

Chapter 4

Work Sheet as a Tool

- A. The work sheet is an internal document that serves as a useful tool for organizing accounting information. It is not a required report.
- B. Benefits of a Work Sheet: helps in preparing financial statements, reduces risk of errors, links accounts and adjustments to financial statements, and shows the effect of proposed or "what if" transactions.
- C. Use of a Work Sheet – constructed at the end of a period before the adjusting process.

Continuation

Steps to prepare a work sheet:

1. Enter Unadjusted Trial Balance in the first two columns.
2. Enter Adjustments in the third and fourth columns. Total columns to verify debit adjustments equal credit adjustments.
3. Prepare the Adjusted Trial Balance. This is done by combining the unadjusted trial balance and adjustment columns. Total Adjusted Trial Balance columns to verify debits equal credits.
4. Sort Adjusted Trial Balance Amounts to Financial Statements. Expenses and revenues go to the Income Statement. Withdrawals and owner's capital go to the Statement of Owner's Equity; and assets, liabilities and owner's capital go to the Balance Sheet.
- D. Work Sheet Applications and Analysis—it does not substitute for financial statements. The financial statement columns yield pro forma financial statements because they show the statements as if the proposed transactions occurred.
5. Total Statement Columns, Compute Income or Loss and Balance Columns by adding net income or loss.

