Stock		100,000								
Retained Earnings		2,000								
Revenue							47,000			
Expenses										
Supplies Expense			500							
Other Expenses										
Net Income								46,500		
Other Assets										
Other Liabilities										
Other Equity										
Totals	120,700	120,700			120,700	120,700	47,000	47,000	120,700	120,700

Say—"So we need to adjust the *Supplies* account down by \$500 and adjust the *Supplies Expense* account up \$500 in order to show that \$500 of supplies has been used up."

(Use the T-accounts on the board to show the adjustment and the correct ending balance, then. . .)

- Point out that after the adjustment, the Supplies account is showing the correct balance and therefore, our Balance Sheet will not be overstated.
- Point out that after the adjustment is made, our Supplies Expense account will be showing the correct balance and therefore, our expenses on our Income Statement will not be too low.
- Review with the students how to enter the adjustment data into the *worksheet* to account for supplies used.
- Point out that because *Supplies Expense* did not have a balance on the *Trial Balance*, that the account name was not listed on the Trial Balance, but actually added to the worksheet during the adjustment process.
- Point out how each side of the adjustment is "keyed" – which means the debit and the credit have the letter "A" next to it. This allows for easy cross-reference and journalizing later.

The Prepaid Adjustment

On November 20, 2016, Wells* Consulting Services paid \$8,000 for the December and January rent. As of December 31, 2016, one month's rent had already been used up.

QUESTION:
What dollar amount of rent was used during the month of December? **\$8,000**
- **4,000**

ANSWER: **\$4,000**

Wells* Consulting Services
Worksheet
Month Ended December 31, 2016

ACCOUNT NAME	TOTAL BALANCE		ADJUSTMENTS		ADJ. TOTAL BAL.		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	181,200									
Accounts Receivable	5,000									
Supplies	1,000			4,000		5,000				
Prepaid Rent	8,000									
Equipment	11,000									
Accounts Payable		1,500								
Common Stock		100,000								
Retained Earnings		2,000								
Revenue		67,000					67,000			
Cost of Sales		0								
Utilities Expense		600								
Supplies Expense		4,000								
Rent Expense		4,000								
Debit Total	195,200									
Credit Total		195,200								

◆ Adjusting for Expired Rent

- Explain that the *Prepaid Rent* account includes rent which was paid in advance for the current period.
- Remind students that the adjustment is to be made for the amount of rent that has *expired* during the period.

Teaching TIP--Draw both the Prepaid Rent account and the Rent Expense T-accounts on the board. Write in their balances as shown on the Trial Balance.



Ask—"If we created a *Balance Sheet* right now, it would show two months or \$8,000 of Prepaid rent still left. Is this correct?"
NO! The Balance Sheet should actually show only one month of rent or \$4,000.



Ask—"If we created our Income Statement right now, it would show \$0 of rent expense during the period, is this correct?"—**NO we should be showing \$4,000 of rent expense for the month.**

Say—"So we need to adjust the *Prepaid Rent* account down by \$4,000 and adjust the *Rent Expense* account up \$4,000 in order to show that one month of rent, \$4,000, has been used up."

(Use the T-accounts on the board to show the adjustment.)

- Point out that after the adjustment, the Prepaid Rent account is showing the correct balance and therefore, our Balance Sheet will not be overstated.
- Point out that after the adjustment is made, our Rent Expense account will be showing the correct balance and therefore, our expenses on our Income Statement will not be too low.

Depreciation

The cost is recorded as an asset and charged to expense over the time the asset is used for the business.

There are several methods to calculate depreciation. Wells' Consulting Services uses the straight-line method.

QUESTION:
What is straight-line depreciation?

ANSWER:
Straight-line depreciation (S/L) allocates an asset's cost in equal amounts to each accounting period of its useful life.

$$S/L \text{ depreciation} = \frac{\text{Cost} - \text{salvage value}}{\text{Estimated months of useful life}}$$

Calculating Depreciation

Wells' Consulting Services purchased equipment in November, 2016.

