

Name: _____

ACCOUNTING I

Chapter 6 Reading Guide



6-1 CREATING A WORK SHEET

Please answer the following questions as you read Chapter 6, pages 156-187.

1. Please explain the accounting concept, Consistent Reporting. Why is it important? Could payroll be recorded in hours worked one year and wages paid the next year?
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2. Define Fiscal Period. When do businesses generally end their fiscal periods?
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3. What is the Accounting Period Cycle concept?
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4. What is the advantage of having a one-month fiscal period?
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5. What is a work sheet?
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6. What are four reasons accountants use work sheets?
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7. Journals and ledgers are permanent records prepared in ink or printed by a computer. How is a work sheet different?
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8. What is a trial balance? Where does the information for the trial balance come from? Which account titles are listed on a work sheet?
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6-2 PLANNING ADJUSTING ENTRIES ON A WORK SHEET

9. What is a prepaid expense? What is an example involving supplies?
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10. How is the Accounting Concept, Matching Expenses with Revenue applied?
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11. What is the accrual basis of accounting? How is the cash basis of accounting different?
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12. What is the major difference between accrual basis accounting and cash basis accounting?
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13. What are adjustments?
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14. What does the value of the supplies that have been used to earn revenue during the fiscal period represent?
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15. Which accounting concept is applied when adjustments are made to report the expenses incurred to earn revenue?
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16. What does the value of the prepaid insurance used for a fiscal period represent?
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17. The trial balance value of Supplies minus the current inventory amount equals?
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6-3 COMPLETING THE WORK SHEET AND FINDING ERRORS ON A WORK SHEET

18. Preparing financial statements at the end of each fiscal period is an application of which accounting concept?
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19. What is a balance sheet?
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20. Up-to-date balances of the balance sheet accounts are extended over to the Balance Sheet column of the work sheet. Which accounts are balance sheet accounts? Of these accounts, which two trial balance accounts will be affected by adjustments?
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21. A financial statement showing the revenue and expenses for a fiscal period is called an income statement. Up-to-date income statement account balances are extended to the Income Statement Debit and Credit columns of the work sheet. Which accounts are extended?
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22. Which two financial statements are prepared from the information reported on a work sheet?
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23. How is a net income calculated?
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24. How is a net loss calculated? (Income Statement Debit column total is greater than the Income Statement Credit column total)
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25. Since the work sheet is a planning tool and can be done with a pencil, errors may be erased and corrected. If a number is in the wrong column, just erase it and write it in the correct column. When two columns are not in balance, subtract the smaller total from the larger total to determine the difference. If the difference is 1, such as 0.01, 0.10, 1.00, or 10.00, what is the likely error?
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26. Same scenario. What if the difference can be divided evenly by 2?
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27. What if the difference can be evenly divided by 9?
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6-4 JOURNALIZING AND POSTING ADJUSTING ENTRIES

28. What are adjusting entries? Why are they done?
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29. Where does the information needed to journalize the adjusting entry for Prepaid Insurance and Insurance Expense come from?
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