

Visual Learning Maps

Introductory Financial Accounting



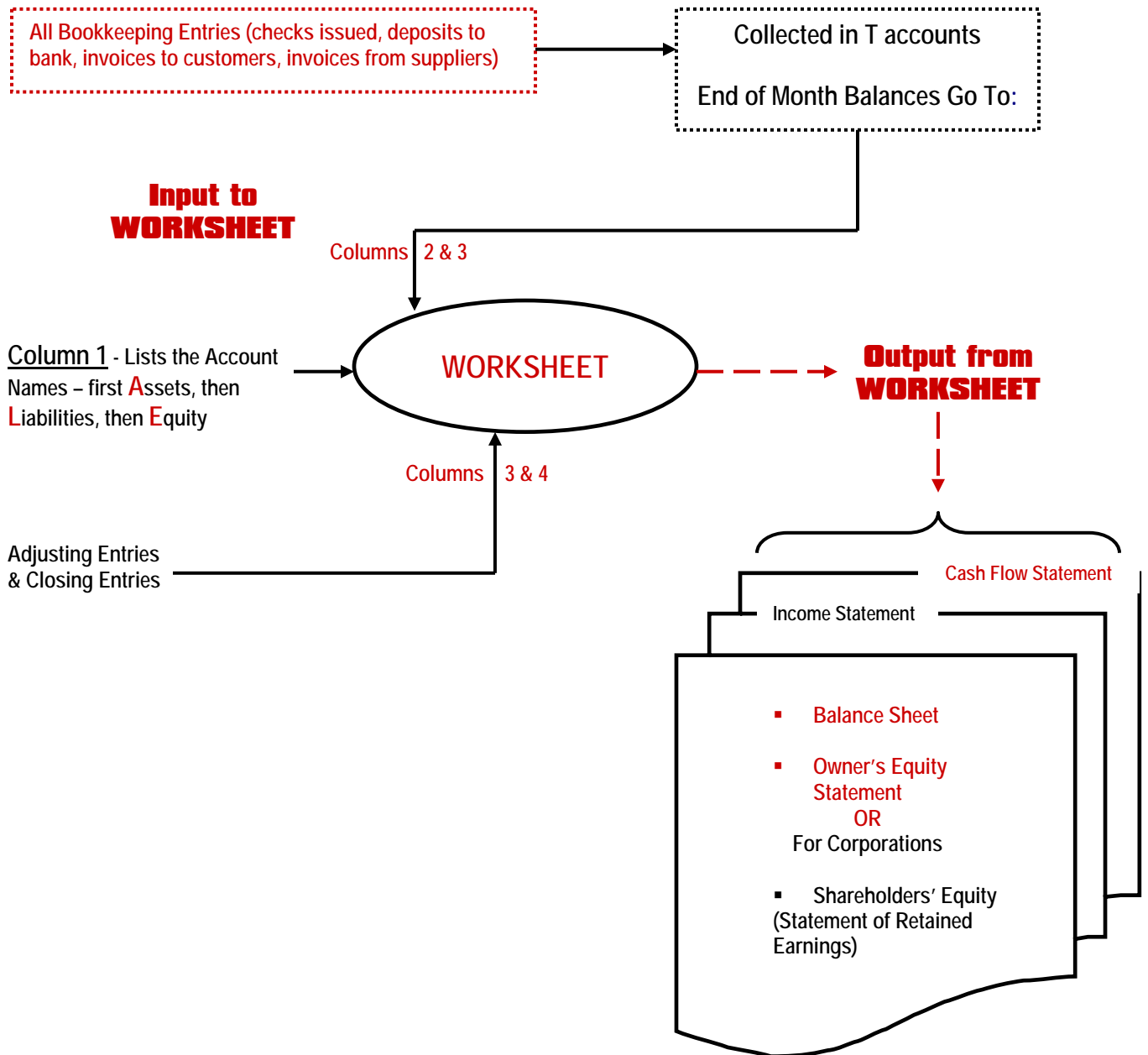
Click to Go to the Website

VIRTUAL TEXT BOOK

THE WORKSHEET – What It Does & Why – 1 of 5 [Print the “What It Looks Like” before reviewing this Text Section]

The Worksheet is the focal point for all Accounting entries - it is the center of the accounting data universe that is transformed into information.

The flow Looks like this:



THE WORKSHEET – Service Business – 2 of 5

Columns 1 of the Worksheet lists the names of all the accounts in a specific order that follows the Foundation Equation (**A = L + E**)

- **A**ssets first in the sub order of 1) Current, 2) Long term, 3) PP&E and 4) Intangibles (this is the sub order of liquidity – Cash, being the most liquid asset is ALWAYS first).
- **L**iabilitys are next in the sub order of 1) Current and 2) Long Term (this is the sub order of what's due [to be paid] **FIRST**)
- **E**quity – the Owner's Equity for proprietorships and partners and for Corporations: Shareholder's Equity

Columns 2 & 3 of the Worksheet list the balances for each account (named in Column1) at the end of the accounting period. These balances result from external economic events with customers and suppliers; they are the sum of each **T** account.