- Cost = \$11,000
- Useful life = 5 yrs or 60 months (5 yrs x 12 months)
- Salvage value = \$0

QUESTION:
What dollar amount of depreciation expense should be recorded for the month?

$$\frac{\text{Cost} - \text{salvage value}}{\text{Estimated months of useful life}} = \frac{\$11,000 - \$0}{60 \text{ months}} = \$183$$

ANSWER: \$183

Adjustment for Depreciation

Instead of decreasing the asset account directly, the adjustment for depreciation is recorded in a contra account named **Accumulated Depreciation—Equipment**.

Wells' Consulting Services Worksheet
Month Ended December 31, 2013

ACCOUNT NAME	TRIAL BALANCE		ADJUSTMENTS		ADJ. TRIAL BAL.		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	114,200				114,200				114,200	
Accounts Receivable	5,000				5,000				5,000	
Supplies	5,500			500	6,000					500
Prepaid Rent	8,000				8,000					8,000
Equipment	11,000				11,000					11,000
Accum. Deprec.—Equip.						183				183
Accounts Payable		3,500				3,500				3,500
Common Stock, Cap.		100,000				100,000				100,000
Common Stock, Paid-in		5,000				5,000				5,000
Retained Earnings		47,800				47,800				47,800
Revenue		8,000				8,000	8,000			
Utilities Expense		650				650	650			
Supplies Expense		500				500	500			
Rent Expense		4,000				4,000	4,000			
Dep. Exp.—Equip.		183				183	183			
Total	158,500	158,500			158,500	158,500	4,833	4,833		

When all adjustments are entered, total and rule the Adjustments columns

the students how to enter the adjustment into the *worksheet* for rent expired.

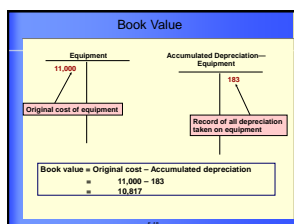
- Point out that because *Rent Expense* did not have a balance on the *Trial Balance*, that the account name was actually **added** to the worksheet during the adjustment process.

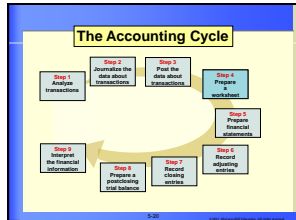
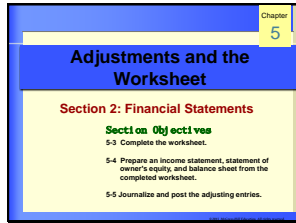
◆ **Adjusting for Depreciation**

- Remind the students why we are making adjusting entries. (To match revenues and expenses within the same accounting period.)
- Explain that when we buy equipment, a building, etc., to use in our business, we expect to use it for more than one year. If we buy an asset that we plan on using for more than one year, it is unfair to expense the *entire cost* of the asset in the year that we *buy* the asset.
- Instead, we will allocate the cost of the asset over the period of time that we plan on using it. This is called *depreciating the cost of the asset*.
- Review the formula for figuring out the amount of annual straight-line depreciation. Review terms: **Salvage value** and **Estimated Useful life**.

- Review with

- **Teaching TIP**--Draw the *Equipment* account and a blank T-account, as well as the *Depreciation Expense* T-account on the board. Write in their balances as shown on the Trial Balance.
- Explain that when we make a depreciation adjustment for the *part* of the original cost that we are expensing, we will debit the *Depreciation Expense* account and credit the *Accumulated Depreciation* account.
- Point out that the *Accumulated Depreciation* account is a new account. It is a contra-asset account and keeps track of the amount of the original cost of the asset that we have expensed since buying the asset.
- Explain that *Acc. Depr.* will always be reported on the Balance Sheet as a subtraction from the asset account. It is a *permanent* account and will not be closed at the end of the accounting period.
- Explain the term "**Book Value.**"
- Review with the students how to enter the depreciation adjustment into the *worksheet*.
- Point out that because neither *Depreciation Expense* nor *Accumulated Depreciation* had a balance on the *Trial Balance*, the account names were actually **added** to the worksheet during the adjustment process.





