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...

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...

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
- Payroll
- 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