- The total Debits and Credits at the bottom of the Worksheet for these two columns **must be equal!**

This list of account balances is officially named – **The Unadjusted Trial Balance**

Unadjusted Trial Balance...**ALWAYS SHOULD BE**...Balances

- **All Assets** should be in **Debit** balance – with **2 exceptions**
 - **All** accumulated depreciation balances should **always** be credits
 - The bank / cash account **could possibly be** in credit balance if the business is running an overdraft
- **All Liabilities** should be in **Credit** balance
- The **Capital** account is usually is in credit balance, but it can be in debit balance; unusual, but not unheard of.
- **All Revenue** accounts should be in Credit balance – with **2 exceptions**
 - Sales Discounts should be in debit balance
 - Sales Returns & Allowances should be in debit balance
- **All Expense** accounts should be in **Debit** balance

If the accounts don't adhere to these **SHOULD BE** balances; it is likely that bookkeeping errors have been made – the transaction entries for the accounts out of synch must be analyzed.

THE WORKSHEET – 3 of 5

Columns 4 & 5 - Adjustments are **exclusively** for the posting of Adjusting Entries. Adjusting Entries are generated internally to record items such as:

- The passage of time (depreciation, unearned revenue)
- Usage (supplies)
- Accruals
 - The total of the Debits and the Credits at the bottom of the Worksheet for these columns **must be equal**

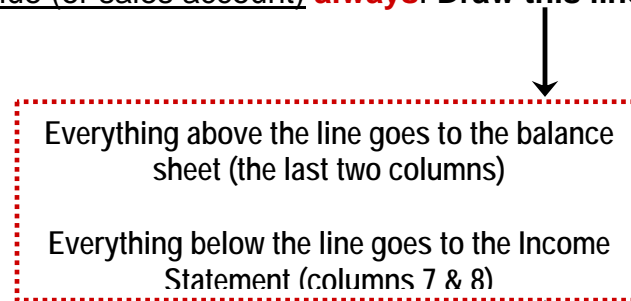
See the section on Adjusting Entries in the Virtual Text Book.

Columns 5 & 6 - the Adjusted Trial Balance

- These Debit and Credit columns are the **cross add extensions** of the Unadjusted Trial Balance and the Adjustments - the result is the Adjusted Trial Balance
-

Columns 7 & 8 – the Income Statement & Columns 9 & 10 – the Balance Sheet

- Income Statement columns 7 & 8 vertical total **will never be equal**; just as the Balance Sheet columns 9 & 10 vertical total **will never be equal** – **the difference** in each pair of columns **must be equal** (this amount is **always** equal to net income / loss)
- There is a dividing line on the Worksheet that separates the balance sheet and the income statement – it is between the capital account and the revenue (or sales account) **always**. Draw this line!



The figures from the **Adjusted Trial Balance** must be extended to the correct section – Income Statement or Balance Sheets

The financial statements are then prepared from these last four columns.

THE WORKSHEET – 4 of 5

Homework, Exam & Test TIPS

- First - make the Adjusting entries into the “Adjustments columns” - cross reference each entry to each item in the question...so item 1; or A, should be clearly marked beside both sides of your worksheet entry as 1) or a).
- Second - vertically add the “Adjustments” columns. Make sure the totals at the bottom for the debits and credits **are equal**.
- Third – Cross add each line, from the top, horizontally from the “Unadjusted” across the “Adjustments” to fill in the “Adjusted Trial Balance” columns.
- Fourth – vertically add the “Adjusted Trial Balance” column. Make sure the totals at the bottom for the debits and credits **are equal**.
- Fifth – post the totals in the “Adjusted Trial Balance” columns to the income statement or balance sheet columns...remember how to tell the difference...**draw the line**
- Don't rush – and check your totals as you go – if you make an addition error, it will show up in your final balances; then you will be hunting for the difference and eating up time.
- 9 times out of 10 - worksheet questions will give the unadjusted trial balance
- There will **always** be a Worksheet question on the exam!

THE WORKSHEET – 5 of 5

Merchandising Business Worksheet

All the steps previously described are exactly the same for a Merchandising business – **PLUS ONE MORE.**

Inventory Entry for Merchandise Businesses Using the Periodic Method

There are **no accounting entries** to be made under the PERPETUAL inventory method, to record inventory movement – they have already been made during the period.

There are **accounting entries** to be made under the PERIODIC inventory method. Here's why:

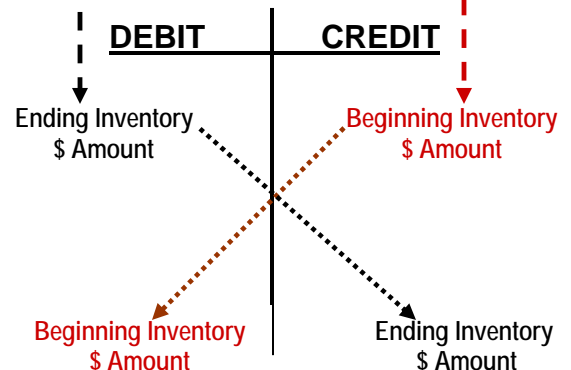
- The inventory figure listed in the “Unadjusted Trial Balance” is old news – it is the amount of the ending inventory at the end of the last accounting period – which is the **beginning inventory** for this accounting period
- You want **this** accounting period's **ending inventory** - this will **always** be given in the question.

Homework, Exam & Test TIPS

Always make the Journal entry like this:

Inventory Account
(balance sheet columns 9 & 10)
*This removes the old inventory from
The Unadjusted Trial Balance and
Establishes this period's ending figure*

Inventory Account
(Income Statement columns 7 & 8)
*This records the book entries for
The COGS calculation*



Post these directly to the Worksheet – Look at the **PDF** file to clear up any confusion, doubt or hesitation.

- “Ending Inventory” means the same as “Closing Inventory”;
“Beginning Inventory” means the same as “Opening Inventory”