Step 1: Combine the figures from the Trial Balance section and the Adjustments section. Record the results in the Adjusted Trial Balance columns.

ACCOUNT NAME	TRIAL BALANCE		ADJUSTMENTS		ADJ. TRIAL BAL.		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	152,200									
Accounts Receivable	5,000									
Prepaid Insurance	2,500			1,250						
Prepaid Rent	8,000			4,000						
Equipment	11,000									
Accounts Payable		125								
Accounts Payable		1,500								
Common Stock, \$100		200,000								
Common Stock, \$100		5,000								
Retained Income		47,000								
Service Revenue		8,000					8,000			
Utilities Expense	600							600		
Supplies Expense				500						
Rent Expense				4,000						
New Equip. Acq.				100						
Totals	186,500	186,500	4,600	4,600			8,000			

- **Teaching TIP** --Using the T accounts on the board, illustrate the *book value* of the equipment owned by the business after the depreciation expense adjustment has been entered.

Section 2. FINANCIAL STATEMENT

The Adjusted Trial Balance Section

- Describe the preparation of the *Adjusted Trial Balance* section.
- Explain that those accounts that did not require adjustment are simply extended. The balances of those accounts that have been adjusted must be recomputed and the new balance extended to the *Adjusted Trial Balance* columns.
- Remind students that after "footing" the columns of the *Adjusted Trial Balance*, the totals must always balance.
- Point out that the *Adjusted Trial Balance* is simply another trial balance but it is more accurate than the previous unadjusted trial balance.



Ask. "If we were going to prepare financial statements right now, which trial balance would we want to use?"

The adjusted trial balance because it is the most accurate. It reflects the balances in the accounts AFTER the adjustments have been recorded.

The Income Statement and Balance Sheet Sections

- Explain that the Income Statement and Balance Sheet sections on the worksheet are used to organize information for the financial statements.
- Point out that in order to extend the numbers off of the Adjusted Trial Balance to the Income Statement and the Balance Sheet columns, they must *know* onto which financial statement an account is reported.

◆ Preparing the Balance Sheet Section

- Have the students recall the types of accounts that are needed on the balance sheet. (**Assets, liabilities and the owner's capital account**)
- Point out that these accounts are extended to the proper columns in the *Balance Sheet* section of the worksheet.
- Explain, "Because there is not a set of columns for the *Statement of Owner's Equity*, that the Carolyn Wells, Drawing account is carried to the debit column of the *Balance Sheet* section."

◆ Preparing the Income Statement Section

- Have the students recall the types of accounts that are needed on the income statement. (Revenues, expenses)
- Point out that these accounts are extended to the proper columns in the *Income Statement* section.

Objective 3 Complete the worksheet

You have already seen how to prepare the first two sections of a worksheet:

- Trial Balance
- Adjustments

You will now learn how to complete a worksheet.

Preparing a worksheet is the fourth step of the accounting cycle.

Objective 5-3

◆ Completing the Worksheet

- Explain that once all of the accounts have been extended to the *Income Statement* or the *Balance Sheet* sections, then the student must "foot" all four columns.
- Tell the students to return back to the *Income Statement* section. Compare the balances—they don't equal.
- Review how to complete the worksheet
- The difference is either *net income* or *net loss*.
- Remind students the importance of writing in "net income" or "net loss" in the *Account Name* column upon completion of the worksheet.

Step 1: Combine the figures from the Trial Balance section and the Adjustments section. Record the results in the Adjusted Trial Balance columns.

ACCOUNT NAME	TRIAL BALANCE		ADJUSTMENTS		ADJ. TRIAL BAL.		POSTING		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	111,250				111,250					
Accounts Receivable	5,000				5,000					
Supplies	5,000				5,000					
Prepaid Rent	8,000				8,000					
Equipment	15,000				15,000					
Accounts Debit—Equity							183			
Accounts Payable		3,500				3,500				
Accounts Credit—Equity									180,000	
Common Stock		180,000				180,000				
Retained Earnings		5,000				5,000				
Retained Earnings									47,000	
Retained Earnings									8,000	
Retained Earnings									500	
Retained Earnings									4,000	
Retained Earnings									183	
Totals	156,250	156,250	4,883	4,883	161,133	161,133				

The Supplies account has a \$1,500 debit balance in the Trial Balance section and a \$500 credit in the Adjustments section (\$1,500 debit and \$500 credit = \$1,000).

