



Systems Understanding Aid

-- Introduction --



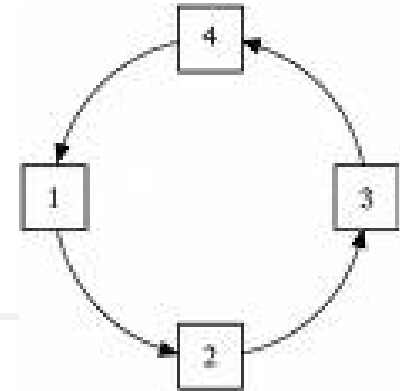


Waren Sports Supply



1. **A wholesale distributorship in Chicago area**
2. **Distributor of sporting goods to colleges and universities in the Midwest**
3. **Employees (3)**
 1. **Ray Kramer (salaried),**
 2. **Jim Adams and Nancy Ford (hourly)**

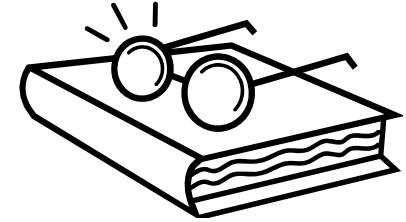
Major accounting cycles:



1. **Sales/Cash Receipts**
2. **Purchasing/Cash Disbursements**
3. **Payroll**
4. **Inventory (not used)**



Let's take a look. . . .



- Document 1 (Transaction List A - blue)
- Flowcharts
- Journals
- Sub ledgers
- Documents for current transactions

Purchasing



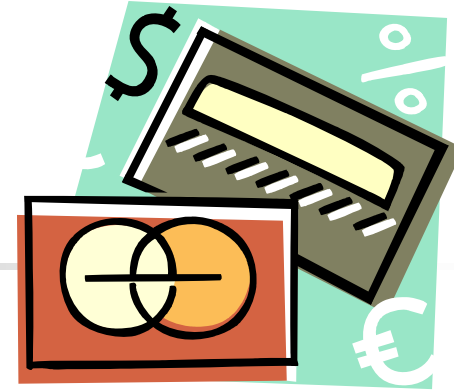
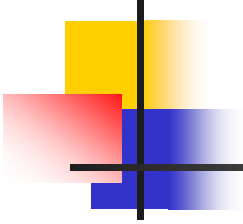
- All merchandise from one supplier
- *Velocity Sporting Goods*
- Selling Prices set by Ray Kramer (see price list)

Purchasing (cont.)



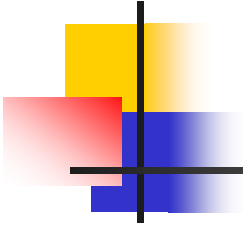
- All supplies from one supplier
- *Chicago Office Supply*
- Cost is fixed catalog cost (also on price list)

Cash or Credit?



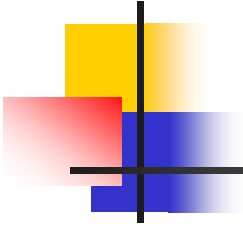
- Most customers pre-pay \$\$\$\$\$\$\$\$\$\$
- Some get credit terms:
 - ▼ 2/10, Net 30

Sales tax?



- Wholesale sales are non-taxable
- Warren's purchases are at wholesale
- Warren's sales are at wholesale

Inventory Methods



■ Periodic

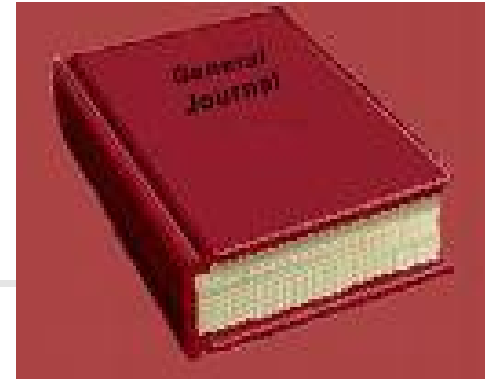
- Inventories are determined solely by means of a physical count and valuation at the end of the accounting period.
- No entry for COGS and inventory until the balance sheet date.
- Physical Inventory after each quarter to “true-up” the Inventory and COGS accounts.

PAYROLL



- Paid SEMI-MONTHLY
- Raises in December
- Paid for 7 hours + lunch
- Overtime = 1.5 times “base period”
- For project, limited withholdings
- SUTA & FUTA (State and Federal Unemployment Taxes) done monthly

Journal Book



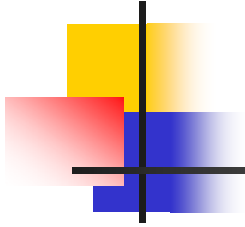
- **General Journal (G)**
- **Sales Journal (SJ)**
- **Cash Receipts Journal (CR)**
- **Purchases Journal (PJ)**
- **Cash Disbursements (CD)**
- **Payroll Journal (PR)**



General Ledger & Sub Ledgers



- **Included in Systems Understanding Aid**
 - **Instructions, Flowcharts, and Ledger**
- **Pp. 25-43**



REQUIREMENTS



- Read Instructions book, pp. 10-15
- 1. Locate Transactions List A, Doc. 1
- 2. Select Recording Option 1
- 3. Understand the two symbols on Doc. 1
- 4. Identify which transactions require an accounting entry
- 5. Follow 7 step procedure (pp. 11-12)



The 7 steps. . . .

7 Steps

- 1 Complete application
- 2 Mail application & deposit
- 3 Receive deposit receipt
- 4 Receive tax sale information
- 5 Attend tax sale & bid
- 6 If win bid, pay balance
- 7 Receive sale confirmation

1. **Read & analyze the transaction**
 - S&CR
 - P&CD
 - PR
2. **Find appropriate flowchart**
3. **Locate/prepare document**
 - **Note: MUST refer to flowchart!**

The 7 steps. . . .

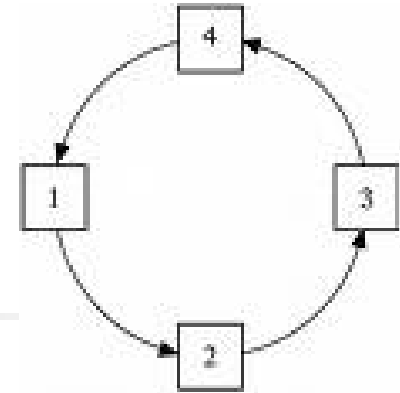
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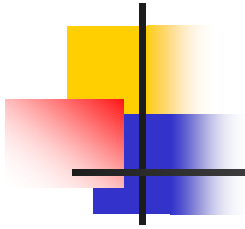
4. **Record in journal**
5. **Post to subsidiary ledger**
6. **File document**
7. **Proceed to next transaction**



Major accounting cycles:



- Sales/Cash Receipts
- Purchasing/Cash Disbursements
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- Inventory (not used)



Sales & Cash Receipts



- Sales
- Cash receipts
- Sales Returns & Allowances
- Estimate of bad debt expense
- Write-off of bad debts

Purchasing & Cash Disbursements



- Purchases
- Cash disbursements
- Purchases returns & allowances
- Depreciation, adjusting entries
 - ▼ Prepaids
 - ▼ Accrued expenses



Payroll



- Receipt/payment of employees
- Payroll accruals



Inventory



- **Periodic**
- **More on this later**
- **You MUST take a physical inventory to determine Year-End Inventory Balance & COGS**