ACCOUNT NAME	TRIAL BALANCE		ADJUSTMENTS		ADJ. TRIAL BAL.		POSTING		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	111,250				111,250					
Accounts Receivable	5,000				5,000					
Supplies	5,000				5,000					
Prepaid Rent	8,000				8,000					
Equipment	15,000				15,000					
Accounts Debit—Equity							183			
Accounts Payable		3,500				3,500				
Accounts Credit—Equity									180,000	
Common Stock		180,000				180,000				
Retained Earnings		5,000				5,000				
Retained Earnings									47,000	
Retained Earnings									8,000	
Retained Earnings									500	
Retained Earnings									4,000	
Retained Earnings									183	
Totals	156,250	156,250	4,883	4,883	161,133	161,133				

Step 2: Total the Debit and Credit columns in the Adjusted Trial Balance section. Confirm that debits equal credits.

ACCOUNT NAME	TRIAL BALANCE		ADJUSTMENTS		ADJ. TRIAL BAL.		POSTING		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	111,250				111,250					
Accounts Receivable	5,000				5,000					
Supplies	5,000				5,000					
Prepaid Rent	8,000				8,000					
Equipment	15,000				15,000					
Accounts Debit—Equity							183			
Accounts Payable		3,500				3,500				
Accounts Credit—Equity									180,000	
Common Stock		180,000				180,000				
Retained Earnings		5,000				5,000				
Retained Earnings									47,000	
Retained Earnings									8,000	
Retained Earnings									500	
Retained Earnings									4,000	
Retained Earnings									183	
Totals	156,250	156,250	4,883	4,883	161,133	161,133				

For accounts that appear on the balance sheet, enter the amount in the appropriate column of the Balance Sheet section. For accounts that appear on the Income Statement, enter the amount in the appropriate column of the Income Statement section.

ACCOUNT NAME	TRIAL BALANCE		ADJUSTMENTS		ADJ. TRIAL BAL.		POSTING		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	111,250				111,250					
Accounts Receivable	5,000				5,000					
Supplies	5,000				5,000					
Prepaid Rent	8,000				8,000					
Equipment	15,000				15,000					
Accounts Debit—Equity							183			
Accounts Payable		3,500				3,500				
Accounts Credit—Equity									180,000	
Common Stock		180,000				180,000				
Retained Earnings		5,000				5,000				
Retained Earnings									47,000	
Retained Earnings									8,000	
Retained Earnings									500	
Retained Earnings									4,000	
Retained Earnings									183	
Totals	156,250	156,250	4,883	4,883	161,133	161,133				

After all the account balances are transferred to the financial statement sections, total the Debit and Credit columns.

ACCOUNT NAME	TRIAL BALANCE		ADJUSTMENTS		ADJ. TRIAL BAL.		INCOME STATE.		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	111,350				111,350				111,350	
Accounts Receivable	5,000				5,000				5,000	
Supplies	1,500			500	1,000				1,000	
Prepaid Rent	4,000			4,000		4,000			4,000	
Equipment	11,000				11,000				11,000	
Accum. Depr.—Equip.				100		100				100
Accounts Payable		3,500				3,500				3,500
Carryover, Cap.		100,000				100,000				100,000
Carryover, Draw.		5,000				5,000				5,000
Per. Income		47,000				47,000	47,000			47,000
Salaries Expense	8,000				8,000			8,000		
Utilities Expense	650				650			650		
Supplies Expense		500				500			500	
Rent Expense		4,000				4,000			4,000	
Dep. Exp.—Equip.		100				100			100	
Totals	158,500	158,500	4,800	4,800	158,600	158,600	113,330	47,000	117,330	117,330

Subtract the smaller total from the larger total in the Income Statement section to find the Net Income or Net Loss.

ACCOUNT NAME	TRIAL BALANCE		ADJUSTMENTS		ADJ. TRIAL BAL.		INCOME STATE.		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	111,350				111,350				111,350	
Accounts Receivable	5,000				5,000				5,000	
Supplies	1,500			500	1,000				1,000	
Prepaid Rent	4,000			4,000		4,000			4,000	
Equipment	11,000				11,000				11,000	
Accum. Depr.—Equip.				100		100				100
Accounts Payable		3,500				3,500				3,500
Carryover, Cap.		100,000				100,000				100,000
Carryover, Draw.		5,000				5,000				5,000
Per. Income		47,000				47,000	47,000			47,000
Salaries Expense	8,000				8,000			8,000		
Utilities Expense	650				650			650		
Supplies Expense		500				500			500	
Rent Expense		4,000				4,000			4,000	
Dep. Exp.—Equip.		100				100			100	
Totals	158,500	158,500	4,800	4,800	158,600	158,600	113,330	47,000	117,330	117,330
Net Income								11,667		11,667

If the credit total is more than the debit total, the firm has net income. . . . Enter the amount on the net income line. (47,000 - 13,333 = 33,667)

ACCOUNT NAME	TRIAL BALANCE		ADJUSTMENTS		ADJ. TRIAL BAL.		INCOME STATE.		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	111,350				111,350				111,350	
Accounts Receivable	5,000				5,000				5,000	
Supplies	1,500			500	1,000				1,000	
Prepaid Rent	4,000			4,000		4,000			4,000	
Equipment	11,000				11,000				11,000	
Accum. Depr.—Equip.				100		100				100
Accounts Payable		3,500				3,500				3,500
Carryover, Cap.		100,000				100,000				100,000
Carryover, Draw.		5,000				5,000				5,000
Per. Income		47,000				47,000	47,000			47,000
Salaries Expense	8,000				8,000			8,000		
Utilities Expense	650				650			650		
Supplies Expense		500				500			500	
Rent Expense		4,000				4,000			4,000	
Dep. Exp.—Equip.		100				100			100	
Totals	158,500	158,500	4,800	4,800	158,600	158,600	113,330	47,000	117,330	117,330
Net Income								11,667		11,667

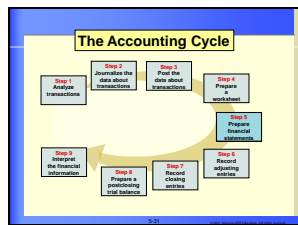
Total the Income Statement and the Balance Sheet sections

ACCOUNT NAME	TRIAL BALANCE		ADJUSTMENTS		ADJ. TRIAL BAL.		INCOME STATE.		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	111,350				111,350				111,350	
Accounts Receivable	5,000				5,000				5,000	
Supplies	1,500			500	1,000				1,000	
Prepaid Rent	4,000			4,000		4,000			4,000	
Equipment	11,000				11,000				11,000	
Accum. Depr.—Equip.				100		100				100
Accounts Payable		3,500				3,500				3,500
Carryover, Cap.		100,000				100,000				100,000
Carryover, Draw.		5,000				5,000				5,000
Per. Income		47,000				47,000	47,000			47,000
Salaries Expense	8,000				8,000			8,000		
Utilities Expense	650				650			650		
Supplies Expense		500				500			500	
Rent Expense		4,000				4,000			4,000	
Dep. Exp.—Equip.		100				100			100	
Totals	158,500	158,500	4,800	4,800	158,600	158,600	113,330	47,000	117,330	117,330
Net Income								11,667		11,667

Objective 5-4

Preparing Financial Statements

- When the worksheet is complete, the next step is to prepare the financial statements.



◆ Preparing the Income Statement

Objective 5-4 Prepare financial statements from the worksheet.

Wells' Consulting Services Income Statement Month Ended December 31, 2016		
Revenue		
Fees Income		\$47,000
Expenses		
Salaries Expense	\$8,000	
Utilities	650	
Supplies Expense	500	
Rent Expense	4,000	
Depreciation Expense - Equipment	193	
Total Expenses		\$13,343
Net Income for the Month		\$33,657

- Use the income statement section of the worksheet to prepare the Income Statement.
- Point out that if business had incurred a net loss, then the final amount on the income statement would be labeled "Net Loss for the Month."

◆ Preparing the Statement of Owner's Equity

Wells' Consulting Services Statement of Owner's Equity Month Ended December 31, 2016		
Carolyn Wells, Capital, December 1, 2016		\$ 100,000
Net Income for December	\$33,657	
Cash Withdrawals for December	5,000	
Increase in Capital		28,657
Carolyn Wells, Capital, December 31, 2016		\$128,657

- Use the data in the balance sheet section of the worksheet, as well as the net income or net loss figure, to prepare the Statement of Owner's Equity.

Account Form of Balance Sheet

Wells' Consulting Services Balance Sheet December 31, 2016		
Assets		Liabilities
Cash \$11,200	Accounts Payable \$ 3,500	
Accounts Receivable 2,000		
Supplies 1,000	Owner's Equity	
Prepaid Rent 1,000	Carolyn Wells, Capital 100,000	
Equipment 10,000	Total Liabilities and Owner's Equity 132,107	
Total Assets \$32,200		
Total Liabilities and Owner's Equity \$32,107		

Preparing the Balance Sheet

- The accounts listed on the balance sheet are taken directly from the Balance Sheet section of the worksheet.
- Point out that the capital account balance on the worksheet is not used.

Report Form of Balance Sheet

Wells' Consulting Services Balance Sheet December 31, 2016		
Assets		
Cash		\$11,200
Accounts Receivable		2,000
Supplies		1,000
Prepaid Rent		1,000
Equipment	\$10,000	
Less Accumulated Depreciation	(807)	
Total Assets		\$32,107
Liabilities and Owner's Equity		
Liabilities		
Accounts Payable		\$ 3,500
Owner's Equity		
Carolyn Wells, Capital		128,657
Total Liabilities and Owner's Equity		\$32,107



Ask-"Where do we get the \$ amount for the Capital account balance?"
From the *Statement of Owner's Equity* which was just completed.

By completing the worksheet, the accountant gathers information in one place, making it easier to prepare the financial statements.

Objective 5-5 Journalize and post the adjusting entries.

The worksheet is **NOT**

- A financial statement
- A permanent part of the accounting records

It is **only a tool.**

Objective 5-5

C. Journalizing and Posting Adjusting Entries

Teaching Tip--Write on the board the steps in the accounting cycle covered so far ending with:
(6) *Journalizing and posting adjusting entries.*

The Accounting Cycle

QUESTION: What adjustments must Wells' Consulting Services record for the month?

ANSWER:

- Adjustment for supplies used.
- Adjustment for expired rent.
- Adjustment for depreciation.

GENERAL JOURNAL

DATE	DESCRIPTION	POST REF.	DEBIT	CREDIT
Dec. 31	Expired Rent	517	500.00	
	Supplies Expense			500.00
31	Rent Expense	238	400.00	
	Prepaid Rent	237		400.00
31	Depreciation-Equipment	222	152.00	
	Accum. Dep.-Equipment	228		152.00

ACCOUNT: Supplies Expense

DATE	DESCRIPTION	POST REF.	DEBIT	CREDIT	BALANCE
Dec. 31	Adjusting	517	500.00		500.00

- Point out that our next step is to take the adjustments that we made on the worksheet and *journalize* them in the general journal.
- Review the general journal page shown in the chapter depicting the adjusting journal entries.
- Point out that the words "*adjusting entries*" is entered in the description column of the general journal – usually at the top.
- Point out that "Adjusting" or "Adj. " needs to be included in the description column of the general ledger.

Managerial Implications:

Ask students, "If you skip the adjustment process, how will this affect the financial statements?"

Answers—Adjustments ensure that the financial statements reflect the true condition and performance of the business.